# Platform for Growth

ANNUAL REPORT 2010


STOCK CODE 00014

Hysan 希慎

# Contents

## THE ESSENTIAL READ



## 1 Overview



## 2 Strategy in Action



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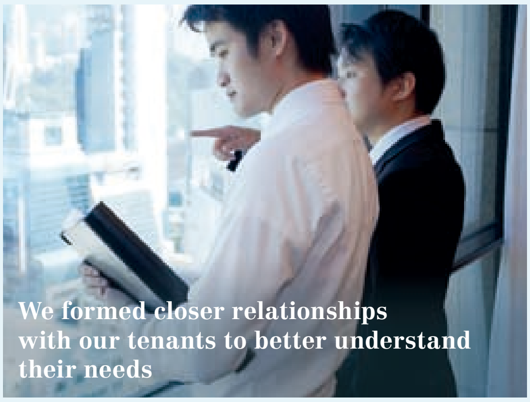
## 4 Financial Statements and Valuation

We began the year facing challenges from the economic environment, as well as unexpected management changes. However, with a clear focus, we took decisive actions and overcame short-term impacts.

We also enhanced our teamwork and longer-term competitiveness. With a strong platform for growth established, we look forward and consider how we can further build upon this platform, including our latest Hysan Place project, to bring us to another level of success.

# Our Actions during the Year

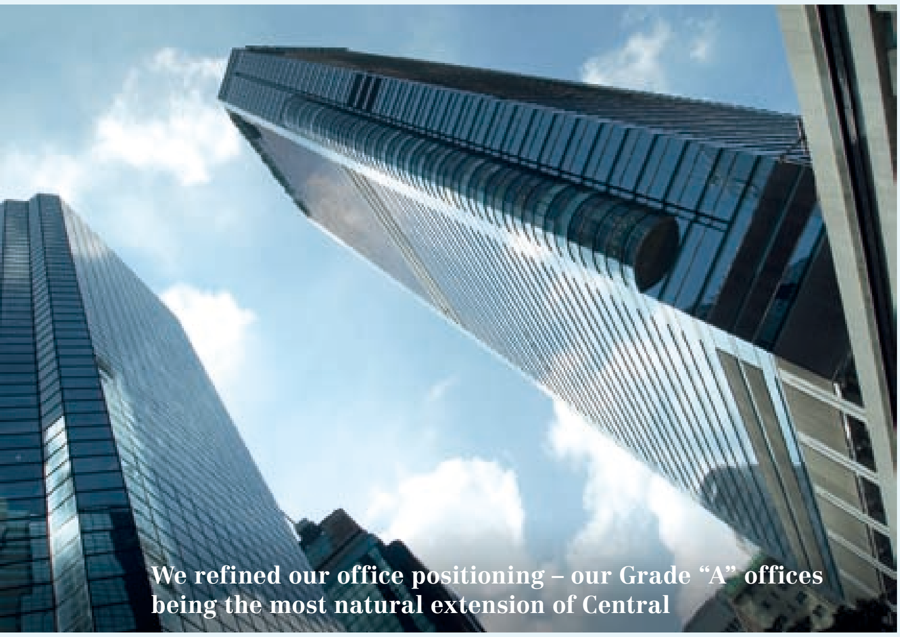
We have an established asset enhancement programme and have initiated improvements through refurbishments and redevelopments


We formed closer relationships with our tenants to better understand their needs

We are on schedule for Hysan Place's Q2 2012 grand opening

We refined our retail positioning


We enhanced tourist promotions, including Mainland media visits


We refined our office positioning – our Grade "A" offices being the most natural extension of Central


We enhanced our property service standards

We strengthened our teamwork at all levels

We improved our marketing capabilities across the portfolio

We maintained the highest corporate governance standards


We made positive contributions through our volunteer team and other corporate responsibility programmes

# 1 Overview

We begin by stating who we are, in terms of our mission and core values. This section highlights our 2010 financial as well as non-financial performance, while the Chairman's Statement describes our building a platform for further growth.


CHANEL
VALENTINO

# Mission

To build, own and manage quality buildings, and being the occupiers' partner of choice in the provision of real estate accommodation and services, thereby delivering attractive and sustainable returns to our shareholders.

# Responsible Business as the Guiding Principle

Hysan aims to be a successful as well as responsible business. We pay attention not only to the results achieved, but also to how we deliver the same. The principle of being a responsible business is at the heart of our Company.

# Our Values

We foster the highest **business ethics** and **accountability**. At Hysan, we take pride in our work, acknowledge responsibility for our actions and endeavour to complete our tasks in the right way.

Our **thought leadership** applies to all strategic and operational issues in the quest to create innovative solutions through collective insight. We aim to take a **market leadership** position in whatever we do.

Hysan maintains long-term and mutually beneficial **partnerships** with our shareholders, clients, business partners, employees and the community.

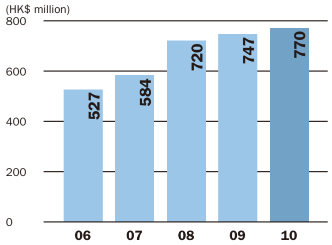
We take responsibility by **giving back to the community**. This is achieved through everyday business operations as well as active participation in community activities.

# 2010 Performance at a Glance

## Financial Performance

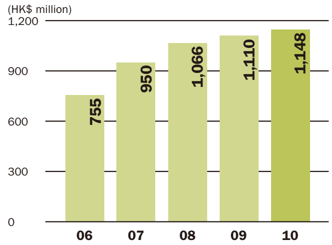
| Turnover | Dividends per Share | Net Asset Value per Share |
|---|---|---|
| HK$1,764 m ▲ 5.0% | HK74 cents ▲ 8.8% | HK$38.61 ▲ 9.0% |

### Office Sector's Revenue
**HK$770 m ▲ 3.1%**



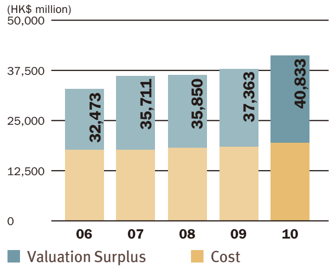

- Occupancy improved to 95%
- New-let space taken mainly by tenants in banking and finance, professional services and high-end retail

### Recurring Underlying Profit
**HK$1,148 m ▲ 3.4%**



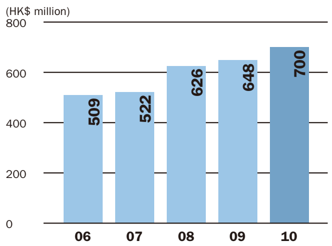

- A key performance indicator of the Group's core property investment business
- Reflecting improvements in gross profit generated from our core leasing activities

### Property Value
**HK$40,833 m ▲ 9.3%**



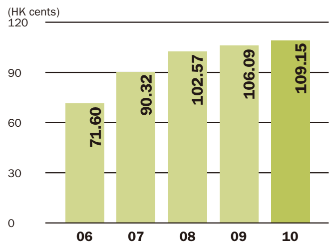

- Investment property portfolio valued by an independent professional valuer, on the basis of open market value
- Valuation at year end 2010 principally reflected improved rental rates for the Group's investment property portfolio

### Retail Sector's Revenue
**HK$700 m ▲ 8.0%**



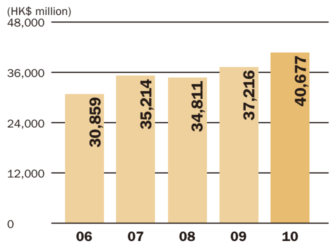

- Occupancy at 96%, with only vacancies being due to the renovation of retail units in Leighton Centre
- Strengthened marketing activities for locals and tourists

### Recurring Underlying Earnings per Share
**HK109.15 cents ▲ 2.9%**



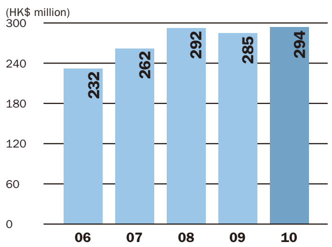

- Being Recurring Underlying Profit divided by weighted average number of ordinary shares for the purpose of basic earnings per share

### Shareholders' Funds
**HK$40,677 m ▲ 9.3%**



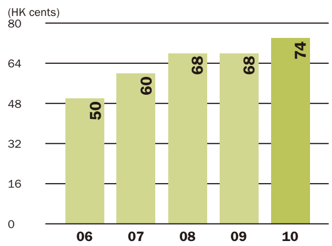

- Increase in shareholders' funds in line with the increase in valuation of investment properties

### Residential Sector's Revenue
**HK$294 m ▲ 3.2%**



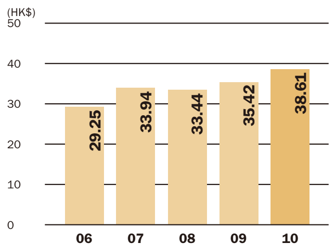

- Occupancy improved to 94%
- Turnover growth reflected success in improving occupancy, offsetting negative rental reversion

### Dividends per Share
**HK74 cents ▲ 8.8%**




- Recommended the payment of a final dividend of HK60 cents per share
- Together with the interim dividend of HK14 cents, an aggregate distribution of HK74 cents per share

### Net Asset Value per Share
**HK$38.61 ▲ 9.0%**




- Being shareholders' funds divided by number of issued shares at year end

** Certain figures previously reported have been restated due to changes in accounting policies or reclassified to conform to current year presentation.*

Non-Financial Performance

## Governance

- Recognition by industry for excellence in corporate governance: Gold Award (Non-Hang Seng Index Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards 2010
- This was Hysan's eighth Best Corporate Governance Disclosure Award in 10 years

## Environment

- Hysan Place project on track as Hong Kong's first building to be certified by United States Green Building Council's Leadership in Energy and Environmental Design standard (LEED) at its highest platinum level

## Community

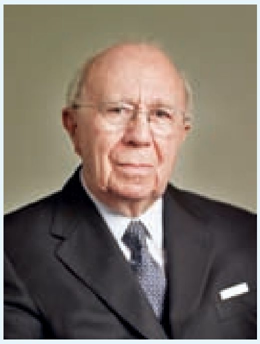
- Constituent member of Dow Jones Sustainability Index, FTSE4Good Index and Hang Seng Corporate Sustainability Index, three of the best known indices tracking responsible business practices around the world

Dow Jones Sustainability Indexes
Member 2010/11

FTSE4Good

Hang Seng Corporate Sustainability Indexes
Member 2010

# Chairman's Statement



## Overview

The economy of Hong Kong saw its recovery taking shape in 2010, despite uncertainties in global economies including the United States and Europe. Core district Grade "A" office rental levels and occupancy both saw improvements from the market troughs experienced during 2009. Local retail sales continued to perform well, reflecting better consumer sentiment and a remarkable inflow of tourists from the Mainland. These factors helped to create a positive environment for retail rental growth.

## Our Performance

The Group's 2010 turnover was HK$1,764 million, an increase of 5.0% from HK$1,680 million in 2009. Growth was recorded across our core leasing business. The retail sector recorded 8.0% turnover growth, while that of the office sector was 3.1%. The residential sector's turnover increase was 3.2%. The office sector saw occupancy improving to 95%, while the retail sector was virtually fully let except for those Leighton Centre retail units that were being renovated. The residential sector occupancy was at 94%.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was HK$1,148 million, an increase of 3.4% from HK$1,110 million in 2009. Our Underlying Profit, which excludes unrealised changes in fair value of investment properties, was also HK$1,148 million, an increase of 3.1% from HK$1,113 million in 2009 when some gains from disposal of long-term assets were recorded. These figures reflected the improvement in gross profit generated from our core leasing activities. Basic earnings per share based on Recurring Underlying Profit correspondingly rose to HK109.15 cents (2009: HK106.09 cents).

Statutory Profit, prepared in accordance with Hong Kong Financial Reporting Standards, was HK$3,844 million (2009: HK$2,914 million[1]), mainly due to the higher valuation of the Group's investment properties. The external valuation of the Group's investment property portfolio increased to HK$40,833 million, an increase of 9.3% from HK$37,363 million in 2009. Shareholders' funds also rose by 9.3% to HK$40,677 million (2009: HK$37,216 million[1]).

Our financial position remains strong, with improved net interest coverage of 14.0 times (2009: 11.7 times) and net debt to equity ratio of 6.4% (2009: 5.1%).

The Board of Directors (the "Board") recommends the payment of a final dividend of HK60 cents per share (2009: HK54 cents). Together with the interim dividend of HK14 cents per share (2009: HK14 cents), there is an aggregate distribution of HK74 cents per share, representing a year-on-year increase of 8.8%. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative.

[1] *The amount has been restated due to changes in accounting policies.*

## Platform for Growth

Year 2010 was a year of progress for Hysan. Despite challenges in the economic environment at the beginning of the year, we achieved our near-term objectives of improving occupancy and revenue. They were achieved through making our locations more attractive and by better understanding our customers and meeting their needs. Hysan Place, our latest development project, is on schedule for a grand opening in the second quarter of 2012. The completion of the project will bring Hysan to another level in terms of commercial success, design and sustainability. Together, we are building a platform for growth to further enhance Hysan's longer-term competitiveness.

## Board and People

I have served this Board for over 20 years and shall step down at the conclusion of the May Annual General Meeting. I am pleased to announce that Irene Yun Lien LEE, who brings with her extensive corporate and commercial experience, has been appointed the new non-executive Chairman to take over from me. Deanna Ruth Tak Yung LEE RUDGARD has also decided to step down in May, having served the Board for 18 years. Siu Chuen LAU, who has served as her alternate, will join as a new non-executive Director.

I would like to thank my fellow Board members for their steadfast contribution to the Group and their fellowship to me throughout the years. My special thanks to Fa-Kuang HU and Geoffrey YEH, who stepped down during the year, for their wise counsel throughout their long tenure. I would also like to welcome our new directors who will bring fresh perspectives to the Board to help map our future direction. Finally, I should like to express my heartfelt thanks to the management team and all our staff members for their support, their dedication and their hard work.

## Outlook

We expect Grade "A" office rentals in the core districts to continue to improve during the year. Against this background, we shall be renewing leases negotiated during the 2008 rental peak. The retail segment should continue to benefit from good retail sales and inbound tourists. Our performance is expected to experience steady growth as a whole.

**David AKERS-JONES**
*Independent non-executive Chairman*

Hong Kong, 9 March 2011

# 2 Strategy in Action

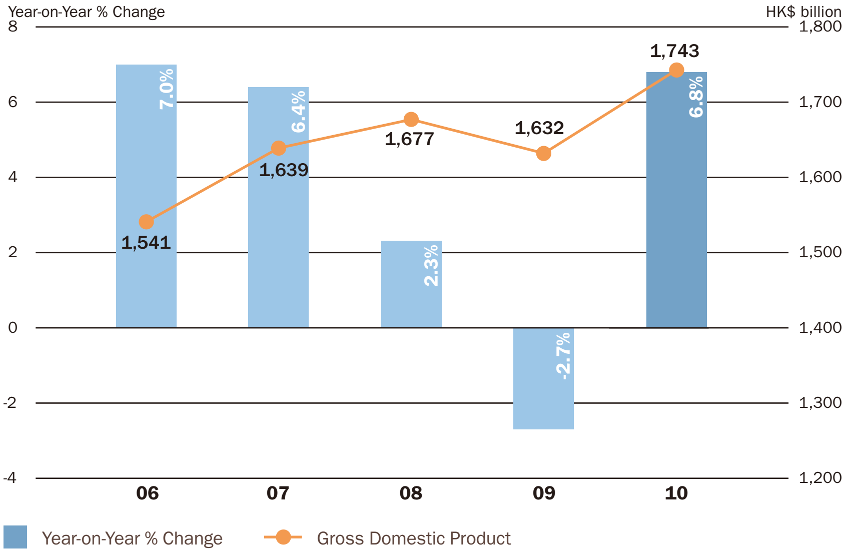
"Strategy in action" starts with a Hong Kong leasing market overview and how Hysan responded successfully to market changes in 2010. This is followed by a detailed analysis of our operating strategy and performance, finance, risks and people management during the year.

# Our Marketplace and Our Response

## Hong Kong Economy

The Hong Kong economy recorded positive GDP growth of 6.8% in 2010, as both exports and domestic demand grew following a recession in 2009. The growth momentum in exports was largely led by the healthy recovery of the Asia Pacific markets. In the United States and European markets, domestic demand has yet to return to its 2008 pre-crisis levels. Total employment in Hong Kong rose to 3.6 million as of December 2010, while the unemployment rate fell to 4.0%.

**Real Gross Domestic Product***




* *In chained (2008) dollars*

Source: Census and Statistics Department (data as of March 2011)

The Hong Kong economy improved in 2010 as both exports and domestic demand grew.

## Office

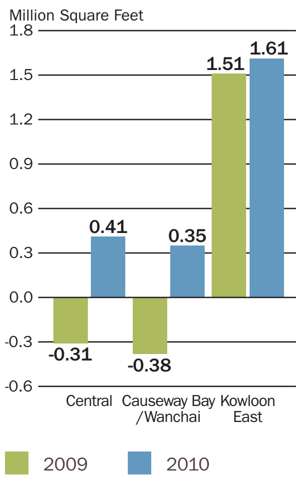
After being hit in 2009 by the global financial crisis and its impact on demand, coupled with a significant new supply particularly in decentralised Kowloon East, the Grade "A" office market saw an improvement in 2010.

Demand for Grade "A" office space increased during the year. Overall net take-up in Hong Kong amounted to 3.7 million square feet in 2010. Occupancy improved across all districts. This also applied to Kowloon East, thus removing the overhang factor in the Grade "A" market.

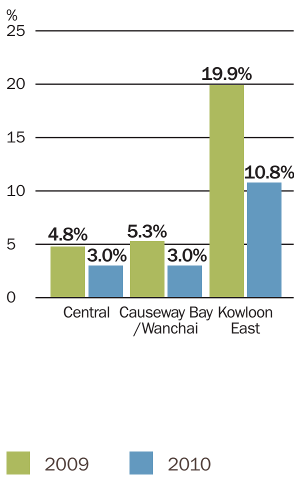
Causeway Bay/Wanchai contributed a positive net take-up of around 350,000 square feet during the year. As at the end of December 2010, the vacancy rate in Causeway Bay/ Wanchai fell to 3.0%.

All Grade "A" office sub-markets witnessed double-digit rental growth in 2010, but their rental levels have yet to return to the peak in 2008. Causeway Bay/Wanchai recorded an annual growth of 31.8%. It should be noted that there was a widening rental gap between Causeway Bay/Wanchai and Central during the year.

**Grade 'A' Office Net Take-up**




**Grade 'A' Office Vacancy Rate**

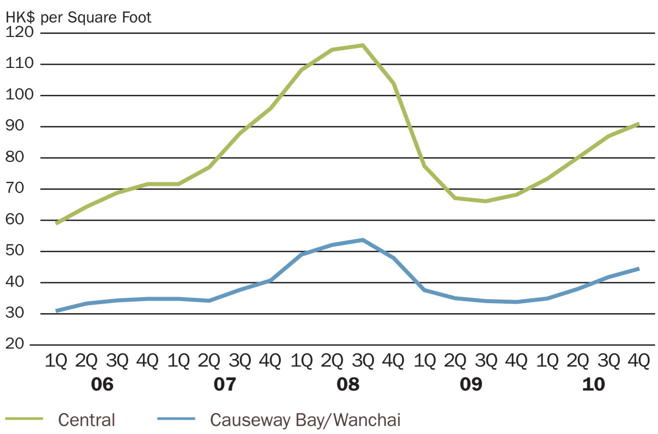



### Hysan's Response

In light of the challenging market conditions at the end of 2009, Hysan took active steps to stabilise its office sector occupancy. More than 320,000 square feet of new let were achieved in 2010.

For details, see our Operations Review – Office section on pages 22 and 23.

**Grade 'A' Office Rental Value**




Source: Jones Lang LaSalle (data as of March 2011)

### Hysan's Response

The widening rental gap between Causeway Bay/Wanchai and Central, as the market recovered during 2010, means that there are future opportunities for us to attract businesses looking for quality and cost effective offices in a core location.

We refined our office leasing positioning, highlighting Hysan's office community as the most natural extension of Central, also supported by our unrivalled amenities to provide a "total work/life experience".

For details, see our Operations Review – Office section on pages 22 and 23.

## Retail

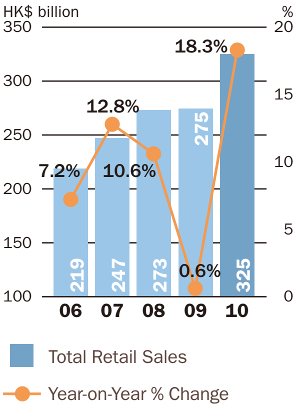
The retail market was supported by the expansion of the economy, improvement in the labour market and the sustained performance of inbound tourism. Overall annual retail sales increased by 18.3% as compared to the previous year.

In line with rising consumer confidence, private consumption expenditure rose by 5.8% in 2010.

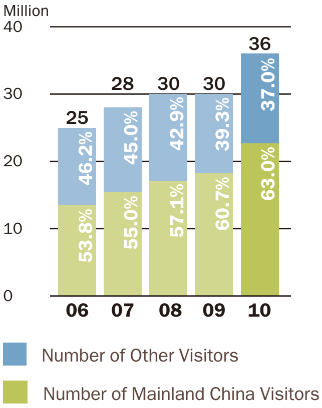
The arrival of increasing numbers of Mainland China visitors and the sustained appreciation of the Renminbi continued to induce a cross-border spending spree in Hong Kong. In 2010, Mainland China arrivals hit 22.7 million, accounting for 63.0% of the total arrivals in 2010.

Several retail developments were completed in 2010 with the majority of them located in Tsim Sha Tsui and other areas of Kowloon. Rents for premium prime shopping centres rose by 12.8% in 2010.

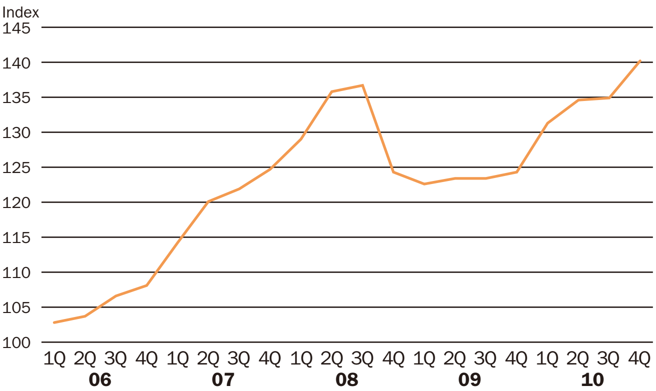
**Hong Kong Total Retail Sales**




**Total Number of Visitors**




**Premium Prime Shopping Centre Rental Index (2005 Q4 = 100)**




Sources: Jones Lang LaSalle, Census and Statistics Department and Hong Kong Tourism Board (data as of March 2011)

### Hysan's Response

We maximised our exposure to Mainland China visitors through a series of tourism marketing initiatives. These were complemented by other types of shopping mall promotions for local shoppers.

We recruited more renowned retail brands, further enhancing our tenant mix, especially in the Lee Gardens hub. Meanwhile, we also rejuvenated the Lee Theatre hub.

For details, see our Operations Review – Retail section on page 24.

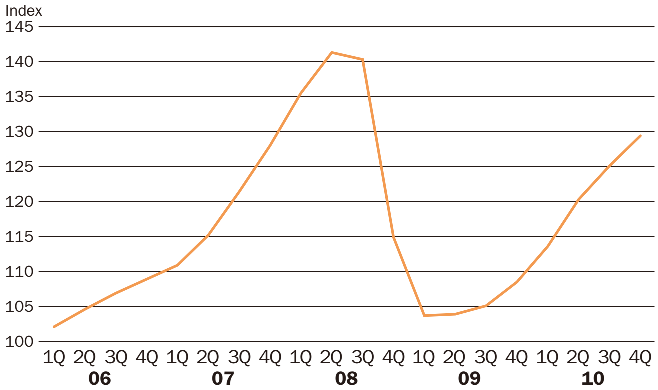
## Luxury Residential

The luxury residential market benefitted from the resumption of hiring of expatriates in 2010.

The availability of luxury leasing properties remained limited in 2010. Alongside the growing demand from expatriates in corporate sectors, especially those in banking and finance, occupancy rates in the luxury residential leasing market stood firm in the year.

Overall, luxury residential rents increased by 19.3% in 2010 but were still below the market highs of 2008.

**Luxury Residential Rental Index (2005 Q4 = 100)**




Source: Jones Lang LaSalle (data as of March 2011)

### Hysan's Response

With the market rental levels in 2010 still being generally below the peak of 2008, Hysan's strategy successfully increased occupancy so as to offset the effects of negative rental reversion.

For details, see our Operations Review – Residential section on page 25.

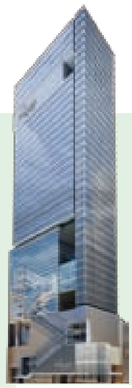
*Apart from information labelled "Hysan's Response", this market report is to give a general background rather than Group-specific information. Views expressed shall not be regarded as providing any advice or recommendation for whatever purpose. For the Group's performance in detail – see "Management's Discussion and Analysis" section.*

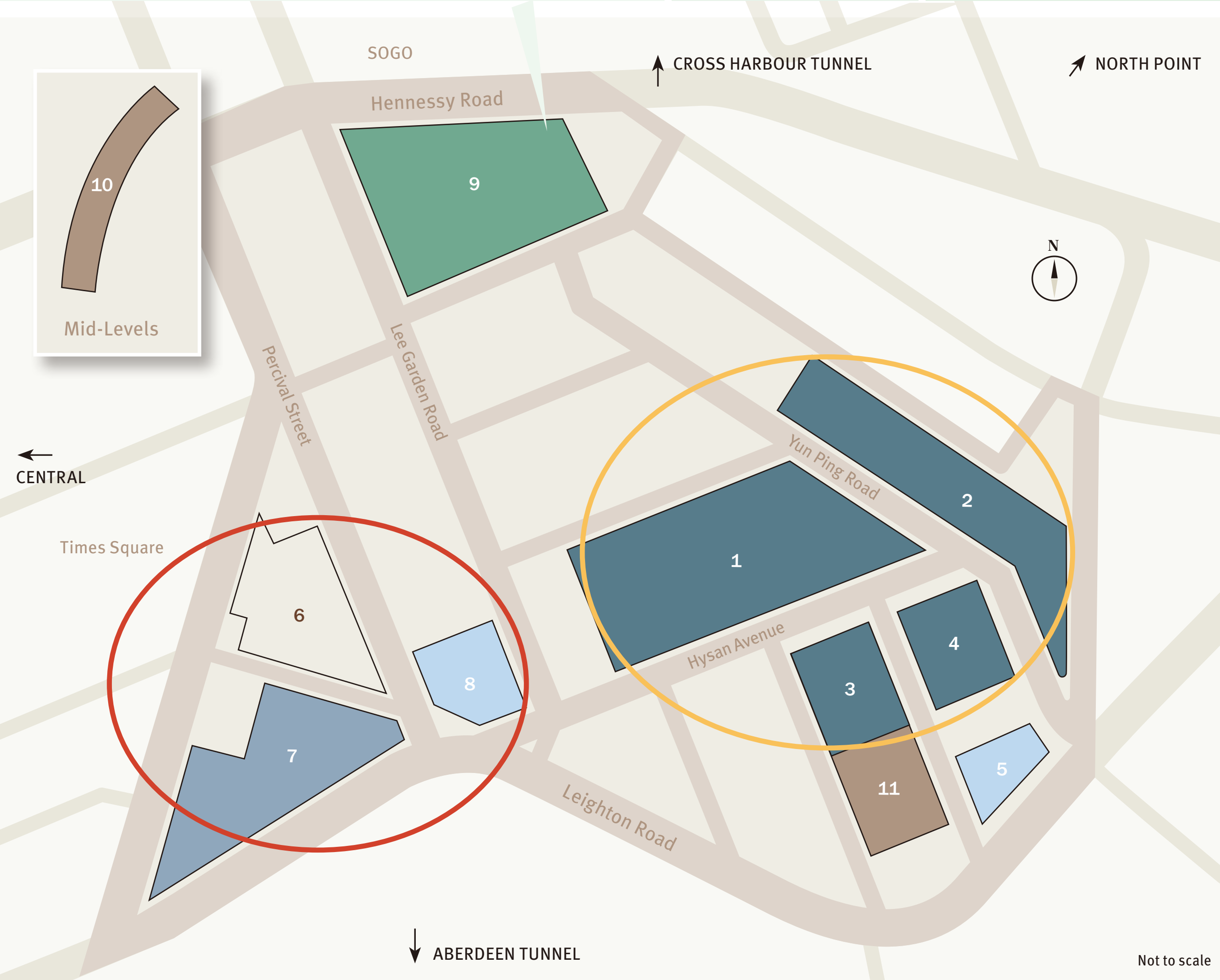
# Investment Property Portfolio

## Hysan Place

Grand Opening
**Q2 2012**

Full details see **Page 26**






**High quality and complementary office and retail offerings**

**Office**
Our Grade "A" office hub excels with a core location and prestige, premium facilities and unrivalled amenities. Leighton Centre, meanwhile, is a quality office building with brand-new renovations to the lobby and common areas. Capitalising on its Causeway Bay locational advantage, the semi-retail hub is perfect for tenants who require frequent personal interface with clients.

**Retail**
Our retail hubs fully complement their corresponding office hubs with a wide range of retail offerings. The Lee Gardens hub presents elegant and luxury premium spaces for high-end brands, while the Lee Theatre hub is best known for stylish and chic shops as well as quality food and beverage outlets.

- Grade "A" Office Hub
- Leighton Centre
- Semi-retail Office Hub
- Lee Gardens Retail Hub
- Lee Theatre Retail Hub
- Hysan Place
- Residential

## THE LEE GARDENS

**33 Hysan Avenue, Causeway Bay**

1

The Lee Gardens is the Group's flagship property comprising an office tower and a high-end shopping centre. The development, close to the MTR Causeway Bay station, enjoys spectacular views of the Harbour and Happy Valley and is home to many international corporations, luxury fashion brands and renowned restaurants.

\ Approx. Gross Floor Area 903,000 ft$^2$
\ Number of Floors 53 \ Parking Spaces 200
\ Completed 1997

## LEE GARDENS TWO

**28 Yun Ping Road, Causeway Bay**

2

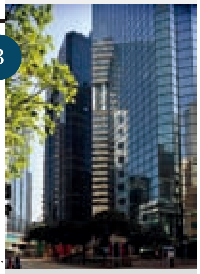
Lee Gardens Two is an office and retail complex. The complex is conveniently linked to the neighbouring The Lee Gardens and is home to many international corporations, luxury fashion brands, renowned restaurants and a children's concept floor.

\ Approx. Gross Floor Area 627,000 ft$^2$
\ Number of Floors 34 \ Parking Spaces 176
\ Completed 1992 \ Renovation of retail podium 2003

## SUNNING PLAZA

**10 Hysan Avenue, Causeway Bay**

3



Designed by the renowned architect I.M. Pei, Sunning Plaza greets tenants and visitors with a spacious entrance and lift lobby. Among its retail tenants are popular food and beverage outlets, which have established the plaza as a hub for relaxation and social recreation.

\ Approx. Gross Floor Area 277,000 ft$^2$
\ Number of Floors 30 \ Parking Spaces 150 (jointly owned with Sunning Court) \ Completed 1982

## 18 HYSAN AVENUE

**18 Hysan Avenue, Causeway Bay**

4

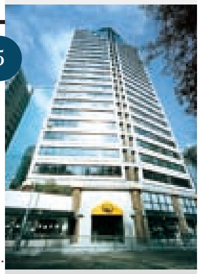
18 Hysan Avenue, formerly known as AIA Plaza, is a 25-level office and retail complex at the corner of Hysan Avenue. The building boasts a bright and spacious lobby.

\ Approx. Gross Floor Area 132,000 ft$^2$
\ Number of Floors 25
\ Completed 1989 \ Renovated 2009

## 111 LEIGHTON ROAD

**111 Leighton Road, Causeway Bay**

5



Located in a pleasant and quieter area in the heart of Causeway Bay, 111 Leighton Road is an ideal office location offering convenience as well as privacy. The retail shops include some trend-setting stores.

\ Approx. Gross Floor Area 80,000 ft$^2$
\ Number of Floors 24
\ Completed 1988 \ Renovated 2004

## LEE THEATRE PLAZA

**99 Percival Street, Causeway Bay**

6

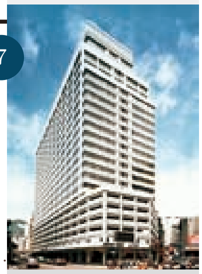
Like its predecessor, Lee Theatre, the Lee Theatre Plaza is a Hong Kong landmark, being one of the city's best known shopping and dining complexes, housing many of the world's most famous lifestyle brands and restaurants.

\ Approx. Gross Floor Area 317,000 ft$^2$
\ Number of Floors 26
\ Completed 1994

## LEIGHTON CENTRE

**77 Leighton Road, Causeway Bay**

7



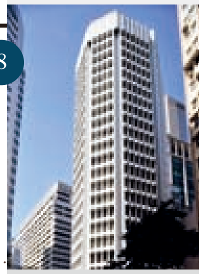
This office and retail complex enjoys close proximity to all forms of public transport. Its central location in the Causeway Bay area makes it a much sought-after address.

\ Approx. Gross Floor Area 428,000 ft$^2$
\ Number of Floors 28 \ Parking Spaces 264
\ Completed 1977 \ Renovation of office common areas 2010 \ Renovation of retail podium 2011

## ONE HYSAN AVENUE

**1 Hysan Avenue, Causeway Bay**

8



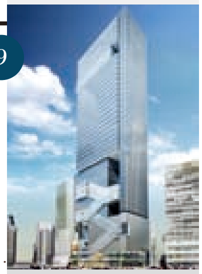
Located at the junction of three busy streets in the heart of Causeway Bay, this office and retail complex enjoys a prime location with a variety of retail facilities in the surrounding area.

\ Approx. Gross Floor Area 169,000 ft$^2$
\ Number of Floors 26
\ Completed 1976 \ Renovated 2002

## HYSAN PLACE

**500 Hennessy Road, Causeway Bay**

9



Hysan's future northern gateway under construction.

Hysan PLACE

Artist's impression

\ Estimated Total Gross Floor Area Approx. 710,000 ft$^2$
\ Grand Opening Q2 2012

## BAMBOO GROVE

**74–86 Kennedy Road, Mid-Levels**

10

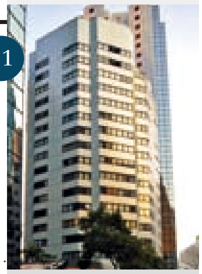
A luxury residential complex in the Mid-Levels, Bamboo Grove commands panoramic views of the harbour and the greenery of the Peak, and is well served by a multitude of public transport. In addition to superb property management services and full club-house and sports facilities, tenants also enjoy personalised resident services that help ensure a comfortable stay.

\ Approx. Gross Floor Area 691,000 ft$^2$
\ Number of Units 345 \ Parking Spaces 436
\ Completed 1985 \ Renovated 2002

## SUNNING COURT

**8 Hoi Ping Road, Causeway Bay**

11



The Sunning Court is a unique residential tower in the dynamic Causeway Bay area. Located in a pleasant environment with tree-lined streets, and within easy reach of all forms of relaxation and entertainment in the surrounding district, the building provides maximum comfort for its tenants.

\ Approx. Gross Floor Area 98,000 ft$^2$
\ Number of Units 59 \ Parking Spaces 150 (jointly owned with Sunning Plaza) \ Completed 1982
\ Renovated 2003

Note:

The Approximate Gross Floor Areas shown above are based on accountable gross floor area of the relevant building and rounded to the nearest 1,000 ft$^2$.

# Management's Discussion and Analysis

## Operations Review

Hysan is principally engaged, together with its subsidiaries and associates, in investment, development and management of quality properties in prime locations. As at 31 December 2010, Hysan's investment property interests totalled some 3.8 million gross square feet of high-quality office, retail and residential space in Hong Kong, excluding Hysan Place at 500 Hennessy Road, which is currently under redevelopment.

**2010 Performance**

The Group's turnover continued to grow and recorded HK$1,764 million in 2010, representing an increase of 5.0% from HK$1,680 million in 2009. There were good performances across all leasing sectors of the Group.

Recurring Underlying Profit (the key measurement of the Group's core leasing business), which is arrived at principally by excluding from Underlying Profit gains on disposal of long-term assets, was HK$1,148 million, up 3.4% from HK$1,110 million in 2009. As there was no gain from disposal of long-term assets during the year, our Underlying Profit, which is arrived at by excluding from Statutory Profit changes in fair value of investment properties, was also HK$1,148 million. Both principally reflected the improvement in gross profit generated from our core leasing activities.

Statutory Profit, prepared in accordance with Hong Kong Financial Reporting Standards, was HK$3,844 million (2009: HK$2,914 million[1]) mainly attributable to the higher valuation of the Group's investment properties. At year end 2010, the independent external valuation of the Group's investment property portfolio was HK$40,833 million (2009: HK$37,363 million).

Turnover growth was recorded in all three sectors of Hysan's core leasing business.

[1] *The amount has been restated due to changes in accounting policies.*

## Key Performance Indicators

While many factors contributed to the results of the Group's businesses, turnover growth and occupancy rate are the key drivers used by the Group's management for assessment of the performance of our core leasing business. In addition, the management uses property expenses and such expenses as a percentage of turnover to assess cost effectiveness. The nature of these performance indicators, the way they are measured and their significance to the Group are set out below.

| Turnover Growth | Occupancy Rate | Property Expenses | Property Expenses as a Percentage of Turnover |
|---|---|---|---|
| **How is it measured?**<br>Rental revenue in 2010 compared to that in 2009 | **How is it measured?**<br>Percentage of total area leased to tenants over total lettable area of each sector | **How are they measured?**<br>Principally being costs directly associated with day-to-day operations of the Group's property portfolio | **How is it measured?**<br>Calculated by dividing property expenses by turnover |
| **Why is it significant?**<br>Reflects the combined effect of changes in rental rate and occupancy rate | **Why is it significant?**<br>• Rental revenue and management fees are directly proportional to occupancy rate<br>• Optimises revenue by balancing occupancy rate and rental level | **Why are they significant?**<br>Measures the costs incurred in operating the Group's property portfolio | **Why is it significant?**<br>An indication of the gross margin of our business |
| Growth was recorded in our core leasing business | • Improved occupancy in office and residential sectors<br>• Retail sector was virtually fully let except for units under renovations | Property expenses rose in line with the increase in turnover | Ratio increased slightly in 2010 compared with 2009 |
| **Office Sector**<br>3.1%<br>for 2010<br>(+3.8% for 2009) | **Office Sector**<br>95%<br>at year end 2010<br>(89% at year end 2009) | **Total Property Expenses**<br>HK$250 million<br>for 2010<br>(HK$235 million for 2009) | **Property Expenses to Turnover Ratio**<br>14.2%<br>for 2010<br>(14.0% for 2009) |
| **Retail Sector**<br>8.0%<br>for 2010<br>(+3.5% for 2009) | **Retail Sector**<br>96%<br>at year end 2010<br>(99% at year end 2009) | | |
| **Residential Sector**<br>3.2%<br>for 2010<br>(-2.4% for 2009) | **Residential Sector**<br>94%<br>at year end 2010<br>(92% at year end 2009) | | |

## Business Units Review

The leasing activity of the Group is organised into three sectors – office, retail and residential. Each sector has a different tenant base and requires different marketing strategies. The strategies and performance of each sector for 2010 are discussed below.

### Office Sector

Hysan owns and manages 2.1 million gross square feet of high quality office buildings in the core commercial district of Causeway Bay. We organise our office portfolio into two primary hubs: Grade "A" office hub and semi-retail office hub. Grade "A" office hub (principally comprising The Lee Gardens, Lee Gardens Two, Sunning Plaza and 18 Hysan Avenue) provides a core location with premium facilities and prestige for tenants and their clients. Leighton Centre is a quality office building that recently underwent renovations of the lobby and common areas. The semi-retail office hub (principally comprising One Hysan Avenue and 111 Leighton Road), is valued by tenants, including health and beauty operations, whose mode of operations requires frequent personal interface with customers and who appreciate Causeway Bay's core location.

In 2010, Hysan's office sector saw growth of 3.1% to HK$770 million (2009: HK$747 million). Its occupancy was at 95% as at 31 December 2010, as compared to 91% on 30 June 2010 and 89% on 31 December 2009. Rental reversion on renewals and new lettings remained generally positive for the portfolio as a whole in 2010.

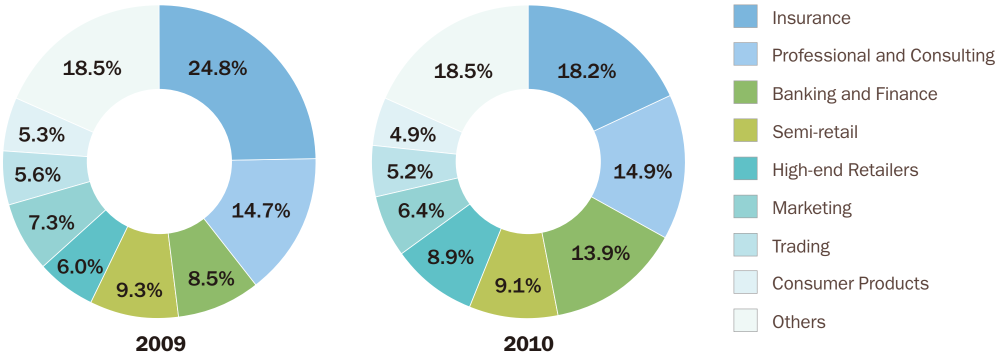
During the year, we successfully improved our occupancy. More than 320,000 square feet of office space new lettings were achieved. Around 44% of the new-let space was taken by tenants in the banking and finance sector, with other major tenant groups being professional services and high-end retailers. This reflects the positive market response to our Grade "A" office hub, which is positioned as the most natural extension of Central, in terms of proximity, quality of facilities and supporting amenities.

Top 5 industry categories within our office tenant mix at 2010 year end were insurance, professional services, banking and finance, semi-retail and high-end retailers. The charts on page 23 illustrate our office tenant profile analysed by area occupied at the end of 2010 and 2009.

We further strengthened our business processes including sales channels, and raised property service standards across our portfolio. Other initiatives such as asset enhancement and forming closer tenant relationships also helped to increase our office portfolio's longer-term competitiveness.

In line with our established asset enhancement programme, Leighton Centre underwent office lobby renovations as well as improvements in other public areas. These were well received, as reflected in the improved leasing performance.

**Office Tenant Profile by Area Occupied as at Year End**




## The most natural extension of Central

Hysan is to further enhance its office hub as an office community that is the most natural extension of Central. In addition to its core location, the community also delivers a "total work/life experience" where people can enjoy work and other aspects of life to the full. We also take pride in providing a "long-term real estate solution" to our tenants. We offer more than 2 million square feet of quality offices spanning a diverse price range; and a culture emphasising long-term partnerships with tenants.

## Retail Sector

Hysan's retail portfolio, approximately 0.9 million gross square feet in size, takes full advantage of its position in Causeway Bay, Hong Kong's prime retail area. The Lee Gardens hub (principally comprising of The Lee Gardens, Lee Gardens Two, Sunning Plaza and 18 Hysan Avenue) provides elegant and luxury premium retail spaces for high-end brands, while the Lee Theatre hub is home to stylish and chic lifestyle shops and renowned restaurants.

Hong Kong's retail sales continued to benefit from better consumer sentiment stemming from the improved economy, as well as spending by Mainland China visitors. Against this background, the Group's retail sector's revenue grew 8.0% to HK$700 million (2009: HK$648 million). The retail sector occupancy at 31 December 2010 was 96% (99% on both 30 June 2010 and 31 December 2009), with the only vacancies being due to the renovation of the retail units in Leighton Centre.

Hysan aims to create the right environment for our tenants' businesses to grow. Our objectives in 2010 included strengthening marketing activities for both local shoppers and tourists. Among these were events and promotions for home-grown shoppers, as well as targeted tourist advertising, joint promotions and tours for the Mainland media. These programmes achieved good results with Mainland tourists spending in The Lee Gardens and Lee Gardens Two increasing by more than 60% as compared to the year before. Furthermore, a number of internationally renowned retail brands were recruited, thereby optimising our tenant mix, especially for the Lee Gardens hub.

To enhance the longer-term competitiveness of our retail portfolio, we undertook renovations of Leighton Centre's retail podium. At One Hysan Avenue, a popular fashion outlet took up 30,000 square feet over four levels.

### Retail hubs of different characters

Recent rejuvenation at Leighton Centre and One Hysan Avenue reinforced the Lee Theatre hub's stylish and chic, fashion-forward character. Apart from I.T at One Hysan Avenue, Dutch apparel store G-Star Raw will be the first new addition to Leighton Centre. The Lee Gardens hub maintains its elegant and luxury essence, with The Lee Gardens and Lee Gardens Two as its most prominent members. Some of the world's best known luxury brand names are found in these buildings.

## Residential Sector

Our residential portfolio comprises the Bamboo Grove residential development located in Mid-Levels and Sunning Court in Causeway Bay. We offer top quality facilities and one-stop personalised services to provide an expatriate-focused living experience. Residential leases are typically for two years.

The Group's residential sector revenue increased by 3.2% to HK$294 million (2009: HK$285 million). Occupancy, as at 31 December 2010, was 94% (94% as at 30 June 2010 and 92% as at 31 December 2009). This was attributable to increased occupancy despite negative rental reversion for most of the year.

The improvement in occupancy can be attributed to our strengthened marketing strategy, supported by renovations of units with eco-friendly themes, which were well received by the market. Improved services and clubhouse activities for tenants also helped to further improve tenant retention.

### Residential community for "international citizens"

Hysan's residential portfolio, with Bamboo Grove as its main constituent, offers its tenants a community experience with a focus on expatriate living. Residential Services Associates, for example, provide extra help for tenants who may be out of town. Activities during Chinese and western festive seasons, as well as guided trips and visits to local landmarks are also popular with the residents, particularly those who are new to Hong Kong. In all, those who live here are well served by staff members who create a thriving community for our "international citizens".

## Hysan Place

The Hennessy Centre redevelopment project at 500 Hennessy Road was renamed Hysan Place in September 2010. The construction work remains on schedule for the shopping mall's grand opening in the second quarter of 2012. The approximate gross floor area for the building is 710,000 square feet, including 15 floors for office use and 17 floors for retail. Leasing of the retail portions commenced during the year with around 25% of retail space being leased by the end of 2010.

As the new northern gateway of Hysan's commercial portfolio in Causeway Bay, Hysan Place will play a significant strategic role both for our office as well as our retail portfolios' development. It will be an important part of Hysan's office cluster evolution, providing top quality space to strengthen the Grade "A" office hub as the most natural extension of Central. The project boasts top building specifications as well as full harbour views from all office floors.

Hysan Place's retail portion will make a significant impact upon Hysan's overall retail portfolio, in terms of both the size, an increase of 50% by gross floor area, and its tenant mix. Hysan Place concentrates on youthfulness and trendiness, aiming to introduce many international brands that are new to Hong Kong. The mall will feature an open store format, with high ceilings to enhance the shopping experience, while express escalators and double-decked lifts will allow for smooth flow of shopping traffic within the retail mall.

Hysan Place is pre-certified at the highest platinum level for the United States Green Building Council's Leadership in Energy and Environmental Design standard (LEED). It is also pre-certified for the top level in Hong Kong's Building Environmental Assessment Method (BEAM).

## Financial Review

### Condensed Consolidated Income Statement for the Year Ended 31 December 2010

| | 2010 HK$ million | As restated* 2009 HK$ million | Change HK$ million | Change % |
|---|---|---|---|---|
| Turnover | **1,764** | 1,680 | 84 | +5.0 |
| Property expenses | **(250)** | (235) | (15) | +6.4 |
| Investment income | **49** | 38 | 11 | +28.9 |
| Other gains and losses | **(42)** | (3) | (39) | n/m |
| Administrative expenses | **(140)** | (133) | (7) | +5.3 |
| Finance costs | **(117)** | (131) | 14 | -10.7 |
| Change in fair value of investment properties | **2,594** | 1,249 | 1,345 | +107.7 |
| Share of results of associates | **394** | 768 | (374) | -48.7 |
| Taxation | **(201)** | (189) | (12) | +6.3 |
| Non-controlling interests | **(207)** | (130) | (77) | +59.2 |
| **Statutory Profit** | **3,844** | 2,914 | 930 | +31.9 |
| **Underlying Profit** | **1,148** | 1,113 | 35 | +3.1 |
| **Recurring Underlying Profit** | **1,148** | 1,110 | 38 | +3.4 |

*n/m – not meaningful*
** Certain figures previously reported have been restated due to changes in accounting policies.*

### Turnover

Turnover comprises rental income and management fee income derived from the Group's investment properties portfolio in Hong Kong and was analysed by sectors as follows:

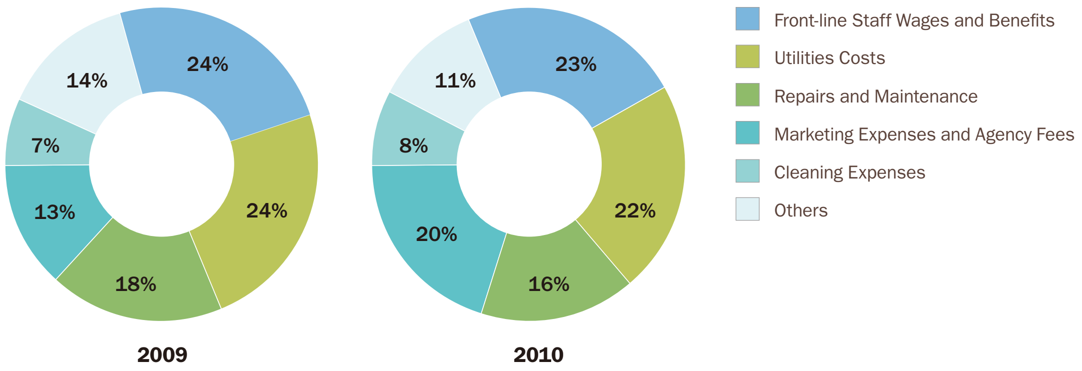
| | 2010 HK$ million | 2009 HK$ million | Change HK$ million | Change % |
|---|---|---|---|---|
| Office sector | **770** | 747 | 23 | +3.1 |
| Retail sector | **700** | 648 | 52 | +8.0 |
| Residential sector | **294** | 285 | 9 | +3.2 |
| | **1,764** | 1,680 | 84 | +5.0 |

The Group recorded growth across all three leasing sectors during the year. Detailed analysis of each sector's performance is covered in "Business Units Review" set out on pages 22 to 25.

### Property Expenses

Property expenses are the costs directly associated with day-to-day operations of our investment properties, being primarily related to front-line staff wages and benefits, utilities costs, repairs and maintenance, marketing expenses and agency fees, as well as cleaning expenses. The graph below shows the percentage of these property expenses.

**Property Expenses**




Property expenses rose 6.4% to HK$250 million from HK$235 million in 2009, mainly due to higher marketing expenses to capture tourist spending, as well as higher agency expenses to attract quality tenants. The property expenses to turnover ratio increased slightly from 14.0% to 14.2% as compared to 2009.

### Investment Income

Investment income, mainly comprising dividend income and interest income, amounted to HK$49 million (2009: HK$38 million). The increase was a result of improved deposit rates as compared to last year and higher dividend income derived from the Group's equity investments.

### Other Gains and Losses

In order to hedge against interest rate and foreign exchange rate exposures, the Group enters into a variety of financial instruments from time to time. The net loss of HK$42 million (2009: HK$3 million) principally represented mark-to-market movements of these financial instruments, as required under the current accounting standards.

### Administrative Expenses

Administrative expenses primarily comprised the payroll costs and related expenses of management and staff. They rose 5.3% to HK$140 million from HK$133 million in 2009, mainly due to the full-year impact of the increase in costs for human resources upskilling. Such activities are for both the Group's existing property portfolio as well as the upcoming Hysan Place.

### Finance Costs

Despite an increase of the Group's gross debt by HK$651 million, finance costs reduced by 10.7% to HK$117 million from HK$131 million in 2009, which was caused by the capitalisation of HK$12 million interest expenses as part of the construction costs of Hysan Place. If the capitalised interest expenses were included, the Group's finance costs in 2010 would have been HK$129 million, broadly the same as last year.

The Group's average finance costs in 2010 (defined as interest expenses divided by average gross debt for the year) fell to 2.7% from 3.1% in 2009, as the effect of a lower interest rate environment offset the impact of the increased gross debt. Further discussion of the Group's financial policy, including debt and interest rate management, is set out in the "Financial Policy" section.

### Change in Fair Value of Investment Properties

At 31 December 2010, the Group's investment properties were valued at HK$40,833 million (31 December 2009: HK$37,363 million) by an independent professional valuer, Knight Frank Petty Limited. Excluding capital expenditures for the Group's property portfolio, fair value gain on investment properties of HK$2,594 million (2009: HK$1,249 million) was recognised in the Group's consolidated income statement for the year.

### Share of Results of Associates

The Group's share of results of associates decreased by 48.7% to HK$394 million (2009: HK$768 million). This decrease was due to a smaller revaluation gain on the Shanghai Grand Gateway project, of which the Group owns 24.7%, as compared to last year. Under Hong Kong Accounting Standards 40 "Investment Property", properties at Shanghai Grand Gateway have been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, of the associate amounted to HK$227 million (2009: HK$606 million).

In 2010, the Shanghai Grand Gateway project continued to deliver a good performance. The Group's share of results, excluding revaluation gains on investment properties, recorded 3.1% increase year-on-year. As at the end of 2010, the residential properties, including the luxury residential and serviced apartments, were continuing to enjoy high occupancy while the retail and office properties remained virtually fully let.

### Taxation

Following the amendments to Hong Kong Accounting Standard 12 "Income Taxes" and Hong Kong Accounting Standard 17 "Leases", there were some changes to the accounting policies adopted by the Group during 2010. Deferred tax is no longer required to be provided for with respect to any changes in fair value of the Group's investment properties. On the other hand, the land element of owner-occupied properties is reclassified from prepaid lease payments to property, plant and equipment and measured using the revaluation model, under which deferred tax is required to be provided for with respect to any changes in fair value. These amendments have been applied retrospectively and hence the Group's taxation charge for 2009 was restated at HK$189 million.

Following the changes in the Group's accounting policies, the taxation of the Group for 2010 was HK$201 million, which increased in line with the growth in the Group's core business operating results.

**Condensed Consolidated Statement of Financial Position as at 31 December 2010**

| | 2010 HK$ million | As restated* 2009 HK$ million | Change HK$ million | Change % |
|---|---|---|---|---|
| Investment properties | **40,833** | 37,363 | 3,470 | +9.3 |
| Available-for-sale investments | **1,152** | 1,002 | 150 | +15.0 |
| Interests in associates | **3,153** | 2,886 | 267 | +9.3 |
| Principal-protected investments and term notes | **725** | 200 | 525 | +262.5 |
| Time deposits, cash and bank balances | **1,993** | 1,984 | 9 | +0.5 |
| Other assets | **698** | 607 | 91 | +15.0 |
| Total assets | **48,554** | 44,042 | 4,512 | +10.2 |
| Borrowings | **4,587** | 3,891 | 696 | +17.9 |
| Taxation | **387** | 342 | 45 | +13.2 |
| Other liabilities | **1,263** | 1,077 | 186 | +17.3 |
| Total liabilities | **6,237** | 5,310 | 927 | +17.5 |
| **Net Assets** | **42,317** | 38,732 | 3,585 | +9.3 |
| Shareholders' funds | **40,677** | 37,216 | 3,461 | +9.3 |
| Non-controlling interests | **1,640** | 1,516 | 124 | +8.2 |
| **Total Equity** | **42,317** | 38,732 | 3,585 | +9.3 |

** Certain figures previously reported have been restated due to changes in accounting policies.*

### Investment Properties

The Group's investment property portfolio was valued at 31 December 2010 by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The amount of this valuation was HK$40,833 million, an increase of 9.3% from HK$37,363 million at 31 December 2009. The valuation at year end 2010 principally reflected improved rental rates for the Group's investment property portfolio.

The following shows the property valuation of each portfolio at year end.

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Office portfolio | **14,708** | 14,098 |
| Retail portfolio | **11,896** | 10,575 |
| Residential portfolio | **7,821** | 7,050 |
| Property under redevelopment (Hysan Place)* | **6,408** | 5,640 |
| | **40,833** | 37,363 |

** Property under redevelopment is valued at site value plus development cost up to date.*

### Available-for-Sale Investments

Available-for-sale investments (principally comprising equity securities listed in Hong Kong) grew 15.0% in 2010, which was due to mark-to-market gains on the listed equity investments. At 31 December 2010, the fair value of our listed securities portfolio was HK$1,147 million (2009: HK$997 million).

### Interests in Associates

Interests in associates primarily represented the Group's investments in the Shanghai Grand Gateway project, of which the Group owns 24.7%. As at the end of 2010, interests in associates increased 9.3% to HK$3,153 million (2009: HK$2,886 million), mainly due to the Group's share of operating results, change in fair values of investment properties as well as exchange gain on translation for the Shanghai Grand Gateway projects during the year.

### Principal-Protected Investments and Term Notes

The Group placed HK$725 million (2009: HK$200 million) in debt securities and investments, which were principal-protected in nature at the end of 2010. The counterparties were financial institutions and corporates with credit ratings at investment grade or above. These investments helped to preserve the Group's liquidity and to diversify counterparty risk exposure.

### Borrowings

The carrying amount of the Group's borrowing was HK$4,587 million at year end 2010, representing an increase of 17.9% from HK$3,891 million at year end 2009. During the year, the Group issued HK$800 million notes from the Medium Term Notes Programme to capture market liquidity at relatively low interest costs with tenors ranging from 10 to 15 years. In addition, HK$500 million bank loans were drawn while HK$600 million bank loans were repaid. To manage interest rate and foreign exchange exposures of the outstanding borrowings, the Group entered into hedging transactions with financial institutions with investment grade or above. All borrowings were effectively denominated in Hong Kong dollars after taking into account the hedging transactions.

### Shareholders' Funds

Following the amendments to Hong Kong Accounting Standard 12 "Income Taxes" and Hong Kong Accounting Standard 17 "Leases", the Group applied these amendments retrospectively and the Group's shareholders' funds as at 31 December 2009 were restated at HK$37,216 million. As at the end of 2010, the Group's shareholders' funds grew 9.3% to HK$40,677 million. This was mainly attributable to the increase in valuation of the Group's investment properties and listed securities portfolio, as well as the profits generated from the Group's core leasing activities.

**Condensed Consolidated Statement of Cash Flows for the Year Ended 31 December 2010**

| | 2010 HK$ million | 2009 HK$ million | Change HK$ million | Change % |
|---|---|---|---|---|
| Operating activities | | | | |
| Cash generated from operations | 1,460 | 1,349 | 111 | +8.2 |
| Net tax paid | (161) | (469) | 308 | -65.7 |
| | 1,299 | 880 | 419 | +47.6 |
| Investing activities | | | | |
| Payments in respect of investment properties | (871) | (242) | (629) | +259.9 |
| Proceeds on disposal of an investment property | 50 | – | 50 | n/a |
| Proceeds on disposal of available-for-sale investments | – | 44 | (44) | -100.0 |
| Placement of principal-protected investments (net of proceeds received upon maturity) | (263) | (72) | (191) | +265.3 |
| Interest and dividends received | 46 | 35 | 11 | +31.4 |
| Repayment from an associate | 230 | 221 | 9 | +4.1 |
| Purchase of term notes | (266) | – | (266) | n/a |
| Purchase of property, plant and equipment | (7) | (8) | 1 | -12.5 |
| Decrease (increase) in time deposits with original maturity over three months | 118 | (1,551) | 1,669 | n/a |
| | (963) | (1,573) | 610 | -38.8 |
| Financing activities | | | | |
| Dividends paid | (733) | (642) | (91) | +14.2 |
| Finance costs | (109) | (127) | 18 | -14.2 |
| New borrowings | 1,300 | 799 | 501 | +62.7 |
| Repayment of borrowings | (668) | (620) | (48) | +7.7 |
| Proceeds on exercise of share options | 1 | 1 | – | – |
| | (209) | (589) | 380 | -64.5 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 127 | (1,282) | 1,409 | n/a |

*n/a – not applicable*

### Operating Activities

Reflecting the growth in the Group's core leasing business, cash generated from operations increased HK$111 million to HK$1,460 million (2009: HK$1,349 million). In 2009, the tax payment made included HK$268 million for the final settlement of a prior-year tax dispute.

### Investing Activities

There was a decrease of HK$610 million in net cash used in investing activities over the prior year. In 2010, the Group reduced its financial investments as a whole, while it used more cash for payments of capital expenditure, including construction costs of Hysan Place and other costs for building renovations.

### Financing Activities

Net cash used in financing activities reduced by HK$380 million from last year, mainly due to new borrowings of HK$800 million fixed rate notes and HK$500 million bank loans during the year, which was partly offset by the cash outflow for dividend payments and debts repayment.

### *Beyond Financial Statements*

**Contingent Liabilities**

The Group has an obligation to finance the working capital and other financial requirements of an associate. Based on currently available information, management does not anticipate any major call for contributions in the foreseeable future.

**Capital Expenditure and Management**

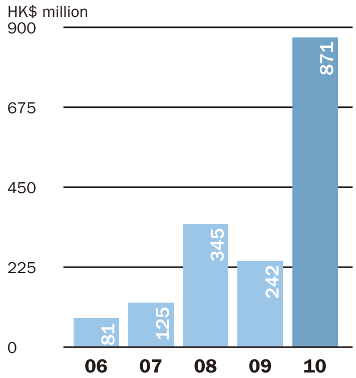
The Group is committed to enhancing the asset value of its investment property portfolio through selective refurbishment, repositioning and redevelopment. The Group also has in place a portfolio-wide whole-life cycle maintenance programme as part of its ongoing strategy to pro-actively implement preventive maintenance activities.

Total cash outlay of capital expenditure (excluding purchase of plant and equipment) during the year was HK$871 million, an increase of HK$629 million from last year. The rise was mostly attributable to the increase in payments of construction costs for Hysan Place in 2010. The graph on the right illustrates capital expenditure patterns during the last five years.

The Group has an internal control system for scrutinising capital expenditures. Detailed analysis of expected risks and returns is submitted to business unit heads, Executive Directors or the Board for consideration and approval, depending on strategic importance, cost/benefit and the size of the projects. The criteria for assessment of financial feasibility are generally based on net present value, payback period and internal rate of return from projected cash flow.

At year end 2010, the Group had HK$2,550 million undrawn committed bank facilities. These facilities, together with the Medium Term Notes Programme, available-for-sale investments and positive cash flows from local and overseas operations, provide adequate financial resources to fund the level of planned capital expenditure, including the construction costs of Hysan Place.

**Capital Expenditure**



## Financial Policy

**Market Highlights**

The Asian economy continued to improve in 2010 despite much slower growth in the United States with continuing high unemployment and a sovereign debt crisis in parts of Europe. The asset markets generally rebounded swiftly, mainly due to the excessive liquidity and low interest rate environment introduced by various central banks. In the latter part of the year, some Asian countries began to tighten their monetary policies by raising interest rates to combat the inflation fears triggered by higher food, energy and raw material prices. Against this backdrop, the Group will continue to focus on liquidity and interest rate risk management in 2011.

**Objectives**

We adhere to a policy of financial prudence. Our objectives are to:

- maintain a strong financial position by actively managing debt level and cash flow
- secure diversified funding sources from both banks and capital markets
- minimise refinancing and liquidity risks by attaining healthy debt repayment capacity, diversified maturity profile, and availability of banking facilities with minimum collateral on debt
- manage the exposures arising from adverse market movements in interest rates and foreign exchange through appropriate hedging strategies
- monitor credit risks by imposing proper counterparty limits and reduce financial investment risks by holding quality marketable securities

Hysan Place is scheduled for a grand opening in Q2 2012.

**Key Performance Indicators**

## Average Finance Costs

**How are they measured?**
Interest expenses divided by average gross debt for the year

**Why are they significant?**
Our treasury aims to manage and optimise finance costs

HIBOR was generally lower in 2010 compared with 2009

**Average Finance Costs**
**2.7%** for 2010
(3.1% for 2009)

## Bank Facilities : Capital Market Issuance

**How is it measured?**
The proportion of the borrowings from banks and from capital markets relative to gross debt

**Why is it significant?**
As a measure of diversification of funding sources

Issued medium term notes during the year to capture liquidity in the capital markets

**Bank Facilities : Capital Market Issuance**
**29.7% : 70.3%**
at year end 2010
(37.2% : 62.8% at year end 2009)

## Average Debt Maturity

**How is it measured?**
The weighted average of the remaining maturity period of the Group's gross debt

**Why is it significant?**
An indicator of the pressure for refinancing or repaying the existing borrowings in the near term

The average maturity was lengthened due to issuance of medium term notes

**Average Debt Maturity**
**4.3 years**
at year end 2010
(3.4 years at year end 2009)

## Floating Rate Debt (% of Total Debt)

**How is it measured?**
Debt effectively in floating interest rate divided by gross debt

**Why is it significant?**
A measure to calculate the percentage of borrowings subject to fluctuations in market interest rates

The ratio was lower to prepare for any interest rate hike in the long-end of the interest rate curve

**Floating Rate Debt**
**53.6%** at year end 2010
(64.9% at year end 2009)

## Net Interest Coverage

**How is it measured?**
Gross profit less administrative expenses before depreciation divided by net interest expenses

**Why is it significant?**
It represents the Group's financial ability from operating activities to meet its interest payment obligations

Improved ratio reflects our stable profit against lower net interest expenses

**Net Interest Coverage**
**14.0 times** for 2010
(11.7 times for 2009)

## Net Debt to Equity

**How is it measured?**
Borrowings less time deposits, cash and bank balances divided by shareholders' funds

**Why is it significant?**
A benchmark as to the healthy debt level as well as an indicator of the Group's ability to raise further debt

The ratio remains low and the Group's ability to raise further debt remains strong

**Net Debt to Equity**
**6.4%** at year end 2010
(5.1% at year end 2009)

Hysan's Treasury policy manual lays down the acceptable range of operational parameters and gives guidance on the above areas in order to achieve the objective of financial prudence. Reflecting our strong financial position, the Group maintained its investment-grade credit ratings of Baa1 as rated by Moody's and BBB as rated by Standard and Poor's in 2010.

Treasury has an overall objective of optimisation of borrowing costs and management of associated risks: that is, to minimise the finance costs subject to the constraints of the operational parameters. The cost of financing was 2.7% for 2010.

### Debt Management

Credit markets in Hong Kong improved in 2010 as banks have ample liquidity. This environment, together with the stabilisation of the local economy, helped to tighten credit spreads and to provide long term liquidity. Capital market activities intensified as investors became more willing to increase their risk exposures.

Although loans maturing in 2010 and 2011 were not substantial, we took the opportunity of the improved credit markets to arrange new financing totalling HK$2,100 million during the year to support our upcoming capital expenditure and repayment of our US dollars bond maturing in 2012. Included in the sum were HK$800 million of notes from the Medium Term Notes Programme issued to capture the market liquidity at relatively low interest costs with tenors ranging from 10 to 15 years. We also secured new banking facilities of HK$1,300 million to maintain our prudent financial position.

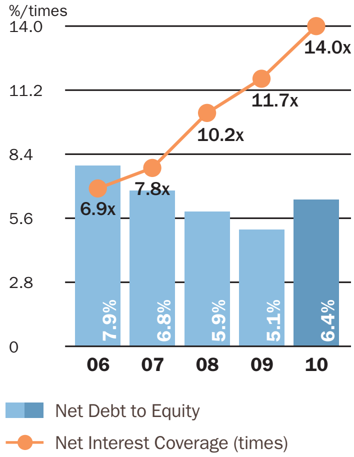
The graph on the right shows the financial strength of the Group and our ability to meet interest payment obligations and to raise further debts if necessary.

The Group always strives to lower the borrowing margin, to diversify the funding sources and to maintain a suitable maturity profile relative to the overall use of funds. As at 31 December 2010, the outstanding gross debt of the Group was HK$4,540 million (2009: HK$3,889 million), an increase of HK$651 million compared with 2009. All the outstanding borrowings are on an unsecured basis.

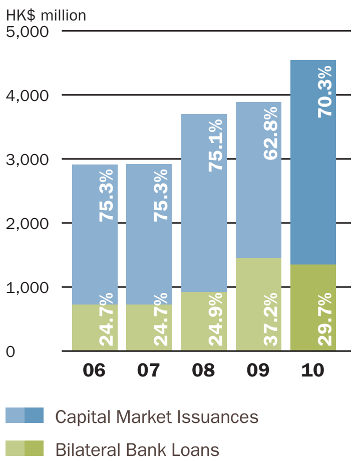
To diversify the funding sources, the Group has established long-term relationships with a number of local and overseas banks. Nine local and overseas banks have provided bilateral banking facilities to the Group and such bank borrowings accounted for about 29.7% of the Group's outstanding gross debt. The Group also has access to local and international investors through notes issued from the Medium Term Notes Programme. The capital markets proved to be more flexible in raising longer-tenor debts in order to lengthen the average debt maturity during 2010. As at the end of 2010, about 70.3% of the Group's outstanding gross debts were sourced from the debt capital markets through the Programme.

The graph on the right shows the percentages of total outstanding gross debts sourced from banks and the debt capital markets in the past five years.

**Net Interest Coverage and Net Debt to Equity at Year End**



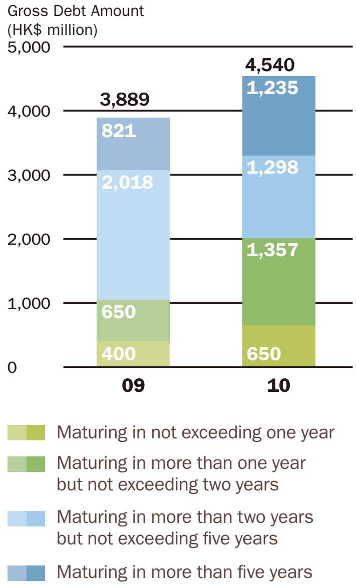

**Sources of Financing at Year End**



The Group also strives to maintain an appropriate maturity profile. As at 31 December 2010, the average maturity of the debt portfolio was about 4.3 years, of which about HK$2,007 million or 44.2% of the outstanding debts will be due in less than two years. Since we have begun to arrange new borrowings in 2010, refinancing pressure in 2011 will not be significant, especially when the level of cash and the undrawn committed facilities available to the Group are considered. Hysan will continue to monitor the financial markets closely to identify the appropriate time to secure more borrowings.

The graph on the right shows the debt maturity profile of the Group at 2009 and 2010 year end.

**Debt Maturity Profile at 2009 and 2010 Year End**




### Liquidity Management

The Group always places great emphasis on liquidity management which helped to keep the Group solid and to withstand the liquidity crunch in the latest financial turmoil. Recurring cash flows from our business continued to remain steady and strong. As at 31 December 2010, the Group had cash and bank deposits totalling about HK$1,993 million (2009: HK$1,984 million), which will be used for capital expenditure and maturing debt repayments. All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. In order to preserve liquidity and enhance interest yields, the Group also invested HK$725 million in debt securities and investments, which are principal-protected in nature.

Additional liquidity reserve was maintained in the form of highly liquid securities listed on The Stock Exchange of Hong Kong Limited. The market value of these securities amounted to HK$1,147 million as at the end of 2010 (2009: HK$997 million).

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, which amounted to HK$2,550 million at 31 December 2010, essentially allow the Group to obtain additional liquidity as the needs arise (31 December 2009: HK$2,250 million).

### Interest Rate Management

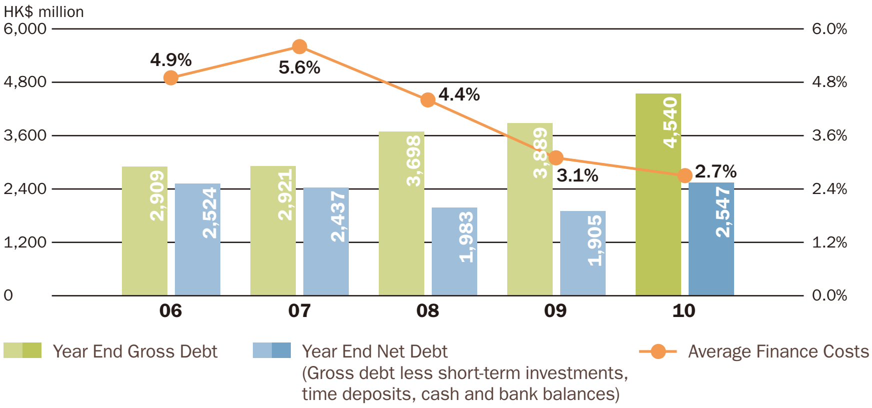
Interest expenses account for a significant proportion of the Group's total expenses and warrant close monitoring. Appropriate hedging strategies are adopted to manage exposure to projected movements in the interest rate.

As mentioned before, liquidity in the interbank market of Hong Kong was high in 2010. This together with the low Fed Fund target rate kept the 3-month Hong Kong Inter-bank Offered Rate (HIBOR) hovering at low level throughout 2010.

As a result, the Group's average cost of financing was lowered from 3.1% in 2009 to 2.7% in 2010. To prepare for any interest rate hike in the long-end of the interest rate curve as the world's economic recovery proceeds, the Group increased the fixed rate debt ratio to 46.4% as at 31 December 2010 from 35.1% a year earlier.

The diagram below shows the Group's debt levels and average finance costs in the past five years.

**Debt Levels and Average Finance Costs**




### Foreign Exchange Management

The Group aims to have minimal mismatches in currency and does not speculate in currency movements for debt management. With the exception of the US$174 million 10-year notes and the US$51 million bank loans, which have been hedged by appropriate hedging instruments, all of the Group's other borrowings were denominated in Hong Kong dollars. On the investment side, the Group's outstanding investment in principal-protected investments and debt securities amounted to US$64 million, of which around US$16 million was hedged by foreign exchange forward contracts. Other foreign exchange exposure mainly relates to investments in the overseas project in Shanghai. These foreign exchange exposures amounted to the equivalent of HK$3,153 million or 6.5% of the total assets.

### Use of Derivatives

As at 31 December 2010, all outstanding derivatives were related to the hedging of interest rate and foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used mainly to manage volatilities or adjust the appropriate risk profile of the Group's treasury assets and liabilities.

Before entering into any hedging transaction, the Group will ensure that its counterparty possesses strong investment-grade ratings to control credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty, which reflects the credit quality of the counterparty.

# Internal Controls and Risk Management

## Responsibility

Our Board of Directors has the overall responsibility to ensure that sound and effective internal controls are maintained, while management is charged with the responsibility to design and implement an internal controls system to manage risks. A sound system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance.

## Hysan's Internal Controls Model

Our internal controls model is based on that set down by the Committee of Sponsoring Organisations of the U.S. Treadway Commission ("COSO"), and has five components, namely Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. In developing our internal controls model based on the COSO principles, we have taken into consideration our organisational structure and the nature of our business activities:

- Control Environment — this is very important as it sets the tone for internal controls in a company. Hysan is a tightly-knit organisation with around 500 staff members. The actions of management and its demonstrated commitment to effective governance and control are therefore very transparent to all. We have a strong tradition of good corporate governance and a corporate culture based on good business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). Our "whistle-blowing" system is monitored by an independent third party service provider with direct reporting to the Audit Committee Chairman. We aim to build risk awareness and control responsibility into our culture and regard them as the foundation of our internal controls system.

- Control Activities — our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on senior management reviews, segregation of duties and physical controls. Over the past few years, we have been formalising the control processes in line with a general desire to move towards a management style based on systematic and structured control principles.

  Currently, the key features of our system of internal controls include:
  - Strategic and business planning: each business unit produces and obtains Board approval on a business plan each year, against which its performance is regularly monitored. Targets for a wide variety of key performance indicators are set. During 2010, we refined the list of matters reserved for the full Board to cover all major policies and directions of the Group.
  - Investment appraisal: capital projects are reviewed in detail and approved by the Chief Executive Officer, or the Board where appropriate, in accordance with delegated authority limits.
  - Financial monitoring: profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board on a regular basis, including explanations of variances between actual and budgeted performance. During 2010, monthly reporting to Directors was introduced.
  - Systems of control procedures and delegated authorities: there are clearly defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions. During 2010, we refined levels of authority for the Chief Executive Officer following his appointment.

## Our Approach to Risk Management

We have an ongoing process to identify, evaluate and manage the risks faced by the Group.

Methodology: We capture and report risk in a consistent manner across the Group enabling management to assess the significance of risks by considering the relationship between the likelihood and consequence of their occurrence.

The risk profile example shown below provides a graphical depiction of how we monitor and report risk. It includes both “Inherent” and “Residual” risk positions with arrows to show how management has reduced risks through appropriate controls and mitigating activities.

Annual assessments: department heads review and update the relevant risks’ registers once a year, providing assurances that controls are both embedded and effective within the business. Potential weaknesses and action items are regularly monitored by the management team.

Internal audit: responsible for reviewing and testing key business processes and controls in accordance with its audit plan, including following up the implementation of management actions and reporting any overdue actions to the Audit Committee. The Head of Internal Audit reports to the Chief Executive Officer and has direct access to the Audit Committee Chairman.

## 2010 Review of Internal Controls Effectiveness

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Internal Audit reports on reviews of the business processes and activities, including action plans to address any identified control weaknesses. Management assesses and presents to the Audit Committee its own assessments of the strengths and weaknesses of the overall internal controls systems, with action plans to address the weaknesses. External auditors also report on any control issues identified in the course of their work. Taking these into consideration, the Audit Committee reviews the effectiveness of the Group's system of internal controls at least once each year and reports to the Board on such reviews.

In respect of the year ended 31 December 2010, the Board considered the internal controls system effective and adequate. No significant areas of concern that might affect the operational, financial reporting, and compliance functions of the Group were identified. The scope of this review covers the adequacy of resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget.

## Way Forward

We recognise that the strengthening of internal controls is a continuing process. We shall continually review our business processes and control activities accordingly.

| Type of Risk | Explained in |
|---|---|
| Economic and Market | Our Marketplace and Our Response: pages 14 to 17 |
| Board Changes | Corporate Governance Report: pages 50 to 64 |
| Core Leasing | Operations Review: pages 20 to 25 |
| Construction – Hysan Place | Operations Review: page 26 |
| Financial and Treasury | Financial Review and Financial Policy: pages 27 to 38 |
| People | Human Resources: pages 42 and 43;<br>2010 Corporate Responsibility Report |
| Health and Safety | 2010 Corporate Responsibility Report |
| Environmental | 2010 Corporate Responsibility Report |

# Human Resources

Key to Hysan's success is our strong belief in teamwork, and our focus on people development. As at 31 December 2010, we employed a total of 495 staff including our head office management team and front-line building management colleagues.

Our core values of maintaining high standards of business ethics alongside deep respect for each individual staff member help establish an encouraging environment for nurturing cohesive teamwork. Such values also highlight the importance of people development, which we believe is essential for successfully attracting and retaining talents. Our commitment to building close teamwork and people development are exemplified in a number of our Group's programmes and activities.

## Teamwork – "Together We Can Take the Lead"

Our management team is further strengthened by new members who have blended in very well. This, in turn, has enhanced the Group's capability to attain sustainable growth. Cohesive team efforts help build the foundation of success that is fully reflected in our slogan "Together we can take the lead".

Our management exemplifies this belief by holding a Company Day at the beginning of the year. All of Hysan's head office employees and all building managers participate in this annual gathering. Group directions and objectives are shared by department heads to align common goals with employees. This sharing is followed by a clear goal setting process, which harmonises company goals with those of each individual, while also recognising their contribution to the Group. Employee participation in the process is very important, since it mobilises a team commitment, and enables the entire organisation to navigate towards the same goals of success.

To promote and recognise the values of teamwork, we have established the "You are marvellous" programme to award outstanding employees who have demonstrated such values. All employees participate in the programme by choosing the award winners. Such encouragement helps the culture of teamwork to flourish. This culture is further strengthened by our teambuilding training in which participants experience the significance of cooperation and teamwork through games and projects. In addition, we communicate the progress of our business to our employees by holding regular company meetings, including briefings after result announcements. Regular business updates are also provided through our electronic communication channel, "Marvellous Hysan".


"Together We Can Take the Lead" fully reflects our belief in teamwork, and was the theme for the Company Day.

## People Development – Our Foundation of Success

We truly value the fact that people are assets for building our success. We, therefore, implement a strong and continuous people development programme to build our talent pool and maintain a succession pipeline. To ensure our employees can grow to their fullest potential, we are committed to providing a motivational working environment that fosters personal leadership, empowerment, creativity and open communication.

Recognising that training is essential for people development, we have established a well-designed training curriculum for managerial and general staff. The curriculum is developed through training needs' analysis provided by staff at different levels and by gathering management insight on the future competency requirements of the organisation. Among the recent training focuses are marketing and asset enhancement skills. Individual training needs are fulfilled by our newly set-up "External Training Library" which recommends good quality external training courses for employees to apply for through our Training Sponsorship Programme. Business operations training courses are also arranged to facilitate employees' understanding of the operations of other functions. Such opportunities include field visits, external seminars, job assignments, participation in cross-functional teams and task forces to maximise employees' exposure to different business experience and knowledge, thus enhancing skill sets for all staff members.

Tailored training programmes are in place to help new employees make smooth transitions into the new working environment, and to ensure they work closely with other team members to achieve our business objectives.

## The Way Ahead

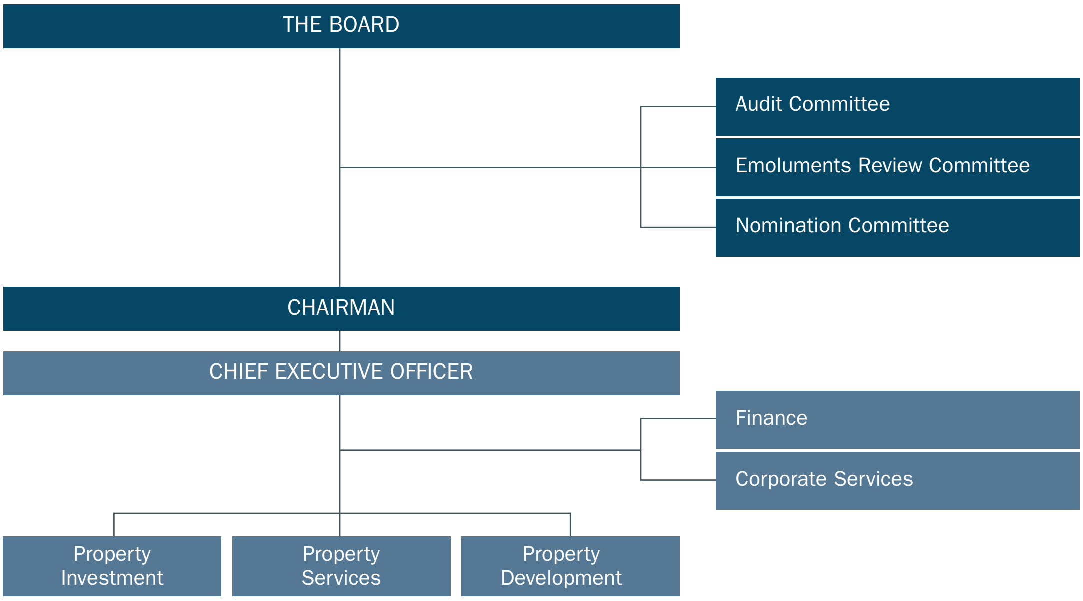
As stated in our Company slogan "Together we can take the lead", collaborative teamwork and people development will continue to be our major focus and platform to support the Group's growth plan. Behind every success stands a team of people. We will continue to devote all our efforts to developing the next generation of leaders at Hysan.

# 3 Corporate Governance

"Corporate governance" presents Hysan's governance structure and systems, its Board of Directors and senior management. This year, we highlight the focus of our Board and its actions during the year.

# Board of Directors and Senior Management

STRUCTURE




INDEPENDENT NON-EXECUTIVE CHAIRMAN

**Sir David AKERS-JONES** G.B.M., K.B.E., C.M.G., J.P. (chairing E, N)

Sir David AKERS-JONES is chairman of GAM Hong Kong Limited and deputy chairman of CNT Group Limited. He was a non-executive director of China Everbright International Limited and K. Wah International Holdings Limited. He is also a chairman and member of various voluntary organisations. He received his Master of Arts Degree at Oxford University. He was formerly the Chief Secretary of Hong Kong. He was appointed a Director in 1989, Deputy Chairman in 2001 and became Independent non-executive Chairman in January 2010. He is aged 83.

CHIEF EXECUTIVE OFFICER

**Gerry Lui Fai YIM** (N)

Mr. Yim leads the management team and is responsible for the entire Group's business and development. Prior to joining Hysan, he was managing director (for the Americas, Middle East and Africa) of the ports division of a conglomerate and has held senior positions in general management, finance, and investment banking at major organisations in Hong Kong. Mr. Yim holds a Bachelor's degree in Economics from the University of Leeds, United Kingdom. He is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He was appointed Executive Director in December 2009 and Chief Executive Officer in March 2010. He is aged 51.

INDEPENDENT NON-EXECUTIVE DIRECTOR

**Nicholas Charles ALLEN** (chairing A)

Mr. Allen is an independent non-executive director of CLP Holdings Limited, Lenovo Group Limited and VinaLand Limited. He has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers (PwC) from 1988 until his retirement in June 2007. His other appointments in Hong Kong prior to his retirement from PwC included: Member of the Securities & Futures Appeal Panel; Member of the Takeovers & Mergers Panel; Member of the Takeovers Appeal Committee; Member of the Share Registrars' Disciplinary Committee and Member of the Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants. Mr. Allen holds a Bachelor of Arts degree in Economics/Social Studies from Manchester University, United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He was appointed an Independent non-executive Director in November 2009 and is aged 55.

INDEPENDENT NON-EXECUTIVE DIRECTOR

**Philip Yan Hok FAN** (A, E, N)

Mr. Fan is a non-executive director of China Everbright International Limited and an independent non-executive director of HKC (Holdings) Limited and Zhuhai Zhongfu Enterprise Co. Ltd. Mr. Fan holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from Massachusetts Institute of Technology. He was appointed Independent non-executive Director in January 2010. He is aged 61.

INDEPENDENT NON-EXECUTIVE DIRECTOR

**Joseph Chung Yin POON**

Mr. Poon is group managing director of a private company and an independent non-executive director of AAC Acoustic Technologies Holdings Inc. He was formerly managing director and deputy chief executive of Hang Seng Bank Limited and had held senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon is a member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee, also a committee member of the Chinese General Chamber of Commerce. He was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited. Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia. He was appointed Independent non-executive Director in January 2010. He is aged 56.

NON-EXECUTIVE DIRECTOR

**Hans Michael JEBSEN** B.B.S.

Mr. Jebsen is chairman of Jebsen and Company Limited as well as a director of other Jebsen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited. He was appointed a Non-executive Director in 1994 and is aged 54.

NON-EXECUTIVE DIRECTOR

**Anthony Hsien Pin LEE** (A)

Mr. Lee is a director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. He is also an alternate director of Television Broadcasts Limited. He received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited, a substantial shareholder of the Company. He was appointed a Non-executive Director in 1994 and is aged 53.

NON-EXECUTIVE DIRECTOR

**Chien LEE** (N)

Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and Television Broadcasts Limited and a number of private companies. He is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited, a substantial shareholder of the Company. Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University. Mr. Lee was appointed a Non-executive Director in 1988 and is aged 57.

*(A) Audit Committee* *(E) Emoluments Review Committee* *(N) Nomination Committee*

NON-EXECUTIVE DIRECTOR

## Irene Yun Lien LEE

Ms. Lee is the non-executive chairman of Keybridge Capital Limited, a financial services company listed on the Australian Stock Exchange, a non-executive director of Cathay Pacific Airways Limited, QBE Insurance Group Limited (listed on the Australian Stock Exchange), The Myer Family Company Pty Limited and ING Bank (Australia) Limited. She is a member of the Advisory Council of JP Morgan Australia. She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee has been an executive director of Citicorp Investment Bank Limited in New York, London and Sydney, head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney. Ms. Lee was formerly a member of the Australian Government Takeovers Panel. She is a member of the founding Lee family, a sister of Mr. Anthony Hsien Pin LEE and his alternate on the Board. Ms. Lee holds a Bachelor of Arts Degree from Smith College, United States of America, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, United Kingdom. She was appointed a Non-executive Director in March 2011 and is aged 57.

NON-EXECUTIVE DIRECTOR

## Michael Tze Hau LEE (E)

Mr. Lee is currently the managing director of MAP Capital Limited, an investment management company. He is also an independent non-executive director of Hong Kong Exchanges and Clearing Limited, Chen Hsong Holdings Limited, Trinity Limited; and a Steward of Hong Kong Jockey Club. Mr. Lee was an independent non-executive director of Tai Ping Carpets International Limited and a member of the Main Board and Growth Enterprise Market Listing Committees of The Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited, a substantial shareholder of the Company. He joined the Board in January 2010 having previously served as a Director from 1990 to 2007. Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University. He is aged 49.

NON-EXECUTIVE DIRECTOR

## Dr. Deanna Ruth Tak Yung RUDGARD O.B.E.

Dr. Rudgard received a Master of Arts Degree, Bachelor of Medicine and of Surgery Degree from Oxford University. She is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited, a substantial shareholder of the Company. She was appointed a Non-executive Director in 1993 and is aged 71.

EXECUTIVE DIRECTOR AND COMPANY SECRETARY

## Wendy Wen Yee YUNG

Ms. Yung joined the Group in 1999 and was appointed an Executive Director in 2008. She is responsible for the Group's office and residential leasing, as well as property management activities. In addition, she advises the Board on corporate governance systems and developments generally. Ms. Yung holds a Master of Arts degree from Oxford University, United Kingdom and is qualified as a solicitor of the Supreme Court of England and Wales as well as High Court of Hong Kong. She was a partner of an international law firm prior to joining the Group. Ms. Yung is also qualified as a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, and sits on the Institute's Professional Accountants in Business Leadership Panel. She is aged 49.

*(A) Audit Committee (E) Emoluments Review Committee (N) Nomination Committee*

**Senior management team (from left to right)**
Jimmy Yiu Cho MAK, Lai Kiu CHAN, Wendy Wen Yee YUNG, Gerry Lui Fai YIM, Cissy Ching Sze CHAN, Roger Shu Yan HAO

DIRECTOR, RETAIL PORTFOLIO AND MARKETING

### Cissy Ching Sze CHAN

Ms. Chan is responsible for the Group's retail portfolio and related marketing activities. She joined the Group in 2008. Ms. Chan received a Master of Business Administration Degree from the Chinese University of Hong Kong and a Bachelor of Social Science Degree from the University of Hong Kong.
She gained substantial general management experience in multinational companies while holding senior positions, with particular expertise in sales and marketing. She is aged 45.

DIRECTOR, DESIGN AND PROJECT

### Lai Kiu CHAN

Ms. Chan oversees the Group's design and project affairs. She joined the Group in 2008. Ms. Chan holds a Doctor of Philosophy Degree in Architecture from the University of Hong Kong. She qualified as a PRC Class 1 Registered Architect, is a Registered Architect of Architects Registration Board of Hong Kong, and is also an Authorised Person (Architect) in Hong Kong. Ms. Chan has received various international and local awards for architectural designs.
She is aged 48.

GROUP FINANCIAL CONTROLLER

### Roger Shu Yan HAO

Mr. Hao is responsible for the Group's financial control and information technology function. He joined the Group in 2008. Mr. Hao received a Bachelor's Degree in Business Administration from the Chinese University of Hong Kong, and is a Chartered Accountant with the Institute of Chartered Accountants in England and Wales, a Fellow of the Association of Chartered Certified Accountants and an Associate of the Hong Kong Institute of Certified Public Accountants. Mr. Hao accumulated extensive experience in auditing, financial management and control, while holding senior positions in multinational corporations. He is aged 45.

GENERAL MANAGER, PROPERTY SERVICES

### Jimmy Yiu Cho MAK

Mr. Mak, who joined the Group in 2009, oversees the Group's property management services. He holds a Master of Business Administration Degree from The Open University of Hong Kong. He is a Fellow of Chartered Institute of Housing and Hong Kong Institute of Housing. Having been in senior management positions in a number of property companies, Mr. Mak brings to the Group extensive experience in enhancement of property management services in commercial as well as luxury residential properties.
He is aged 52.

ADVISOR TO THE BOARD

### Peter Hoo Tim LEE

Mr. Lee has over 35 years of experience in the property field covering a spectrum of activities spanning property leasing and new developments in Hong Kong, as well as other parts of Asia.
He is a former Hong Kong Chairman of the international property consultancy firm, Jones Lang LaSalle. Mr. Lee advises Hysan on the Hysan Place development project.

# Corporate Governance Report

## Sustaining Excellence in Governance

Hysan believes that embracing strong governance is the foundation to delivering on its strategic objective of consistent and sustainable performance over the long term. At the heart of Hysan's governance structure is an effective Board that is committed to upholding strong governance principles and to reinforcing Hysan's long-established and deeply engrained corporate governance tradition and culture of accountability, transparency and integrity.

We recognise the importance of having a broad complement of skills, experience and competencies on our Board to ensure the continued effective oversight of, and informed decision making with respect to, issues affecting Hysan. We are committed to continuing Board renewal to ensure that the Board is infused with fresh perspectives from time to time and that it always has the necessary skills and attributes required to oversee and govern in the ever-changing operating environment. Since October 2009, five non-executive Directors with backgrounds in the areas of finance, general management and professional practices have joined our Board.

Sir David AKERS-JONES, the current Independent non-executive Chairman, will step down from this position following Hysan's annual general meeting (the "AGM") in May 2011, after having served on the Board for over 20 years, including 8 years as Deputy Chairman. Irene Yun Lien LEE, who has extensive corporate and commercial experience, will become the new Non-executive Chairman.

## Meeting and Exceeding Compliance Requirements

Hysan meets the requirements of the Code Provisions contained in the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "HKSE"), with the exception that its Emoluments Review Committee (established since 1987) has the responsibility of determining compensation at executive Director-level only. The Board is of the view that, in light of the current organisational structure and the relatively simple nature of Hysan's business activities, this arrangement is appropriate. However, the Board will continue to review this arrangement going forward in light of the evolving needs of the Group.

Hysan's system of corporate governance practices exceed the Corporate Governance Code in a number of key areas (as specified below), some of which are contained in the HKSE's December 2010 consultation paper entitled "On Review of the Code on Corporate Governance Practices and Associated Listing Rules" (the "December 2010 HKSE Consultation").

| Exceeded Code Provisions | Best Practices in Corporate Governance in Place at Hysan |
|---|---|
| ✓ | The Board first established a formal Corporate Governance Policy* in 2004. |
| ✓ | Board independence from management and any shareholder group - Sir David AKERS-JONES currently serves as Independent non-executive Chairman. The Company has adopted a written description of his roles*, which include ensuring that the Company maintains a culture of integrity and other corporate governance values. (Under the December 2010 HKSE Consultation, it is a proposed change from recommended best practice to a Code requirement that the Chairman takes special responsibilities for corporate governance). |
| ✓ | Over one-third of the Board is represented by Independent non-executive Directors. Our Corporate Governance Report contains a detailed description as to why each Independent non-executive Director is considered to be independent. (Under the December 2010 HKSE Consultation, it is a proposed change from recommended best practice to a Code requirement that the annual general meeting circular nominating a director for election as an independent non-executive director explains why he or she is considered to be independent). |
| ✓ | The Board has established formal mandates and responsibilities* for itself, with a clear division of roles with management. The Board's responsibilities in the formulation of strategy, in addition to its monitoring function, are expressly provided for. |
| ✓ | The Board has established formal criteria and requirements* for non-executive Director appointments. Newly appointed non-executive Directors are given formal letters of appointment, which address (among other things) the expected time commitment of the non-executive Director. (Proposed change from recommended best practice to a Code requirement under the December 2010 HKSE Consultation – time commitment of directors). |
| ✓ | Board evaluation: The Chairman and non- executive Directors meet at regularly scheduled sessions without management presence. (Board evaluation is a proposed recommended best practice under the December 2010 HKSE Consultation). |
| ✓ | We have three Corporate Governance-related Committees, being the Audit Committee, Emoluments Review Committee and Nomination Committee. The Terms of Reference* of each Corporate Governance Committee provides for in-camera meetings without management presence to further encourage objective and independent discussions and assessment. The Audit and Emoluments Review Committees have a majority of Independent non-executive Directors. (Formation of a nomination committee is a proposed Code provision under the December 2010 HKSE Consultation). |
| ✓ | The Audit Committee meets the external auditors twice annually without management presence. (Such meeting frequency is a proposed Code requirement under the December 2010 HKSE Consultation). |
| ✓ | The Group has a written Code of Ethics* applicable to all staff and Directors. Monitoring of the "whistle blowing" mechanism is performed by an external independent third party provider to further enhance independence. Such service provider reports directly to the Audit Committee. (The establishment of a "whistle blowing" policy is a proposed recommended best practice under the December 2010 HKSE Consultation). |
| ✓ | The Group has established a Code for Securities Dealing applicable to those employees likely to have access to unpublished price-sensitive information. |
| ✓ | The Group has established a Corporate Disclosure Policy* to guide its stakeholder communications and the determination of price sensitive information in order to ensure consistent and timely disclosure and fulfillment of the Group's continuous disclosure obligations. |
| ✓ | The Group has established an Auditor Service Policy* to identify areas of conflict and prohibit the engagement of auditors in such areas to ensure objectivity and independence. |
| ✓ | The Group has demonstrated its commitment to transparency in shareholder reporting by publishing a separate Corporate Governance Report since 2001. It also publishes the following reports: (i) Audit Committee Report; (ii) Directors' Remuneration and Interests Report; and (iii) Internal Controls and Risk Management Report. |
| ✓ | The Group has a formal Corporate Responsibility Policy and publishes a separate Corporate Responsibility Report. |
| ✓ | Since 2004, the Group has operated a new form of AGM that goes beyond discharging statutory business by including a detailed business review. All voting at AGMs has been conducted by poll since 2004. |
| ✓ | The Group has initiated and funded a programme inviting major nominee companies to proactively forward communication materials to the ultimate beneficial shareholders at the Group's expense. |
| ✓ | In 2011, the Group published its annual results within 70 days, well within the required time period of three months from the end of accounting period. |
| ✓ | The Group continually enhances the use of its corporate website as a means of communication with shareholders. Principal corporate governance policies, guidelines, and terms of reference of the Corporate Governance Committees are posted and publicly available. |

* Detailed policies/terms of reference are available on the Company's website: www.hysan.com.hk.

## What the Board has done during 2010

**During the year, 5 Board meetings were held. The focus of these meetings included the following topics of discussion and yielded the following results:**

### 1. Strong leadership

- appointment of an Independent non-executive Chairman
- appointment of a CEO
- appointments of new Board members who bring new insights to the Board
- refined corporate governance framework:
  - developed the roles of Independent non-executive Chairman
  - refined terms of reference of Emoluments Review Committee
  - new composition of Board Committees
- implemented Board process to ensure sufficient time for constructive discussions during Board meetings, and also enhanced the provision of information required by Directors for discharging their duties

### 2. A clear plan

- reviewed strategic plans for the Company's core leasing business (office, retail and residential segments) to meet short-term objectives and to strengthen medium-term competitiveness
- reviewed strategic plans for Hysan Place, with a view to enabling it to take the Company to another level of commercial success and sustainability
- reviewed direction of the Group's treasury activities
- reviewed further opportunities in the core property portfolio of the Company with management

### Roles of Board

- Strategic Planning
- Internal Controls and Risk Management
- Culture and Values
- Capital Management
- Corporate Governance
- Board Succession

### 3. Checks and balances

- refined levels of authorities of CEO, and the Board
- assessed effectiveness of financial controls, and other internal controls
  (Please refer to separate "Internal Controls and Risk Management Report")

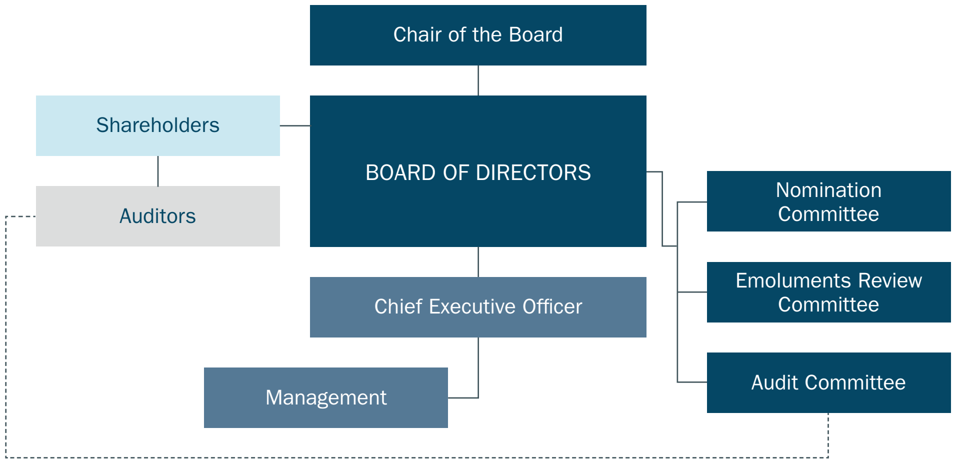
### 4. Corporate values and teamwork

- strong teamwork for employees
  - Independent non-executive Chairman held monthly meetings with department heads
- reinforced corporate values, stressing good corporate governance and corporate social responsibility

## Governance Model and Framework

**Governance Model**

Hysan's governance model is based on an effective combination of family ownership and professional management. Our founding shareholder family remains a major shareholder today. We take the view that this element of family ownership can enable managers to take a long-term view in decision-making, balancing the need to produce short-term results or earnings targets. In general, family owners also have a more direct interest in the outcome of decisions made.




We also ensure the presence of a capable and qualified Board with diverse backgrounds and skills. Over the years, the Board has developed, maintained and continues to supplement a robust set of governance policies and procedures as the basis of our governance system.

**Governance Framework and continually evolving Governance Practices**

Hysan's governance framework serves as a guide for the Board and management in the performance and fulfillment of their respective obligations to Hysan and its stakeholders. The guidelines, policies, and procedures which form this framework (as listed below) work together to ensure the existence of a capable and qualified Board with diverse backgrounds and skills, the establishment of appropriate roles for the Board and various committees, and a collaborative and constructive relationship between the Board and management.

As part of its ongoing review, the Board regularly assesses and enhances its governance practices and principles in light of regulatory regimes, international best practices, as well as Company needs.

The following constitute key components of Hysan's governance framework. They are posted on the Company's website: www.hysan.com.hk.

- Corporate Governance Guidelines
- Board of Directors Mandate
- Position Description for the Chairman of the Board of Directors
- Roles Requirements of non-executive Directors
- Terms of Reference of the various corporate governance related Board Committees
- Code of Ethics for Employees
- Auditor Service Policy
- Corporate Disclosure Policy

## Board Leadership

**Who is on our Board?**

Sir David AKERS-JONES currently leads the Board as Chairman, and will be succeeded by Irene Yun Lien LEE as of May 2011. Gerry Lui Fai YIM was appointed Chief Executive Officer effective 10 March 2010.

Since October 2009, the following new non-executive Directors were appointed by the full Board:

Nicholas Charles ALLEN, Philip Yan Hok FAN, Irene Yun Lien LEE, Michael Tze Hau LEE and Joseph Chung Yin POON.

Further description of their backgrounds is set out in the section "Board Effectiveness – Skills and Balance" below.

Non-executive Directors are appointed for a term of 3 years and are required to submit their candidacy for re-election at the first AGM following their appointment. Under the Group's Articles of Association, every Director will be subject to retirement by rotation at least once every 3 years. Retiring Directors are eligible for re-election at the AGM at which he retires. There is no cumulative voting in Director elections. The election of each candidate is done through a separate resolution.

At the AGM to be held on 9 May 2011, Chien LEE, Irene Yun Lien LEE and Hans Michael JEBSEN will retire and, being eligible, offer themselves for re-election. Sir David AKERS-JONES and Dr. Deanna Ruth Tak Yung RUDGARD will not seek re-election and will step down from the Board. Details with respect to the candidates standing for election as Directors are set out in the AGM Circular to shareholders.

### Best Corporate Governance Disclosure Awards 2010: Non-Hang Seng Index (Large Market Capitalisation) Category - Gold Award

*Organised by the Hong Kong Institute of Certified Public Accountants*

"The corporate governance report was professionally presented and thorough."

"The clear description of the succession of chairmanship was also helpful. The best practices summary and the concise narrative on the independence status of directors were also commendable."

– Judges' Report

**Board and Management**

At the core of our governance structure is our Board, which is accountable to shareholders for the long-term performance of the Company.

The Board relies on management for the day-to-day operation of the business. It monitors what management is doing, and holds them accountable for the performance of the Company as measured against established targets. In terms of strategy formulation, the Board works closely with management in thinking through our direction and long-term plans, as well as the various opportunities and risks associated therewith and facing the Company generally.

The non-executive Directors provide independent challenge and review, bringing a wide range of experiences, specific expertise, and fresh objective perspectives. As members of the various Board committees, they also undertake detailed governance work with a particular focus as noted under the respective terms of reference of the various Board committees.

The Board and management fully appreciate their respective roles and are supportive of the development and maintenance of a healthy corporate governance culture.

The role of the Board is governed by a formal **Board of Directors Mandate** (details are also available on the Company's website: www.hysan.com.hk), which sets out the key responsibilities of the Board in fulfilling its stewardship roles.

A detailed list of **Matters Reserved for Board Decisions** sets out the key matters that are to be retained for the decision of the full Board. During the 2010 review, we refined the list to cover all major policies and directions of the Company. These matters include: the extension of Group activities into new business areas; capital management framework and policy; treasury policies; material investment transactions; connected transactions; annual budgets; preliminary announcements of interim and final results; and the declaration of dividends.

Where applicable, "materiality" thresholds are set at appropriate levels to ensure proper control while allowing for smooth day-to-day operations to be carried out by management. These thresholds are set out in a schedule that is subject to review periodically and in any event, at least once a year.

## Formal Board of Directors Mandate

The Board is responsible for the stewardship of the Group and is accountable for ensuring that the Group and its subsidiaries are managed in such a way so as to achieve the objective of prudent stewardship. The Board's responsibilities are, firstly, to formulate strategy and, secondly, to monitor and control operating and financial performance in pursuit of the Group's strategic objectives. The Board established a formal **Board of Directors Mandate** in 2007 setting out its key responsibilities in fulfilling such stewardship roles. These include the following:

**Duties and Obligations**
The Board must understand and meet the duties and performance standards expected of it under applicable regulatory requirements.

**Strategic Planning**
The Board establishes, oversees and receives regular updates on the strategic direction, plans and priorities of the Group, and ensures that the Group has the necessary finances, people and systems in place to meet its objectives.

**Internal Controls and Risk Management**
The Board monitors and assesses procedures implemented to identify the principal risks of the Group's business, receiving frequent updates on the same.

**Culture and Values**
The Board promotes the culture of integrity and transparency and other corporate values.

**Capital Management**
The Board considers and approves Group activities relating to major capital expenditures, the allocation of resources among the Group's lines of business, and other major financial activities.

**Corporate Governance**
The Board promotes the highest standards of corporate governance.

**Board Succession**
The Board continually assesses and evaluates the skills and expertise needed on the Board.

## Board Effectiveness

### Skills and Balance

We currently have 10 Non-executive Directors, drawn from diverse and complementary backgrounds:

| Primary Background | Names |
|---|---|
| Public policy | Sir David AKERS-JONES |
| General management | Philip Yan Hok FAN, Irene Yun Lien LEE, Joseph Chung Yin POON |
| Finance and investment | Chien LEE, Anthony Hsien Pin LEE, Irene Yun Lien LEE, Joseph Chung Yin POON, Michael Tze Hau LEE |
| Marketing and distribution | Hans Michael JEBSEN |
| Professionals | Nicholas Charles ALLEN (accounting), Dr. Deanna Ruth Tak Yung RUDGARD (medicine) |

(Directors' full biographies are set out on pages 46 to 48 and are also available on the Company's website: www.hysan.com.hk.)

### Independence

The Board has established "independence" standards as contained in our Corporate Governance Guidelines. It considers "independence" to be a matter of judgment and conscience. A Director is considered to be independent only where he or she is free from any business or other relationship that might interfere with the exercise of his or her independent judgment.

The Board makes a determination concerning the "independence" of a Director each year at the time the Board approves Director nominees for inclusion in the AGM circular. If a Director joins the Board mid-year, the Board makes a determination on the new Director's independence at that time. Independent non-executive Directors are identified in our Annual and Interim Reports and other communications with shareholders.

The Board carried out a detailed review of director independence in March 2011.
It concluded that each of the 4 Independent non-executive Directors was independent as at that time. The Board will continually monitor and review whether there are relationships or circumstances that are likely to affect (or could appear to affect) independence.

## Independence Status

| Name | Management | Independent | Not Independent | March 2011 Review-Reason for Independence Status |
|---|---|---|---|---|
| Sir David AKERS-JONES | | ✓ | | No business or other relationships with the Group or management |
| Nicholas Charles ALLEN | | ✓ | | No business or other relationships with the Group or management |
| Philip Yan Hok FAN | | ✓ | | No business or other relationships with the Group or management |
| Fa-kuang HU (up to 11 May 2010) | | ✓ | | No business or other relationships with the Group or management |
| Hans Michael JEBSEN | | | ✓ | |
| Anthony Hsien Pin LEE | | | ✓ | |
| Chien LEE | | | ✓ | |
| Irene Yun Lien LEE | | | ✓ | |
| Michael Tze Hau LEE | | | ✓ | |
| Joseph Chung Yin POON *(Note)* | | ✓ | | No business or other relationships with the Group or management |
| Dr. Deanna Ruth Tak Yung RUDGARD | | | ✓ | |
| Dr. Geoffrey Meou-tsen YEH (up to 11 May 2010) | | ✓ | | No business or other relationships with the Group or management |
| Gerry Lui Fai YIM | ✓ | | | |
| Wendy Wen Yee YUNG | ✓ | | | |

*Note:* Mr. Poon was formerly the managing director and deputy chief executive of Hang Seng Bank Limited ("Hang Seng"). Hang Seng is a connected person of the Company under the Listing Rules by virtue of its beneficial equity interest (24.64%) in a non-wholly owned subsidiary that holds the Lee Gardens Two property. However, Hang Seng does not have a controlling interest in nor does it participate in the day-to-day operations of the relevant company and is connected to the Company only at the subsidiary level. Additionally, Mr. Poon's functions at Hang Seng did not involve him playing any direct role in Hang Seng's participation as a minority shareholder in the relevant company.

## Supply of Information

The Board recognises the significance of providing timely and relevant information to non-executive Directors so as to enable them to discharge their duties effectively.

The Board regularly receives presentations, including from non-Board management members, on significant issues or new opportunities for the Group. This also facilitates the build-up of constructive relations and dialogue between the Board and the management team.

### Supply and Access to Information

The Board receives detailed quarterly reports from members of management in respect of their areas of responsibility. Appropriate key performance indicators are used to facilitate benchmarking and peer group comparison. Financial plans, including budgets and forecasts, are regularly discussed at Board meetings. During 2010, monthly reports to non-executive Directors were introduced, covering financial and operating highlights.

Directors are also kept updated of any material developments from time to time through notifications and circulars detailing the relevant background and explanatory information. Directors also have access to non-Director members of management and staff where appropriate. Collectively, these processes ensure that the Board receives the answers and information it needs to fulfill its obligations.

### Independent Advice

The Board recognises that there may be occasions when one or more Directors feel that it is necessary to obtain independent legal and/or financial advice for the purpose of fulfilling their obligations. Such advice may be obtained at the Company's expense and there is an agreed upon procedure to enable Directors to obtain such advice, as stated in our Corporate Governance Guidelines.

### Induction and Update

Upon their appointment, Directors are advised on the legal and other duties and obligations they have as directors of a listed company. Newly appointed Directors receive a comprehensive induction package designed to provide a general understanding of the Group, its businesses, the operations of the Board and the main issues it faces, as well as an overview of the additional responsibilities of non-executive Directors. Discussion sessions with key members of management are also held.

Through the course of their directorship, Directors are updated on any developments or changes affecting the Company and their obligations to it by way of notifications circulated to them from time to time where appropriate.

**Evaluation**

Hysan evaluates the performance of the Board and members of management at meetings between the Chairman and non-executive Directors without the presence of management.

The following table sets out the number of meetings of the Board and its principal committees in 2010, individual attendance by Board and committee members at these meetings and the attendance of the Board members at the 2010 AGM:

| Directors | Board *(Notes 1, 2)* | Audit Committee *(Notes 1, 3)* | Emoluments Review Committee *(Notes 1, 4)* | Nomination Committee *(Note 5)* | AGM *(Note 1)* |
|---|---|---|---|---|---|
| **Executive** | | | | | |
| Gerry Lui Fai YIM | 5/5 | | | – | 1/1 |
| Wendy Wen Yee YUNG | 5/5 | | | | 1/1 |
| **Independent Non-executive** | | | | | |
| Sir David AKERS-JONES | 5/5 | | 1/1 | – | 1/1 |
| Nicholas Charles ALLEN | 5/5 | 2/2 | | | 1/1 |
| Philip Yan Hok FAN | 5/5 | 1/1 | | – | 1/1 |
| Fa-kuang HU *(Note 6)* | 1/2 | | 1/1 | | 0/1 |
| Dr. Geoffrey Meou-tsen YEH *(Note 6)* | 2/2 | 1/1 | 1/1 | – | 1/1 |
| Joseph Chung Yin POON | 5/5 | | | | 1/1 |
| **Non-executive** | | | | | |
| Hans Michael JEBSEN | 5/5 *(1 by alternate)* | | | | 1/1 |
| Anthony Hsien Pin LEE | 5/5 *(1 by telephone conference)* | 1/1 | | | 1/1 |
| Michael Tze Hau LEE | 5/5 | | | | 1/1 |
| Chien LEE | 5/5 *(1 by telephone conference)* | 1/1 *(by telephone conference)* | | – | 1/1 |
| Dr. Deanna Ruth Tak Yung RUDGARD | 5/5 *(1 by telephone conference)* | | | | 1/1 |

*Notes:*

1. The attendance figure represents actual attendance / the number of meetings a Director is entitled to attend.
2. On 11 January 2010, Michael Tze Hau LEE, Philip Yan Hok FAN and Joseph Chung Yin POON were appointed Directors.
3. On 11 May 2010, Anthony Hsien Pin LEE and Philip Yan Hok FAN were appointed members of the Audit Committee, while Chien LEE stepped down as a member.
4. On 10 August 2010, Philip Yan Hok FAN was appointed as a member of the Emoluments Review Committee.
5. On 10 August 2010, Philip Yan Hok FAN, Chien LEE, and Gerry Lui Fai YIM were appointed as members of the Nomination Committee.
6. Fa-kuang HU stepped down as a Director and member of the Emoluments Review Committee on 11 May 2010. Dr. Geoffrey Meou-tsen YEH stepped down as a Director and member of the Audit Committee, Emoluments Review Committee and Nomination Committee on 11 May 2010.

## Board Committees in 2010

In order to provide effective oversight and leadership and pursuant to its Corporate Governance Guidelines, the Board has established 3 governance-related Board Committees. Like the Board, each Committee has access to independent advice and counsel as required and each is supported by the Company Secretary. The terms of reference of these Committees are available on the Company's website.

### Audit Committee

**Composition and Meetings Schedule**

The Audit Committee is currently comprised of Nicholas Charles ALLEN (Chairman), Anthony Hsien Pin LEE and Philip Yan Hok FAN, with an overall majority of Independent non-executive Directors. Chien LEE stepped down as member on 11 May 2010. Nicholas Charles ALLEN (Chairman) is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in auditing and accounting, which he developed while working with the "Big Four" international firms. The Audit Committee meets no less than twice a year. At the invitation of the Audit Committee, meetings are also attended by members of management, including the Head of the Finance Department.

**Pre-meeting sessions with external and internal auditors held without management presence**

**Roles and Authority**

Hysan believes a clear appreciation of the separate roles of management, the external auditors and Audit Committee members is crucial to the effective functioning of an audit committee. Management of Hysan is responsible for selecting appropriate accounting policies and the preparation of the financial statements. The external auditors are responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls, to the extent that they consider necessary to support their audit report. The Audit Committee, as the delegate of the full Board, is responsible for overseeing the entire process.

The Audit Committee also has the responsibility of reviewing the Group's "whistle-blowing" procedures allowing employees to raise concerns, in confidence or anonymously, about possible breaches of the Group's Code of Ethics and to ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

**Activities and Report in 2010 and to date**

Full details of the activities of the Audit Committee are also set out on pages 81 and 82 of the "Audit Committee Report". Attendance of Audit Committee meetings is set out in the table on page 60. The conduct of Audit Committee meetings was also refined in 2010, with the institution and holding of pre-meeting sessions with external and internal auditors without the presence of management. In general, a more structured approach was adopted with respect to the conduct of Audit Committee meetings, ensuring that all items under its terms of reference were appropriately covered during meetings.

### Emoluments Review Committee

**Composition and Meetings Schedule**

The Group established an Emoluments Review Committee in 1987 to review the compensation of executive Directors. The current Emoluments Review Committee is chaired by Sir David AKERS-JONES, Independent non-executive Chairman. The other members of the Emoluments Review Committee are Philip Yan Hok FAN and Michael Tze Hau LEE. There is an overall majority of Independent non-executive Directors. The Emoluments Review Committee generally meets at least once every year.

**In-camera meetings held without management presence**

**Roles and Authority**

Management makes recommendations to the Emoluments Review Committee on Hysan's framework for, and cost of, the remuneration of executive Directors and the Committee then reviews these recommendations. The Emoluments Review Committee also reviews the remuneration of the Chairman prior to such remuneration being submitted for approval at the AGM. No Director or any of his or her associates is involved in deciding his or her own remuneration. During 2010, its terms of reference was also refined to cover review of new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans with material financial, reputational and strategic impact.

**Activities and Report in 2010 and to date**

As described above, the Committee's terms of reference were refined during the year. Full details of the activities of the Emoluments Review Committee are set out on pages 73 to 80 of the "Directors' Remuneration and Interests Report". Attendance of Emoluments Review Committee meetings is set out in the table on page 60.

### Nomination Committee

**Composition and Meetings Schedule**

The Board established a Nomination Committee in 2005. The Nomination Committee is currently chaired by Sir David AKERS-JONES, Independent non-executive Chairman. The other members of the Nomination Committee are Philip Yan Hok FAN, Chien LEE and Gerry Lui Fai YIM. The Nomination Committee meets when it is considered necessary.

**Roles and Authority**

The Nomination Committee is responsible for nominating candidates, for Board approval, to fill Board vacancies as and when they arise, and for evaluating the balance of skills, knowledge and experience of the Board. The terms of reference of the Nomination Committee clearly set out that the Chairman of the Board shall not chair the Nomination Committee when it is dealing with the matter of succession of the chairmanship.

The appointment of new Directors in January 2010 was approved by the full Board.

## Shareholders

The Board and management fully recognise the significance and importance of having a governance framework that protects shareholder rights and their exercise of the same. At the same time, we aim to continually improve our communications with shareholders and to obtain their feedback.

The AGM provides a good opportunity for communications with shareholders.

## Communication with Shareholders

### Accountability to Shareholders and Corporate Reporting

Disciplined measurement of our performance is an important aspect of our strategy to achieve long-term success. Recognising that we are accountable to our stakeholders, reporting financial and non-financial results in a transparent fashion is critical. A number of formal communication channels are used to account to shareholders for the performance of the Group. These include the Annual Report and Accounts, Interim Report and Accounts and press releases/announcements.

Hysan's corporate website provides an additional channel for shareholders and other interested parties to access information about the Group. The Group's key corporate governance policies and supporting documents, including the terms of reference of the various Board Committees, as well as the Group's financial reports, press releases and announcements are available on the website. Since 2006, shareholders have been given the option of electing to receive corporate communications by electronic means. We continue to review how to better utilise the Company's website for the purposes of timely disclosure and to enhance transparency.

### Institutional Shareholders

We are committed to maintaining a continuing open dialogue with institutional investors, fund managers and analysts as a means of developing their understanding of our strategy, operations, management and plans, and enabling them to raise any issues they may have. The Company has an ongoing programme of dialogue and meetings between executive Directors and institutional investors, fund managers and analysts. At these meetings, a wide range of relevant issues, including strategy, performance, management and governance, are discussed within the constraints of information already made public. During 2010, we have further strengthened our programme and extended the scope of our coverage of investors and analysts, including attending oversea investor roadshows.

### Constructive Use of AGM

The Board is equally interested in the concerns of private shareholders. The Company Secretary, on behalf of the Board, oversees communication with these investors. The Board recognises the significance of the constructive use of AGMs as a means to enter into a dialogue with private shareholders based on the mutual understanding of objectives. Individual shareholders can put questions to the Chairman at the AGM. The Chairmen of the various Board Committees, as provided under their respective terms of references, attend AGMs to respond to any shareholder questions on the activities of those Committees.

Since 2004, to enable shareholders to gain a better understanding of our business activities, we have included a "business review" session in our AGMs, in addition to the statutory part of the meeting. Topics covered at the last AGM included the business environment in 2009, a review of business activities, and the Company's outlook for 2010. The Company values the contributions of its shareholders during the question and answer session following the statutory part of the meeting.

### Corporate Disclosure Policy

We recognise the significance of consistent disclosure practices aimed at accurate, timely and broadly disseminated disclosure of material information about Hysan. The Group's Corporate Disclosure Policy provides guidance for coordinating the disclosure of material information to investors, analysts and media as well as our processes for results announcements. This policy also identifies who may speak on Hysan's behalf, and outlines the responsibilities for communications with various stakeholders groups. (Details of the Corporate Disclosure Policy are available at the Company's website: www.hysan.com.hk).

## Shareholder Rights

### Self-funded Programme to Proactively Forward Shareholder Communication Materials via Nominee Companies

Shareholders must be furnished with sufficient and timely information concerning the Company and any material developments. There is currently no requirement in Hong Kong providing for mandatory forwarding of shareholder communication materials by nominee companies to beneficial shareholders. Since 2005, we have initiated and funded a programme inviting major nominee companies to proactively forward communication materials to shareholders at our expense.

### Provision of Sufficient and Timely Information

We recognise the significance of providing information to shareholders to enable them to make an informed assessment for the purposes of voting on each of the items put before shareholders at the AGM. Copies of the Annual Report, and financial statements and related papers are dispatched to shareholders over 30 days prior to the AGM (statutory requirement: 21 days). Comprehensive information on each resolution to be proposed is also provided.

### Voting

We recognise shareholders' rights in exercising control proportionate to their equity ownership and we support the principle of voting by poll. Since 2004, the Company has conducted all voting at its AGMs by poll. The poll is conducted by the Company's Registrars and scrutinised by the Group's auditors. Procedures for conducting a poll are included in the Circular to shareholders accompanying the Notice of AGM and are again explained to the general meeting prior to the taking of the poll. Poll results are announced and posted on the websites of both the HKSE and the Company.

### Relevant Provisions in Articles of Association and Hong Kong Law

Under the Articles of Association of the Company and Hong Kong Companies Ordinance, shareholders holding not less than 5% of the paid up capital of the Company may convene an extraordinary general meeting by requisition stating the objects of the meeting, and deposit the signed requisition at the Company's registered office.

Hong Kong Companies Ordinance also provides for shareholder approval of decisions concerning fundamental corporate changes, including amendments to the Articles of Association, and extraordinary transactions, including the transfer of all or a substantial part of a company's assets.

There are no limitations imposed by Hong Kong law or the Articles of Association on the right of non-residents or foreign persons to hold or vote on the Company's shares other than those limitations that would generally apply to all shareholders.

# Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2010, which were approved by the Board of Directors (the "Board") on 9 March 2011.

## Principal Activities

The principal activities of the Group continued throughout 2010 to be property investment, management and development. Details of the Group's principal subsidiaries and associates as at 31 December 2010 are set out in notes 18 and 19 respectively to the financial statements.

The turnover and results of the Group are principally derived from leasing of investment properties located in Hong Kong. The Group's turnover and results by reportable segment are set out in note 5. A detailed review of the development of the business of the Group during the year, and likely future developments, is set out in Chairman's Statement and Management's Discussion and Analysis of this Annual Report.

## Results and Appropriations

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 86.

An interim dividend of HK14 cents per share, amounting to approximately HK$147 million, was paid to shareholders during the year.

The Board recommends the payment of a final dividend of HK60 cents per share with a scrip alternative to the shareholders on the register of members on 9 May 2011, absorbing approximately HK$632 million. The dividends proposed and paid for ordinary shares in respect of the full year 2010 will absorb approximately HK$779 million, the balance of the profit will be retained.

## Reserves

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 90 and 91 and note 33 to the financial statements respectively.

## Investment Properties

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2010 using the fair value model. Details of movements during the year in the investment properties of the Group are set out in note 16 to the financial statements.

Details of the major investment properties of the Group as at 31 December 2010 are set out in the section under Schedule of Principal Properties of this Annual Report.

## Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 17 to the financial statements.

## Share Capital

Details of movements in the share capital of the Company during the year are set out in note 32 to the financial statements.

## Corporate Governance

The Company is committed to maintaining a high standard of corporate governance and, save as otherwise stated and explained in the Corporate Governance Report, meets the requirements of the code provisions of the Code on Corporate Governance Practice (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Further information on the Company's corporate governance practices is set out in the following separate reports:

(a) "Corporate Governance Report" (pages 50 to 64) – it gives detailed information on the Company's compliance with the Corporate Governance Code, and adoption of local and international best practices;

(b) "Directors' Remuneration and Interests Report" (pages 73 to 80) – it gives detailed information of Directors' remuneration and interests (including information on Director's compensation, service contracts, Directors' interests in shares; contracts and competing business);

(c) "Audit Committee Report" (pages 81 and 82) – it sets out the terms of reference, work performed and findings of the Audit Committee for the year;

(d) "Internal Controls and Risk Management Report" (pages 39 to 41) – it sets out the Company's framework on internal controls and risks assessment including control environment, control activities, work done during the year and further steps to be done; and

(e) "Corporate Responsibility Report" – it sets out the Company's corporate responsibility policies and practices reflecting its commitment to maintaining a high standard of corporate governance.

## The Board

The Board is currently chaired by Sir David AKERS-JONES, Independent non-executive Chairman and has 2 executive Directors, Gerry Lui Fai YIM (Chief Executive Officer) and Wendy Wen Yee YUNG (Executive Director and Company Secretary) and 9 other Non-executive Directors.

Sir David AKERS-JONES was appointed Independent non-executive Chairman effective 11 January 2010.

Gerry Lui Fai YIM, Executive Director, was appointed Chief Executive Officer effective 10 March 2010.

Philip Yan Hok FAN and Joseph Chung Yin POON were appointed Independent non-executive Directors and Michael Tze Hau LEE was appointed Non-executive Director, all effective 11 January 2010.

Irene Yun Lien LEE was appointed alternate Director to Anthony Hsien Pin LEE effective 11 January 2011 and appointed Non-executive Director effective 9 March 2011.

Dr. Geoffrey Meou-tsen YEH and Fa-kuang HU stepped down as Independent non-executive Directors as from conclusion of the annual general meeting held on 11 May 2010.

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 46 to 48 have been Directors of the Company during the year.

Kam Wing LI served as alternate Director throughout the year. Siu Chuen LAU was appointed alternate Director to Dr. Deanna Ruth Tak Yung RUDGARD effective 3 December 2010. Raymond Liang-ming HU ceased to be an alternate Director after the stepping down of Fa-kuang HU effective 11 May 2010.

According to Article 97 of the Company's current Articles of Association, a Director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting.

Under Article 114 of the Company's current Articles of Association, one-third (or such other number as may be required under applicable legislation) of the Directors; and where the applicable number is not an integral number, to be rounded upwards, who have been longest in office shall retire from office by rotation. A retiring Director is eligible for re-election.

Particulars of Directors seeking for re-election at the forthcoming annual general meeting are set out in the related circular to shareholders.

The Company has received from each Independent non-executive Director an annual confirmation of his independence as regard each of the factors referred to in Rule 3.13 (1) to (8) of the Listing Rules and the Company considered all of them to be independent.

## Directors' Interests in Shares

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in Directors' Remuneration and Interests Report on pages 73 to 80.

## Substantial Shareholders' and Other Persons' Interests in Shares

As at 31 December 2010, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company, were as follows:

**Aggregate long positions in shares and underlying shares of the Company**

| Name | Capacity | Number of ordinary shares held | % of the issued share capital *(Note a)* |
|---|---|---|---|
| Lee Hysan Estate Company, Limited | Beneficial owner and interests of controlled corporations | 433,130,735 *(Note b)* | 41.12 |
| Lee Hysan Company Limited | Interests of controlled corporations | 433,130,735 *(Note b)* | 41.12 |
| Silchester International Investors LLP | Investment manager | 104,722,000 | 9.94 |

Notes:

(a) The percentage has been compiled based on the total number of shares of the Company in issue as at 31 December 2010 (i.e. 1,053,426,635 ordinary shares).

(b) These interests represent the same block of shares of the Company. 270,118,724 shares were held by Lee Hysan Estate Company, Limited ("LHE") and 163,012,011 shares were held by certain subsidiaries of LHE. LHE is a wholly-owned subsidiary of Lee Hysan Company Limited.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2010.

## Related Party Transactions

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 38 to the financial statements.

Some of these transactions also constitute "Continuing Connected Transactions" under the Listing Rules, as identified below.

## Continuing Connected Transactions

Certain transactions entered into by the Group constituted continuing connected transactions (the "Transactions") under Rule 14A.34 of the Listing Rules during the year. Details of the Transactions required to be disclosed are set out as follows:

**I. Leases granted by the Group**

**(a) The Lee Gardens, 33 Hysan Avenue, Hong Kong ("The Lee Gardens")**

The following lease arrangements were entered into by Perfect Win Properties Limited, a wholly-owned subsidiary of the Company and property owner of The Lee Gardens, as landlord, with Oxer Limited ("Oxer"), an associate of Michael Tze Hau LEE, Non-executive Director of the Company. Details of the lease arrangement are set out below:

| Connected person | Date of agreement | Terms | Premises | Annual consideration *(Note a)* |
|---|---|---|---|---|
| Oxer Limited *(Note b)* | (1) 30 August 2007 (Lease and Supplemental Lease) | 3 years commencing from 1 July 2007 (for Room 3703) and 35 months commencing from 1 August 2007 (for Room 3704) | Rooms 3703 and 3704 on the 37th Floor | 2010: HK$756,975 (on pro-rata basis) *(Note c)* |
| | (2) 6 July 2007 (Carpark Licence Agreement) | 34 months commencing from 1 September 2007 | 1 carparking space | |
| | (3) 14 June 2010 (Lease and Carpark Licence Agreement) (renewal) | 3 years commencing from 1 July 2010 | Rooms 3703 and 3704 on the 37th Floor and 1 carparking space | 2010: HK$843,528 (on pro-rata basis)<br>2011: HK$1,638,876<br>2012: HK$1,638,876<br>2013: HK$819,438 (on pro-rata basis) |

## Continuing Connected Transactions continued

**I. Leases granted by the Group** continued

**(b) Lee Gardens Two, 28 Yun Ping Road, Hong Kong ("Lee Gardens Two")**

The following lease arrangements were entered into by Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company and property owner of Lee Gardens Two, as landlord with the following connected persons:

| Connected person | Date of agreement | Terms | Premises | Annual consideration *(Note a)* |
|---|---|---|---|---|
| (i) Jebsen and Company Limited *(Note d)* | (1) 29 June 2007 | 3 years commencing from 1 September 2007 | Office units on the 28th, 30th and 31st Floors | 2010: HK$13,923,824 (on pro-rata basis) *(Note c)* |
| | (2) 31 March 2010 (renewal) | 3 years commencing from 1 September 2010 | Office units on the 28th, 30th and 31st Floors | 2010: HK$6,974,856 (on pro-rata basis)<br>2011: HK$20,802,552<br>2012: HK$20,802,552<br>2013: HK$13,868,368 (on pro-rata basis) |
| (ii) Hang Seng Bank Limited *(Note d)* | 15 October 2007 *(Note e)* | 72 months commencing from 15 October 2007 (for Shops 2-10 on the Lower Ground Floor)<br>68 months commencing from 15 February 2008 (for Shop G13A on the Ground Floor and Shops 11-12 on the Lower Ground Floor) *(Note f)* | Shop G13A on the Ground Floor and Shops 2-10 and 11-12 on the Lower Ground Floor | 2010: HK$13,713,453<br>2011: HK$17,706,600<br>2012: HK$17,706,600<br>2013: HK$13,946,327 (on pro-rata basis) *(Note g)* |
| (iii) Pearl Investments (HK) Limited *(Note h)* | (1) 23 May 2008 (Lease) | 3 years commencing from 15 May 2008 | Room 1401C on the 14th Floor | 2010: HK$2,019,107 (on pro-rata basis for the Carpark Licence Agreement) |
| | (2) 18 May 2007 (Carpark Licence Agreement and a supplemental letter dated 5 June 2007) | 3 years commencing from 1 June 2007 | 1 carparking space | 2011: HK$739,226 (on pro-rata basis for the Lease) *(Note c)* |
| (iv) MF Jebsen International Limited *(Note i)* | (1) 22 December 2008 | 3 years commencing from 1 February 2008 | Office units on the 24th and 25th Floors | 2010: HK$13,586,567 (on pro-rata basis)<br>2011: HK$1,127,761 (on pro-rata basis) *(Note j)* |
| | (2) 7 September 2010 (renewal) | 3 years commencing from 1 February 2011 | Office units on the 25th Floor | 2011: HK$6,612,419 (on pro-rata basis)<br>2012: HK$7,213,548<br>2013: HK$7,213,548<br>2014: HK$601,129 (on pro-rata basis) |

## Continuing Connected Transactions continued

**I. Leases granted by the Group** continued

**(c) One Hysan Avenue, Causeway Bay, Hong Kong ("One Hysan Avenue")**

The following lease arrangement was entered into by OHA Property Company Limited, a wholly-owned subsidiary of the Company and property owner of One Hysan Avenue, as landlord with Atlas Corporate Management Limited, a wholly-owned subsidiary of LHE, a substantial shareholder of the Company (holding 41.12% interest). Details of the lease are set out below:

| Connected person | Date of agreement | Terms | Premises | Annual consideration *(Note a)* |
|---|---|---|---|---|
| Atlas Corporate Management Limited | 14 November 2008 | 3 years commencing from 1 November 2008 | Whole of 21st Floor | 2010: HK$2,520,991<br>2011: HK$2,103,300<br>(on pro-rata basis)<br>*(Note c)* |

**II. Provision of leasing and property management services to a non wholly-owned subsidiary regarding Lee Gardens Two**

**(a)** The following management agreements were entered into by Hysan Leasing Company Limited ("Hysan Leasing"), wholly-owned subsidiary of the Company, with Barrowgate for the provision of leasing, marketing and lease administration services to Lee Gardens Two:

| Connected person | Date of agreement | Terms | Premises | Consideration |
|---|---|---|---|---|
| Barrowgate Limited | (1) 25 February 2004 and a Supplemental Appointment Letter of 19 July 2004 | 3 years commencing from 1 April 2004 (renewed for further 3 years) | Whole premises of Lee Gardens Two | HK$4,704,030 *(Note k)* |
| | (2) 31 March 2010 (renewal) | 3 years commencing from 1 April 2010 | Whole premises of Lee Gardens Two | HK$19,450,485 *(Note l)* |

**(b)** The following management agreements were entered into by Hysan Property Management Limited, wholly-owned subsidiary of the Company, with Barrowgate for the provision of property management services to Lee Gardens Two:

| Connected person | Date of agreement | Terms | Premises | Consideration |
|---|---|---|---|---|
| Barrowgate Limited | (1) 25 February 2004 and 2 Supplemental Appointment Letters of 19 July 2004 and 7 February 2007 | 3 years commencing from 1 April 2004 (renewed for further 3 years) | Whole premises of Lee Gardens Two | HK$649,920 *(Note k)* |
| | (2) 31 March 2010 (renewal) | 3 years commencing from 1 April 2010 | Whole premises of Lee Gardens Two | HK$2,114,856 *(Note l)* |

Notes:

(a) The annual considerations for 2010 are based on all relevant considerations paid during the year. The annual considerations for remaining terms are estimated based on current rates of rental, operating charges, (for retail premises) promotional levies and (for carparking spaces) licence fees for each of the relevant financial years. The rental, operating charges, promotional levies and licence fees (as the case may be) are payable monthly in advance.

(b) Oxer is a connected person of the Company by virtue of its being an associate of Michael Tze Hau LEE, Non-executive Director of the Company.

(c) The monthly office operating charges were revised with effect from 1 April 2010 while the rental and licence fee (as the case may be) remained unchanged.

(d) Jebsen and Company Limited ("Jebsen and Company") and Hang Seng Bank Limited ("Hang Seng") are beneficial substantial shareholders of Barrowgate and having equity interest of 10% and 24.64% respectively in Barrowgate.

(e) Barrowgate and Hang Seng entered into an agreement for lease dated 15 October 2007. A formal lease agreement, a supplemental deed and an endorsement (following rent review as provided under the lease arrangements) in respect of the premises mentioned under I(b)(ii) above were entered on 15 February 2008, 13 May 2008 and 22 November 2010 respectively.

## Continuing Connected Transactions continued

(f) The term of the lease mentioned under I(b)(ii) above exceeds 3 years and, according to Listing Rules requirement, an independent financial adviser to the Board was engaged and it formed the view that the term of this lease with duration longer than 3 years was required and it was normal business practice for leases of this type to be of such duration.

(g) The rent for the period from 15 October 2010 to 14 October 2013 was revised at the then prevailing market rent, the monthly promotional levy was revised with effect from 1 January 2010 and the monthly operating charges remained unchanged.

(h) Pearl Investments (HK) Limited is a connected person of the Company by virtue of its being an associate of Chien LEE, Non-executive Director of the Company.

(i) MF Jebsen International Limited became a connected person of the Company upon amendments of the Listing Rules effective 3 June 2010 by virtue of its being controlled (more than 50%) by the brother of Hans Michael JEBSEN, Non-executive Director of the Company.

(j) The annual considerations are based on current rates of rental and operating charges calculating from effective date of amendments of the Listing Rules (i.e. 3 June 2010). (See Note (i) above).

(k) These represent the actual considerations for the period from 1 January 2010 to 31 March 2010, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

(l) These represent the actual considerations for the period from 1 April 2010 to 31 December 2010, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

All the Transactions were entered in the ordinary and usual course of business of the respective companies after due negotiations on an arm's length basis with reference to the prevailing market conditions.

Announcements were published regarding the Transactions in accordance with the Listing Rules. The Stock Exchange has granted a waiver for the Transactions referred to in II(a)(1) and II(b)(1) above by virtue of Rule 14A.42 from strict compliance with the requirements of Rules 14A.35, 14A.45 to 14A.47 of the Listing Rules on condition that details of the Transactions be included in the Company's subsequent published annual report for financial years in which the relevant Transactions are subsisting. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in so far as they are applicable.

Pursuant to Rule 14A.38 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 68 to 71 of the Annual Report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

All Independent non-executive Directors of the Company have reviewed the Transactions and the report of the auditor and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business of the Company;
2. on normal commercial terms; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the commercial interests of the Group as a whole.

## Interest in Contracts of Significance

Certain Transactions are considered contracts of significance under paragraph 15 of Appendix 16 of the Listing Rules, namely:

(i) the lease arrangement between Barrowgate and Jebsen and Company, due to the annual consideration of the lease having a percentage ratio of 1.24% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.05% and 0.05% respectively); and

(ii) the management agreement between Barrowgate and Hysan Leasing, due to the annual consideration of the management agreement having a percentage ratio of 1.92% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.07% and 0.08% respectively).

Details of the above Transactions are set out under I(b)(i) and II(a) of "Continuing Connected Transactions".

## Major Customers and Suppliers

During the year, 35.19% of the aggregate amount of purchases were attributable to the Group's 5 largest suppliers with the largest supplier accounting for 11.92% of the Group's total purchases. The aggregate amount of turnover attributable to the Group's 5 largest customers was less than 30% of total turnover of the Group.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's 5 largest suppliers.

## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

## Donations

During the year, the Group made donations of approximately HK$0.3 million to charitable and non-profit-making organisations.

## Auditor

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2011 AGM.

On behalf of the Board
**Sir David AKERS-JONES**
*Independent non-executive Chairman*

Hong Kong, 9 March 2011

# Directors' Remuneration and Interests Report



## Director Compensation

### Emoluments Review Committee

The Board recognises the significance of having in place a transparent and objective process for determining executive Director compensation. The Emoluments Review Committee, first established in 1987, reviews and determines the remuneration of executive Directors as well as recommending for shareholder approval fee payable to the Chairman.

The Committee is currently chaired by Sir David AKERS-JONES, Independent non-executive Chairman. Its other members are Philip Yan Hok FAN, Independent non-executive Director and Michael Tze Hau LEE, Non-executive Director.

Management makes recommendations to the Committee on the Company's framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations. Independent professional advice will be sought where appropriate. On matters other than those concerning him, the Chief Executive Officer may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

### Remuneration Policy

The Group's remuneration policy aims to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff. At the same time, such awards must be aligned with shareholder interests.

The following principles had been established:

- Remuneration package will consist of several components: (i) fixed part (base salary and benefits); (ii) performance-based (bonus); (iii) long-term incentives (executive share options). The structure will reflect a fair system of reward for all the participants, emphasizing performance.
- Remuneration packages are set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing within a similar talent pool, with particular emphasis on the property industry. Independent professional advice will be sought to supplement internal resources where appropriate.
- The Committee will determine the overall amount of each component of remuneration, taking into account both quantitative and qualitative assessment of performance.
- Remuneration policy and practice will be as transparent as possible.
- Executive Directors will develop a significant personal shareholding pursuant to the executive share options in order to align their interests with those of shareholders.
- Pay and employment conditions elsewhere in the Group will be taken into account, especially in setting annual salary increases.
- The remuneration policy for executive Directors will be reviewed regularly, independently of executive management.

### 2010 Review

The Committee met in March 2010 to review 2010 executive Director compensation packages, including determining the compensation of the new Chief Executive Officer. Such packages were set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing within a similar talent pool, with particular emphasis on the property industry. Changes in roles and responsibilities were also taken into consideration. Independent professional advice was sought. The proportion of performance-based compensation for executive Directors has been increased generally following this review. Clear performance targets were set. All members attended the meeting.

Details of Directors' (including individual executive Directors) emoluments for year 2010 and options movement during the year are set out in notes 12 and 39 respectively to the financial statements.

## Director Compensation continued

**Non-executive Director emoluments**

Key elements of our Non-executive Director remuneration policy include:

- Remuneration should be sufficient to attract and retain first class non-executive talent.
- Remuneration of Non-executive Directors is (subject to shareholder approval) set by the Board and should be proportional to their contribution towards the interests of the Company.
- Remuneration practice should be consistent with recognised best practice standards for non-executive Directors' remuneration.
- Remuneration should be in the form of cash fees, payable annually.
- Non-executive Directors do not receive share options from the Company.

Non-executive Directors received no other compensation from the Group except for the fees disclosed below. None of the Non-executive Directors receives any pension benefits from the Company, nor do they participate in any bonus or incentive schemes.

Non-executive Directors (including the Independent non-executive Directors) received fees totalling HK$1,707,205.45 and the Independent non-executive Chairman received a total annual fee of HK$652,438.36 for 2010 (Please refer to note 12 to the financial statements).

**March 2011 Review**

Two meetings of the Committee were held in March 2011 with all members being present to review (i) 2011 executive Director compensation packages; (ii) its terms of reference; and (iii) fees for non-executive Directors and Board Committee members.

**Director Fees**

Director fees are subject to shareholder approval at general meeting. Taking into consideration the level of responsibility, experience, abilities required of the Directors, level of care and amount of time needed to be spent, and fees offered for similar positions in companies competing for the same talent, it is proposed for shareholder consideration and approval revising Director fees for Non-executive Directors and Board Committee members. The current fee structure of Directors (approved at annual general meeting (the "AGM") held on 10 May 2005) and Independent non-executive Chairman (approved at the AGM held on 11 May 2010) during the year and the proposed fees are set out below. It is also proposed that no Director fees be payable to executive Directors.

| | Current fee Per annum HK$ | Proposed fee Per annum HK$ |
|---|---|---|
| **Board of Directors** | | |
| Chairman | 400,000 | no change |
| Director | 100,000 | 200,000 |
| **Audit Committee** | | |
| Chairman | 60,000 | 100,000 |
| Member | 30,000 | 60,000 |
| **Emoluments Review Committee** | | |
| Chairman | 30,000 | 50,000 |
| Member | 20,000 | 40,000 |
| **Other Committees** | | |
| Chairman | 30,000 | no change |
| Member | 20,000 | no change |

Details are also set out in the related AGM circular.

## Director Compensation continued

**Long-term incentives: Share Option Schemes**

The Company has granted options under 2 executive share option schemes. The purpose of both schemes was to strengthen the link between individual staff and shareholder interests. The power of grant to executive Directors is vested in the Emoluments Review Committee and endorsed by all Independent non-executive Directors as required under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Chairman or the Chief Executive Officer may make grants to management staff below executive Director level.

Key terms of the share option schemes of the Company are summarised as follows:

**The 1995 Share Option Scheme (the "1995 Scheme")**

The 1995 Scheme was approved by shareholders on 28 April 1995 and had a term of 10 years. It expired on 28 April 2005. All outstanding options granted under the 1995 Scheme will continue to be valid and exercisable in accordance with the provisions of the 1995 Scheme.

As at 31 December 2010, shares issuable under options granted under the 1995 scheme was 96,000 representing less than 0.01% of the issued share capital of the Company.

The maximum entitlement of each participant is substantially below the limit set out under the scheme rules (being 25% of the maximum number of shares in respect of which options may at any time be granted under the 1995 Scheme). For the options granted under the 1995 Scheme currently outstanding, the basis for determining the exercise price is the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of the shares. Consideration on each grant of option was HK$1 and was paid within 30 days from the date of grant of option, with full payment for exercise price to be made on exercise of the relevant option.

**The 2005 Share Option Scheme (the "2005 Scheme")**

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and will be expiring on 9 May 2015 (together with the 1995 Scheme are referred to as the "Schemes").

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue as at 10 May 2005, the date of the AGM approving the 2005 Scheme (being 104,996,365 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option scheme of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

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

**Grant and vesting structures**

Under the Company's current policy, grants will be made on a periodic basis. Vesting period is 3 years in equal proportions. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

## Director Compensation continued

**Long-term incentives: Share Option Schemes** continued

**Movement of share options**

During the year, a total of 714,000 shares options were granted under the 2005 Scheme.

As at 31 December 2010, an aggregate of 3,273,334 shares are issuable for options granted under the Schemes, representing approximately 0.31% of the issued share capital of the Company.

As at the date of this Report, 97,756,766 shares are issuable under the Schemes representing 9.27% of the issued share capital.

Details of options granted, exercised, cancelled/lapsed and outstanding under the Schemes during the year are as follows:

| Name | Date of grant | Exercise price HK$ | Exercisable period *(Note a)* | Balance as at 1.1.2010 | Changes during the year: Granted | Exercised | Cancelled/ lapsed | Balance as at 31.12.2010 |
|---|---|---|---|---|---|---|---|---|
| **1995 Scheme** | | | | | | | | |
| **Executive Directors** | | | | | | | | |
| Wendy Wen Yee YUNG | 30.3.2005 | 15.850 | 30.3.2005 – 29.3.2015 | 96,000 | – | – | – | 96,000 |
| **2005 Scheme** | | | | | | | | |
| **Executive Directors** | | | | | | | | |
| Peter Ting Chang LEE *(Note b)* | 6.3.2007 | 21.380 | 6.3.2007 – 16.1.2011 | 235,000 | – | – | – | 235,000 |
| | 13.3.2008 | 21.450 | 13.3.2008 – 16.1.2011 | 260,000 | – | – | – | 260,000 |
| | 11.3.2009 | 11.760 | 11.3.2009 – 16.1.2011 | 500,000 | – | – | – | 500,000 |
| Gerry Lui Fai YIM | 1.12.2009 | 22.800 | 1.12.2009 – 30.11.2019 | 218,000 | – | – | – | 218,000 |
| Wendy Wen Yee YUNG | 26.6.2006 | 20.110 | 26.6.2006 – 25.6.2016 | 110,000 | – | – | – | 110,000 |
| | 30.3.2007 | 21.250 | 30.3.2007 – 29.3.2017 | 95,000 | – | – | – | 95,000 |
| | 31.3.2008 | 21.960 | 31.3.2008 – 30.3.2018 | 100,000 | – | – | – | 100,000 |
| | 11.3.2009 | 11.760 | 11.3.2009 – 10.3.2019 | 300,000 | – | – | – | 300,000 |
| | 11.3.2010 | 22.100 *(Note c)* | 11.3.2010 – 10.3.2020 | – | 185,000 | – | – | 185,000 |

# Director Compensation continued

## Long-term incentives: Share Option Schemes continued

### Movement of share options continued

| Name | Date of grant | Exercise price HK$ | Exercisable period *(Note a)* | Balance as at 1.1.2010 | Changes during the year Granted | Exercised | Cancelled/ lapsed | Balance as at 31.12.2010 |
|---|---|---|---|---|---|---|---|---|
| **2005 Scheme** continued | | | | | | | | |
| **Eligible employees** *(Note d)* | 30.3.2006 | 22.000 | 30.3.2006 – 29.3.2016 | 23,000 | – | (8,000) *(Note e)* | – | 15,000 |
| | 30.3.2007 | 21.250 | 30.3.2007 – 29.3.2017 | 31,000 | – | (16,000) *(Note e)* | – | 15,000 |
| | 31.3.2008 | 21.960 | 31.3.2008 – 30.3.2018 | 88,000 | – | (10,000) *(Note e)* | – | 78,000 |
| | 2.5.2008 | 23.900 | 2.5.2008 – 1.5.2018 | 95,000 | – | – | – | 95,000 |
| | 2.10.2008 | 20.106 | 2.10.2008 – 1.10.2018 | 85,000 | – | – | – | 85,000 |
| | 31.3.2009 | 13.300 | 31.3.2009 – 30.3.2019 | 411,000 | – | (21,666) *(Note f)* | (26,000) *(Note g)* | 363,334 |
| | 31.3.2010 | 22.450 *(Note h)* | 31.3.2010 – 30.3.2020 | – | 529,000 | – | (6,000) *(Note g)* | 523,000 |
| | | | | 2,647,000 | 714,000 | (55,666) | (32,000) | 3,273,334 |

Notes:

(a) All options granted have a vesting period of 3 years in equal proportions.

(b) The late Chairman, Peter Ting Chang LEE, passed away on 17 October 2009. An extension in time (to 16 January 2011) for exercising his options was granted to his legal personal representative pursuant to the 2005 Scheme. Share options of 235,000, 173,333 and 166,666, which were granted to him on 6 March 2007, 13 March 2008 and 11 March 2009 respectively, were exercised by his sole executrix to his estate on 3 January 2011. The outstanding share options of 420,001 lapsed on 17 January 2011.

(c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 10 March 2010) was HK$22.40.

(d) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$33.40.

(f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$28.62.

(g) The options lapsed during the year upon resignation of certain eligible employees.

(h) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2010) was HK$22.55.

Apart from the above, the Company had not granted any share option under the Schemes to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the Schemes are set out in note 39 to the financial statements.

## Director Compensation continued

**Long-term incentives: Share Option Schemes** continued

**Value of share options**

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the year is as follows to be expensed through the Group's income statement over the three-year vesting period of the options.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

| Date of grant | 31.3.2010 | 11.3.2010 |
|---|---|---|
| Closing share price at the date of grant | HK$22.450 | HK$22.100 |
| Exercise price | HK$22.450 | HK$22.100 |
| Risk free rate *(Note a)* | 2.843% | 2.780% |
| Expected life of option *(Note b)* | 10 years | 10 years |
| Expected volatility *(Note c)* | 35.489% | 35.459% |
| Expected dividend per annum *(Note d)* | HK$0.582 | HK$0.582 |
| Estimated fair values per share option | HK$8.598 | HK$8.425 |

Notes:

(a) Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

(b) Expected life of option: being the period of 10 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.

(c) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company in the past one year immediately before the date of grant for the options granted before 1 December 2009. For options granted on or after 1 December 2009, management considers that it would be more appropriate that the expected volatility be the appropriate historical volatility of closing prices of the shares of the Company in the past 10 years immediately before the date of grant in order to match the expected life of the options of 10 years.

(d) Expected dividend per annum: being the approximate average annual cash dividend for the past 5 financial years.

## Service Contracts

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries that is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation).

## Directors' Interests in Shares

As at 31 December 2010, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

**Aggregate long positions in shares and underlying shares of the Company**

| | Number of ordinary shares held | | | | | |
|---|---|---|---|---|---|---|
| Name | Personal interests | Family interests | Corporate interests | Other interests | Total | % of the issued share capital *(Note a)* |
| Hans Michael JEBSEN | 60,000 | – | 2,433,371 *(Note b)* | – | 2,493,371 | 0.237 |
| Chien LEE | 800,000 | – | – | – | 800,000 | 0.076 |
| Deanna Ruth Tak Yung RUDGARD | 1,871,600 | – | – | – | 1,871,600 | 0.178 |
| Gerry Lui Fai YIM | 40,000 | – | – | – | 40,000 | 0.004 |
| Wendy Wen Yee YUNG | 28,000 | – | – | – | 28,000 | 0.003 |
| Siu Chuen LAU | – | – | 20,115 *(Note c)* | – | 20,115 | 0.0019 |

Notes:

(a) This percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,053,426,635 ordinary shares) as at 31 December 2010.

(b) Such shares were held through a corporation in which Hans Michael JEBSEN was a member entitled to exercise no less than one-third of the voting power at general meeting.

(c) Siu Chuen LAU is an alternate director to Deanna Ruth Tak Yung RUDGARD, such shares were held through a corporation in which Siu Chuen LAU and his wife were members and each entitled to exercise no less than one-third of the voting power at general meeting.

Certain executive Directors of the Company have been granted share options under the Schemes (details are set out in the section headed "Long-term incentives: Share Option Schemes" above). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

**Aggregate long positions in shares of associated corporations**

Listed below is a Director's interest in the shares of Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company:

| | Number of ordinary shares held | | | |
|---|---|---|---|---|
| Name | Corporate interests | Other interests | Total | % of the issued share capital |
| Hans Michael JEBSEN | 1,000 | – | 1,000 | 10 *(Note)* |

Note:

Jebsen and Company Limited ("Jebsen and Company") held a 10% interest in the issued share capital in Barrowgate through a wholly-owned subsidiary. Hans Michael JEBSEN was deemed to be interested in the shares of Barrowgate by virtue of being a controlling shareholder of Jebsen and Company.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2010 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Directors' Interests in Shares continued

**Compliance of the Model Code for Securities Transactions by Directors of Listed Issuers**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the year.

## Directors' Interests in Contracts

During the year, certain Directors have interests, directly or indirectly, in contracts with the Group. These contracts constitute Related Party Transactions, Connected Transactions or Contracts of Significance under applicable accounting or regulatory rules (details are disclosed in the Directors' Report).

## Directors' Interests in Competing Business

The Group is engaged principally in the property investment, development and management of high quality investment properties in Hong Kong. The following Directors (excluding Independent non-executive Directors) are considered to have interests in other activities (the "Deemed Competing Business") that compete or are likely to compete with the said core business of the Group, all within the meaning of the Listing Rules:

(i) Anthony Hsien Pin LEE, Chien LEE, Irene Yun Lien LEE, Michael Tze Hau LEE, Dr. Deanna Ruth Tak Yung RUDGARD and her alternate (Siu Chuen LAU), are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.

(ii) Hans Michael JEBSEN and his alternate (Kam Wing LI) hold the offices of directors in each of Jebsen and Company and Jebsen China Services Limited and some of their subsidiaries, of which their business activities include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Mr. Jebsen is also a substantial shareholder of the companies.

Mr. Jebsen is an independent non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and management in both the People's Republic of China and Hong Kong.

(iii) Chien LEE is an independent non-executive director of Swire Pacific Limited whose business includes, inter alia, property investment and trading in Hong Kong, the People's Republic of China and the United States of America.

The Company's management team is separate and independent from that of the companies identified above. In addition, the relevant Directors have non-executive roles and are not involved in the Company's day-to-day operations and management.

For the reasons stated above, and coupled with the diligence of the Group's Independent non-executive Directors and the Audit Committee, the Group is capable of carrying on its business independent of and at arm's length from the Deemed Competing Business.

By Order of the Board
**Wendy W.Y. YUNG**
*Executive Director and Company Secretary*

Hong Kong, 9 March 2011

# Audit Committee Report

The Audit Committee has 3 members (with a majority of Independent non-executive Directors). Currently, it is chaired by Nicholas Charles ALLEN, Independent non-executive Director and the other members are Philip Yan Hok FAN, Independent non-executive Director and Anthony Hsien Pin LEE, Non-executive Director. Dr. Geoffrey Meou-tsen YEH stepped down as from the May 2010 Annual General Meeting.

Under its terms of reference, the Committee oversees the Company's financial reporting process; it also reviews the Company's internal controls and risk management systems and its relationship with external auditor. The Committee also has the responsibility to review the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The Committee Chairman reports to the Board on its findings after each Committee meeting.

The Committee held 2 meetings during the year, on 9 March and 6 August 2010. The meeting held in March 2010 was attended by Nicholas Charles ALLEN and Dr. Geoffrey Meou-tsen YEH. The meeting held in August 2010 was attended by Nicholas Charles ALLEN, Philip Yan Hok FAN and Anthony Hsien Pin LEE to consider the financial statements for the 2009 annual report and 2010 interim report respectively. The Committee last met on 7 March 2011 to consider the financial statements for the year ended 31 December 2010.

Details on the meeting held in March 2010 were set out in the 2009 Annual Report. Significant matters, as reviewed and discussed in the other meetings, include the following:

## Financial Reporting

In the process of financial reporting, management is responsible for the preparation of Group financial statements including the selection of suitable accounting policies. The external auditor is responsible for auditing and attesting to Group financial statements and evaluating the Group's system of internal controls in such regard. The Committee oversees the respective work of management and the external auditor to endorse the processes and safeguards employed by them.

- August 2010 : The Committee reviewed and recommended to the Board for approval the unaudited financial statements for the first 6 months of 2010, prior to public announcement and filing. The Committee received reports from and met with the external auditor to discuss the scope of their review and findings. The Committee had discussions with management on significant judgments affecting Group's financial statements.
- March 2011 : The Committee reviewed and discussed with management and external auditor the 2010 financial statements included in the 2010 Annual Report, prior to public announcement and filing. The Committee received reports from and met with external auditor and internal auditor to discuss the general scope of their respective work and findings. The Committee had discussions with management with regard to significant judgments affecting the Group financial statements. Based on these review and discussions, and the report of the external auditor, the Audit Committee recommended to the Board approval of the financial statements for the year ended 31 December 2010, with the Independent Auditor's Report thereon.

## Review of Internal Controls and Risk Management Systems

- August 2010 : The Committee considered the report of internal audit, including status in implementing recommendations on previous audits and was satisfied.
- March 2011 : For 2010 annual internal controls review, the Committee considered reports from and upon receiving confirmation of management and internal audit, was satisfied as to the effectiveness of the Company's internal controls system (including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget). There were no matters of material concern relating to financial, operational, or compliance controls.

## Relationship with External Auditor

- August 2010 : The Committee reviewed and considered the terms of engagement of the external auditor in respect of the 2010 annual audit and the related results announcement and annual confirmation.
- March 2011 : The Committee assessed the auditor's independence and objectivity. Factors considered include the arrangement for lead audit partner rotation, and the provision of non-audit services by the auditor. The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2011.

  The Committee also reviewed and considered the terms of engagement of the external auditor in respect of the 2011 interim results review.

  For the year ended 31 December 2010, external auditor received a total fee of HK$2,164,000 (audit services: HK$1,860,000 and non-audit services: HK$304,000).

Members of the Audit Committee
**Nicholas Charles ALLEN** *(Chairman)*
**Philip Yan Hok FAN**
**Anthony Hsien Pin LEE**

Hong Kong, 9 March 2011

# 4 Financial Statements and Valuation

# Directors' Responsibility for the Financial Statements

The Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:

(a) select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;

(b) state the reasons for any significant departure from accounting standards; and

(c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent Auditor's Report

Deloitte.
德勤

## To the Members of Hysan Development Company Limited

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 86 to 154, which comprise the consolidated and Company's statements of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

9 March 2011

# Consolidated Income Statement
For the year ended 31 December 2010

| | Notes | 2010<br>HK$ million | As restated<br>2009<br>HK$ million |
|---|---|---|---|
| Turnover | 4 | **1,764** | 1,680 |
| Property expenses | | **(250)** | (235) |
| Gross profit | | **1,514** | 1,445 |
| Investment income | 6 | **49** | 38 |
| Other gains and losses | 7 | **(42)** | (3) |
| Administrative expenses | | **(140)** | (133) |
| Finance costs | 8 | **(117)** | (131) |
| Change in fair value of investment properties | | **2,594** | 1,249 |
| Share of results of associates | | **394** | 768 |
| Profit before taxation | | **4,252** | 3,233 |
| Taxation | 9 | **(201)** | (189) |
| **Profit for the year** | 10 | **4,051** | 3,044 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **3,844** | 2,914 |
| Non-controlling interests | | **207** | 130 |
| | | **4,051** | 3,044 |
| **Earnings per share** (expressed in HK cents) | 15 | | |
| Basic | | **365.47** | 278.52 |
| Diluted | | **365.16** | 278.42 |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

| | Note | 2010<br>HK$ million | As restated<br>2009<br>HK$ million |
|---|---|---|---|
| **Profit for the year** | | 4,051 | 3,044 |
| **Other comprehensive income:** | 11 | | |
| Fair value gains on available-for-sale investments | | 150 | 37 |
| Net (losses) gains on cash flow hedges | | (22) | 5 |
| Gain on revaluation of properties held for own use | | 29 | 9 |
| Share of translation reserve of an associate | | 103 | (1) |
| Other comprehensive income for the year (net of tax) | | 260 | 50 |
| **Total comprehensive income for the year** | | 4,311 | 3,094 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 4,104 | 2,964 |
| Non-controlling interests | | 207 | 130 |
| | | 4,311 | 3,094 |

# Consolidated Statement of Financial Position

At 31 December 2010

| | Notes | At 31 Dec 2010 HK$ million | As restated At 31 Dec 2009 HK$ million | As restated At 1 Jan 2009 HK$ million |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investment properties | 16 | **40,833** | 37,363 | 35,850 |
| Property, plant and equipment | 17 | **429** | 396 | 387 |
| Investments in associates | 19 | **3,014** | 2,517 | 1,750 |
| Principal-protected investments | 20 | **378** | 82 | 85 |
| Term notes | 21 | **168** | – | – |
| Available-for-sale investments | 22 | **1,152** | 1,002 | 1,022 |
| Other financial assets | 23 | **90** | 95 | 157 |
| Other receivables | | **79** | 31 | 29 |
| | | **46,143** | 41,486 | 39,280 |
| **Current assets** | | | | |
| Accounts receivable and other receivables | 24 | **98** | 83 | 94 |
| Amount due from an associate | 26 | **139** | 369 | 590 |
| Principal-protected investments | 20 | **84** | 118 | 40 |
| Term notes | 21 | **95** | – | 700 |
| Other financial assets | 23 | **2** | 2 | 1 |
| Time deposits | 27 | **1,930** | 1,945 | 964 |
| Cash and bank balances | 27 | **63** | 39 | 51 |
| | | **2,411** | 2,556 | 2,440 |
| **Current liabilities** | | | | |
| Accounts payable and accruals | 28 | **433** | 314 | 320 |
| Rental deposits from tenants | | **175** | 127 | 158 |
| Amounts due to non-controlling interests | 29 | **327** | 327 | 327 |
| Borrowings | 30 | **650** | 400 | 550 |
| Taxation payable | | **50** | 45 | 351 |
| | | **1,635** | 1,213 | 1,706 |
| **Net current assets** | | **776** | 1,343 | 734 |
| **Total assets less current liabilities** | | **46,919** | 42,829 | 40,014 |
| **Non-current liabilities** | | | | |
| Borrowings | 30 | **3,937** | 3,491 | 3,201 |
| Other financial liabilities | 23 | **52** | 36 | 41 |
| Rental deposits from tenants | | **276** | 273 | 230 |
| Deferred taxation | 31 | **337** | 297 | 269 |
| | | **4,602** | 4,097 | 3,741 |
| **Net assets** | | **42,317** | 38,732 | 36,273 |
| **Capital and reserves** | | | | |
| Share capital | 32 | **5,267** | 5,253 | 5,206 |
| Reserves | | **35,410** | 31,963 | 29,605 |
| **Equity attributable to owners of the Company** | | **40,677** | 37,216 | 34,811 |
| **Non-controlling interests** | | **1,640** | 1,516 | 1,462 |
| **Total equity** | | **42,317** | 38,732 | 36,273 |

The consolidated financial statements on pages 86 to 154 were approved and authorised for issue by the Board of Directors on 9 March 2011 and are signed on its behalf by:

**David AKERS-JONES**
Director

**Gerry L.F. YIM**
Director

# Statement of Financial Position

At 31 December 2010

| | Notes | At 31 Dec 2010 HK$ million | At 31 Dec 2009 HK$ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | 9 | 8 |
| Investments in subsidiaries | 18 | – | – |
| Available-for-sale investments | 22 | 2 | 2 |
| | | 11 | 10 |
| **Current assets** | | | |
| Other receivables | | 5 | 4 |
| Amounts due from subsidiaries | 25 | 12,671 | 12,743 |
| Time deposits | 27 | 547 | 566 |
| Cash and bank balances | 27 | 33 | 8 |
| | | 13,256 | 13,321 |
| **Current liabilities** | | | |
| Other payable and accruals | | 38 | 34 |
| Amounts due to subsidiaries | 25 | 175 | 192 |
| Taxation payable | | 2 | 3 |
| | | 215 | 229 |
| **Net current assets** | | 13,041 | 13,092 |
| **Net assets** | | 13,052 | 13,102 |
| **Capital and reserves** | | | |
| Share capital | 32 | 5,267 | 5,253 |
| Reserves | 33 | 7,785 | 7,849 |
| **Total equity** | | 13,052 | 13,102 |

The financial statements on pages 86 to 154 were approved and authorised for issue by the Board of Directors on 9 March 2011 and are signed on its behalf by:

**David AKERS-JONES**
Director

**Gerry L.F. YIM**
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

| | Attributable to owners of the Company | | | |
|---|---|---|---|---|
| | Share capital HK$ million | Share premium HK$ million | Share options reserve HK$ million | Capital redemption reserve HK$ million |
| At 1 January 2009, as originally stated | 5,206 | 1,606 | 9 | 276 |
| Effect of changes in accounting policies *(note 2)* | – | – | – | – |
| At 1 January 2009, as restated | 5,206 | 1,606 | 9 | 276 |
| Profit for the year | – | – | – | – |
| Change in fair value of available-for-sale investments | – | – | – | – |
| Transfer to profit and loss on disposal of available-for-sale investments | – | – | – | – |
| Change in fair value of derivatives designated as cash flow hedges | – | – | – | – |
| Transfer to profit and loss for cash flow hedges | – | – | – | – |
| Gain on revaluation of properties held for own use | – | – | – | – |
| Deferred taxation arising on revaluation of properties held for own use | – | – | – | – |
| Share of other comprehensive income of an associate | – | – | – | – |
| Total comprehensive income (expenses) for the year | – | – | – | – |
| Issue of shares pursuant to scrip dividend schemes | 47 | 96 | – | – |
| Issue of shares under share option schemes | – | 1 | – | – |
| Recognition of equity-settled share-based payments | – | – | 6 | – |
| Forfeiture of share options | – | – | (5) | – |
| Dividends paid during the year *(note 14)* | – | – | – | – |
| At 31 December 2009, as restated | 5,253 | 1,703 | 10 | 276 |
| Profit for the year | – | – | – | – |
| Change in fair value of available-for-sale investments | – | – | – | – |
| Change in fair value of derivatives designated as cash flow hedges | – | – | – | – |
| Transfer to profit and loss for cash flow hedges | – | – | – | – |
| Gain on revaluation of properties held for own use | – | – | – | – |
| Deferred taxation arising on revaluation of properties held for own use | – | – | – | – |
| Share of other comprehensive income of an associate | – | – | – | – |
| Total comprehensive income (expenses) for the year | – | – | – | – |
| Issue of shares pursuant to scrip dividend schemes | 14 | 50 | – | – |
| Issue of shares under share option schemes | – | 1 | – | – |
| Recognition of equity-settled share-based payments | – | – | 6 | – |
| Dividends paid during the year *(note 14)* | – | – | – | – |
| **At 31 December 2010** | **5,267** | **1,754** | **16** | **276** |

| Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| General reserve HK$ million | Investments revaluation reserve HK$ million | Hedging reserve HK$ million | Properties revaluation reserve HK$ million | Translation reserve HK$ million | Retained profits HK$ million | Total HK$ million | Non-controlling interests HK$ million | Total HK$ million |
| 100 | 772 | (27) | 12 | 154 | 23,361 | 31,469 | 1,241 | 32,710 |
| – | – | – | 154 | – | 3,188 | 3,342 | 221 | 3,563 |
| 100 | 772 | (27) | 166 | 154 | 26,549 | 34,811 | 1,462 | 36,273 |
| – | – | – | – | – | 2,914 | 2,914 | 130 | 3,044 |
| – | 40 | – | – | – | – | 40 | – | 40 |
| – | (3) | – | – | – | – | (3) | – | (3) |
| – | – | (12) | – | – | – | (12) | – | (12) |
| – | – | 17 | – | – | – | 17 | – | 17 |
| – | – | – | 11 | – | – | 11 | – | 11 |
| – | – | – | (2) | – | – | (2) | – | (2) |
| – | – | – | – | (1) | – | (1) | – | (1) |
| – | 37 | 5 | 9 | (1) | 2,914 | 2,964 | 130 | 3,094 |
| – | – | – | – | – | – | 143 | – | 143 |
| – | – | – | – | – | – | 1 | – | 1 |
| – | – | – | – | – | – | 6 | – | 6 |
| – | – | – | – | – | 5 | – | – | – |
| – | – | – | – | – | (709) | (709) | (76) | (785) |
| 100 | 809 | (22) | 175 | 153 | 28,759 | 37,216 | 1,516 | 38,732 |
| – | – | – | – | – | 3,844 | 3,844 | 207 | 4,051 |
| – | 150 | – | – | – | – | 150 | – | 150 |
| – | – | (40) | – | – | – | (40) | – | (40) |
| – | – | 18 | – | – | – | 18 | – | 18 |
| – | – | – | 34 | – | – | 34 | – | 34 |
| – | – | – | (5) | – | – | (5) | – | (5) |
| – | – | – | – | 103 | – | 103 | – | 103 |
| – | 150 | (22) | 29 | 103 | 3,844 | 4,104 | 207 | 4,311 |
| – | – | – | – | – | – | 64 | – | 64 |
| – | – | – | – | – | – | 1 | – | 1 |
| – | – | – | – | – | – | 6 | – | 6 |
| – | – | – | – | – | (714) | (714) | (83) | (797) |
| **100** | **959** | **(44)** | **204** | **256** | **31,889** | **40,677** | **1,640** | **42,317** |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | 2010<br>HK$ million | 2009<br>HK$ million |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | 4,252 | 3,233 |
| Adjustments for: | | |
| Other gains and losses | 42 | 3 |
| Finance costs | 117 | 131 |
| Change in fair value of investment properties | (2,594) | (1,249) |
| Share of results of associates | (394) | (768) |
| Dividend income | (34) | (27) |
| Interest income | (15) | (11) |
| Depreciation of property, plant and equipment | 8 | 7 |
| Share-based payment expenses | 6 | 6 |
| Operating cash flows before movements in working capital | 1,388 | 1,325 |
| Increase in accounts receivable and other receivables | (45) | (2) |
| Increase in accounts payable and accruals | 66 | 14 |
| Increase in rental deposits from tenants | 51 | 12 |
| Cash generated from operations | 1,460 | 1,349 |
| Hong Kong profits tax paid | (171) | (469) |
| Hong Kong profits tax refund | 10 | – |
| **Net cash from operating activities** | 1,299 | 880 |
| **Investing activities** | | |
| Interest received | 12 | 8 |
| Dividends received from available-for-sale investments | 34 | 27 |
| Proceeds on disposal of an investment property | 50 | – |
| Proceeds on disposal of available-for-sale investments | – | 44 |
| Proceeds upon maturity of principal-protected investments | 169 | 40 |
| Repayment from an associate | 230 | 221 |
| Payments in respect of investment properties | (871) | (242) |
| Purchases of property, plant and equipment | (7) | (8) |
| Purchases of term notes | (266) | – |
| Additions to principal-protected investments | (432) | (112) |
| Decrease (increase) in time deposits with original maturity over three months | 118 | (1,551) |
| **Net cash used in investing activities** | (963) | (1,573) |

| | Note | 2010 HK$ million | 2009 HK$ million |
|---|---|---|---|
| **Financing activities** | | | |
| Interest paid | | (97) | (119) |
| Payment of other finance costs | | (11) | (7) |
| Medium Term Note Programme expenses | | (1) | (1) |
| Dividends paid | | (650) | (566) |
| Dividends paid to non-controlling interests of a subsidiary | | (83) | (76) |
| Repayment of bank loans | | (600) | (70) |
| Repayment of floating rate notes | | – | (550) |
| Redemption of fixed rate notes | | (68) | – |
| New bank loans | | 500 | 599 |
| Issue of fixed rate notes | | 800 | – |
| Issue of floating rate notes | | – | 200 |
| Proceeds on exercise of share options | | 1 | 1 |
| **Net cash used in financing activities** | | (209) | (589) |
| **Net increase (decrease) in cash and cash equivalents** | | 127 | (1,282) |
| **Cash and cash equivalents at 1 January** | | 433 | 1,715 |
| **Cash and cash equivalents at 31 December** | 27 | 560 | 433 |

# Significant Accounting Policies

For the year ended 31 December 2010

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. In addition, these financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The principal accounting policies adopted are as follows:

## 1. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Total comprehensive income and expenses of a subsidiary are attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

## 2. Investments in Subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

## 3. Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interests in the associate that are not related to the Group.

## 4. Investment Properties

Investment properties are properties held to earn rental and/or for capital appreciation including properties under redevelopment for such proposes.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise. If an investment property becomes an item of property, plant and equipment because its use has changed as evidenced by commencement of owner-occupation, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

Construction costs incurred for investment properties under redevelopment are capitalised as part of the carrying amount of the investment properties under redevelopment. Investment properties under redevelopment are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under redevelopment and their carrying amount is recognised in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

## 5. Property, Plant and Equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Any revaluation increase arising on revaluation of land and buildings is recognised in other comprehensive income and accumulated in the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment less their estimated residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 6. Impairment of Non-Financial Assets

At the end of the reporting period, the Group or the Company reviews the carrying amounts of their assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## 7. Financial Instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**(a) Financial assets**

The Group's financial assets are classified into one of the four categories, including (i) financial assets at fair value through profit or loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity investments and (iv) available-for-sale financial assets. The Company's financial assets are classified into (i) loans and receivables and (ii) available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

**(i) Financial assets at FVTPL**

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future or it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than the one held for trading may be designated as at FVTPL upon initial recognition if it contains one or more embedded derivatives and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivable and other receivables, amounts due from subsidiaries, amount due from an associate, unlisted debt securities (see note 21 of the notes to the financial statements section), time deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

## 7. Financial Instruments continued

### (a) Financial assets continued

#### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group designated listed debt securities, which are denominated in US dollars ("USD") (see note 21 of the notes to the financial statements section), as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

#### (iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group or the Company designated investments in equity securities and club debentures (if any) as available-for-sale financial assets. Subsequent to initial recognition, available-for-sale financial assets (including certain equity securities investments and club debentures) are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

Subsequent to initial recognition, for available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses (see accounting policy on impairment of financial assets below).

#### (v) Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL, for which interest income is included in net gains or losses.

#### (vi) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

## 7. Financial Instruments continued

### (a) Financial assets continued

#### (vi) Impairment of financial assets continued

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables and amounts due from subsidiaries and an associate, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an account receivable or an amount due from a subsidiary or an associate is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investments revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### (vii) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group or the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

### (b) Financial liabilities and equity

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

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

#### (i) Financial liabilities at FVTPL

Financial liabilities at FVTPL, that are classified as held for trading, comprise derivatives that are not designated and effective as hedging instruments.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

#### (ii) Other financial liabilities

Other financial liabilities (including accounts payable and accruals, other payable, amounts due to subsidiaries, amounts due to non-controlling interests and borrowings) are subsequently measured at amortised cost, using the effective interest method.

#### (iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Consideration paid to repurchase the Company's own equity instruments is deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## 7. Financial Instruments continued

### (b) Financial liabilities and equity continued

#### (iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

#### (v) Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### (c) Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

### (d) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

### (e) Hedge accounting

The Group designates certain derivatives as hedging instruments as either fair value hedges or cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

#### (i) Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair values of the hedged items that are attributable to the hedged risk. The adjustment to the carrying amount of the hedged item for which the effective interest is used is amortised to profit or loss when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The adjustment is based on a recalculated effective interest rate at the date the amortisation begins.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

#### (ii) Cash flow hedges

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income (hedging reserve). The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss accumulated in equity is recognised immediately in profit or loss.

## 8. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

Management fee income and security service income are recognised when services are rendered.

Dividend income from investments including financial assets at FVTPL is recognised when the shareholders' right to receive payments has been established (provided that it is probable that the economic benefits will flow to the Group or the Company and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group or the Company and the amount of revenue can be measured reliably. Interest income from a financial asset excluding financial assets at FVTPL is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 9. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### (a) The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

### (b) The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 10. Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (translation reserve).

## 11. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 12. Retirement Benefit Costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

## 13. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

**(a) Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's or the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**(b) Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group or the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group or the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Properties", such properties' value are presumed to be recovered through sale. Such a presumption is rebutted when the investment property is depreciable and is held within a business model of the Group or the Company whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e based on the expected manner as to how the properties will be recovered).

Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 14. Equity-Settled Share-Based Payment Transactions

**Share options granted to employees**

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group and the Company revise their estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

## 1. General

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Shareholder Information" section of the annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are property investment, management and development.

These financial statements are presented in Hong Kong dollars ("HKD"), which is the same as the functional currency of the Company.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group and the Company have applied all of the new and revised Standards, Amendments to Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to their operations and effective for the financial year beginning on 1 January 2010. In addition, the Group and the Company have early adopted the amendments to HKAS 12 "Income Taxes", in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40 "Investment Property".

Except as described below, the adoption of these new and revised HKFRSs had no material effect on the financial statements of the Group or the Company for the current and/or prior accounting years. Accordingly, no prior year adjustment has been required.

**Amendments to HKAS 17 "Leases"**

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. The amendments to HKAS 17 require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not risks and rewards incidental to ownership of a leased asset have been transferred substantially to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of these leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant and equipment and has been measured using the revaluation model on a retrospective basis. The application of the amendments has had no significant financial impact to the Group's consolidated income statements for the current and prior periods.

**Amendments to HKAS 12 "Income Taxes"**

Amendments to HKAS 12 titled "Deferred Tax: Recovery of Underlying Assets" have been applied in advance of their effective date (annual periods beginning on or after 1 January 2012). Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

As a result, the Group's investment properties that are measured using the fair value model have been presumed to be recovered through sale for the purpose of measuring deferred tax liabilities and deferred tax assets in respect of such properties. This resulted in deferred tax liabilities being decreased by HK$3,409 million and HK$3,616 million as at 1 January 2009 and 31 December 2009 respectively, with the corresponding adjustment being recognised in retained profits.

In the current year, no deferred tax has been provided for in respect of changes in fair value of such investment properties, whereas previously deferred tax liabilities were provided for in relation to the changes in fair value of such investment properties. The application of the amendments has resulted in profit for the year being increased by HK$426 million.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") continued

**Summary of the effects of the above changes in accounting policies**

(a) The effects of changes in accounting policies described above on the results for the current and prior years by line items are as follows:

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Decrease in taxation and increase in profit for the year | **426** | 207 |
| Increase in profit for the year attributable to owners of the Company | **406** | 198 |

(b) The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2009 and 31 December 2009 are as follows:

| | At 31 Dec 2009 | | | | At 1 Jan 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Originally stated HK$ million | Amendments to HKAS 12 HK$ million | Amendments to HKAS 17 HK$ million | **Restated HK$ million** | Originally stated HK$ million | Amendments to HKAS 12 HK$ million | Amendments to HKAS17 HK$ million | **Restated HK$ million** |
| Property, plant and equipment | 81 | – | 315 | **396** | 80 | – | 307 | **387** |
| Prepaid lease payments | 121 | – | (121) | **–** | 123 | – | (123) | **–** |
| Deferred taxation | (3,881) | 3,616 | (32) | **(297)** | (3,648) | 3,409 | (30) | **(269)** |
| Non-controlling interests | (1,286) | (230) | – | **(1,516)** | (1,241) | (221) | – | **(1,462)** |
| Properties revaluation reserve | 13 | – | 162 | **175** | 12 | – | 154 | **166** |
| Retained profits | 25,373 | 3,386 | – | **28,759** | 23,361 | 3,188 | – | **26,549** |

(c) The effects of the above changes in accounting policies on the Group's basic and diluted earnings per share for the current and prior years are as follows:

| | Impact on basic earnings per share | | Impact on diluted earnings per share | |
|---|---|---|---|---|
| | **2010 HK cents** | 2009 HK cents | **2010 HK cents** | 2009 HK cents |
| Figures before adjustments | **326.87** | 259.60 | **326.59** | 259.50 |
| Adjustments arising from changes in the Group's accounting policies in relation to: | | | | |
| Deferred tax for investment properties | **38.60** | 18.92 | **38.57** | 18.92 |
| Figures after adjustments | **365.47** | 278.52 | **365.16** | 278.42 |

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") continued

The Group and the Company have not early applied the following new and revised Standards, Amendments to Standards and Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010[1] |
| HKAS 24 (as revised in 2009) | Related Party Disclosures[2] |
| HKAS 32 (Amendments) | Classification of Rights Issues[3] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[4] |
| HKFRS 9 | Financial Instruments[5] |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[2] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[6] |

[1] Amendments that are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 January 2011.
[3] Effective for annual periods beginning on or after 1 February 2010.
[4] Effective for annual periods beginning on or after 1 July 2011.
[5] Effective for annual periods beginning on or after 1 January 2013.
[6] Effective for annual periods beginning on or after 1 July 2010.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 9 will be adopted in the financial statements for the year ending 31 December 2011 and that the application of HKFRS 9 may affect the classification and measurement of the Group's available-for-sale investments. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

Other than as described above, the Directors of the Company anticipate that the application of the other new and revised Standards, Amendments to Standards and Interpretations will have no material impact on the results and the financial position of the Group or the Company.

## 3. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in the "Significant Accounting Policies" section, the management of the Company is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Fair value of investment properties**

At the end of the reporting period, the Group's investment properties are stated at fair value of HK$ 40,833 million (2009: HK$37,363 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuers have applied a market value basis which involves, inter-alia, certain estimates, including comparable market transactions, appropriate capitalisation rates and reversionary income potential and redevelopment potential. In relying on the valuation, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

**Fair values of financial instruments**

Financial instruments, such as interest rate swaps, cross currency swaps and foreign exchange derivatives, are carried in the statement of financial position at fair value, as disclosed in note 23. The management of the Group uses its judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates. Most of the financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in the "Financial Risk Management" section.

## 4. Turnover

Turnover represents gross rental income from investment properties and management fee income for the year.

The Group's principal activities are property investment, management and development, and its turnover and results are principally derived from investment properties located in Hong Kong.

## 5. Segment Information

Based on the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. Chief Executive Officer of the Group) in order to allocate resources to segments and to assess their performance, the Group's reportable segments are as follows:

Office segment – leasing of high quality office space and related facilities

Retail segment – leasing of space and related facilities to a variety of retail and leisure operators

Residential segment – leasing of luxury residential properties and related facilities

## 5. Segment Information continued

**Segment turnover and results**

The following is an analysis of the Group's turnover and results by reportable segment.

| | Office HK$ million | Retail HK$ million | Residential HK$ million | Consolidated HK$ million |
|---|---|---|---|---|
| **For the year ended 31 December 2010** | | | | |
| **Turnover** | | | | |
| Gross rental income from investment properties | 654 | 636 | 264 | 1,554 |
| Management fee income | 116 | 64 | 30 | 210 |
| **Segment revenue** | 770 | 700 | 294 | 1,764 |
| Property expenses | (119) | (81) | (50) | (250) |
| **Segment profit** | 651 | 619 | 244 | 1,514 |
| Investment income | | | | 49 |
| Other gains and losses | | | | (42) |
| Administrative expenses | | | | (140) |
| Finance costs | | | | (117) |
| Change in fair value of investment properties | | | | 2,594 |
| Share of results of associates | | | | 394 |
| Profit before taxation | | | | 4,252 |
| **For the year ended 31 December 2009** | | | | |
| **Turnover** | | | | |
| Gross rental income from investment properties | 635 | 584 | 257 | 1,476 |
| Management fee income | 112 | 64 | 28 | 204 |
| **Segment revenue** | 747 | 648 | 285 | 1,680 |
| Property expenses | (109) | (73) | (53) | (235) |
| **Segment profit** | 638 | 575 | 232 | 1,445 |
| Investment income | | | | 38 |
| Other gains and losses | | | | (3) |
| Administrative expenses | | | | (133) |
| Finance costs | | | | (131) |
| Change in fair value of investment properties | | | | 1,249 |
| Share of results of associates | | | | 768 |
| Profit before taxation | | | | 3,233 |

All of the segment turnover reported above is from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the "Significant Accounting Policies" section. Segment profit represents the profit earned by each segment without allocation of investment income, central administration costs and directors' salaries, other gains and losses, finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the Group's management for the purpose of resource allocation and performance assessment.

## 5. Segment Information continued

**Segment assets and liabilities**

The following is an analysis of the Group's assets by reportable segment.

| | Office HK$ million | Retail HK$ million | Residential HK$ million | Consolidated HK$ million |
|---|---|---|---|---|
| **As at 31 December 2010** | | | | |
| Segment assets | **14,708** | **11,900** | **7,822** | **34,430** |
| Investment properties under redevelopment | | | | **6,408** |
| Investments in associates | | | | **3,014** |
| Other assets | | | | **4,702** |
| Consolidated assets | | | | **48,554** |
| **As at 31 December 2009 (restated)** | | | | |
| Segment assets | 14,100 | 10,580 | 7,051 | 31,731 |
| Investment properties under redevelopment | | | | 5,640 |
| Investments in associates | | | | 2,517 |
| Other assets | | | | 4,154 |
| Consolidated assets | | | | 44,042 |
| **As at 1 January 2009 (restated)** | | | | |
| Segment assets | 13,602 | 10,156 | 6,832 | 30,590 |
| Investment properties under redevelopment | | | | 5,270 |
| Investments in associates | | | | 1,750 |
| Other assets | | | | 4,110 |
| Consolidated assets | | | | 41,720 |

Segment assets represented the fair value of investment properties and accounts receivable of each segment without allocation of property, plant and equipment, investments in associates, amount due from an associate, financial instruments, other receivables, time deposits, cash and bank balances. This is the measure reported to the Group's management for the purpose of monitoring segment performances and allocating resources between segments. The investment properties are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profit. No segment liabilities analysis is presented as the Group's management monitors and manages all the liabilities on a group basis.

Other than the investments in associates, which operated in the People's Republic of China (the "PRC") and Singapore with carrying amounts of HK$3,011 million (2009: HK$2,514 million) and HK$3 million (2009: HK$3 million) respectively, all the Group's assets are located in Hong Kong.

**Other segment information**

| | Office HK$ million | Retail HK$ million | Residential HK$ million | Consolidated HK$ million |
|---|---|---|---|---|
| **For the year ended 31 December 2010** | | | | |
| Additions to non-current assets | **88** | **326** | **10** | **424** |
| Additions to investment properties under redevelopment | | | | **502** |
| | | | | **926** |
| **For the year ended 31 December 2009** | | | | |
| Additions to non-current assets | 33 | 42 | 2 | 77 |
| Additions to investment properties under redevelopment | | | | 184 |
| | | | | 261 |

## 6. Investment Income

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Investment income comprises: | | |
| Dividends from listed investments | 34 | 27 |
| Interest income | 15 | 11 |
| | 49 | 38 |

Investment income earned on financial assets not designated as at fair value through profit or loss ("FVTPL") is as follows:

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Held-to-maturity investments | 1 | – |
| Available-for-sale equity investments | 34 | 27 |
| Loans and receivables (including term notes, time deposits and bank balances) | 14 | 11 |
| | 49 | 38 |

Investment income recognised in respect of financial assets designated as at FVTPL is disclosed in note 7.

## 7. Other Gains and Losses

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Other gains and losses comprise: | | |
| Change in fair value of financial assets designated as at FVTPL | (1) | 3 |
| Change in fair value of financial assets or financial liabilities classified as held for trading | (18) | (8) |
| Cumulative gain reclassified from equity on disposal of investments classified as available-for-sale | – | 3 |
| Gains (losses) on hedging instruments under fair value hedge | 19 | (52) |
| (Losses) gains on adjustment for hedged items under fair value hedge | (19) | 59 |
| Amortisation of fair value gain adjusted to hedged items under fair value hedge in prior years | (23) | (8) |
| | (42) | (3) |

## 8. Finance Costs

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Finance costs comprise: | | |
| Interest on bank loans and overdrafts wholly repayable within five years | **13** | 16 |
| Interest on floating rate notes wholly repayable within five years | **3** | 5 |
| Interest on fixed rate notes wholly repayable within five years | **116** | 99 |
| Interest on fixed rate notes not wholly repayable within five years | **18** | 30 |
| Imputed interest on zero coupon notes not wholly repayable within five years | **13** | 12 |
| Total interest expenses | **163** | 162 |
| Less: Amounts capitalised *(Note)* | **(12)** | (1) |
| | **151** | 161 |
| Net interest receipts on interest rate swaps and cross currency swaps | **(69)** | (57) |
| Reclassification of losses from hedging reserve on financial instruments designated as cash flow hedges | **18** | 17 |
| Premium on redemption of fixed rate notes | **6** | – |
| Medium Term Note Programme expenses | **1** | 1 |
| Other finance costs | **10** | 9 |
| | **117** | 131 |

Note:

Interest expenses have been capitalised to investment properties under redevelopment at an average annual rate of 1.60% (2009: 0.55%) during the year.

## 9. Taxation

| | 2010 HK$ million | As restated 2009 HK$ million |
|---|---|---|
| Current tax | | |
| Hong Kong profits tax | | |
| – current year | **172** | 161 |
| – (overprovision) underprovision in prior years | **(6)** | 2 |
| | **166** | 163 |
| Deferred tax *(note 31)* | **35** | 26 |
| | **201** | 189 |

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

## 9. Taxation continued

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

| | 2010 HK$ million | As restated 2009 HK$ million |
|---|---|---|
| Profit before taxation | **4,252** | 3,233 |
| Tax at Hong Kong profits tax rate of 16.5% | **701** | 533 |
| Tax effect of share of results of associates | **(65)** | (127) |
| Tax effect of expenses not deductible for tax purposes | **18** | 6 |
| Tax effect of income not taxable for tax purposes | **(447)** | (217) |
| Tax effect of estimated tax losses not recognised | **1** | 2 |
| Reversal of previously recognised taxable temporary differences | **–** | (9) |
| Utilisation of estimated tax losses previously not recognised | **(1)** | (1) |
| (Overprovision) underprovision in prior years | **(6)** | 2 |
| Taxation for the year | **201** | 189 |

In addition to the amount charged to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties held for own use has been charged directly to equity (see note 31).

In 2009, the Group entered into a settlement with the Hong Kong Inland Revenue Department (the "IRD") to settle a prior-year tax dispute with the IRD on interest deductions made in years of assessment dating back to 1995/1996. Total claim amount of HK$450 million, which was fully provided at year end 2008, was settled in 2009 by cash payment of HK$268 million and tax reserve certificates of HK$182 million already purchased in prior years.

## 10. Profit for the Year

| | 2010 HK$ million | As restated 2009 HK$ million |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **2** | 2 |
| Depreciation of property, plant and equipment | **8** | 7 |
| Gross rental income from investment properties | **(1,554)** | (1,476) |
| Less: | | |
| – Direct operating expenses arising from properties that generated rental income | **247** | 231 |
| – Direct operating expenses arising from properties that did not generate rental income | **3** | 4 |
| | **(1,304)** | (1,241) |
| Staff costs, comprising: | | |
| – Directors' emoluments *(note 12)* | **14** | 17 |
| – Share-based payments | **4** | 2 |
| – Other staff costs | **147** | 135 |
| | **165** | 154 |
| Share of income tax of an associate (included in share of results of associates) | **153** | 286 |

## 11. Other Comprehensive Income

| | 2010 HK$ million | As restated 2009 HK$ million |
|---|---|---|
| Other comprehensive income comprises: | | |
| Available-for-sale investments: | | |
| – Gains arising during the year | 150 | 40 |
| – Reclassification adjustments for the cumulative gain included in profit or loss upon disposal | – | (3) |
| | 150 | 37 |
| Cash flow hedges: | | |
| – Losses arising during the year | (40) | (12) |
| – Reclassification adjustments for losses included in profit or loss | 18 | 17 |
| | (22) | 5 |
| Gain on revaluation of properties held for own use | 34 | 11 |
| Share of translation reserve of an associate | 103 | (1) |
| Other comprehensive income | 265 | 52 |
| Income tax relating to components of other comprehensive income (see below) | (5) | (2) |
| Other comprehensive income for the year (net of tax) | 260 | 50 |

Tax effect relating to other comprehensive income:

| | 2010 | | | As restated 2009 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount HK$ million | Tax expense HK$ million | Net-of-tax amount HK$ million | Before-tax amount HK$ million | Tax expense HK$ million | Net-of-tax amount HK$ million |
| Fair value gains on available-for-sale investments | 150 | – | 150 | 37 | – | 37 |
| Net (losses) gains on cash flow hedges | (22) | – | (22) | 5 | – | 5 |
| Gain on revaluation of properties held for own use | 34 | (5) | 29 | 11 | (2) | 9 |
| Share of translation reserve of an associate | 103 | – | 103 | (1) | – | (1) |
| | 265 | (5) | 260 | 52 | (2) | 50 |

## 12. Directors' Emoluments

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Directors' fees | 2 | 1 |
| Other emoluments | | |
| Basic salaries, housing and other allowances | 8 | 9 |
| Bonus | 2 | 3 |
| Share-based payments *(note 39)* | 2 | 4 |
| Retirement benefits scheme contributions | – | – |
| | 14 | 17 |

## 12. Directors' Emoluments continued

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2010, calculated with reference to their employment as Directors of the Company, are set out below:

| | Directors' fees HK$'000 *(Note a)* | Basic salaries, housing and other allowances HK$'000 *(Note b)* | Bonus HK$'000 *(Note b)* | Share-based payments HK$'000 *(Note c)* | Retirement benefits scheme contributions HK$'000 | **Total HK$'000** |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2010** | | | | | | |
| **Executive Directors** | | | | | | |
| Gerry Lui Fai YIM *(Note d)* | 108 | 4,854 | – | 1,089 | 13 | **6,064** |
| Wendy Wen Yee YUNG | 100 | 2,805 | 1,476 | 1,293 | 259 | **5,933** |
| **Non-executive Directors** | | | | | | |
| Hans Michael JEBSEN | 107 | – | – | – | – | **107** |
| Anthony Hsien Pin LEE *(Note e)* | 130 | – | – | – | – | **130** |
| Chien LEE *(Note f)* | 119 | – | – | – | – | **119** |
| Michael Tze Hau LEE *(Note g)* | 105 | – | – | – | – | **105** |
| Dr. Deanna Ruth Tak Yung RUDGARD | 100 | – | – | – | – | **100** |
| **Independent non-executive Directors** | | | | | | |
| Sir David AKERS-JONES *(Note h)* | 652 | – | – | – | – | **652** |
| Fa-kuang HU *(Note i)* | 43 | – | – | – | – | **43** |
| Dr. Geoffrey Meou-tsen YEH *(Note j)* | 61 | – | – | – | – | **61** |
| Nicholas Charles ALLEN | 160 | – | – | – | – | **160** |
| Philip Yan Hok FAN *(Note k)* | 132 | – | – | – | – | **132** |
| Joseph Chung Yin POON *(Note l)* | 97 | – | – | – | – | **97** |
| | 1,914 | 7,659 | 1,476 | 2,382 | 272 | **13,703** |
| **For the year ended 31 December 2009** | | | | | | |
| **Executive Directors** | | | | | | |
| Peter Ting Chang LEE *(Note m)* | 151 | 3,583 | 1,467 | 1,825 | 242 | 7,268 |
| Gerry Lui Fai YIM *(Note d)* | 8 | 322 | – | 95 | – | 425 |
| Wendy Wen Yee YUNG | 100 | 2,711 | 742 | 984 | 131 | 4,668 |
| Ricky Tin For TSANG *(Note n)* | 74 | 2,167 | 318 | 657 | 9 | 3,225 |
| **Non-executive Directors** | | | | | | |
| Hans Michael JEBSEN | 120 | – | – | – | – | 120 |
| Anthony Hsien Pin LEE | 130 | – | – | – | – | 130 |
| Chien LEE | 130 | – | – | – | – | 130 |
| Dr. Deanna Ruth Tak Yung RUDGARD | 100 | – | – | – | – | 100 |
| **Independent non-executive Directors** | | | | | | |
| Sir David AKERS-JONES *(Note o)* | 229 | – | – | – | – | 229 |
| Fa-kuang HU | 120 | – | – | – | – | 120 |
| Dr. Geoffrey Meou-tsen YEH *(Note p)* | 156 | – | – | – | – | 156 |
| Nicholas Charles ALLEN *(Note q)* | 20 | – | – | – | – | 20 |
| Tom BEHRENS-SORENSEN *(Note p)* | 49 | – | – | – | – | 49 |
| | 1,387 | 8,783 | 2,527 | 3,561 | 382 | 16,640 |

## 12. Directors' Emoluments continued

Notes:

(a) The fee structure of Director's fees was approved by shareholders at annual general meeting in 2005. At the annual general meeting held on 11 May 2010, shareholders approved a new fee scale for Independent non-executive Chairman at HK$400,000 per annum effective 1 June 2010.

Director's fees are paid on annual basis. For Directors not having served the full year on a position, the fees will be paid on pro rata basis.

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2010 is set out below:

| | Board HK$'000 | Audit Committee HK$'000 | Emoluments Review Committee HK$'000 | Investment Committee HK$'000 | Nomination Committee HK$'000 | **2010 Total HK$'000** | 2009 Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Peter Ting Chang LEE *(Note m)* | – | – | – | – | – | **–** | 151 |
| Gerry Lui Fai YIM *(Note d)* | 100 | – | – | – | 8 | **108** | 8 |
| Wendy Wen Yee YUNG | 100 | – | – | – | – | **100** | 100 |
| Ricky Tin For TSANG *(Note n)* | – | – | – | – | – | **–** | 74 |
| **Non-executive Directors** | | | | | | | |
| Hans Michael JEBSEN *(Note e)* | 100 | – | – | 7 | – | **107** | 120 |
| Anthony Hsien Pin LEE *(Note e)* | 100 | 19 | – | 11 | – | **130** | 130 |
| Chien LEE *(Note f)* | 100 | 11 | – | – | 8 | **119** | 130 |
| Michael Tze Hau LEE *(Note g)* | 97 | – | 8 | – | – | **105** | – |
| Dr. Deanna Ruth Tak Yung RUDGARD | 100 | – | – | – | – | **100** | 100 |
| **Independent non-executive Directors** | | | | | | | |
| Sir David AKERS-JONES *(Note h)* | 592 | – | 30 | – | 30 | **652** | 229 |
| Fa-kuang HU *(Note i)* | 36 | – | 7 | – | – | **43** | 120 |
| Dr. Geoffrey Meou-tsen YEH *(Note j)* | 36 | 11 | 7 | – | 7 | **61** | 156 |
| Nicholas Charles ALLEN | 100 | 60 | – | – | – | **160** | 20 |
| Tom BEHRENS-SORENSEN *(Note p)* | – | – | – | – | – | **–** | 49 |
| Philip Yan Hok FAN *(Note k)* | 97 | 19 | 8 | – | 8 | **132** | – |
| Joseph Chung Yin POON *(Note l)* | 97 | – | – | – | – | **97** | – |
| | 1,655 | 120 | 60 | 18 | 61 | **1,914** | 1,387 |

(b) Year 2010:
The Emoluments Review Committee reviewed the 2010 fixed base salary of the Company's executive Directors and determined their 2009 performance-based bonus in March 2010. In reviewing their 2010 compensation structure, changes in their roles and responsibilities were also taken into consideration. Their base salary was raised as from April 2010. The stated bonus figure shows the 2009 performance-based bonus approved by the Committee and paid to Executive Director, namely HK$1,475,512 for Wendy Wen Yee YUNG, with reference to her employment as Director of the Company.

Year 2009:
The Emoluments Review Committee reviewed the 2009 fixed base salary of the Company's executive Directors and determined their 2008 performance-based bonus in March 2009. It approved their proposal to freeze their fixed base salary for 2009. The stated bonus figures show the 2008 performance-based bonus approved by the Committee and paid to Executive Directors, namely HK$1,466,750 for Peter Ting Chang LEE, HK$742,256 for Wendy Wen Yee YUNG and HK$318,110 for Ricky Tin For TSANG respectively, with reference to their employment as Directors of the Company.

(c) Share-based payments are the fair values of share options granted to Directors, which are determined at the date of grant and expensed over the vesting period, regardless of whether the Directors exercise the share options or not during the year.

(d) Gerry Lui Fai YIM was appointed as Executive Director on 1 December 2009. He was appointed Chief Executive Officer on 10 March 2010 and a member of the Nomination Committee on 10 August 2010.

(e) The Investment Committee was disbanded on 11 May 2010, Hans Michael JEBSEN and Anthonoy Hsien Pin LEE ceased as members accordingly. Anthony Hsien Pin LEE was appointed a member of the Audit Committee as from the conclusion of 2010 Annual General Meeting held on 11 May 2010.

(f) Chien LEE was appointed a member of the Nomination Committee on 10 August 2010.

(g) Michael Tze Hau LEE was appointed as Non-executive Director and a member of the Emoluments Review Committee on 11 January 2010 and 10 August 2010 respectively.

## 12. Directors' Emoluments continued

(h) Sir David AKERS-JONES was appointed as Independent non-executive Chairman on 11 January 2010. A special fee of HK$300,000 was granted to Sir David AKERS-JONES in recognition of his special roles during the period from 18 October 2009 to the appointment of the Chief Executive Officer on 10 March 2010. The annual fee for the Independent non-executive Chairman was revised from HK$140,000 to HK$400,000 effective from 1 June 2010.

(i) Fa-kuang HU stepped down as Independent non-executive Director and a member of the Emoluments Review Committee as from the conclusion of 2010 Annual General Meeting held on 11 May 2010.

(j) Dr. Geoffrey Meou-tsen YEH stepped down as Independent non-executive Director and member of the Audit Committee, Emoluments Review Committee and Nomination Committee as from the conclusion of 2010 Annual General Meeting held on 11 May 2010.

(k) Philip Yan Hok FAN was appointed as Independent non-executive Director on 11 January 2010 and a member of the Audit Committee as from 11 May 2010. He was also appointed member of the Emoluments Review Committee and the Nomination Committee on 10 August 2010.

(l) Joseph Chung Yin POON was appointed as Independent non-executive Director on 11 January 2010.

(m) Peter Ting Chang LEE passed away on 17 October 2009. The figures stated refer to his emoluments up to his passing.

(n) Ricky Tin For TSANG resigned as Executive Director, Finance on 29 September 2009. The figures stated refer to his emoluments received as Executive Director.

(o) Sir David AKERS-JONES was appointed Acting Chairman and Chairman of the Nomination Committee on 18 October 2009. He stepped down from the Audit Committee on 17 November 2009 upon the appointment of Mr. Nicholas Charles ALLEN.

(p) Tom BEHRENS-SORENSEN resigned as Independent non-executive Director and a member of the Audit Committee on 18 May 2009, and Dr. Geoffrey Meou-tsen YEH was appointed as member of the Audit Committee in his stead on 18 June 2009.

(q) Nicholas Charles ALLEN was appointed as Independent non-executive Director and Chairman of the Audit Committee on 17 November 2009.

## 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2009: three) were Directors of the Company, details of whose emoluments are included in note 12 above. The emoluments of all of the five individuals with the highest emoluments for the year ended 31 December 2010 and 2009 were as follows:

| | 2010<br>HK$ million | 2009<br>HK$ million |
|---|---|---|
| Basic salaries, housing and other allowances | 14 | 14 |
| Bonus | 4 | 4 |
| Share-based payments *(Note)* | 4 | 4 |
| | 22 | 22 |

Note:

Share-based payments are the fair values of share options granted to Directors and eligible employees, which are determined at the date of grant and expensed over the vesting period, regardless of whether the Directors or eligible employees exercise the share options or not during the year.

Their emoluments are within the following bands:

| | Number of individuals<br>2010 | 2009 |
|---|---|---|
| HK$2,500,001 to HK$3,000,000 | 1 | 1 |
| HK$3,000,001 to HK$3,500,000 | 1 | 2 |
| HK$4,000,001 to HK$4,500,000 | 1 | – |
| HK$4,500,001 to HK$5,000,000 | – | 1 |
| HK$5,500,001 to HK$6,000,000 | 1 | – |
| HK$6,000,001 to HK$6,500,000 | 1 | – |
| HK$7,000,001 to HK$7,500,000 | – | 1 |
| | 5 | 5 |

## 14. Dividends

**(a) Dividends recognised as distribution during the year:**

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| 2010 interim dividend paid – HK14 cents per share | **147** | – |
| 2009 interim dividend paid – HK14 cents per share | **–** | 147 |
| 2009 final dividend paid – HK54 cents per share | **567** | – |
| 2008 final dividend paid – HK54 cents per share | **–** | 562 |
| | **714** | 709 |

Scrip dividend alternatives were offered to the shareholders in respect of the above dividends. These alternatives were accepted by the shareholders as follows:

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| 2010 interim dividend (2009 interim dividend): | | |
| – Cash payment | **112** | 132 |
| – Share alternative | **35** | 15 |
| 2009 final dividend (2008 final dividend): | | |
| – Cash payment | **538** | 434 |
| – Share alternative | **29** | 128 |
| | **714** | 709 |

**(b) Dividends proposed after the end of the reporting period:**

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Final dividend proposed – HK60 cents per share (2009: HK54 cents per share) | **632** | 567 |

The 2010 final dividend of HK60 cents per share (2009: HK54 cents per share) has been proposed by the Directors on 9 March 2011 and is subject to approval by the shareholders at the forthcoming annual general meeting. Such dividend is not recognised as a liability as at 31 December 2010.

The proposed 2010 final dividend will be payable in cash with a scrip dividend alternative.

## 15. Earnings Per Share

### (a) Basic and diluted earnings per share

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

| | Earnings 2010 HK$ million | Earnings As restated 2009 HK$ million |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share: | | |
| Profit for the year attributable to owners of the Company | **3,844** | 2,914 |

| | Number of shares 2010 | Number of shares 2009 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,051,785,240** | 1,046,243,250 |
| Effect of dilutive potential ordinary shares: Share options issued by the Company | **900,002** | 384,981 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,052,685,242** | 1,046,628,231 |

For 2009, the computation of diluted earnings per share did not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares.

### (b) Adjusted basic earnings per share

For the purpose of assessing the performance of the Group's principal activities (i.e. leasing of investment properties), the management is of the view that the profit for the year attributable to the owners of the Company should be adjusted in the calculation of basic earnings per share as follows:

| | 2010 Profit HK$ million | 2010 Basic earnings per share HK cents | As restated 2009 Profit HK$ million | As restated 2009 Basic earnings per share HK cents |
|---|---|---|---|---|
| Profit for the year attributable to owners of the Company | **3,844** | **365.47** | 2,914 | 278.52 |
| Change in fair value of investment properties | **(2,594)** | **(246.63)** | (1,249) | (119.38) |
| Effect of non-controlling interests' shares | **125** | **11.89** | 54 | 5.16 |
| Share of change in fair value of investment properties (net of deferred taxation) of an associate | **(227)** | **(21.58)** | (606) | (57.92) |
| Underlying profit attributable to owners of the Company | **1,148** | **109.15** | 1,113 | 106.38 |
| Net realised gain on disposal of available-for-sale investments | **–** | **–** | (3) | (0.29) |
| Recurring underlying profit | **1,148** | **109.15** | 1,110 | 106.09 |

The denominators used are the same as those detailed above for basic earnings per share.

## 16. Investment Properties

| | The Group | | |
|---|---|---|---|
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| **Fair value** | | | |
| At 1 January | **37,363** | 35,850 | 35,711 |
| Additions | **926** | 261 | 355 |
| Disposals | **(50)** | – | – |
| Transfer from property, plant and equipment | **–** | 3 | – |
| Transfer to property, plant and equipment | **–** | – | (4) |
| Net change in fair value recognised in profit or loss | **2,594** | 1,249 | (212) |
| **At 31 December** | **40,833** | 37,363 | 35,850 |

The carrying amount of investment properties shown above comprises:

| | The Group | |
|---|---|---|
| | **2010 HK$ million** | 2009 HK$ million |
| Land in Hong Kong: | | |
| – Medium-term lease | **7,130** | 6,400 |
| – Long lease | **33,703** | 30,963 |
| | **40,833** | 37,363 |

The fair value of the Group's investment properties at 31 December 2010 and 2009 have been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's investment properties have been valued individually, on market value basis, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties. The valuation was mainly arrived at by reference to comparable market transactions for similar properties and on the basis of capitalisation of net income with due allowance for the reversionary income and redevelopment potential.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

## 17. Property, Plant and Equipment

| | Leasehold land and buildings in Hong Kong HK$ million | Furniture, fixtures and equipment HK$ million | Computers HK$ million | Motor vehicles HK$ million | Total HK$ million |
|---|---|---|---|---|---|
| **The Group** | | | | | |
| **Cost or valuation** | | | | | |
| At 1 January 2009, as originally stated | 68 | 56 | 22 | 1 | 147 |
| Effect of changes in accounting policies *(note 2)* | 307 | – | – | – | 307 |
| At 1 January 2009, as restated | 375 | 56 | 22 | 1 | 454 |
| Additions | – | 3 | 5 | – | 8 |
| Transfer to investment properties | (3) | – | – | – | (3) |
| Surplus on revaluation | 9 | – | – | – | 9 |
| At 31 December 2009, as restated | 381 | 59 | 27 | 1 | 468 |
| Additions | – | 3 | 4 | – | 7 |
| Surplus on revaluation | 32 | – | – | – | 32 |
| **At 31 December 2010** | **413** | **62** | **31** | **1** | **507** |
| Comprising: | | | | | |
| At cost | – | 62 | 31 | 1 | 94 |
| At valuation 2010 | 413 | – | – | – | 413 |
| | 413 | 62 | 31 | 1 | 507 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2009 | – | 48 | 19 | – | 67 |
| Provided for the year | 2 | 3 | 2 | – | 7 |
| Eliminated on revaluation | (2) | – | – | – | (2) |
| At 31 December 2009 | – | 51 | 21 | – | 72 |
| Provided for the year | 2 | 3 | 2 | 1 | 8 |
| Eliminated on revaluation | (2) | – | – | – | (2) |
| **At 31 December 2010** | **–** | **54** | **23** | **1** | **78** |
| **Carrying amounts** | | | | | |
| **At 31 December 2010** | **413** | **8** | **8** | **–** | **429** |
| At 31 December 2009 | 381 | 8 | 6 | 1 | 396 |
| At 1 January 2009 | 375 | 8 | 3 | 1 | 387 |

## 17. Property, Plant and Equipment continued

| | Furniture, fixtures and equipment HK$ million | Computers HK$ million | Motor vehicles HK$ million | Total HK$ million |
|---|---|---|---|---|
| **The Company** | | | | |
| **Cost** | | | | |
| At 1 January 2009 | 22 | 21 | 1 | 44 |
| Additions | 1 | 4 | – | 5 |
| At 31 December 2009 | 23 | 25 | 1 | 49 |
| Additions | 1 | 3 | – | 4 |
| **At 31 December 2010** | **24** | **28** | **1** | **53** |
| **Accumulated depreciation** | | | | |
| At 1 January 2009 | 21 | 18 | – | 39 |
| Provided for the year | – | 2 | – | 2 |
| At 31 December 2009 | 21 | 20 | – | 41 |
| Provided for the year | 1 | 1 | 1 | 3 |
| **At 31 December 2010** | **22** | **21** | **1** | **44** |
| **Carrying amounts** | | | | |
| **At 31 December 2010** | **2** | **7** | **–** | **9** |
| At 31 December 2009 | 2 | 5 | 1 | 8 |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of the term of the lease or 40 years |
| Furniture, fixtures and equipment | 20% |
| Computers | 20% |
| Motor vehicles | 25% |

The Group's leasehold land and buildings were revalued at 31 December 2010 and 2009 by Knight Frank Petty Limited, an independent qualified professional valuer, on market value basis, by reference to comparable market transactions for similar properties and on the basis of capitalisation of net income with due allowance for the reversionary income. The gain of HK$34 million (2009: HK$11 million, as restated) arising on revaluation have been recognised in other comprehensive income and accumulated in equity.

Had the Group's land and buildings been measured on a historical cost basis, their carrying amounts would have been HK$168 million (2009: HK$171 million, as restated) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK$24 million (2009: HK$22 million) and accumulated depreciation of HK$20 million (2009: HK$19 million) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK$1 million (2009: HK$1 million).

There is no property, plant and equipment of the Company held for renting out under operating leases for the year or at the end of the reporting period.

## 18. Investments in Subsidiaries

The Company's investments in subsidiaries represent unlisted shares stated at cost.

The table below lists the principal subsidiaries of the Group at 31 December 2010 and 2009:

| Name of subsidiary | Place of incorporation/ operation | Issued share capital | Proportion of nominal value of issued share capital held by the Company directly | indirectly | Principal activities |
|---|---|---|---|---|---|
| Admore Investments Limited | Hong Kong | HK$2 | 100% | – | Investment holding |
| Golden Capital Investment Limited | Hong Kong | HK$2 | 100% | – | Investment holding |
| HD Treasury Limited | Hong Kong | HK$2 | 100% | – | Treasury operation |
| Hysan (MTN) Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | – | Treasury operation |
| Hysan China Holdings Limited | British Virgin Islands | HK$1 | 100% | – | Investment holding |
| Hysan Leasing Company Limited | Hong Kong | HK$2 | 100% | – | Leasing administration |
| Hysan Property Management Limited | Hong Kong | HK$2 | 100% | – | Property management |
| Hysan Treasury Limited | Hong Kong | HK$2 | 100% | – | Treasury operation |
| Kwong Hup Holding Limited | British Virgin Islands | HK$1 | 100% | – | Investment holding |
| Kwong Wan Realty Limited | Hong Kong | HK$1,000 | 100% | – | Property investment |
| Minsal Limited | Hong Kong | HK$2 | 100% | – | Property investment |
| Mondsee Limited | Hong Kong | HK$2 | 100% | – | Property investment |
| Stangard Limited | Hong Kong | HK$300,000 | 100% | – | Provision of security services |
| Teamfine Enterprises Limited | Hong Kong | HK$2 | 100% | – | Investment holding |
| Bamboo Grove Recreational Services Limited | Hong Kong | HK$2 | – | 100% | Resident club management |
| Earn Extra Investments Limited | Hong Kong | HK$1 | – | 100% | Property investment |
| Gearup Investments Limited | Hong Kong | HK$1 | – | 100% | Property development |
| HD Investment Limited | British Virgin Islands | HK$1 | – | 100% | Investment holding |
| Kochi Investments Limited | British Virgin Islands | HK$1 | – | 100% | Capital market investment |
| Lee Theatre Realty Limited | Hong Kong | HK$10 | – | 100% | Property investment |
| Leighton Property Company Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| Main Rise Development Limited | Hong Kong | HK$2 | – | 100% | Investment holding |
| OHA Property Company Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| Perfect Win Properties Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| Silver Nicety Company Limited | Hong Kong | HK$20 | – | 100% | Property investment |
| Barrowgate Limited | Hong Kong | HK$10,000 | – | 65.36% | Property investment |

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially contribute to the net income of the Group or hold a material portion of the assets or liabilities or otherwise are operating subsidiaries of the Group. Other than floating rate notes, fixed rate notes and zero coupon notes issued by Hysan (MTN) Limited as disclosed in note 30, none of the subsidiaries had issued any debt securities at the end of the reporting period.

## 19. Investments in Associates

| | The Group | | |
|---|---|---|---|
| | At 31 Dec 2010 HK$ million | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Cost of unlisted investments | **3** | 3 | 3 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **3,008** | 2,511 | 1,744 |
| | **3,011** | 2,514 | 1,747 |
| Loan to an associate | **119** | 109 | 106 |
| Less: Loss allocated in excess of cost of investments | **(116)** | (106) | (103) |
| | **3** | 3 | 3 |
| | **3,014** | 2,517 | 1,750 |

Loan to an associate of HK$119 million (2009: HK$109 million) is unsecured and interest-free. In the opinion of the Directors, the loan is considered as part of the Group's net investment in the associate and, accordingly, the loan is included in the amount of investments in associates.

Details of the Group's associates at 31 December 2010 and 2009 are as follows:

| Name of associate | Form of business structure | Place of registration and operation | Class of share held/ registered capital | Effective interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| Country Link Enterprises Limited | Private limited company | Hong Kong | Ordinary share | 26.3%* | Investment holding |
| Shanghai Kong Hui Property Development Co., Ltd | Sino-Foreign equity joint venture | The PRC | US$165,000,000# | 24.7%* | Property development and leasing |
| Shanghai Grand Gateway Plaza Property Management Co., Ltd | Sino-Foreign equity joint venture | The PRC | US$140,000# | 23.7%* | Property management |
| Wingrove Investment Pte Ltd | Private company limited by shares | Singapore | Ordinary share | 25.0%* | Property development and investment (inactive in both 2010 and 2009) |

* Indirectly held
\# Registered capital

## 19. Investments in Associates continued

The summarised financial information in respect of the Group's associates based on the unaudited management accounts for the year ended 31 December 2010 and 2009 is as follows:

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Total assets | 16,690 | 14,973 |
| Total liabilities | (4,920) | (5,122) |
| Net assets | 11,770 | 9,851 |
| Group's share of net assets of associates | 2,895 | 2,408 |
| Turnover | 1,184 | 1,085 |
| Profit for the year | 1,498 | 2,939 |
| Group's share of results of associates for the year | 394 | 768 |

## 20. Principal-Protected Investments

The carrying amounts of principal-protected investments based on the maturity dates of respective contracts are analysed as follows:

| | The Group | | |
|---|---|---|---|
| | At 31 Dec 2010 HK$ million | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Within 1 year | 84 | 118 | 40 |
| More than 1 year but not exceeding 5 years | 378 | 82 | 85 |
| | 462 | 200 | 125 |

The Group entered into certain contracts of structured investments with certain financial institutions. The structured investments are principal-protected at the maturity dates and contain embedded derivatives which are not closely related to the host contracts. The interest rates of such investments vary in relation to the relative movements of the underlying variables, such as foreign exchange rates and HKD swap rates. The entire combined contracts have been designated as financial assets at FVTPL on initial recognition.

The notional amount and the maturity period of the principal-protected investments are as follows:

| | The Group | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Notional amount HK$ million | Fair value HK$ million | Notional amount HK$ million | Fair value HK$ million |
| Within 1 year | 81 | 84 | 111 | 118 |
| More than 1 year but not exceeding 5 years | 382 | 378 | 81 | 82 |
| | 463 | 462 | 192 | 200 |

## 21. Term Notes

| | The Group | | |
|---|---|---|---|
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Term notes, at amortised cost, comprise: | | | |
| Held-to-maturity investments: | | | |
| – Debt securities listed in Hong Kong | **–** | – | 491 |
| – Debt securities listed in overseas | **216** | – | 209 |
| | **216** | – | 700 |
| Loans and receivables: | | | |
| – Unlisted debt securities | **47** | – | – |
| Total | **263** | – | 700 |
| Analysed for reporting purposes as: | | | |
| Current assets | **95** | – | 700 |
| Non-current assets | **168** | – | – |
| | **263** | – | 700 |

As at 31 December 2010, the effective yield of the debt securities ranged from 1.73% to 3% (2009: nil) per annum, payable quarterly or semi-annually, and the securities will mature from November 2011 to July 2013 (2009: nil). None of these assets are past due or impaired at the end of the reporting period.

## 22. Available-For-Sale Investments

| | The Group | | | The Company | |
|---|---|---|---|---|---|
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million |
| Available-for-sales investments comprise: | | | | | |
| Listed investments: | | | | | |
| – Equity securities listed in Hong Kong, at fair value | **1,147** | 997 | 982 | **–** | – |
| Unlisted investments: | | | | | |
| – Overseas equity securities, at cost | **58** | 58 | 93 | **–** | – |
| Less: Impairment loss recognised | **(55)** | (55) | (55) | **–** | – |
| | **3** | 3 | 38 | **–** | – |
| – Club debentures, at fair value | **2** | 2 | 2 | **2** | 2 |
| | **1,152** | 1,002 | 1,022 | **2** | 2 |

The overseas equity securities represent the Group's investments in unlisted equity securities issued by private entities incorporated in Singapore. These private entities are engaged in property investment and development activities in Singapore. They are measured at cost less any identified impairment loss at the end of the reporting period because the range of reasonable fair value estimates is so significant that the management is of the opinion that their fair values cannot be measured reliably.

During the year ended 31 December 2009, one of the private entities incorporated in Singapore was dissolved. The carrying amount of the unlisted equity security issued by the entity was HK$35 million before dissolution, which approximated the Group's share of the net assets of the investee upon its dissolution. The Group received an advance of HK$35 million from this investee in prior years which was included in other payables. The payable owed to the investee by the Group was settled by the distribution to which the Group was entitled at the time of dissolution of the investee, which constituted a non-cash transaction. No gain or loss resulted from the dissolution of the unlisted equity investment.

## 23. Other Financial Assets/Liabilities

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Current | | | Non-current | | |
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| **Other financial assets** | | | | | | |
| Derivatives under hedge accounting: | | | | | | |
| Cash flow hedges | | | | | | |
| – Forward foreign exchange contracts | **1** | – | 1 | **–** | 1 | 1 |
| – Cross currency swaps | **–** | – | – | **2** | 2 | 2 |
| – Interest rate swaps | **–** | – | – | **–** | 1 | – |
| – Basis swaps | **1** | 1 | – | **–** | – | – |
| Fair value hedges | | | | | | |
| – Interest rate swaps | **–** | 1 | – | **50** | 29 | 71 |
| – Cross currency swaps | **–** | – | – | **–** | – | 83 |
| | **2** | 2 | 1 | **52** | 33 | 157 |
| Other derivatives classified as held for trading (not under hedge accounting): | | | | | | |
| – Cross currency swaps | **–** | – | – | **38** | 62 | – |
| Total | **2** | 2 | 1 | **90** | 95 | 157 |
| **Other financial liabilities** | | | | | | |
| Derivatives under hedge accounting: | | | | | | |
| Cash flow hedges | | | | | | |
| – Interest rate swaps | **–** | – | – | **48** | 27 | 31 |
| Other derivatives classified as held for trading (not under hedge accounting): | | | | | | |
| – Net basis swaps | **–** | – | – | **4** | 9 | 10 |
| Total | **–** | – | – | **52** | 36 | 41 |

**(a) Cash flow hedges**

**(i) Foreign currency risk**

During the year, the Group designated forward foreign exchange contracts and cross currency swaps as cash flow hedges to manage its foreign currency exposure. The principal terms of the forward foreign exchange contracts and cross currency swaps have been negotiated to match the major terms of the respective designated hedged items and the management considers that the hedges are highly effective.

## 23. Other Financial Assets/Liabilities continued

**(a) Cash flow hedges** continued

(i) **Foreign currency risk** continued

The table below is prepared based on the maturity dates of respective contracts. The major terms of these forward foreign exchange contracts and cross currency swaps are as follows:

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | 2009 | | | |
| | Average exchange rate* | Notional amount US$ million | Notional amount HK$ million | Fair value HK$ million | Average exchange rate* | Notional amount US$ million | Notional amount HK$ million | Fair value HK$ million |
| **Forward foreign exchange contracts** | | | | | | | | |
| ***Buy USD*** *(Note a)* | | | | | | | | |
| Within 1 year | 7.6169 | 4 | 30 | 1 | 7.6366 | 5 | 35 | – |
| More than 1 year but not exceeding 5 years | 7.6059 | 2 | 15 | – | 7.6137 | 6 | 49 | 1 |
| | 7.6134 | 6 | 45 | 1 | 7.6231 | 11 | 84 | 1 |
| ***Sell USD*** *(Note b)* | | | | | | | | |
| Within 1 year | 7.7373 | 16 | 125 | – | 7.7479 | 27 | 209 | – |
| More than 1 year but not exceeding 5 years | – | – | – | – | 7.7254 | 4 | 31 | – |
| | 7.7373 | 16 | 125 | – | 7.7450 | 31 | 240 | – |
| **Cross currency swaps** | | | | | | | | |
| ***Hedging interest and principal of USD bank loans*** *(Note c)* | | | | | | | | |
| More than 1 year but not exceeding 5 years | 7.7753 | 51 | 399 | 2 | 7.7753 | 51 | 399 | 2 |
| Total | | 73 | 569 | 3 | | 93 | 723 | 3 |

* Average exchange rate represented the average HKD:USD exchange rate weighted by the notional amounts of the contracts or the swaps.

Notes:

(a) The Group designated HK$45 million (2009: HK$84 million) forward foreign exchange contracts as cash flow hedges to hedge the foreign exchange rate risk in relation to the semi-annual coupon payment of US$57 million (2009: US$65 million) out of the US$174 million (2009: US$182 million) fixed rate notes.

(b) The Group designated HK$125 million (2009: HK$240 million) forward foreign exchange contracts as cash flow hedges to hedge the foreign exchange rate risk of part of the principal amount of term notes and principal-protected investments denominated in USD at their respective maturity dates.

(c) The Group used HK$399 million (2009: HK$399 million) cross currency swaps to convert USD interest and principal of US$51 million (2009: US$51 million) bank loans into HKD.

As at 31 December 2010, cumulative fair value gains of HK$3 million (2009: HK$4 million) from the forward foreign exchange contracts and cross currency swaps have been recognised in other comprehensive income and accumulated in equity, and are expected to be released to the consolidated income statement at various dates when the hedged items impact the profit or loss.

During the year, gains of HK$3 million (2009: HK$2 million) on forward foreign exchange contracts and cross currency swaps were reclassified from equity to profit or loss as finance costs.

The fair values of forward foreign exchange contracts and cross currency swaps are measured using quoted forward exchange rates and yield curves from quoted interest rates matching maturities of the contracts and swaps.

## 23. Other Financial Assets/Liabilities continued

**(a) Cash flow hedges** continued

(ii) Interest rate risk

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

The table below is prepared based on the maturity dates of respective contracts. The major terms of these interest rate swaps and basis swaps are as follows:

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | 2009 | | | |
| | Average interest rate* | Notional amount US$ million | Notional amount HK$ million | Fair value HK$ million | Average interest rate* | Notional amount US$ million | Notional amount HK$ million | Fair value HK$ million |
| **Interest rate swaps** | | | | | | | | |
| ***Hedging interest of HKD bank loans*** *(Note a)* | | | | | | | | |
| More than 1 year but not exceeding 5 years | 3.32% | n/a | 525 | (26) | 3.12% | n/a | 325 | (12) |
| More than 5 years | – | – | – | – | 3.65% | n/a | 200 | 1 |
| | 3.32% | n/a | 525 | (26) | 3.32% | n/a | 525 | (11) |
| ***Hedging floating-interest-rate payments of financial instruments*** *(Note b)* | | | | | | | | |
| Within 1 year | – | – | – | – | 2.96% | n/a | 200 | – |
| More than 1 year but not exceeding 5 years | 3.39% | n/a | 400 | (22) | 3.39% | n/a | 400 | (15) |
| | 3.39% | n/a | 400 | (22) | 3.25% | n/a | 600 | (15) |
| **Basis swaps** | | | | | | | | |
| ***Hedging interest of HKD bank loans*** *(Note c)* | | | | | | | | |
| Within 1 year | 0.11% | n/a | 325 | – | 0.48% | n/a | 325 | – |
| ***Hedging interest of USD bank loans*** *(Note d)* | | | | | | | | |
| Within 1 year | 0.14% | 51 | 399 | 1 | 0.29% | 51 | 399 | 1 |
| Total | | | 1,649 | (47) | | | 1,849 | (25) |

* For interest rate swaps, the average interest rate represented the average fixed interest rate paid by the Group against receipts of 3-month Hong Kong Interbank Offered Rate ("HIBOR") or 6-month HIBOR weighted by the notional amounts of the swaps. For basis swaps, the average interest rate represented the average spread (weighted by the notional amounts of the swaps) that was added to 1-month HIBOR or 1-month London-Interbank Offered Rate ("LIBOR") received by the Group against 3-month HIBOR or 3-month LIBOR paid by the Group.

*n/a – not applicable*

## 23. Other Financial Assets/Liabilities continued

**(a) Cash flow hedges** continued

**(ii) Interest rate risk** continued

Notes:

(a) The Group entered into HK$525 million (2009: HK$525 million) interest rate swaps to manage its exposure to interest rate changes of the monthly or quarterly interest payments of HKD bank loans. HK$200 million of the swaps will be effective in 2012 for hedging forecast transactions of borrowings at that time.

(b) The Group used HK$400 million (2009: HK$600 million) interest rate swaps to hedge the interest rate risk in relation to the quarterly floating-interest-rate payments of certain financial instruments.

(c) The Group used HK$325 million (2009: HK$325 million) basis swaps to combine with interest rate swaps referred to note (a) to hedge the interest rate changes of the monthly or quarterly interest payments of HK$325 million (2009: HK$325 million) bank loans.

(d) The Group used HK$399 million (2009: HK$399 million) basis swaps to combine with cross currency swaps referred to note (c) of "foreign currency risk" to hedge the interest rate changes of the monthly or quarterly interest payments of US$51 million (2009: US$51 million) bank loans.

As at 31 December 2010, net cumulative fair value losses of HK$47 million (2009: HK$26 million) from the interest rate swaps and basis swaps under cash flow hedges have been recognised in other comprehensive income and accumulated in equity, and are expected to be released to the consolidated income statement at various dates during the lives of the swaps when the hedged interest expenses are recognised and impact the profit or loss.

During the year, losses of HK$21 million (2009: HK$19 million) on interest rate swaps and basis swaps were reclassified from equity to profit or loss as finance costs.

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

**(b) Fair value hedges**

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

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

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | | | | 2009 | | | |
| | **Average interest rate*** | **Notional amount US$ million** | **Notional amount HK$ million** | **Fair value HK$ million** | Average interest rate* | Notional amount US$ million | Notional amount HK$ million | Fair value HK$ million |
| **Interest rate swaps** *(Note)* | | | | | | | | |
| Within 1 year | **1.42%** | **n/a** | **65** | **–** | 1.17% | n/a | 200 | 1 |
| More than 1 year but not exceeding 5 years | **4.18%** | **n/a** | **300** | **30** | 1.42% | n/a | 65 | – |
| More than 5 years | **4.50%** | **n/a** | **264** | **20** | 4.32% | n/a | 551 | 29 |
| | **4.03%** | **n/a** | **629** | **50** | 3.32% | n/a | 816 | 30 |

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

Note:

The Group designated HK$365 million (2009: HK$565 million) fixed-to-floating interest rate swaps to hedge interest rate risk related to part of the coupon payments of the HK$365 million (2009: HK$565 million) fixed rate notes. The Group also designated a fixed-to-floating interest rate swap with nominal amount of HK$264 million (2009: HK$251 million) as at 31 December 2010 to hedge the zero coupon notes with nominal amount of HK$430 million by converting a fixed rate of 5.19% per annum to HIBOR plus 0.69% per annum.

*n/a – not applicable*

## 23. Other Financial Assets/Liabilities continued

### (b) Fair value hedges continued

As a result of the hedge accounting, the carrying amount of the fixed rate notes as at 31 December 2010 was adjusted by a net loss of HK$30 million (2009: net gain of HK$1 million) while the carrying amount of the zero coupon notes as at 31 December 2010 was adjusted by losses of HK$20 million (2009: HK$7 million). The changes in fair values of the notes for the hedged risk were included in profit or loss at the same time that the changes in fair value of the swaps were included in profit or loss.

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

### (c) Other derivatives classified as held for trading (not under hedge accounting)

At the end of the reporting period, the Group had certain derivatives classified as held for trading and not under hedge accounting. The table below is prepared based on the maturity dates of respective contracts. The major terms of these derivatives are as follows:

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | 2009 | | | |
| | Average interest/ exchange rate* | Notional amount US$ million | Notional amount HK$ million | Fair value HK$ million | Average interest/ exchange rate* | Notional amount US$ million | Notional amount HK$ million | Fair value HK$ million |
| **Net basis swaps** *(Note a)* | | | | | | | | |
| More than 1 year but not exceeding 5 years | 7.8000 | 57 | 445 | (4) | 7.8000 | 65 | 507 | (9) |
| **Cross currency swaps** *(Note b)* | | | | | | | | |
| More than 1 year but not exceeding 5 years | 7.7998 | 117 | 913 | 38 | 7.7998 | 117 | 913 | 62 |
| **Interest rate swap** *(Note c)* | | | | | | | | |
| Within 1 year | 1.49% | n/a | 65 | – | – | – | – | – |
| More than 1 year but not exceeding 5 years | – | – | – | – | 1.49% | n/a | 65 | – |
| | 1.49% | n/a | 65 | – | 1.49% | n/a | 65 | – |

* For net basis swaps and cross currency swaps, the average exchange rate represented the average HKD:USD exchange rate weighted by their notional amounts. For interest rate swap, the average interest rate represented the fixed interest rate received by the Group against payment of 3-month HIBOR.

Notes:

(a) The Group entered into US$57 million (2009: US$65 million) net basis swaps to minimise the foreign currency exposure in relation to the principal payment and part of the coupon payment of the US$57 million (2009: US$65 million) of the US$174 million (2009: US$182 million) fixed rate notes at maturity.

(b) The Group entered into US$117 million (2009: US$117 million) cross currency swaps to manage the interest rate and foreign exchange risks of US$117 million (2009: US$117 million) of the US$174 million (2009: US$182 million) fixed rate notes.

(c) The Group used HK$65 million (2009: HK$65 million) fixed-to-floating interest rate swap to manage the interest rate risk in relation to the quarterly interest payment of part of the Group's borrowings.

*n/a – not applicable*

## 24. Accounts Receivable

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK$5 million (2009: HK$8 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

## 25. Amounts due from/to Subsidiaries

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

## 26. Amount due from an Associate

The amount due from an associate is unsecured, interest-free and repayable on demand.

## 27. Time Deposits/Cash and Bank Balances

| | The Group | | |
|---|---|---|---|
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Time deposits | **1,930** | 1,945 | 964 |
| Cash and bank balances | **63** | 39 | 51 |
| Cash and deposits with banks shown in the consolidated statement of financial position | **1,993** | 1,984 | 1,015 |
| Less: Time deposits with original maturity over three months | **(1,433)** | (1,551) | – |
| Add: Held-to-maturity debt securities maturing within three months | **–** | – | 700 |
| Cash and cash equivalents shown in the consolidated statement of cash flows | **560** | 433 | 1,715 |

Included in the Company's time deposits as at 31 December 2010, were HK$497 million (2009: HK$455 million) of time deposits with original maturity over three months. The bank balances and remaining time deposits of the Company were with original maturity of three months or less.

Time deposits, cash and bank balances comprise cash and bank deposits carrying effective interest rates ranging from 0.005% to 1.55% (2009: 0.0001% to 1.17%) per annum.

## 28. Accounts Payable

At the end of the reporting period, accounts payable of the Group with carrying amount of HK$229 million (2009: HK$139 million) were aged less than 90 days.

## 29. Amounts due to Non-controlling Interests

The amounts due to non-controlling interests are unsecured, interest-free and repayable on demand.

## 30. Borrowings

The analysis of the carrying amounts of borrowings is as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Current | | | Non-current | | |
| | At 31 Dec 2010 HK$ million | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million | At 31 Dec 2010 HK$ million | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Unsecured bank loans | **650** | 400 | – | **699** | 1,049 | 920 |
| Floating rate notes | **–** | – | 550 | **200** | 200 | – |
| Fixed rate notes | **–** | – | – | **2,750** | 1,980 | 2,003 |
| Zero coupon notes | **–** | – | – | **288** | 262 | 278 |
| | **650** | 400 | 550 | **3,937** | 3,491 | 3,201 |

In the current year, the average finance cost of the Group's total borrowings calculated based on their contracted interest rates was 3.9% (2009: 4.2%). To manage the interest rate and foreign exchange risks, the Group used certain derivatives to hedge part of the borrowings, which resulted in a reduction of the Group's average finance cost to 2.7% (2009: 3.1%). As at 31 December 2010, the floating rate debt ratio was 53.6% (2009: 64.9%).

### (a) Unsecured bank loans

The unsecured bank loans of HK$1,349 million (2009: HK$1,449 million) are guaranteed as to principal and interest by the Company and are repayable, based on the scheduled repayment dates set out in the respective loan agreements, as follows:

| | The Group | | |
|---|---|---|---|
| | At 31 Dec 2010 HK$ million | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Within 1 year | **650** | 400 | – |
| More than 1 year, but not exceeding 2 years | **–** | 650 | 70 |
| More than 2 years, but not exceeding 5 years | **699** | 399 | 850 |
| | **1,349** | 1,449 | 920 |

All the Group's unsecured bank loans are variable-rate borrowings with effective interest rates (which are also equal to contracted interest rates) ranging from 0.69% to 1.51% (2009: 0.35% to 1.48%) per annum at the end of the reporting period. Interest rates of the loans are normally re-fixed at every one to six months.

As disclosed in note 23(a), cross currency swaps and interest rate swaps were designated as cash flow hedges to hedge the foreign exchange and interest rate risks of part of the Group's unsecured bank loans at the end of the reporting period.

### (b) Floating rate notes

In October 2009, HK$200 million five-year floating rate notes were issued by Hysan (MTN) Limited, a wholly-owned subsidiary of the Company. The notes are guaranteed as to principal and interest by the Company, bear effective interest rates (which are equal to contracted interest rates) of 1.30% (2009: 1.19%) per annum at the end of reporting period and are repayable in full in 2014.

The HK$200 million five-year floating rate notes were not hedged by any derivative at the end of the reporting period.

## 30. Borrowings continued

### (c) Fixed rate notes

| | The Group | | |
|---|---|---|---|
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Fixed rate notes – principal amount | **2,720** | 1,981 | 1,981 |
| Add: Net loss (gain) attributable to hedged risks | **30** | (1) | 22 |
| | **2,750** | 1,980 | 2,003 |

Details of the Group's fixed rate notes at 31 December 2010 and 2009 are as follows:

| Principal amount | Contracted interest rate per annum | Coupon payment term | Issue date | Maturity date |
|---|---|---|---|---|
| US$174 million* | 7.00% | semi-annual basis | February 2002 | February 2012 |
| HK$300 million | 5.25% | quarterly basis | August 2008 | August 2015 |
| HK$100 million | 5.10% | annual basis | August 2008 | August 2015 |
| HK$165 million | 5.38% | annual basis | September 2008 | September 2020 |
| HK$400 million | 3.78% | quarterly basis | August 2010 | August 2020 |
| HK$200 million | 4.00% | annual basis | September 2010 | September 2025 |
| HK$200 million | 3.70% | quarterly basis | October 2010 | October 2022 |

* In February 2002, US$200 million 10-year fixed rate notes were issued by Hysan (MTN) Limited. In 2006 and 2010, US$18 million and US$8 million of the notes were repurchased and cancelled respectively. The outstanding amount of the notes at the end of the reporting period was US$174 million (2009: US$182 million).

All the fixed rate notes were issued by Hysan (MTN) Limited. The notes are guaranteed as to principal and interest by the Company and bear an effective interest rate equal to their respective contracted interest rate.

As detailed in note 23, forward foreign exchange contracts, interest rate swaps, cross currency swaps and net basis swaps were used to hedge or manage the foreign exchange and interest rate risks of the Group's fixed rate notes at the end of the reporting period.

As at 31 December 2010, the net loss of HK$30 million represented the change in fair value attributable to the hedged interest rate risk of the HK$365 million fixed rate notes under fair value hedge.

As at 31 December 2009, the net gain of HK$1 million represented (i) the change in fair value attributable to the hedged interest rate risk of the HK$565 million fixed rate notes under fair value hedge and (ii) the unamortised fair value gain adjusted to the US$117 million fixed rate notes upon the discontinuation of hedge accounting over the cross currency swaps.

## 30. Borrowings continued

### (d) Zero coupon notes

| | The Group | | |
|---|---|---|---|
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Zero coupon notes | **268** | 255 | 242 |
| Add: Net loss attributable to hedged risk | **20** | 7 | 36 |
| | **288** | 262 | 278 |

In February 2005, 15-year zero coupon notes of nominal amount of HK$430 million were issued at an issue price of around 46.37% of the nominal amount by Hysan (MTN) Limited. The notes are guaranteed as to nominal amount by the Company, bear an effective yield (which is equal to contracted yield) at the rate of 5.19% per annum and are repayable at par in February 2020.

Hysan (MTN) Limited has the option to redeem the notes on 7 February 2015 at a price of about 77.4% of the nominal amount.

The Group has entered into an interest rate swap to hedge against the interest rate risk of the zero coupon notes under fair value hedge (see note 23(b) for details).

The net loss of HK$20 million (2009: HK$7 million) represented changes in fair value attributable to the hedged interest rate risk of the zero coupon notes under fair value hedge.

## 31. Deferred Taxation

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

| | Accelerated tax depreciation HK$ million | Revaluation of properties HK$ million | Tax losses HK$ million | Total HK$ million |
|---|---|---|---|---|
| **The Group** | | | | |
| At 1 January 2009, as originally stated | 250 | 3,412 | (14) | 3,648 |
| Effect of changes in accounting policies *(note 2)* | – | (3,379) | – | (3,379) |
| At 1 January 2009, as restated | 250 | 33 | (14) | 269 |
| Charge to profit or loss *(note 9)* | 16 | – | 10 | 26 |
| Charge to other comprehensive income | – | 2 | – | 2 |
| At 31 December 2009, as restated | 266 | 35 | (4) | 297 |
| Charge to profit or loss *(note 9)* | 31 | – | 4 | 35 |
| Charge to other comprehensive income | – | 5 | – | 5 |
| **At 31 December 2010** | **297** | **40** | **–** | **337** |

At the end of the reporting period, the Group has unused estimated tax losses of HK$570 million (2009: HK$534 million), of which HK$253 million (2009: HK$252 million) has not been agreed by the IRD, available for offset against future profits. As at 31 December 2009, a deferred tax asset has been recognised in respect of HK$24 million of such losses. No deferred tax asset has been recognised in respect of the estimated tax losses of HK$570 million (2009: HK$510 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

The Company does not have any unused tax loss at the end of the reporting period.

## 32. Share Capital

| | Number of shares 2010 | 2009 | Share capital 2010 HK$ million | 2009 HK$ million |
|---|---|---|---|---|
| Ordinary shares of HK$5 each | | | | |
| Authorised: | | | | |
| At 1 January and 31 December | **1,450,000,000** | 1,450,000,000 | **7,250** | 7,250 |
| Issued and fully paid: | | | | |
| At 1 January | **1,050,608,090** | 1,041,114,578 | **5,253** | 5,206 |
| Issue of shares pursuant to scrip dividend schemes | **2,762,879** | 9,413,512 | **14** | 47 |
| Exercise of share options | **55,666** | 80,000 | **–** | – |
| At 31 December | **1,053,426,635** | 1,050,608,090 | **5,267** | 5,253 |

**(a) Issue of shares pursuant to scrip dividend schemes**

**For the year ended 31 December 2010**

On 3 June 2010 and 21 September 2010 respectively, the Company issued and allotted a total of 1,321,595 shares and 1,441,284 shares of HK$5 each in the Company at HK$21.68 and HK$24.19 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2009 final and 2010 interim dividends pursuant to the scrip dividend schemes announced by the Company on 11 May 2010 and 26 August 2010. These shares rank pari passu in all respects with other shares in issue.

**For the year ended 31 December 2009**

On 9 June 2009 and 22 September 2009 respectively, the Company issued and allotted a total of 8,672,003 shares and 741,509 shares of HK$5 each in the Company at HK$14.852 and HK$19.204 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2008 final and 2009 interim dividends pursuant to the scrip dividend schemes announced by the Company on 18 May 2009 and 27 August 2009. These shares rank pari passu in all respects with other shares in issue.

**(b) Issue of shares under share option schemes**

**For the year ended 31 December 2010**

During the year ended 31 December 2010, options to subscribe for a total of 21,666 shares, 10,000 shares, 16,000 shares and 8,000 shares were exercised at the exercise prices of HK$13.30, HK$21.96, HK$21.25 and HK$22.00 per share respectively. These shares rank pari passu in all respects with other shares in issue. Details of options outstanding and movements during the year are set out in note 39.

**For the year ended 31 December 2009**

During the year ended 31 December 2009, options to subscribe for a total of 80,000 shares were exercised at the exercise price of HK$15.85 per share. These shares rank pari passu in all respects with other shares in issue. Details of options outstanding and movements during the year are set out in note 39.

## 33. Reserves of the Company

The Company's reserves available for distribution to its owners as at 31 December 2010 amounted to HK$5,739 million (2009: HK$5,860 million), being its general reserve and retained profits at that date.

| | Share premium HK$ million | Share options reserve HK$ million | Capital redemption reserve HK$ million | General reserve HK$ million *(Note)* | Retained profits HK$ million | Total HK$ million |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 1,606 | 9 | 276 | 100 | 5,694 | 7,685 |
| Issue of shares pursuant to scrip dividend schemes | 96 | – | – | – | – | 96 |
| Issue of shares under share option schemes | 1 | – | – | – | – | 1 |
| Recognition of equity-settled share-based payments | – | 6 | – | – | – | 6 |
| Forfeiture of share options | – | (5) | – | – | 5 | – |
| Profit for the year | – | – | – | – | 770 | 770 |
| Dividends paid during the year *(note 14)* | – | – | – | – | (709) | (709) |
| At 31 December 2009 | 1,703 | 10 | 276 | 100 | 5,760 | 7,849 |
| Issue of shares pursuant to scrip dividend schemes | 50 | – | – | – | – | 50 |
| Issue of shares under share option schemes | 1 | – | – | – | – | 1 |
| Recognition of equity-settled share-based payments | – | 6 | – | – | – | 6 |
| Profit for the year | – | – | – | – | 593 | 593 |
| Dividends paid during the year *(note 14)* | – | – | – | – | (714) | (714) |
| **At 31 December 2010** | **1,754** | **16** | **276** | **100** | **5,639** | **7,785** |

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

## 34. Retirement Benefits Plans

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

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

Total contributions made by the Group during the year amounted to HK$6 million (2009: HK$6 million). Forfeited contributions for the year amounting to HK$1 million (2009: HK$1 million) were refunded to the Group.

## 35. Contingent Liabilities

At the end of the reporting period, there were contingent liabilities in respect of the following:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010 HK$ million** | 2009 HK$ million | **2010 HK$ million** | 2009 HK$ million |
| Corporate guarantee to note holders | | | | |
| – for issue of floating rate notes | **–** | – | **200** | 200 |
| – for issue of fixed rate notes | **–** | – | **2,722** | 1,985 |
| – for issue of zero coupon notes | **–** | – | **430** | 430 |
| | **–** | – | **3,352** | 2,615 |
| Guarantees to banks for providing financing facilities to subsidiaries | **–** | – | **1,349** | 1,449 |

## 36. Capital Commitments

At the end of the reporting period, the Group and the Company had the following capital commitments in respect of its investment properties and property, plant and equipment:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010 HK$ million** | 2009 HK$ million | **2010 HK$ million** | 2009 HK$ million |
| Authorised but not contracted for | **535** | 432 | **11** | 6 |
| Contracted but not provided for | **1,535** | 1,768 | **–** | – |

## 37. Lease Commitments

**(a) The Group as lessor**

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | The Group | |
|---|---|---|
| | **2010 HK$ million** | 2009 HK$ million |
| Within one year | **1,260** | 1,252 |
| In the second to fifth year inclusive | **1,586** | 1,293 |
| Over five years | **252** | 49 |
| | **3,098** | 2,594 |

Operating lease payments represent rents receivable by the Group from leasing of its investment properties. Typically, leases are negotiated and rentals are fixed for lease term of one to three years. Certain leases include contingent rentals calculated with reference to turnover of the tenants.

## 37. Lease Commitments continued

### (b) The Company as lessee

At the end of the reporting period, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | The Company | |
|---|---|---|
| | **2010 HK$ million** | 2009 HK$ million |
| Within one year | **22** | 20 |
| In the second to fifth year inclusive | **9** | 27 |
| | **31** | 47 |

Operating lease payments represent rents payable by the Company to its subsidiaries for its office premises which are negotiated and rentals are fixed for three years.

At the end of the reporting period, the Group had no commitment under non-cancellable operating lease.

## 38. Related Party Transactions and Balances

### (a) Transactions and balances with related parties

The Group has the following transactions with related parties during the year and has the following balances with them at the end of the reporting period:

| | The Group | | | | |
|---|---|---|---|---|---|
| | Gross rental income received from *(Note a)* | | Amount due to a non-controlling interest *(Note b)* | | |
| | **2010 HK$ million** | 2009 HK$ million | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million |
| Substantial shareholder | **3** | 3 | **–** | – | – |
| Directors | **1** | 1 | **–** | – | – |
| Companies controlled by Directors or their associates | **25** | 24 | **94** | 94 | 94 |

Notes:

(a) The sum of transactions with substantial shareholder represented the aggregate gross rental income received from Atlas Corporate Management Limited, a wholly-owned subsidiary of Lee Hysan Estate Company, Limited, which holds 41.12% beneficial interest in the Company.

(b) The sum represents outstanding loan advanced to a non wholly-owned subsidiary of the Group, Barrowgate Limited ("Barrowgate") by Mightyhall Limited, a wholly-owned subsidiary of Jebsen and Company Limited, of which Hans Michael JEBSEN is a director and shareholder, as shareholders loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

The Company has the following balances with its subsidiaries at the end of the reporting period:

| | The Company | |
|---|---|---|
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million |
| Amounts due from subsidiaries | **12,919** | 12,991 |
| Less: Allowances on amounts due therefrom | **(248)** | (248) |
| | **12,671** | 12,743 |
| Amounts due to subsidiaries | **175** | 192 |

Details of amounts due from/to subsidiaries are disclosed in note 25 to the financial statements.

## 38. Related Party Transactions and Balances continued

### (b) Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group and the Company during the year were as follows:

| | 2010 HK$ million | 2009 HK$ million |
|---|---|---|
| Salaries and other short-term employee benefits | 16 | 20 |
| Share-based payments | 4 | 4 |
| Retirement benefits scheme contributions | – | 1 |
| | 20 | 25 |

The remuneration of the Directors and key executives is determined by the Emoluments Review Committee and Chief Executive Officer respectively having regard to the performance of individuals and market trends.

## 39. Share-Based Payment Transactions

### (a) Equity-settled share option schemes

**The 1995 Share Option Scheme (the "1995 Scheme")**

The 1995 Scheme was approved by shareholders on 28 April 1995 and had a term of 10 years. It expired on 28 April 2005. All outstanding options granted under the 1995 Scheme will continue to be valid and exercisable in accordance with the provisions of the 1995 Scheme.

The purpose of the 1995 Scheme was to strengthen the links between individual staff and shareholder interests.

Under the 1995 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any of its wholly-owned subsidiaries selected by the Board at its discretion.

The maximum number of shares in respect of which options may be granted under the 1995 Scheme (together with shares issued and issuable under the scheme) was 3% of the issued share capital of the Company (excluding shares issued pursuant to the scheme and any other share option scheme) from time to time. The maximum number of shares issued under the scheme and other scheme will not exceed 10% of the issued share capital of the Company from time to time (excluding shares issued pursuant to the scheme and any other share option scheme).

The maximum entitlement of each participant is substantially below the limit set out under the scheme rules (being 25% of the maximum number of shares in respect of which options may at any time be granted under the 1995 Scheme). For the options granted under the 1995 Scheme currently outstanding, the basis for determining the exercise price is the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares. Consideration on each grant of option was HK$1 and was paid within 30 days from the date of grant of option, with full payment for exercise price to be made on exercise of the relevant option.

**The 2005 Share Option Scheme (the "2005 Scheme")**

The Company adopted the 2005 Scheme at its Annual General Meeting ("AGM") held on 10 May 2005, which has a term of 10 years and will expire on 9 May 2015 (together with the 1995 Scheme are referred to as the "Schemes").

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

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

## 39. Share-Based Payment Transactions continued

### (a) Equity-settled share option schemes continued

**The 2005 Share Option Scheme (the "2005 Scheme")** continued

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"), currently being 10% of the shares in issue as at 10 May 2005, the date of the AGM approving the 2005 Scheme (being 104,996,365 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option scheme of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

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

### (b) Grant and vesting structures

Under the Company's current policy, grants will be made on a periodic basis. Vesting period is 3 years in equal proportion. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

## 39. Share-Based Payment Transactions continued

### (c) Movement of share options

The following table discloses movements of the Company's share options held by the Directors and eligible employees during the current year:

| Name | Date of grant | Exercise price HK$ | Exercisable period *(Note a)* | Balance as at 1.1.2010 | Changes during the year | | | Balance as at 31.12.2010 |
|---|---|---|---|---|---|---|---|---|
| | | | | | Granted | Exercised | Cancelled/ lapsed | |
| **1995 Scheme** | | | | | | | | |
| **Executive Directors** | | | | | | | | |
| Wendy Wen Yee YUNG | 30.3.2005 | 15.850 | 30.3.2005 – 29.3.2015 | 96,000 | – | – | – | 96,000 |
| **2005 Scheme** | | | | | | | | |
| **Executive Directors** | | | | | | | | |
| Peter Ting Chang LEE *(Note b)* | 6.3.2007 | 21.380 | 6.3.2007 – 16.1.2011 | 235,000 | – | – | – | 235,000 |
| | 13.3.2008 | 21.450 | 13.3.2008 – 16.1.2011 | 260,000 | – | – | – | 260,000 |
| | 11.3.2009 | 11.760 | 11.3.2009 – 16.1.2011 | 500,000 | – | – | – | 500,000 |
| Gerry Lui Fai YIM | 1.12.2009 | 22.800 | 1.12.2009 – 30.11.2019 | 218,000 | – | – | – | 218,000 |
| Wendy Wen Yee YUNG | 26.6.2006 | 20.110 | 26.6.2006 – 25.6.2016 | 110,000 | – | – | – | 110,000 |
| | 30.3.2007 | 21.250 | 30.3.2007 – 29.3.2017 | 95,000 | – | – | – | 95,000 |
| | 31.3.2008 | 21.960 | 31.3.2008 – 30.3.2018 | 100,000 | – | – | – | 100,000 |
| | 11.3.2009 | 11.760 | 11.3.2009 – 10.3.2019 | 300,000 | – | – | – | 300,000 |
| | 11.3.2010 | 22.100 *(Note c)* | 11.3.2010 – 10.3.2020 | – | 185,000 | – | – | 185,000 |

## 39. Share-Based Payment Transactions continued

### (c) Movement of share options continued

| Name | Date of grant | Exercise price HK$ | Exercisable period *(Note a)* | Balance as at 1.1.2010 | Changes during the year Granted | Exercised | Cancelled/ lapsed | Balance as at 31.12.2010 |
|---|---|---|---|---|---|---|---|---|
| **2005 Scheme** continued | | | | | | | | |
| **Eligible employees** *(Note d)* | 30.3.2006 | 22.000 | 30.3.2006 – 29.3.2016 | 23,000 | – | (8,000) *(Note e)* | – | 15,000 |
| | 30.3.2007 | 21.250 | 30.3.2007 – 29.3.2017 | 31,000 | – | (16,000) *(Note e)* | – | 15,000 |
| | 31.3.2008 | 21.960 | 31.3.2008 – 30.3.2018 | 88,000 | – | (10,000) *(Note e)* | – | 78,000 |
| | 2.5.2008 | 23.900 | 2.5.2008 – 1.5.2018 | 95,000 | – | – | – | 95,000 |
| | 2.10.2008 | 20.106 | 2.10.2008 – 1.10.2018 | 85,000 | – | – | – | 85,000 |
| | 31.3.2009 | 13.300 | 31.3.2009 – 30.3.2019 | 411,000 | – | (21,666) *(Note f)* | (26,000) *(Note g)* | 363,334 |
| | 31.3.2010 | 22.450 *(Note h)* | 31.3.2010 – 30.3.2020 | – | 529,000 | – | (6,000) *(Note g)* | 523,000 |
| | | | | **2,647,000** | **714,000** | **(55,666)** | **(32,000)** | **3,273,334** |

Notes:

(a) All options granted have a vesting period of 3 years in equal proportions.

(b) The late Chairman, Peter Ting Chang LEE, passed away on 17 October 2009. An extension in time (to 16 January 2011) for exercising his options was granted to his legal personal representative pursuant to the 2005 Scheme. Share options of 235,000, 173,333 and 166,666, which were granted to him on 6 March 2007, 13 March 2008 and 11 March 2009 respectively, were exercised by his sole executrix to his estate on 3 January 2011. The outstanding share options of 420,001 lapsed on 17 January 2011.

(c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 10 March 2010) was HK$22.40.

(d) Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.

(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$33.40.

(f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$28.62.

(g) The options lapsed during the year upon resignation of certain eligible employees.

(h) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2010) was HK$22.55.

Apart from the above, the Company had not granted any share option under the Schemes to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

## 39. Share-Based Payment Transactions continued

### (c) Movement of share options continued

The following table discloses movements of the Company's share options held by the Directors and eligible employees in prior year:

| Name | Date of grant | Exercise price HK$ | Exercisable period (Note a) | Balance as at 1.1.2009 | Changes during the year: Granted | Changes during the year: Exercised | Changes during the year: Cancelled/ lapsed (Note b) | Balance as at 31.12.2009 |
|---|---|---|---|---|---|---|---|---|
| **1995 Scheme** | | | | | | | | |
| **Executive Directors** | | | | | | | | |
| Wendy Wen Yee YUNG | 30.3.2005 | 15.850 | 30.3.2005 – 29.3.2015 | 96,000 | – | – | – | 96,000 |
| Ricky Tin For TSANG *(Note c)* | 30.3.2005 | 15.850 | 30.3.2005 – 29.3.2015 | 80,000 | – | (80,000) *(Note d)* | – | – |
| **Eligible employees** *(Note e)* | 30.3.2005 | 15.850 | 30.3.2005 – 29.3.2015 | 13,000 | – | – | (13,000) | – |
| **2005 Scheme** | | | | | | | | |
| **Executive Directors** | | | | | | | | |
| Peter Ting Chang LEE *(Note f)* | 6.3.2007 | 21.380 | 6.3.2007 – 16.1.2011 | 235,000 | – | – | – | 235,000 |
| | 13.3.2008 | 21.450 | 13.3.2008 – 16.1.2011 | 260,000 | – | – | – | 260,000 |
| | 11.3.2009 | 11.760 *(Note g)* | 11.3.2009 – 16.1.2011 | – | 500,000 | – | – | 500,000 |
| Gerry Lui Fai YIM *(Note h)* | 1.12.2009 | 22.800 *(Note i)* | 1.12.2009 – 30.11.2019 | – | 218,000 | – | – | 218,000 |
| Wendy Wen Yee YUNG | 26.6.2006 | 20.110 | 26.6.2006 – 25.6.2016 | 110,000 | – | – | – | 110,000 |
| | 30.3.2007 | 21.250 | 30.3.2007 – 29.3.2017 | 95,000 | – | – | – | 95,000 |
| | 31.3.2008 | 21.960 | 31.3.2008 – 30.3.2018 | 100,000 | – | – | – | 100,000 |
| | 11.3.2009 | 11.760 *(Note g)* | 11.3.2009 – 10.3.2019 | – | 300,000 | – | – | 300,000 |
| Ricky Tin For TSANG *(Note c)* | 30.3.2006 | 22.000 | 30.3.2006 – 29.3.2016 | 120,000 | – | – | (120,000) | – |
| | 30.3.2007 | 21.250 | 30.3.2007 – 29.3.2017 | 95,000 | – | – | (95,000) | – |
| | 31.3.2008 | 21.960 | 31.3.2008 – 30.3.2018 | 100,000 | – | – | (100,000) | – |
| | 11.3.2009 | 11.760 *(Note g)* | 11.3.2009 – 10.3.2019 | – | 250,000 | – | (250,000) | – |

## 39. Share-Based Payment Transactions continued

### (c) Movement of share options continued

| Name | Date of grant | Exercise price HK$ | Exercisable period (Note a) | Balance as at 1.1.2009 | Changes during the year: Granted | Changes during the year: Exercised | Changes during the year: Cancelled/ lapsed (Note b) | Balance as at 31.12.2009 |
|---|---|---|---|---|---|---|---|---|
| **2005 Scheme** continued | | | | | | | | |
| **Eligible employees** *(Note e)* | 30.3.2006 | 22.000 | 30.3.2006 – 29.3.2016 | 67,000 | – | – | (44,000) | 23,000 |
| | 6.3.2007 | 21.380 | 6.3.2007 – 30.6.2009 | 108,000 | – | – | (108,000) | – |
| | 30.3.2007 | 21.250 | 30.3.2007 – 29.3.2017 | 73,000 | – | – | (42,000) | 31,000 |
| | 31.3.2008 | 21.960 | 31.3.2008 – 30.3.2018 | 164,000 | – | – | (76,000) | 88,000 |
| | 2.5.2008 | 23.900 | 2.5.2008 – 1.5.2018 | 95,000 | – | – | – | 95,000 |
| | 9.9.2008 | 21.300 | 9.9.2008 – 8.9.2018 | 85,000 | – | – | (85,000) | – |
| | 2.10.2008 | 20.106 | 2.10.2008 – 1.10.2018 | 85,000 | – | – | – | 85,000 |
| | 31.3.2009 | 13.300 *(Note j)* | 31.3.2009 – 30.3.2019 | – | 472,000 | – | (61,000) | 411,000 |
| | | | | 1,981,000 | 1,740,000 | (80,000) | (994,000) | 2,647,000 |

Notes:

(a) All options granted have a vesting period of 3 years in equal proportions.

(b) The options lapsed during the year upon resignations or retirement of certain Directors and eligible employees.

(c) Ricky Tin For TSANG resigned as Executive Director, Finance on 29 September 2009.

(d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$19.240.

(e) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

(f) Peter Ting Chang LEE passed away on 17 October 2009. An extension in time (to 16 January 2011) for exercising his options was granted to his legal personal representative pursuant to the 2005 Scheme.

(g) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 10 March 2009) was HK$11.180.

(h) Gerry Lui Fai YIM was appointed as Executive Director on 1 December 2009.

(i) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 November 2009) was HK$22.250.

(j) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2009) was HK$12.900.

## 39. Share-Based Payment Transactions continued

### (d) Fair values of share options

The Group has applied HKFRS 2 "Share-based Payments" to account for its share options granted after 7 November 2002 and vested after 1 January 2005. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In the current year, the Group recognised the share option expenses of HK$6 million (2009: HK$6 million) in relation to share options granted by the Company, of which HK$2 million (2009: HK$4 million) related to the Directors (see note 12), with a corresponding adjustment recognised in the Group's share options reserve.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

| Date of grant | **31.3.2010** | **11.3.2010** | 1.12.2009 | 31.3.2009 | 11.3.2009 |
|---|---|---|---|---|---|
| Closing share price at the date of grant | **HK$22.450** | **HK$22.100** | HK$22.800 | HK$13.100 | HK$11.760 |
| Exercise price | **HK$22.450** | **HK$22.100** | HK$22.800 | HK$13.300 | HK$11.760 |
| Risk free rate *(Note a)* | **2.843%** | **2.780%** | 2.160% | 1.936% | 1.970% |
| Expected life of option *(Note b)* | **10 years** | **10 years** | 10 years | 10 years | 10 years |
| Expected volatility *(Note c)* | **35.489%** | **35.459%** | 35.090% | 47.740% | 48.240% |
| Expected dividend per annum *(Note d)* | **HK$0.582** | **HK$0.582** | HK$0.526 | HK$0.526 | HK$0.526 |
| Estimated fair value per share option | **HK$8.598** | **HK$8.425** | HK$8.560 | HK$4.299 | HK$3.671 |

Notes:

(a) Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

(b) Expected life of option: being the period of 10 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.

(c) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company in the past one year immediately before the date of grant for the options granted before 1 December 2009. For options granted on or after 1 December 2009, management considers that it would be more appropriate that the expected volatility be the appropriate historical volatility of closing prices of the shares of the Company in the past 10 years immediately before the date of grant in order to match the expected life of the options of 10 years.

(d) Expected dividend per annum: being the approximate average annual cash dividend for the past 5 financial years.

# Financial Risk Management

For the year ended 31 December 2010

## 1. Financial Risk Management Objectives and Policies

The Group's major financial instruments include cash and bank balances, time deposits, principal-protected investments, term notes, amount due from an associate, accounts receivable, other receivables, available-for-sale financial assets, accounts payable, accruals, rental deposits from tenants, amounts due to non-controlling interests, borrowings and derivative financial instruments. The Company's major financial instruments include cash and bank balances, time deposits, other receivables, amounts due from/to subsidiaries, other payable and accruals. Details of these financial instruments are disclosed in respective notes to the financial statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (a) Credit risk

The credit risk of the Group or the Company are primarily attributable to rents receivable from tenants, amounts due from subsidiaries, amount due from an associate, principal-protected investments, derivative financial instruments, term notes, time deposits and bank balances. The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Company is arising from:

(i) the carrying amount of the respective recognised financial assets as stated in the consolidated and Company's statement of financial position; and

(ii) the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 35 of the notes to the financial statements section.

For rents receivable from tenants, credit checks are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

For derivative financial instruments, principal-protected investments, term notes, time deposits and bank balances, the Group and the Company only deal with financial institutions and invest in debt securities issued by issuers that have strong credit ratings to mitigate counterparty risk. In order to limit exposure to each financial institution and debt securities issuer, exposure limit was set with each counterparty according to their credit rating with regular review by management.

Credit exposure to financial institutions and debt securities issuers are monitored and reported regularly to the management. The exposure to each counterparty was based on the net positive value of financial assets and liabilities (including time deposits, derivative financial instruments, principal-protected investments and term notes). In addition, the Group adopted a more conservative approach in 2010 by including potential exposures to derivative financial instruments which are based on the remaining term and the notional amount of the derivative financial instruments. The table below provides a high level summary of the Group's exposure to each counterparty at the end of the reporting period.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Category of counterparty | Number of counterparty | Exposure HK$ million | Number of counterparty | Exposure HK$ million |
| Credit rating of AA- or above or note issuing banks | **5** | **9 to 379** | 5 | 79 to 389 |
| Credit rating BBB- to A+ | **13** | **10 to 297** | 7 | 4 to 288 |

To minimise the credit risk of amounts due from subsidiaries and an associate, the management reviews the recoverable amount of each individual balance at the end of the reporting period to ensure adequate impairment losses are made for irrecoverable amounts. Other than concentration of credit risk on amount due from an associate, the Group and the Company have no significant concentration of credit risk, with exposure spread over a number of counterparties and tenants.

## 1. Financial Risk Management Objectives and Policies continued

### (b) Liquidity risk

The Group and the Company closely monitor their liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following table details the remaining contractual maturity of the Group and the Company for their non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company are required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if floating, based on the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars ("HKD"), the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

| | Carrying amount HK$ million | Total contractual undiscounted cash flow HK$ million | Within 1 year or on demand HK$ million | More than 1 year but not exceeding 2 years HK$ million | More than 2 years but not exceeding 5 years HK$ million | More than 5 years HK$ million |
|---|---|---|---|---|---|---|
| **The Group** | | | | | | |
| **As at 31 December 2010** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Accounts payable and accruals | (433) | (433) | (433) | – | – | – |
| Rental deposits from tenants | (451) | (451) | (175) | (100) | (150) | (26) |
| Amounts due to non-controlling interests | (327) | (327) | (327) | – | – | – |
| Unsecured bank loans | (1,349) | (1,374) | (658) | (8) | (708) | – |
| Floating rate notes | (200) | (210) | (3) | (2) | (205) | – |
| Fixed rate notes | (2,750) | (3,405) | (155) | (1,460) | (577) | (1,213) |
| Zero coupon notes | (288) | (430) | – | – | – | (430) |
| | (5,798) | (6,630) | (1,751) | (1,570) | (1,640) | (1,669) |
| **As at 31 December 2009** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Accounts payable and accruals | (314) | (314) | (314) | – | – | – |
| Rental deposits from tenants | (400) | (400) | (127) | (122) | (126) | (25) |
| Amounts due to non-controlling interests | (327) | (327) | (327) | – | – | – |
| Unsecured bank loans | (1,449) | (1,476) | (410) | (656) | (410) | – |
| Floating rate notes | (200) | (211) | (2) | (2) | (207) | – |
| Fixed rate notes | (1,980) | (2,442) | (129) | (128) | (1,550) | (635) |
| Zero coupon notes | (262) | (430) | – | – | – | (430) |
| | (4,932) | (5,600) | (1,309) | (908) | (2,293) | (1,090) |

# 1. Financial Risk Management Objectives and Policies continued

## (b) Liquidity risk continued

| | Carrying amount HK$ million | Total contractual undiscounted cash flow HK$ million | Within 1 year or on demand HK$ million | More than 1 year but not exceeding 2 years HK$ million | More than 2 years but not exceeding 5 years HK$ million | More than 5 years HK$ million |
|---|---|---|---|---|---|---|
| **The Company** | | | | | | |
| **As at 31 December 2010** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Other payable and accruals | (38) | (38) | (38) | – | – | – |
| Amounts due to subsidiaries | (175) | (175) | (175) | – | – | – |
| | (213) | (213) | (213) | – | – | – |
| **As at 31 December 2009** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Other payable and accruals | (34) | (34) | (34) | – | – | – |
| Amounts due to subsidiaries | (192) | (192) | (192) | – | – | – |
| | (226) | (226) | (226) | – | – | – |

The following table details the Group's remaining contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that settle on a net basis and undiscounted gross inflows (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than HKD, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

| | Carrying amount HK$ million | Total contractual undiscounted cash flow HK$ million | Within 1 year or on demand HK$ million | More than 1 year but not exceeding 2 years HK$ million | More than 2 years but not exceeding 5 years HK$ million | More than 5 years HK$ million |
|---|---|---|---|---|---|---|
| **The Group** | | | | | | |
| **As at 31 December 2010** | | | | | | |
| **Derivative settled net** | | | | | | |
| Interest rate swaps and basis swaps | 3 | 114 | 3 | (3) | 41 | 73 |
| **Derivative settled gross** | | | | | | |
| Forward foreign exchange contracts | 1 | | | | | |
| Outflow | | (171) | (156) | (15) | – | – |
| Inflow | | 171 | 156 | 15 | – | – |
| Cross currency and net basis swaps | 36 | | | | | |
| Outflow | | (1,805) | (28) | (1,374) | (403) | – |
| Inflow | | 1,866 | 70 | 1,391 | 405 | – |

## 1. Financial Risk Management Objectives and Policies continued

### (b) Liquidity risk continued

| | Carrying amount HK$ million | Total contractual undiscounted cash flow HK$ million | Within 1 year or on demand HK$ million | More than 1 year but not exceeding 2 years HK$ million | More than 2 years but not exceeding 5 years HK$ million | More than 5 years HK$ million |
|---|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | | |
| **Derivative settled net** | | | | | | |
| Interest rate swaps and basis swaps | 5 | 118 | 3 | 2 | 16 | 97 |
| **Derivative settled gross** | | | | | | |
| Forward foreign exchange contracts | 1 | | | | | |
| Outflow | | (324) | (244) | (66) | (14) | – |
| Inflow | | 326 | 245 | 66 | 15 | – |
| Cross currency and net basis swaps | 55 | | | | | |
| Outflow | | (1,891) | (27) | (26) | (1,838) | – |
| Inflow | | 1,991 | 69 | 69 | 1,853 | – |

At the end of the reporting period, the Company has no derivative financial instruments.

### (c) Interest rate risk

The Group manages its interest rate exposure by assessing the potential impact on the Group's financial position arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed rates and floating rates and ensure that they are within an appropriate range. Accordingly, the Group entered into (i) interest rate swaps to hedge the interest rate risk of the Group's floating rate borrowings including bank loans and floating rate notes; and (ii) cross currency swaps and interest rate swaps to hedge the interest rate risk of certain amounts of the Group's fixed rate notes. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting. The Group mainly uses comparison of change in fair value of the hedging instruments and the hedged items attributable to the hedged risk for assessing the hedging effectiveness.

As at 31 December 2010, about 53.6% (2009: 64.9%) of the Group's gross debts was effectively on a floating rate basis. The ratio could be adjusted according to views about changes in the interest rate trend going forward. In addition, the Group is exposed to (i) cash flow interest rate risk as the interest income derived from time deposits and bank balances is subject to interest rate changes; and (ii) fair value interest rate risk in relation to its fixed-rate debt securities investments. Other than the concentration of interest rate risk related to the movements in Hong Kong Interbank Offered Rate, the Group has no significant concentration of interest rate risk.

**Sensitivity analysis**

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -5 basis points ("bps") (2009: +100 and -5 bps) was applied to the yield curves at the end of the reporting period. The applied change of bps represented management's assessment of the reasonably possible change in interest rates based on the current market conditions. The increase in positive change reflected potential interest rate increase in 2011 and the decrease in negative change is due to the low level of prevailing market interest rates at the end of the reporting period.

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

## 1. Financial Risk Management Objectives and Policies continued

### (c) Interest rate risk continued

| | The Group | | | |
|---|---|---|---|---|
| | Increase (decrease) in profit or loss | | Increase (decrease) in equity | |
| | 100 bps increase HK$ million | 5 bps decrease HK$ million | 100 bps increase HK$ million | 5 bps decrease HK$ million |
| **As at 31 December 2010** | **(13)** | **1** | **21** | **(1)** |
| | 100 bps increase HK$ million | 5 bps decrease HK$ million | 100 bps increase HK$ million | 5 bps decrease HK$ million |
| As at 31 December 2009 | (24) | 1 | 29 | (2) |

### (d) Currency risk

The Group aims to minimise its currency risk and does not speculate in currency movements. The majority of the Group's assets are located and all rental income are derived in Hong Kong, and denominated in HKD. At the end of the reporting period, the Group has the following monetary assets and monetary liabilities denominated in US dollars ("USD").

| | The Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **US$ million** | **HK$ million** | US$ million | HK$ million |
| **Assets** | | | | |
| Time deposits | – | – | 23 | 178 |
| Principal-protected investments | **30** | **233** | 8 | 62 |
| Term notes | **34** | **263** | – | – |
| | **64** | **496** | 31 | 240 |
| **Liabilities** | | | | |
| Unsecured bank loans | **51** | **399** | 51 | 399 |
| Fixed rate notes | **174** | **1,356** | 182 | 1,394 |
| | **225** | **1,755** | 233 | 1,793 |

At the end of the reporting period, all of the Company's assets and liabilities were denominated in HKD. As at 31 December 2009, all of the Company's assets and liabilities were denominated in HKD with exception of US$15 million time deposits.

Other than concentration of currency risk of the above items denominated in USD, the Group and the Company have no other significant currency risk.

The Group has entered into appropriate hedging instruments, mentioned in note 23 of the notes to the financial statements section, to hedge against part of the potential currency risk of the above items. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting.

# 1. Financial Risk Management Objectives and Policies continued

## (d) Currency risk continued

**Sensitivity analysis**

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and had been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of 500 bps (2009: 500 bps) was applied to the HKD:USD spot and forward rates at the end of the reporting period. The applied change of bps represented management's assessment of the reasonably possible change in foreign exchange rates.

| | The Group | | | |
|---|---|---|---|---|
| | Increase (decrease) in profit or loss | | Increase (decrease) in equity | |
| | 500 bps increase HK$ million | 500 bps decrease HK$ million | 500 bps increase HK$ million | 500 bps decrease HK$ million |
| **As at 31 December 2010** | **3** | **(3)** | **–** | **–** |
| | 500 bps increase HK$ million | 500 bps decrease HK$ million | 500 bps increase HK$ million | 500 bps decrease HK$ million |
| As at 31 December 2009 | 1 | (1) | – | – |

## (e) Equity price risk

The Group is exposed to equity price risks in relation to its available-for-sale investments in listed securities which are measured at fair value at the end of the reporting period with reference to the listed share price. The management will monitor the price movements and take appropriate actions when it is required.

**Sensitivity analysis**

The sensitivity analysis below has been determined assuming that a change in the corresponding equity prices had occurred at the end of the reporting period and had been applied to the investments that would have affected the equity. A change of 25% (2009: 25%) in stock prices was applied at the end of the reporting period. The applied change of percentage represented management's assessment of the reasonably possible change in stock prices.

| | The Group | |
|---|---|---|
| | Increase (decrease) in equity | |
| | 25% increase HK$ million | 25% decrease HK$ million |
| **As at 31 December 2010** | **287** | **(287)** |
| | 25% increase HK$ million | 25% decrease HK$ million |
| As at 31 December 2009 | 249 | (249) |

## 2. Categories of Financial Instruments

| | The Group | | | The Company | |
|---|---|---|---|---|---|
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million | At 1 Jan 2009 HK$ million | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million |
| **Financial assets** | | | | | |
| Fair value through profit or loss ("FVTPL") | | | | | |
| – designated as at FVTPL | **462** | 200 | 125 | **–** | – |
| – held for trading | **38** | 62 | – | **–** | – |
| Derivative instruments under hedge accounting | **54** | 35 | 158 | **–** | – |
| Held-to-maturity investments | **216** | – | 700 | **–** | – |
| Available-for-sale financial assets | **1,152** | 1,002 | 1,022 | **2** | 2 |
| Loans and receivables (including cash and cash equivalents) | **2,356** | 2,467 | 1,728 | **13,256** | 13,321 |
| | **4,278** | 3,766 | 3,733 | **13,258** | 13,323 |
| **Financial liabilities** | | | | | |
| FVTPL | | | | | |
| – held for trading | **4** | 9 | 10 | **–** | – |
| Derivative instruments under hedge accounting | **48** | 27 | 31 | **–** | – |
| Amortised cost | **5,347** | 4,532 | 4,398 | **213** | 226 |
| | **5,399** | 4,568 | 4,439 | **213** | 226 |

## 3. Fair Value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of listed investments traded in active liquid markets are determined with reference to the published price quotations;
- the fair value of financial assets and financial liabilities (excluding derivative instruments) are based on quoted prices from independent financial institutions or determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments are based on quoted prices from independent financial institutions or calculated using discounted cash flow analysis based on the applicable yield curve derived from quoted interest rates and based on the quoted spot and forward foreign exchange rates.

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised costs in the consolidated and the Company's financial statements approximate their fair values, except for the carrying amount of HK$2,750 million (2009: HK$1,980 million) fixed rate notes as stated in note 30 of the notes to the financial statements section with fair value of HK$2,787 million (2009: HK$2,128 million).

## 3. Fair Value continued

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 and 2 based on the degree to which the fair value is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Level 1 HK$ million | Level 2 HK$ million | Total HK$ million | Level 1 HK$ million | Level 2 HK$ million | Total HK$ million |
| **Financial assets** | | | | | | |
| ***Derivatives under hedge accounting*** | | | | | | |
| Forward foreign exchange contracts | – | 1 | 1 | – | 1 | 1 |
| Cross currency swaps | – | 2 | 2 | – | 2 | 2 |
| Interest rate swaps | – | 50 | 50 | – | 31 | 31 |
| Basis swaps | – | 1 | 1 | – | 1 | 1 |
| ***Other derivatives classified as held for trading (not under hedge accounting)*** | | | | | | |
| Cross currency swaps | – | 38 | 38 | – | 62 | 62 |
| ***Financial assets at FVTPL*** | | | | | | |
| Principal-protected investments | – | 462 | 462 | – | 200 | 200 |
| ***Available-for-sale financial assets*** | | | | | | |
| Listed equity securities | 1,147 | – | 1,147 | 997 | – | 997 |
| Unlisted club debentures | – | 2 | 2 | – | 2 | 2 |
| | 1,147 | 556 | 1,703 | 997 | 299 | 1,296 |
| **Financial liabilities** | | | | | | |
| ***Derivatives under hedge accounting*** | | | | | | |
| Interest rate swaps | – | 48 | 48 | – | 27 | 27 |
| ***Other derivatives classified as held for trading (not under hedge accounting)*** | | | | | | |
| Net basis swaps | – | 4 | 4 | – | 9 | 9 |
| | – | 52 | 52 | – | 36 | 36 |

There were no transfers between Levels 1 and 2 for both years.

## 4. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

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

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

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

| | The Group | |
|---|---|---|
| | | As restated |
| | **At 31 Dec 2010 HK$ million** | At 31 Dec 2009 HK$ million |
| Unsecured bank loans | **1,349** | 1,449 |
| Floating rate notes | **200** | 200 |
| Fixed rate notes | **2,750** | 1,980 |
| Zero coupon notes | **288** | 262 |
| Borrowings | **4,587** | 3,891 |
| Less: Time deposits | **(1,930)** | (1,945) |
| Cash and bank balances | **(63)** | (39) |
| Net debt | **2,594** | 1,907 |
| Equity attributable to owners of the Company | **40,677** | 37,216 |
| Net debt to equity | **6.4%** | 5.1% |

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

# Five-Year Financial Summary

**For the year ended 31 December**

| | 2010<br>HK$ million | As restated<br>2009<br>HK$ million<br>*(Note)* | As restated<br>2008<br>HK$ million<br>*(Note)* | As restated<br>2007<br>HK$ million<br>*(Note)* | As restated<br>2006<br>HK$ million<br>*(Note)* |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Turnover | **1,764** | 1,680 | 1,638 | 1,368 | 1,268 |
| Property expenses | **(250)** | (235) | (217) | (208) | (240) |
| Gross profit | **1,514** | 1,445 | 1,421 | 1,160 | 1,028 |
| Investment income | **49** | 38 | 63 | 98 | 147 |
| Other gains and losses | **(42)** | (3) | 146 | 302 | 201 |
| Administrative expenses | **(140)** | (133) | (134) | (106) | (111) |
| Finance costs | **(117)** | (131) | (155) | (175) | (163) |
| Change in fair value of investment properties | **2,594** | 1,249 | (212) | 3,131 | 2,576 |
| Share of results of associates | **394** | 768 | 590 | 452 | 120 |
| Profit before taxation | **4,252** | 3,233 | 1,719 | 4,862 | 3,798 |
| Taxation | **(201)** | (189) | (237) | (205) | (110) |
| Profit for the year | **4,051** | 3,044 | 1,482 | 4,657 | 3,688 |
| Non-controlling interests | **(207)** | (130) | (118) | (190) | (162) |
| Profit attributable to owners of the Company | **3,844** | 2,914 | 1,364 | 4,467 | 3,526 |
| Underlying profit for the year | **1,148** | 1,113 | 1,201 | 1,158 | 1,012 |
| Recurring underlying profit for the year | **1,148** | 1,110 | 1,066 | 950 | 755 |
| Dividends | | | | | |
| Dividends paid | **714** | 709 | 644 | 549 | 474 |
| Dividends proposed | **632** | 567 | 562 | 498 | 422 |
| Dividends per share (HK cents) | **74.00** | 68.00 | 68.00 | 60.00 | 50.00 |
| Earnings per share (HK$), based on: | | | | | |
| Profit for the year | | | | | |
| – basic | **3.65** | 2.79 | 1.31 | 4.24 | 3.34 |
| – diluted | **3.65** | 2.79 | 1.31 | 4.24 | 3.34 |
| Underlying profit for the year – basic | **1.09** | 1.06 | 1.16 | 1.10 | 0.96 |
| Recurring underlying profit for the year – basic | **1.09** | 1.06 | 1.03 | 0.90 | 0.72 |
| **Performance indicators** | | | | | |
| Net debt to equity | **6.4%** | 5.1% | 5.9% | 6.8% | 7.9% |
| Net interest coverage (times) | **14.0x** | 11.7x | 10.2x | 7.8x | 6.9x |
| Net asset value per share (HK$) | **38.61** | 35.42 | 33.44 | 33.94 | 29.25 |
| Net debt per share (HK$) | **2.46** | 1.82 | 1.96 | 2.29 | 2.31 |
| Year end share price (HK$) | **36.60** | 22.05 | 12.52 | 22.25 | 20.35 |

**At 31 December**

| | 2010 HK$ million | As restated 2009 HK$ million *(Note)* | As restated 2008 HK$ million *(Note)* | As restated 2007 HK$ million *(Note)* | As restated 2006 HK$ million *(Note)* |
|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | |
| Investment properties | **40,833** | 37,363 | 35,850 | 35,711 | 32,473 |
| Interests in associates | **3,153** | 2,886 | 2,340 | 1,601 | 1,272 |
| Available-for-sale investments | **1,152** | 1,002 | 1,022 | 2,479 | 1,745 |
| Time deposits, cash and bank balances | **1,993** | 1,984 | 1,015 | 484 | 385 |
| Other assets | **1,423** | 807 | 1,493 | 789 | 536 |
| Total assets | **48,554** | 44,042 | 41,720 | 41,064 | 36,411 |
| Borrowings | **(4,587)** | (3,891) | (3,751) | (2,861) | (2,821) |
| Taxation | **(387)** | (342) | (620) | (565) | (496) |
| Other liabilities | **(1,263)** | (1,077) | (1,076) | (1,001) | (950) |
| Total liabilities | **(6,237)** | (5,310) | (5,447) | (4,427) | (4,267) |
| Net assets | **42,317** | 38,732 | 36,273 | 36,637 | 32,144 |
| Non-controlling interests | **(1,640)** | (1,516) | (1,462) | (1,423) | (1,285) |
| Shareholders' funds | **40,677** | 37,216 | 34,811 | 35,214 | 30,859 |

Note:

The figures for the years 2006 to 2009 have been restated to reflect the prior year adjustments arising from (i) reclassification of leasehold land that qualifies for finance lease from prepaid lease payments to property, plant and equipment in accordance with the amendments to HKAS 17 "Leases"; and (ii) recognition of deferred taxation in respect of revalued investment properties that have been presumed to be recovered through sale in accordance with the amendments to HKAS 12 "Income Taxes".

Definitions:

(1) Underlying profit for the year: profit adjusted for group's share of unrealised fair value changes on investment properties

(2) Recurring underlying profit for the year: underlying profit adjusted for aggregate of realised gain or loss on disposal of investment properties and available-for-sale investments, impairment, reversal, recovery and tax provision for prior year(s)

(3) Net debt to equity: borrowings less short-term investments, time deposits, cash and bank balances divided by shareholders' funds

(4) Net interest coverage: gross profit less administrative expenses before depreciation divided by net interest expenses

(5) Net asset value per share: shareholders' funds divided by number of issued shares at year end

(6) Net debt per share: borrowings less short-term investments, time deposits, cash and bank balances divided by number of issued shares at year end

# Report of the Valuer

To the Board of Directors
**Hysan Development Company Limited**

Dear Sirs,

**Annual Revaluation of Investment Properties as at 31 December 2010**

In accordance with your appointment of Knight Frank Petty Limited to value the investment properties in Hong Kong owned by Hysan Development Company Limited and its subsidiaries, we are pleased to advise that the market value of the investment properties as at 31 December 2010 was in the approximate sum of Hong Kong Dollars Forty Billion Eight Hundred Thirty Three Million Only (i.e. HK$40,833 million).

The investment properties have been valued individually, on market value basis, by reference to comparable market transactions and on the basis of capitalisation of the net income with due allowance for the reversionary income and redevelopment potential, without allowances for any expenses or taxation which may be incurred in effecting a sale.

Yours faithfully,
**Knight Frank Petty Limited**

Hong Kong, 25 January 2011

# Schedule of Principal Properties

At 31 December 2010

## Investment Properties

| Address | Lot No. | Use | Category of the Lease | Percentage held by the Group |
|---|---|---|---|---|
| **1. The Lee Gardens**<br>33 Hysan Avenue<br>Causeway Bay<br>Hong Kong | Sec. DD of I.L. 29, Sec. L of I.L. 457,<br>Sec. MM of I.L. 29,<br>the R.P. of Sec. L of I.L. 29,<br>and the R.P. of I.L. 457 | Commercial | Long lease | 100% |
| **2. Bamboo Grove**<br>74-86 Kennedy Road<br>Mid-Levels<br>Hong Kong | I.L. 8624 | Residential | Medium term lease | 100% |
| **3. Lee Gardens Two**<br>28 Yun Ping Road<br>Causeway Bay<br>Hong Kong | Sec. G of I.L. 29,<br>Sec. A, O, F and H of I.L. 457,<br>the R.P. of Sec. C, D, E and G of I.L. 457,<br>Subsec. 1 of Sec. C, D, E and G of I.L. 457,<br>Subsec. 2 of Sec. E of I.L. 457 and<br>Subsec. 1, 2, 3 and<br>the R.P. of Sec. C of I.L. 461 | Commercial | Long lease | 65.36% |
| **4. Leighton Centre**<br>77 Leighton Road<br>Causeway Bay<br>Hong Kong | Sec. B, C and the R.P. of I.L. 1451 | Commercial | Long lease | 100% |
| **5. Lee Theatre Plaza**<br>99 Percival Street<br>Causeway Bay<br>Hong Kong | I.L. 1452, the R.P. of I.L. 472 and 476 | Commercial | Long lease | 100% |
| **6. Sunning Plaza**<br>10 Hysan Avenue<br>Causeway Bay<br>Hong Kong | The R.P. of Subsec. 1 of Sec. J of I.L. 29,<br>Subsec. 2 of Sec. J of I.L. 29<br>and the R.P. of Sec. J of I.L. 29 | Commercial | Long lease | 100% |
| **7. Sunning Court**<br>8 Hoi Ping Road<br>Causeway Bay<br>Hong Kong | The R.P. of Subsec. 1 of Sec. J of I.L. 29,<br>Subsec. 2 of Sec. J of I.L. 29<br>and the R.P. of Sec. J of I.L. 29 | Residential | Long lease | 100% |
| **8. One Hysan Avenue**<br>1 Hysan Avenue<br>Causeway Bay<br>Hong Kong | The R.P. of Sec. GG of I.L. 29 | Commercial | Long lease | 100% |
| **9. 18 Hysan Avenue**<br>18 Hysan Avenue<br>Causeway Bay<br>Hong Kong | Sec. N of I.L. 457 and Sec. LL of I.L. 29 | Commercial | Long lease | 100% |

| Address | Lot No. | Use | Category of the Lease | Percentage held by the Group |
|---|---|---|---|---|
| **10. 111 Leighton Road**<br>111 Leighton Road<br>Causeway Bay<br>Hong Kong | Sec. KK of I.L. 29 | Commercial | Long lease | 100% |
| **11. Hysan Place***<br>500 Hennessy Road<br>Causeway Bay<br>Hong Kong | Sec. FF of I.L. 29 and the R.P. of Marine Lot 365 | Commercial | Long lease | 100% |

* The property (the site of the former Hennessy Centre) is currently under redevelopment. The site has a registered site area of approximately 47,738 square feet. Superstructure construction is up to 20/F with curtain wall, express escalators and building services installation commenced, leading to scheduled topping-out of the building in Q3 2011. The redevelopment has a projected gross floor area of around 710,000 square feet and is expected to be open in 2012.

# Shareholding Analysis

## Share Capital

At 31 December 2010

| | HK$ | Number of Ordinary Shares | Nominal Value HK$ |
|---|---|---|---|
| Authorised share capital | 7,250,000,000 | 1,450,000,000 | 5 |
| Issued and fully paid-up capital | 5,267,133,175 | 1,053,426,635 | 5 |

There was one class of ordinary shares of HK$5 each with equal voting rights.

## Distribution of Shareholdings

(At 31 December 2010, as per register of members of the Company)

| Size of registered shareholdings | Number of shareholders | % of shareholders | Number of ordinary shares | % of the issued share capital *(Note)* |
|---|---|---|---|---|
| 5,000 or below | 2,435 | 69.10 | 4,349,190 | 0.41 |
| 5,001 – 50,000 | 924 | 26.22 | 14,352,304 | 1.36 |
| 50,001 – 100,000 | 83 | 2.36 | 6,256,671 | 0.60 |
| 100,001 – 500,000 | 61 | 1.73 | 11,604,643 | 1.10 |
| 500,001 – 1,000,000 | 3 | 0.08 | 1,869,646 | 0.18 |
| Above 1,000,000 | 18 | 0.51 | 1,014,994,181 | 96.35 |
| **Total** | **3,524** | **100.00** | **1,053,426,635** | **100.00** |

## Types of Shareholders

(At 31 December 2010, as per register of members of the Company)

| Type of shareholders | Number of ordinary shares held | % of the issued share capital *(Note)* |
|---|---|---|
| Lee Hysan Company Limited, Lee Hysan Estate Company, Limited and their subsidiaries | 433,130,735 | 41.12 |
| Other corporate shareholders | 576,036,451 | 54.68 |
| Individual shareholders | 44,259,449 | 4.20 |
| **Total** | **1,053,426,635** | **100.00** |

## Location of Shareholders

(At 31 December 2010, as per register of members of the Company)

| Location of shareholders | Number of ordinary shares held | % of the issued share capital *(Note)* |
|---|---|---|
| Hong Kong | 1,047,722,929 | 99.46 |
| United States and Canada | 4,301,825 | 0.40 |
| United Kingdom | 1,135,446 | 0.11 |
| Singapore | 64,217 | 0.01 |
| Others | 202,218 | 0.02 |
| **Total** | **1,053,426,635** | **100.00** |

Note:

The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2010 (i.e. 1,053,426,635 ordinary shares).

# Shareholder Information

## Financial Calendar

| | |
|---|---|
| Full year results announced | 9 March 2011 |
| Ex-dividend date for final dividend | 3 May 2011 |
| Closure of register of members | 5 to 9 May 2011 |
| Annual General Meeting | 9 May 2011 |
| Record date for final dividend | 9 May 2011 |
| Dispatch of scrip dividend circular and election form | (on or about) 12 May 2011 |
| Dispatch of final dividend warrants/definitive share certificates | (on or about) 2 June 2011 |
| 2011 interim results to be announced | 9 August 2011* |

* subject to change

## Dividend

The Board recommends the payment of a final dividend of HK60 cents per share. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative to shareholders on the register of members as at Monday, 9 May 2011. The scrip dividend alternative is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto.

A circular containing details of the scrip dividend and the form of election will be mailed to shareholders on or about Thursday, 12 May 2011. Shareholders who elect for the scrip dividend, in lieu of the cash dividend, in whole or in part, shall return the form of election to the Company's Registrars on or before Friday, 27 May 2011.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) will be dispatched to shareholders on or about Thursday, 2 June 2011.

The register of members will be closed from Thursday, 5 May 2011 to Monday, 9 May 2011, both dates inclusive, for the purpose of determining shareholders' entitlements to attend and vote at the Annual General Meeting to be held on 9 May 2011 and the proposed final dividend, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting and the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars not later than 4:00 p.m. on Wednesday, 4 May 2011.

## Share Listing

Hysan's shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipts (ADR) Programme in the New York market.

## Stock Code

The Stock Exchange of Hong Kong Limited: 00014
Bloomberg: 14HK
Reuters: 0014.HK
Ticket Symbol for ADR Code: HYSNY
CUSIP reference number: 449162304

## Shareholder Services

For enquiries about share transfer and registration, please contact the Company's Registrars:

Tricor Standard Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong
Telephone: (852) 2980 1768
Facsimile: (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrars promptly of any change of their address.

The Annual Report is printed in English and Chinese language and is available on our website at www.hysan.com.hk. Shareholders may at any time choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Annual Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Annual Report will promptly upon request be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Registrars at the address above. The Change Request Form may be downloaded from the Company's website at www.hysan.com.hk.

## Investor Relations

For enquiries relating to investor relations, please email to investor@hysan.com.hk or write to the Company at:

Investor Relations
Hysan Development Company Limited
49/F., The Lee Gardens, 33 Hysan Avenue
Hong Kong
Telephone: (852) 2895 5777
Facsimile: (852) 2577 5153

## Our Website

Press releases and other information of the Group can be found at our internet website: www.hysan.com.hk.

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