

# Going Forward

Annual Report 2012



Hysan  
PLACE

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### More information print and online

- enhanced corporate responsibility reporting
- visit us at [www.hysan.com.hk](http://www.hysan.com.hk)









Prelude: Wanchai District Councillors and other stakeholders celebrate Hysan Place's linkage to all points in Hong Kong through the Mass Transit Railway









Enthusiastic shoppers await Hysan Place's opening at its main entrance









Serious moments:  
putting final touches for  
the Hysan Place opening









We, in our different roles,  
are all ready to serve you









Three storeys of books and lifestyle products bring something new and trend-setting to the heart of Causeway Bay









Internationally renowned tenants help bring more shoppers to benefit our district





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1

# Overview



This section starts with our refreshed Vision, Mission and Values, anchored by our core belief of being a responsible company. It also highlights Hysan's financial and non-financial achievements in 2012, focusing on Hysan Place's strategic contributions to the Group and the community. Finally, the Chairman's Statement reviews our work in the past year, and looks beyond the successful opening of Hysan Place to the future.

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# Who We Are

“ During the year, we have refined our corporate vision and refreshed our corporate values. In addition to our long-established core values of integrity, professionalism and being a responsible business, we have further emphasised our commitment to be proactive, driven, progressive, forward-looking and strategic, in order to enhance and deliver value for our stakeholders. ”

Irene Yun Lien LEE  
Chairman

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## Vision

To be the PREMIER property company that is superior to its peers in its market of choice.



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## Mission

Provide our stakeholders with sustainable and outstanding returns from a property portfolio which is strategically planned and managed by passionate, responsible and forward-looking professionals.

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## Values

**L**eadership  
**E**xcellence  
**E**mpowerment  
**G**ood Citizenship  
**A**ccountability  
**R**espect  
**D**riving / **D**riven  
**E**ntrepreneurship  
**N**etworking  
**S**ustainability



# 2012 Performance at a Glance

## Hysan Place Contributions





## Financial Contributions

HK\$431m

Revenue contribution  
(mall opened in August)

83,000

Average daily visitors in December 2012;  
additional footfall benefits the  
entire district

+50%

Retail space in portfolio;  
also making commercial  
property portfolio more balanced

## Non-Financial Contributions

### Sustainability

- LEED Platinum certification
- BEAM Plus  
Provisional Platinum certification

► See pages 22 and 23 for details

### Industry Awards

- MIPIM Gold Award
- Green Building Award 2012 Merit Award

► See pages 22 and 23 for details



# 2012 Performance at a Glance

## Financial Performance

“ 2012 was an important year for Hysan. We delivered a good business performance, and maintained a strong financial position. The completion of Hysan Place was also a significant milestone for the Group. We continued to set ourselves the highest standards of corporate governance and seek to operate in a socially responsible and ethical way. ”

Irene Yun Lien LEE  
Chairman

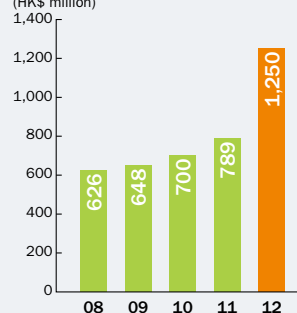
### Turnover

**HK\$2,486m +29.3%**

#### Retail Sector's Revenue

**HK\$1,250m +58.4%**

(HK\$ million)

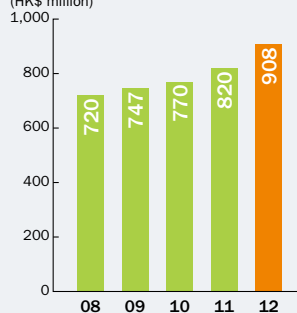


- Increase in turnover reflects rental contribution from Hysan Place; growth also recorded in the rest of portfolio
- Occupancy at 93%, mainly reflects the renovation of part of Lee Theatre Plaza (like-for-like: 91%)

#### Office Sector's Revenue

**HK\$908m +10.7%**

(HK\$ million)

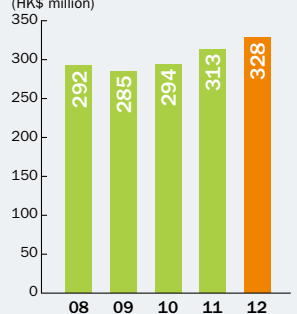


- Positive rental reversions achieved, with 29% increase in rental levels on renewals/new lettings
- Occupancy at 91% (like-for-like: 98%)
- Balanced tenant mix ensures stability amid slow market demand, especially from the banking and finance sector

#### Residential Sector's Revenue

**HK\$328m +4.8%**

(HK\$ million)



- Overall: positive rental reversion
- Occupancy at 92% amid a slow market environment

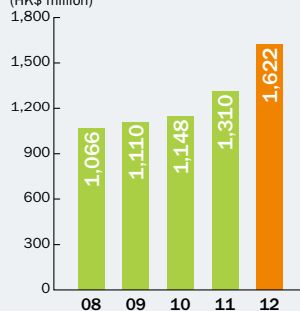
## Recurring Underlying Profit

# HK\$1,622m +23.8%

## Recurring Underlying Profit

## HK\$1,622m +23.8%

(HK\$ million)



- Increase reflects the rental contribution from Hysan Place; performance also improved for the rest of portfolio
- Property expenses, including those related to the opening of Hysan Place, also increased

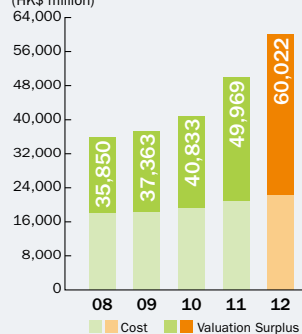
## Net Asset Value per Share

# HK\$54.68 +18.9%

## Property Value

## HK\$60,022m +20.1%

(HK\$ million)

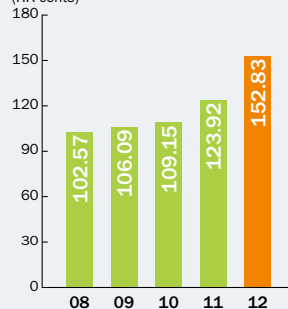


- Investment property portfolio valued by an independent professional valuer, on the basis of open market value
- Valuation principally reflects improved rental for our portfolio as well as a higher valuation for Hysan Place after construction completion

## Recurring Underlying Earnings per Share

## HK152.83 cents +23.3%

(HK cents)

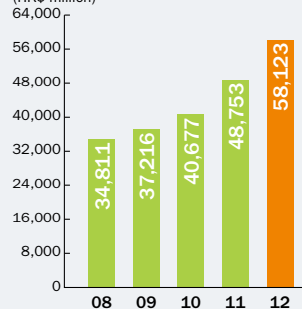


- Being Recurring Underlying Profit divided by weighted average number of ordinary shares

## Shareholders' Funds

## HK\$58,123m +19.2%

(HK\$ million)

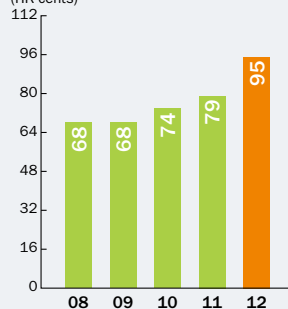


- Increase reflects a rise in valuation of investment properties and rental contribution, particularly from the new Hysan Place

## Dividends per Share

## HK95 cents +20.3%

(HK cents)

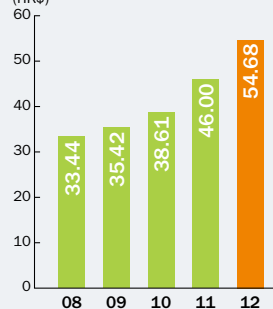


- Declared a second interim dividend of HK78 cents per share
- Together with the first interim dividend of HK17 cents, an aggregate distribution of HK95 cents per share

## Net Asset Value per Share

## HK\$54.68 +18.9%

(HK\$)



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



# 2012 Performance at a Glance

## Non-Financial Performance

### 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 2012, which was Hysan's tenth Best Corporate Governance Disclosure Award since 2000



- Best Ranked Corporate Governance Practices in Asia and Pacific IR Global Rankings 2012



- Best Practice in Enterprise Governance Award in Best Practice Management's Best Practice Awards 2012



### Environment

- Hysan Place awarded Leadership in Energy and Environmental Design standard (LEED) Platinum certification for Core and Shell by the United States Green Building Council, and is the first mixed-use office and vertical mall complex in Greater China to be awarded at this level



- Also received provisional certification at the highest Platinum level by the BEAM Plus standard for new buildings

## Industry Achievements



- Hysan Place received Gold Award, Best Mixed-Use Development in MIPIM Asia Awards 2012



- Also honoured with Merit Award, New Building – Hong Kong (Building Under Construction) in Green Building Award 2012



## Community

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



- Awarded the 5 Years Plus Caring Company Logo by The Hong Kong Council of Social Service in recognition of Hysan's efforts in promoting corporate social responsibility





# Chairman's Statement



## Year in Review

Hong Kong's economy remained steady during 2012, although its economic performance, and exports in particular, continued to be impacted by the macro environment in Europe and the United States. Private consumption remained resilient. Retail sales recorded an annual growth of 9.8% when compared to 2011, a good performance but one that also reflected more subdued growth in Mainland tourist spending. This continued to benefit the local retail leasing market. Tight supply supported the Grade "A" office leasing market, despite weaker demand, particularly from financial institutions. Rental levels in Causeway Bay remained stable.

## Business Performance

The Group's 2012 turnover was HK\$2,486 million, representing a year-on-year increase of 29.3% from HK\$1,922 million in 2011. If the rental contribution (HK\$431 million) from the new Hysan Place (its shopping mall opened in August) is excluded, the like-for-like turnover increase would be 6.9% to HK\$2,055 million. As at 31 December 2012, solid occupancy was recorded across our portfolio (Retail: 93% (like-for-like: 91%); Office: 91% (like-for-like: 98%); and Residential: 92%). Retail portfolio vacancies mainly reflected the renovation of part of Lee Theatre Plaza.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was HK\$1,622 million, up 23.8% from HK\$1,310 million in 2011. This principally reflected the rental contribution from the new Hysan Place and the improved performance recorded in the rest of the portfolio. Property expenses, including those related to the opening of Hysan Place, also increased. Our Underlying Profit, which excludes unrealised changes in fair value of investment properties, was also HK\$1,622 million (2011: HK\$1,310 million). Basic earnings per share based on Recurring Underlying Profit correspondingly rose to HK152.83 cents (2011: HK123.92 cents), up 23.3%.

Our Reported Profit for 2012 was HK\$9,955 million (2011: HK\$8,545 million), reflecting a higher fair value gain on the Group's investment properties valuation recorded this year. At year-end 2012, the external valuation of the Group's investment property portfolio increased by 20.1% to HK\$60,022 million (2011: HK\$49,969 million), principally reflecting improved rentals for our portfolio and a higher valuation for Hysan Place after construction completion. Shareholders' Fund increased by 19.2% to HK\$58,123 million (2011: HK\$48,753 million).

Our financial position remains strong, with improved net interest coverage of 16.8 times (2011: 12.3 times) and net debt to equity ratio of 6.2% (2011: 7.6%). Standard and Poor's upgraded the Group's credit rating from BBB to BBB+ in December 2012 to reflect the Group's improved position following the opening of Hysan Place. Moody's rating of the Group is Baa1.

## Dividends

Currently, Hysan pays an interim dividend and a final dividend (in June, after the Annual General Meeting and the completion of procedures regarding scrip dividends).

With effect from the year ended 31 December 2012, the Company intends to pay two interim dividends. The second interim dividend will be in lieu of a final dividend. In the light of past responses, we shall not be offering a scrip alternative.

Shareholders shall receive an earlier payment of the second interim dividend (in April instead of June); thus the timing of dividend payments will also be more evenly spread over the year (in April and September). The total amount of dividend paid to shareholders for the year under review will remain the same.

The Board of Directors (the "Board") declares a second interim dividend of HK78 cents per share (2011: final dividend of HK64 cents). Together with the first interim dividend of HK17 cents per share (2011: HK15 cents), there is an aggregate distribution of HK95 cents per share, representing a year-on-year increase of 20.3%.

## Leadership and Vision

2012 saw the appointment of Mr. Siu Chuen LAU, Deputy Chairman, as Chief Executive Officer and my assuming an executive role. It was also the year that Hysan further refined its vision by reinforcing our Lee Gardens district's position as the premium core district in Causeway Bay, offering top-class facilities for businesses and retailers. It also acts as a magnet for an exciting collection of fashion, lifestyle, hospitality, dining and entertainment venues, making it a destination that is among the most dynamic and progressive in the world.

The completion of Hysan Place at the northern gateway of our Lee Gardens district is a significant milestone for the Group. It has not only increased our retail space by 50%, but has also become a showcase for the rich diversity of our retail offerings, including some brands that are new to Causeway Bay or Hong Kong. With its direct mass transit (MTR) connectivity, Hysan Place has significantly enhanced the area into a major attraction for shoppers from all over the city, thus further strengthening our Lee Gardens district. At the western gateway, a fresh range of new chic and stylish shops in the refurbished Lee Theatre Plaza will open as from mid-year. This will complete the transformation of the western side, which includes One Hysan Avenue and Leighton Centre retail podia re-launched in 2011, creating one of the most fashion-forward areas of Hong Kong.

The new, yet familiar LEE GARDENS district brand was launched during the third quarter of 2012. Visual connectivity, as well as promotional and marketing campaigns will continue to position the Lee Gardens district as an integrated, unique and must-visit district.

The connectivity and integration of the northern and western gateways, together with the luxurious, tree-lined Lee Gardens complex at Hysan Avenue, lie at the heart of the Lee Gardens district vision. They constitute a retail triangle that combines significant retail street frontage with shopping malls of different characteristics, complemented by a vibrant streetscape; thereby offering a unique yet diversified shopping and lifestyle experience.



In order to support this vision, the Group is committed to continually enhancing the asset value of our investment property portfolio through selective re-positioning, refurbishment and re-development. Our next re-development target is the combined development of Sunning Plaza and Sunning Court into a mixed-use office and retail complex. Planning is underway, for the project to be completed around 2018.

## Values and People

With our district vision in place, we have also refined our corporate vision – to be the premier property company that is superior to its peers in its market of choice. Our vision lies at the heart of everything we do, driving both our internal and external behaviour. We have also refreshed our corporate values. In addition to our long established core values of integrity, professionalism and being a responsible business, we have further emphasised our commitment to be proactive, driven, progressive, forward-looking and strategic, in order to enhance and deliver value for our stakeholders.

Delivery of excellent performance is core to our commitment. We recognise that the source of excellence lies in our people. We are determined to attract, develop and retain the very best people. Only world-class talent and leadership can deliver the results we strive for. Our new branding and the articulation of the Lee Gardens district vision are underpinned by our refreshed corporate values and vision. They have been embedded in the language we use in our learnings, such as the series of interactive workshops that we delivered to all our people during 2012, as well as in our performance management systems.

## Our Community

Hysan is committed to a sustainable future. We are particularly proud that Hysan Place received the prestigious LEED Platinum (core and shell) certification from the United States Green Building Council, the first mixed-use office and vertical mall complex in Hong Kong and Greater China to be so honoured.

We set ourselves the highest standards of corporate governance and seek to operate in a socially responsible and ethical way. We recognise the importance of positive and constructive interaction with the communities we live in and we support and encourage our employees to be more involved in community activities. To this end, we have adopted a new and more comprehensive approach to our corporate responsibility reporting. Please read our Corporate Responsibility Report 2012 for highlights of our contributions to the community during the year.

## Outlook

The Hong Kong economy is expected to continue to be impacted by the conditions of our global economic partners. Private consumption should, however, remain resilient. In this light, the performance of our balanced and more diversified retail and office portfolio is expected to be steady, and further supported by the full-year contribution from Hysan Place.

Hysan is well placed to continue to enhance and promote an already significant retail and office hub in one of the most vibrant areas in Hong Kong. We believe we have a strong foundation on which to build towards our ambition to establish the Lee Gardens district as the heartbeat of Hong Kong, a district that inspires active participation and discovery in a close-knit, sustainable community of unparalleled energy.

## Appreciation

On behalf of the Board, I would like to acknowledge the contribution of our management team and our staff. We thank you for your commitment and hard work during an eventful year, the highlight of which was the successful opening of Hysan Place. I would like to welcome Mr. Siu Chuen LAU, Deputy Chairman, who took on the role of Chief Executive Officer in May, and to wish Mr. Gerry Lui Fai YIM, our former Chief Executive Officer every success in his future endeavours.

As part of our ongoing commitment to further strengthening board composition and performance, we welcome Mr. Frederick Peter CHURCHOUSE, an Asian property investment veteran, as our new Independent non-executive Director.

Finally, I wish to thank my fellow directors for their diligence and valuable advice to and support of the management team during a year of exciting transition.

**Irene Yun Lien LEE**

Chairman

Hong Kong, 6 March 2013





This section begins with an overview of Hong Kong's economic environment and property leasing markets. This is followed by Hysan's strategic actions in 2012 against this backdrop, as detailed by an analysis of our operations, performance, finance, as well as our enhanced risk management and controls during the year.

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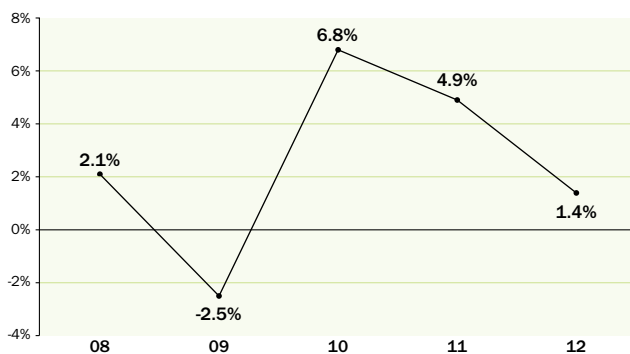
# The Marketplace

## Hong Kong Economy

The Hong Kong economy generally remained steady in 2012 with a growth rate of 1.4% recorded for the full year. Exports, in particular, were affected by the macro environment in Europe and the United States. Private consumption, however, remained resilient. Investment spending (including investment in large-scale public projects) also helped cushion the impact of more subdued international trade. The fourth quarter saw a more solid performance with a 2.5% growth year-on-year, following three successive quarters of around 1% growth.

### Real Gross Domestic Product\*

Year-on-year % change



\* In chained (2010) dollars

Source: Census and Statistics Department (data as of March 2013)

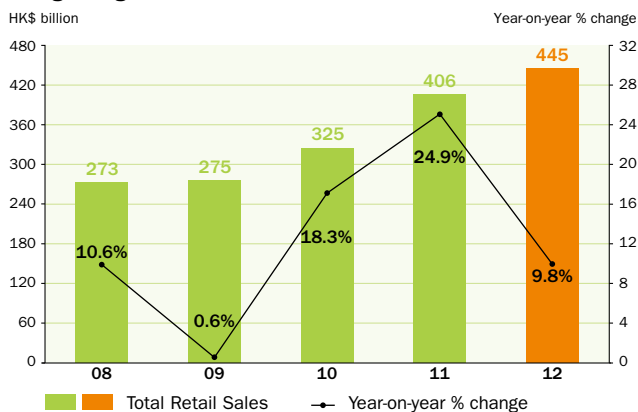
## Retail

Retail sales recorded an annual growth of 9.8% as compared to 2011, a good performance but one that also shows a moderation of growth when compared with the phenomenal growth experienced in 2011 (24.9%). The growth momentum became more subdued as from the second half of the year. However, some improvement was noted towards the end of the year (in the months of November and December).

This also reflected a moderation in the growth of PRC tourist spending, despite an increase in arrival number by 24.2% for the whole year. We believe that this moderation represents a normalisation of the exceptional growth experienced in 2011 and that the long-term story of the rise of the Chinese consumer should remain positive.

In this context, some retail categories continued to record good year-on-year growth, including consumer durable goods (up 19.5%; 2011: 28.6%) and medicines and cosmetics (up 15%; 2011: 21.5%). By contrast, jewellery, watches and clocks, and valuable gifts categories recorded a much less marked 7.7% year-on-year increase (2011: 46.6%).

### Hong Kong Total Retail Sales



Source: Census and Statistics Department (data as of March 2013)

### Total Number of Visitors



Source: Hong Kong Tourism Board (data as of March 2013)

### Hong Kong Total Retail Sales 2012: Performance of Selected Categories

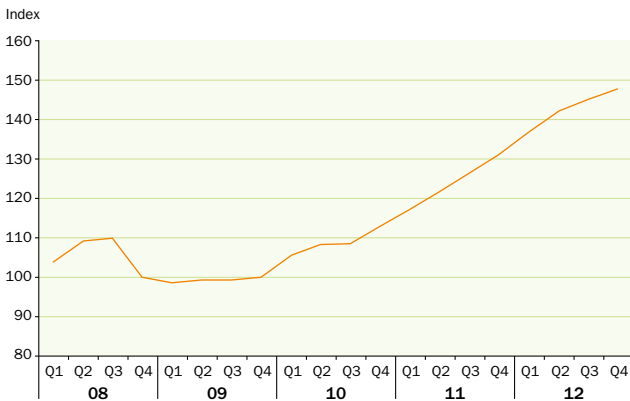
Type of retail outlet	Jan-Jun 2012 (YoY)	Jul-Oct 2012 (YoY)	Nov 2012 (YoY)	Dec 2012 (YoY)	Full year 2012 (YoY)
All retail outlets	+13.1%	+5.3%	+9.4%	+9.1%	+9.8%
Clothing, footwear and allied products	+11.5%	+2.4%	+8.1%	+6.1%	+7.6%
Jewellery, watches and clocks, and valuable gifts	+11.8%	-0.5%	+13.4%	+11.3%	+7.7%
Consumer durable goods Including electrical goods and others (electronic goods and computers)	+27.7%	+10.9%	+10.1%	+20.6%	+19.5%
Medicines and cosmetics	+17.0%	+16.4%	+12.7%	+3.2%	+15.0%

Source: Census and Statistics Department (data as of March 2013)



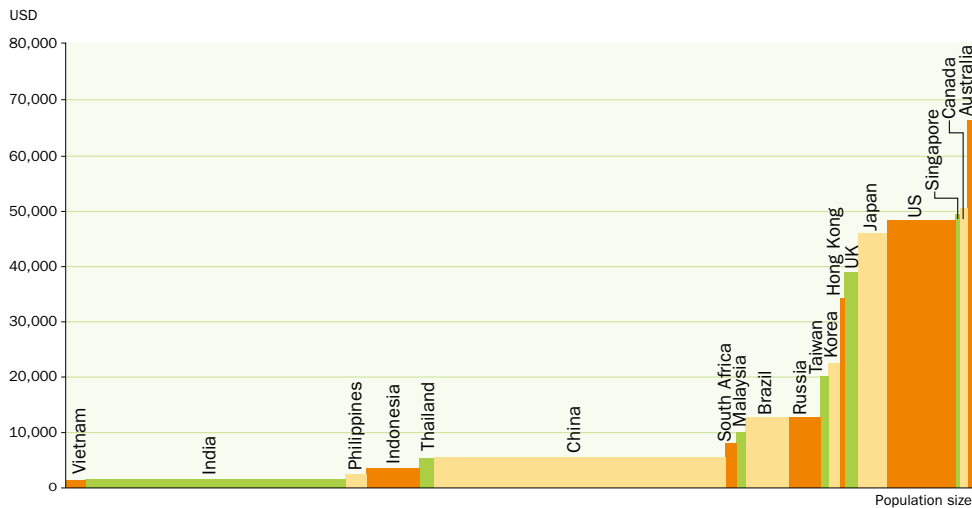
Demand from new entrants and international retailers for prime shopping centres and high street shops remained strong during the year. New retail space supply remained low, with the completion of two major prime retail developments (totalling around 700,000 square feet). Hysan Place welcomed its first shoppers in Causeway Bay in August, and another retail outlet opened in Tuen Mun, the New Territories. Throughout the year, rents for premium prime shopping centres continued to rise, by 12.8% year-on-year.

**Premium Prime Shopping Centre Rental Index (2009 Q4=100)**



Source: Jones Lang LaSalle (data as of March 2013)

**The Chinese Consumer's Potential for Growth in Context: GDP Per Capita (Current Prices) in 2011**



Source: IMF (data as of March 2013)

**Office**

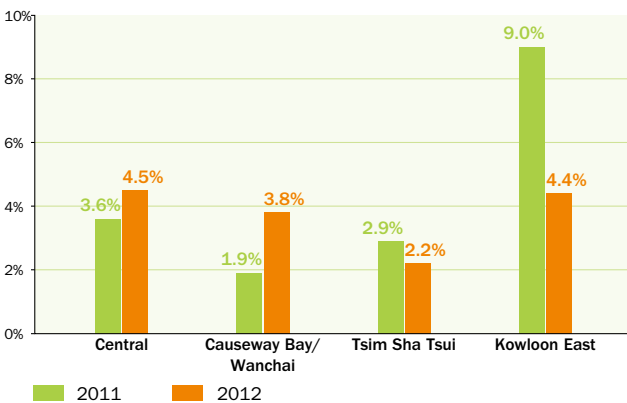
Uncertainties in the external economic environment continued to weigh on Grade “A” office demand during the year, especially in the banking and finance sector. Leasing activities were driven largely by cost-saving relocations, including decentralisation.

New Grade “A” office supply totalled 1.3 million square feet in 2012, with more than half (65%) of the space located in decentralised areas. Moreover, the new supply level was far lower than that of 2008 (3.7 million square feet), which at that time coincided with reduced demand due to the global financial crisis.

Amid increasing corporate austerity, the overall net take-up in Hong Kong amounted to 1.6 million square feet in the year, 0.4 million square feet less than that of 2011. Decentralised Kowloon East recorded a significant net-absorption. Among the core districts, Causeway Bay/Wanchai and Tsim Sha Tsui saw positive take-up. Negative net absorption was experienced in Central.

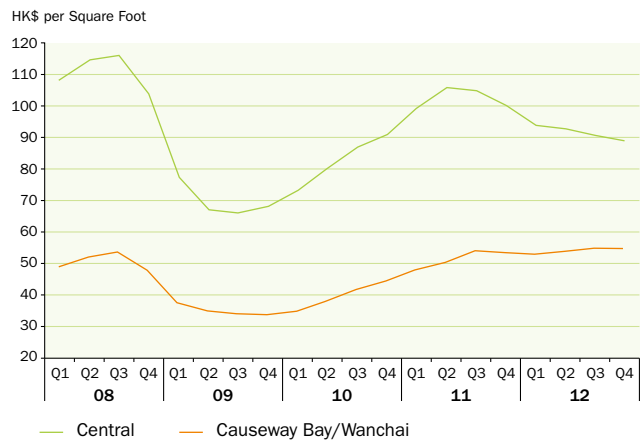
Among the Grade “A” office sub-markets, Central’s rents dropped 11.2% during 2012. All other sub-markets, however, remained stable. Causeway Bay/Wanchai recorded an annual rental growth of 2.0%.

**Grade “A” Office Vacancy Rate in 2011 and 2012**



Source: Jones Lang LaSalle (data as of March 2013)

**Grade “A” Office Rental Value**



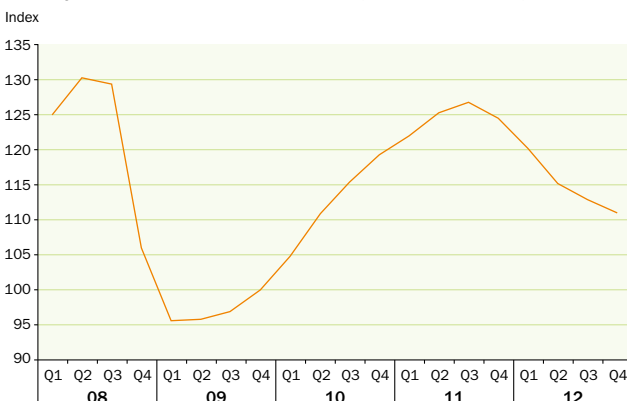
Source: Jones Lang LaSalle (data as of March 2013)

## Luxury Residential

Leasing demand for luxury residential properties remained lacklustre on the back of weakened expatriate demand in the financial sector, traditionally the biggest tenant group. Some multinational corporations placed new expatriate headcount plans on hold, while others implemented cost-cutting exercises and tightened housing budgets for expatriate staff at all levels. Overall, market luxury residential rents fell 10.9% in 2012.

Leasing activities in this sector were principally due to the housing moves of expatriates already in Hong Kong, and to newly arriving expatriates from non-financial companies.

**Luxury Residential Rental Index (2009 Q4=100)**



Source: Jones Lang LaSalle (data as of March 2013)

# The Hysan Community – Our Investment Property Portfolio

Our investment property portfolio totals some 4.5 million gross square feet of high quality office, retail and residential space in Hong Kong.



**HYSAN PLACE**  
500 Hennessy Road, Causeway Bay

Hysan Place is our newest building which includes 15 floors of Grade “A” offices and 17 floors of retail outlets. Situated at the northern gateway of Hysan’s portfolio and the heart of bustling Causeway Bay, Hysan Place offers full harbour view offices, a shopping mall of exciting tenant mix and green building features that conform to the highest international sustainability standards.

Approx. Gross Floor Area: 716,000 ft<sup>2</sup>  
Number of Floors 40 / Parking Spaces 66  
Completed 2012



## OFFICE

Our office portfolio’s Grade “A” offices provide a core location with premium facilities and prestige for tenants and their clients. Our Grade “A” office positioning has been strengthened by Hysan Place’s world-class building specifications. Other office buildings offer quality office space for tenants’ diversified use.

## RETAIL

The Lee Gardens hub 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. Hysan Place represents an increase of 50% by gross floor area to our overall retail portfolio, offering a new and exciting shopping destination with international brands new to Hong Kong or Causeway Bay.



### THE LEE GARDENS/LEE GARDENS ONE 33 Hysan Avenue, Causeway Bay

This property comprises an office tower and the high-end Lee Gardens One 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 900,000 ft<sup>2</sup>  
Number of Floors 53 / Parking Spaces 200  
Completed 1997*



### LEE THEATRE PLAZA 99 Percival Street, Causeway Bay

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 stylish and chic international lifestyle brands and restaurants.

*Approx. Gross Floor Area 317,000 ft<sup>2</sup>  
Number of Floors 26  
Completed 1994 / Renovation of lower zone to be completed in 2013*



### LEE GARDENS TWO/CAROLINE CENTRE 28 Yun Ping Road, Causeway Bay

This office and retail complex is conveniently linked to the neighbouring The Lee Gardens/ Lee Gardens One. The Caroline Centre office tower is home to many international corporations, whereas the shopping centre offers luxury fashion brands, renowned restaurants and a children's concept floor.

*Approx. Gross Floor Area 627,000 ft<sup>2</sup>  
Number of Floors 34 / Parking Spaces 167  
Completed 1992 / Renovation of retail podium 2003*



### LEIGHTON CENTRE 77 Leighton Road, Causeway Bay

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. Its completed renovation in 2011 has given a fresh look to its office lobby, while the retail podium has become a stylish shopping venue of international brands.

*Approx. Gross Floor Area 430,000 ft<sup>2</sup>  
Number of Floors 28 / Parking Spaces 321  
Completed 1977 / Renovations completed 2011*



### SUNNING PLAZA 10 Hysan Avenue, Causeway Bay

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<sup>2</sup>  
Number of Floors 30 / Parking Spaces 150 (jointly owned with Sunning Court)  
Completed 1982*



### ONE HYSAN AVENUE 1 Hysan Avenue, Causeway Bay

Located at the junction of three busy streets in the heart of Causeway Bay, this office and retail complex enjoys a prime location. Its retail floors house a popular fashion flagship store.

*Approx. Gross Floor Area 169,000 ft<sup>2</sup>  
Number of Floors 26  
Completed 1976 / Renovations completed 2011*



### 18 HYSAN AVENUE 18 Hysan Avenue, Causeway Bay

18 Hysan Avenue 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<sup>2</sup>  
Number of Floors 25  
Completed 1989 / Renovated 2009*



### BAMBOO GROVE 74-86 Kennedy Road, Mid-Levels

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<sup>2</sup>  
Number of Units 345 / Parking Spaces 436  
Completed 1985 / Renovated 2002*



### 111 LEIGHTON ROAD 111 Leighton Road, Causeway Bay

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 luxurious furniture and household appliances brands.

*Approx. Gross Floor Area 80,000 ft<sup>2</sup>  
Number of Floors 24  
Completed 1988 / Renovated 2004*



### SUNNING COURT 8 Hoi Ping Road, Causeway Bay

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<sup>2</sup>  
Number of Units 59 / Parking Spaces 150 (jointly owned with Sunning Plaza)  
Completed 1982 / Renovated 2003*



# Management's Discussion and Analysis

Hysan is principally engaged, together with its subsidiaries and associates, in the investment, development and management of quality properties in prime locations, and the Group's turnover and results are primarily derived from the leasing of investment properties located in Hong Kong. Our investment property interests currently total some 4.5 million gross square feet of high-quality retail, office and residential space in Hong Kong, including the new Hysan Place.

The Group adopts a portfolio approach in its investment properties management, which aims at maintaining a well-balanced portfolio while targeting to achieve a steady and measured growth.

## Review of Results

The Group's turnover continued to grow and recorded HK\$2,486 million in 2012, representing an increase of 29.3% from HK\$1,922 million in 2011. If the rental contribution of HK\$431 million from the new Hysan Place (whose shopping mall opened in August) is excluded, the like-for-like turnover increase would be 6.9% to HK\$2,055 million. The turnover of each sector is shown as below:

	2012 HK\$ million	2011 HK\$ million	Change HK\$ million	Change %
Retail sector	1,250	789	461	+58.4
Office sector	908	820	88	+10.7
Residential sector	328	313	15	+4.8
	<b>2,486</b>	<b>1,922</b>	<b>564</b>	<b>+29.3</b>

### KEY PERFORMANCE INDICATORS

Although 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 in this table.

#### Turnover Growth

#### Measurement

Rental revenue in 2012 as compared to that in 2011

#### Significance

Reflects the combined effect of changes in rental rate and occupancy rate

#### Occupancy Rate

#### Measurement

Percentage of total area leased to tenants over total lettable area of each sector

#### Significance

- Rental revenue and management fees are directly proportional to occupancy rate
- Optimises revenue by balancing occupancy rate and rental level

#### Property Expenses

#### Measurement

Principally being costs directly associated with day-to-day operations of the Group's property portfolio

#### Significance

Measures the costs incurred in operating the Group's property portfolio

#### Property Expenses to Turnover Ratio

#### Measurement

Calculated by dividing property expenses by turnover

#### Significance

An indication of the gross margin of our business

Recurring Underlying Profit, arrived at by excluding the fair value change of investment properties and items that are non-recurring in nature (such as gains or losses on disposal of long-term assets; impairment or its reversal; and tax provisions for prior years), was the key measurement of the Group's core leasing business. In 2012, our Recurring Underlying Profit was HK\$1,622 million, up 23.8% from HK\$1,310 million in 2011. Our Underlying Profit, which excludes unrealised changes in fair value of investment properties, was also HK\$1,622 million (2011: HK\$1,310 million). Both profit indicators primarily reflect the improvement in gross profit generated from our core leasing activities, including contribution from the new Hysan Place. Property expenses, including those related to the opening of Hysan Place, also increased.

Our Reported Profit for 2012 was HK\$9,955 million (2011: HK\$8,545 million), reflecting a higher fair value gain on the Group's investment properties valuation recorded in this year. Basic earnings per share based on Recurring Underlying Profit correspondingly rose to HK152.83 cents (2011: HK123.92 cents).

	2012 HK\$ million	2011 HK\$ million	Change HK\$ million	Change %
<b>Recurring Underlying Profit</b>	<b>1,622</b>	1,310	312	+23.8
<b>Underlying Profit</b>	<b>1,622</b>	1,310	312	+23.8
Fair value change on investment properties located in				
– Hong Kong	<b>8,210</b>	7,177	1,033	+14.4
– Shanghai	<b>123</b>	58	65	+112.1
<b>Reported Profit</b>	<b>9,955</b>	8,545	1,410	+16.5

#### Performance

- Significant contribution by Hysan Place
- Growth was recorded in all three leasing sectors in the rest of the portfolio

#### Retail Sector

**+58.4%**

for 2012

Like-for-like:  
+9.5% for 2012  
(+12.7% for 2011)

#### Office Sector

**+10.7%**

for 2012

Like-for-like:  
5.2% for 2012  
(+6.5% for 2011)

#### Residential Sector

**+4.8%**

for 2012

(+6.5% for 2011)

#### Performance

- Retail portfolio occupancy principally reflected renovations at Lee Theatre Plaza
- Office portfolio occupancy remained strong; Hysan Place leasing continued
- Residential recorded 92% occupancy amidst a slow market

#### Retail Sector

**93%**

at year-end 2012

Like-for-like:  
91% at year-end 2012  
(virtually fully-let at year-end 2011)

#### Office Sector

**91%**

at year-end 2012

Like-for-like:  
98% at year-end 2012  
(96% at year-end 2011)

#### Residential Sector

**92%**

at year-end 2012

(95% at year-end 2011)

#### Performance

- Rise in property expenses principally attributable to Hysan Place costs, a significant part of which were related to revenue-generating activities such as agency fees
- Like-for-like property expenses also increased (see "Property Expenses to Turnover Ratio" in the next row)

#### Total Property Expenses

**HK\$423 million** for 2012

Like-for-like:  
HK\$271 million for 2012  
(HK\$262 million for 2011)

#### Performance

- Ratio increased in 2012 as a result of costs attributable to the Hysan Place opening, as compared to 2011
- On a like-for-like basis, ratio remained largely stable

#### Property Expenses to Turnover Ratio

**17.0%** for 2012

Like-for-like:  
13.2% for 2012  
(13.6% for 2011)



## Review of Operations

All three leasing sectors continued to record growth during the year, and their respective strategies and contribution to the Group's performance are discussed in detail below.

### RETAIL SECTOR

Hysan owns and manages 1.3 million gross square feet of prime retail space in Causeway Bay, one of the world's best known retail districts. The opening of Hysan Place mall in August 2012 basically completed the Group's multi-year strategic re-positioning of its retail portfolio. The Group views its retail portfolio in the Lee Gardens district as a multi-faceted, yet integrated shopping environment that combines significant street frontage with shopping malls of different characteristics, and that is complemented by a vibrant streetscape. This creates a unique and diversified shopping and lifestyle experience. Three hubs anchor the corners of this Hysan Retail Triangle:



- The environmentally friendly and award-winning (Gold Award, Best Mixed-Use Development in MIPIM Asia Awards 2012, which recognise excellence and innovation in regional real estate development) Hysan Place adds 50% to our retail portfolio size on the northern boundary of the Lee Gardens district, and is positioned as a “hip and trendy” hub to target the younger age groups. It also aims to attract new shoppers from other areas to Causeway Bay with its direct connections to the mass transit system, the MTR.
- The tree-lined avenue and street-front shops at Lee Gardens hub (comprising Lee Gardens One, Lee Gardens Two, Sunning Plaza and 18 Hysan Avenue) are well-recognised landmarks of the hub. They are positioned to provide elegant and luxury premium retail spaces aimed at high-end shoppers both local and from overseas.
- The Lee Theatre hub (comprising Lee Theatre Plaza, Leighton Centre and One Hysan Avenue), is located on the western boundary of the Lee Gardens district, and also adjacent to another popular shopping hub around Times Square. The Lee Theatre hub is positioned to bring in stylish and chic lifestyle shops and restaurants. The anticipated completion of Lee Theatre Plaza's rejuvenation is the last phase in the re-positioning of this hub, which leverages on the success and heavy traffic of both shopping hubs.



Reflecting Hysan Place mall's opening in August 2012, retail sector revenue increased by 58.4% to HK\$1,250 million (2011: HK\$789 million), including turnover rent of HK\$104 million (2011: HK\$89 million). On a like-for-like basis, a healthy growth of 9.5% to HK\$864 million was recorded.

Overall retail portfolio occupancy was 93% on 31 December 2012. On a like-for-like basis, the occupancy was 91% on 31 December 2012 (30 June 2012: 92%; 31 December 2011: virtually fully-let). These figures reflect the renovation of part of Lee Theatre Plaza.

Since its opening, Hysan Place has been able to fulfil our three key retail objectives. Firstly, it achieved its financial targets. Secondly, as demonstrated by the gradual transformation of retail mix in its neighbourhood, many synergies have been created by Hysan Place mall's opening that have enhanced the area's shopping experience. Finally, the mall has brought more shoppers to Causeway Bay, which benefits the entire retail district. The December 2012 figures, following the opening of all anchor tenant shops, showed an average daily of 83,000 visitors with peak days hitting above 100,000 visitors. We will continue to work with our tenants to fully capitalise on Hysan Place's potential to attract new shoppers to both Hysan Place and to the Lee Gardens district.

In terms of strategic contribution to our entire commercial property portfolio, Hysan Place further strengthened our retail sector with a more diversified tenant mix, and with anchor tenants that are internationally renowned but new to either Hong Kong or Causeway Bay. The enlarged and more diversified retail portfolio helped to give Hysan's overall commercial property portfolio a better balance.

## Management's Discussion and Analysis



Our Lee Gardens luxury hub continued to see healthy retail sales growth at 7.7% (noting a number of shops were under renovation), which was contributed by local shoppers as well as tourists. Through targeted marketing efforts, tenant sales to our VIP Club Avenue customers increased by 26%. There was also strong demand for our street front shops when they became available.

Upon opening a fresh range of shops in the renovated lower zone of Lee Theatre Plaza as from mid-2013, Lee Theatre retail hub will complete its transformation as our chic and stylish western gateway. All the renovated shop space has been leased. One Hysan Avenue and Leighton Centre, the other two venues forming the hub, have already seen significant changes to their retail positioning and offerings, bringing benefits to the Group.

In light of our portfolio re-positioning, we launched our district branding initiatives in the third quarter of 2012. In September, we strengthened our district branding with the new but familiar LEE GARDENS as the brand name, initially focusing on creating visual connectivity. Multi-hub promotions have been organised to generate cross marketing leveraging on the footfalls generated by Hysan Place and the mall's popular tenants.

A series of marketing efforts and activities will take place in 2013 to further make the Hysan Retail Triangle a must-visit place for enjoying unique shopping and lifestyle experiences, with the ultimate objective of enhancing Lee Gardens district's competitiveness as a top shopping destination.





## OFFICE SECTOR

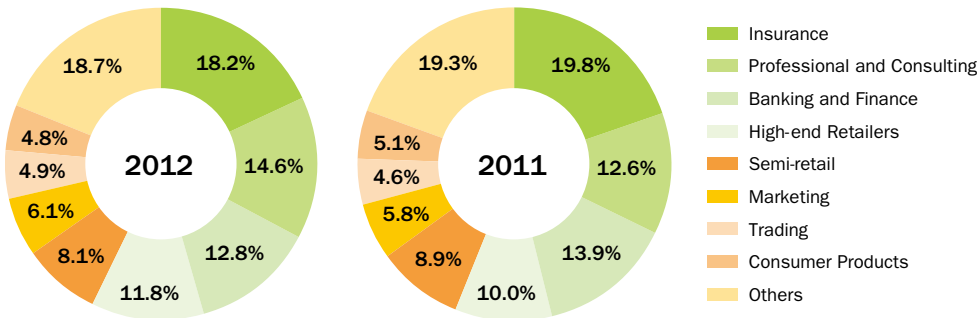
Hysan's office portfolio owns and manages 2.3 million gross square feet of premium space in Causeway Bay. The 15-floor Hysan Place office space is our latest addition to the Group's Grade "A" office hub. The hub counts among its constituents The Lee Gardens, Caroline Centre, Sunning Plaza and 18 Hysan Avenue. It is positioned to be a credible alternative to Central and Admiralty. Hysan Place has been certified at the highest Platinum level for the U. S. Green Building Council's Leadership in Energy and Environmental Design (USGBC LEED), and pre-certified at Platinum level for the Hong Kong Building Environmental Assessment Method (BEAM Plus) standard. Other office buildings within our portfolio (comprising One Hysan Avenue, 111 Leighton Road and Leighton Centre) provide quality office space for tenant use.

Our office sector's revenue grew 10.7% to HK\$908 million (2011: HK\$820 million). On a like-for-like basis, a growth of 5.2% to HK\$863 million was recorded. This principally reflected positive rental reversions, an increase of 29% in rent on renewals and new lettings, when compared with existing leases. Our portfolio occupancy was 91% on 31 December 2012. Our like-for-like office occupancy was 98% on 31 December 2012 (98% on 30 June 2012 and 96% on 31 December 2011). 53% of Hysan Place's office space had been committed as of 31 December 2012. In view of the limited supply of Grade "A" office space in competing core localities in the next two years, we shall continue to balance occupancy with tenant profile, with the aim of further enhancing the positioning of our entire office portfolio.



The top four industry groups represented around 57.4% of our office tenant mix, namely insurance, professional and consulting, banking and finance and high-end retailers. The overall tenant portfolio is balanced, and no single category takes up more than 20% of total lettable area. The Group continues to actively manage its tenancy profile. The charts below illustrate our office portfolio tenant profile as analysed by area occupied.

**Office Tenant Profile by Area Occupied as at Year-end**



We shall continue to upgrade our office facilities, raise property service standards, as well as foster close and trusting tenant relationships. All these measures aim to offer our best-in-value proposition to our tenants, and deliver a total Grade “A” office experience.



## RESIDENTIAL SECTOR

Our residential portfolio comprises the Bamboo Grove residential development located in Mid-Levels and Sunning Court in Causeway Bay, totalling 0.8 million gross square feet. We offer top-class facilities and one-stop personalised services to provide an expatriate-focused living experience. Residential leases are typically for two years.

Residential sector revenue increased 4.8% to HK\$328 million (2011: HK\$313 million). The sector recorded 92% occupancy at the end of the year, amidst the slow market environment (95% on both 30 June 2012 and 31 December 2011). In terms of rental levels, however, positive rental reversion was achieved as a whole. During the year, the Group continued to broaden its tenant base beyond the financial sector, as demand from the latter was affected by the macro environment.

At the same time, we continued to diversify our marketing channels. Strengthened tenant relations and direct marketing initiatives helped increase tenant referrals and deals made directly with us, which also further improved cost effectiveness.

Our tenant retention rate remained healthy, reflecting our continued efforts to enhance our facilities, services and communal activities.



## Financial Review

A review of the Group's results and operations is featured in the preceding sections. This section deals with other significant financial matters.

### OPERATING COSTS

The Group's operating costs are generally classified as property expenses and administrative 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. Property expenses increased to HK\$423 million (2011: HK\$262 million). The increase was principally due to the costs attributable to Hysan Place, a significant part of which related to revenue-generating activities such as agency fees. As a result, the property expenses to turnover ratio increased from 13.6% to 17.0% as compared to 2011. We expect property expenses regarding Hysan Place to become more stable following its opening, also to be measured against full-year contribution of Hysan Place beginning 2013. Like-for-like property expenses increased by 3.4% to HK\$271 million (2011: HK\$262 million). This reflected an increase in repairs and maintenance costs, cleaning expenses (following the implementation of statutory minimum wages) as well as front-line staff costs. The like-for-like property expenses to turnover ratio remained stable at 13.2% (2011: 13.6%).

Administrative expenses are the costs indirectly associated with day-to-day operations of our investment properties, largely representing payroll related costs of management and head-office staff. Administrative expenses rose by 8.1% to HK\$187 million (2011: HK\$173 million). This reflected continuing human resources upskilling for Hysan's existing portfolio and additional hiring for Hysan Place. Consulting expenses were also incurred for the review and application for judicial review of the government's proposed Outline Zoning Plans, which affect the long-term re-development of the Group's Causeway Bay properties portfolio.

### FINANCE COSTS

Finance costs, after capitalisation of HK\$17 million (2011: HK\$44 million) interest expenses and related borrowing costs referable to Hysan Place construction costs, were HK\$156 million in 2012, an increase of 27.9% from HK\$122 million in 2011. If the capitalised interest expenses and related borrowing costs were included, the Group's finance costs in 2012 would have been HK\$173 million, an increase of HK\$7 million or 4.2% as compared to last year (2011: HK\$166 million).

The increase principally reflected the increase in the Group's average debt levels, as new financings were arranged from the second half of 2011 onwards, including measures for re-financing borrowings due in 2012. The Group's average finance costs in 2012 (defined as interest expenses divided by average gross debt for the year) were 2.7%, at the same level for 2011.

Further discussion of the Group's treasury policy, including debt and interest rate management, is set out in the "Treasury Policy" section on pages 48 to 53.



## REVALUATION OF INVESTMENT PROPERTIES

The Group's investment property portfolio was valued at 31 December 2012 by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The amount of this valuation was HK\$60,022 million, an increase of 20.1% from HK\$49,969 million at 31 December 2011. The valuation at year-end 2012 principally reflected improved rental rates for the Group's investment property portfolio, and a higher valuation for Hysan Place after construction completion. The following shows the property valuation of each portfolio at year-end.

	2012 HK\$ million	2011 HK\$ million	Change HK\$ million	Change %
Retail portfolio	28,906	15,089	13,817	+91.6
Office portfolio	22,622	16,954	5,668	+33.4
Residential portfolio	8,494	8,426	68	+0.8
Property under re-development (Hysan Place)*	-	9,500	(9,500)	-100.0
	<b>60,022</b>	<b>49,969</b>	<b>10,053</b>	<b>+20.1</b>

\* Property under re-development was valued at site value plus construction costs. Hysan Place's valuation was compiled on this basis for 2011 year-end valuation.

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK\$8,533 million (2011: HK\$7,532 million) was recognised in the Group's consolidated income statement for the year.

### INVESTMENTS IN ASSOCIATES

The Group's share of results of associates increased by 31.5% to HK\$334 million (2011: HK\$254 million), principally due to the increase in revaluation gain on the Shanghai Grand Gateway project, of which the Group owns 24.7%, as compared to last year. At 31 December 2012, properties at Shanghai Grand Gateway had 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\$123 million (2011: HK\$58 million).

The Shanghai Grand Gateway project continued to deliver a good performance in 2012. The Group's share of results, excluding revaluation gains on investment properties held by the associate, recorded an 7.7% increase year-on-year. As at the end of 2012, the retail units were fully-let while satisfactory occupancy was achieved for both the office and residential properties.

### OTHER INVESTMENTS

In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in debt securities and principal-protected investments. This helped to preserve the Group's liquidity and to diversify counterparty risk exposure.

During the year, the Group disposed of all listed equity securities to reduce our exposure to equity market volatility and placed the proceeds as bank deposits and debt securities. Investment income, comprising principally dividend income and interest income, amounted to HK\$55 million (2011: HK\$90 million). The decrease mainly reflected lower dividend income derived from the Group's equity investments, after taking into consideration disposals made during the year.

### CASH FLOWS

Cash flow of the Group during the year is summarised below.

	2012 HK\$ million	2011 HK\$ million	Change HK\$ million	Change %
Operating cash inflow	1,941	1,592	349	+21.9
Investments	1,907	(1,040)	2,947	n/m
Capital expenditure	(1,626)	(1,547)	(79)	+5.1
Financing	(738)	2,041	(2,779)	n/m
Interest and taxation	(333)	(273)	(60)	+22.0
Dividends paid and proceeds on exercise of options	(842)	(679)	(163)	+24.0
<b>Net cash inflow</b>	<b>309</b>	<b>94</b>	<b>215</b>	<b>+228.7</b>

\* n/m – not meaningful





Including the movements of working capital, the Group reported operating cash inflow of HK\$1,941 million (2011: HK\$1,592 million) in 2012, reflecting the growth in our core leasing business. Net cash from investments was HK\$1,907 million (2011: net cash used in investments: HK\$1,040 million), principally attributable to the proceeds from disposal of listed equity securities during the year and the reduction in time deposits at year-end 2012.

Capital expenditure in 2012 was HK\$1,626 million (2011: HK\$1,547 million), including the payment of the construction costs of Hysan Place. Net cash used in financing was HK\$738 million (2011: net cash from financing: HK\$2,041 million), mainly due to the repayment of US\$174 million fixed rate notes maturing during the year, which was partly offset by new borrowings of HK\$781 million fixed rate notes.

### CAPITAL EXPENDITURE AND MANAGEMENT

The Group is committed to enhancing the asset value of its investment property portfolio through selective re-positioning, refurbishment and re-development. The Group has also 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 principally purchase of plant and equipment) during the year was HK\$1,595 million (2011: HK\$1,520 million), including the payment of the construction costs of Hysan Place.

The Group has an internal control system for scrutinising capital expenditures. Depending on strategic importance, cost/benefit and the size of the projects, detailed analysis of expected risks and returns is submitted to business unit heads, Executive Directors or the Board for consideration and approval. 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.

## Treasury Policy

### MARKET HIGHLIGHT

Global economic growth continued to be subdued in 2012, amidst economic contraction in Japan and the Euro zone, decelerated growth in China and limited recovery in the United States. Signs of stabilisation emerged during the latter part of the year as a result of stimulatory monetary policies providing liquidity to the market. This, together with the low interest rate environment, led to robust debt capital market activities in 2012. The Group took the opportunity to arrange new and longer-term financing through the Medium Term Note Programme in 2012 and early 2013.

### 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 re-financing and liquidity risks by attaining a 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 with prudent investment guidelines.

To achieve the objective of financial prudence, Hysan's Treasury policy manual lays down the acceptable range of operational parameters and gives guidance on our key performance indicators as set out in the table.

Standard and Poor's upgraded the Group's credit rating from BBB to BBB+ in December 2012 to reflect the Group's improved position following the opening of Hysan Place. Moody's rating of the Group is Baa1.

Treasury has an overall objective of optimising borrowing costs and management of associated risks: that is, to minimise the finance costs subject to the constraints of the operational parameters. The average finance costs for 2012 was 2.7%, same as 2011.

### KEY PERFORMANCE INDICATORS

Average Finance Costs

Bank Facilities:  
Capital Market  
Issuance

Average Debt Maturity

Floating Rate Debt  
(% on Total Debt)

Net Interest Coverage

Net Debt to Equity

<p><b>Measurement</b></p> <p>Interest expenses divided by average gross debt for the year</p>	<p><b>Significance</b></p> <p>Our treasury aims to manage and optimise finance costs</p>	<p><b>Performance</b></p> <p>HIBOR in 2012 continued to remain low at a level similar to 2011</p>	<p><b>Average Finance Costs</b></p> <p><b>2.7%</b> for 2012 (2.7% for 2011)</p>
<p><b>Measurement</b></p> <p>The proportion of the borrowings from banks and from capital markets relative to gross debt</p>	<p><b>Significance</b></p> <p>As a measure of diversification of funding source</p>	<p><b>Performance</b></p> <p>During 2012, US\$174 million fixed rate notes matured and HK\$781 million notes were issued. The ratio at year-end 2012 was similar to 2011.</p>	<p><b>Bank Facilities: Capital Market Issuance</b></p> <p><b>45.8%: 54.2%</b> at year-end 2012 (43.1% : 56.9% at year-end 2011)</p>
<p><b>Measurement</b></p> <p>The weighted average of the remaining maturity period of the Group's gross debt</p>	<p><b>Significance</b></p> <p>An indicator of the pressure for re-financing or repaying the existing borrowings in the near term</p>	<p><b>Performance</b></p> <p>The average maturity was lengthened with HK\$781 million fixed rate notes issued with tenors ranging from 7 to 15 years</p>	<p><b>Average Debt Maturity</b></p> <p><b>5.0 years</b> at year-end 2012 (4.2 years at year-end 2011)</p>
<p><b>Measurement</b></p> <p>Debt effectively in floating interest rate divided by gross debt</p>	<p><b>Significance</b></p> <p>A measure to calculate the percentage of borrowings subject to fluctuations in market interest rates</p>	<p><b>Performance</b></p> <p>The ratio was lower compared with 2011 because more borrowings were issued at fixed interest rates under a relatively low interest rate environment</p>	<p><b>Floating Rate Debt</b></p> <p><b>47.0%</b> at year-end 2012 (54.8% at year-end 2011)</p>
<p><b>Measurement</b></p> <p>Gross profit less administrative expenses before depreciation divided by net interest expenses</p>	<p><b>Significance</b></p> <p>It represents the Group's financial ability from operating activities to meet its interest payment obligations</p>	<p><b>Performance</b></p> <p>Improved ratio reflects our higher profit offsetting higher net interest expenses</p>	<p><b>Net Interest Coverage</b></p> <p><b>16.8 times</b> for 2012 (12.3 times for 2011)</p>
<p><b>Measurement</b></p> <p>Borrowings less time deposits, cash and bank balances divided by shareholders' funds</p>	<p><b>Significance</b></p> <p>A benchmark as to the healthy debt level as well as an indicator of the Group's ability to raise further debt</p>	<p><b>Performance</b></p> <p>The ratio remains low and the Group's ability to raise further debt is strong. The 10-year US\$300 million fixed rate notes were issued in January 2013.</p>	<p><b>Net Debt to Equity</b></p> <p><b>6.2%</b> at year-end 2012 (7.6% at year-end 2011)</p>

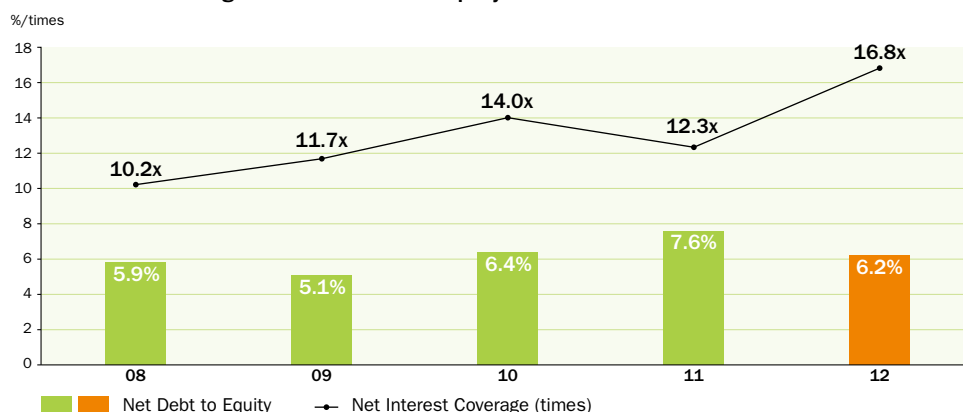


## DEBT MANAGEMENT

Liquidity in the local banking loan market improved in the second half of 2012, particularly after China began to relax its monetary policy as inflation was contained. In the debt capital market, credit premium for companies with strong credit standing significantly decreased. Investors showed high demand for quality financial assets in the low interest rate environment. As a result, transaction volumes increased substantially in the debt capital market. To replenish liquidity used for repayment of debt maturing in 2012 and to lengthen the average debt maturity, the Group issued fixed rate notes totalling HK\$781 million, with tenors ranging from 7 to 15 years, under the Medium Term Note Programme. These long term borrowings lengthened the average maturity of the debt profile to 5.0 years as at end of 2012 (2011: 4.2 years). The fixed rate nature of those notes, with coupons ranging from 3.9% to 4.5%, allowed the Group to lock in relatively low interest costs for long tenor funding. In January 2013, the Group issued 10-year US\$300 million fixed rate notes with coupon at 3.5% to further lengthen the debt maturity.

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

### Net Interest Coverage and Net Debt to Equity at Year-end



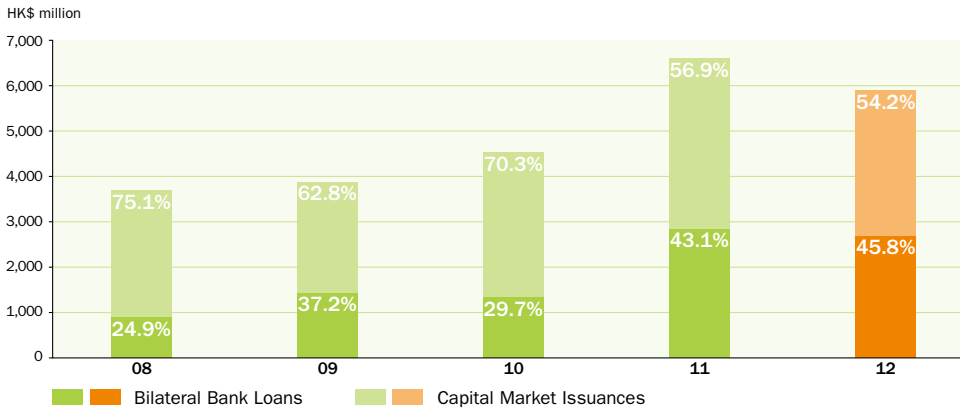
The Group always strives to lower the borrowing margin, to diversify funding sources and to maintain a suitable maturity profile relative to the overall use of funds. As at 31 December 2012, the outstanding gross debt<sup>1</sup> of the Group was HK\$5,899 million (2011: HK\$6,610 million), a decrease of HK\$711 million compared to 2011 as a result of debt repayment during the year. 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. Ten local and overseas banks have provided bilateral banking facilities to the Group as funding alternatives. As at the end of 2012, about 45.8% (2011: 43.1%) of the Group's outstanding gross debts were sourced from these banking facilities.

<sup>1</sup> The gross debt represents the contractual principal payment obligations at year-end 2012. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. Also, if the Group designates certain derivatives as hedging instruments (i.e. interest rate swaps) for fair value hedge, the net cumulative gains/losses attributable to the hedged interest rate risk of the hedged items (i.e. fixed rate notes and zero coupon notes) are adjusted to the hedged items. Therefore, as disclosed in the consolidated statement of financial position as at 31 December 2012, the book value of the outstanding debt of the Group was HK\$5,941 million (2011: HK\$6,663 million).

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

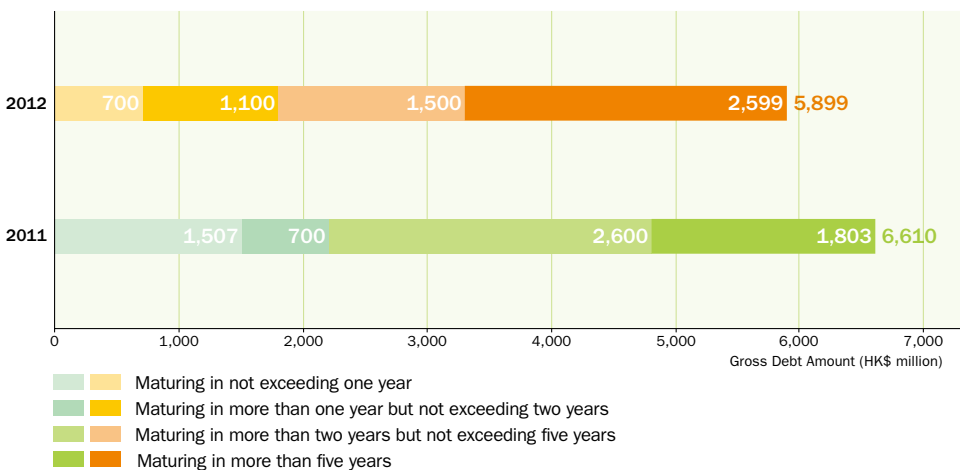
**Sources of Financing at Year-end**



The Group also strives to maintain an appropriate maturity profile. As at 31 December 2012, the average maturity of the debt portfolio was about 5.0 years (2011: 4.2 years), of which about HK\$700 million or 11.9% (2011: HK\$1,507 million or 22.8%) of the outstanding gross debt will be due in less than one year, reflecting minimal re-financing pressure for 2013.

The graph below shows the debt maturity profile of the Group at year-end 2012 and 2011.

**Debt Maturity Profile at Year-end 2012 and 2011**



### LIQUIDITY MANAGEMENT

The Group always places great emphasis on liquidity management. Recurring cash flows from our business continued to remain steady and strong. As at 31 December 2012, the Group had cash and bank deposits totalling about HK\$2,311 million (2011: HK\$2,961 million). 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\$1,288 million (2011: HK\$1,060 million) in debt securities and investments, which are principal-protected in nature.

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, which amounted to HK\$1,000 million at year-end 2012 (2011: HK\$1,000 million), essentially allow the Group to obtain additional liquidity as the needs arise. During the year, the securities investment listed on The Stock Exchange of Hong Kong Limited was fully disposed of.

### INTEREST RATE MANAGEMENT

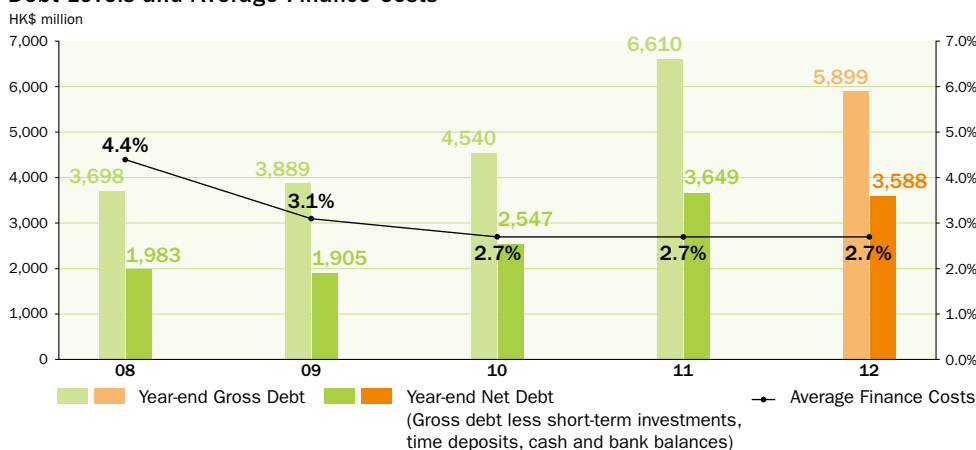
Interest expenses account for a significant proportion of the Group's total expenses and warrant close monitoring. Appropriate hedging strategies are adopted to manage exposure to projected movements in the interest rate.

During the year, 3-month Hong Kong Inter-bank Offered Rate ("HIBOR") remained low and the range bounded between 0.38% and 0.40%. As a result, the Group maintained the average cost of financing at 2.7% in 2012, same as 2011.

The Group managed the fixed debt ratio at 53.0% at year-end of 2012, increased from 45.2% at year-end of 2011.

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\$26 million and AUD37 million bank loans, which have been hedged by appropriate hedging instruments, all of the Group's other borrowings are denominated in Hong Kong dollars. For the 10-year US\$300 million fixed rate notes issued in January 2013, hedges were entered to effectively convert the borrowings into Hong Kong dollars. In regard to foreign exchange exposure on the investment side, the Group's outstanding investment in time deposits, principal-protected investments and debt securities amounted to US\$79 million and RMB163 million, of which US\$37 million was hedged by foreign exchange forward contracts. Other foreign exchange exposure mainly relates to investments in the Shanghai project. These foreign exchange exposures amounted to the equivalent of HK\$3,759 million (2011: HK\$3,423 million) or 5.5% (2011: 5.8%) of total assets.

## USE OF DERIVATIVES

As at 31 December 2012, outstanding derivatives were mainly 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 Report

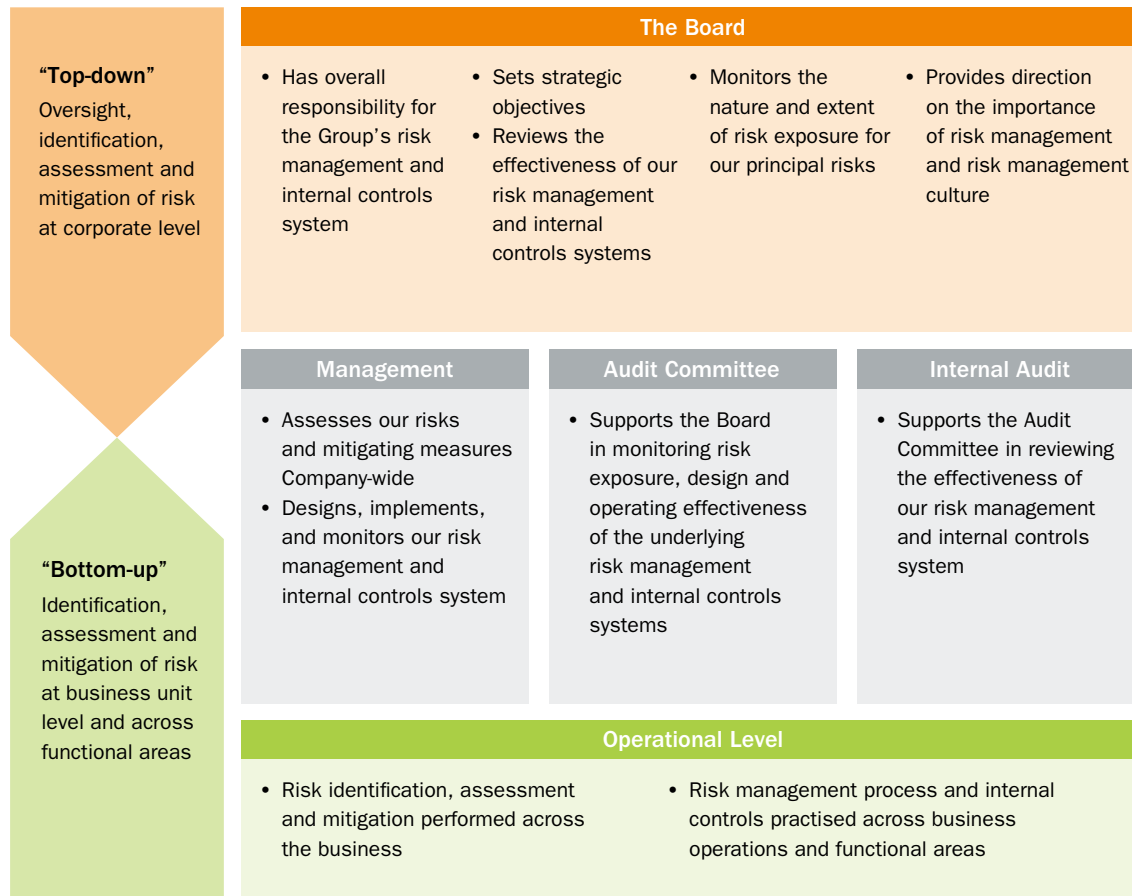
## Responsibility

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.

## Our Risk Management Framework

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. The Audit Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. Management assesses and presents reports to the Audit Committee on its own assessments of key risks, 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.

## Hysan Risk Management Framework Diagram



## 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") for internal controls, 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 600 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.
- **Risk Assessment** – we continue to drive improvements to our risk management process and the quality of risk information generated, while at the same time maintaining a simple and practical approach. Instead of setting up a separate risk management function, we instead seek to have risk management features embedded within our operations (leasing, property management, and project) as well as functional areas (including finance, human resources, IT and legal). We aim to have a "live" risk management system that is practised on a day-to-day basis by our operating units. On an annual basis, department heads review and update their risk registers, providing assurances that controls are both embedded and effective within the business. Potential weaknesses and action items are regularly monitored by the management team.
- **Control Activities; Information and Communicating** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on top-level reviews, segregation of duties; and physical controls. Over the past few years, we have been formalising and documenting the control processes in line with a general desire to move towards a management style based on systematic and structured control principles. A greater use of automation (information processing) is being implemented. We have made further progress during the year.
- **Monitoring** – oversight by the Board and Audit Committee, assisted by our Internal Audit team.

## 2012 Review of Internal Controls Effectiveness

In respect of the year ended 31 December 2012, the Board considered the internal controls system effective and adequate. No significant areas of concern that might affect the operational, financial reporting, and compliance controls 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.



## Further Strengthening of Our Underlying Systems in 2012

Risk Assessment: a more risk-based approach adopted	
<p>A more risk-based (instead of process-based) approach in risk identification and assessment was adopted, with clearer description of risks in light of changes in internal as well as external circumstances.</p>	<p>This enriches our ability to analyse risks and respond to opportunities as we pursue our strategic objectives, also considering year-on-year changes.</p>
Risk Assessment: a more “participatory” approach involving operating units	
<p>Our approach for risk identification and assessment of top risks facing the Group incorporates “top-down” as well as “bottom-up” aspects. We have enhanced the “bottom-up” process, which involved the identification and assessment of risks by department heads at the business unit level and across functional areas.</p> <p>For the annual update of risk registers, training sessions and workshops were provided to department heads, with guidance, facilitation, and discussions throughout the process. A more “participatory” approach has been adopted in determining the Group’s corporate-level “top risks”. Sessions attended by department heads were held to share and discuss the Group’s top-tier risks as distilled from department risk registers.</p>	<p>This furthers our aim to make our risk management system a “live” one that is practised on a day-to-day basis by operating units, and generally strengthens risk awareness and culture across the organization.</p>
Control Activities refined	
<p>Enhanced our Control Activities by a greater use of performance indicators, which also facilitates top-level reviews. Our documented policies and procedures are being refined, and a greater use of automation (information processing) is being implemented.</p>	<p>The enhancements adopted furthered our general desire to have a management style based on systematic and structured control principles.</p>
Monitoring – more structured and frequent reporting to Audit Committee	
<p>Management enhances its update reports to Audit Committee on movements on top risks and appropriate mitigating measures.</p> <p>In addition to two meetings scheduled primarily for reviewing annual and interim results, an additional Audit Committee meeting will be held as from 2012 onwards to review and monitor risk management activities.</p>	<p>Facilitates and enhances the Audit Committee’s work in monitoring our risk exposure; design and operating effectiveness of the underlying internal control systems.</p>

## Way Forward

Now that we have enhanced risk identification, assessment and monitoring processes, a main priority is to further integrate the risk management processes into our business planning and operational practices. We have begun with the 2013 budgetary process, by ensuring that business and operating units align the nature and extent of significant risks with the overall corporate goals and strategic objectives.

## Our Risk Profile

Our approach for managing risk is underpinned by our understanding of our current risk exposures, and how our risks are changing over time. The following illustrates the nature of our principal risks. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

Risk	Risk change during 2012	Description of risk change
Impact of Hong Kong and global macroeconomic developments on: <ol style="list-style-type: none"> <li>Office leasing operations</li> <li>Retail leasing operations</li> <li>Residential leasing operations</li> </ol>	↑	Considering the impact of changes in demand and competition on the three leasing units, which became more challenging during the year. New supply remains, however, tight for all three units. The retail environment has been more resilient.  ► For more analysis, see "The Marketplace" (pages 30 to 33) & "Review of Operations" (pages 38 to 43)
4. Projects (including Hysan Place re-development and mall opening)	↓	Hysan Place completed with successful mall opening in August.  ► For more analysis, see "2012 Performance at a Glance — Hysan Place Contributions" (pages 18 and 19)
5. Finance (funding and liquidity risks given Euro sovereign crisis and impact on financial markets)	↓	The Group successfully made a US\$300 million 10-year bond issuance in January 2013; and the financial markets generally became more stable towards the latter part of 2012.  ► For more analysis, see "Treasury Policy" (pages 48 to 53)
6. Hazards / catastrophic loss (health epidemics, natural disasters, man-made hazards like fire, flooding)	↔	We maintain comprehensive emergency handling procedures covering all our properties. These were updated during the year to integrate the new Hysan Place.
7. Human resources	↑	Greater competition for skilled personnel to support the Group's growth strategy.  ► For more analysis, see Corporate Responsibility Report 2012

Note:

- ↑ where "inherent risks" (i.e. before taking into consideration mitigating activities) increased
- ↓ where "inherent risks" decreased
- ↔ where "inherent risks" remain broadly the same

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3

# Corporate Governance



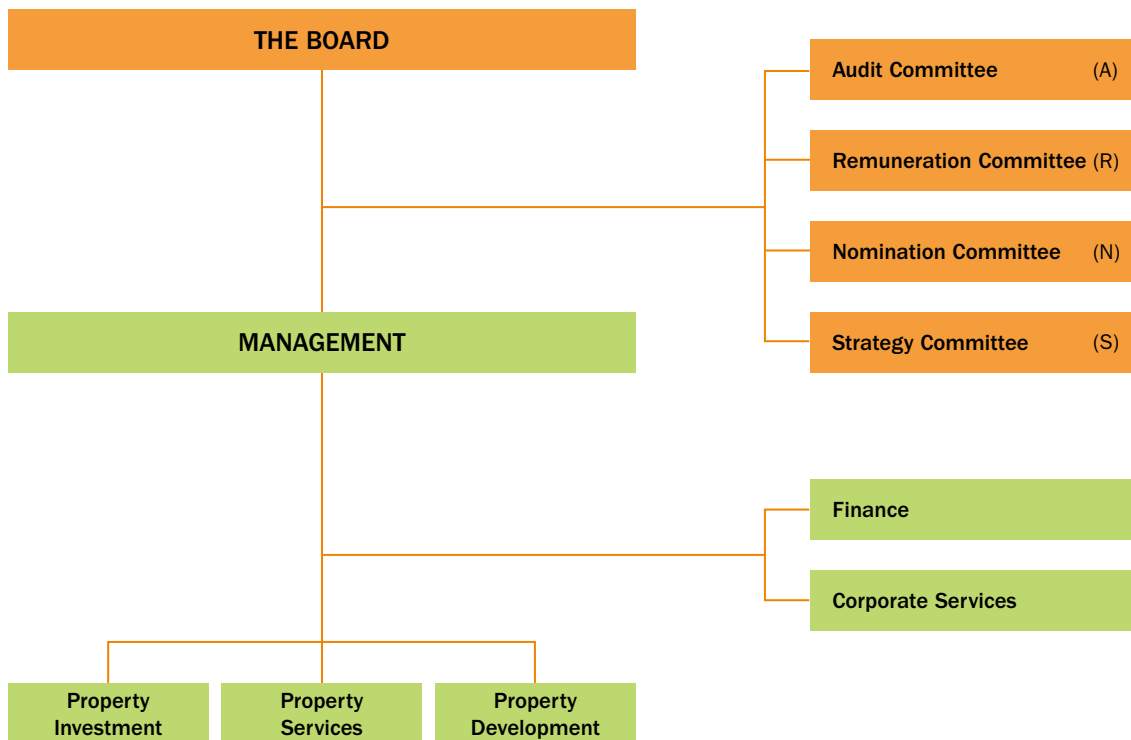
This section features our corporate governance. It begins by introducing our Board of Directors, then goes on to explain our governance structure and systems, followed by our best practices in corporate governance. It also highlights the emphasis of the Board's work in 2012, and its drive for continuous improvement.

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# Board of Directors



**Chairman** (chairing N, S)  
**Irene Yun Lien LEE**

Ms. Lee is a non-executive director of Cathay Pacific Airways Limited, CLP Holdings Limited, QBE Insurance Group Limited (listed on the Australian Stock Exchange) and Noble Group Limited (listed on Singapore Exchange 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 the non-executive chairman of Keybridge Capital Limited; 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; and a non-executive director of ING Bank (Australia) Limited and The Myer Family Company Pty Limited. Ms. Lee was formerly a member of the Australian Government Takeovers Panel. She is a member of the founding Lee family, sister of Mr. Anthony Hsien Pin LEE (Non-executive Director) 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, Non-executive Chairman in May 2011, and Executive Chairman in March 2012. She is aged 59.



Deputy Chairman and  
Chief Executive Officer (S)  
**Siu Chuen LAU**

Mr. Lau was the acting Head of Finance of Hysan Group in 1999. He has also worked as a management consultant at McKinsey & Company, a consumer analyst at Morgan Stanley Asia, and a brand manager of French luxury products. He subsequently co-founded and became a Responsible Officer of a SFC licensed investment advisory firm. Mr. Lau is a member of the founding Lee family and an alternate director of Lee Hysan Company Limited, a substantial shareholder of the Company. Mr. Lau holds a Bachelor of Social Sciences Degree in Management and Economics from The University of Hong Kong, and a Master of Business Administration Degree from INSEAD, France. He was appointed a Non-executive Director in May 2011, Non-executive Deputy Chairman in March 2012, Deputy Chairman and Chief Executive Officer in May 2012. He is aged 54.



Independent non-executive  
Director (N, S, chairing A)  
**Nicholas Charles ALLEN**

Mr. Allen is an independent non-executive director of CLP Holdings Limited, Lenovo Group Limited, VinaLand Limited and Texon International Group 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 and Futures Appeal Panel; Member of the Takeovers & Merger 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 57.



Independent non-executive  
Director  
**Frederick Peter  
CHURCHOUSE**

Mr. Churchouse has been involved in Asian securities and property investment markets for more than 30 years. Currently, he is a private investor including having his own private family office company, Portwood Co. Ltd. He is also an independent non-executive director of Longfor Properties Limited and a board member of Macquarie Retail Asset Management Limited. He is also the publisher and author of "Asia Hard Assets Report". In 2004, Mr. Churchouse set up an Asian investment fund under LIM Advisors. He acted as a director of LIM Advisors and as Responsible Officer until the end of 2009. Prior to this, Mr. Churchouse worked at Morgan Stanley as a managing director and advisory director from early 1988. He acted in a variety of roles including head of regional research, regional strategist and head of regional property research. Mr. Churchouse gained a Bachelor of Arts degree and a Master of Social Sciences degree from the University of Waikato in New Zealand. He was appointed an Independent non-executive Director in December 2012 and is aged 63.



Independent non-executive  
Director (A, N, S, chairing R)  
**Philip Yan Hok FAN**

Mr. Fan is an independent non-executive director of China Everbright International Limited, First Pacific Company Limited and HKC (Holdings) Limited, and an independent director of Suntech Power Holdings Co., Ltd., Zhuhai Zhongfu Enterprise Co. Ltd. and Goodman Group. He is a member of the Asian Advisory Committee of AustralianSuper Pty Ltd (a pension fund in Australia). 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 63.



## Board of Directors



Independent non-executive  
Director (R, N)  
**Joseph Chung Yin POON**

Mr. Poon is group managing director and deputy chief executive officer of a private company and an independent non-executive director of AAC 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 58.



Non-executive Director  
**Hans Michael JEBSEN**  
B.B.S.

Mr. Jebesen is chairman of Jebesen and Company Limited as well as a director of other Jebesen 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 56.



Non-executive Director (A)  
**Anthony Hsien Pin LEE**

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 a non-executive 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 is the brother of Ms. Irene Yun Lien LEE, Chairman. He was appointed a Non-executive Director in 1994 and is aged 55.



Non-executive Director (N, S)  
**Chien LEE**

Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited, 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 59.



**Non-executive Director (R)**  
**Michael Tze Hau LEE**

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 The 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 51.



**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 advises the Board on all matters of corporate governance, and is responsible for the Group's shareholder communications and key stakeholder relations management. In addition, she has an oversight of all aspects of the Group's legal matters. As a member of the management team, she participates in the Group's strategic planning matters. 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. Her public services include serving as a member of the Securities and Futures Appeal Panel, Standing Committee on Company Law Reform, and the Hong Kong Selection Committee of the Rhodes Scholarships respectively. She is aged 51.

## Our Team Members

### Officer – Chief Financial Officer

#### **Roger Shu Yan HAO**

BBA (Hons), CPA, ACA, ACCA

Mr. Hao is responsible for the Group's financial control, treasury and information technology function. He joined the Group in 2008. Mr. Hao accumulated extensive experience in auditing, financial management and control, while holding senior positions in multinational corporations. He is aged 47.

### Director, Design and Project

#### **Lai Kiu CHAN**

PhD, BArch, BA, HKIA, Registered Architect  
AP (List 1), PRC Registered Architect  
LEED AP, BEAM Pro

### General Manager, Retail Leasing

#### **Kitty Man Wai CHOY** MSc

### General Manager, Property Services

#### **Lawrence Wai Leung LAU**

MSc (Eng), CEng, MCIBSE, MHKIE, RPE (BS), BEAM Pro

### Director, Office Leasing

#### **Jessica Mo Ching YIP**

MBA, MHKIS, MRICS

# Corporate Governance Report

## Refreshing of the Board and Board Leadership

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 (including four Independent non-executive Directors) with backgrounds in the areas of finance, general management and professional practices have joined our Board.

Effective 8 March 2012, Irene Yun Lien LEE, Chairman, assumed an executive capacity. In addition to her role in leading the Board, she advises, supports and coaches the management team, particularly regarding the long-term strategic development of the Group and management matters that drive shareholder value. Siu Chuen LAU was appointed Non-executive Deputy Chairman at the same time to deputize and support the Chairman in her Board leadership role. After the resignation of Gerry Lui Fai YIM as Chief Executive Officer, Siu Chuen LAU was appointed executive Deputy Chairman and Chief Executive Officer, both effective as from the conclusion of the Annual General Meeting ("AGM") held on 14 May 2012.

## 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 Remuneration 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 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.

### Best Corporate Governance Disclosure Awards 2012: Non-Hang Seng Index (Large Market Capitalisation) Category – Gold Award

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

*"Particular strengths of its corporate governance report are the diagrams of the company's perception of the roles and focus of the board's work and the CG framework. The schedule of corporate matters reserved for the board provides shareholders with a clear picture regarding important agenda issues for the board in 2011."*

- Judges' Report



Exceeded Code Provisions	Best Practices in Corporate Governance in Place at Hysan
✓	The Board first established a formal Corporate Governance Policy* in 2004.
✓	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. The Board has a detailed list of Matters Reserved for Board Decisions* that are retained for the decision of the full Board, which covers all major policies and directions of the Group.
✓	Board evaluation: The (executive) Chairman and Non-executive Directors meet at least once a year without management presence. The Non-executive Directors also have separate sessions without the presence of management or Board members relating to them.
✓	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 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. It was updated during the year in light of the new inside information disclosure regime under the Securities and Futures Ordinance, effective January 2013.
✓	The Group has established an Auditor Services 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. It has early-adopted the proposed environmental, social and governance reporting under the Listing Rules.
✓	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 2013, 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](http://www.hysan.com.hk).



## The Board in 2012: driving continuous improvement

During the year, 5 Board meetings were held. In addition to the quarterly Board meetings, a Strategy Committee meeting (for which invitation was extended to all Directors) was held to discuss the long-term growth strategy of the Group. The focus of these meetings included the following topics of discussion and yielded the following results:

### 1. Leadership

- approved Chairman's assuming an executive role; appointment of executive Deputy Chairman and Chief Executive Officer
- reviewed and approved division of roles and responsibilities between Chairman, Deputy Chairman and Chief Executive Officer
- appointment of a new Independent non-executive Director who brings new insights to the Board
- reviewed and refined terms of reference of Nomination Committee; formalised terms of reference of Strategy Committee

### 2. Strategy

- received strategic plans and regular updates for the Group's core leasing (Office, Retail, and Residential segments) to meet short-term objectives; and medium-term directional plans to further strengthen competitiveness
- ongoing assessment of Hysan Place project, with a view to enabling it to take the Group to another level of commercial success and sustainability
- received management's presentation on further strengthening the district branding and marketing of our core property portfolio in Causeway Bay as a choice location for work and play
- reviewed further opportunities in our core property portfolio with management
- reviewed and approved the US\$300 million 10-year bond issuance

### Roles of Board

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

### 3. Risk Management

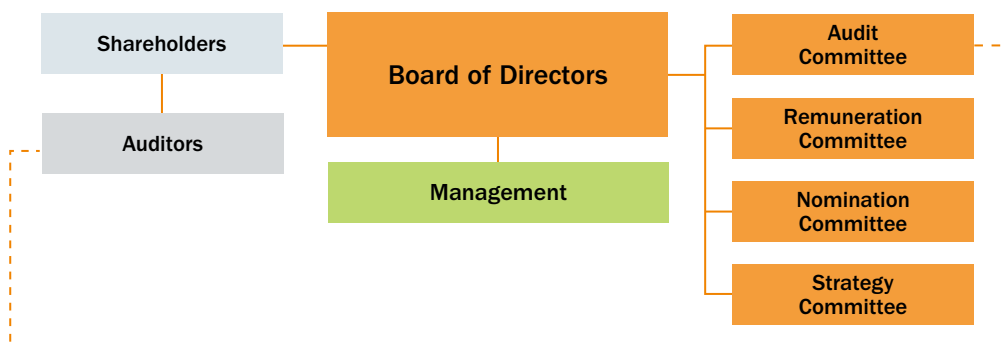
- Audit Committee reviewed and monitored management's plans to further strengthen the risk identification and assessment process, and to adopt more frequent and structured reporting to the Audit Committee and the Board
- assessed effectiveness of financial controls, and other internal controls (Please refer to separate "Internal Controls and Risk Management Report")
- legal and regulatory compliance is a regular agenda item for each Board meeting

### 4. Relations with Shareholders

- investor relations reporting (describing investor and analyst opinions) is a regular Board agenda item
- enhanced investor relations programme to expand coverage by analysts

## Governance Framework

The Group operates within a clear governance structure, which is illustrated in the diagram that follows.



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.

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](http://www.hysan.com.hk).

- Corporate Governance Guidelines
- Board of Directors Mandate
- Roles Requirements of Non-executive Directors
- Matters Reserved for Board Decisions
- Terms of Reference of the various corporate governance related Board Committees
- Code of Ethics for Employees
- Auditor Services Policy
- Corporate Disclosure Policy

These are reviewed periodically, typically on an annual basis.

## Board Leadership

### BOARD SIZE AND COMPOSITION

There are currently eleven Directors on the Board: the Chairman, two other Executive Directors, and eight Non-executive Directors (including four Independent non-executive Directors). The roles of the Chairman and the Chief Executive Officer are currently separate. The Board will review its size and composition from time to time to ensure there is an appropriate and diverse mix of skills and experience.

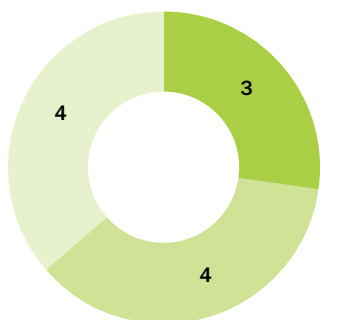
During the year, Frederick Peter CHURCHOUSE was appointed Independent non-executive Director effective 10 December 2012. Changes in Executive Directors (including Chairman's assuming an executive role) are set out in "Refreshing of the Board and Board Leadership" section above.

Further description of the backgrounds of the Non-executive Directors 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.

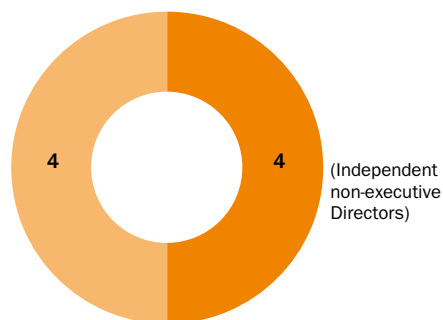
At the AGM to be held on 15 May 2013, Chien LEE, Michael Tze Hau LEE, Joseph Chung Yin POON, Wendy Wen Yee YUNG and Frederick Peter CHURCHOUSE will retire and, being eligible, offer themselves for re-election. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to shareholders.

**Balance of Non-executive Directors and Executive Directors  
31 December 2012**



■ Executive Directors  
■ Independent non-executive Directors  
■ Non-executive Directors

**Length of tenure of Non-executive Directors  
31 December 2012**



■ 0-3 years  
■ 4 years and above

(Independent non-executive Directors)

The table below sets out the number of meetings of the Board and its committees in 2012, individual attendance by Board and committee members at these meetings and the attendance of the Board members at the 2012 AGM:

Directors	Board <i>(Notes 1 &amp; 2)</i>	Audit Committee <i>(Note 1)</i>	Remuneration Committee <i>(Notes 1 &amp; 3)</i>	Nomination Committee <i>(Notes 1 &amp; 4)</i>	AGM <i>(Note 1)</i>
<b>Executive</b>					
Irene Yun Lien LEE	5/5			1/1	1/1
Siu Chuen LAU	5/5				1/1
Gerry Lui Fai YIM	2/2				1/1
Wendy Wen Yee YUNG	5/5				1/1
<b>Independent non-executive</b>					
Nicholas Charles ALLEN	5/5	3/3		1/1	1/1
Frederick Peter CHURCHOUSE	–				–
Philip Yan Hok FAN	5/5 <i>(1 by telephone conference)</i>	3/3	1/1	1/1	1/1
Joseph Chung Yin POON	5/5		1/1	1/1	1/1
<b>Non-executive</b>					
Hans Michael JEBSEN	4/5 <i>(and 1 by alternate)</i>				1/1
Anthony Hsien Pin LEE	5/5	3/3			1/1
Michael Tze Hau LEE	5/5		1/1		1/1
Chien LEE	5/5			1/1	1/1

Notes:

1. The attendance figure represents actual attendance / the number of meetings a Director is entitled to attend.
2. Gerry Lui Fai YIM resigned as Director on 14 May 2012. Frederick Peter CHURCHOUSE was appointed Director effective 10 December 2012.
3. Effective 20 February 2012, Philip Yan Hok FAN and Joseph Chung Yin POON were appointed chairman and member of the Remuneration Committee respectively.
4. Effective 20 February 2012, Gerry Lui Fai YIM stepped down as member of the Nomination Committee while Nicholas Charles ALLEN and Joseph Chung Yin POON were appointed members of the Nomination Committee.



## 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](http://www.hysan.com.hk)), which sets out the key responsibilities of the Board in fulfilling its stewardship roles. These are strategic planning, internal controls and risk management, culture and values, capital management, corporate governance, and Board succession.

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, which covers all major policies and directions of the Company. These matters include: long-term objectives and strategies; the extension of Group activities into new business areas; capital management framework and policy; treasury policies; annual budgets, annual funding plan and annual treasury investment plan; material acquisitions/disposals of fixed assets; connected transactions; preliminary announcements of interim and final results; and the declaration of dividends; internal controls; Board membership; Corporate Governance matters; major prosecution, defence or settlement of litigation.

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.

(The document is available on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk))

## Board Effectiveness

### SKILLS AND BALANCE

During 2012, we have 8 Non-executive Directors drawn from diverse and complementary backgrounds. They bring valuable experience and insight in the following areas of experience and expertise, driving the corporate strategy and growth of the Group:

Experience / Expertise	Name of Directors
<b>1. General management</b> Broad business experience through senior level position in another major company.	Philip Yan Hok FAN Joseph Chung Yin POON
<b>2. Property Industry</b> Experience as a senior executive in another major company in property investment, development or facilities management; or related industry.	Frederick Peter CHURCHOUSE
<b>3. Financial Services and investment</b> Experience in the financial services industry or experience in overseeing financial transactions and investment management.	Anthony Hsien Pin LEE Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON
<b>4. Marketing</b> Experience as a senior executive in a major retail customer products, services or distribution company.	Hans Michael JEBSEN
<b>5. "Audit Committee" Accounting Expertise</b> Expertise based on definition of "Audit Committee accounting expertise" under Listing Rules.	Nicholas Charles ALLEN
<b>6. Risk Governance and Risk Management</b> An understanding of the Board's role in the oversight of risk management principles and practices, including an understanding of current risk management principles and practices, which may have been gained through current or previous experience on another public company board committee that oversees risk management; role at another public company as "chief risk officer" or risk management executive; role at another public company as chief executive officer or chief financial officer.	Nicholas Charles ALLEN Philip Yan Hok FAN Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON
<b>7. Human Resources / Compensation</b> An understanding of the principles and practices relating to Human Resources and / or actual "hands-on" experience in managing or overseeing Human Resources in another major company, including experience in: compensation plan design and administration; leadership development / talent management; succession planning; and compensation decision-making, including risk-related aspects of compensation.	Philip Yan Hok FAN Joseph Chung Yin POON

(Directors' full biographies are set out on pages 60 to 63 and are also available on the Company's website: [www.hysan.com.hk](http://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 Nomination Committee reviewed the proposed appointment of a new Independent non-executive Director in November 2012. At the same meeting, the Committee carried out a detailed review of director independence. It concluded that each of the 4 Independent non-executive Directors (including the then proposed appointee) was independent as at that time. Independent non-executive Directors are identified in our Annual and Interim Reports and other communications with shareholders. 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	November 2012 Review – Reason for Independence Status
Nicholas Charles ALLEN		✓		No business or other relationships with the Group or management
Frederick Peter CHURCHOUSE		✓		No business or other relationships with the Group or management
Philip Yan Hok FAN		✓		No business or other relationships with the Group or management
Hans Michael JEBSEN			✓	
Siu Chuen LAU	✓			
Anthony Hsien Pin LEE			✓	
Chien LEE			✓	
Irene Yun Lien LEE	✓			
Michael Tze Hau LEE			✓	
Joseph Chung Yin POON		✓		No business or other relationships with the Group or management
Gerry Lui Fai YIM (up to 14 May 2012)	✓			
Wendy Wen Yee YUNG	✓			

### 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.

The Board also moved to electronic Board papers via iPad – a contribution, albeit small, towards supporting our objective of reducing the use of printed paper across our business in light of sustainability. It also clearly demonstrates the Board's willingness to embrace new technology and further enhance the effectiveness of communications.

### 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. Monthly reports to Non-executive Directors are issued, 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 purposes 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, BUSINESS AWARENESS AND DEVELOPMENT

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 briefing 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.



### Directors' Induction Package

The contents of the induction package are reviewed from time to time in light of the nature of the Group's activities and the needs of the individuals concerned. They cover the following:

#### Directors' Duties

- Memorandum on the Duties and Responsibilities of Directors
- The Company's Code for Securities Dealing by Directors
- Checklist for disclosure of interests by Directors
- Checklist of circumstances that require notification by Director to the Company

#### The Company's Business

- Annual business plan, treasury investment and financing plan
- Company organisation and corporate structure charts
- Details of any major litigation
- Summary details of major group insurance policies including Directors and Officers' Liabilities Insurance

#### Board Process and Current Board Issues

- Minutes of Board and Board committee meetings
- Brief biographical details of all Directors, the Company Secretary and other key executives
- Details of Board committees together with terms of references
- Key corporate governance documents

Through the course of their directorship, Directors are updated on any developments or changes affecting the Company and their obligations to it at regular Board meetings.

In order to ensure that Directors continue to further their understanding of the issues facing the Group, we have further strengthened the provision of management presentations, visits to our property portfolio, presentations by industry experts on market environment affecting the property leasing industry, and regulatory issues. The following is a summary of Director training provided by us and participated by Directors during the year. In addition to activities organised by us, Directors also participated in other forms of training.

Directors	2012 Training Matters organised by Hysan (Note)
<b>Executive</b>	
Irene Yun Lien LEE	a, b, c
Siu Chuen LAU	a, b, c
Wendy Wen Yee YUNG	a, b, c
<b>Independent non-executive</b>	
Nicholas Charles ALLEN	a, b, c
Frederick Peter CHURCHOUSE (appointed on 10 December 2012)	Not applicable
Philip Yan Hok FAN	a, b
Joseph Chung Yin POON	a, b, c
<b>Non-executive</b>	
Hans Michael JEBSEN	a, c
Anthony Hsien Pin LEE	a, b, c
Chien LEE	a, b
Michael Tze Hau LEE	a, b

Note:

- a. regulatory update
- b. macro environment and competitive landscape affecting the Group's leasing business
- c. update relating to sustainability

## 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.

To further strengthen the independence of the Non-executive Directors and to enable them to discuss more freely the evaluation of performance of the Board as well as the Group's management, the Non-executive Directors also had an additional formal meeting during 2012 without the presence of executive members or Board members relating to the founding Lee family.

## Board Committees in 2012

In order to provide effective oversight and leadership and pursuant to its Corporate Governance Guidelines, the Board has established 3 governance-related Board Committees as detailed below. 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.

In addition, the Board established a Strategy Committee to review the long-term strategy of the Group. It is currently chaired by Irene Yun Lien LEE, Board Chairman, and its other members are Siu Chuen LAU (Deputy Chairman and Chief Executive Officer), Nicholas Charles ALLEN, Philip Yan Hok FAN and Chien LEE. During the year, one meeting was held, with invitations extended to all Board members.

## AUDIT COMMITTEE

### COMPOSITION AND MEETINGS SCHEDULE

The Audit Committee is currently chaired by Nicholas Charles ALLEN (Independent non-executive Director), and its other members are Anthony Hsien Pin LEE and Philip Yan Hok FAN. There is an overall majority of Independent non-executive Directors. 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 a "Big Four" international firm. The Audit Committee had three meetings during the year. At the invitation of the Audit Committee, meetings are also attended by the Chairman and members of management (including the Chief Executive Officer and the Chief Financial Officer).

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. Formal statements of responsibilities of Directors in relation thereto are contained elsewhere in this Annual Report. 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 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 2012 AND TO DATE

Full details of the activities of the Audit Committee are also set out in the “Audit Committee Report” on pages 97 and 98. Three meetings were held during the year. Attendance of Audit Committee meetings is set out in the table on page 69. In addition to reviewing and approving annual and interim financial statements, the Committee had a separate meeting focusing on internal controls and risk management. During the year, a focus was placed on further strengthening our risk identification and assessment process, and adopting more frequent and structured internal controls and risk management reporting to the Committee and the Board. (Details are also set out in the “Internal Controls and Risk Management” Report on pages 54 to 57)

### REMUNERATION COMMITTEE

#### COMPOSITION AND MEETINGS SCHEDULE

The Group established the Remuneration Committee in 1987 to review the compensation of Executive Directors. The current Remuneration Committee is chaired by Philip Yan Hok FAN, Independent non-executive Director. The other members of the Remuneration Committee are Michael Tze Hau LEE and Joseph Chung Yin POON (Independent non-executive Director, appointed in March 2012). It currently has an overall majority of Independent non-executive Directors. The Remuneration Committee generally meets at least once every year.

#### ROLES AND AUTHORITY

Management makes recommendations to the Remuneration Committee on Hysan’s framework for, and cost of, Executive Director remuneration. The Committee then reviews these, and makes recommendations to the Board. The Remuneration Committee also reviews the fee payable to Non-executive Directors prior to its being submitted for approval at the AGM. In addition, it also reviews 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. No Director is involved in deciding his or her own remuneration.

### ACTIVITIES AND REPORT IN 2012 AND TO DATE

Full details of the activities of the Remuneration Committee are set out in the “Directors’ Remuneration and Interests Report” on pages 89 to 96. A meeting was held during the year. Attendance of Remuneration Committee meeting is set out in the table on page 69.

### NOMINATION COMMITTEE

#### COMPOSITION AND MEETINGS SCHEDULE

The Board established a Nomination Committee in 2005. The Nomination Committee is currently chaired by Irene Yun Lien LEE, Chairman of the Board and has a majority of Independent non-executive Directors. The other members of the Nomination Committee during the year are Philip Yan Hok FAN and Chien LEE. Nicholas Charles ALLEN and Joseph Chung Yin POON, both Independent non-executive Directors, were appointed in March 2012. Gerry Lui Fai YIM (then Chief Executive Officer) resigned from the Committee at the same time, in line with good corporate governance practices. It currently has a majority of Independent non-executive Directors.



## 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. During the year, its role has been extended to cover review of independence of Directors pursuant to new Listing Rules requirements. 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.

A meeting was held during the year to (i) review and refine terms of reference of the Nomination Committee in light of new Listing Rules requirements; (ii) review the structure, size, and composition of the Board; (iii) consider the appointment of Frederick Peter CHURCHOUSE as Independent non-executive Director; and (iv) assess the independence of Independent non-executive Directors. Attendance of Nomination Committee meeting is set out in the table on page 69.

## 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.

### 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. Shareholders are 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.

Shareholders may raise enquiries to the Board by contacting the Group's Investors Relations function.

### **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 Chief Executive Officer, Chief Financial Officer, 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. There are presentations to or conference calls with analysts and investors at the time of announcement of results. During the year, we have further strengthened our programme and extended the scope of our coverage of investors and analysts, including attending investor roadshows. To provide more detailed knowledge of the Group, the Company also arranged analyst visits to Company properties and project site. Investor relations reports describing investor and analyst opinions are provided regularly to the Board.

## 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 to our AGMs, in addition to the statutory part of the meeting. Topics covered at the last AGM included the business environment in 2011, a review of business activities, and the Company’s outlook for 2012. 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. It has been updated in light of the new “inside information” disclosure regime under the Securities and Futures Ordinance, effective January 2013. (Details of the Corporate Disclosure Policy are available at the Company’s website: [www.hysan.com.hk](http://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 were 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 ("5% Shareholder") 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 (49/F, The Lee Gardens, 33 Hysan Avenue, Hong Kong. Attention: The Company Secretary). Any 5% Shareholder may also requisition for the circulation of resolutions to be moved at a general meeting; and circulation of statements regarding resolution proposed. The special documents should be deposited at the Company's registered address as detailed above.

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.

No changes have been made to the Company's Memorandum and Articles of Association during the year.

# Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2012, which were approved by the Board of Directors (the "Board") on 6 March 2013.

## PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2012 to be property investment, management, and development. Details of the Group's principal subsidiaries and associates as at 31 December 2012 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 operating 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 2012 are set out in the consolidated income statement on page 102.

The first interim dividend of HK17 cents per share, amounting to approximately HK\$180 million, was paid to shareholders during the year.

With effect from the year ended 31 December 2012, the Company intends to pay two interim dividends instead of final dividends. Second interim dividends will be in lieu of final dividends. It will not be accompanied by a scrip alternative.

The Board declares a second interim dividend of HK78 cents per share to the shareholders on the register of members on 21 March 2013, absorbing approximately HK\$829 million. The dividends declared and paid for ordinary shares in respect of the full year 2012 will absorb approximately HK\$1,009 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 106 and 107 and note 32 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 2012 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 2012 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 31 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 64 to 80 – 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 89 to 96) – it gives detailed information of Directors' remuneration and interests (including information on Directors' compensation, service contracts, Directors' interests in shares; contracts and competing business);
- (c) "Audit Committee Report" (pages 97 and 98) – 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 54 to 57) – it sets out the Company's framework on internal controls and risks assessment including control environment, control activities, work done during the year and the focus for 2013; 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 Irene Yun Lien LEE, Chairman, with Siu Chuen LAU as Deputy Chairman and Chief Executive Officer. Wendy Wen Yee YUNG serves as Executive Director and Company Secretary. There are eight other Non-executive Directors.

Irene Yun Lien LEE, Chairman, assumed an executive capacity effective 8 March 2012. Siu Chuen LAU was appointed Non-executive Deputy Chairman effective 8 March 2012. He was appointed Deputy Chairman and Chief Executive Officer after the resignation of Gerry Lui Fai YIM as Chief Executive Officer, both effective as from the conclusion of the May 2012 Annual General Meeting.

Frederick Peter CHURCHOUSE was appointed Independent non-executive Director effective 10 December 2012.

Kam Wing LI served as alternate Director throughout the year.

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 60 to 63 have been Directors of the Company throughout the year.

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. The Nomination Committee also reviewed director independence in a meeting held in November 2012. (see Corporate Governance Report)

## 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 89 to 96.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2012, 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)	40.75
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	40.75
Silchester International Investors LLP	Investment manager	63,614,000	5.98

Notes:

- The percentage has been compiled based on the total number of shares of the Company in issue as at 31 December 2012 (i.e. 1,063,007,056 ordinary shares).
- 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 2012.

## 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 arrangement was 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)	14 June 2010 (Lease and Carpark Licence Agreement)	3 years commencing from 1 July 2010	Rooms 3703 and 3704 on the 37th Floor and 1 carparking space	2012: HK\$1,639,176 2013: HK\$821,238 (on pro-rata basis) (Note c)

**(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)	31 March 2010	3 years commencing from 1 September 2010	Office units on the 28th, 30th and 31st Floors	2012: HK\$20,802,552 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) 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	2012: HK\$17,869,680 2013: HK\$14,267,446 (on pro-rata basis) (Notes g & h)

## CONTINUING CONNECTED TRANSACTIONS *continued*

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

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

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
(iii) Pearl Investments (HK) Limited (Note i)	24 May 2011 (Lease and Carpark Licence Agreement)	3 years commencing from 15 May 2011	Room 1401C on the 14th Floor and 1 carparking space	2012: HK\$2,057,796 2013: HK\$2,061,096 2014: HK\$764,600 (on pro-rata basis) (Note c)
(iv) MF Jebesen International Limited (Note j)	7 September 2010	3 years commencing from 1 February 2011 (Note j)	Office units on the 25th Floor	2012: HK\$7,213,548 2013: HK\$601,129 (on pro-rata basis)

#### (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 40.75% interest). Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
Atlas Corporate Management Limited	4 November 2011	3 years commencing from 1 November 2011	Whole of 21st Floor	2012: HK\$2,799,540 2013: HK\$2,799,540 2014: HK\$2,332,950 (on pro-rata basis)

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

(a) The following management agreement was entered into by Hysan Leasing Company Limited ("Hysan Leasing"), a 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	31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK\$21,065,721 (Note k)

(b) The following management agreement was entered into by Hysan Property Management Limited, a 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	31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK\$3,064,207 (Note k)



## CONTINUING CONNECTED TRANSACTIONS continued

Notes:

- (a) The annual considerations are 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 as provided in the relevant agreements. 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 licence fees of fixed carparking spaces were revised with effect from 1 December 2012 while the rental and operating charges of the leases remained unchanged.
- (d) Jebesen and Company Limited ("Jebesen 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.
- (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) Pursuant to an endorsement dated 22 November 2010 as mentioned in Note (e) above, the rent for the period from 15 October 2010 to 14 October 2013 was revised at the then prevailing market rent.
- (h) The retail monthly operating charges were revised with effect from 1 January 2012 and further revised on 1 January 2013. The promotional levies were revised with effect from 1 January 2013.
- (i) 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.
- (j) MF Jebesen International Limited is a connected person of the Company by virtue of its being controlled (more than 50%) by the brother of Hans Michael JEBSEN, Non-executive Director of the Company. The lease was early terminated on 31 January 2013.
- (k) These represent the actual consideration received for the year ended 31 December 2012, 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 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.

## CONTINUING CONNECTED TRANSACTIONS continued

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 84 to 87 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 Jebesen and Company, due to the annual consideration of the lease having a percentage ratio of 1.08% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.03% 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 1.10% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.03% and 0.05% 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, 31.31% of the aggregate amount of purchases were attributable to the Group's 5 largest suppliers with the largest supplier accounting for 13.69% 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\$0.5 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 2013 AGM.

By Order of the Board

**Irene Yun Lien LEE**

*Chairman*

Hong Kong, 6 March 2013

# Directors' Remuneration and Interests Report

## DIRECTOR COMPENSATION

### Remuneration Committee

The Board recognises the significance of having in place a transparent and objective process for determining Executive Director compensation. The Remuneration Committee (first established in 1987) reviews and determines the remuneration of Executive Directors as well as recommending for shareholder approval fees payable to Non-executive Directors.

The Remuneration Committee currently has 3 members (with a majority of Independent non-executive Directors). It is chaired by Philip Yan Hok FAN, Independent non-executive Director and the other members are Joseph Chung Yin POON, 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. Fees payable to other Non-executive Directors are reviewed from time to time. Independent professional advice will be sought where appropriate. On matters other than those concerning them, the Chairman and Chief Executive Officer may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

### Executive Director 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); and (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.

Details of Director (including individual Executive Director) emoluments for year 2012 and options movement during the year are set out in notes 12 and 39 respectively to the financial statements.

### Non-executive Director Remuneration Policy

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 semi-annually.
- Non-executive Directors do not receive share options from the Company.



**DIRECTOR COMPENSATION** continued

**Non-executive Director Remuneration Policy** continued

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\$1,889,726.78 for 2012.

**2012 Review**

The Committee met in March 2012 with all members present to approve the 2012 annual fixed base salary and determine the 2011 performance-based bonus of the Executive Directors including new package of the Chairman (who assumed an executive capacity as from 8 March 2012). The Chairman's new package was set at the same level as the former Executive Chairman, with inflationary adjustment since 2010. In May 2012, the Committee considered and approved the annual remuneration package of Deputy Chairman and Chief Executive Officer (whose appointment was effective 14 May 2012).

The executive packages and fee levels 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. Clear performance targets were set for Executive Directors.

**March 2013 Review**

The Committee met in March 2013 to review 2013 Executive Director compensation packages and 2012 performance-based bonus. All members attended the meeting.

**Current Director Fee Levels**

Director fees are subject to shareholder approval at general meeting. The current fee scale for Directors and Board Committee members are set out below. Executive Directors will not receive any fee.

	Per annum HK\$
<b>Board of Directors (Non-executive Directors only)</b>	
Chairman	400,000
Director	200,000
<b>Audit Committee</b>	
Chairman	100,000
Member	60,000
<b>Remuneration Committee</b>	
Chairman	50,000
Member	40,000
<b>Other Committees</b>	
Chairman	30,000
Member	20,000

## DIRECTOR COMPENSATION continued

### Long-term incentives: Share Option Scheme

The Company has outstanding options under an executive share option scheme. The purpose of the scheme was to strengthen the link between individual staff and shareholder interests. The power of grant to Executive Directors is vested in the Remuneration 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 scheme of the Company are summarised as follows:

#### 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 be expiring on 9 May 2015.

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 starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

**DIRECTOR COMPENSATION** *continued*
**Long-term incentives: Share Option Scheme** *continued*
**Movement of share options**

During the year, a total of 1,334,000 shares options were granted under the 2005 Scheme.

As at 31 December 2012, an aggregate of 2,291,668 shares are issuable for options granted (including 898,323 fully-vested shares options) under the 2005 Scheme, representing approximately 0.22% of the issued share capital of the Company.

As at the date of this Report, 96,620,100 shares are issuable under the 2005 Scheme representing 9.09% of the issued share capital.

Details of options granted, exercised, cancelled/lapsed and outstanding under the 2005 Scheme during the year are as follows:

Name	Date of grant	Exercise price HK\$	Exercisable period (Note a)	Balance as at 1.1.2012	Changes during the year			Balance as at 31.12.2012
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>Executive Directors</b>								
Irene Yun Lien LEE	14.5.2012	33.500 (Note c)	14.5.2012 – 13.5.2022	–	261,000	–	–	261,000
Siu Chuen LAU	14.5.2012	33.500 (Note c)	14.5.2012 – 13.5.2022	–	242,000	–	–	242,000
Gerry Lui Fai YIM (Note d)	1.12.2009	22.800	1.12.2009 – 30.11.2019	218,000	–	(145,333) (Note e)	(72,667)	–
	10.3.2011	35.710	10.3.2011 – 9.3.2021	217,000	–	–	(217,000)	–
	9.3.2012	33.790 (Note f)	9.3.2012 – 8.3.2022	–	239,000	–	(239,000)	–
Wendy Wen Yee YUNG	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	100,000	–	–	–	100,000
	11.3.2010	22.100	11.3.2010 – 10.3.2020	185,000	–	–	–	185,000
	10.3.2011	35.710	10.3.2011 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.790 (Note f)	9.3.2012 – 8.3.2022	–	113,000	–	–	113,000

**DIRECTOR COMPENSATION** *continued***Long-term incentives: Share Option Scheme** *continued***Movement of share options** *continued*

Name	Date of grant	Exercise price HK\$	Exercisable period (Note a)	Balance as at 1.1.2012	Changes during the year			Balance as at 31.12.2012
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>Eligible employees</b> (Note g)	31.3.2008	21.960	31.3.2008 – 30.3.2018	23,000	–	(6,000) (Note h)	–	17,000
	2.5.2008	23.900	2.5.2008 – 1.5.2018	95,000	–	(95,000) (Note i)	–	–
	2.10.2008	20.106	2.10.2008 – 1.10.2018	85,000	–	(85,000) (Note j)	–	–
	31.3.2009	13.300	31.3.2009 – 30.3.2019	262,668	–	(69,668) (Note k)	(23,000)	170,000
	31.3.2010	22.450	31.3.2010 – 30.3.2020	441,001	–	(102,333) (Note l)	(66,000)	272,668
	31.3.2011	32.000	31.3.2011 – 30.3.2021	370,000	–	(4,000) (Note m)	(105,000)	261,000
	30.3.2012	31.610 (Note n)	30.3.2012 – 29.3.2022	–	479,000	–	(107,000)	372,000
				<u>2,294,669</u>	<u>1,334,000</u>	<u>(507,334)</u>	<u>(829,667)</u>	<u>2,291,668</u>

## Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant.
- The options lapsed during the year upon resignations of a Director and certain eligible employees.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 11 May 2012) was HK\$33.00.
- Gerry Lui Fai YIM resigned as Chief Executive Officer and Executive Director of the Company as from the conclusion of 2012 AGM held on 14 May 2012.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.60.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 8 March 2012) was HK\$33.45.
- Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.35.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$32.55.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.60.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$32.95.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$31.03.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.10.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 29 March 2012) was HK\$31.10.

Apart from the above, the Company had not granted any share option under the 2005 Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the 2005 Scheme are set out in note 39 to the financial statements.



**DIRECTOR COMPENSATION** *continued***Long-term incentives: Share Option Scheme** *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 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	14.5.2012	30.3.2012	9.3.2012
Closing share price at the date of grant	HK\$33.500	HK\$31.100	HK\$33.050
Exercise price	HK\$33.500	HK\$31.610	HK\$33.790
Risk free rate (Note a)	0.449%	0.606%	0.535%
Expected life of option (Note b)	5 years	5 years	5 years
Expected volatility (Note c)	40.715%	40.389%	40.197%
Expected dividend per annum (Note d)	HK\$0.698	HK\$0.698	HK\$0.698
Estimated fair values per share option	HK\$10.212	HK\$9.210	HK\$9.740

## Notes:

- Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company in the past 5 years immediately before the date of grant.
- 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 2012, 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

Name	Number of ordinary shares held				Total	% of the issued share capital (Note a)
	Personal interests	Family interests	Corporate interests	Other interests		
Hans Michael JEBSEN	60,984	–	2,473,316 (Note b)	–	2,534,300	0.238
Siu Chuen LAU	–	–	100,115 (Note c)	–	100,115	0.009
Irene Yun Lien LEE	30,000	–	–	–	30,000	0.003
Chien LEE	800,000	–	–	–	800,000	0.075
Wendy Wen Yee YUNG	378,000	–	–	–	378,000	0.036

Notes:

- This percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,063,007,056 ordinary shares) as at 31 December 2012.
- 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.
- 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 2005 Scheme (details are set out in the section headed “Long-term incentives: Share Option Scheme” 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:

Name	Number of ordinary shares held			% of the issued share capital
	Corporate interests	Other interests	Total	
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 2012 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, in accordance with Listing Rules disclosure requirements) 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) Irene Yun Lien LEE, Siu Chuen LAU, Anthony Hsien Pin LEE, Chien LEE and Michael Tze Hau LEE 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, save and except Irene Yun Lien LEE and Siu Chuen LAU, 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.

The Board also has a process in place to regularly review and resolve situations where a Director may have a conflict of interest.

By Order of the Board

**Wendy W.Y. YUNG**

*Executive Director and Company Secretary*

Hong Kong, 6 March 2013

# 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.

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 3 meetings during the year, on 5 March, 3 August and 15 November 2012. All the meetings were attended by Nicholas Charles ALLEN, Philip Yan Hok FAN and Anthony Hsien Pin LEE. The meetings in March 2012 and August 2012 were held to consider the financial statements for the 2011 annual report and 2012 interim report respectively. An additional meeting was held in November to review the Group's internal controls and risk management process; and miscellaneous issues not directly related to the approval of financial statements and results announcements. The Committee last met on 4 March 2013 to consider the financial statements for the year ended 31 December 2012.

Details on the meeting held in March 2012 were set out in the 2011 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 the Group's financial statements including the selection of suitable accounting policies. The external auditor is responsible for auditing and attesting to the Group's 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 2012 : The Committee reviewed and recommended to the Board for approval of the unaudited financial statements for the first 6 months of 2012, 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 2013 : The Committee reviewed and discussed with management and external auditor the 2012 financial statements included in the 2012 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's 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 2012, with the Independent Auditor's Report thereon.

## REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

- August and November 2012 : The Committee considered the reports of Internal Audit, including status in implementing its recommendations.

The Committee received update reports from management on key risks facing the Group; and progress in implementing an improvement programme to further strengthen agreed aspects of the Group's internal controls and risk management system, including the risk identification and assessment process. The ultimate aim is to make system a "live" one practised on a day-to-day basis by operating units.



### REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS *continued*

- March 2013 : 2012 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 which might affect financial, operational and compliance controls and risk management functions.

### RELATIONSHIP WITH EXTERNAL AUDITOR

- August 2012 : The Committee reviewed and considered the terms of engagement of the external auditor in respect of: 2012 annual audit, the related results announcement, and annual review of continuing connected transactions.
- November 2012 : The Committee reviewed the Group's Auditor Services Policy.
- March 2013 : 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 2013.

The Committee also reviewed and considered the 2013 Audit Service Plan of the external auditor, and the terms of its engagement in respect of the 2013 interim results review.

For the year ended 31 December 2012, external auditor received a total fee of HK\$2,352,000 (audit services: HK\$2,020,000 and non-audit services: HK\$332,000).

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

Hong Kong, 6 March 2013

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## Financial Statements and Valuation

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# 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



## To the Members of Hysan Development Company Limited

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 102 to 169, which comprise the consolidated and Company's statements of financial position as at 31 December 2012, 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 Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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

6 March 2013

# Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK\$ million	2011 HK\$ million
Turnover	4	2,486	1,922
Property expenses		(423)	(262)
Gross profit		2,063	1,660
Investment income	6	55	90
Other gains and losses	7	18	(34)
Administrative expenses		(187)	(173)
Finance costs	8	(156)	(122)
Change in fair value of investment properties		8,533	7,532
Share of results of associates		334	254
Profit before taxation		10,660	9,207
Taxation	9	(289)	(217)
<b>Profit for the year</b>	10	<b>10,371</b>	<b>8,990</b>
Profit for the year attributable to:			
Owners of the Company		9,955	8,545
Non-controlling interests		416	445
		<b>10,371</b>	<b>8,990</b>
<b>Earnings per share</b> (expressed in HK cents)	15		
Basic		938.02	808.34
Diluted		937.59	807.71



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK\$ million	2011 HK\$ million
<b>Profit for the year</b>		<b>10,371</b>	8,990
<b>Other comprehensive income:</b>	11		
Net gains (losses) arising from equity investments designated as at fair value through other comprehensive income		115	(121)
Net gains arising from derivatives designated as cash flow hedges		16	4
Gain on revaluation of properties held for own use		33	71
Share of translation reserve of an associate		2	155
Other comprehensive income for the year (net of tax)		166	109
<b>Total comprehensive income for the year</b>		<b>10,537</b>	9,099
Total comprehensive income attributable to:			
Owners of the Company		10,121	8,654
Non-controlling interests		416	445
		<b>10,537</b>	9,099

# Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK\$ million	2011 HK\$ million
<b>Non-current assets</b>			
Investment properties	16	60,022	49,969
Property, plant and equipment	17	580	530
Investments in associates	19	3,759	3,423
Principal-protected investments	20	160	365
Term notes	21	527	259
Equity investments	22	1	989
Other financial assets	23	57	68
Other receivables	24	243	163
		<b>65,349</b>	<b>55,766</b>
<b>Current assets</b>			
Accounts receivable and other receivables	24	158	134
Principal-protected investments	20	218	265
Term notes	21	383	171
Other financial assets	23	2	71
Tax recoverable		2	–
Time deposits	26	2,158	2,899
Cash and bank balances	26	153	62
		<b>3,074</b>	<b>3,602</b>
<b>Current liabilities</b>			
Accounts payable and accruals	27	469	532
Rental deposits from tenants		190	170
Amounts due to non-controlling interests	28	327	327
Borrowings	29	699	1,507
Other financial liabilities	23	5	19
Taxation payable		77	73
		<b>1,767</b>	<b>2,628</b>
<b>Net current assets</b>			
		<b>1,307</b>	<b>974</b>
<b>Total assets less current liabilities</b>			
		<b>66,656</b>	<b>56,740</b>
<b>Non-current liabilities</b>			
Borrowings	29	5,242	5,156
Other financial liabilities	23	25	50
Rental deposits from tenants		508	430
Deferred taxation	30	434	360
		<b>6,209</b>	<b>5,996</b>
<b>Net assets</b>			
		<b>60,447</b>	<b>50,744</b>
<b>Capital and reserves</b>			
Share capital	31	5,315	5,299
Reserves		52,808	43,454
<b>Equity attributable to owners of the Company</b>			
		<b>58,123</b>	<b>48,753</b>
<b>Non-controlling interests</b>			
		<b>2,324</b>	<b>1,991</b>
<b>Total equity</b>			
		<b>60,447</b>	<b>50,744</b>

The consolidated financial statements on pages 102 to 169 were approved and authorised for issue by the Board of Directors on 6 March 2013 and are signed on its behalf by:

**Irene Y.L. LEE**  
Director

**S. C. LAU**  
Director

# Statement of Financial Position

At 31 December 2012

	Notes	2012 HK\$ million	2011 HK\$ million
<b>Non-current assets</b>			
Property, plant and equipment	17	22	10
Investments in subsidiaries	18	1,603	1,904
Other financial assets	23	2	2
Amounts due from subsidiaries	25	3,797	5,126
		<b>5,424</b>	<b>7,042</b>
<b>Current assets</b>			
Other receivables		3	5
Amounts due from subsidiaries	25	8,984	6,088
Tax recoverable		2	–
Time deposits	26	55	466
Cash and bank balances	26	93	25
		<b>9,137</b>	<b>6,584</b>
<b>Current liabilities</b>			
Other payables and accruals		35	36
Amounts due to subsidiaries	25	1,337	480
Taxation payable		–	5
		<b>1,372</b>	<b>521</b>
<b>Net current assets</b>			
		<b>7,765</b>	<b>6,063</b>
<b>Total assets less current liabilities</b>			
		<b>13,189</b>	<b>13,105</b>
<b>Non-current liability</b>			
Deferred taxation	30	1	1
<b>Net assets</b>			
		<b>13,188</b>	<b>13,104</b>
<b>Capital and reserves</b>			
Share capital	31	5,315	5,299
Reserves	32	7,873	7,805
<b>Total equity</b>			
		<b>13,188</b>	<b>13,104</b>

The financial statements on pages 102 to 169 were approved and authorised for issue by the Board of Directors on 6 March 2013 and are signed on its behalf by:

**Irene Y.L. LEE**  
Director

**S. C. LAU**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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 2011	5,267	1,754	16	276
Profit for the year	–	–	–	–
Net losses arising from equity 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 (note 30)	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive (expenses) income for the year	–	–	–	–
Issue of shares pursuant to scrip dividend schemes	26	159	–	–
Issue of shares under share option schemes	6	21	(6)	–
Recognition of equity-settled share-based payments	–	–	7	–
Forfeiture of share options	–	–	(2)	–
Dividends paid during the year (note 14)	–	–	–	–
Transfer to retained profits upon disposal of equity investments	–	–	–	–
At 31 December 2011	5,299	1,934	15	276
Profit for the year	–	–	–	–
Net gains arising from equity 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 (note 30)	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive income for the year	–	–	–	–
Issue of shares pursuant to scrip dividend schemes	14	76	–	–
Issue of shares under share option schemes	2	12	(4)	–
Recognition of equity-settled share-based payments	–	–	8	–
Forfeiture of share options	–	–	(5)	–
Dividends paid during the year (note 14)	–	–	–	–
Transfer to retained profits upon disposal of equity investments	–	–	–	–
<b>At 31 December 2012</b>	<b>5,315</b>	<b>2,022</b>	<b>14</b>	<b>276</b>

## 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	959	(44)	204	256	31,889	40,677	1,640	42,317
-	-	-	-	-	8,545	8,545	445	8,990
-	(121)	-	-	-	-	(121)	-	(121)
-	-	(25)	-	-	-	(25)	-	(25)
-	-	29	-	-	-	29	-	29
-	-	-	85	-	-	85	-	85
-	-	-	(14)	-	-	(14)	-	(14)
-	-	-	-	155	-	155	-	155
-	(121)	4	71	155	8,545	8,654	445	9,099
-	-	-	-	-	-	185	-	185
-	-	-	-	-	-	21	-	21
-	-	-	-	-	-	7	-	7
-	-	-	-	-	2	-	-	-
-	-	-	-	-	(791)	(791)	(94)	(885)
-	(33)	-	-	-	33	-	-	-
100	805	(40)	275	411	39,678	48,753	1,991	50,744
-	-	-	-	-	9,955	9,955	416	10,371
-	115	-	-	-	-	115	-	115
-	-	12	-	-	-	12	-	12
-	-	4	-	-	-	4	-	4
-	-	-	40	-	-	40	-	40
-	-	-	(7)	-	-	(7)	-	(7)
-	-	-	-	2	-	2	-	2
-	115	16	33	2	9,955	10,121	416	10,537
-	-	-	-	-	-	90	-	90
-	-	-	-	-	-	10	-	10
-	-	-	-	-	-	8	-	8
-	-	-	-	-	5	-	-	-
-	-	-	-	-	(859)	(859)	(83)	(942)
-	(923)	-	-	-	923	-	-	-
100	(3)	(24)	308	413	49,702	58,123	2,324	60,447



# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK\$ million	2011 HK\$ million
<b>Operating activities</b>			
Profit before taxation		10,660	9,207
Adjustments for:			
Other gains and losses		(18)	34
Finance costs		156	122
Change in fair value of investment properties		(8,533)	(7,532)
Share of results of associates		(334)	(254)
Dividend income		(3)	(54)
Interest income		(52)	(36)
Depreciation of property, plant and equipment		11	8
Share-based payment expenses		8	7
Operating cash flows before movements in working capital		1,895	1,502
Increase in accounts receivable and other receivables		(168)	(28)
Increase (decrease) in accounts payable and accruals		116	(31)
Increase in rental deposits from tenants		98	149
Cash generated from operations		1,941	1,592
Hong Kong profits tax paid		(227)	(185)
Hong Kong profits tax refund		7	–
<b>Net cash from operating activities</b>		<b>1,721</b>	<b>1,407</b>
<b>Investing activities</b>			
Interest received		76	40
Dividends received from equity investments		3	54
Proceeds on disposal of equity investments		1,103	40
Proceeds upon maturity of principal-protected investments		265	85
Proceeds upon maturity of term notes		469	91
Proceeds upon maturity of other financial assets		61	–
Proceeds upon maturity of time deposits with original maturity over three months		2,902	1,928
Repayment from an associate		–	139
Payments in respect of investment properties		(1,595)	(1,520)
Purchases of property, plant and equipment		(31)	(8)
Purchases of term notes		(953)	(264)
Purchases of other financial assets		–	(60)
Additions to principal-protected investments		–	(251)
Acquisition of a subsidiary	33	–	(19)
Additions to time deposits with original maturity over three months		(1,943)	(2,802)
<b>Net cash from (used in) investing activities</b>		<b>357</b>	<b>(2,547)</b>

	Note	2012 HK\$ million	2011 HK\$ million
<b>Financing activities</b>			
Interest paid		(189)	(128)
Payment of other finance costs		(3)	(12)
Medium Term Note Programme expenses		(2)	(2)
Dividends paid		(769)	(606)
Dividends paid to non-controlling interests of a subsidiary		(83)	(94)
Repayment of bank loans		(150)	(849)
Repayment of fixed rate notes		(1,357)	–
New bank loans		–	2,350
Issue of fixed rate notes		774	554
Proceeds on exercise of share options		10	21
<b>Net cash (used in) from financing activities</b>		<b>(1,769)</b>	<b>1,234</b>
<b>Net increase in cash and cash equivalents</b>		<b>309</b>	<b>94</b>
<b>Cash and cash equivalents at 1 January</b>		<b>654</b>	<b>560</b>
<b>Cash and cash equivalents at 31 December</b>	26	<b>963</b>	<b>654</b>

# Significant Accounting Policies

For the year ended 31 December 2012

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 "Stock Exchange"). The principal accounting policies adopted are as follows:

## 1. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (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.

## 2. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's statement of financial position at cost (including deemed capital contribution) 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 re-development for such purposes.

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 re-development are capitalised as part of the carrying amount of the investment properties under re-development. Investment properties under re-development are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under re-development 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 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 properties 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 ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### (a) Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### (i) Classification of financial assets

Debt instruments and hybrid contracts that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

#### (ii) Amortised cost and effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost. Interest income is recognised in profit or loss and is included in the investment income as disclosed in note 6 of the Notes to the Financial Statements section.



## 7. FINANCIAL INSTRUMENTS continued

### (a) Financial assets continued

#### (iii) Financial assets at FVTPL

Investments in equity instruments are classified as at FVTPL, unless the Group designates such investment that is not held for trading as at fair value through other comprehensive income (“FVTOCI”) on initial recognition (see (a)(iv) below).

Debt instruments that do not meet the amortised cost criteria (see (a)(i) above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in other gains and losses as disclosed in note 7 of the Notes to the Financial Statements section. Fair value is determined in the manner described in note 3 of the notes to the Financial Risk Management section.

The Group or the Company has not designated any debt instrument as at FVTPL or reclassified any debt instruments to or from FVTPL since the application of Hong Kong Financial Reporting Standard (“HKFRS”) 9.

Interest income on debt instruments as at FVTPL is included in the other gains or losses described above.

#### (iv) Financial assets at FVTOCI

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

On initial recognition, the Group or the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve.

The Group or the Company has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVTOCI since the application of HKFRS 9.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group’s or the Company’s right to receive the dividends is established in accordance with Hong Kong Accounting Standard (“HKAS”) 18 “Revenue”, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in investment income as disclosed in note 6 of the Notes to the Financial Statements section.

## 7. FINANCIAL INSTRUMENTS continued

### (b) Impairment of financial assets

Financial assets, other than those at FVTPL and FVTOCI, 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 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, 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.

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, 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 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.

### (c) 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 in its entirety, except for a financial asset that is classified as at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

## 7. FINANCIAL INSTRUMENTS continued

### Financial liabilities and equity instruments

#### (a) Classification and measurement

Financial liabilities and equity instruments issued by a group entity are classified as financial liabilities or equity instrument 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 subsequently measured at amortised cost. 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, representing those 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 and is included in other gains and losses as disclosed in note 7 of the Notes to the Financial Statements section.

#### (ii) Other financial liabilities subsequently measured at amortised cost

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. Interest expense that is not capitalised as part of costs of an asset is included in finance costs as disclosed in note 8 of the Notes to the Financial Statements section.

#### (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.

#### (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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for financial liabilities, other than those financial liabilities at FVTPL, of which the interest expense is included in other gains or losses as disclosed in note 7 of the Notes to the Financial Statements section.

#### (b) 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.

## 7. FINANCIAL INSTRUMENTS *continued*

### **Derivative financial instruments and hedging**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 23 of the Notes to the Financial Statements section.

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.

### **Embedded derivatives**

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 (e.g. financial liabilities) 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 FVTPL. Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contracts are classified and subsequently measured as either amortised cost or FVTPL as appropriate.

### **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.

Note 23 of the Notes to the Financial Statements section sets out details of the fair values of the derivative instruments used for hedging purposes.

#### **(a) 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.

#### **(b) Cash flow hedges**

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in other gains or losses as disclosed in note 7 of the Notes to the Financial Statements section.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item.

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 hedging reserve 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 hedging reserve 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. Turnover rent is recognised when earned.

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

Dividends on investments in equity instruments are recognised in profit or loss 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), unless the dividends clearly represent a recovery of part of the cost of the investment in equity instruments designated as at FVTOCI.

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.

### 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.

### 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.

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 translation reserve and will be reclassified from translation reserve 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 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 Enhanced 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 the initial recognition of 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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### 13. TAXATION continued

#### (b) **Deferred tax** continued

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 for investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property”, 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 whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 “Income Taxes” (i.e. based on the expected manner as to how the properties will be recovered).

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 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.

# Notes to the Financial Statements

For the year ended 31 December 2012

## 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”)

The Group and the Company had early applied the Amendments to Hong Kong Accounting Standard (“HKAS”) 12 “Income Taxes”, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40 “Investment Property” since the financial year beginning on 1 January 2010. In the current year, the Group and the Company have applied the Amendments to Standard issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for the financial year beginning on 1 January 2012. The adoption of the Amendments to Standard had no material effect on the results and financial position of the Group or the Company for the current and/or prior accounting years.

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>1</sup>
HKAS 19 (2011)	Employee Benefits <sup>2</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>3</sup>
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidation Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>2</sup>
HKFRS 10, HKFRS 12 and HKFRS 27 (Amendments)	Investment Entities <sup>3</sup>
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 cycle <sup>2</sup>
HK (IFRIC) – Int 20	Stripping Costs in the Production Phases of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) continued

### **Amendments to HKAS 32 “Offsetting Financial Assets and Financial Liabilities” and Amendments to HKFRS 7 “Disclosures – Offsetting Financial Assets and Financial Liabilities”**

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to Hong Kong Financial Reporting Standard (“HKFRS”) 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Directors of the Company anticipate that the application of these amendments may result in more disclosures in the consolidated financial statements.

### **HKFRS 13 “Fair Value Measurement”**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial Instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors of the Company anticipate that the application of this new Standard may result in more extensive disclosures in the consolidated financial statements.

Other than as described above, the Directors of the Company anticipate that the application of the other new Standards, Amendments to Standards and Interpretation 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\$60,022 million (2011: HK\$49,969 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 re-development potential. In relying on the valuation, management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions.

#### **Fair value of financial instruments**

Financial instruments, such as interest rate swaps, cross currency swaps and foreign exchange derivatives, are carried in the Group's and Company's statements of financial position at fair value, as disclosed in note 23. The management of the Company 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 operating and reportable segments are as follows:

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

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

Residential segment – leasing of luxury residential properties and related facilities



## 5. SEGMENT INFORMATION continued

### Segment turnover and results

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>For the year ended 31 December 2012</b>				
<b>Turnover</b>				
Gross rental income from investment properties	1,154	781	297	2,232
Management fee income	96	127	31	254
<b>Segment revenue</b>	<b>1,250</b>	<b>908</b>	<b>328</b>	<b>2,486</b>
Property expenses	(208)	(150)	(65)	(423)
<b>Segment profit</b>	<b>1,042</b>	<b>758</b>	<b>263</b>	<b>2,063</b>
Investment income				55
Other gains and losses				18
Administrative expenses				(187)
Finance costs				(156)
Change in fair value of investment properties				8,533
Share of results of associates				334
Profit before taxation				10,660
<b>For the year ended 31 December 2011</b>				
<b>Turnover</b>				
Gross rental income from investment properties	721	701	283	1,705
Management fee income	68	119	30	217
<b>Segment revenue</b>	<b>789</b>	<b>820</b>	<b>313</b>	<b>1,922</b>
Property expenses	(104)	(102)	(56)	(262)
<b>Segment profit</b>	<b>685</b>	<b>718</b>	<b>257</b>	<b>1,660</b>
Investment income				90
Other gains and losses				(34)
Administrative expenses				(173)
Finance costs				(122)
Change in fair value of investment properties				7,532
Share of results of associates				254
Profit before taxation				9,207

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

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

**5. SEGMENT INFORMATION** *continued***Segment assets**

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>As at 31 December 2012</b>				
<b>Segment assets</b>	<b>28,918</b>	<b>22,623</b>	<b>8,494</b>	<b>60,035</b>
Investments in associates				3,759
Other assets				4,629
Consolidated assets				<b>68,423</b>
<b>As at 31 December 2011</b>				
<b>Segment assets</b>	<b>15,092</b>	<b>16,957</b>	<b>8,426</b>	<b>40,475</b>
Investment properties under re-development ( <i>Note</i> )				9,500
Investments in associates				3,423
Other assets				5,970
Consolidated assets				<b>59,368</b>

Segment assets represented the investment properties and accounts receivable of each segment without allocation of property, plant and equipment, investments in associates, 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\$3,756 million (2011: HK\$3,420 million) and HK\$3 million (2011: HK\$3 million) respectively, all the Group's assets are located in Hong Kong.

**Other segment information**

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>For the year ended 31 December 2012</b>				
Additions to non-current assets	<b>958</b>	<b>55</b>	<b>3</b>	<b>1,016</b>
Additions to investment properties under re-development ( <i>Note</i> )				504
				<b>1,520</b>
<b>For the year ended 31 December 2011</b>				
Additions to non-current assets	444	37	21	502
Additions to investment properties under re-development ( <i>Note</i> )				1,118
				<b>1,620</b>

Note:

The investment properties under re-development were completed during the year.

## 6. INVESTMENT INCOME

	2012 HK\$ million	2011 HK\$ million
Investment income comprises:		
Dividends from		
– listed investments	3	43
– unlisted investments	–	11
Interest income	52	36
	<b>55</b>	<b>90</b>

The following is an analysis of investment income:

	2012 HK\$ million	2011 HK\$ million
Dividends from equity investments designated as at FVTOCI	3	54
Financial assets measured at amortised cost	48	40
Reclassification of gains (losses) from hedging reserve on financial instruments designated as cash flow hedges	4	(4)
	<b>55</b>	<b>90</b>

Fair value gains and losses and interest income on financial assets classified as at FVTPL are disclosed in note 7.

## 7. OTHER GAINS AND LOSSES

	2012 HK\$ million	2011 HK\$ million
Other gains and losses comprise:		
Change in fair value of financial assets or financial liabilities classified as at FVTPL	18	(33)
(Losses) gains on hedging instruments under fair value hedge	(11)	16
Gains (losses) on adjustment for hedged items under fair value hedge	11	(17)
	<b>18</b>	<b>(34)</b>

## Notes to the Financial Statements *continued*

For the year ended 31 December 2012

### 8. FINANCE COSTS

	2012 HK\$ million	2011 HK\$ million
Finance costs comprise:		
Interest on bank loans wholly repayable within five years	40	24
Interest on floating rate notes wholly repayable within five years	3	2
Interest on fixed rate notes wholly repayable within five years	29	116
Interest on fixed rate notes not wholly repayable within five years	89	44
Imputed interest on zero coupon notes not wholly repayable within five years	15	14
<b>Total interest expenses</b>	<b>176</b>	<b>200</b>
Other finance costs	14	7
Less: Amounts capitalised ( <i>Note</i> )	(17)	(44)
	<b>173</b>	<b>163</b>
Net interest receipts on interest rate swaps and cross currency swaps	(27)	(68)
Reclassification of losses from hedging reserve on financial instruments designated as cash flow hedges	8	25
Medium Term Note Programme expenses	2	2
	<b>156</b>	<b>122</b>

Note:

Interest expenses have been capitalised to investment properties under re-development at an average interest rate of 3.16% (2011: 2.88%) per annum.

### 9. TAXATION

	2012 HK\$ million	2011 HK\$ million
Current tax		
Hong Kong profits tax		
– current year	224	207
– (overprovision) underprovision in prior years	(2)	1
	<b>222</b>	<b>208</b>
Deferred tax ( <i>note 30</i> )	67	9
	<b>289</b>	<b>217</b>

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:

	2012 HK\$ million	2011 HK\$ million
Profit before taxation	10,660	9,207
Tax at Hong Kong profits tax rate of 16.5%	1,759	1,519
Tax effect of share of results of associates	(55)	(42)
Tax effect of expenses not deductible for tax purposes	78	46
Tax effect of income not taxable for tax purposes	(1,493)	(1,298)
Tax effect of estimated tax losses not recognised	5	3
Tax effect of previously unrecognised unused tax losses now recognised as deferred tax assets	-	(10)
Reversal of previously recognised taxable temporary differences	(1)	(2)
Utilisation of estimated tax losses previously not recognised	(2)	-
(Overprovision) underprovision in prior years	(2)	1
Taxation for the year	289	217

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 properties valuation reserve (see note 30).

## 10. PROFIT FOR THE YEAR

	2012 HK\$ million	2011 HK\$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	2	2
Depreciation of property, plant and equipment	11	8
Gross rental income from investment properties including contingent rentals of HK\$104 million (2011: HK\$89 million)	(2,232)	(1,705)
Less:		
– Direct operating expenses arising from properties that generated rental income	418	233
– Direct operating expenses arising from properties that did not generate rental income	5	29
	(1,809)	(1,443)
Staff costs, comprising:		
– Directors' emoluments ( <i>note 12</i> )	21	21
– Share-based payments	4	4
– Other staff costs	193	168
	218	193
Share of income tax of an associate (included in share of results of associates)	134	92



**11. OTHER COMPREHENSIVE INCOME**

	2012 HK\$ million	2011 HK\$ million
Other comprehensive income comprises:		
Equity investments designated as at FVTOCI:		
– Net gains (losses) arising during the year	<b>115</b>	(121)
Derivatives designated as cash flow hedges:		
– Gains (losses) arising during the year	<b>12</b>	(25)
– Reclassification adjustments for losses included in profit or loss	<b>4</b>	29
	<b>16</b>	4
Gains on revaluation of properties held for own use	<b>40</b>	85
Share of translation reserve of an associate	<b>2</b>	155
Other comprehensive income (before tax)	<b>173</b>	123
Income tax relating to components of other comprehensive income (see below)	<b>(7)</b>	(14)
Other comprehensive income for the year (net of tax)	<b>166</b>	109

Tax effect relating to other comprehensive income:

	Before-tax amount HK\$ million	2012 Tax expense HK\$ million	Net-of-tax amount HK\$ million	Before-tax amount HK\$ million	2011 Tax expense HK\$ million	Net-of-tax amount HK\$ million
Net gains (losses) arising from equity investments designated as at FVTOCI	<b>115</b>	–	<b>115</b>	(121)	–	(121)
Net gains arising from derivatives designated as cash flow hedges	<b>16</b>	–	<b>16</b>	4	–	4
Gains on revaluation of properties held for own use	<b>40</b>	(7)	<b>33</b>	85	(14)	71
Share of translation reserve of an associate	<b>2</b>	–	<b>2</b>	155	–	155
	<b>173</b>	(7)	<b>166</b>	123	(14)	109

**12. DIRECTORS' EMOLUMENTS**

	2012 HK\$ million	2011 HK\$ million
Directors' fees	<b>2</b>	2
Other emoluments		
Basic salaries, housing and other allowances	<b>12</b>	8
Bonus	<b>2</b>	7
Share-based payments	<b>4</b>	3
Retirement benefits scheme contributions	<b>1</b>	1
	<b>21</b>	21

## 12. DIRECTORS' EMOLUMENTS continued

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2012, calculated with reference to their employment as Directors of the Company, are set out below:

	Directors' fees HK\$'000 (Note b)	Basic salaries, housing and other allowances HK\$'000 (Note a)	Bonus HK\$'000 (Note a)	Share-based payments HK\$'000 (Note d)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2012</b>						
<b>Executive Directors</b>						
Irene Yun Lien LEE (Notes a & h)	84	4,023	–	1,086	12	5,205
Siu Chuen LAU (Notes a & i)	81	3,388	–	1,007	10	4,486
Gerry Lui Fai YIM (Notes a & e)	–	1,830	1,000	710	5	3,545
Wendy Wen Yee YUNG (Note a)	–	3,042	1,638	1,228	281	6,189
<b>Non-executive Directors</b>						
Hans Michael JEBSEN	200	–	–	–	–	200
Anthony Hsien Pin LEE	260	–	–	–	–	260
Chien LEE	240	–	–	–	–	240
Michael Tze Hau LEE	240	–	–	–	–	240
<b>Independent non-executive Directors</b>						
Nicholas Charles ALLEN (Note e)	337	–	–	–	–	337
Frederick Peter CHURCHOUSE (Note g)	12	–	–	–	–	12
Philip Yan Hok FAN (Note f)	349	–	–	–	–	349
Joseph Chung Yin POON (Notes e & f)	252	–	–	–	–	252
	2,055	12,283	2,638	4,031	308	21,315

	Directors' fees HK\$'000 (Note b)	Basic salaries, housing and other allowances HK\$'000 (Note c)	Bonus HK\$'000 (Note c)	Share-based payments HK\$'000 (Note d)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2011</b>						
<b>Executive Directors</b>						
Gerry Lui Fai YIM	57	5,255	4,424	1,880	12	11,628
Wendy Wen Yee YUNG	38	2,977	2,520	1,351	274	7,160
<b>Non-executive Directors</b>						
Irene Yun Lien LEE (Note h)	318	–	–	–	–	318
Hans Michael JEBSEN	159	–	–	–	–	159
Siu Chuen LAU (Note i)	140	–	–	–	–	140
Anthony Hsien Pin LEE	206	–	–	–	–	206
Chien LEE	201	–	–	–	–	201
Michael Tze Hau LEE	191	–	–	–	–	191
Dr. Deanna Ruth Tak Yung RUDGARD (Note j)	35	–	–	–	–	35
<b>Independent non-executive Directors</b>						
Sir David AKERS-JONES (Note k)	177	–	–	–	–	177
Nicholas Charles ALLEN	265	–	–	–	–	265
Philip Yan Hok FAN	281	–	–	–	–	281
Joseph Chung Yin POON	159	–	–	–	–	159
	2,227	8,232	6,944	3,231	286	20,920

**12. DIRECTORS' EMOLUMENTS** *continued*

## Notes:

(a) By way of background, there were the following management changes:

- (i) Gerry Lui Fai YIM resigned as Chief Executive Officer, effective 14 May 2012.
- (ii) Irene Yun Lien LEE, Chairman, assumed an executive role effective 8 March 2012.
- (iii) Siu Chuen LAU, was appointed (executive) Deputy Chairman and Chief Executive Officer, effective 14 May 2012.

The Remuneration Committee met in March 2012 to approve the 2012 annual fixed base salary and determine the 2011 performance-based bonus of the Company's Executive Directors. The stated bonus figures show the 2011 performance-based bonus approved by the Committee and paid to Executive Directors. In May 2012, following the appointment of the Deputy Chairman and Chief Executive Officer, the Committee considered and approved his annual remuneration package.

Irene Yun Lien LEE's annual fixed base salary was determined to be HK\$4,931,096, at the same level as the former Executive Chairman, with inflationary adjustment since 2010. The annual fixed base salary of Gerry Lui Fai YIM remained at the same level during 2012 (HK\$5,340,400) until his last working day. Siu Chuen LAU received the same annual base salary (HK\$5,340,400) upon his appointment as Deputy Chairman and Chief Executive Officer. The Committee has determined the total cash package of Wendy Wen Yee YUNG taking into consideration changes in her roles.

(b) Directors' fees scales for Board and Board Committees were approved by shareholders at the annual general meeting held on 9 May 2011. Details are set out in Directors' Remuneration and Interests Report.

Director's fees (payable only to Non-executive Directors as from 1 June 2011) are calculated on annual basis and paid semi-annually. For Directors not having served the full year on a position, the fees will be calculated and paid on pro rata basis.

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2012 is set out below:

	Board HK\$'000	Audit Committee HK\$'000	Remuneration Committee HK\$'000	Strategy Committee HK\$'000	Nomination Committee HK\$'000	2012 Total HK\$'000	2011 Total HK\$'000
<b>Executive Directors</b>							
Irene Yun Lien LEE ( <i>Notes a &amp; h</i> )	74	–	–	5	5	84	318
Siu Chuen LAU ( <i>Notes a &amp; i</i> )	74	–	–	7	–	81	140
Gerry Lui Fai YIM ( <i>Notes a &amp; e</i> )	–	–	–	–	–	–	57
Wendy Wen Yee YUNG	–	–	–	–	–	–	38
<b>Non-executive Directors</b>							
Hans Michael JEBSEN	200	–	–	–	–	200	159
Anthony Hsien Pin LEE	200	60	–	–	–	260	206
Chien LEE	200	–	–	20	20	240	201
Michael Tze Hau LEE	200	–	40	–	–	240	191
Dr. Deanna Ruth Tak Yung RUDGARD ( <i>Note j</i> )	–	–	–	–	–	–	35
<b>Independent non-executive Directors</b>							
Sir David AKERS-JONES ( <i>Note k</i> )	–	–	–	–	–	–	177
Nicholas Charles ALLEN ( <i>Note e</i> )	200	100	–	20	17	337	265
Frederick Peter CHURCHOUSE ( <i>Note g</i> )	12	–	–	–	–	12	–
Philip Yan Hok FAN ( <i>Note f</i> )	200	60	49	20	20	349	281
Joseph Chung Yin POON ( <i>Notes e &amp; f</i> )	200	–	35	–	17	252	159
	1,560	220	124	72	79	2,055	2,227

(c) Year 2011:

The Remuneration Committee met in March 2011 to approve the 2011 annual fixed base salary and determine the 2010 performance-based bonus of the Company's Executive Directors. The stated bonus figures show the 2010 performance-based bonus approved by the Committee and paid to Executive Directors.

- (d) 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.
- (e) There were the following changes in the composition of the Nomination Committee effective 20 February 2012:
  - (i) Nicholas Charles ALLEN and Joseph Chung Yin POON were appointed members; and
  - (ii) Gerry Lui Fai YIM ceased to be a member.
- (f) There were the following changes in the composition of the Remuneration Committee effective 20 February 2012:
  - (i) Philip Yan Hok FAN was appointed Chairman of the Committee; and
  - (ii) Joseph Chung Yin POON was appointed a member.

## 12. DIRECTORS' EMOLUMENTS *continued*

- (g) Frederick Peter CHURCHOUSE was appointed Independent non-executive Director effective 10 December 2012.
- (h) Irene Yun Lien LEE was appointed Non-executive Director and member of the Strategy Committee on 9 March 2011. She was appointed Non-executive Chairman of the Board, Chairman of the Nomination Committee and the Strategy Committee respectively as from the conclusion of 2011 Annual General Meeting held on 9 May 2011.
- (i) Siu Chuen LAU (as alternate to Deanna Ruth Tak Yung RUDGARD) was appointed member of the Strategy Committee on 9 March 2011. He was also appointed Non-executive Director as from the conclusion of 2011 Annual General Meeting held on 9 May 2011, and Non-executive Deputy Chairman on 8 March 2012.
- (j) Dr. Deanna Ruth Tak Yung RUDGARD stepped down as Non-executive Director as from the conclusion of 2011 Annual General Meeting held on 9 May 2011.
- (k) Sir David AKERS-JONES stepped down as Independent non-executive Chairman and Chairman of the Remuneration Committee, the Nomination Committee and the Strategy Committee respectively as from the conclusion of 2011 Annual General Meeting held on 9 May 2011.

## 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2011: two) 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 2012 and 2011 were as follows:

	2012 HK\$ million	2011 HK\$ million
Basic salaries, housing and other allowances	16	16
Bonus	3	9
Share-based payments ( <i>Note</i> )	5	5
	<b>24</b>	<b>30</b>

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	
	2012	2011
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$4,000,001 to HK\$4,500,000	2	–
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$6,000,001 to HK\$6,500,000	1	–
HK\$7,000,001 to HK\$7,500,000	–	1
HK\$11,500,001 to HK\$12,000,000	–	1
	<b>5</b>	<b>5</b>

**13. EMPLOYEES' EMOLUMENTS** *continued*

Senior management (for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules")) during the year are Executive Directors and an officer. Their emoluments are within the following bands. (For 2011, senior management were also the five individuals with the highest emoluments).

	Number of individuals	
	2012	2011
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	2	1
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$6,000,001 to HK\$6,500,000	1	–
HK\$7,000,001 to HK\$7,500,000	–	1
HK\$11,500,001 to HK\$12,000,000	–	1
	<b>5</b>	<b>5</b>

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

	2012 HK\$ million	2011 HK\$ million
2012 interim dividend paid – HK17 cents per share	180	–
2011 interim dividend paid – HK15 cents per share	–	159
2011 final dividend paid – HK64 cents per share	679	–
2010 final dividend paid – HK60 cents per share	–	632
	<b>859</b>	<b>791</b>

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

	2012 HK\$ million	2011 HK\$ million
2012 interim dividend (2011 interim dividend):		
– Cash payment	135	142
– Share alternative	45	17
2011 final dividend (2010 final dividend):		
– Cash payment	634	464
– Share alternative	45	168
	<b>859</b>	<b>791</b>

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

	2012 HK\$ million	2011 HK\$ million
2012 second interim dividend (in lieu of a final dividend) declared on 6 March 2013 of HK78 cents per share	829	–
2011 final dividend proposed on 8 March 2012 of HK64 cents per share	–	678
	<b>829</b>	<b>678</b>

The 2012 second interim dividend is not recognised as a liability as at 31 December 2012 because it has been declared and approved after the reporting period. Such dividend will be accounted for as an appropriation of the retained profits in the year ending 31 December 2013.

The 2012 second interim dividend will be payable in cash.



## 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	
	2012 HK\$ million	2011 HK\$ million
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	9,955	8,545
	Number of shares	
	2012	2011
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,061,276,321	1,057,109,763
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	486,784	817,621
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,061,763,105	1,057,927,384

In both years, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options are 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:

	2012		2011	
	Profit HK\$ million	Basic earnings per share HK cents	Profit HK\$ million	Basic earnings per share HK cents
Profit for the year attributable to owners of the Company	9,955	938.02	8,545	808.34
Change in fair value of investment properties	(8,533)	(804.03)	(7,532)	(712.51)
Effect of non-controlling interests' shares	323	30.43	355	33.58
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(123)	(11.59)	(58)	(5.49)
Underlying Profit	1,622	152.83	1,310	123.92
Recurring Underlying Profit	1,622	152.83	1,310	123.92

Notes:

- (1) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature (such as gains or losses on disposal of long-terms assets; impairment or its reversal; and tax provisions for prior years). As there were no such adjustments in both years, the Recurring Underlying Profit is the same as the Underlying Profit.
- (2) The denominators in calculating the adjusted earnings per share used are the same as those detailed above for basic earnings per share.

**16. INVESTMENT PROPERTIES**

	The Group	
	2012 HK\$ million	2011 HK\$ million
<b>Fair value</b>		
At 1 January	49,969	40,833
Additions	1,510	1,601
Acquisition of a subsidiary ( <i>note 33</i> )	–	19
Transfer from (to) property, plant and equipment	10	(16)
Change in fair value recognised in profit or loss	8,533	7,532
<b>At 31 December</b>	<b>60,022</b>	<b>49,969</b>

The carrying amount of investment properties shown above comprises:

	The Group	
	2012 HK\$ million	2011 HK\$ million
Land in Hong Kong:		
– Medium-term lease	7,740	7,680
– Long lease	52,282	42,289
	<b>60,022</b>	<b>49,969</b>

The fair value of the Group's investment properties at 31 December 2012 and 2011 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 re-development potential, where appropriate. For the investment properties under re-development as at 31 December 2011, residual method of valuation was adopted. The valuation was mainly arrived at by reference to actual sales or rental information publicly available to determine the value of the proposed development as if it were completed as at the date of valuation.

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
<b>The Group</b>					
<b>Cost or valuation</b>					
At 1 January 2011	413	62	31	1	507
Additions	–	4	4	–	8
Transfer from investment properties	16	–	–	–	16
Surplus on revaluation	83	–	–	–	83
At 31 December 2011	512	66	35	1	614
Additions	–	25	5	1	31
Transfer to investment properties	(10)	–	–	–	(10)
Surplus on revaluation	37	–	–	–	37
<b>At 31 December 2012</b>	<b>539</b>	<b>91</b>	<b>40</b>	<b>2</b>	<b>672</b>
Comprising:					
At cost	–	91	40	2	133
At valuation 2012	539	–	–	–	539
	539	91	40	2	672
<b>Accumulated depreciation</b>					
At 1 January 2011	–	54	23	1	78
Provided for the year	2	3	3	–	8
Eliminated on revaluation	(2)	–	–	–	(2)
At 31 December 2011	–	57	26	1	84
Provided for the year	3	5	3	–	11
Eliminated on revaluation	(3)	–	–	–	(3)
<b>At 31 December 2012</b>	<b>–</b>	<b>62</b>	<b>29</b>	<b>1</b>	<b>92</b>
<b>Carrying amounts</b>					
<b>At 31 December 2012</b>	<b>539</b>	<b>29</b>	<b>11</b>	<b>1</b>	<b>580</b>
At 31 December 2011	512	9	9	–	530

**17. PROPERTY, PLANT AND EQUIPMENT** *continued*

	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
<b>The Company</b>				
<b>Cost</b>				
At 1 January 2011	24	28	1	53
Additions	1	3	–	4
At 31 December 2011	25	31	1	57
Additions	15	–	–	15
<b>At 31 December 2012</b>	<b>40</b>	<b>31</b>	<b>1</b>	<b>72</b>
<b>Accumulated depreciation</b>				
At 1 January 2011	22	21	1	44
Provided for the year	1	2	–	3
At 31 December 2011	23	23	1	47
Provided for the year	1	2	–	3
<b>At 31 December 2012</b>	<b>24</b>	<b>25</b>	<b>1</b>	<b>50</b>
<b>Carrying amounts</b>				
<b>At 31 December 2012</b>	<b>16</b>	<b>6</b>	<b>–</b>	<b>22</b>
At 31 December 2011	2	8	–	10

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 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 2012 and 2011 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, where appropriate. The gains of HK\$40 million (2011: HK\$85 million) arising on revaluation have been recognised in other comprehensive income and accumulated in properties revaluation reserve.

Had the Group's land and buildings been measured on a historical cost basis, their carrying amounts would have been HK\$179 million (2011: HK\$182 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$28 million (2011: HK\$25 million) and accumulated depreciation of HK\$22 million (2011: HK\$21 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 (2011: 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	
	2012 HK\$ million	2011 HK\$ million
Investments in subsidiaries comprise:		
Unlisted shares, at cost	–	–
Deemed capital contribution in subsidiaries (Note)	1,603	1,904
	<b>1,603</b>	<b>1,904</b>

### Note:

The deemed capital contribution in subsidiaries represents the adjustment to the amounts due from subsidiaries based on the estimated timing on future cash flows.

The table below lists the principal subsidiaries of the Group at 31 December 2012 and 2011:

Name of subsidiary	Place of incorporation/operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			directly	indirectly	
Admore Investments 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 Corporate Services Limited	Hong Kong	HK\$2	100%	–	Provision of corporate services
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
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 29, none of the subsidiaries had issued any debt securities at the end of the reporting period.



**19. INVESTMENTS IN ASSOCIATES**

	The Group	
	2012 HK\$ million	2011 HK\$ million
Cost of unlisted investments	3	3
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,753	3,417
	<b>3,756</b>	<b>3,420</b>
Loan to an associate	125	118
Less: Loss allocated in excess of cost of investments	(122)	(115)
	<b>3</b>	<b>3</b>
	<b>3,759</b>	<b>3,423</b>

Loan to an associate of HK\$125 million (2011: HK\$118 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 2012 and 2011 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Class of share held/ registered capital	Effective interest held by the Group	Principal activities
Country Link Enterprises Limited	Private limited company	Hong Kong	Ordinary share of HK\$5,000,000	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 of S\$1,000,000	25.0%*	Inactive

\* Indirectly held

# Fully paid-up 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 2012 and 2011 is as follows:

	2012 HK\$ million	2011 HK\$ million
Total assets	19,656	18,055
Total liabilities	(4,976)	(4,677)
Net assets	14,680	13,378
Group's share of net assets of associates	3,634	3,305
Turnover	1,451	1,317
Profit for the year	1,272	964
Group's share of results of associates for the year	334	254

## 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	
	2012 HK\$ million	2011 HK\$ million
Within 1 year	218	265
More than 1 year but not exceeding 5 years	160	365
	378	630

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 interest rates. The entire combined contracts have been classified as financial assets at FVTPL.

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

	The Group			
	2012		2011	
	Notional amount HK\$ million	Fair value HK\$ million	Notional amount HK\$ million	Fair value HK\$ million
Within 1 year	213	218	262	265
More than 1 year but not exceeding 5 years	158	160	371	365
	371	378	633	630

**21. TERM NOTES**

	The Group	
	2012 HK\$ million	2011 HK\$ million
Term notes, at amortised cost, comprise:		
– Debt securities listed in Hong Kong	19	19
– Debt securities listed in overseas	161	120
– Unlisted debt securities	730	291
	<b>910</b>	<b>430</b>
Analysed for reporting purposes as:		
Current assets	383	171
Non-current assets	527	259
	<b>910</b>	<b>430</b>

As at 31 December 2012, the effective yield of the debt securities ranged from 1.05% to 3.27% (2011: 1.05% to 3.13%) per annum, payable quarterly, semi-annually or annually, and the securities will mature from February 2013 to December 2014 (2011: from January 2012 to June 2014). None of these assets are past due or impaired at the end of the reporting period.

**22. EQUITY INVESTMENTS**

	The Group	
	2012 HK\$ million	2011 HK\$ million
Equity investments comprise:		
Listed investments:		
– Equity securities listed in Hong Kong, at fair value	–	988
Unlisted investments:		
– Overseas equity securities, at fair value	1	1
	<b>1</b>	<b>989</b>

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 and are inactive during both years.

## 23. OTHER FINANCIAL ASSETS/LIABILITIES

	The Group			
	Current			Non-current
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
<b>Other financial assets</b>				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	-	1	-	-
Fair value hedges				
– Interest rate swaps	-	-	55	66
	-	1	55	66
Financial assets measured at FVTPL:				
Other derivatives classified as held for trading (not under hedge accounting):				
– Forward foreign exchange contracts	2	-	-	-
Zero coupon convertible note	-	70	-	-
Club debentures	-	-	2	2
	2	70	2	2
<b>Total</b>	<b>2</b>	<b>71</b>	<b>57</b>	<b>68</b>
<b>Other financial liabilities</b>				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	-	2	-	-
– Cross currency swaps	1	-	4	10
– Interest rate swaps	4	5	21	40
	5	7	25	50
Financial liabilities measured at FVTPL:				
Other derivatives classified as held for trading (not under hedge accounting):				
– Net basis swaps	-	2	-	-
– Asset swap	-	10	-	-
	-	12	-	-
<b>Total</b>	<b>5</b>	<b>19</b>	<b>25</b>	<b>50</b>

**23. OTHER FINANCIAL ASSETS/LIABILITIES** *continued***(a) Cash flow hedges****(i) Foreign currency risk**

During the year, the Group used forward foreign exchange contracts and cross currency swaps 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.

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

	The Group									
	2012					2011				
	Average exchange rate*	Foreign currency	Notional amount million	HK\$ million	Fair value HK\$ million	Average exchange rate*	Foreign currency	Notional amount million	HK\$ million	Fair value HK\$ million
<b>Forward foreign exchange contracts</b>										
<b>Buy US dollars ("USD")</b> (Note a)										
Within 1 year	-	-	-	-	-	7.6059	USD	2	15	1
<b>Sell USD</b> (Note b)										
Within 1 year	-	-	-	-	-	7.7865	USD	18	140	-
More than 1 year but not exceeding 5 years	7.7309	USD	10	77	-	7.7309	USD	10	77	-
	7.7309	USD	10	77	-	7.7667	USD	28	217	-
<b>Sell Renminbi ("RMB")</b> (Note c)										
Within 1 year	-	-	-	-	-	1.2065	RMB	167	202	(2)
<b>Cross currency swaps</b>										
<b>Hedging interest and principal of Australian dollars ("AUD") bank loan</b> (Note d)										
More than 1 year but not exceeding 5 years	8.1497	AUD	37	300	(4)	8.1497	AUD	37	300	(10)
<b>Hedging interest and principal of USD bank loans</b> (Note e)										
Within 1 year	7.8000	USD	26	200	(1)	-	-	-	-	-
More than 1 year but not exceeding 5 years	-	-	-	-	-	7.8000	USD	26	200	-
<b>Total</b>				<b>577</b>	<b>(5)</b>				<b>934</b>	<b>(11)</b>

\* Average exchange rate represented the average exchange rate of HKD versus respective currencies weighted by the notional amounts of the contracts or the swaps.



## 23. OTHER FINANCIAL ASSETS/LIABILITIES *continued*

### (a) Cash flow hedges *continued*

#### (i) Foreign currency risk *continued*

Notes:

- (a) As at 31 December 2011, the Group used HK\$15 million forward foreign exchange contract to hedge the foreign exchange rate risk in relation to the semi-annual coupon payment of US\$57 million out of the US\$174 million fixed rate notes. The notes and the forward foreign exchange contract matured in February 2012.
- (b) The Group used HK\$77 million (2011: HK\$217 million) forward foreign exchange contracts 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) As at 31 December 2011, the Group used HK\$202 million forward foreign exchange contracts to hedge the foreign exchange rate risk of the principal and interest amount of a time deposit denominated in RMB at its maturity date. The time deposit and the forward foreign exchange contract matured in January 2012.
- (d) The Group used HK\$300 million (2011: HK\$300 million) cross currency swap to convert AUD interest and principal of AUD37 million (2011: AUD37 million) bank loan into HKD.
- (e) The Group used HK\$200 million (2011: HK\$200 million) cross currency swap to convert USD interest and principal of US\$26 million (2011: US\$26 million) bank loan into HKD.

As at 31 December 2012, net cumulative fair value gains of HK\$1 million (2011: HK\$5 million) from the forward foreign exchange contracts and cross currency swaps have been recognised in other comprehensive income and accumulated in hedging reserve, and are expected to be released to the consolidated income statements at various dates when the hedged items impact the profit or loss.

During the year, net gains of HK\$18 million (2011: losses of HK\$3 million) on forward foreign exchange contracts and cross currency swaps were reclassified from hedging reserve to profit or loss as finance costs and gains of HK\$4 million (2011: losses of HK\$4 million) on forward foreign exchange contracts were reclassified from hedging reserve to profit or loss as investment income.

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.

#### (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.

**23. OTHER FINANCIAL ASSETS/LIABILITIES** *continued***(a) Cash flow hedges** *continued***(ii) Interest rate risk** *continued*

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

	The Group							
	2012				2011			
	Average interest rate*	Notional amount		Fair value	Average interest rate*	Notional amount		Fair value
	US\$ million	HK\$ million	HK\$ million		US\$ million	HK\$ million	HK\$ million	
<b>Interest rate swaps</b>								
<b>Hedging interest of HKD bank loans</b> (Note a)								
Within 1 year	3.12%	n/a	325	(4)	0.32%	n/a	200	–
More than 1 year but not exceeding 5 years	3.65%	n/a	200	(13)	3.32%	n/a	525	(28)
	3.32%	n/a	525	(17)	2.49%	n/a	725	(28)
<b>Hedging floating-interest –rate payments of financial instruments</b> (Note b)								
Within 1 year	–	–	–	–	3.80%	n/a	200	(5)
More than 1 year but not exceeding 5 years	2.99%	n/a	200	(8)	2.99%	n/a	200	(12)
	2.99%	n/a	200	(8)	3.39%	n/a	400	(17)
<b>Basis swaps</b>								
<b>Hedging interest of HKD bank loans</b> (Note c)								
Within 1 year	–	–	–	–	0.08%	n/a	325	–
<b>Hedging interest of USD bank loans</b> (Note d)								
Within 1 year	–	–	–	–	0.07%	26	200	–
<b>Total</b>			<b>725</b>	<b>(25)</b>			<b>1,650</b>	<b>(45)</b>

\* For interest rate swaps, the average interest rate represented the average fixed interest rate paid by the Group against receipts of 3-month 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.

## Notes:

- The Group used HK\$525 million (2011: HK\$725 million) interest rate swaps to manage its exposure to interest rate changes of the monthly or quarterly interest payments of HKD bank loans.
- The Group used HK\$200 million (2011: HK\$400 million) interest rate swaps to hedge the interest rate risk in relation to the quarterly floating-interest-rate payments of certain financial instruments.
- As at 31 December 2011, the Group used 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 payment of HK\$325 million bank loan. The basis swaps matured in July and August 2012.
- As at 31 December 2011, the Group used HK\$200 million basis swaps to combine with cross currency swaps referred to note (e) of “foreign currency risk” to hedge the interest rate changes of the monthly or quarterly interest payments of US\$26 million bank loan. The basis swaps matured in October 2012.

## 23. OTHER FINANCIAL ASSETS/LIABILITIES *continued*

### (a) Cash flow hedges *continued*

#### (ii) Interest rate risk *continued*

As at 31 December 2012, net cumulative fair value losses of HK\$25 million (2011: HK\$45 million) from the interest rate swaps and basis swaps under cash flow hedges have been recognised in other comprehensive income and accumulated in hedging reserve, 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\$26 million (2011: HK\$22 million) on interest rate swaps and basis swaps were reclassified from hedging reserve 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 used 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 outstanding interest rate swaps at the end of the reporting period are as follows:

	The Group							
	2012				2011			
	Average interest rate*	Notional amount		Fair value	Average interest rate*	Notional amount		Fair value
	US\$ million	HK\$ million	HK\$ million		US\$ million	HK\$ million	HK\$ million	
<b>Interest rate swaps</b>								
(Note)								
More than 1 year but not exceeding 5 years	4.18%	n/a	300	29	4.18%	n/a	300	35
More than 5 years	4.50%	n/a	293	26	4.50%	n/a	278	31
	4.33%	n/a	593	55	4.33%	n/a	578	66

\* 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\$300 million (2011: HK\$300 million) fixed-to-floating interest rate swaps to hedge interest rate risk related to part of the coupon payments of the HK\$300 million (2011: HK\$300 million) fixed rate notes. The Group also designated a fixed-to-floating interest rate swap with nominal amount of HK\$293 million (2011: HK\$278 million) as at 31 December 2012 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.

As a result of the hedge accounting, the carrying amount of the fixed rate notes as at 31 December 2012 was adjusted by cumulative losses of HK\$29 million (2011: HK\$35 million) while the carrying amount of the zero coupon notes as at 31 December 2012 was adjusted by cumulative losses of HK\$27 million (2011: HK\$32 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.

**23. OTHER FINANCIAL ASSETS/LIABILITIES** *continued***(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							
	2012				2011			
	Average exchange rate*	Notional amount		Fair value	Average interest/exchange rate*	Notional amount		Fair value
	US\$ million	HK\$ million	HK\$ million		US\$ million	HK\$ million	HK\$ million	
<b>Net basis swaps</b> (Note a)								
Within 1 year	-	-	-	-	7.8000	57	445	(2)
<b>Cross currency swaps</b> (Note b)								
Within 1 year	-	-	-	-	7.7998	117	913	-
<b>Forward foreign exchange contracts</b> (Note c)								
Within 1 year	7.8400	27	212	2	-	-	-	-
More than 1 year but not exceeding 5 years	-	-	-	-	7.8400	27	212	-
	<b>7.8400</b>	<b>27</b>	<b>212</b>	<b>2</b>	<b>7.8400</b>	<b>27</b>	<b>212</b>	<b>-</b>
<b>Asset swap</b> (Note d)								
Within 1 year	-	-	-	-	2.00%	n/a	60	(10)

\* For net basis swaps, cross currency swaps and forward foreign exchange contracts, the average exchange rate represented the average HKD:USD exchange rate weighted by their notional amounts. For asset swap, the interest rate represented the spread added to 3-months HIBOR received by the Group.

## Notes:

- As at 31 December 2011, the Group used US\$57 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 of the US\$174 million fixed rate notes at maturity. The notes and the net basis swaps matured in February 2012.
- As at 31 December 2011, the Group used US\$117 million cross currency swaps to manage the interest rate and foreign exchange risks of US\$117 million of the US\$174 million fixed rate notes. The notes and the cross currency swaps matured in February 2012.
- The Group used HK\$212 million (2011: HK\$212 million) forward foreign exchange contracts to manage the foreign exchange rate risk in relation to investment amount of US\$27 million (2011: US\$27 million) of term notes and principal-protected investments. The contracts will effectively manage the foreign exchange rate risk if HKD:USD is above 7.74 at the respectively maturity dates. If HKD:USD is at or below 7.74, the contracts will be knocked out and the Group will have no obligation on the settlement of the contracts.
- As at 31 December 2011, the Group used a HK\$60 million asset swap to convert the return of a zero coupon convertible note of investment amount of HK\$60 million into a floating rate note with interest income of 3-month HIBOR plus 2%. The mark-to-market losses were offset by corresponding mark-to-market gains of the note. The note and the asset swap matured in February 2012.

**(d) Financial assets measured at FVTPL****(i) Zero coupon convertible note**

During the year ended 31 December 2011, the Group purchased a zero coupon convertible note of HK\$60 million with an embedded equity option of a listed company in Hong Kong. The note matured in February 2012. As disclosed in note (c) of other derivatives classified as held for trading, an asset swap was used to manage the fair value exposure to the note for the year ended 31 December 2011. The entire combined contract had been classified as financial assets measured at FVTPL on initial recognition.

**(ii) Club debentures**

Other financial assets of the Company represented investments in unlisted club debentures. The Group's and the Company's investments in unlisted club debentures have been classified as financial assets measured at FVTPL.

## 24. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	The Group	
	2012 HK\$ million	2011 HK\$ million
Accounts receivable	13	6
Interest receivable	27	51
Prepayments in respect of investment properties	59	98
Other receivables	302	142
	<b>401</b>	<b>297</b>
Analysed for reporting purposes as:		
– Current assets	158	134
– Non-current assets	243	163
	<b>401</b>	<b>297</b>

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\$13 million (2011: HK\$6 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

## 25. AMOUNTS DUE FROM/TO SUBSIDIARIES

	The Company	
	2012 HK\$ million	2011 HK\$ million
Amounts due from subsidiaries are classified as:		
– Current assets ( <i>Note a</i> )	8,984	6,088
– Non-current assets ( <i>Note b</i> )	3,797	5,126
	<b>12,781</b>	<b>11,214</b>
Amounts due to subsidiaries ( <i>Note a</i> )	<b>1,337</b>	<b>480</b>

Notes:

- The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.
- The amounts due from subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current assets as they are not expected to be recoverable within the next twelve months.

## 26. TIME DEPOSITS/CASH AND BANK BALANCES

	The Group	
	2012 HK\$ million	2011 HK\$ million
Time deposits	2,158	2,899
Cash and bank balances	153	62
Cash and deposits with banks shown in the consolidated statement of financial position	<b>2,311</b>	<b>2,961</b>
Less: Time deposits with original maturity over three months	<b>(1,348)</b>	<b>(2,307)</b>
Cash and cash equivalents shown in the consolidated statement of cash flows	<b>963</b>	<b>654</b>

Included in the Company's time deposits as at 31 December 2012, were HK\$55 million (2011: HK\$395 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 include bank deposits carrying effective interest rates ranging from 0.1% to 3.45% (2011: 0.205% to 2.46%) per annum.

**27. ACCOUNTS PAYABLE AND ACCRUALS**

	The Group	
	2012 HK\$ million	2011 HK\$ million
Accounts payable	261	324
Interest payable	32	70
Other payables	176	138
	<b>469</b>	<b>532</b>

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$261 million (2011: HK\$324 million) were aged less than 90 days.

**28. AMOUNTS DUE TO NON-CONTROLLING INTERESTS**

The amounts due to non-controlling interests are unsecured, interest-free and repayable on demand.

**29. BORROWINGS**

The analysis of the carrying amounts of borrowings is as follows:

	Current		The Group	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Unsecured bank loans	699	150	1,996	2,690
Floating rate notes	-	-	200	200
Fixed rate notes	-	1,357	2,722	1,952
Zero coupon notes	-	-	324	314
	<b>699</b>	<b>1,507</b>	<b>5,242</b>	<b>5,156</b>

In the current year, the average finance cost of the Group's total borrowings calculated based on their contracted interest rates was 3.0% (2011: 3.7%). 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% (2011: 2.7%). As at 31 December 2012, the floating rate debt ratio relative to gross total debt after considering the hedges was 47.0% (2011: 54.8%).

**(a) Unsecured bank loans**

The unsecured bank loans of HK\$2,695 million (2011: HK\$2,840 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 agreement, as follows:

	The Group	
	2012 HK\$ million	2011 HK\$ million
Within 1 year	699	150
More than 1 year, but not exceeding 2 years	896	699
More than 2 years, but not exceeding 5 years	1,100	1,991
	<b>2,695</b>	<b>2,840</b>

All the Group's unsecured bank loans are variable-rate borrowings with effective interest rates (which were also equal to contracted interest rates) ranging from 0.70% to 4.04% (2011: 0.59% to 5.37%) per annum at the end of the reporting period. Interest rates of the loans are normally re-fixed at every one to three months.

As disclosed in note 23(a), during the years ended 31 December 2012 and 2011, cross currency swaps, interest rate swaps and basis 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.



## 29. BORROWINGS continued

### (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 1.38% (2011: 1.26%) 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 in both years.

### (c) Fixed rate notes

	The Group	
	2012 HK\$ million	2011 HK\$ million
Fixed rate notes – principal amount	2,693	3,274
Add: Net loss attributable to hedged risks	29	35
	<b>2,722</b>	<b>3,309</b>

Details of the Group's fixed rate notes at 31 December 2012 and 2011 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
HK\$150 million	3.86%	quarterly basis	May 2011	May 2018
HK\$404 million	4.10%	annual basis	December 2011	December 2023
HK\$331 million	4.00%	quarterly basis	January 2012	January 2022
HK\$300 million	3.90%	quarterly basis	March 2012	March 2019
HK\$150 million	4.50%	annual basis	March 2012	March 2027

\* 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 notes matured in February 2012.

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, during the years ended 31 December 2012 and 2011, 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.

The net cumulative loss of HK\$29 million (2011: HK\$35 million) represented the change in fair value attributable to the hedged interest rate risk of the HK\$300 million (2011: HK\$300 million) fixed rate notes under fair value hedge.

**29. BORROWINGS** *continued***(d) Zero coupon notes**

	The Group	
	2012 HK\$ million	2011 HK\$ million
Zero coupon notes	297	282
Add: Loss attributable to hedged risk	27	32
	<b>324</b>	<b>314</b>

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 used 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 cumulative loss of HK\$27 million (2011: HK\$32 million) represented changes in fair value attributable to the hedged interest rate risk of the zero coupon notes under fair value hedge.

**30. 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
<b>The Group</b>				
At 1 January 2011	297	40	–	337
Charge (credit) to profit or loss ( <i>note 9</i> )	30	–	(21)	9
Charge to other comprehensive income	–	14	–	14
At 31 December 2011	327	54	(21)	360
Charge (credit) to profit or loss ( <i>note 9</i> )	135	–	(68)	67
Charge to other comprehensive income	–	7	–	7
<b>At 31 December 2012</b>	<b>462</b>	<b>61</b>	<b>(89)</b>	<b>434</b>

At the end of the reporting period, the Group has unused estimated tax losses of HK\$1,072 million (2011: HK\$648 million), of which HK\$684 million (2011: HK\$327 million) has not been agreed by the Hong Kong Inland Revenue Department, available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$538 million (2011: HK\$126 million) of such losses. No deferred tax asset has been recognised in respect of the estimated tax losses of HK\$534 million (2011: HK\$522 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. During the year, deferred tax liability of the Company has been recognised in respect of the accelerated tax depreciation of HK\$1 million (2011: HK\$1 million). At the end of the reporting period, the Company has deferred tax liability of HK\$1 million (2011: HK\$1 million).

### 31. SHARE CAPITAL

	Number of shares		Share capital	
	2012	2011	2012 HK\$ million	2011 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	1,059,754,415	1,053,426,635	5,299	5,267
Issue of shares pursuant to scrip dividend schemes (Note a)	2,745,307	5,136,783	14	26
Issue of shares under share option scheme (Note b)	507,334	1,190,997	2	6
<b>At 31 December</b>	<b>1,063,007,056</b>	<b>1,059,754,415</b>	<b>5,315</b>	<b>5,299</b>

Notes:

#### (a) Issue of shares pursuant to scrip dividend schemes

##### For the year ended 31 December 2012

On 14 June 2012 and 13 September 2012 respectively, the Company issued and allotted a total of 1,426,624 shares and 1,318,683 shares of HK\$5 each in the Company at HK\$31.78 and HK\$33.51 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2011 final and 2012 interim dividends pursuant to the scrip dividend schemes announced by the Company on 22 May 2012 and 22 August 2012. These shares rank pari passu in all respects with other shares in issue.

##### For the year ended 31 December 2011

On 2 June 2011 and 20 September 2011 respectively, the Company issued and allotted a total of 4,584,611 shares and 552,172 shares of HK\$5 each in the Company at HK\$36.55 and HK\$30.43 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2010 final and 2011 interim dividends pursuant to the scrip dividend schemes announced by the Company on 9 May 2011 and 25 August 2011. These shares rank pari passu in all respects with other shares in issue.

#### (b) Issue of shares under share option schemes

During the year, options to subscribe for shares of the Company for a total of 507,334 shares (2011: 1,190,997 shares) were exercised at various exercise prices. 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.

**32. RESERVES OF THE COMPANY**

	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 2011	1,754	16	276	100	5,639	7,785
Issue of shares pursuant to scrip dividend schemes	159	–	–	–	–	159
Issue of shares under share option schemes	21	(6)	–	–	–	15
Recognition of equity-settled share-based payments	–	7	–	–	–	7
Forfeiture of share options	–	(2)	–	–	2	–
Profit for the year	–	–	–	–	630	630
Dividends paid during the year (note 14)	–	–	–	–	(791)	(791)
At 31 December 2011	1,934	15	276	100	5,480	7,805
Issue of shares pursuant to scrip dividend schemes	76	–	–	–	–	76
Issue of shares under share option schemes	12	(4)	–	–	–	8
Recognition of equity-settled share-based payments	–	8	–	–	–	8
Forfeiture of share options	–	(5)	–	–	5	–
Profit for the year	–	–	–	–	835	835
Dividends paid during the year (note 14)	–	–	–	–	(859)	(859)
<b>At 31 December 2012</b>	<b>2,022</b>	<b>14</b>	<b>276</b>	<b>100</b>	<b>5,461</b>	<b>7,873</b>

Note:

General reserve was set up from the transfer of retained profits.

The Company's reserves available for distribution to its owners as at 31 December 2012 amounted to HK\$5,561 million (2011: HK\$5,580 million), being its general reserve and retained profits at that date.

**33. ACQUISITION OF A SUBSIDIARY**

During the year ended 31 December 2011, the Group acquired 100% interest in Moral Hill Investment Limited ("Moral Hill") from an independent third party, for a cash consideration of HK\$19 million. The major asset of Moral Hill is an investment property situated in Hong Kong and as such, the acquisition has been accounted for as acquisition of an asset rather than a business combination.

**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\$7 million (2011: HK\$6 million). Forfeited contributions for the year amounting to HK\$1 million (2011: 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	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Corporate guarantee to note holders				
– for issue of floating rate notes	–	–	200	200
– for issue of fixed rate notes	–	–	2,700	3,276
– for issue of zero coupon notes	–	–	430	430
	–	–	3,330	3,906
Guarantees to banks for providing financing facilities to subsidiaries	–	–	2,700	2,850

### 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	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Authorised but not contracted for	336	505	–	7
Contracted but not provided for	214	885	–	6

### 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	
	2012 HK\$ million	2011 HK\$ million
Within one year	2,260	1,795
In the second to fifth year inclusive	4,315	3,708
Over five years	1,890	2,229
	8,465	7,732

Operating lease payments represent rentals receivable by the Group from leasing of its investment properties. Typically, leases are negotiated and rentals are fixed for lease term of one to three years. Certain leases include contingent rentals calculated with reference to turnover of the tenants.

#### (b) The Company as lessee

As at 31 December 2011, the Company had commitments for future minimum lease payments of HK\$7 million under non-cancellable operating leases which fall due within one year.

Operating lease payments represented rentals payable by the Company to its subsidiaries for its office premises which are negotiated and rentals were fixed for three years.

At the end of the reporting period, the Group and the Company 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:

	Gross rental income received from		The Group	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Related company controlled by a shareholder (Note a)	3	3	–	–
Related companies controlled by Directors (Note b (i) & (ii))	26	26	94	94
Non-controlling shareholder of a subsidiary (Note c (i) & (ii))	18	18	233	233

## Notes:

- (a) The sum of transactions represents the aggregate gross rental income received from Atlas Corporate Management Limited, a wholly-owned subsidiary of Lee Hysan Estate Company, Limited (“LHE”). LHE holds 40.75% (2011: 40.87%) beneficial interest and has significant influence over the Company.
- (b) (i) The sum of transactions represents the aggregate gross rental income received from related companies where the directors have controlling interests over these related companies.  
(ii) The balance 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 a controlling 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.
- (c) (i) The transaction represents the gross rental income received from Hang Seng Bank Limited, the intermediate holding company of Imenson Limited (“Imenson”). Imenson is a non-controlling shareholder with significant influence over Barrowgate.  
(ii) The balance represents outstanding loan advanced to Barrowgate by Imenson, 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	
	2012 HK\$ million	2011 HK\$ million
Amounts due from subsidiaries	13,029	11,462
Less: Allowances on amounts due therefrom	(248)	(248)
	12,781	11,214
Amounts due to subsidiaries	1,337	480

Details of amounts due from/to subsidiaries are disclosed in note 25.



### 38. RELATED PARTY TRANSACTIONS AND BALANCES *continued*

#### (b) Compensation of key management personnel

The remuneration of key management personnel of the Group and the Company during the year (being Directors and an officer) are as follows. (For 2011, the key management personnel were the Non-executive Directors, and the five individuals with the highest emoluments (including two Executive Directors)).

	2012 HK\$ million	2011 HK\$ million
Directors' fees, salaries and other short-term employee benefits	21	27
Share-based payments	4	5
Retirement benefits scheme contributions	-	-
	<b>25</b>	<b>32</b>

The remuneration of the Directors and key executives is determined by the Remuneration 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. As at 31 December 2011, all options granted under the 1995 Scheme had been exercised.

##### 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 be expiring on 9 May 2015 (together with the 1995 Scheme 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.

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.

**39. SHARE-BASED PAYMENT TRANSACTIONS** *continued***(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 proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

**(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 1.1.2012	Changes during the year			Balance as at 31.12.2012
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>2005 Scheme</b>								
<b>Executive Directors</b>								
Irene Yun Lien LEE	14.5.2012	33.500 (Note c)	14.5.2012 – 13.5.2022	–	261,000	–	–	261,000
Siu Chuen LAU	14.5.2012	33.500 (Note c)	14.5.2012 – 13.5.2022	–	242,000	–	–	242,000
Gerry Lui Fai YIM (Note d)	1.12.2009	22.800	1.12.2009 – 30.11.2019	218,000	–	(145,333) (Note e)	(72,667)	–
	10.3.2011	35.710	10.3.2011 – 9.3.2021	217,000	–	–	(217,000)	–
	9.3.2012	33.790 (Note f)	9.3.2012 – 8.3.2022	–	239,000	–	(239,000)	–
Wendy Wen Yee YUNG	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	100,000	–	–	–	100,000
	11.3.2010	22.100	11.3.2010 – 10.3.2020	185,000	–	–	–	185,000
	10.3.2011	35.710	10.3.2011 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.790 (Note f)	9.3.2012 – 8.3.2022	–	113,000	–	–	113,000

### 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 1.1.2012	Changes during the year			Balance as at 31.12.2012
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>2005 Scheme</b> <i>continued</i>								
<b>Eligible employees</b> (Note g)	31.3.2008	21.960	31.3.2008 – 30.3.2018	23,000	–	(6,000) (Note h)	–	17,000
	2.5.2008	23.900	2.5.2008 – 1.5.2018	95,000	–	(95,000) (Note i)	–	–
	2.10.2008	20.106	2.10.2008 – 1.10.2018	85,000	–	(85,000) (Note j)	–	–
	31.3.2009	13.300	31.3.2009 – 30.3.2019	262,668	–	(69,668) (Note k)	(23,000)	170,000
	31.3.2010	22.450	31.3.2010 – 30.3.2020	441,001	–	(102,333) (Note l)	(66,000)	272,668
	31.3.2011	32.000	31.3.2011 – 30.3.2021	370,000	–	(4,000) (Note m)	(105,000)	261,000
	30.3.2012	31.610 (Note n)	30.3.2012 – 29.3.2022	–	479,000	–	(107,000)	372,000
				<b>2,294,669</b>	<b>1,334,000</b>	<b>(507,334)</b>	<b>(829,667)</b>	<b>2,291,668</b>

#### Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant.
- The options lapsed during the year upon resignations of a Director and certain eligible employees.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 11 May 2012) was HK\$33.00.
- Gerry Lui Fai YIM resigned as Chief Executive Officer and Executive Director of the Company as from the conclusion of 2012 AGM held on 14 May 2012.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.60.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 8 March 2012) was HK\$33.45.
- Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.35.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$32.55.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.60.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$32.95.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$31.03.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.10.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 29 March 2012) was HK\$31.10.

Apart from the above, the Company had not granted any share option under the 2005 Scheme 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 1.1.2011	Changes during the year			Balance as at 31.12.2011
					Granted	Exercised	Cancelled/ lapsed	
<b>1995 Scheme</b>								
<b>Executive Director</b>								
Wendy Wen Yee YUNG	30.3.2005	15.850	30.3.2005 – 29.3.2015	96,000	–	(96,000) (Note b)	–	–
<b>2005 Scheme</b>								
<b>Executive Directors</b>								
Peter Ting Chang LEE (Note c)	6.3.2007	21.380	6.3.2007 – 16.1.2011	235,000	–	(235,000) (Note d)	–	–
	13.3.2008	21.450	13.3.2008 – 16.1.2011	260,000	–	(173,333) (Note d)	(86,667)	–
	11.3.2009	11.760	11.3.2009 – 16.1.2011	500,000	–	(166,666) (Note d)	(333,334)	–
Gerry Lui Fai YIM	1.12.2009	22.800	1.12.2009 – 30.11.2019	218,000	–	–	–	218,000
	10.3.2011	35.710 (Note e)	10.3.2011 – 9.3.2021	–	217,000	–	–	217,000
Wendy Wen Yee YUNG	26.6.2006	20.110	26.6.2006 – 25.6.2016	110,000	–	(110,000) (Note b)	–	–
	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	–	(200,000) (Note b)	–	100,000
	11.3.2010	22.100	11.3.2010 – 10.3.2020	185,000	–	–	–	185,000
	10.3.2011	35.710 (Note e)	10.3.2011 – 9.3.2021	–	103,000	–	–	103,000

### 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 1.1.2011	Changes during the year			Balance as at 31.12.2011
					Granted	Exercised	Cancelled/ lapsed	
<b>2005 Scheme</b> <i>continued</i>								
<b>Eligible employees</b> (Note f)	30.3.2006	22.000	30.3.2006 – 29.3.2016	15,000	–	(15,000) (Note g)	–	–
	30.3.2007	21.250	30.3.2007 – 29.3.2017	15,000	–	(15,000) (Note h)	–	–
	31.3.2008	21.960	31.3.2008 – 30.3.2018	78,000	–	(55,000) (Note i)	–	23,000
	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	363,334	–	(86,999) (Note j)	(13,667) (Note k)	262,668
	31.3.2010	22.450	31.3.2010 – 30.3.2020	523,000	–	(37,999) (Note l)	(44,000) (Note k)	441,001
	31.3.2011	32.000 (Note m)	31.3.2011 – 30.3.2021	–	393,000	–	(23,000) (Note k)	370,000
				<u>3,273,334</u>	<u>713,000</u>	<u>(1,190,997)</u>	<u>(500,668)</u>	<u>2,294,669</u>

#### Notes:

- All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.25.
- 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 the sole executrix to his estate on 3 January 2011. The unvested share options of 420,001 lapsed on 17 January 2011.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.60.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 9 March 2011) was HK\$35.70.
- Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.65.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.25.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.68.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.98.
- The unvested options lapsed during the year upon resignations of certain eligible employees.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.06.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2011) was HK\$31.95.

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***(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\$8 million (2011: HK\$7 million) in relation to share options granted by the Company, of which HK\$4 million (2011: HK\$3 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	14.5.2012	30.3.2012	9.3.2012	31.3.2011	10.3.2011
Closing share price at the date of grant	HK\$33.500	HK\$31.100	HK\$33.050	HK\$32.000	HK\$34.000
Exercise price	HK\$33.500	HK\$31.610	HK\$33.790	HK\$32.000	HK\$35.710
Risk free rate ( <i>Note a</i> )	0.449%	0.606%	0.535%	2.687%	2.717%
Expected life of option ( <i>Note b</i> )	5 years	5 years	5 years	10 years	10 years
Expected volatility ( <i>Note c</i> )	40.715%	40.389%	40.197%	34.151%	34.026%
Expected dividend per annum ( <i>Note d</i> )	HK\$0.698	HK\$0.698	HK\$0.698	HK\$0.640	HK\$0.640
Estimated fair values per share option	HK\$10.212	HK\$9.210	HK\$9.740	HK\$12.409	HK\$12.553

Notes:

- Risk free rate: being the approximate yields of 5-year or 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- Expected life of option: being the period of 5 years or 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.
- Expected volatility: being the appropriate historical volatility of closing prices of the shares of the Company in the past 5 years (2011: 10 years) immediately before the date of grant.
- Expected dividend per annum: being the approximate average annual cash dividend for the past 5 financial years.

**40. EVENT SUBSEQUENT TO THE END OF THE REPORTING PERIOD**

Subsequent to 31 December 2012, Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US\$300 million Medium Term Notes. The notes are guaranteed as to principal and interest by the Company bearing interest at 3.5% and are repayable in full in 2023.



# Financial Risk Management

For the year ended 31 December 2012

## 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, accounts receivable, other receivables, equity investments, zero coupon convertible note, accounts payable, accruals, 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 payables 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 is primarily attributable to rents receivable from tenants, amounts due from subsidiaries, principal-protected investments, derivative financial instruments, zero coupon convertible note, 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 statements 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, zero coupon convertible note, 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, an 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 comprised (i) investment value of financial assets (including time deposits, principal-protected investments and term notes); (ii) net positive value of derivative financial instruments and zero coupon convertible note and; (iii) potential exposures to derivatives 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.

Category of counterparty	2012		2011	
	Number of counterparty	Exposure HK\$ million	Number of counterparty	Exposure HK\$ million
Credit rating of AA- or above or note issuing banks	5	140 to 355	5	180 to 385
Credit rating BBB- to A+	27	1 to 290	23	1 to 295

To minimise the credit risk of amounts due from subsidiaries, 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. 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
<b>The Group</b>						
<b>As at 31 December 2012</b>						
<b>Non-derivative financial liabilities</b>						
Accounts payable and accruals	(469)	(469)	(469)	–	–	–
Rental deposits from tenants	(698)	(698)	(190)	(184)	(306)	(18)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans <i>(Note)</i>	(2,695)	(2,766)	(735)	(919)	(1,112)	–
Floating rate notes <i>(Note)</i>	(200)	(206)	(3)	(203)	–	–
Fixed rate notes <i>(Note)</i>	(2,722)	(3,636)	(114)	(114)	(698)	(2,710)
Zero coupon notes <i>(Note)</i>	(324)	(430)	–	–	–	(430)
	<b>(7,435)</b>	<b>(8,532)</b>	<b>(1,838)</b>	<b>(1,420)</b>	<b>(2,116)</b>	<b>(3,158)</b>
<b>As at 31 December 2011</b>						
<b>Non-derivative financial liabilities</b>						
Accounts payable and accruals	(532)	(532)	(532)	–	–	–
Rental deposits from tenants	(600)	(600)	(170)	(167)	(230)	(33)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans <i>(Note)</i>	(2,840)	(2,956)	(190)	(739)	(2,027)	–
Floating rate notes <i>(Note)</i>	(200)	(208)	(3)	(3)	(202)	–
Fixed rate notes <i>(Note)</i>	(3,309)	(4,040)	(1,482)	(83)	(623)	(1,852)
Zero coupon notes <i>(Note)</i>	(314)	(430)	–	–	–	(430)
	<b>(8,122)</b>	<b>(9,093)</b>	<b>(2,704)</b>	<b>(992)</b>	<b>(3,082)</b>	<b>(2,315)</b>

Note:

These amounts represent the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amounts if that amounts are claimed by the counterparties to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is not likely that amount will be payable under the arrangement.

## 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
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#### The Company

##### As at 31 December 2012

#### Non-derivative financial liabilities

Other payable and accruals	(35)	(35)	(35)	-	-	-
Amounts due to subsidiaries	(1,337)	(1,337)	(1,337)	-	-	-
	<b>(1,372)</b>	<b>(1,372)</b>	<b>(1,372)</b>	-	-	-

##### As at 31 December 2011

#### Non-derivative financial liabilities

Other payable and accruals	(36)	(36)	(36)	-	-	-
Amounts due to subsidiaries	(480)	(480)	(480)	-	-	-
	<b>(516)</b>	<b>(516)</b>	<b>(516)</b>	-	-	-

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
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#### The Group

##### As at 31 December 2012

#### Derivative settled net

Interest rate swaps	30	111	6	14	49	42
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#### Derivative settled gross

Forward foreign exchange contracts	2					
Outflow		(287)	(209)	(78)	-	-
Inflow		289	212	77	-	-
Cross currency swaps	(5)					
Outflow		(508)	(205)	(303)	-	-
Inflow		517	212	305	-	-

**1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *continued***(b) Liquidity risk** *continued*

	Carrying amount HK\$ million	Total contractual undiscouted cash flow HK\$ million	Within 1 year or on demand HK\$ million	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
<b>As at 31 December 2011</b>						
<b>Derivative settled net</b>						
Interest rate swaps, basis swaps and asset swap	11	98	(13)	6	48	57
<b>Derivative settled gross</b>						
Forward foreign exchange contracts	(1)					
Outflow		(646)	(359)	(210)	(77)	–
Inflow		646	357	212	77	–
Cross currency and net basis swaps	(12)					
Outflow		(1,883)	(1,375)	(205)	(303)	–
Inflow		1,923	1,404	217	302	–

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 used (i) interest rate swaps to hedge the interest rate risk of the Group's floating rate bank loans; 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 used 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 2012, about 47.0% (2011: 54.8%) 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. 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 all other variables were held constant. Such change has been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -25 basis points ("bps") (2011: +100 and -5 bps) was applied to the HKD and US dollars ("USD") yield curves at the end of the reporting period. For the Australian dollars ("AUD") yield curve, a change of +100 and -100 bps (2011: +100 and -100 bps) was applied. The applied change of bps represented management's assessment of the reasonably possible change in interest rates based on the current market conditions. For the HKD and USD yield curve, the increase in negative change reflected potential interest rate decrease in 2013, especially for the instruments with longer maturity.

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	
	bps increase HK\$ million	bps decrease HK\$ million	bps increase HK\$ million	bps decrease HK\$ million
<b>As at 31 December 2012</b>	<b>(2)</b>	<b>-</b>	<b>8</b>	<b>(2)</b>
As at 31 December 2011	(6)	-	18	-

### (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 AUD, Renminbi ("RMB") and USD.

	2012				2011			
	AUD million	RMB million	US\$ million	Total equivalent to HK\$ million	AUD million	RMB million	US\$ million	Total equivalent to HK\$ million
<b>Assets</b>								
Time deposits	-	30	10	115	-	167	-	204
Principal-protected investments	-	-	32	247	-	-	39	300
Term notes	-	133	37	449	-	150	21	347
	-	163	79	811	-	317	60	851
<b>Liabilities</b>								
Unsecured bank loans	37	-	26	495	37	-	26	490
Fixed rate notes	-	-	-	-	-	-	174	1,357
	37	-	26	495	37	-	200	1,847

At the end of the reporting period, all of the Company's assets and liabilities were denominated in HKD.

Other than concentration of currency risk of the above items denominated in AUD, RMB and 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.

### Sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and all other variable were held constant. Such change has been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of 500 percentage in points ("pips") (2011: 500 pips) was applied to the HKD:RMB and HKD:USD spot and forward rates while a change of 10,000 pips (2011: 5,000 pips) was applied to the HKD:AUD spot and forward rates at the end of the reporting period. The applied change of pips represented management's assessment of the reasonably possible change in foreign exchange rates. As a result of the volatile changes on the HKD:AUD spot and forward rates, the management adjusted the sensitivity rate from 5,000 pips to 10,000 pips for the purpose of assessing foreign currency risk.

## 1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

### (d) Currency risk continued

	The Group		Increase (decrease) in equity	
	Increase (decrease) in profit or loss pips increase HK\$ million	pips decrease HK\$ million	pips increase HK\$ million	pips decrease HK\$ million
<b>As at 31 December 2012</b>				
– AUD	-	-	-	-
– RMB	8	(8)	-	-
– USD	-	(2)	1	(1)
<b>As at 31 December 2011</b>				
– AUD	-	-	-	-
– RMB	8	(8)	-	-
– USD	(2)	2	1	(1)

## 2. CATEGORIES OF FINANCIAL INSTRUMENTS

	The Group		The Company	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
<b>Financial assets</b>				
Fair value through profit or loss (“FVTPL”)				
– financial assets measured at FVTPL	382	702	2	2
Derivative instruments under hedge accounting	55	67	-	-
Fair value through other comprehensive income (“FVTOCI”)	1	989	-	-
Amortised cost (including cash and cash equivalents)	3,266	3,447	12,930	11,710
	<b>3,704</b>	<b>5,205</b>	<b>12,932</b>	<b>11,712</b>
<b>Financial liabilities</b>				
FVTPL				
– held for trading	-	12	-	-
Derivative instruments under hedge accounting	30	57	-	-
Amortised cost	6,737	7,522	1,372	516
	<b>6,767</b>	<b>7,591</b>	<b>1,372</b>	<b>516</b>

## 3. FAIR VALUE

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of listed investments traded in active liquid markets are determined with reference to the published price quotations;
- the fair values 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 values 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 or calculated using an option pricing model based on quoted share prices, time to maturity, volatility and interest rates.

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated and the Company’s financial statements approximate their fair values, except for the carrying amount of HK\$2,722 million (2011: HK\$3,309 million) fixed rate notes as stated in note 29 of the Notes to the Financial Statements section with fair value of HK\$3,112 million (2011: HK\$3,484 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 to 3 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 with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 HK\$ million	2012 Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
<b>Financial assets</b>				
<b><i>Derivatives under hedge accounting</i></b>				
Interest rate swaps	-	55	-	55
<b><i>Financial assets at FVTPL</i></b>				
Principal-protected investments	-	378	-	378
Unlisted club debentures	-	2	-	2
Forward foreign exchange contracts	-	2	-	2
<b><i>Financial assets at FVTOCI</i></b>				
Unlisted equity securities ( <i>Note</i> )	-	-	1	1
Total	-	437	1	438
<b>Financial liabilities</b>				
<b><i>Derivatives under hedge accounting</i></b>				
Cross currency swaps	-	5	-	5
Interest rate swaps	-	25	-	25
Total	-	30	-	30

Note:

The carrying amounts of the unlisted equity securities approximated their fair values of HK\$1 million as at 31 December 2012 and 2011. The fair value measurements of the Group's unlisted equity securities are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

There were no transfers between Levels 1 and 2 for both years.

### 3. FAIR VALUE *continued*

	2011			Total
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	HK\$ million
<b>Financial assets</b>				
<b><i>Derivatives under hedge accounting</i></b>				
Forward foreign exchange contracts	–	1	–	1
Interest rate swaps	–	66	–	66
<b><i>Financial assets at FVTPL</i></b>				
Principal-protected investments	–	630	–	630
Unlisted club debentures	–	2	–	2
Zero coupon convertible note	70	–	–	70
<b><i>Financial assets at FVTOCI</i></b>				
Listed equity securities	988	–	–	988
Unlisted equity securities ( <i>Note a</i> )	–	–	1	1
Total	1,058	699	1	1,758
<b>Financial liabilities</b>				
<b><i>Derivatives under hedge accounting</i></b>				
Forward foreign exchange contracts	–	2	–	2
Cross currency swaps	–	10	–	10
Interest rate swaps	–	45	–	45
<b><i>Other derivatives classified as held for trading (not under hedge accounting)</i></b>				
Net basis swaps	–	2	–	2
Asset swap ( <i>Note b</i> )	–	–	10	10
Total	–	59	10	69

Notes:

- (a) The carrying amounts of the unlisted equity securities approximated their fair values of HK\$3 million as at 1 January 2011. During the year ended 31 December 2011, net fair value losses of HK\$2 million have been recognised as other comprehensive expense. The fair value measurements of the Group's unlisted equity securities are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).
- (b) As at December 2011, the Group entered an asset swap with notional amount of HK\$60 million. During the year ended 31 December 2011, the unrealised fair value loss of HK\$10 million was included in other gains and losses. The asset swap matured in February 2012.

There were no transfers between Level 1 and Level 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 adjusts 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	
	2012 HK\$ million	2011 HK\$ million
Unsecured bank loans	2,695	2,840
Floating rate notes	200	200
Fixed rate notes	2,722	3,309
Zero coupon notes	324	314
Borrowings	5,941	6,663
Less: Time deposits	(2,158)	(2,899)
Cash and bank balances	(153)	(62)
Net debt	3,630	3,702
Equity attributable to owners of the Company	58,123	48,753
Net debt to equity	6.2%	7.6%

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

	2012 HK\$ million	2011 HK\$ million (Note b)	2010 HK\$ million (Note b)	As restated 2009 HK\$ million (Notes a & b)	As restated 2008 HK\$ million (Notes a & b)
<b>Results</b>					
Turnover	2,486	1,922	1,764	1,680	1,638
Property expenses	(423)	(262)	(250)	(235)	(217)
Gross profit	2,063	1,660	1,514	1,445	1,421
Investment income	55	90	49	38	63
Other gains and losses	18	(34)	(42)	(3)	146
Administrative expenses	(187)	(173)	(140)	(133)	(134)
Finance costs	(156)	(122)	(117)	(131)	(155)
Change in fair value of investment properties	8,533	7,532	2,594	1,249	(212)
Share of results of associates	334	254	394	768	590
Profit before taxation	10,660	9,207	4,252	3,233	1,719
Taxation	(289)	(217)	(201)	(189)	(237)
Profit for the year	10,371	8,990	4,051	3,044	1,482
Non-controlling interests	(416)	(445)	(207)	(130)	(118)
Profit attributable to owners of the Company	9,955	8,545	3,844	2,914	1,364
Underlying profit for the year	1,622	1,310	1,148	1,113	1,201
Recurring underlying profit for the year	1,622	1,310	1,148	1,110	1,066
Dividends					
Dividends paid	859	791	714	709	644
Dividends declared/proposed	829	678	632	567	562
Dividends per share (HK cents)	95.00	79.00	74.00	68.00	68.00
Earnings per share (HK\$), based on:					
Profit for the year					
– basic	9.38	8.08	3.65	2.79	1.31
– diluted	9.38	8.08	3.65	2.79	1.31
Underlying profit for the year – basic	1.53	1.24	1.09	1.06	1.16
Recurring underlying profit for the year – basic	1.53	1.24	1.09	1.06	1.03
<b>Performance indicators</b>					
Net debt to equity	6.2%	7.6%	6.4%	5.1%	5.9%
Net interest coverage (times)	16.8x	12.3x	14.0x	11.7x	10.2x
Net asset value per share (HK\$)	54.68	46.00	38.61	35.42	33.44
Net debt per share (HK\$)	3.41	3.49	2.46	1.82	1.96
Year end share price (HK\$)	37.25	25.50	36.60	22.05	12.52

**At 31 December**

	2012 HK\$ million	2011 HK\$ million (Note b)	2010 HK\$ million (Note b)	As restated 2009 HK\$ million (Notes a & b)	As restated 2008 HK\$ million (Notes a & b)
<b>Assets and liabilities</b>					
Investment properties	60,022	49,969	40,833	37,363	35,850
Interests in associates	3,759	3,423	3,153	2,886	2,340
Equity investments	1	989	–	–	–
Available-for-sale investments	–	–	1,152	1,002	1,022
Tax recoverable	2	–	–	–	–
Time deposits, cash and bank balances	2,311	2,961	1,993	1,984	1,015
Other assets	2,328	2,026	1,423	807	1,493
<b>Total assets</b>	<b>68,423</b>	<b>59,368</b>	<b>48,554</b>	<b>44,042</b>	<b>41,720</b>
Borrowings	(5,941)	(6,663)	(4,587)	(3,891)	(3,751)
Taxation	(511)	(433)	(387)	(342)	(620)
Other liabilities	(1,524)	(1,528)	(1,263)	(1,077)	(1,076)
<b>Total liabilities</b>	<b>(7,976)</b>	<b>(8,624)</b>	<b>(6,237)</b>	<b>(5,310)</b>	<b>(5,447)</b>
<b>Net assets</b>	<b>60,447</b>	<b>50,744</b>	<b>42,317</b>	<b>38,732</b>	<b>36,273</b>
Non-controlling interests	(2,324)	(1,991)	(1,640)	(1,516)	(1,462)
<b>Shareholders' funds</b>	<b>58,123</b>	<b>48,753</b>	<b>40,677</b>	<b>37,216</b>	<b>34,811</b>

## Notes:

- (a) The figures for the years 2008 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”.
- (b) Other than the changes in classification of certain financial assets, the early adoption of HKFRS 9 on 1 January 2011 had no material financial impact on the amounts recognised on the financial statements of the Group for each of the 3 years ended 31 December 2010.

## 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 items that are non-recurring in nature (such as gains or losses on disposal of long-term assets; impairment or its reversal; and tax provision for prior years)
- (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 2012**

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 2012 was in the approximate sum of Hong Kong Dollars Sixty Billion and Twenty Two Million Only (i.e. HK\$60,022 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 potential, where appropriate, without allowances for any expenses or taxation which may be incurred in effecting a sale.

Yours faithfully,  
**Knight Frank Petty Limited**

Hong Kong, 29 January 2013



# Schedule of Principal Properties

At 31 December 2012

## INVESTMENT PROPERTIES

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
<b>1. The Lee Gardens</b> 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29, Sec. L of I.L. 457, Sec. MM of I.L. 29, the R.P. of Sec. L of I.L. 29, and the R.P. of I.L. 457	Commercial	Long lease	100%
<b>2. Bamboo Grove</b> 74-86 Kennedy Road Mid-Levels Hong Kong	I.L. 8624	Residential	Medium term lease	100%
<b>3. Lee Gardens Two</b> 28 Yun Ping Road Causeway Bay Hong Kong	Sec. G of I.L. 29, Sec. A, O, F and H of I.L. 457, the R.P. of Sec. C, D, E and G of I.L. 457, Subsec. 1 of Sec. C, D, E and G of I.L. 457, Subsec. 2 of Sec. E of I.L. 457 and Subsec. 1, 2, 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36%
<b>4. Leighton Centre</b> 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100%
<b>5. Lee Theatre Plaza</b> 99 Percival Street Causeway Bay Hong Kong	I.L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100%
<b>6. Sunning Plaza</b> 10 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29 and the R.P. of Sec. J of I.L. 29	Commercial	Long lease	100%
<b>7. Sunning Court</b> 8 Hoi Ping Road Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29 and the R.P. of Sec. J of I.L. 29	Residential	Long lease	100%
<b>8. One Hysan Avenue</b> 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100%
<b>9. 18 Hysan Avenue</b> 18 Hysan Avenue Causeway Bay Hong Kong	Sec. N of I.L. 457 and Sec. LL of I.L. 29	Commercial	Long lease	100%

Schedule of Principal Properties *continued*  
 At 31 December 2012

**INVESTMENT PROPERTIES** *continued*

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
<b>10. 111 Leighton Road</b> 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100%
<b>11. Hysan Place*</b> 500 Hennessy Road Causeway Bay Hong Kong	Sec. FF of I.L. 29 and the R.P. of Marine Lot 365	Commercial	Long lease	100%

\* Re-development of the property was completed during the year. The site has a registered site area of approximately 47,738 square feet. The re-development has a projected gross floor area of around 716,000 square feet and was open in August 2012.

# Shareholding Analysis

## SHARE CAPITAL

At 31 December 2012

	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	5,315,035,280	1,063,007,056	5

There was one class of ordinary shares of HK\$5 each with equal voting rights.

## DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2012, 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	2,416	68.75	4,290,044	0.41
5,001 – 50,000	924	26.30	14,280,554	1.34
50,001 – 100,000	89	2.53	6,815,038	0.64
100,001 – 500,000	64	1.82	12,783,351	1.20
500,001 – 1,000,000	4	0.12	2,353,259	0.22
Above 1,000,000	17	0.48	1,022,484,810	96.19
<b>Total</b>	<b>3,514</b>	<b>100.00</b>	<b>1,063,007,056</b>	<b>100.00</b>

## TYPES OF SHAREHOLDERS

(At 31 December 2012, 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	40.75
Other corporate shareholders	586,382,706	55.16
Individual shareholders	43,493,615	4.09
<b>Total</b>	<b>1,063,007,056</b>	<b>100.00</b>

## LOCATION OF SHAREHOLDERS

(At 31 December 2012, as per register of members of the Company)

Location of shareholders	Number of ordinary shares held	% of the issued share capital (Note)
Hong Kong	1,056,992,672	99.43
United States and Canada	4,542,424	0.43
United Kingdom	1,233,167	0.12
Others	238,793	0.02
<b>Total</b>	<b>1,063,007,056</b>	<b>100.00</b>

Note:

The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2012 (i.e. 1,063,007,056 ordinary shares).

# Shareholder Information

## FINANCIAL CALENDAR

Full year results announced	6 March 2013
Ex-dividend date for second interim dividend	19 March 2013
Closure of register of members and record date for second interim dividend	21 March 2013
Dispatch of second interim dividend warrants	(on or about) 2 April 2013
Closure of register of members for Annual General Meeting	14 to 15 May 2013
Annual General Meeting	15 May 2013
2013 interim results to be announced	5 August 2013*

\* subject to change

## DIVIDEND

The Board declares the payment of a second interim dividend of HK78 cents per share. The second interim dividend will be payable in cash to shareholders on the register of members as at Thursday, 21 March 2013.

The register of members will be closed on Thursday, 21 March 2013, for the purpose of determining shareholders' entitlement to the second interim dividend, during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars not later than 4:00 p.m. on Wednesday, 20 March 2013.

Dividend warrants will be dispatched to shareholders on or about Tuesday, 2 April 2013.

The register of members will also be closed from Tuesday, 14 May 2013 to Wednesday, 15 May 2013, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting to be held on 15 May 2013, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting, 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 Monday, 13 May 2013.

## 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](http://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](http://www.hysan.com.hk).

## INVESTOR RELATIONS

For enquiries relating to investor relations, please email to [investor@hysan.com.hk](mailto:investor@hysan.com.hk) or write to the Company at:

Investor Relations  
Hysan Development Company Limited  
49/F. (Reception: 50/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](http://www.hysan.com.hk).

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C.F.I.L.  
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