Today's Progress, Tomorrow's Foundation

Annual Report 2013

Hysan 希慎

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More information print and online
- corporate responsibility reporting with independent verification
- visit us at **www.hysan.com.hk**

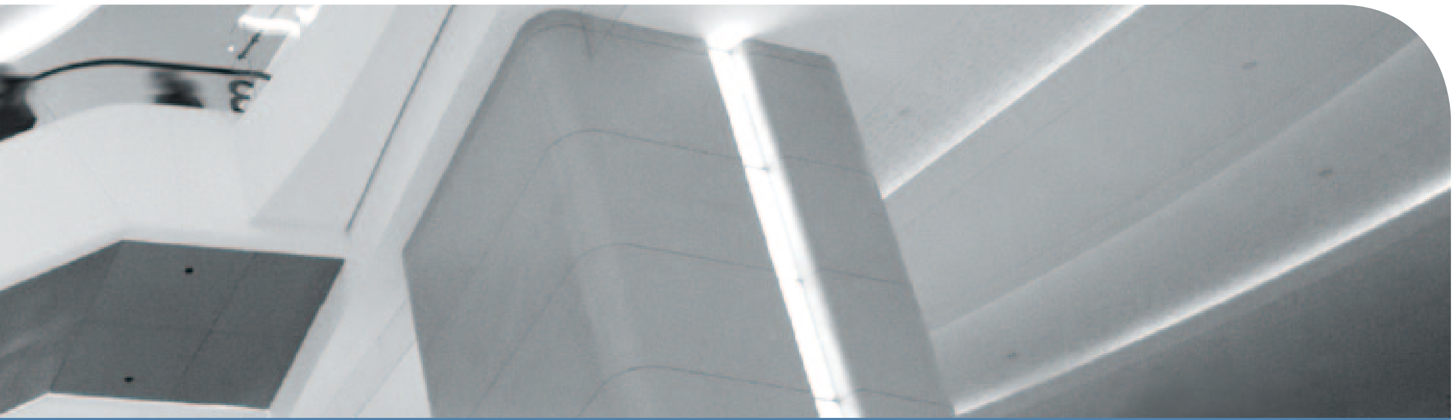
Front cover photo:
Looking beyond through Hysan Place office lobby skylight

Today's Progress, Tomorrow's Foundation

Hysan experienced another successful year in 2013, both in terms of financial results and other achievements. While our core leasing business performed well, we also strengthened our competitiveness through effective asset enhancements, and realising our district vision for our home base of Lee Gardens. This unique and vibrant district was first developed exactly nine decades ago, and in our 2013 Annual Report, we pay tribute to this premium core of Hong Kong. Together with the accompanying Corporate Responsibility Report, this Annual Report showcases how we have been progressing and how our accomplishments form the foundation to build more successes for tomorrow.

1 Overview

We begin by stating our vision, mission and values, which underpin everything we do. This section then highlights Hysan's 2013 financial and non-financial performance, while our Chairman's Statement details our progress and explains the dynamics between our shorter and longer-term projects.



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Who We Are

Vision

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

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.

Values

Leadership
Excellence
Empowerment
Good Citizenship
Accountability
Respect
Driving / Driven
Entrepreneurship
Networking
Sustainability

2013 Performance at a Glance

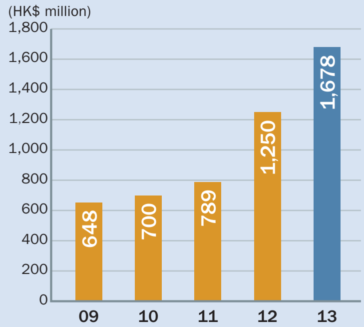
Financial Performance

Turnover

HK$3,063m +23.2%

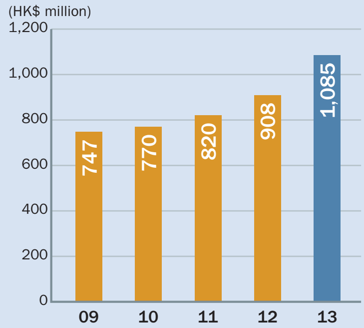
Retail Sector's Revenue

HK$1,678m +34.2%



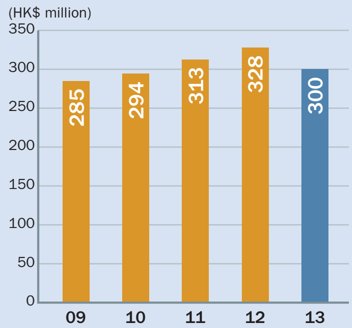
Office Sector's Revenue

HK$1,085m +19.5%



Residential Sector's Revenue

HK$300m -8.5%

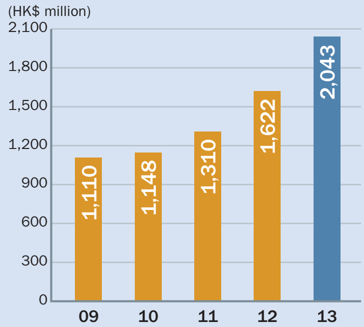


Recurring Underlying Profit

HK$2,043m +26.0%

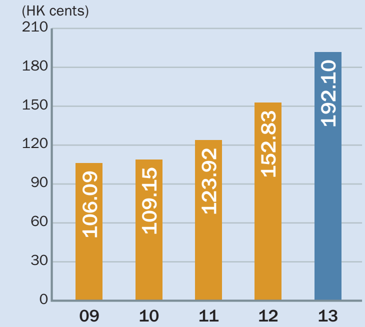
Recurring Underlying Profit

HK$2,043m +26.0%



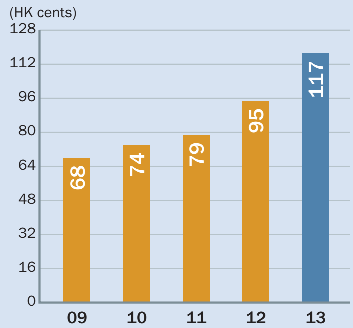
Recurring Underlying Earnings per Share

HK192.10 cents +25.7%



Dividends per Share

HK117 cents +23.2%

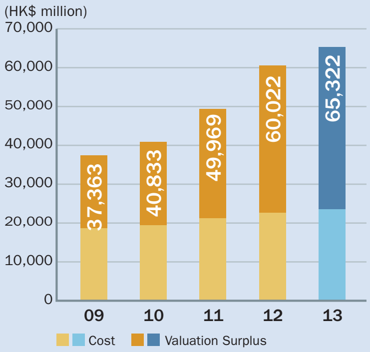


Net Asset Value per Share

HK$59.54 +8.9%

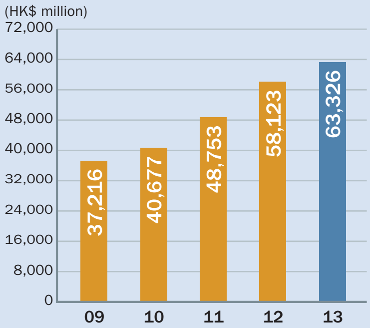
Property Value

HK$65,322m +8.8%



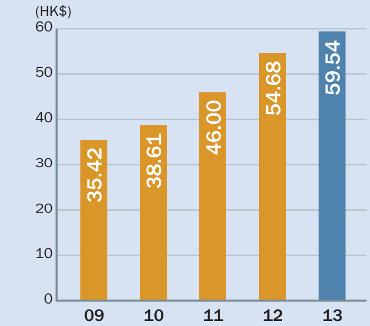
Shareholders' Funds

HK$63,326m +9.0%



Net Asset Value per Share

HK$59.54 +8.9%



2013 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 2013, which was Hysan's eleventh Best Corporate Governance Disclosure Award since 2000

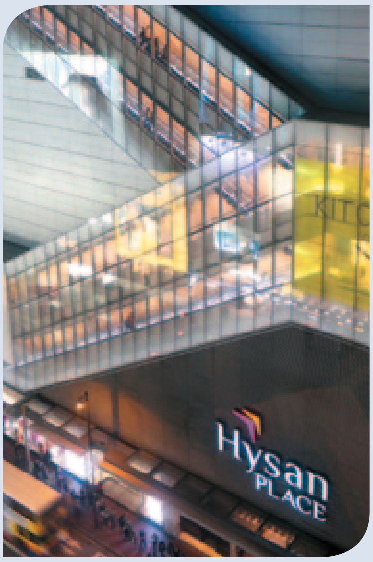
- Bronze Award (General Category) in The Hong Kong Management Association's 2013 HKMA Best Annual Reports Awards

Environment

- Hysan Place awarded BEAM Plus Platinum certification for new buildings

- Also received Sustainable Design Award (New Development Category) in the International Council of Shopping Centers' Asia Pacific Shopping Center Awards 2013

Industry Achievements



- Hysan Place won the Urban Land Institute's Global Awards for Excellence, one of only 12 winners worldwide in 2013
- Also honoured with Gold Award (New Development Category) in the International Council of Shopping Centers' Asia Pacific Shopping Center Awards 2013

Community

- Constituent member of FTSE4Good Index and Hang Seng Corporate Sustainability Index, two of the best known indices to track responsible business practices in the world
- Awarded the 10 Years Plus Caring Company Logo by The Hong Kong Council of Social Service in recognition of Hysan's efforts towards promoting corporate social responsibility

FTSE4Good

Hang Seng Corporate Sustainability Index Series Member 2013-2014

Chairman's Statement

Year in Review

Hong Kong's economy saw moderate growth in 2013. Its retail leasing market continued to benefit from resilient local and tourist consumption. Grade "A" office leasing market remained stable due to limited supply largely offsetting weak demand. Rental levels in core areas, including Causeway Bay, were also stable.

Business Performance

The Group's 2013 turnover was HK$3,063 million (2012: HK$2,486 million), representing a year-on-year increase of 23.2% with Hysan Place's first full year contribution. 11.4% growth was recorded in the rest of the portfolio. Occupancy of retail, office and residential sectors at year-end 2013 stood at 95%, 87% and 82% respectively. If excluding Sunning Plaza and Sunning Court being vacated for a combined redevelopment project, the occupancy rates would be 96%, 98% and 92% respectively.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was up 26.0% to HK$2,043 million (2012: HK$1,622 million). This again reflected Hysan Place's contribution and the increase in revenue generated from our retail and office leasing activities. Our Underlying Profit, which excludes unrealised changes in fair value of investment properties, was also HK$2,043 million (2012: HK$1,622 million). Strong performance in these two profit indicators primarily reflected the improvement in gross profit generated from our core leasing activities, as the Group normalised the property expenses at HK$405 million (2012: HK$423 million) for 2013 and the expense ratio at 13.2% (2012: 17.0%) of turnover for 2013 after the opening of Hysan Place. Basic earnings per share based on Recurring Underlying Profit correspondingly rose to HK192.10 cents (2012: HK152.83 cents), up 25.7%.

Our Reported Profit for 2013 was HK$6,158 million (2012: HK$9,955 million), principally due to a smaller fair value gain on the Group's investment properties valuation recorded this year. Fair value gain recorded in 2012 also reflected a higher valuation for Hysan Place after construction completion. At year-end 2013, the external valuation of the Group's investment property portfolio increased by 8.8% to HK$65,322 million (2012: HK$60,022 million), reflecting improved rentals for our portfolio. Shareholder's Fund increased by 9.0% to HK$63,326 million (2012: HK$58,123 million).

Our financial position remains strong, with net interest coverage of 15.4 times (2012: 16.8 times) and net debt to equity ratio of 5.3% (2012: 6.2%). Moody's upgraded the Group's credit rating from Baa1 to A3 in May 2013 to reflect the stable recurring income of the Group. Standard and Poor's rating of the Group is BBB+.

Dividends

The Board of Directors (the "Board") declares a second interim dividend of HK95 cents per share (2012: HK78 cents). Together with the first interim dividend of HK22 cents per share (2012: HK17 cents), there is an aggregate distribution of HK117 cents per share, representing a year-on-year increase of 23.2%. The dividend will be payable in cash.

Lee Gardens: The Premier District for Retail and Offices

During the year under review, Hysan continues to define Lee Gardens district as the premium core of Causeway Bay, and indeed, of Hong Kong. With top-class facilities for retailers and other businesses, Lee Gardens in Causeway Bay continues to strengthen its position as a unique work, lifestyle and shopping destination. During 2013, we have enhanced and energised our different hubs within the district:

The Lee Theatre hub, our western gateway, is positioned to carry a more urban lifestyle edge. The completion of Lee Theatre Plaza's refurbishment in 2013, with new lower zone flagship stores, created the desired tenant mix and the result was reflected in the mall's financial returns, as well as marked improvement in its visitors traffic.

Turning to the northern part of our portfolio, Hysan Place has secured a reputation as Hong Kong's major retail attraction in its first year of operation. It won the Urban Land Institute's Global Awards for Excellence, as well as International Shopping Center Awards' Asia Pacific New Development Gold Award in recognition of its design and development. The office portion of this iconic building, now also well-known for its top sustainability credentials, has attracted major international businesses, and was fully occupied by the end of the year in review.

The Lee Gardens hub completes the district with its luxury premium retail space, as well as prestigious Grade "A" office. Within this hub, the combined development of Sunning Plaza and Sunning Court is progressing well and the mixed-use office and retail redevelopment project is on schedule for its anticipated completion by 2018. We continue to carry out renovations at parts of Lee Gardens Two, to be completed in 2014, further enhancing the shopping and dining experience there.

We have further sharpened the brand identity of LEE GARDENS to emphasize our district's uniqueness. Strong visual connectivity clearly defines the area for visitors to the district. A great array of events and activities took place within Lee Gardens district also in the past year to highlight the district's dynamism and reinforce its identity. These culminated in the much celebrated heritage exhibition, "Lee Gardens On Stage since 1923", towards the end of 2013, commemorating Lee Gardens development in the past 90 years.

While we continue to refine Lee Gardens as the must-visit district, we steadfastly remain committed to being the premier property company that is superior to its peers in its market of choice, as clearly stated in our corporate vision. In everything we do, we will remain proactive, driven, progressive and strategic, while maintaining our core values of integrity, professionalism and being a responsible business.

Our Community

We take pride in being a responsible business, and we strive to minimise our environmental impact on the community. Our efforts were well recognised both locally and internationally. Among the recognitions was the aforementioned Urban Land Institute's Global Awards for Excellence bestowed upon Hysan Place. The project was one of only 12 developments in the world to receive the award in 2013. We are most proud to be honoured by what is widely known as the property development industry's most prestigious awards programme, which recognises superior development efforts based on good design, leadership, contribution to the community, innovations, public/private partnerships, environmental protections and enhancement, response to societal needs, and financial success. To this end, Hysan Place also won International Shopping Center Award's Asia Pacific Sustainable Design Award.

We will, of course, not rest on our laurels. We will continue to strive to care for the environment and our community who experience, visit, shop, work, not just in one building, but in the Lee Gardens district in general.

For our contributions throughout the past year, please refer to our Corporate Responsibility Report 2013 for more information.

Outlook

Hong Kong's economy is likely to continue to see moderate growth during 2014. Improving global economy and resilient local private consumption should benefit our balanced retail and office portfolio. We have in place an asset enhancement programme for our property portfolio. We strive to balance and provide steady capital and revenue growth by underpinning our large projects of longer durations, such as the combined Sunning site redevelopment, with other asset enhancement projects that produce more immediate returns. For 2014, we expect our overall performance to be steady.

Appreciation

I would like to thank our management team and our staff for their hard work throughout the year to achieve the set of successful results. I would also like to thank my fellow directors for their commitment and contribution, and look forward to working with everyone in 2014 to accomplish even more.

Irene Yun Lien LEE
Chairman

Hong Kong, 7 March 2014

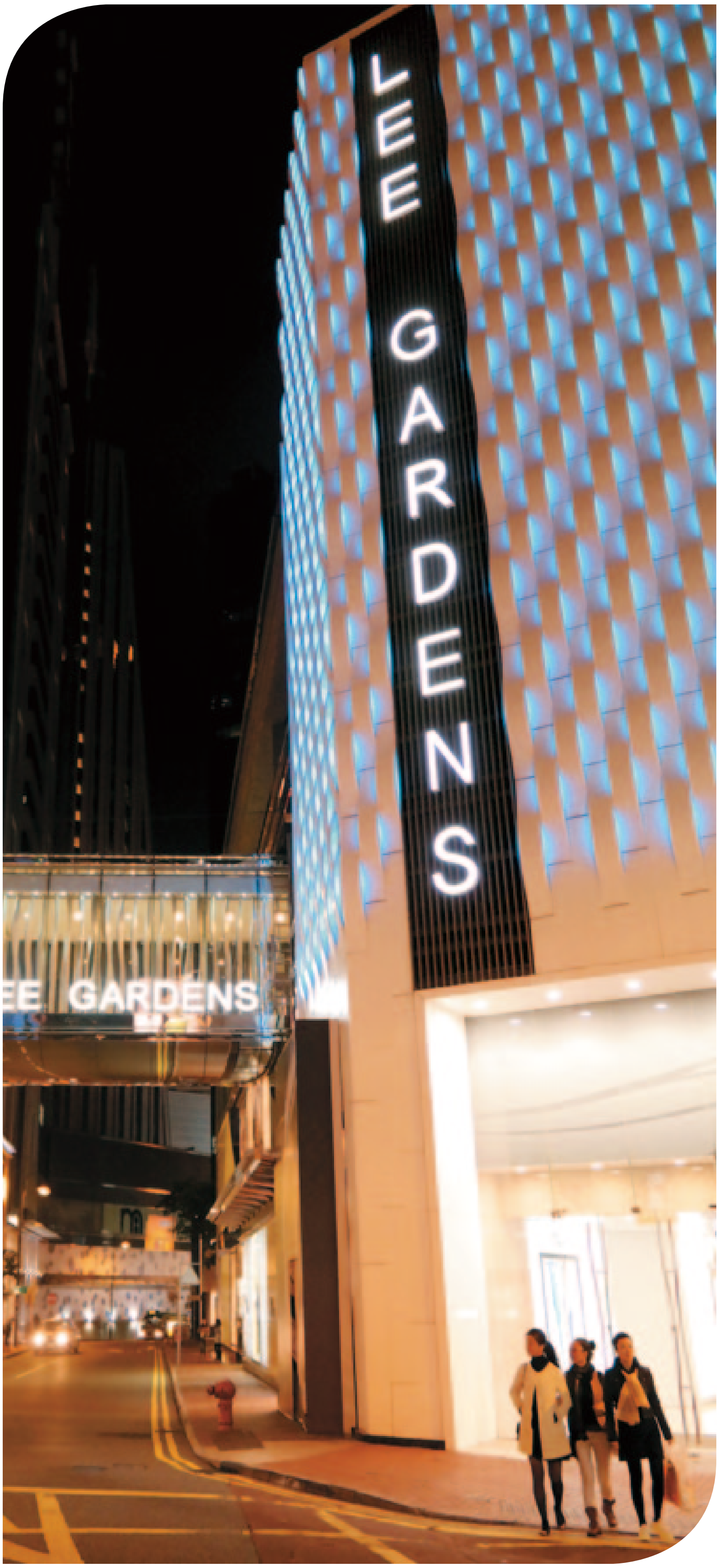
Lee Gardens, the unique work, lifestyle and shopping destination

Lee Gardens was born in 1923 when the Lee family purchased the then East Point Hill from an established British trading company and set up an amusement park. It is now the triangular heart of Causeway Bay, a world-renowned commercial district. Day or night, whether you are strolling along tree-lined Hysan Avenue admiring the latest couture, enjoying the perfect work-life balance offerings

in a Hysan Place office, or sipping tea in a sophisticated Lee Theatre eatery, you can sense the area's difference: the classic yet progressive mood, perhaps. Lee Gardens is a district that is steeped in Hong Kong's history yet moves to a contemporary rhythm at all hours of the day. It perfectly echoes Hysan's own core values blending integrity and responsibility with professionalism and progressiveness.


MUJI
COTTON ON
LEE THE
UNI QLO

SWAROVSKI
LEE GARDENS
Lift to
升降機往
11



A vibrant retail triangle with contrasting styles

Lee Gardens' retail triangle offers a unique experience through diversity, contrast and variety, being home to luxury street shops, hip and trendy malls, as well as urban lifestyle image stores. These are complemented by elegant restaurants, laid-back cafes and old Hong Kong eateries offering a broad range of styles and price-points. The area also offers a fabulous shopping environment set in a triangle of thoughtful, contrasting architecture against a bustling but lush landscape. You see it, feel it and breathe it: it is simply part of your lifestyle.


10

Perfect from 9 to 5 and even better after 5

Lee Gardens Offices is a perfect choice for companies that want to best manage the cost-benefit of their office space, and care about the work-life balance of their employees. It offers Grade "A" office space and amenities comparable to Central and Admiralty which reflects top value for price paid, and has excellent transportation that connects the centre of Hong Kong to the rest of the city. Lee Gardens provides an ever-changing variety of food and entertainment for staff and clients during work hours, and for friends and family after hours.

A successful and responsible business

Hysan strives to be both successful and responsible, encapsulating the "triple bottom line" in financial, environmental and social performances. This belief underlies our aim to develop Lee Gardens into a sustainable community, a choice location for people to live and work, both now and into the future. Hysan Place, for example, is Hong Kong's most sustainable commercial building, winning accolades both locally and internationally. Its Urban Farm is a unique organic oasis that serves as a green educational tool. One building does not make a community, however, and we will continue to explore ways to ensure that the district is developed in a responsible way.


THE LEE GARDENS

Today's progress, tomorrow's foundation

Hysan is committed to continually enhancing the asset value of our investment property portfolio through repositioning, refurbishment and redevelopment. The combined Sunning Plaza and Sunning Court redevelopment project is well underway, and is scheduled for completion around 2018. This and other forthcoming asset enhancement projects will help establish Lee Gardens as the heartbeat of Hong Kong.

2 Strategy in Action

This section focuses first on Hong Kong's economy and property market dynamics. We then provide details on how we operated in 2013 within this macro-environment, with an analysis of our overall performance, our finance and how we manage risks.

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30 The Hysan Community – Our Investment Property Portfolio

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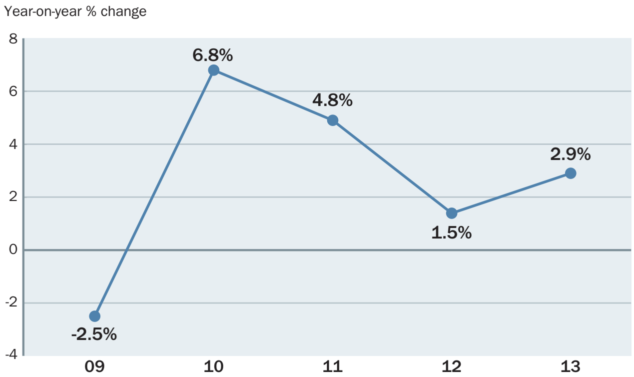
The Marketplace

Hong Kong Economy

The Hong Kong economy expanded moderately in 2013 with a growth rate of 2.9% recorded for the full year, driven by a slight improvement in all sectors of the economy. Private and government consumption remained resilient, with increases of 4.2% and 2.7% respectively, supported by the favourable employment and income environment. Investment spending registered a moderate growth of 3.3%, with a pick-up in the growth of large-scale public sector infrastructure works offsetting a decline in private sector construction activity. Exports of goods showed a growth of 6.7%, which included exports of gold. Exports of services also improved by 5.8%, attributable to the expansion of inbound tourism.

Real Gross Domestic Product*



* In chained (2011) dollars
Source: Census and Statistics Department (data as of March 2014)

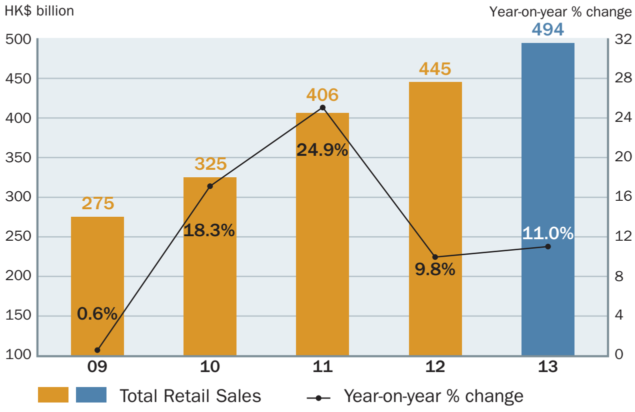
Retail

Retail sales continued to record a moderation of annual growth (11.0%) in 2013, a phenomenon similar to that of 2012 (9.8%). The growth came mainly from the first half of the year, which reflected robust sales in new models of electronic goods and computers, and in gold related jewellery, which was in turn induced by a drop in gold prices. However, the growth momentum slowed somewhat in the latter half of the year.

Despite the subsequent cooling down in gold purchases, retail sales in department stores and medicines and cosmetics shops continued to witness stable growth throughout the year. Mainland China visitors, whose arrivals increased by 16.7% in 2013, maintained shopping focus on daily necessities and general merchandise.

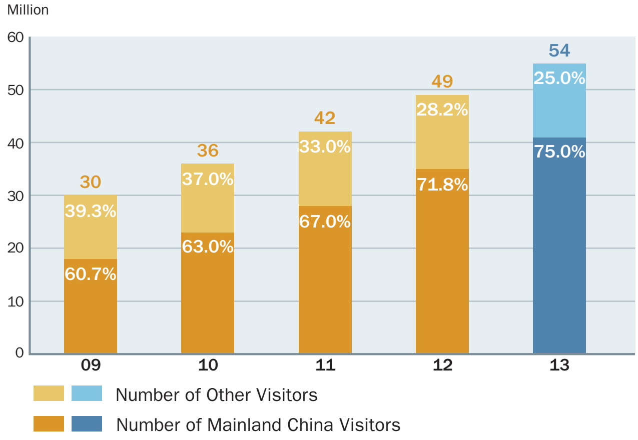
In this context, some retail categories recorded good year-on-year growth, including other consumer durable goods (up 43.9%, which included computers), jewellery, watches and clocks and valuable gifts (up 22.9%), department stores (up 17.7%) and medicines and cosmetics (up 11.9%).

Hong Kong Total Retail Sales



Source: Census and Statistics Department (data as of March 2014)

Total Number of Visitors



Source: Hong Kong Tourism Board (data as of March 2014)

Demand for retail premises in prime shopping centres remained largely intact in spite of the moderation of retail sales growth. Coupled with a limited supply pipeline, rents continued to edge higher. According to Jones Lang LaSalle, there was only one major prime retail development (totaling around 217,000 square feet) completed in 2013. For the whole year, rents for premium prime shopping centres increased by 5.6%.

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

Source: Jones Lang LaSalle (data as of March 2014)

Office

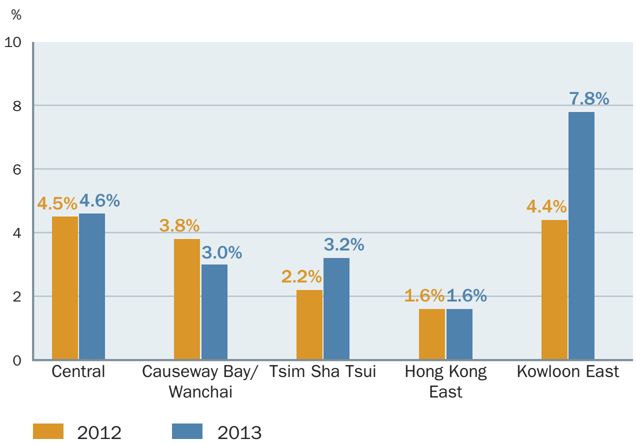
The external economic environment contributed to a slowdown in the Grade "A" office market in 2013. As global business conditions remained uncertain, most multinational corporate tenants continued to show reluctance to enter into an expansionary phase. New lettings were largely bolstered by smaller-sized office requirements or companies undergoing 'rightsizing', while tenants with larger floor plate needs opted for decentralised locations due to cost-saving considerations.

According to Jones Lang LaSalle, new Grade "A" office supply totalled 1.1 million square feet in 2013, with the majority (96%) of the space located in decentralised areas. Moreover, the new supply level was far lower than the average of last 10 years (1.9 million square feet), and also lower than the average annual take-up (2.1 million square feet) of the same period.

Vacancy rate fell in Causeway Bay/Wanchai, while it remained stable in Hong Kong East and Central, compared to 2012. On the other hand, Kowloon East recorded a rising vacancy rate due to a large completion of new supply.

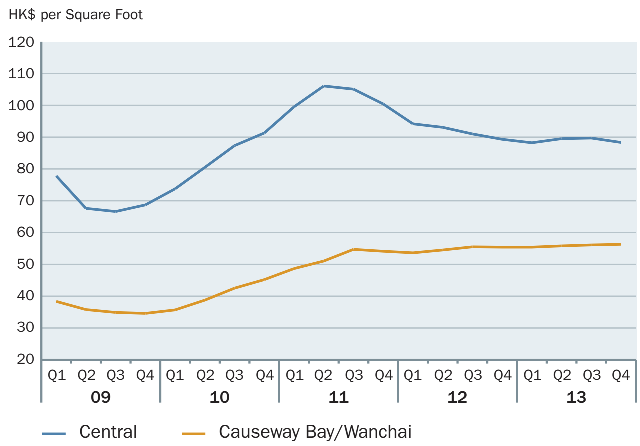
Among the Grade "A" office sub-markets, Central's rents dropped 1.1% during 2013 in view of slower demand from financial institutions. All other sub-markets remained stable. Causeway Bay/Wanchai recorded an annual rental growth of 1.4%.

Grade "A" Office Vacancy Rate in 2012 and 2013



Source: Jones Lang LaSalle (data as of March 2014)

Grade "A" Office Rental Value



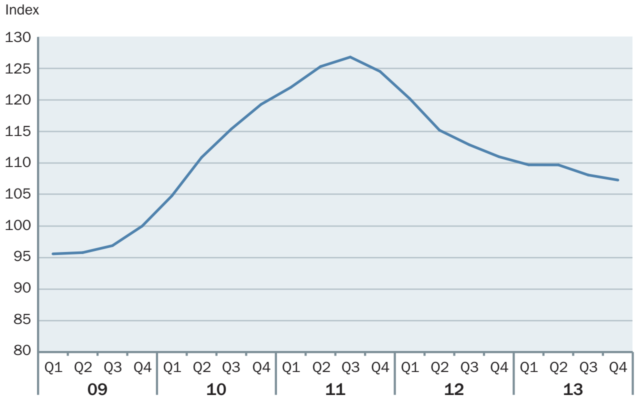
Source: Jones Lang LaSalle (data as of March 2014)

Luxury Residential

Leasing demand for luxury residential properties remained soft. The level of new expatriate family arrivals from the financial sector, traditionally the largest tenant group, continued to be low. Furthermore, tightening corporate housing budgets drove tenants to trade down the market.

During the year, leases were concluded with a diversified tenant mix, which saw more tenants from the non-financial sectors. Local relocation of expatriates was comparatively more active than new arrivals from overseas. Overall, luxury residential rents decreased by 3.3% in 2013, according to Jones Lang LaSalle.

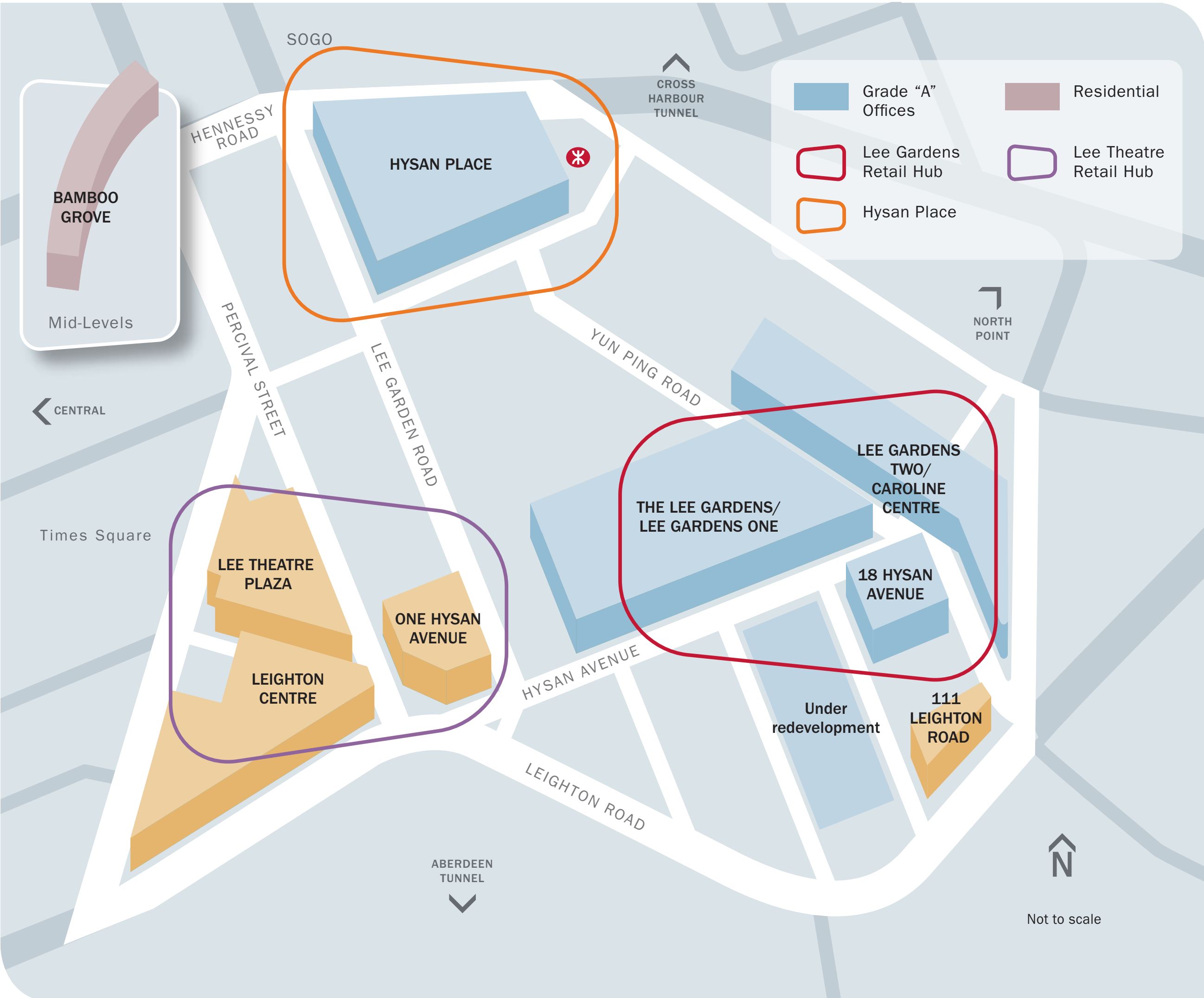
Luxury Residential Rental Index (2009 Q4=100)



Source: Jones Lang LaSalle (data as of March 2014)

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. This includes Sunning Plaza and Sunning Court, which are currently under redevelopment.

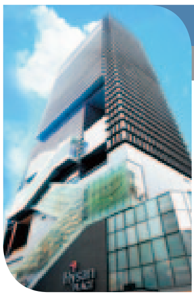


OFFICE

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

Hysan Place is the hip and trendy home of a number of major flagship stores. The Lee Gardens hub provides elegant and luxury premium retail spaces for high-end brands. The Lee Theatre hub is home to urban fashion and lifestyle shops, as well as renowned restaurants.



HYSAN PLACE
500 Hennessy Road, Causeway Bay

Hysan Place includes 15 floors of Grade "A" offices and 17 floors of retail outlets. Situated at the northern gateway of Hysan's portfolio, 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^2
Number of Floors 40 / Parking Spaces 66
Completed 2012

LEE THEATRE PLAZA
99 Percival Street, Causeway Bay

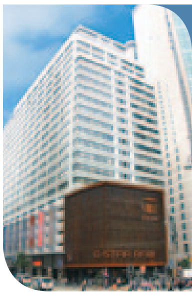
Like its predecessor, Lee Theatre, the Lee Theatre Plaza is a Hong Kong landmark, being one of the city's best known shopping and dining complexes, housing many stylish and chic international fashion and lifestyle brands as well as restaurants.

Approx. Gross Floor Area 317,000 ft^2
Number of Floors 26
Completed 1994
Renovation of lower zone completed in 2013

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^2
Number of Floors 53 / Parking Spaces 200
Completed 1997



LEIGHTON CENTRE
77 Leighton Road, Causeway Bay

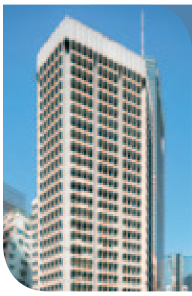
This office and retail complex enjoys close proximity to all forms of public transport. Its central location in the Causeway Bay area makes it a much sought-after address. Its completed renovation in 2011 has given a fresh look to its office lobby, while the retail podium has become a stylish shopping venue of international brands.

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

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 and a children's concept floor.

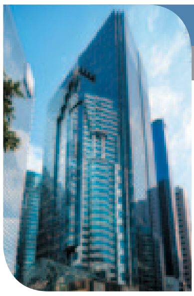
Approx. Gross Floor Area 627,000 ft^2
Number of Floors 34 / Parking Spaces 167
Completed 1992 / Renovation of retail podium 2003



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.

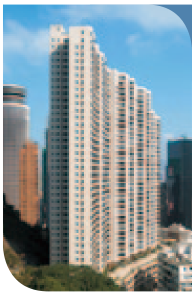
Approx. Gross Floor Area 169,000 ft^2
Number of Floors 26
Completed 1976 / Renovations completed 2011



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.

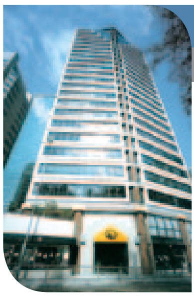
Approx. Gross Floor Area 132,000 ft^2
Number of Floors 25
Completed 1989 / Renovated 2009



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.

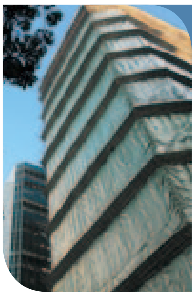
Approx. Gross Floor Area 691,000 ft^2
Number of Units 345 / Parking Spaces 436
Completed 1985 / Renovated 2002



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^2
Number of Floors 24
Completed 1988 / Renovated 2004



SUNNING PLAZA/SUNNING COURT COMBINED REDEVELOPMENT
Causeway Bay

A future office and retail complex under redevelopment.

Management's Discussion and Analysis

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

Review of Results

The Group's turnover continued to record growth and reached HK$3,063 million in 2013, representing an increase of 23.2% from HK$2,486 million in 2012. The rise reflected Hysan Place retail's first full year contribution, full occupancy of its offices since third quarter of 2013 and the increase in revenue generated by the rest of our portfolio.
The turnover of each sector is shown as below:

	2013 HK$ million	2012 HK$ million	Change HK$ million	Change %
Retail sector	**1,678**	1,250	428	+34.2
Office sector	**1,085**	908	177	+19.5
Residential sector	**300**	328	(28)	-8.5
	3,063	2,486	577	+23.2

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 HK$2,043 million, up 26.0% from HK$1,622 million in 2012. Our Underlying Profit, arrived at by excluding the fair value change of investment properties, was also HK$2,043 million (2012: HK$1,622 million). Strong performance in these two profit indicators primarily reflected the improvement in gross profit generated from our core leasing activities, as the Group managed to normalise the property expenses at HK$405 million (2012: HK$423 million) for 2013 and the expense ratio at 13.2% (2012: 17%) of turnover for 2013 after the opening of Hysan Place. Basic earnings per share based on Recurring Underlying Profit correspondingly rose to HK192.10 cents (2012: HK152.83 cents).

Our Reported Profit for 2013 was HK$6,158 million (2012: HK$9,955 million), principally due to a smaller fair value gain on the Group's investment properties valuation recorded this year. Fair value gain recorded in 2012 also reflected a higher valuation for Hysan Place after construction completion.

	2013 HK$ million	2012 HK$ million	Change HK$ million	Change %
Recurring Underlying Profit	**2,043**	1,622	421	+26.0
Underlying Profit	**2,043**	1,622	421	+26.0
Fair value change on investment properties located in				
– Hong Kong	**4,043**	8,210	(4,167)	-50.8
– Shanghai*	**72**	123	(51)	-41.5
Reported Profit	**6,158**	9,955	(3,797)	-38.1

* The investment properties are held by an associate of the Group.

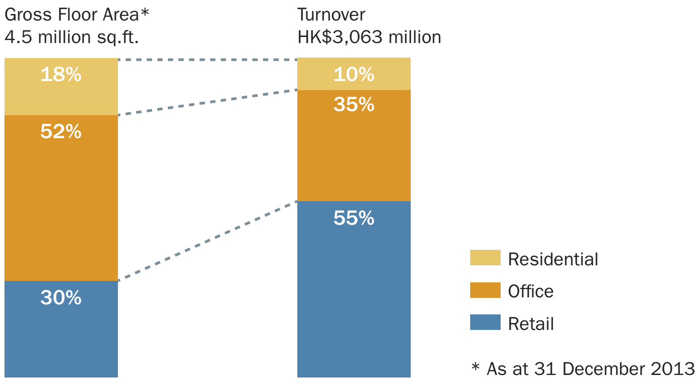
KEY PERFORMANCE INDICATORS

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

	Turnover Growth	Occupancy Rate	Property Expenses Ratio
Definition	The percentage change in rental revenue in 2013 over 2012	The percentage of area leased over total lettable area of each sector	Property expenses as a percentage of turnover
Measurement	How well the Group utilises and prices its revenue-earning assets	How effective the Group manages its assets to produce revenue	How efficient is the Group's business operations
Performance	• Hysan Place's first full year contribution • Healthy growth in commercial properties offset turnover decline in residential sector which was partly impacted by Sunning Court being vacated for redevelopment • About one-third of all commercial leases, which were renewed, re-let, or subject to rent review during the year, achieved an average of around 50% increase in rental level	• Retail occupancy principally reflected renovations at parts of Lee Gardens Two • Office occupancy remained strong, excluding the impact of combined Sunning Plaza and Sunning Court redevelopment • Hysan Place offices fully occupied as of September 2013 • Residential maintained occupancy, if excluding Sunning Court being vacated for redevelopment, amidst weak rental housing demand	Ratio improved in 2013 as a result of the normalisation of Hysan Place property expenses following its opening
	Retail Sector **+34.2%** (+58.4% for 2012)	**Retail Sector** **95%** at year-end 2013 (93% at year-end 2012) Excluding Sunning Plaza: 96% at year-end 2013	**Property Expenses Ratio** **13.2%** (17.0% for 2012)
	Office Sector **+19.5%** (+10.7% for 2012)	**Office Sector** **87%** at year-end 2013 (91% at year-end 2012) Excluding Sunning Plaza: 98% at year-end 2013	
	Residential Sector **-8.5%** (+4.8% for 2012)	**Residential Sector** **82%** at year-end 2013 (92% at year-end 2012) Excluding Sunning Court: 92% at year-end 2013	

Review of Operations

As at 31 December 2013, about 82% of the Group's investment properties by gross floor area were retail and office properties in Causeway Bay, and the remaining 18% was residential. With its geographical location and dominance in the Lee Gardens area, the Group pursues a differentiating strategy to market its commercial space with an objective to creating a unique district of "Business of Life" where synergy exists among the retail and office tenancies on one hand, and among various offerings to its customer groups on the other. Both the retail and office sectors recorded healthy growth during the year, while the residential sector registered a decline due partly to the impact of a property being vacated for redevelopment. Currently, the retail sector is the largest contributor to the Group's turnover at around 55%, followed by the office and residential sectors. The area and turnover share of each sector are as follows:



Their respective strategies and contribution to the Group's performance are discussed in detail below:

RETAIL SECTOR

Hysan owns, markets and manages 1.3 million gross square feet of prime retail space in Causeway Bay. Its retail portfolio, which consists of three geographically separate hubs of retailers at different price points, is positioned to differentiate itself from the typical shopping malls by offering a unique experience with diversity, variety and contrast under the LEE GARDENS brand. It is a multi-faceted yet integrated shopping environment that combines a host of street-front shops with shopping malls of different characteristics, and is complemented by a vibrant streetscape and a low-rise local neighbourhood. Together with a plethora of merchandise, service, as well as food and beverage offerings, this creates a unique and diversified shopping and lifestyle experience for our different target customer groups.

Each of the three hubs of the Hysan Retail Triangle accounts for about one-third of the Group's retail space, and they are:

- Hysan Place, a 17-storey vertical mall, is the winner of the Urban Land Institute's Global Awards for Excellence and the International Council of Shopping Centers Asia Pacific Shopping Center's Gold Award for design and development. It is positioned as "hip and trendy" to target younger age groups. It also attracts new shoppers to Causeway Bay as it is connected directly to the MTR. Hysan Place is home to the unique Taiwanese bookstore eslite, Apple's largest flagship store in Hong Kong, as well as T Galleria by DFS, Gap, Hollister and many more.
- Lee Gardens hub (comprising Lee Gardens One, Lee Gardens Two and 18 Hysan Avenue) provides elegant and luxury premium retail spaces, set along a tree-lined environment with many street-front shops, and targets high-end shoppers both locally and from abroad. Among the luxurious brands at Lee Gardens hub are Bottega Veneta, Bvlgari, Cartier, Chanel, Christian Dior, Gucci, Hermes, Louis Vuitton, Piaget, Tod's, Valentino, Van Cleef & Arpels, and many others.
- Lee Theatre hub (comprising Lee Theatre Plaza, Leighton Centre and One Hysan Avenue) at the western boundary of the Lee Gardens district and adjacent to another popular shopping hub around Times Square, is home to urban fashion and lifestyle shops and a great variety of restaurants. In 2013 Lee Theatre Plaza's renovations were completed with the opening of several flagship stores in the lower floor zone of the 22-storey retail and restaurant vertical mall, which were complemented by a new open piazza. Lee Theatre hub houses the mega-flagship stores of Aland, I.T., Jack Wills, Muji, Sasa Supreme, Uniqlo, and others.

Retail sector revenue increased by 34.2% to HK$1,678 million (2012: HK$1,250 million), including turnover rent of HK$106 million (2012: HK$104 million). This reflected mainly Hysan Place mall's first full year contribution, as well as the renovated Lee Theatre Plaza lower zone's contributions. In addition, there was positive rental reversion, an average increase of around 50% in rent for renewals, rent reviews and new leases which became effective during the year, as compared to existing leases. There was continuous improvement in the tenant mix within our retail portfolio. During the year, retail space subject to rental renegotiation accounted for about one-third of the total lease portfolio.

The overall retail portfolio occupancy was 95% as at 31 December 2013 (31 December 2012: 93%). If excluding Sunning Plaza which was being vacated for redevelopment, occupancy was 96%. The vacancy mainly reflected the renovation of parts of Lee Gardens Two, which is to be completed in the second quarter of 2014, as part of our asset enhancement strategy.

During the festive days of December 2013, visitors to our retail portfolio averaged around 150,000 per day. We aim to attract both local shoppers and overseas visitors, with no undue dependence on any particular group. During 2013, local shoppers accounted for around 60% of estimated tenant sales in the portfolio.

Hysan Place saw its first full year of retail operation and remained a Hong Kong retail landmark. The shopping mall hosted many popular marketing activities throughout the year, including a Rugby Sevens promotion, Iron Man film tie-ins, and open-air theatre performances. A recent survey conducted among more than a thousand Hysan Place shoppers showed an overwhelming majority (73%) either agreed or strongly agreed with the proposition that the mall was a "hip and trendy" shopping destination.

Lee Gardens luxury hub welcomed several new brands during the year, including Elie Saab, Enoteca and Moncler. The Group also leased a 20,000 square feet two storey flagship store to Ralph Lauren to house both its women and men's fashion lines, with an opening slated for the second half of 2014.

Lee Theatre Plaza saw the opening of new flagship stores that have fully occupied the lower zone since the second quarter of 2013. The installing of apparel retailers with a broader consumer appeal instead of high-end luxury products here has proved to be a right move to create a balanced tenant mix for the entire portfolio, especially in face of the normalisation in visitors' spending. The complex has become the heart of an urban lifestyle image zone known as the Lee Theatre hub, our western gateway.

The refining of LEE GARDENS district brand was reflected in our enhanced retail offerings and increased varieties within the area, and was complemented with clear and multi-dimensional visual connectivity. There were also well-supported marketing and promotional activities for the entire district, including the "Lee Gardens On Stage since 1923" heritage exhibition, which highlighted Lee Gardens' development over the past 90 years. More marketing and promotional activities will be held to promote the LEE GARDENS brand in 2014.

OFFICE SECTOR

Hysan owns, markets and manages 2.3 million gross square feet of premium office space in Causeway Bay. Its Grade "A" office portfolio includes Hysan Place, The Lee Gardens, Caroline Centre and 18 Hysan Avenue, while Sunning Plaza is vacated for redevelopment. The portfolio is positioned to be a credible alternative to Central and Admiralty, and perfect for companies that want to best manage cost-benefit of their office space and put high priority on the work-life balance of their employees. Hysan Place is certified at the highest Platinum level for the United States Green Building Council's Leadership in Energy and Environmental Design (USGBC LEED) and in 2013, also certified at Platinum level for the Hong Kong Building Environmental Assessment Method (BEAM Plus standard). Significantly, Hysan Place was honoured to receive the Urban Land Institute's Global Awards of Excellence, one of only twelve global winners for this top property development award. Other office buildings in the portfolio, including One Hysan Avenue, 111 Leighton Road and Leighton Centre, all offer quality office space for tenant use.

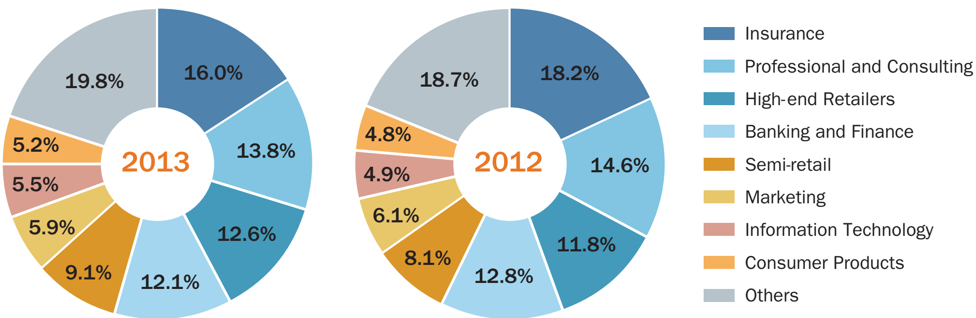
In 2013, with its top-class offices at Hysan Place, the Group succeeded in attracting a U.S.-based international law firm, Cleary Gottlieb Steen & Hamilton, and National Australia Bank to relocate from Central and Admiralty respectively. Together with the already tenanted KPMG, these moves highlighted top tenants chose Causeway Bay and that it is gaining traction to be considered as a credible alternative to Central as an office destination.

Our office sector's revenue grew 19.5% to HK$1,085 million (2012: HK$908 million). This principally reflected positive rental reversion, an average increase of around 50% in rent on renewals, reviews and new lettings which became effective during the year, as compared to existing leases, which were mainly concluded during the relatively weaker market of 2010. It also reflected Hysan Place's additional contributions with full occupancy achieved in September of 2013. Sunning Plaza's tenants began vacating for the site's future redevelopment in the fourth quarter of 2013 and the building was completely vacated by the end of the year in review. The Group made great efforts to successfully relocate many of these tenants in other office premises within our portfolio.

Our overall office portfolio occupancy was 87% on 31 December 2013 (31 December 2012: 91%). If excluding Sunning Plaza which was being vacated for redevelopment, the occupancy was a strong 98%. Hysan Place's office space was fully occupied as of the end of 2013.

The top four industry groups represented around 54.5% of our office tenant mix, namely insurance, professional and consulting, high-end retailers, and banking and finance. The overall tenant portfolio is balanced and no single category takes up more than 20% of total lettable area. Hysan will continue to actively manage tenancy profile. The chart below illustrates the office portfolio tenant profile as analysed by area occupied:

Office Tenant Profile by Area Occupied as at Year-end



With factors like excellent transportation connecting Causeway Bay to the rest of the city, as well as the increasing variety of amenities for staff and clients during work hours and families after hours, the portfolio provides a total Grade "A" office experience. This helps tenant companies demonstrate great value due to their location in the area, and achieve higher productivity, and offer a true sense of belonging to their staff. To effectively communicate the value propositions of its Grade "A" offices to potential tenants, the Group created taglines such as "A Small Step from Central, A Giant Leap in Value", and "Perfect from 9 to 5, and Even Better after 5" for its office leasing communications.

RESIDENTIAL SECTOR

Our residential portfolio comprises the Bamboo Grove development located in Mid-Levels, while Sunning Court is vacated for redevelopment. The total area of our residential portfolio is around 0.8 million gross square feet. We offer top class facilities and one-stop personalised services to provide an international living experience for both expatriate and locals alike. Residential leases are typically for two years.

Residential sector revenue declined by 8.5% to HK$300 million (2012: HK$328 million). This principally reflected negative rental reversion as a whole, as well as the loss of revenue due to Sunning Court's tenants vacating for redevelopment during 2013. The overall residential occupancy was 82% on 31 December 2013 (31 December 2012: 92%). If excluding Sunning Court, the occupancy was 92%, amidst an overall weak market environment.

Hysan continued to broaden its tenant base beyond the financial sector, which was still affected by the macro environment. The Group also continued to diversify its marketing channels, strengthen tenant relationships and direct marketing initiatives, as well as enhance facilities, services and community activities.

CONTINUING ASSET ENHANCEMENT PROGRAMME

Preparations for the combined redevelopment of Sunning Plaza (commercial property) and Sunning Court (residential property) are well underway. As at 31 December 2013, Sunning Plaza was completely vacated, and Sunning Court was about to complete its vacating process. The project is on schedule for anticipated completion around 2018.

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 decreased by 4.3% to HK$405 million (2012: HK$423 million), mainly due to a reduction in expenses attributable to Hysan Place such as agency fees. As a result, the property expenses to turnover ratio decreased from 17.0% to 13.2% as compared to 2012. This reflected the normalisation of Hysan Place property expenses following its opening.

Administrative expenses were 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 11.2% to HK$208 million (2012: HK$187 million). This reflected human resources upskilling and the filling of previously vacant positions, and salary increments.

FINANCE COSTS

Finance costs were HK$242 million in 2013, an increase of 55.1% from HK$156 million in 2012. The increase was the result of the Group's higher average debt level after the issuance of the US$300 million fixed rate notes at the beginning of the year. The new financing helped to increase the liquidity and extend the maturity profile of the Group.

The Group's average finance costs in 2013 were 2.9%, slightly higher than 2.7% reported for 2012. This reflected the US$300 million fixed rate notes with a coupon of 3.5% issued in January 2013.

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

REVALUATION OF INVESTMENT PROPERTIES

The Group's investment property portfolio was valued at 31 December 2013 by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The amount of this valuation was HK$65,322 million, an increase of 8.8% from HK$60,022 million at 31 December 2012. The valuation at year-end 2013 principally reflected improved rental rates for the Group's investment property portfolio. The following shows the property valuation of each portfolio at year-end.

	2013 HK$ million	2012 HK$ million	Change HK$ million	Change %
Retail portfolio	**32,651**	28,906	3,745	+13.0
Office portfolio	**24,200**	22,622	1,578	+7.0
Residential portfolio	**8,471**	8,494	(23)	-0.3
	65,322	60,022	5,300	+8.8

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK$4,575 million (2012: HK$8,533 million) was recognised in the Group's consolidated income statement for the year.

INVESTMENTS IN ASSOCIATES

The Group's share of results of associates decreased by 7.5% to HK$309 million (2012: HK$334 million), principally due to a smaller revaluation gain on the Shanghai Grand Gateway project, of which the Group owns 24.7%, as compared to last year. At 31 December 2013, 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$72 million (2012: HK$123 million).

The Shanghai Grand Gateway project continued to deliver a good performance in 2013. The Group's share of results, excluding revaluation gains on investment properties held by the associate, recorded an 12.3% increase year-on-year. As at the end of 2013, 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 investment grade debt securities and principal-protected investments. This helped to preserve the Group's liquidity and enhance interest yields.

Investment income, principally being interest income, amounted to HK$76 million (2012: HK$55 million). The growth was mainly due to a larger principal amount for investment in time deposits and debt securities after the issuance of the US$300 million fixed rate notes.

CASH FLOWS

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

	2013 HK$ million	2012 HK$ million	Change HK$ million	Change %
Operating cash inflow	**2,498**	1,941	557	+28.7
Financing	**1,607**	(738)	2,345	n/m
Investments	**(2,236)**	1,907	(4,143)	n/m
Capital expenditure	**(704)**	(1,626)	922	-56.7
Interest and taxation	**(350)**	(333)	(17)	+5.1
Dividends paid and proceeds on exercise of options	**(1,157)**	(842)	(315)	+37.4
Net cash (outflow) inflow	**(342)**	309	(651)	n/m

* n/m – not meaningful

The Group reported operating cash inflow of HK$2,498 million (2012: HK$1,941 million) in 2013, reflecting the growth in our core leasing business. Net cash from financing rose to HK$1,607 million (2012: net cash used in financing: HK$738 million), mainly due to the new borrowings of US$300 million fixed rate notes at the beginning of the year, which was partly offset by the cash outflow for debts repayment.

Net cash used in investments was HK$2,236 million (2012: net cash from investments: HK$1,907 million), of which the majority were time deposits with longer tenors. Capital expenditure in 2013 was HK$704 million (2012: HK$1,626 million), including the payment of the construction costs of Hysan Place and other costs for building renovations.

CAPITAL EXPENDITURE AND MANAGEMENT

The Group is committed to enhancing the asset value of its investment property portfolio through selective re-positioning, refurbishment and redevelopment. 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$696 million (2012: HK$1,595 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 HIGHLIGHTS

The global economy continued its slow recovery in 2013 as the economies of the United States, Europe and Japan were recovering at varying speeds. The United States economy finally showed signs of improvement in its housing market while Japan and the eurozone began to pick up under accommodative monetary policies. Following the United States Federal Reserve's announcement of the plan to taper its stimulative monetary policy, long-term interest rates moved higher towards the year-end. To lock in a relatively low interest cost for long-term funding, the Group issued a US$300 million 10-year fixed rate notes with a coupon of 3.5% in January 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;

KEY PERFORMANCE INDICATORS

	Average Finance Costs	Source of Borrowings	Average Debt Maturity
Definition	Interest expenses over average gross debt for the year	The percentage of borrowings from banks and from capital markets	The weighted average remaining tenure of the Group's gross debt
Measurement	The average costs of debt financing	How diversified is the funding source	The timing of repayment needs of the Group
Performance	A higher average finance costs reflected the US$300 million fixed rate notes with a coupon of 3.5% issued in January 2013.	During the year, US$300 million fixed rate notes were issued and HK$700 million bank loans matured. The portion from capital markets at year-end 2013 was higher than the level in 2012.	The average maturity was lengthened with the US$300 million 10-year fixed rate notes issued.
	Average Finance Costs **2.9%** (2.7% for 2012)	**Bank Loans vs. Capital Market Issuance** **26.5% : 73.5%** at year-end 2013 (45.8% : 54.2% at year-end 2012)	**Average Debt Maturity** **6.0 years** at year-end 2013 (5.0 years at year-end 2012)

- 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.

Moody's upgraded the Group's credit rating from Baa1 to A3 in May 2013 to reflect the stable recurring income of the Group. Standard and Poor's rating of the Group is BBB+.

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.

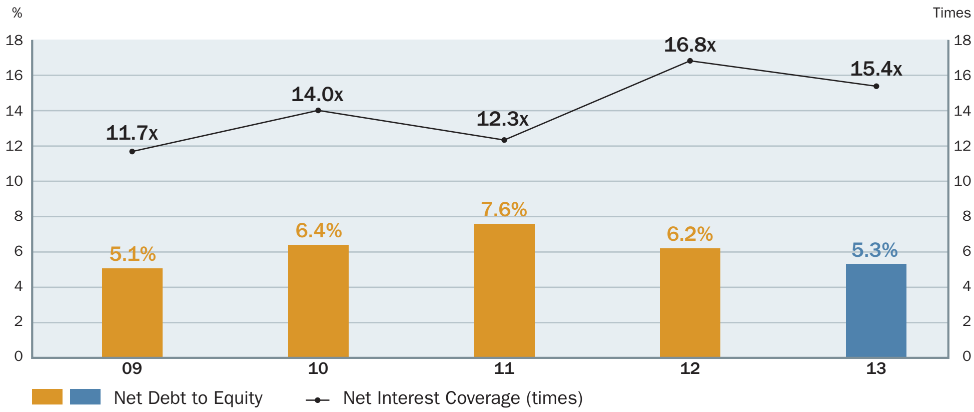
Floating Rate Debt	Net Interest Coverage	Net Debt to Equity
The percentage of total debt that is effectively floating rate based	Gross profit before depreciation less administrative expense divided by net interest expense	Borrowings less liquidity on hand divided by shareholders' funds
The likely impact on interest expenses by changes in market interest rates	The Group's ability in meeting the interest payment obligations from its operation	The level of net leverage of the Group and its ability to raise further debt
The ratio was lower compared with 2012 because more borrowings were issued at fixed interest rates under a relatively low interest rate environment.	Ratio reflects our stable profit against higher net interest expenses.	The ratio remains low after the issuance of the US$300 million fixed rate notes and the Group's ability to raise further debt is strong.
Floating Rate Debt **32.0%** at year-end 2013 (47.0% at year-end 2012)	**Net Interest Coverage** **15.4 times** (16.8 times for 2012)	**Net Debt to Equity** **5.3%** at year-end 2013 (6.2% at year-end 2012)

DEBT MANAGEMENT

The debt capital market was active in 2013, particularly in the first half of the year when the market was still flushed with liquidity. Quality issuers took the opportunity to tap the market while the interest rate remained low. Liquidity in the local bank loan market also improved during the year as reflected by the reduced credit margin for top tier companies borrowing from the market. To lock in a relatively low interest cost for long tenor funding and to build up funds for future use, the Group issued US$300 million 10-year fixed rate notes with a coupon of 3.5% in January 2013 under the Medium Term Notes Programme. The long term borrowing lengthened the average maturity of the debt profile to 6.0 years at year-end of 2013 (2012: 5.0 years).

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



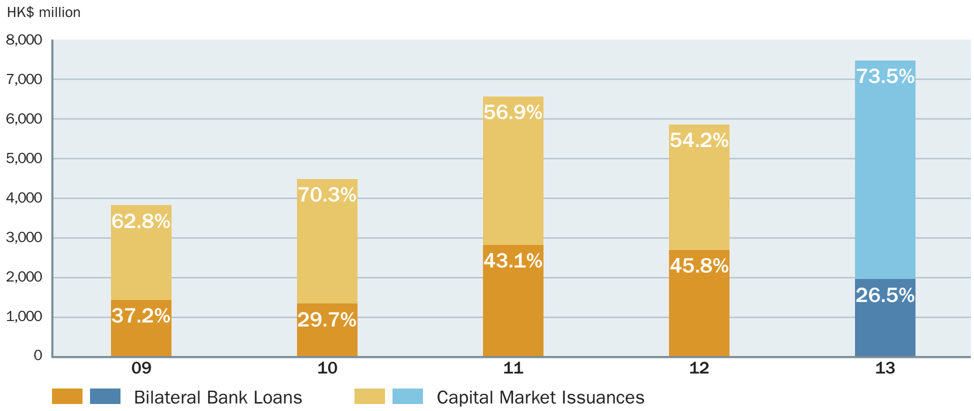
The Group always strives to lower the borrowing margin, to diversify the funding sources and to maintain a suitable maturity profile relative to the overall use of funds. As at 31 December 2013, the outstanding gross debt[1] of the Group was HK$7,540 million (2012: HK$5,899 million), an increase of HK$1,641 million compared with 2012 as a result of the issuance of the US$300 million fixed rate notes and repayment of HK$700 million bank loans 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. At year-end of 2013, about 26.5% of the Group's outstanding gross debts were sourced from these banking facilities.

[1] The gross debt represents the contractual principal payment obligations at 31 December 2013. 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 2013, the book value of the outstanding debt of the Group was HK$7,504 million (31 December 2012: HK$5,941 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.

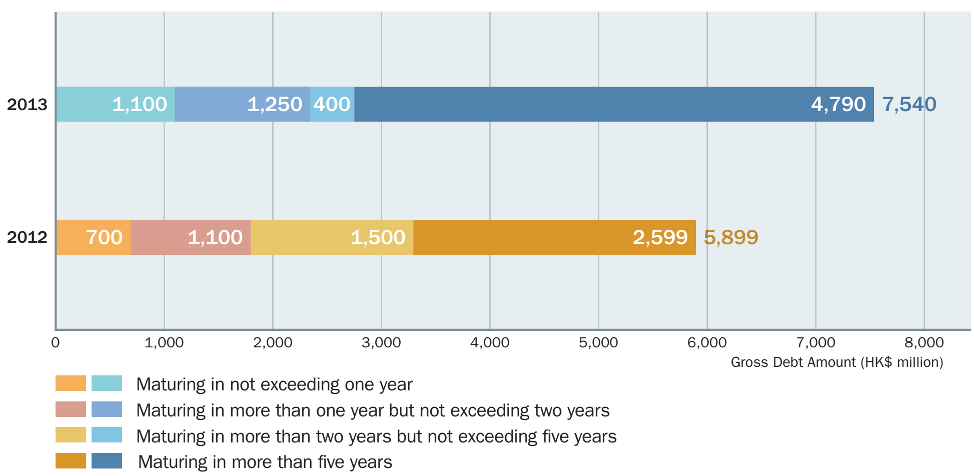
Sources of Financing at Year-end



The Group also strives to maintain an appropriate maturity profile. As at 31 December 2013, the average maturity of the debt portfolio was about 6.0 years, of which about HK$1,100 million or 14.6% of the outstanding gross debt will be due in less than one year, reflecting little re-financing pressure for 2014.

The graph below shows the debt maturity profile of the Group at 2013 and 2012 year-end.

Debt Maturity Profile at 2013 and 2012 Year-end



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 2013, the Group had cash and bank deposits totaling about HK$4,123 million (2012: HK$2,311 million). The increase of deposit was mainly resulted from the issuance of the US$300 million fixed rate notes. 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$1,360 million (2012: HK$1,288 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$900 million at year-end 2013 (2012: HK$1,000 million), essentially allow the Group to obtain additional liquidity as the need arises.

INTEREST RATE MANAGEMENT

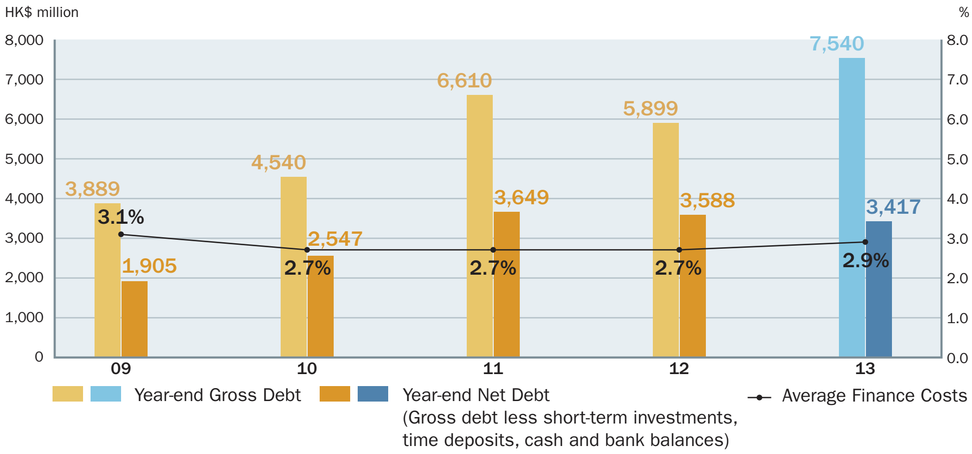
Interest expenses account for a significant proportion of the Group's total expenses and warrant close monitoring. Appropriate hedging strategies are adopted to manage exposure to projected movements in the interest rate. During the year, 3-month Hong Kong Inter-bank Offered Rate ("HIBOR") remained low and the range bounded between 0.38% and 0.40%.

As a result of the US$300 million 10-year fixed rate notes with a coupon of 3.5% issued in 2013, the average cost of financing increased to 2.9% in 2013 compared to 2.7% in 2012. The fixed debt ratio also increased to 68.0% at year-end of 2013 from 53.0% at year-end of 2012.

As the Group believes that interest rates will rise in the next few years, we expect the issuance will reduce the overall interest rate exposures over the 10-year period.

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 AUD37 million bank loan and US$300 million fixed rate notes, which have been hedged by appropriate hedging instruments, all of the Group's other borrowings were denominated in Hong Kong dollars. For the US$300 million fixed rate notes issued in January 2013, hedges were entered to effectively convert the borrowing into Hong Kong dollar. For the foreign exchange exposure on the investment side, the Group's outstanding in amount in cash, time deposits, principal-protected investments and debt securities amounted to US$109 million and RMB322 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$4,181 million (2012: HK$3,759 million) or 5.5% (2012: 5.5%) of total assets.

USE OF DERIVATIVES

As at 31 December 2013, 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. 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 regular 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. Internal Audit regularly reports on reviews of the business processes and activities, including action plans to address any identified control 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 and reports to the Board on such reviews.

(Please also see "Audit Committee Report" on page 93 regarding the Committee's detailed review work.)

Hysan Risk Management Framework Diagram

"Top-down"

Oversight, identification, assessment and mitigation of risk at corporate level

The Board

- Has overall responsibility for the Group's risk management and internal controls system
- Sets strategic objectives
- Reviews the effectiveness of our risk management and internal controls systems
- Monitors the nature and extent of risk exposure for our principal risks
- Provides direction on the importance of risk management and risk management culture

Management

- Designs, implements, and monitors our risk management and internal controls system
- Assesses our risks and mitigating measures Company-wide

Audit Committee

- Supports the Board in monitoring risk exposure, design and operating effectiveness of the underlying risk management and internal controls systems

Internal Audit

- Supports the Audit Committee in reviewing the effectiveness of our risk management and internal controls system

"Bottom-up"

Identification, assessment and mitigation of risk at business unit level and across functional areas

Operational Level

- Risk identification, assessment and mitigation performed across the business
- Risk management process and internal controls practised across business operations and functional areas

Hysan's Internal Controls Model and Continuous Improvement in our System

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. Since 2012, we have put in place a phased improvement plan and progressed to further enhance our internal controls and risk management system as described below:

- 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 department, 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. Management also forms a risk management committee (headed by the Chief Executive Officer) which sets the relevant policies and monitors potential weaknesses and action items regularly.

  Since 2012, we have refined the process by adopting a more risk-based (instead of process-based) approach in risk identification and assessment, with clearer description of risks in light of changes in internal as well as external circumstances. This enriches our ability to analyse risks and respond to opportunities as we pursue our strategic objectives. Training/refresher sessions and workshops were provided to department heads, with guidance, facilitation, and discussions throughout. We have also adopted a more "participatory" approach in determining the Group's corporate-level "top risks", by enhancing the "bottom-up" aspects and the involvement of department heads.

- 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. In particular, we have put in place a greater use of key performance indicators, which facilitates top-level reviews. A greater use of automation (information processing) is also being implemented.

- Monitoring – oversight by the Board and Audit Committee, assisted by our Internal Audit team. Management has enhanced its update reports to Audit Committee on movements on top risks and appropriate mitigating measures. From 2012 onwards, an additional Audit Committee meeting has been held to review and monitor risk management activities.

2013 Review of Internal Controls Effectiveness

In respect of the year ended 31 December 2013, the Board considered the internal controls system effective and adequate. No significant areas of concern that might affect the financial, operational, compliance controls, and risk management functions of the Group were identified. The scope of this review covers the adequacy of resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget.

Further Strengthening of Our Underlying Systems in 2013

Integration of internal controls and risk management into other business processes	
• In budgeting and business planning processes, operating units are required to identify material risks that may impact the achievement of their business objectives. Action items to mitigate the identified risks are developed for implementation as well as for finalising the budget and business objectives • Formalised the adoption of key risk indicators in management reporting • Integrated our refined Visions / Missions / Values, which stress accountability, in our performance appraisal system	These further 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.
Monitoring – enhanced "management assurance" to the Board and Audit Committee in their respective reviews	
We have enhanced the "assurance" aspects in the following ways: • enhanced management update reports to Audit Committee and the Board on top risks , with special reports on selected topics • a more structured approach implemented for the purpose of management's certification of controls effectiveness, adopting a control self-assessment approach cascading to department heads where appropriate.	Facilitates and enhances the work of the Audit Committee and the Board in monitoring our risk exposure.

Way Forward

Achieving a "live" risk management system practised on a day-to-day basis by our operating units is a continuous journey. We shall continue this path, with further integration of internal controls and risk management into our business processes.

The COSO framework (on which the Group's internal controls system is based) has been revised, effective December 2013. Instead of treating this as a framework-update exercise, a holistic approach will be adopted, taking into consideration the Company's circumstances, including its ongoing internal controls and risk management improvement plan as well as other strategic initiatives. (e.g. corporate social responsibility strategy and reporting)

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 2013	Description of risk change
Impact of Hong Kong and global macroeconomic developments on: 1. Office leasing operations 2. Retail leasing operations 3. Residential leasing operations	↔	Considering the impact of changes in demand and competition on the three leasing units, which continued to be 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 26 to 29) & "Review of Operations" (pages 34 to 39)*
4. Projects (including combined Sunning site redevelopment, and Lee Theatre Plaza asset enhancement)	**New (combined Sunning site redevelopment)**	Lee Theatre Plaza asset enhancement completed with new anchor tenants commencing operations Announcement made in March 2013 for the new combined Sunning site redevelopment project. Preparations for demolition underway, with tenants began vacating in Q4 2013. *See " Review of Operations" (pages 34 to 39)*
5. Finance (funding and liquidity risks, given U.S. tapering of asset purchases and impact on financial markets)	↓	The Group successfully made a US$300 million 10-year bond issuance in January 2013. ► *For more analysis, see "Treasury Policy" (pages 44 to 49)*
6. Hazards / catastrophic loss (health epidemics, natural disasters, man-made hazards like fire, flooding)	↔	We maintain comprehensive emergency handling procedures covering all our properties.
7. Human resources	↑	Greater competition for skilled personnel, and labour shortage for front-line staff, to support the Group's growth strategy. ► *For more analysis, see Corporate Responsibility Report 2013 – "Workplace Quality"*

Note:

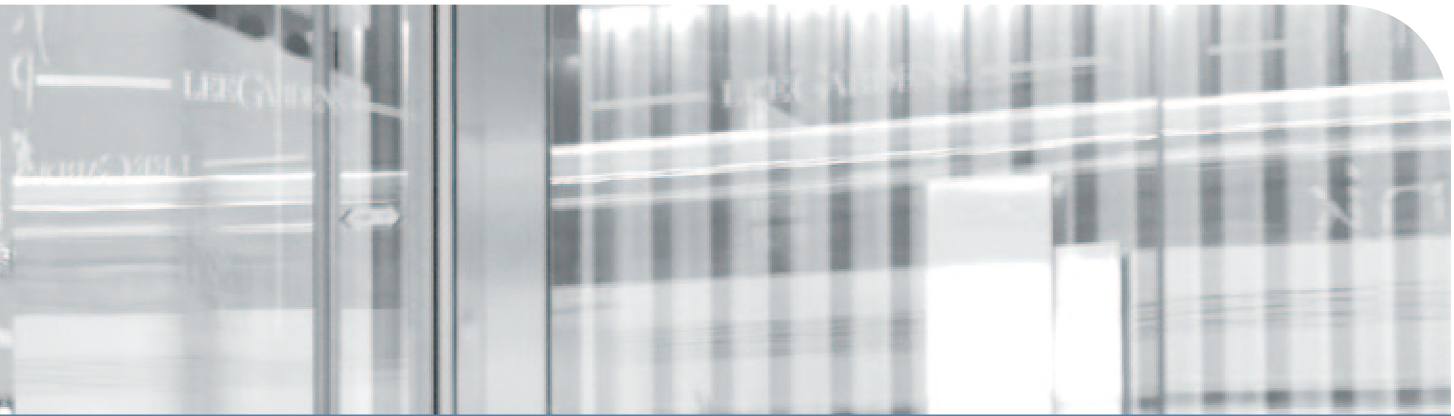
↑ where "inherent risks" (i.e. before taking into consideration mitigating activities) increased

↓ where "inherent risks" decreased

↔ where "inherent risks" remain broadly the same

3 Corporate Governance

This "Corporate Governance" section presents Hysan's Board of Directors, as well as our governance structure, systems and best practices. We also highlight the Board's actions during the year.



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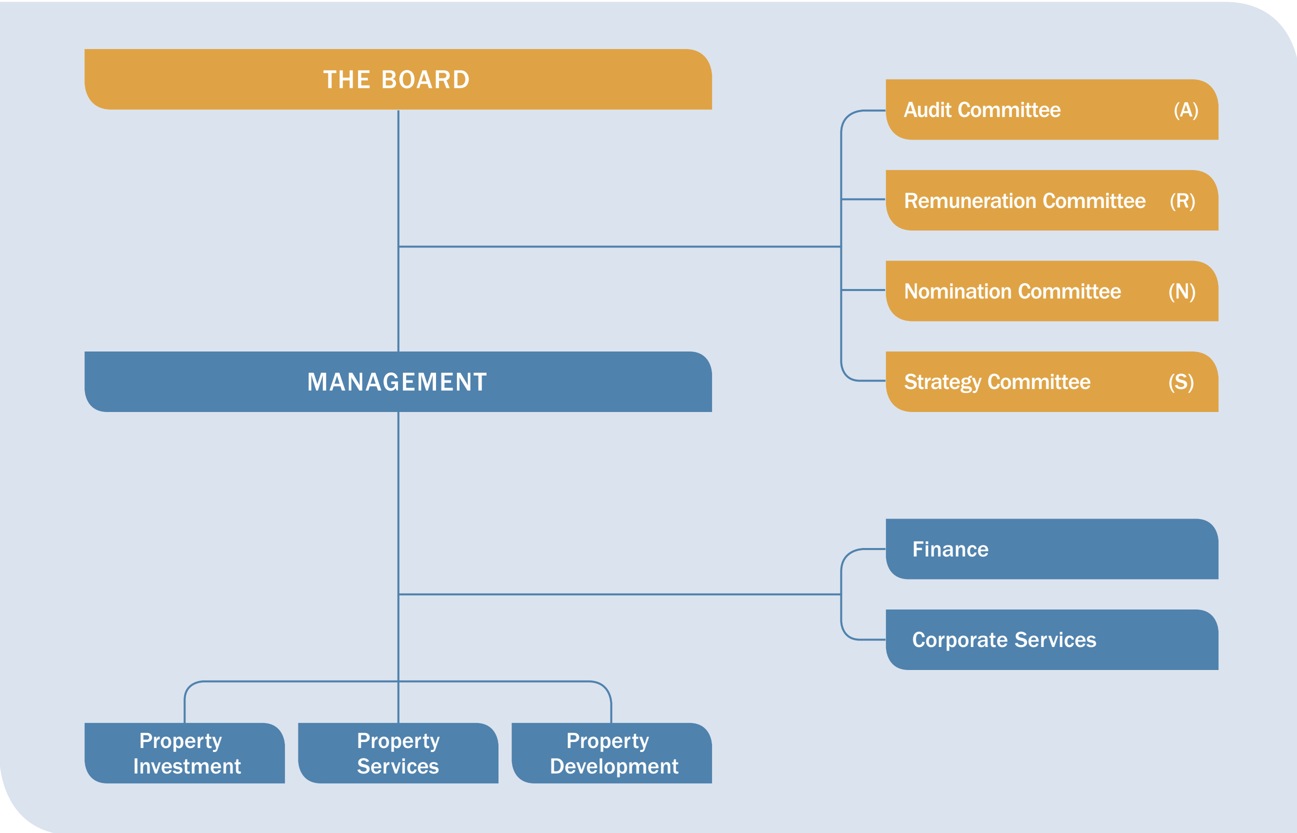
Board of Directors



Chairman (chairing N, S)

Irene Yun Lien LEE

Ms. Lee is an independent non-executive director of Cathay Pacific Airways Limited, CLP Holdings Limited, The Hongkong and Shanghai Banking Corporation Limited and Noble Group Limited (listed on Singapore Exchange Limited). She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee was 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. She was also the non-executive chairman of Keybridge Capital Limited (listed on Australian Stock Exchange), a non-executive director of ING Bank (Australia) Limited, QBE Insurance Group Limited, and The Myer Family Company Pty Limited; and a member of the Advisory Council of JP Morgan Australia. 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 60.

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 55.

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 58.

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 64.

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 Goodman Group. He is a member of the Asian Advisory Committee of AustralianSuper Pty Ltd (a pension fund in Australia). He was previously an independent director of Suntech Power Holdings Co., Ltd. and Zhuhai Zhongfu Enterprise Co. Ltd. Mr. Fan holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from Massachusetts Institute of Technology. He was appointed Independent non-executive Director in January 2010. He is aged 64.

(A) Audit Committee (R) Remuneration Committee (N) Nomination Committee (S) Strategy Committee

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 Environment and Conservation Fund Investment Committee and 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, and a former member of the Board of Inland Revenue of Hong Kong Special Administrative Region. 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 59.

Non-executive Director

Hans Michael JEBSEN

B.B.S.

Mr. Jebsen is chairman of Jebsen and Company Limited as well as a director of other Jebsen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited. He was appointed a Non-executive Director in 1994 and is aged 57.

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 56.

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 60.

(A) Audit Committee (R) Remuneration Committee (N) Nomination Committee (S) Strategy Committee

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; an independent non-executive director and chairman of OTC Clearing Hong Kong Limited; and a Steward of The Hong Kong Jockey Club. Mr. Lee was 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 52.

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 a member of the Hong Kong Institute of Certified Public Accountants, a Fellow of the Hong Kong Institute of Chartered Secretaries; and sits on a number of panels of the two institutes respectively. Her public services include serving as a member of the Securities and Futures Appeal Panel, Standing Committee on Company Law Reform, a co-opted member of the Audit and Risk Committee of the Hospital Authority, and the Hong Kong Selection Committee of the Rhodes Scholarships respectively. She is aged 52.

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 48.

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

(A) Audit Committee (R) Remuneration Committee (N) Nomination Committee (S) Strategy Committee

Corporate Governance Report

Refreshing of the Board and Board Diversity

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. Our Corporate Governance Guidelines, first adopted by the Board in 2003, reflects this broad concept of diversity. It was further refined during the year to more clearly bring out the Board's endorsement of this approach.

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 diversity of 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, professional practices, and property industry have joined our Board. The Board last reviewed its size and composition in December 2013.

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 "Stock Exchange"), 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 2013: Non-Hang Seng Index (Large Market Capitalisation) Category – Gold Award

Organised by the Hong Kong Institute of Certified Public Accountants

"The company's report indicates continuous efforts and improvement in internal controls and risk management. The 2012 review of internal controls effectiveness, presented in a summary table, illustrates where there has been a further strengthening of the company's underlying risk management system. Hysan discloses its risk profile to help readers understand the company's current risk exposures and to indicate how its risks are changing over time."

– Judges' Report

Exceed Code Provisions	Best Practices in Corporate Governance in Place at Hysan
✓	The Board first established formal Corporate Governance Guidelines* 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: For the past few years, this has taken the form of meetings of the Non-executive Directors without the presence of management. In 2014, the board evaluation process was formalised with the adoption of an evaluation questionnaire.
✓	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 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 then proposed environmental, social and governance reporting guidelines under the Listing Rules in 2013.
✓	Since 2004, the Group has operated a new form of Annual General Meeting ("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 continually enhances its communications with shareholders. It 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. At the same time, it also continually enhances the use of its corporate website as a means of shareholder communications.

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

The Board in 2013: driving continuous improvement

During the year, 4 Board meetings were held. Pursuant to its roles under the formal Board Mandate, the Board discussed, acted on, and yielded results on the following themes. It was also supported by the work of various Board committees, which had an active year. Moving forward, an additional scheduled Board meeting will be held from 2014 onwards for discussions on Group strategy matters.

1. Leadership

- refined the Board diversity policy (being part of the Corporate Governance Guidelines) and reviewed the size and composition of the Board in this light
- Board effectiveness and evaluation:
  - further enhanced the Board process including the workings of the Board between formal Board meetings, pursuant to feedback of Non-executive Directors
  - adopted a formal board evaluation process in 2014. To reflect the Board's commitment to the principle of board effectiveness and evaluation, the Corporate Governance Guidelines were refined accordingly. (see section on "Board Evaluation")

2. Strategic Planning

- received and discussed 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 the competitiveness of the Group's Causeway Bay portfolio
- asset enhancement projects: received and discussed management's regular updates on the Lee Theatre Plaza renovation project (completed in 2013) and the combined redevelopment of Sunning Plaza and Sunning Court
- talent management: Board committee received, and reported back to the Board, updates on succession planning; the Board approved the proposed refinement of compensation structure for senior management to drive performance and hence long-term success of the Group

Formal Board Mandate: board roles

- 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 management process, including further integrating the same with other key business processes (including budgeting and the adoption of formal key risk indicators in management reporting); the review process was further strengthened
- assessed effectiveness of financial controls, and other internal controls

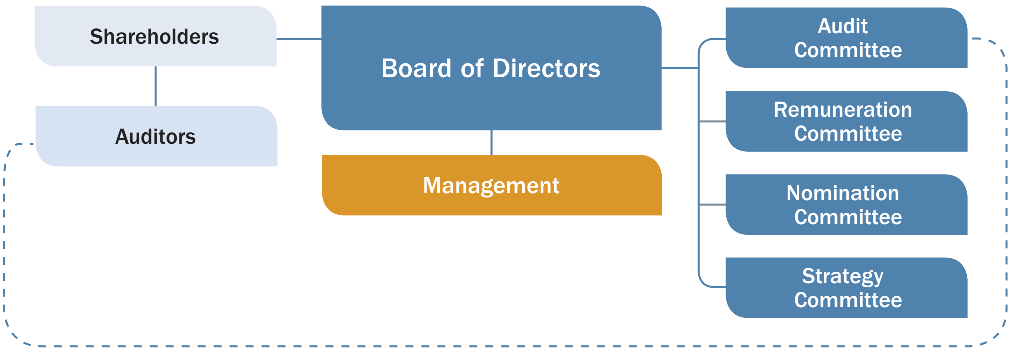
  (Please refer to separate "Internal Controls and Risk Management Report", "Audit Committee Report")
- legal and regulatory compliance is a regular agenda item for each Board meeting

4. Relations with Shareholders

- investor relations reporting (describing investor and analyst opinions) is a regular Board agenda item
- endorsed management's plans to further enhance shareholder communications by further exploiting the electronic channels

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.

- 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

FORMAL BOARD MANDATE

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

BOARD SIZE, COMPOSITION, AND APPOINTMENTS

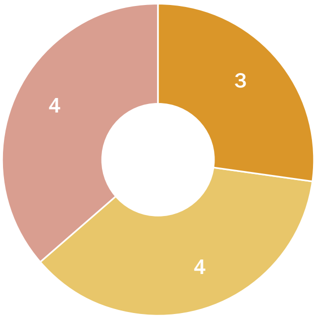
There are currently eleven Directors on the Board: the Chairman, two other Executive Directors, and eight Non-executive Directors (including four Independent non-executive Directors). The roles of the Chairman and the Chief Executive Officer are currently separate. Irene Yun Lien LEE is currently the Board Chairman. 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. 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.

Further description of the backgrounds of the Non-executive Directors is set out in the section "Board Effectiveness – Skills, Balance, and Diversity" below.

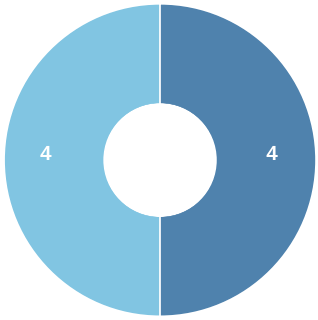
Non-executive Directors are appointed for a term of 3 years and are required to submit their candidacy for re-election at the first AGM following their appointment. Under the Group's Articles of Association, every Director will be subject to retirement by rotation at least once every 3 years. Retiring 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 13 May 2014, Irene Yun Lien LEE, Nicholas Charles ALLEN, Hans Michael JEBSEN, and Anthony Hsien Pin LEE 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 2013



Length of tenure of Non-executive Directors
31 December 2013



The table below sets out the number of meetings of the Board and its committees in 2013, individual attendance by Board and committee members at these meetings and the attendance of the Board members at the 2013 AGM:

Directors	Board *(Note 1)*	Audit Committee *(Note 1)*	Remuneration Committee *(Note 1)*	Nomination Committee *(Note 1)*	AGM *(Note 1)*
Executive					
Irene Yun Lien LEE	4/4			1/1	1/1
Siu Chuen LAU	4/4				1/1
Wendy Wen Yee YUNG	4/4				1/1
Independent non-executive					
Nicholas Charles ALLEN	4/4	3/3		1/1	1/1
Frederick Peter CHURCHOUSE	4/4				1/1
Philip Yan Hok FAN	4/4 *(1 by telephone conference)*	1/3	2/2	0/1	1/1
Joseph Chung Yin POON	4/4		2/2	1/1	1/1
Non-executive					
Hans Michael JEBSEN	3/4 *(Note 2)* *(1 by telephone conference)*				1/1
Anthony Hsien Pin LEE	4/4	3/3			1/1
Michael Tze Hau LEE	4/4 *(1 by telephone conference)*		2/2		1/1
Chien LEE	4/4			1/1	1/1

Notes:
1. The attendance figure represents actual attendance / the number of meetings a Director is entitled to attend.
2. Mr. Jebsen's alternate attended the remaining meeting.

Board Effectiveness

SKILLS, BALANCE, AND DIVERSITY

During 2013, 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
1. General management Broad business experience through senior level position in another major company.	Philip Yan Hok FAN Joseph Chung Yin POON
2. Property Industry Experience as a senior executive in another major company in property investment, development or facilities management; or related industry.	Frederick Peter CHURCHOUSE
3. Financial Services and investment 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
4. Marketing Experience as a senior executive in a major retail, consumer products, services or distribution company.	Hans Michael JEBSEN
5. "Audit Committee" Accounting Expertise Expertise based on definition of "Audit Committee accounting expertise" under Listing Rules.	Nicholas Charles ALLEN
6. Risk Governance and Risk Management 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
7. Human Resources / Compensation 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 56 to 59 and are also available on the Company's website: www.hysan.com.hk)

INDEPENDENCE

As a listed company with the presence of a major shareholder family, the Board has put in place appropriate policies and processes to avoid conflicts of interest or perception of the same.

"Connected transactions" with persons and entities regarded as connected with the Group under the Listing Rules are subject to the approval of the full Board, as provided under the **List of Matters Reserved for Board Decisions**. In addition, transactions that are exempt from Listing Rule requirements are also subject to reporting to the full Board after management approval, with full particulars of key terms and conditions as well as justification.

The Board has established "independence" standards for individual Directors 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 carried out a detailed review of director independence in November 2013. It concluded that each of the 4 Independent non-executive Directors 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.

"Connected Transactions" with related persons subject to full Board decision

This is expressly provided in our **List of Matters Reserved for Board Decisions**. The relevant requirements are more stringent than those under the Listing Rules.

Appointment of four independent Directors with a diverse background

We have four Independent non-executive Directors drawn from a diverse background, spanning general management, property industry, financial services and investment, and professional (accounting).

(See page 66)

INDEPENDENCE

Checks and Balances

Clear "independence" standards for individual Directors

This is laid down in our **Corporate Governance Guidelines**.

Detailed annual review of independence of individual Directors

The Nomination Committee carries out a detailed review of Director independence annually.

(See table on page 68 summarising 2013 review)

Independence Status

Name	Management	Independent	Not Independent	November 2013 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
Wendy Wen Yee YUNG	✓			

EVALUATION

Traditionally, 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 two discussion sessions during 2013 without the presence of executive members or Board members relating to the founding Lee family. As a result of the feedback received, the Board process regarding the workings of the Board between formal Board meetings was strengthened. Where urgent full-board decisions have to be made in-between formal Board meetings, telephone conferences (supplemented by formal written resolutions) will be arranged as far as practicable.

In 2014, the board evaluation process was formalised, by adopting a board evaluation questionnaire. To reflect the Board's commitment to the principle of board effectiveness and evaluation, the Corporate Governance Guidelines were refined in March 2014 accordingly. The responses to the questionnaire will be thoroughly analysed and discussed at Board meetings to be held in Q2 2014.

How The Board Works Together

BOARD AND MANAGEMENT

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

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.

HOW MANAGEMENT SUPPORTS THE EFFECTIVE WORKINGS OF THE BOARD

SUPPLY OF INFORMATION

Management 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 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.

During the year, the interaction of Non-executive Directors with non-Director members of the management team was strengthened. In addition to receiving presentations from non-Board management members at Board meetings, Non-executive Directors also interacted with the management team in company events. These included the annual "Company Day" when the management team shared management objectives for the coming year with all Head office staff and supervisors of the building offices. These facilitate the build-up of constructive relations and dialogue between the Board and the management team.

Directors are also kept updated of any material developments from time to time through notifications and circulars detailing the relevant background and explanatory information. As described above, 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.

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.

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.

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, management has further strengthened the provision of presentations, presentations by industry experts on macro and market environment affecting the Group and 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	2013 Training Matters organised by Hysan *(Note)*
Executive	
Irene Yun Lien LEE	a, b, c, d
Siu Chuen LAU	a, b, c
Wendy Wen Yee YUNG	a, b, c, d
Independent non-executive	
Nicholas Charles ALLEN	a, b, c, d
Frederick Peter CHURCHOUSE	a, b, c
Philip Yan Hok FAN	a, b, c, d
Joseph Chung Yin POON	a, c
Non-executive	
Hans Michael JEBSEN	d
Anthony Hsien Pin LEE	a, b, c
Chien LEE	a, b, c, d
Michael Tze Hau LEE	b, c

Notes:

a. regulatory update (new Companies Ordinance)

b. market environment and competitive landscape affecting the Group's leasing business (China property (including retail) market overview and implications for Hong Kong; Hong Kong office market: changing trends and considerations from tenant perspective)

c. broad macro environment – changing social-political dynamics in Hong Kong

d. training organised by third parties, with invitation extended to Hysan Directors – these included 2013 Hong Kong budget discussion forum and quarterly independent non-executive director forums organised by Big Four accounting firms

BOARD PROCESS AND ADMINISTRATION PROCEDURES

Board discussions are held in a collaborative atmosphere of mutual respect and open discussions allowing for questions, and constructive challenge where appropriate. In this light, we aim to continually enhance the Board process. Improvement areas identified include convening an additional meeting in 2014 for discussion on group strategy matters, and allowing more time for discussions at each Board meetings.

INDEPENDENT ADVICE

It is recognised 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.

Board Committees in 2013

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. These committees report to the Board. The terms of reference of these Committees are available on the Company's website. It was an active year for the Audit Committee and the Remuneration Committee in particular, as detailed below.

Strategic planning is an important function of the Board. Moving forward, an additional scheduled Board meeting will be held from 2014 onwards for discussions on strategy matters. The Board also has a Strategy Committee to support it in this regard.
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.

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 (Non-executive Director) and Philip Yan Hok FAN (Independent non-executive Director). 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).

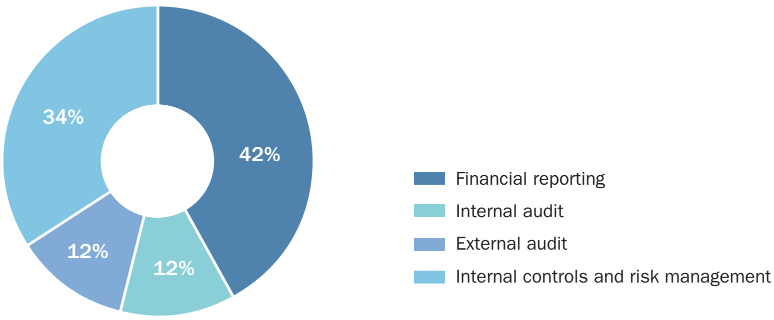
Pre-meeting sessions with external and internal auditors held without management presence

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.

How the Audit Committee spent its time (%)



ACTIVITIES AND REPORT IN 2013 AND TO DATE

Full details of the activities of the Audit Committee are also set out in the "Audit Committee Report" on pages 93 to 96. Three meetings were held during the year. Attendance of Audit Committee meetings is set out in the table on page 65. 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 integrating our internal controls and risk management system with other key business processes (including budgeting and the formalisation of key risk performance indicators in management reporting), and further enhancing the internal controls effectiveness review process. (Details are also set out in the "Internal Controls and Risk Management" Report on pages 50 to 53)

REMUNERATION COMMITTEE

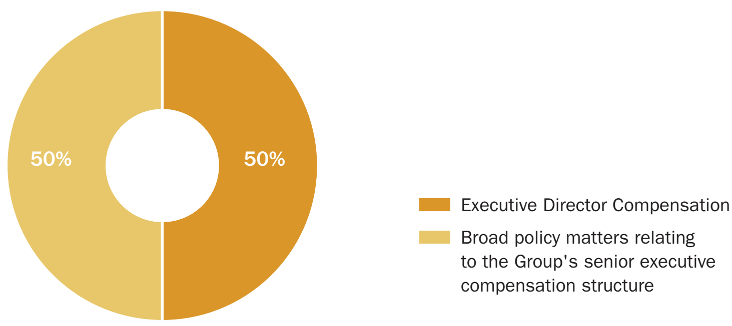
COMPOSITION AND MEETINGS SCHEDULE

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 (Non-executive Director) and Joseph Chung Yin POON (Independent non-executive Director). 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.

How the Remuneration Committee spent its time (%)



ACTIVITIES AND REPORT IN 2013 AND TO DATE

Full details of the activities of the Remuneration Committee are set out in the "Directors' Remuneration and Interests Report" on pages 85 to 92. Two meetings were held during the year. An additional meeting was held in December 2013 to consider and approve proposed refinement of (non-Board) senior management team's compensation structure so as to better align pay and performance and drive long-term success of the Company. Attendance of Remuneration Committee meeting is set out in the table on page 65.

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 (Independent non-executive Director), Chien LEE (Non-executive Director), Nicholas Charles ALLEN (Independent non-executive Director), and Joseph Chung Yin POON (Independent non-executive Director).

ROLES AND AUTHORITY

The Nomination Committee is responsible for nominating candidates, for Board approval, to fill Board vacancies as and when they arise, and for evaluating the balance of skills, knowledge and experience of the Board. The Committee also reviews the independence of Directors pursuant to 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 the structure, size, and composition of the Board; and (ii) assess the independence of Independent non-executive Directors. Attendance of Nomination Committee meeting is set out in the table on page 65.

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 regular presentations to or conference calls with analysts and investors, also at the time of announcement of results. Results announcement presentations to analysts are also disseminated to a broader audience by way of webcast. 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 2012, a review of business activities, and the Company's outlook for 2013. 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)

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. We have balanced this with the Group's aim to further enhance the use of its corporate website as a means of shareholder communications. Greater publicity of the Group's website is being made.

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 Registrar 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 Stock Exchange and the Company.

RELEVANT PROVISIONS IN ARTICLES OF ASSOCIATION AND HONG KONG LAW

Under the current Articles of Association of the Company and Hong Kong Companies Ordinance (with new amendments effective 3 March 2014), shareholders holding not less than 5% of the total voting rights of shareholders of the Company ("5% Shareholder") may convene a 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 passing of resolutions by way of written resolutions. Any shareholders holding not less than 2.5% of the total voting rights of shareholders of the Company (or 50 or more shareholders entitled to vote) may requisition for the circulation of resolutions to be moved at annual general meetings; and circulation of statements regarding resolutions proposed at general meetings. 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. The amended Ordinance also provides for disinterested shareholder approval (excluding these shareholders related to the relevant directors) for certain transactions with directors as well as their connected entities, and ratification of director misconduct.

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. Changes reflecting the impact of the amended Companies Ordinance will be proposed and considered by shareholders at the AGM to be held in May 2014.

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2013, which were approved by the Board of Directors (the "Board") on 7 March 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2013 to be property investment, management, and development. Details of the Group's principal subsidiaries and associates as at 31 December 2013 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 to the financial statements. 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 2013 are set out in the consolidated income statement on page 100.

The first interim dividend of HK22 cents per share, amounting to approximately HK$234 million, was paid to shareholders during the year.

The Board declares a second interim dividend of HK95 cents per share to the shareholders on the register of members on 24 March 2014, absorbing approximately HK$1,010 million. The dividends declared and paid for ordinary shares in respect of the full year 2013 will absorb approximately HK$1,244 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 104 and 105 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 2013 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 2013 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 60 to 76) – 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 85 to 92) – 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 93 to 96) – 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 50 to 53) – 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 2014); 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.

Kam Wing LI and Irene Yun Lien LEE served as alternate Directors throughout the year.

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 56 to 59 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 2013. (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 85 to 92.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2013, 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)*	40.72
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 *(Note b)*	40.72
Silchester International Investors LLP	Investment manager	64,956,000	6.11
EII Capital Holding, Inc.	Interests of controlled corporations	53,445,602 *(Note c)*	5.02
Christian LANGE	Interests of controlled corporations	53,445,602 *(Note c)*	5.02

Notes:

(a) The percentage has been compiled based on the total number of shares of the Company in issue as at 31 December 2013 (i.e. 1,063,633,043 ordinary shares).

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

(c) These interests represent the same block of shares of the Company. Such shares were held through EII Capital Holding, Inc. in which Christian LANGE holds 43.16% interest.

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 2013.

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 37 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 *(Note c)*	Rooms 3703 and 3704 on the 37th Floor and 1 carparking space	2013: HK$821,238 (on pro-rata basis)

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

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

Connected person	Date of agreement	Terms	Premises	Annual consideration *(Note a)*
(i) Jebsen and Company Limited *(Note d)*	(1) 31 March 2010 (Lease)	3 years commencing from 1 September 2010	Office units on the 28th, 30th and 31st Floors	2013: HK$13,868,368 (on pro-rata basis)
	(2) 28 March 2013 (Lease and Carpark Licence Agreement) (Renewal)	5 years commencing from 1 September 2013 *(Note e)*	Office units on the 28th, 30th and 31st Floors and 3 carparking spaces	2013: HK$9,570,800 (on pro-rata basis) 2014: HK$28,884,708 2015: HK$28,884,708 2016: HK$28,884,708 2017: HK$28,884,708 2018: HK$19,256,472 (on pro-rata basis) *(Notes f & l)*

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)*
(ii) Hang Seng Bank Limited *(Note d)*	(1) 15 October 2007 *(Note g)*	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 e)*	Shop G13A on the Ground Floor and Shops 2-10 and 11-12 on the Lower Ground Floor	2013: HK$14,267,446 (on pro-rata basis) *(Notes h & i)*
	(2) 16 August 2013 (Lease and Licence Agreement) (Renewal)	2 years, 4 months and 15 days commencing from 15 October 2013	Shop G13A on the Ground Floor and Shops 2-10 and 11-12 on the Lower Ground Floor and certain areas on the Lower Ground Floor and Ground Floor	2013: HK$5,830,620 (on pro-rata basis) 2014: HK$27,455,580 2015: HK$27,455,580 2016: HK$4,575,930 (on pro-rata basis)
(iii) Pearl Investments (HK) Limited *(Note j)*	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	2013: HK$2,061,096 2014: HK$770,130 (on pro-rata basis) *(Note l)*
(iv) MF Jebsen International Limited *(Note k)*	7 September 2010	3 years commencing from 1 February 2011 *(Note k)*	Office units on the 25th Floor	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 40.72% 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	2013: HK$2,811,720 2014: HK$2,343,100 (on pro-rata basis) *(Note l)*

CONTINUING CONNECTED TRANSACTIONS continued

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	(1) 31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK$8,798,739 *(Note m)*
	(2) 28 March 2013 (Renewal)	3 years commencing from 1 April 2013	Whole premises of Lee Gardens Two	HK$34,779,176 *(Note n)*

(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	(1) 31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK$606,635 *(Note m)*
	(2) 28 March 2013 (Renewal)	3 years commencing from 1 April 2013	Whole premises of Lee Gardens Two	HK$2,536,584 *(Note n)*

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 lease and carpark licence agreement had been renewed for a term of 9 months commencing from 1 July 2013 to 31 March 2014 and a further term of 3 months commencing from 1 April 2014 to 30 June 2014. The carpark licence agreement had been early terminated on 30 April 2014.

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

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

(f) The rent for the period from 1 September 2016 to 31 August 2018 will be reviewed at the then prevailing market rent and to be agreed by Barrowgate and Jebsen and Company.

(g) 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.

(h) Pursuant to an endorsement dated 22 November 2010 as mentioned in Note (g) above, the rent for the period from 15 October 2010 to 14 October 2013 was revised at the then prevailing market rent.

(i) The retail monthly operating charges and promotional levies for Lee Gardens Two were revised with effect from 1 January 2013.

(j) 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.

(k) MF Jebsen 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.

(l) The office monthly operating charges for One Hysan Avenue were revised with effect from 1 January 2013. The office monthly operating charges and carpark licence fees for Lee Gardens Two were both revised with effect from 1 January 2014.

(m) These represent the actual consideration received for the period from 1 January 2013 to 31 March 2013, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

(n) These represent the actual consideration received for the period from 1 April 2013 to 31 December 2013, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

CONTINUING CONNECTED TRANSACTIONS continued

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.

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 80 to 83 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

The management agreement between Barrowgate and Hysan Leasing is considered a contract of significance under paragraph 15 of Appendix 16 of the Listing Rules due to its annual consideration having a percentage ratio of 1.75% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.06% and 0.12% respectively). Details of the transaction are set out under II(a) of "Continuing Connected Transactions".

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 35.91% of the aggregate amount of purchases were attributable to the Group's 5 largest suppliers with the largest supplier accounting for 20.13% of the Group's total purchases. The aggregate amount of turnover attributable to the Group's 5 largest customers was less than 30% (being the Listing Rule disclosure threshold) 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 2014 AGM.

By Order of the Board
Irene Yun Lien LEE
Chairman

Hong Kong, 7 March 2014

Directors' Remuneration and Interests Report

COMPENSATION REVIEW

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. Its terms of reference have been expanded to cover review of share option plans, changes to key terms of service pension plans, and key terms of new compensation and benefits plan with material financial, reputational, and strategic impact.

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.
- The remuneration policy for Executive Directors will be reviewed regularly, independently of executive management.

Details of Director (including individual Executive Director) emoluments for year 2013 and options movement during the year are set out in notes 12 and 38 respectively to the financial statements.

COMPENSATION REVIEW continued

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.

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$2,090,003.95 for 2013.

2013 Review

The Committee met in February 2013 with all members present to approve the 2013 annual fixed base salary and determine the 2012 performance-based bonus of the Executive Directors.

The executive packages were set at levels to ensure comparability and competitiveness with Hong Kong based companies competing within a similar talent pool, with particular emphasis on the property industry. Clear performance targets were set.

The Committee held an additional meeting in December 2013 to consider and approve a new compensation structure for (non-Director) management staff of the Group. A phased plan to increase the portion of performance-based variable pay was approved, to better align pay and performance so as to drive the long-term success of the Company.

March 2014 Review

The Committee met in March 2014 to review (i) 2014 Executive Director compensation packages and 2013 performance-based bonus; and (ii) the fee for Non-executive Directors and Board Committee members. 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. It will be proposed for consideration by the shareholders at the Annual General Meeting ("AGM") to be held in May 2014 that the fee payable to Audit Committee Chairman and Remuneration Committee Chairman respectively be increased. Details are set out in the circular to shareholders accompanying the AGM Notice.

COMPENSATION REVIEW continued

Current Director Fee Levels continued

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

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 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.

COMPENSATION REVIEW continued

Long-term incentives: Share Option Scheme continued

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.

Movement of share options

During the year, a total of 994,700 shares options were granted under the 2005 Scheme.

As at 31 December 2013, an aggregate of 2,632,704 shares are issuable for options granted (including 884,990 fully-vested shares options) under the 2005 Scheme, representing approximately 0.25% of the issued share capital of the Company.

As at the date of this Report, 95,653,077 shares are issuable under the 2005 Scheme representing 8.99% 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$	Exercise period *(Note a)*	Balance as at 1.1.2013	Changes during the year Granted	Exercised	Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2013
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	–	–	261,000
	7.3.2013	39.92 *(Note c)*	7.3.2014 – 6.3.2023	–	265,000	–	–	265,000
Siu Chuen LAU	14.5.2012	33.50	14.5.2013 – 13.5.2022	242,000	–	(80,666) *(Note d)*	–	161,334
	7.3.2013	39.92 *(Note c)*	7.3.2014 – 6.3.2023	–	246,000	–	–	246,000
Wendy Wen Yee YUNG	30.3.2007	21.25	30.3.2008 – 29.3.2017	95,000	–	(95,000) *(Note e)*	–	–
	31.3.2008	21.96	31.3.2009 – 30.3.2018	100,000	–	(100,000) *(Note e)*	–	–
	11.3.2009	11.76	11.3.2010 – 10.3.2019	100,000	–	(100,000) *(Note e)*	–	–
	11.3.2010	22.10	11.3.2011 – 10.3.2020	185,000	–	(185,000) *(Note e)*	–	–
	10.3.2011	35.71	10.3.2012 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.79	9.3.2013 – 8.3.2022	113,000	–	–	–	113,000
	7.3.2013	39.92 *(Note c)*	7.3.2014 – 6.3.2023	–	106,700	–	–	106,700

COMPENSATION REVIEW continued

Long-term incentives: Share Option Scheme continued

Movement of share options continued

Name	Date of grant	Exercise price HK$	Exercise period *(Note a)*	Balance as at 1.1.2013	Changes during the year: Granted	Changes during the year: Exercised	Changes during the year: Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2013
Eligible employees *(Note f)*	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	–	–	17,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	170,000	–	(6,000) *(Note g)*	–	164,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	272,668	–	(21,334) *(Note h)*	–	251,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	261,000	–	(13,659) *(Note i)*	(1,340)	246,001
	30.3.2012	31.61	30.3.2013 – 29.3.2022	372,000	–	(24,328) *(Note j)*	(11,337)	336,335
	28.3.2013	39.20 *(Note k)*	28.3.2014 – 27.3.2023	–	377,000	–	(15,000)	362,000
				2,291,668	994,700	(625,987)	(27,677)	2,632,704

Notes:

(a) 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. In this table, "exercise period" begins with the 1st anniversary of the grant date.

(b) The options lapsed during the year upon resignations of certain eligible employees.

(c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 6 March 2013) was HK$39.55.

(d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$37.90.

(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$39.45.

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

(g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$32.65.

(h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$37.54.

(i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$38.26.

(j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$36.97.

(k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 27 March 2013) was HK$38.60.

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 38 to the financial statements.

COMPENSATION REVIEW 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	28.3.2013	7.3.2013
Closing share price at the date of grant	HK$39.200	HK$39.850
Exercise price	HK$39.200	HK$39.920
Risk free rate *(Note a)*	0.515%	0.533%
Expected life of option *(Note b)*	5 years	5 years
Expected volatility *(Note c)*	41.272%	41.256%
Expected dividend per annum *(Note d)*	HK$0.768	HK$0.768
Estimated fair values per share option	HK$12.051	HK$12.439

Notes:

(a) 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.

(b) 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.

(c) 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.

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

SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2013, 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					
	Personal interests	Family interests	Corporate interests	Other interests	Total	% of the issued share capital *(Note a)*
Nicholas Charles ALLEN	–	–	–	20,000 *(Note b)*	20,000	0.002
Hans Michael JEBSEN	60,984	–	2,473,316 *(Note c)*	–	2,534,300	0.238
Siu Chuen LAU	80,666	–	100,115 *(Note d)*	–	180,781	0.017
Irene Yun Lien LEE	30,000	–	–	–	30,000	0.003
Chien LEE	800,000	–	–	–	800,000	0.075
Wendy Wen Yee YUNG	758,000	–	–	–	758,000	0.071

Notes:

(a) This percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,063,633,043 ordinary shares) as at 31 December 2013.

(b) Such shares were held jointly by Nicholas Charles ALLEN and his wife.

(c) 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.

(d) 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			
	Corporate interests	Other interests	Total	% of the issued share capital
Hans Michael JEBSEN	1,000	–	1,000	10 *(Note)*

Note:

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

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2013 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, 7 March 2014

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.

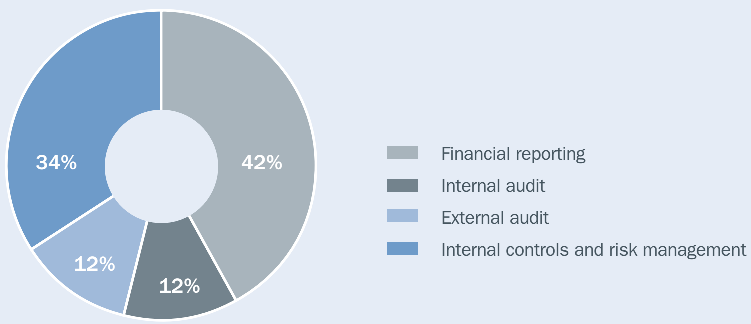
Under its terms of reference, the Committee oversees the Company's financial reporting process; it also reviews the Company's internal controls and risk management systems and its relationship with external auditor. The Committee also has the responsibility to review the adequacy of resources, qualifications 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 4 March, 1 August and 14 November 2013. The meetings in March 2013 and August 2013 were held to consider the financial statements for the 2012 annual report and 2013 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 5 March 2014 to consider the financial statements for the year ended 31 December 2013.

At the invitation of the Audit Committee, meetings are also attended by the Chairman and other members of management (including the Chief Executive Officer and the Chief Financial Officer). Pre-meeting sessions with external and internal auditors are held without management presence.

Details on the meeting held in March 2013 were set out in the 2012 Annual Report. Significant matters, as reviewed and discussed in the other meetings, include the following:

How the Audit Committee spent its time in 2013 (%)



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 2013 : The Committee reviewed and recommended to the Board for approval of the unaudited financial statements for the first 6 months of 2013, prior to public announcement and filing. The Committee received reports from and met with the external auditor and internal auditor to discuss the scope of their respective review and findings.

Judgmental issues considered: The Committee had discussions with management on significant judgments affecting Group's financial statements. These included valuation of investment properties as at 30 June 2013, and valuation of investment in an associate with principal assets in Shanghai, China as at 30 June 2013.

For valuation of investment properties, also noted that external auditor had performed various procedures before relying on the valuation prepared by the Group's independent professional valuer, Knight Frank Petty Limited. As regards valuation of investment in associates, also noted that external auditors had obtained management accounts of the relevant associate for the 6 months ended 30 June 2013 and valuation reports for the investment properties held by such associate. Further noted that external auditors performed additional procedures to conclude that the Group's investments in associates had been properly accounted for in the Group's relevant financial statements.

Based on these review and discussions, and the external auditor's review work, the Audit Committee recommended to the Board approval of the financial statements for the first 6 months ended 30 June 2013.

- March 2014 : The Committee reviewed and discussed with management and external auditor the 2013 financial statements included in the 2013 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.

Judgmental issues considered: The Committee had discussions with management with regard to significant judgments affecting the Group's financial statements. These included valuation of investment properties as at 31 December 2013, and valuation of investment in an associate with principal assets in Shanghai, China as at 31 December 2013. In particular, there were discussions on the valuation methodology of the Group's investment properties under development (being Sunning Plaza and Sunning Court). The existing use basis was adopted, reflecting the factual situation that construction plan had not yet been finalised as at that date.

The Group's independent professional valuer, Knight Frank Petty Limited, was also present at the meeting to answer the Committee's questions.

For valuation of investment properties, also noted that external auditor had performed various procedures before relying on the valuation prepared by the Group's independent professional valuer. As regards valuation of investment in associates, also noted that external auditors had obtained management accounts of the relevant associate for the year ended 31 December 2013, valuation reports for the investment properties held by such associate, and the latest available audited financial statements of such associate. Further noted that external auditors performed additional procedures to conclude that the Group's investments in associates had been properly accounted for in the Group's relevant financial statements.

Based on these review and discussions, and the report of the external auditor, the Audit Committee recommended to the Board for approval of the financial statements for the year ended 31 December 2013, with the Independent Auditor's Report thereon.

REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

- August and November 2013 : The Committee received from, and discussed with, management (i) update report on top risks facing the Group; (ii) (for November meeting) special reports on selected top risks facing the Company, including the combined Sunning site re-development; and an update on succession planning; (iii) progress report on implementing an improvement programme to further strengthen agreed aspects of the Group's internal controls and risk management system. These included further integrating the internal controls and risk management system in other key business processes. The ultimate aim is to make the system a "live" one practised on a day-to-day basis by operating units.

  The Committee considered the reports of Internal Audit, including status in implementing its recommendations.

- March 2014 : 2013 annual internal controls review – based on:

  - regular reports by management of top risks, and special reports on selected top risk items
  - regular reports of Internal Audit, including status in implementing its recommendations
  - certification of controls effectiveness by management, covering financial, operational, and compliance controls, noting the adoption of a control self-assessment approach where appropriate
  - confirmation from external auditor that it had not identified any control weaknesses during the course of its audit

  The Committee 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). No significant areas of concern which might affect financial, operational, compliance controls and risk management functions were identified.

RELATIONSHIP WITH EXTERNAL AUDITOR

- August 2013 : The Committee reviewed and considered the terms of engagement of the external auditor in respect of: 2013 annual audit, the related results announcement, and annual review of continuing connected transactions.
- March 2014 : Annual Assessment: The Committee assessed and is satisfied as to the auditor's qualification, expertise and services and independence. In particular, it was satisfied itself that the auditor's independence and objectivity are not impaired by reason of the provision of non-audit services. An arrangement for lead audit partner rotation is also in place by the auditor. For the year ended 31 December 2013, external auditor received a total fee of HK$2,301,000 (audit services: HK$2,080,000 and non-audit services: HK$221,000). "Non-audit services" refer to agreed-upon-procedures reports or statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters. Specifically, these included 2013 review of interim financial statements, issue of confirmation letters for continuing connected transactions.

  The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2014.

  The Committee also reviewed and considered the 2014 Audit Services Plan of the external auditor, and the terms of its engagement in respect of the 2014 interim results review.

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

Hong Kong, 7 March 2014

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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

Deloitte.
德勤

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 100 to 169, which comprise the consolidated and Company's statements of financial position as at 31 December 2013, 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 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 2013, 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

7 March 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Notes	2013 HK$ million	2012 HK$ million
Turnover	4	**3,063**	2,486
Property expenses		**(405)**	(423)
Gross profit		**2,658**	2,063
Investment income	6	**76**	55
Other gains and losses	7	**1**	18
Administrative expenses		**(208)**	(187)
Finance costs	8	**(242)**	(156)
Change in fair value of investment properties		**4,575**	8,533
Share of results of associates		**309**	334
Profit before taxation		**7,169**	10,660
Taxation	9	**(372)**	(289)
Profit for the year	10	**6,797**	10,371
Profit for the year attributable to:			
Owners of the Company		**6,158**	9,955
Non-controlling interests		**639**	416
		6,797	10,371
Earnings per share (expressed in HK cents)	15		
Basic		**579.04**	938.02
Diluted		**578.84**	937.59

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	2013 HK$ million	2012 HK$ million
Profit for the year		**6,797**	10,371
Other comprehensive income	11		
Items that will not be reclassified subsequently to profit or loss:			
Net gains arising from equity investments designated as at fair value through other comprehensive income		–	115
Gains on revaluation of properties held for own use		**20**	33
		20	148
Items that may be reclassified subsequently to profit or loss:			
Net (losses) gains arising from derivatives designated as cash flow hedges		**(53)**	16
Share of translation reserve of an associate		**117**	2
		64	18
Other comprehensive income for the year (net of tax)		**84**	166
Total comprehensive income for the year		**6,881**	10,537
Total comprehensive income attributable to:			
Owners of the Company		**6,242**	10,121
Non-controlling interests		**639**	416
		6,881	10,537

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$ million	2012 HK$ million
Non-current assets			
Investment properties	16	**65,322**	60,022
Property, plant and equipment	17	**604**	580
Investments in associates	19	**4,181**	3,759
Principal-protected investments	20	**81**	160
Term notes	21	**622**	527
Equity investments	22	**1**	1
Other financial assets	23	**32**	57
Other receivables	24	**230**	243
		71,073	65,349
Current assets			
Accounts receivable and other receivables	24	**241**	158
Principal-protected investments	20	**77**	218
Term notes	21	**580**	383
Other financial assets	23	**–**	2
Tax recoverable		**–**	2
Time deposits	26	**4,042**	2,158
Cash and bank balances	26	**81**	153
		5,021	3,074
Current liabilities			
Accounts payable and accruals	27	**500**	469
Rental deposits from tenants		**190**	190
Amounts due to non-controlling interests	28	**327**	327
Borrowings	29	**1,055**	699
Other financial liabilities	23	**48**	5
Taxation payable		**101**	77
		2,221	1,767
Net current assets		**2,800**	1,307
Total assets less current liabilities		**73,873**	66,656
Non-current liabilities			
Borrowings	29	**6,449**	5,242
Other financial liabilities	23	**74**	25
Rental deposits from tenants		**610**	508
Deferred taxation	30	**559**	434
		7,692	6,209
Net assets		**66,181**	60,447
Capital and reserves			
Share capital	31	**5,318**	5,315
Reserves		**58,008**	52,808
Equity attributable to owners of the Company		**63,326**	58,123
Non-controlling interests		**2,855**	2,324
Total equity		**66,181**	60,447

The consolidated financial statements on pages 100 to 169 were approved and authorised for issue by the Board of Directors on 7 March 2014 and are signed on its behalf by:

Irene Y.L. LEE
Director

S. C. LAU
Director

Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$ million	2012 HK$ million
Non-current assets			
Property, plant and equipment	17	**16**	22
Investments in subsidiaries	18	**1,471**	1,603
Other financial assets	23	**2**	2
Amounts due from subsidiaries	25	**3,711**	3,797
		5,200	5,424
Current assets			
Other receivables		**3**	3
Amounts due from subsidiaries	25	**9,167**	8,984
Tax recoverable		**–**	2
Time deposits	26	**–**	55
Cash and bank balances	26	**67**	93
		9,237	9,137
Current liabilities			
Other payables and accruals		**44**	35
Amounts due to subsidiaries	25	**1,275**	1,337
		1,319	1,372
Net current assets		**7,918**	7,765
Total assets less current liabilities		**13,118**	13,189
Non-current liability			
Deferred taxation	30	**1**	1
Net assets		**13,117**	13,188
Capital and reserves			
Share capital	31	**5,318**	5,315
Reserves	32	**7,799**	7,873
Total equity		**13,117**	13,188

The financial statements on pages 100 to 169 were approved and authorised for issue by the Board of Directors on 7 March 2014 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 2013

	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 2012	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	–	–	–	–
At 31 December 2012	5,315	2,022	14	276
Profit for the year	–	–	–	–
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 under share option schemes	3	16	(4)	–
Recognition of equity-settled share-based payments	–	–	10	–
Dividends paid during the year *(note 14)*	–	–	–	–
At 31 December 2013	**5,318**	**2,038**	**20**	**276**

	Attributable to owners of the Company								
	General reserve HK$ million	Investments revaluation reserve HK$ million	Hedging reserve HK$ million	Properties revaluation reserve HK$ million	Translation reserve HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total HK$ million
	100	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
	–	–	–	–	–	6,158	6,158	639	6,797
	–	–	(105)	–	–	–	(105)	–	(105)
	–	–	52	–	–	–	52	–	52
	–	–	–	24	–	–	24	–	24
	–	–	–	(4)	–	–	(4)	–	(4)
	–	–	–	–	117	–	117	–	117
	–	–	(53)	20	117	6,158	6,242	639	6,881
	–	–	–	–	–	–	15	–	15
	–	–	–	–	–	–	10	–	10
	–	–	–	–	–	(1,064)	(1,064)	(108)	(1,172)
	100	**(3)**	**(77)**	**328**	**530**	**54,796**	**63,326**	**2,855**	**66,181**

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$ million	2012 HK$ million
Operating activities		
Profit before taxation	7,169	10,660
Adjustments for:		
Other gains and losses	(1)	(18)
Finance costs	242	156
Change in fair value of investment properties	(4,575)	(8,533)
Share of results of associates	(309)	(334)
Dividend income	–	(3)
Interest income	(76)	(52)
Depreciation of property, plant and equipment	16	11
Share-based payment expenses	10	8
Operating cash flows before movements in working capital	2,476	1,895
Increase in accounts receivable and other receivables	(34)	(168)
(Decrease) increase in accounts payable and accruals	(46)	116
Increase in rental deposits from tenants	102	98
Cash generated from operations	2,498	1,941
Hong Kong profits tax paid	(231)	(227)
Hong Kong profits tax refund	6	7
Net cash from operating activities	2,273	1,721
Investing activities		
Interest received	36	76
Dividends received from equity investments	–	3
Proceeds on disposal of equity investments	–	1,103
Proceeds upon maturity of principal-protected investments	218	265
Proceeds upon maturity of term notes	403	469
Proceeds upon maturity of other financial assets	–	61
Proceeds upon maturity of time deposits with original maturity over three months	3,826	2,902
Repayment from an associate	5	–
Payments in respect of investment properties	(696)	(1,595)
Purchases of property, plant and equipment	(8)	(31)
Purchases of term notes	(708)	(953)
Additions to time deposits with original maturity over three months	(5,980)	(1,943)
Net cash (used in) from investing activities	(2,904)	357

	Note	2013 HK$ million	2012 HK$ million
Financing activities			
Interest paid		(161)	(189)
Payment of other finance costs		(18)	(3)
Medium Term Note Programme expenses		(1)	(2)
Dividends paid		(1,064)	(769)
Dividends paid to non-controlling interests of a subsidiary		(108)	(83)
Repayment of bank loans		(700)	(150)
Repayment of fixed rate notes		–	(1,357)
Issue of fixed rate notes		2,326	774
Proceeds on exercise of share options		15	10
Net cash from (used in) financing activities		289	(1,769)
Net (decrease) increase in cash and cash equivalents		(342)	309
Cash and cash equivalents at 1 January		963	654
Cash and cash equivalents at 31 December	26	621	963

Significant Accounting Policies

For the year ended 31 December 2013

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transaction and events in similar circumstances. 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 associates, profit or loss resulting from the transactions with the associates are recognised in the Group's consolidated financial statements only to the extent of the interests in the associates 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 proposes.

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

Construction costs incurred for investment properties under 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.

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.

(a) **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.

(i) **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

Financial assets continued

(a) **Classification of financial assets** continued

(ii) **Financial assets at FVTPL**

Financial assets at FVTPL comprise derivatives that are not designated and effective as hedging instruments.

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)(iii) below).

Debt instruments that do not meet the amortised cost criteria (see (a) 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 4 of 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 at FVTPL is included in the other gains or losses described above.

(iii) **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

Financial assets continued

(b) Impairment of financial assets

Financial assets subsequently measured at amortised cost are assessed for indicators of impairment at the end of the reporting period. These financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after their initial recognition, the estimated future cash flows have been affected.

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, 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.

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 categories with the exception of accounts receivable 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.

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, 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 instruments 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 payables and accruals, 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 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 method 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.

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.

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 PAYMENTS 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.

15. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to the Financial Statements

For the year ended 31 December 2013

1. GENERAL

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group and the Company have applied all of the new and revised Standards and Amendments to Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the Group's financial year beginning on 1 January 2013.

Except as described below, the adoption of these new and revised Standards and Amendments to Standards had no material effect on the results and financial position of the Group or the Company for the current and/or prior accounting years.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to Hong Kong Accounting Standard ("HKAS") 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 has had no impact on the results or financial position of the Group.

Amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"

The amendments to Hong Kong Financial Reporting Standard ("HKFRS") 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Group has outstanding derivative instruments presented as other financial assets and other financial liabilities in the consolidated statement of financial position which are under master netting agreements.

The amendments have been applied retrospectively. The application of the amendments has had no impact on the results or financial position of the Group but results in additional disclosures included in note 3 of the Financial Risk Management section.

HKFRS 12 "Disclosure of Interests in Other Entities"

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries and associates. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements. Accordingly, the Group has included additional disclosures in notes 18 and 19 of the Notes to the Financial Statements section.

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.

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

HKFRS 13 "Fair Value Measurement" continued

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative year. The application of HKFRS 13 has had no impact on the results or financial position of the Group but results in more disclosures in the Group's annual consolidated financial statements for the year ended 31 December 2013. Accordingly, the Group has included additional disclosures in notes 16 and 17 of the Notes to the Financial Statements section and note 4 of the Financial Risk Management section.

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.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[1]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
HKFRS 9	Financial Instruments: Hedge Accounting[4]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[1]
HK(IFRIC) – Int 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014.
[2] Effective for annual periods beginning on or after 1 July 2014.
[3] Effective for annual periods beginning on or after 1 July 2014 with certain exceptions.
[4] Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

HKFRS 9 "Financial instrument: Hedge Accounting"

The Group had early adopted HKFRS 9 as amended in 2010 in prior years. HKFRS 9 has been further amended in 2013 to include the new requirements for hedge accounting.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

In the opinion of the Directors of the Company, it is not practicable to provide a reasonable estimate of that effect on the Group's financial instruments under hedge accounting, until a detailed review has been completed.

Other than as described above, the Directors of the Company anticipate that the application of the other Amendments to Standards and Interpretation will have no material impact on the results and 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$ 65,322 million (2012: HK$60,022 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates and reversionary income potential taking into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 principal-protected investments, interest rate swaps, cross currency swaps and foreign exchange derivatives, are carried in the Group's consolidated statement of financial position at fair value, as disclosed in note 23 of the Notes to the Financial Statement section. 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
For the year ended 31 December 2013				
Turnover				
Gross rental income from investment properties	1,553	952	270	2,775
Management fee income	125	133	30	288
Segment revenue	1,678	1,085	300	3,063
Property expenses	(212)	(128)	(65)	(405)
Segment profit	1,466	957	235	2,658
Investment income				76
Other gains and losses				1
Administrative expenses				(208)
Finance costs				(242)
Change in fair value of investment properties				4,575
Share of results of associates				309
Profit before taxation				7,169
For the year ended 31 December 2012				
Turnover				
Gross rental income from investment properties	1,154	781	297	2,232
Management fee income	96	127	31	254
Segment revenue	1,250	908	328	2,486
Property expenses	(208)	(150)	(65)	(423)
Segment profit	1,042	758	263	2,063
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

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
As at 31 December 2013				
Segment assets	**32,655**	**24,205**	**8,472**	**65,332**
Investments in associates				**4,181**
Other assets				**6,581**
Consolidated assets				**76,094**
As at 31 December 2012				
Segment assets	28,918	22,623	8,494	60,035
Investments in associates				3,759
Other assets				4,629
Consolidated assets				68,423

Segment assets represented the investment properties and accounts receivable of each segment without allocation of property, plant and equipment, investments in associates, equity investments, principal-protected investments, term notes, other financial assets, other receivables, tax recoverable, time deposits, cash and bank balances. This is the measure reported to the Chief Executive Officer of the Group 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") with carrying amounts of HK$4,181 million (2012: HK$3,755 million), all the Group's assets are located in Hong Kong.

As at 31 December 2012, the Group's investment in associate operated in Singapore with carrying amounts of HK$4 million.

Other segment information

	Retail HK$ million	Office HK$ million	Residential HK$ million	Consolidated HK$ million
For the year ended 31 December 2013				
Additions to non-current assets	**679**	**50**	**10**	**739**
For the year ended 31 December 2012				
Additions to non-current assets	958	55	3	1,016
Additions to investment properties under re-development *(Note)*				504
				1,520

Note:

The investment properties under re-development were completed during the year ended 31 December 2012.

6. INVESTMENT INCOME

	2013 HK$ million	2012 HK$ million
Investment income comprises:		
Dividends from listed investments	–	3
Interest income	76	52
	76	55

The following is an analysis of investment income:

	2013 HK$ million	2012 HK$ million
Dividends from equity investments designated as at fair value through other comprehensive income ("FVTOCI")	–	3
Financial assets measured at amortised cost	76	48
Reclassification of gains from hedging reserve on financial instruments designated as cash flow hedges	–	4
	76	55

Fair value gains and losses and interest income on financial assets classified as at fair value through profit or loss ("FVTPL") are disclosed in note 7 of the Notes to the Financial Statements section.

7. OTHER GAINS AND LOSSES

	2013 HK$ million	2012 HK$ million
Other gains and losses comprise:		
Change in fair value of financial assets or financial liabilities classified as at FVTPL	–	18
Losses on hedging instruments under fair value hedge	(25)	(11)
Gains on adjustment for hedged items under fair value hedge	26	11
	1	18

8. FINANCE COSTS

	2013 HK$ million	2012 HK$ million
Finance costs comprise:		
Interest on bank loans wholly repayable within five years	**32**	40
Interest on floating rate notes wholly repayable within five years	**3**	3
Interest on fixed rate notes wholly repayable within five years	**26**	29
Interest on fixed rate notes not wholly repayable within five years	**166**	89
Imputed interest on zero coupon notes not wholly repayable within five years	**17**	15
Total interest expenses	**244**	176
Other finance costs	**9**	8
Less: Amounts capitalised *(Note)*	**–**	(17)
	253	167
Net interest receipts on interest rate swaps and cross currency swaps	**(24)**	(27)
Net exchange (gains) losses on borrowings	**(40)**	6
Reclassification of net losses from hedging reserve on financial instruments designated as cash flow hedges	**52**	8
Medium Term Note Programme expenses	**1**	2
	242	156

Note:

For the year ended 31 December 2012, interest expenses had been capitalised to investment properties under re-development at an average interest rate of 3.16% per annum.

9. TAXATION

	2013 HK$ million	2012 HK$ million
Current tax		
Hong Kong profits tax		
– current year	**250**	224
– underprovision (overprovision) in prior years	**1**	(2)
	251	222
Deferred tax *(note 30)*	**121**	67
	372	289

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:

	2013 HK$ million	2012 HK$ million
Profit before taxation	**7,169**	10,660
Tax at Hong Kong profits tax rate of 16.5%	**1,183**	1,759
Tax effect of share of results of associates	**(51)**	(55)
Tax effect of expenses not deductible for tax purposes	**49**	78
Tax effect of income not taxable for tax purposes	**(812)**	(1,493)
Tax effect of estimated tax losses not recognised	**5**	5
Reversal of previously recognised taxable temporary differences	**(1)**	(1)
Utilisation of estimated tax losses previously not recognised	**(2)**	(2)
Underprovision (overprovision) in prior years	**1**	(2)
Taxation for the year	**372**	289

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

	2013 HK$ million	2012 HK$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**2**	2
Depreciation of property, plant and equipment	**16**	11
Gross rental income from investment properties including contingent rentals of HK$106 million (2012: HK$104 million)	**(2,775)**	(2,232)
Less:		
– Direct operating expenses arising from properties that generated rental income	**400**	418
– Direct operating expenses arising from properties that did not generate rental income	**5**	5
	(2,370)	(1,809)
Staff costs, comprising:		
– Directors' emoluments *(note 12)*	**32**	21
– Share-based payments	**4**	4
– Other staff costs	**218**	193
	254	218
Share of income tax of an associate (included in share of results of associates)	**119**	134

11. OTHER COMPREHENSIVE INCOME

	2013 HK$ million	2012 HK$ million
Other comprehensive income comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Equity investments designated as at FVTOCI:		
Net gains arising during the year	–	115
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	24	40
Deferred taxation arising on revaluation	(4)	(7)
	20	33
	20	148
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net (losses) gains arising during the year	(105)	12
Reclassification adjustments for net losses included in profit or loss	52	4
	(53)	16
Share of translation reserve of an associate	117	2
	64	18
Other comprehensive income for the year (net of tax)	84	166

Tax effect relating to other comprehensive income:

	2013			2012		
	Before-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million	Before-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million
Net gains arising from equity investments designated as at FVTOCI	–	–	–	115	–	115
Net (losses) gains arising from derivatives designated as cash flow hedges	(53)	–	(53)	16	–	16
Gains on revaluation of properties held for own use	24	(4)	20	40	(7)	33
Share of translation reserve of an associate	117	–	117	2	–	2
	88	(4)	84	173	(7)	166

12. DIRECTORS' EMOLUMENTS

	2013 HK$ million	2012 HK$ million
Directors' fees	2	2
Other emoluments		
Basic salaries, housing and other allowances	13	12
Bonus	10	2
Share-based payments	6	4
Retirement benefits scheme contributions	1	1
	32	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 2013, 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**
For the year ended 31 December 2013						
Executive Directors						
Irene Yun Lien LEE	–	4,931	4,952	2,715	15	**12,613**
Siu Chuen LAU	–	5,341	3,187	2,519	15	**11,062**
Wendy Wen Yee YUNG	–	3,042	1,638	1,251	281	**6,212**
Non-executive Directors						
Hans Michael JEBSEN	200	–	–	–	–	**200**
Anthony Hsien Pin LEE	260	–	–	–	–	**260**
Chien LEE	240	–	–	–	–	**240**
Michael Tze Hau LEE	240	–	–	–	–	**240**
Independent non-executive Directors						
Nicholas Charles ALLEN	340	–	–	–	–	**340**
Frederick Peter CHURCHOUSE	200	–	–	–	–	**200**
Philip Yan Hok FAN	350	–	–	–	–	**350**
Joseph Chung Yin POON	260	–	–	–	–	**260**
	2,090	13,314	9,777	6,485	311	**31,977**

	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
For the year ended 31 December 2012						
Executive Directors						
Irene Yun Lien LEE *(Note c)*	84	4,023	–	1,086	12	5,205
Siu Chuen LAU *(Note c)*	81	3,388	–	1,007	10	4,486
Gerry Lui Fai YIM *(Notes c & e)*	–	1,830	1,000	710	5	3,545
Wendy Wen Yee YUNG *(Note c)*	–	3,042	1,638	1,228	281	6,189
Non-executive Directors						
Hans Michael JEBSEN	200	–	–	–	–	200
Anthony Hsien Pin LEE	260	–	–	–	–	260
Chien LEE	240	–	–	–	–	240
Michael Tze Hau LEE	240	–	–	–	–	240
Independent non-executive Directors						
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

12. DIRECTORS' EMOLUMENTS continued

Notes:

a. Year 2013:

The Remuneration Committee met in February 2013 to approve the 2013 annual fixed base salary and determine the 2012 performance-based bonus of the Company's Executive Directors. The annual cash compensation of Irene Yun Lien Lee, Chairman, was revised to HK$8,218,493, based on market benchmark, and the jobholder's experience, qualification, and performance. Her annual base salary remained unchanged at HK$4,931,096 (making up 60% of the total package instead of 80% as in 2012). Annual fixed base salary of all Executive Directors remained the same for 2013. The stated bonus figures show the 2012 performance-based bonus approved by the Committee and paid to Executive Directors.

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 2013 is set out below:

	Board HK$'000	Audit Committee HK$'000	Remuneration Committee HK$'000	Strategy Committee HK$'000	Nomination Committee HK$'000	**2013 Total HK$'000**	2012 Total HK$'000
Executive Directors							
Irene Yun Lien LEE	–	–	–	–	–	**–**	84
Siu Chuen LAU	–	–	–	–	–	**–**	81
Wendy Wen Yee YUNG	–	–	–	–	–	**–**	–
Non-executive Directors							
Hans Michael JEBSEN	200	–	–	–	–	**200**	200
Anthony Hsien Pin LEE	200	60	–	–	–	**260**	260
Chien LEE	200	–	–	20	20	**240**	240
Michael Tze Hau LEE	200	–	40	–	–	**240**	240
Independent non-executive Directors							
Nicholas Charles ALLEN	200	100	–	20	20	**340**	337
Frederick Peter CHURCHOUSE	200	–	–	–	–	**200**	12
Philip Yan Hok FAN	200	60	50	20	20	**350**	349
Joseph Chung Yin POON	200	–	40	–	20	**260**	252
	1,600	220	130	60	80	**2,090**	2,055

c. Year 2012:

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.

d. Share-based payments are the fair values of share options granted to Executive Directors, which are determined at the date of grant and expensed over the vesting period (except where options are forfeited before vesting), regardless of whether the Executive 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.

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

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2012: three) were Directors of the Company, details of whose emoluments are included in note 12 of the Notes to the Financial Statements section. The emoluments of all of the five individuals with the highest emoluments for the year ended 31 December 2013 and 2012 were as follows:

	2013 HK$ million	2012 HK$ million
Basic salaries, housing and other allowances	**19**	16
Bonus	**11**	3
Share-based payments *(Note)*	**8**	5
	38	24

Note:

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

Their emoluments are within the following bands:

	Number of individuals	
	2013	2012
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**1**	2
HK$5,000,001 to HK$5,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**1**	1
HK$11,000,001 to HK$11,500,000	**1**	–
HK$12,500,001 to HK$13,000,000	**1**	–
	5	5

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.

	Number of individuals	
	2013	2012
HK$3,500,001 to HK$4,000,000	**1**	2
HK$4,000,001 to HK$4,500,000	**–**	1
HK$5,000,001 to HK$5,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**1**	1
HK$11,000,001 to HK$11,500,000	**1**	–
HK$12,500,001 to HK$13,000,000	**1**	–
	4	5

14. DIVIDENDS

(a) Dividends recognised as distribution during the year:

	2013 HK$ million	2012 HK$ million
2013 first interim dividend paid – HK22 cents per share	234	–
2012 first interim dividend paid – HK17 cents per share	–	180
2012 second interim dividend paid – HK78 cents per share	830	–
2011 final dividend paid – HK64 cents per share	–	679
	1,064	859

Scrip dividend alternatives were offered to the shareholders in respect of the 2012 first interim dividend and 2011 final dividend. These alternatives were accepted by the shareholders as follows:

	2013 HK$ million	2012 HK$ million
2013 first interim dividend (2012 first interim dividend):		
– Cash payment	234	135
– Share alternative	–	45
2012 second interim dividend (2011 final dividend):		
– Cash payment	830	634
– Share alternative	–	45
	1,064	859

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

	2013 HK$ million	2012 HK$ million
Second interim dividend (in lieu of a final dividend)		
– HK95 cents per share (2012: HK78 cents per share)	1,010	829

The second interim dividend is not recognised as a liability as at 31 December 2013 because it has been declared after the end of the reporting period. Such dividend will be accounted for as an appropriation of the retained profits in the year ending 31 December 2014.

The declared 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 2013 HK$ million	2012 HK$ million
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	**6,158**	9,955

	Number of shares 2013	2012
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,063,488,216**	1,061,276,321
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**365,948**	486,784
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,063,854,164**	1,061,763,105

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:

	2013 Profit HK$ million	2013 Basic earnings per share HK cents	2012 Profit HK$ million	2012 Basic earnings per share HK cents
Profit for the year attributable to owners of the Company	**6,158**	**579.04**	9,955	938.02
Change in fair value of investment properties	**(4,575)**	**(430.19)**	(8,533)	(804.03)
Effect of non-controlling interests' shares	**532**	**50.02**	323	30.43
Share of change in fair value of investment properties (net of deferred taxation) of an associate	**(72)**	**(6.77)**	(123)	(11.59)
Underlying Profit	**2,043**	**192.10**	1,622	152.83
Recurring Underlying Profit	**2,043**	**192.10**	1,622	152.83

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 asset; 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 used in calculating the adjusted earnings per share are the same as those detailed above for basic earnings per share.

16. INVESTMENT PROPERTIES

	The Group	
	2013 HK$ million	2012 HK$ million
Fair Value		
At 1 January	**60,022**	49,969
Additions	**733**	1,510
Transfer from property, plant and equipment	**6**	10
Transfer to property, plant and equipment	**(14)**	–
Change in fair value recognised in profit or loss – unrealised	**4,575**	8,533
At 31 December	**65,322**	60,022

The carrying amount of investment properties shown above comprises:

	The Group	
	2013 HK$ million	2012 HK$ million
Land in Hong Kong:		
– Medium-term lease	**7,716**	7,740
– Long lease	**57,606**	52,282
	65,322	60,022

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.

Fair value measurements and valuation processes

The fair value of the Group's investment properties at 31 December 2013 and 2012 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. The valuation was derived from the basis of capitalisation of net income with due allowance for the reversionary income potential. In estimating the fair value of the investment properties, including properties with an intention to re-develop, the management of the Group has considered the highest and best use of the investment properties upon application of HKFRS 13 "Fair Value Measurement". There has been no change to the valuation technique during the year.

All of the fair value measurements of the Group's investment properties were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out in note 4 of the Financial Risk Management section.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works with Knight Frank Petty Limited to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

16. INVESTMENT PROPERTIES continued

Fair value measurements using significant unobservable inputs (Level 3)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of the Group's investment properties by operating and reportable segment.

	The Group			
	Retail HK$ million	Office HK$ million	Residential HK$ million	Total HK$ million
At 1 January 2013	28,906	22,622	8,494	60,022
Additions	679	44	10	733
Transfer from property, plant and equipment	–	6	–	6
Transfer to property, plant and equipment	–	(14)	–	(14)
Change in fair value recognised in profit or loss				
– unrealised	3,066	1,542	(33)	4,575
At 31 December 2013	**32,651**	**24,200**	**8,471**	**65,322**

Information about fair value measurements using significant unobservable inputs (Level 3)

The following table shows the valuation techniques used in the determination of fair values for investment properties by operating and reportable segment and unobservable inputs used in the valuation models.

The Group					
Description	Fair value as at 31 December 2013 HK$ million	Valuation techniques	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
Retail	32,651	Income capitalisation approach	(i) Capitalisation rate	5.00% – 5.25%	The higher the capitalisation rate, the lower the fair value.
			(ii) Market rent	HK$132 per square foot	The higher the market rent, the higher the fair value.
Office	24,200	Income capitalisation approach	(i) Capitalisation rate	4.25% – 5.00%	The higher the capitalisation rate, the lower the fair value.
			(ii) Market rent	HK$46 per square foot	The higher the market rent, the higher the fair value.
Residential	8,471	Income capitalisation approach	(i) Capitalisation rate	3.75% – 4.00%	The higher the capitalisation rate, the lower the fair value.
			(ii) Market rent	HK$34 per square foot	The higher the market rent, the higher the fair value.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK$ million *(Note)*	Furniture, fixtures and equipment HK$ million	Computers HK$ million	Motor vehicles HK$ million	Total HK$ million
The Group					
Cost or valuation					
At 1 January 2012	512	66	35	1	614
Additions	–	25	5	1	31
Transfer to investment properties	(10)	–	–	–	(10)
Surplus on revaluation	37	–	–	–	37
At 31 December 2012	539	91	40	2	672
Additions	–	4	3	1	8
Disposals	–	(1)	–	(1)	(2)
Transfer from investment properties	14	–	–	–	14
Transfer to investment properties	(6)	–	–	–	(6)
Surplus on revaluation	20	–	–	–	20
At 31 December 2013	**567**	**94**	**43**	**2**	**706**
Comprising:					
At cost	–	94	43	2	139
At valuation 2013	567	–	–	–	567
	567	94	43	2	706
Accumulated depreciation					
At 1 January 2012	–	57	26	1	84
Provided for the year	3	5	3	–	11
Eliminated on revaluation	(3)	–	–	–	(3)
At 31 December 2012	–	62	29	1	92
Provided for the year	4	8	4	–	16
Eliminated on disposals	–	(1)	–	(1)	(2)
Eliminated on revaluation	(4)	–	–	–	(4)
At 31 December 2013	**–**	**69**	**33**	**–**	**102**
Carrying Amounts					
At 31 December 2013	**567**	**25**	**10**	**2**	**604**
At 31 December 2012	539	29	11	1	580

17. PROPERTY, PLANT AND EQUIPMENT continued

	Furniture, fixtures and equipment HK$ million	Computers HK$ million	Motor vehicles HK$ million	Total HK$ million
The Company				
Cost				
At 1 January 2012	25	31	1	57
Additions	15	–	–	15
At 31 December 2012	40	31	1	72
Disposal	–	–	(1)	(1)
At 31 December 2013	**40**	**31**	**–**	**71**
Accumulated depreciation				
At 1 January 2012	23	23	1	47
Provided for the year	1	2	–	3
At 31 December 2012	24	25	1	50
Provided for the year	4	2	–	6
Eliminated on disposal	–	–	(1)	(1)
At 31 December 2013	**28**	**27**	**–**	**55**
Carrying amounts				
At 31 December 2013	**12**	**4**	**–**	**16**
At 31 December 2012	16	6	–	22

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, whichever is shorter
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The carrying amount of the Group's leasehold land shown above represents the property situated in Hong Kong with long lease.

Note:

Fair value measurements and valuation processes

The fair value of the Group's leasehold land and buildings in Hong Kong at 31 December 2013 and 2012 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 leasehold land and buildings in Hong Kong have been valued individually, on market value basis, which conforms to Hong Kong Institute of Surveyors Valuation Standards. The valuation was derived from the basis of capitalisation of net income with due allowance for the reversionary income potential. In estimating the fair value of the properties, the management of the Group has considered the highest and best use of the properties upon application of HKFRS 13 "Fair Value Measurement". There has been no change to the valuation technique during the year.

All of the fair value measurements of the Group's leasehold land and buildings in Hong Kong were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out in note 4 of the Financial Risk Management section.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works with Knight Frank Petty Limited to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

17. PROPERTY, PLANT AND EQUIPMENT continued

Information about fair value measurements using significant unobservable inputs (Level 3)

The following table shows the valuation techniques used in the determination of fair values for the Group's leasehold land and buildings in Hong Kong and unobservable inputs used in the valuation models.

The Group					
Description	Fair value as at 31 December 2013 HK$ million	Valuation Techniques	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
Leasehold land and buildings in Hong Kong	567	Income capitalisation approach	(i) Capitalisation rate	4.25% – 5.00%	The higher the capitalisation rate, the lower the fair value.
			(ii) Market rent	HK$55 per square foot	The higher the market rent, the higher the fair value.

The gains of HK$24 million (2012: HK$40 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$185 million (2012: HK$179 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK$31 million (2012: HK$28 million) and accumulated depreciation of HK$24 million (2012: HK$22 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$2 million (2012: 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	
	2013 HK$ million	2012 HK$ million
Investments in subsidiaries comprise:		
Unlisted shares, at cost	–	–
Deemed capital contribution in subsidiaries *(Note)*	**1,471**	1,603
	1,471	1,603

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.

18. INVESTMENTS IN SUBSIDIARIES continued

The table below lists the principal subsidiaries of the Group at 31 December 2013 and 2012:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company directly	indirectly	Principal activities
Admore Investments Limited	Hong Kong	HK$2	100%	–	Investment holding
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 of the Notes to the Financial Statements section, none of the subsidiaries had issued any debt securities at the end of the reporting period.

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

18. INVESTMENTS IN SUBSIDIARIES continued

Barrowgate Limited

	2013 HK$ million	2012 HK$ million
Current assets	112	84
Non-current assets	9,357	7,780
Current liabilities	(1,030)	(1,037)
Non-current liabilities	(196)	(118)
Equity attributable to owners of the Company	5,388	4,385
Non-controlling interests	2,855	2,324
Turnover	463	390
Profit and total comprehensive income for the year	1,844	1,201
Profit and total comprehensive income attributable to owner of the Company	1,205	785
Profit and total comprehensive income attributable to the non-controlling interests	639	416
Dividends paid to non-controlling interests	108	83
Net cash inflows from operating activities	360	294
Net cash outflows from investing activities	(27)	(26)
Cash outflows from financing activities	(310)	(240)
Net cash inflows	23	28

19. INVESTMENTS IN ASSOCIATES

	The Group	
	2013 HK$ million	2012 HK$ million
Cost of unlisted investments	2	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	4,179	3,753
	4,181	3,755
Loan to an associate	116	125
Less: Loss allocated in excess of cost of investments	(116)	(121)
	–	4
	4,181	3,759

Loan to an associate of HK$116 million (2012: HK$125 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.

19. INVESTMENTS IN ASSOCIATES continued

Details of the Group's associates at 31 December 2013 and 2012 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 *(Note)*	Private limited company	Hong Kong	Ordinary share of HK$5,000,000	26.3%*	Investment holding
Shanghai Kong Hui Property Development Co., Ltd *(Note)*	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 *(Note)*	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

^ The company is under liquidation as at 31 December 2013

Note:

Shanghai Kong Hui Property Development Co., Ltd and Shanghai Grand Gateway Plaza Property Management Co., Ltd are non-wholly owned subsidiaries of Country Link Enterprises Limited, together known as "Country Link".

The summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs. The associate is accounted for using the equity method in these consolidated financial statements.

Country Link

	2013 HK$ million	2012 HK$ million
Current assets	**3,048**	1,943
Non-current assets	**18,660**	17,691
Current liabilities	**(902)**	(795)
Non-current liabilities	**(3,960)**	(3,678)
Turnover	**1,526**	1,451
Profit for the year	**1,248**	1,358
Other comprehensive income for the year	**474**	5
Total comprehensive income for the year	**1,722**	1,363
Group's share of results of associates for the year	**309**	334
Group's share of other comprehensive income of associates for the year	**117**	2

19. INVESTMENTS IN ASSOCIATES continued

Country Link continued

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate that is material to the Group recognised in the consolidated financial statements:

	2013 HK$ million	2012 HK$ million
Net assets of the associate	16,846	15,161
Non-controlling interests of the associate	(944)	(877)
Net assets of the associate after deducting non-controlling interests of the associate	15,902	14,284
Proportion of the Group's ownership interest in the associate	26.3%	26.3%
Group's share of net assets of the associate	4,184	3,758
Others	(3)	(3)
Carrying amount of the Group's interest in the associate	4,181	3,755

Information of the associate that is not individually material

	2013 HK$ million	2012 HK$ million
Group's share of loss, other comprehensive expenses and total comprehensive expenses for the year	–	–
Carrying amount of the Group's interest in the associate	–	4

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	
	2013 HK$ million	2012 HK$ million
Within 1 year	77	218
More than 1 year but not exceeding 5 years	81	160
	158	378

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. 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			
	2013		2012	
	Notional amount HK$ million	Fair value HK$ million	Notional amount HK$ million	Fair value HK$ million
Within 1 year	78	77	213	218
More than 1 year but not exceeding 5 years	80	81	158	160
	158	158	371	378

21. TERM NOTES

	The Group	
	2013 HK$ million	2012 HK$ million
Term notes, at amortised cost, comprise:		
– Debt securities listed in Hong Kong	**110**	19
– Debt securities listed in overseas	**168**	161
– Unlisted debt securities	**924**	730
Total	**1,202**	910
Analysed for reporting purposes as:		
Current assets	**580**	383
Non-current assets	**622**	527
	1,202	910

As at 31 December 2013, the effective yield of the debt securities ranged from 1.11% to 3.27% (2012: 1.05% to 3.27%) per annum, payable quarterly, semi-annually or annually, and the securities will mature from January 2014 to June 2016 (2012: from February 2013 to December 2014). At the end of the reporting period, none of these assets were past due but not impaired.

22. EQUITY INVESTMENTS

	The Group	
	2013 HK$ million	2012 HK$ million
Unlisted investments:		
– Overseas equity securities, at fair value	**1**	1

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	
	2013 HK$ million	2012 HK$ million	**2013 HK$ million**	2012 HK$ million
Other financial assets				
Derivatives under hedge accounting:				
Fair value hedges				
– Interest rate swaps	**–**	–	**30**	55
Financial assets measured at FVTPL:				
Other derivatives classified as held for trading (not under hedge accounting):				
– Forward foreign exchange contracts	**–**	2	**–**	–
Club debentures	**–**	–	**2**	2
	–	2	**2**	2
Total	**–**	2	**32**	57
Other financial liabilities				
Derivatives under hedge accounting:				
Cash flow hedges				
– Cross currency swaps	**45**	1	**68**	4
– Interest rate swaps	**3**	4	**6**	21
Total	**48**	5	**74**	25

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									
	2013					2012				
	Average exchange rate*	Foreign currency	Notional amount million	Notional amount HK$ million	Fair value HK$ million	Average exchange rate*	Foreign currency	Notional amount million	Notional amount HK$ million	Fair value HK$ million
Forward foreign exchange contracts										
Sell US dollars ("USD") *(Note a)*										
Within 1 year	7.7426	USD	25	194	–	–	–	–	–	–
More than 1 year but not exceeding 5 years	7.7435	USD	12	89	–	7.7309	USD	10	77	–
	7.7429	USD	37	283	–	7.7309	USD	10	77	–
Cross currency swaps										
Hedging interest and principal of Australian dollars ("AUD") bank loan *(Note b)*										
Within 1 year	8.1497	AUD	37	300	(45)	–	–	–	–	–
More than 1 year but not exceeding 5 years	–	–	–	–	–	8.1497	AUD	37	300	(4)
	8.1497	AUD	37	300	(45)	8.1497	AUD	37	300	(4)
Hedging interest and principal of USD bank loans *(Note c)*										
Within 1 year	–	–	–	–	–	7.8000	USD	26	200	(1)
Hedging interest and principal of USD fixed rate notes *(Note d)*										
More than 5 years	7.7519	USD	300	2,326	(68)	–	–	–	–	–
Total				2,909	(113)				577	(5)

* 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) The Group used HK$283 million (2012: HK$77 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.

(b) The Group used HK$300 million (2012: HK$300 million) cross currency swap to convert AUD interest and principal of AUD37 million (2012: AUD37 million) bank loan into HKD.

(c) As at 31 December 2012, The Group used HK$200 million cross currency swap to convert USD interest and principal of US$26 million bank loan into HKD. The swap matured in July 2013.

(d) The Group used HK$2,326 million (2012: nil) cross currency swap to convert USD interest and principal of US$300 million (2012: nil) fixed rate notes into HKD.

As at 31 December 2013, net cumulative fair value losses of HK$68 million (2012: gains of HK$1 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 losses of HK$36 million (2012: gains of HK$18 million) on forward foreign exchange contracts and cross currency swaps were reclassified from hedging reserve to profit or loss as finance costs.

For the year ended 31 December 2012, gains of HK$4 million on forward foreign exchange contracts were reclassified from hedging reserves 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 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 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 at the end of the reporting period are as follows:

	The Group					
	2013			2012		
	Average interest rate*	Notional amount HK$ million	Fair value HK$ million	Average interest rate*	Notional amount HK$ million	Fair value HK$ million
Interest rate swaps						
Hedging interest of HKD bank loans *(Note a)*						
Within 1 year	–	–	–	3.12%	325	(4)
More than 1 year but not exceeding 5 years	3.65%	200	(6)	3.65%	200	(13)
	3.65%	200	(6)	3.32%	525	(17)
Hedging floating-interest –rate payments of financial instruments *(Note b)*						
Within 1 year	2.99%	200	(3)	–	–	–
More than 1 year but not exceeding 5 years	–	–	–	2.99%	200	(8)
	2.99%	200	(3)	2.99%	200	(8)
Total		400	(9)		725	(25)

* 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.

Notes:

(a) The Group used HK$200 million (2012: HK$525 million) interest rate swaps to manage its exposure to interest rate changes of the monthly or quarterly interest payments of HKD bank loans.

(b) The Group used HK$200 million (2012: HK$200 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 2013, cumulative fair value losses of HK$9 million (2012: HK$25 million) from the interest rate 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$16 million (2012: HK$26 million) on interest rate swaps were reclassified from hedging reserve to profit or loss as finance costs.

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

(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					
	2013			2012		
	Average interest rate*	Notional amount HK$ million	Fair value HK$ million	Average interest rate*	Notional amount HK$ million	Fair value HK$ million
Interest rate swaps *(Note)*						
More than 1 year but not exceeding 5 years	**4.18%**	**300**	**17**	4.18%	300	29
More than 5 years	**4.50%**	**308**	**13**	4.50%	293	26
	4.34%	**608**	**30**	4.33%	593	55

* 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 (2012: 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 (2012: HK$300 million) fixed rate notes. The Group also designated a fixed-to-floating interest rate swap with notional amount of HK$308 million (2012: HK$293 million) as at 31 December 2013 to hedge the zero coupon notes with notional 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 2013 was adjusted by cumulative losses of HK$17 million (2012: HK$29 million) while the carrying amount of the zero coupon notes as at 31 December 2013 was adjusted by cumulative losses of HK$13 million (2012: HK$27 million). The changes in fair values of the notes for the hedged risk were included in profit or loss at the same time that the changes in fair value of the swaps were included in profit or loss.

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

(c) Financial assets measured at FVTPL

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	
	2013 HK$ million	2012 HK$ million
Accounts receivable	**10**	13
Interest receivable	**80**	27
Prepayments in respect of investment properties	**47**	59
Other receivables and prepayments	**334**	302
Total	**471**	401
Analysed for reporting purposes as:		
Current assets	**241**	158
Non-current assets	**230**	243
	471	401

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$10 million (2012: HK$13 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

At the end of the reporting period, none of the accounts receivable were past due but not impaired.

25. AMOUNTS DUE FROM/TO SUBSIDIARIES

	The Company	
	2013 HK$ million	2012 HK$ million
Amounts due from subsidiaries are classified as:		
Current assets *(Note a)*	**9,167**	8,984
Non-current assets *(Note b)*	**3,711**	3,797
	12,878	12,781
Amounts due to subsidiaries *(Note a)*	**1,275**	1,337

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

(b) 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	
	2013 HK$ million	2012 HK$ million
Time deposits	**4,042**	2,158
Cash and bank balances	**81**	153
Cash and deposits with banks shown in the consolidated statement of financial position	**4,123**	2,311
Less: Time deposits with original maturity over three months	**(3,502)**	(1,348)
Cash and cash equivalents shown in the consolidated statement of cash flows	**621**	963

The Company's cash and bank balances represent cash on hand and bank balances with original maturity of three months or less. As at 31 December 2012, time deposits of HK$55 million with original maturity over three months were held by the Company.

Time deposits, cash and bank balances include bank deposits carrying effective interest rates ranging from 0.08% to 3.75% (2012: 0.1% to 3.45%) per annum.

27. ACCOUNTS PAYABLE AND ACCRUALS

	The Group	
	2013 HK$ million	2012 HK$ million
Accounts payable	**162**	198
Interest payable	**83**	32
Other payables	**255**	239
	500	469

At the end of the reporting period, accounts payable of the Group with carrying amount of HK$162 million (2012: HK$198 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:

	The Group			
	Current		Non-current	
	2013 HK$ million	2012 HK$ million	**2013 HK$ million**	2012 HK$ million
Unsecured bank loans	**855**	699	**1,100**	1,996
Floating rate notes	**200**	–	**–**	200
Fixed rate notes	**–**	–	**5,022**	2,722
Zero coupon notes	**–**	–	**327**	324
	1,055	699	**6,449**	5,242

In the current year, the average finance costs (excluding net exchange gains or losses) of the Group's total borrowings calculated based on their contracted interest rates was 3.1% (2012: 3.0%). 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 2.9% (2012: 2.7%). As at 31 December 2013, the floating rate debt ratio relative to gross total debt after considering the hedges was 32.0% (2012: 47.0%).

(a) Unsecured bank loans

The unsecured bank loans of HK$1,955 million (2012: HK$2,695 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	
	2013 HK$ million	2012 HK$ million
Within 1 year	**855**	699
More than 1 year, but not exceeding 2 years	**850**	896
More than 2 years, but not exceeding 5 years	**250**	1,100
	1,955	2,695

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 0.69% to 3.52% (2012: 0.70% to 4.04%) 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) of the Notes to the Financial Statements section, during the years ended 31 December 2013 and 2012, cross currency swaps and interest rate swaps were designated as cash flow hedges to hedge the foreign exchange and interest rate risks of part of the Group's unsecured bank loans.

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 1.36% (2012: 1.38%) 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	
	2013 HK$ million	2012 HK$ million
Fixed rate notes – principal amount	**5,005**	2,693
Add: Net losses attributable to hedged risks	**17**	29
	5,022	2,722

Details of the Group's fixed rate notes at 31 December 2013 and 2012 are as follows:

Principal amount	Contracted interest rate per annum	Coupon payment term	Issue date	Maturity date
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
US$300 million	3.50%	semi-annual basis	January 2013	January 2023

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 of the Notes to the Financial Statements section, during the year ended 31 December 2013 and 2012, interest rate swaps and cross currency swaps were used to hedge or manage the foreign exchange and interest rate risks of the Group's fixed rate notes.

The net cumulative losses of HK$17 million (2012: HK$29 million) represented the change in fair value attributable to the hedged interest rate risk of the HK$300 million (2012: HK$300 million) fixed rate notes under fair value hedge.

(d) Zero coupon notes

	The Group	
	2013 HK$ million	2012 HK$ million
Zero coupon notes	**314**	297
Add: Loss attributable to hedged risk	**13**	27
	327	324

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.

29. BORROWINGS continued

(d) Zero coupon notes continued

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 losses of HK$13 million (2012: HK$27 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 recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$ million	Revaluation of properties HK$ million	Tax losses HK$ million	Total HK$ million
The Group				
At 1 January 2012	327	54	(21)	360
Charge (credit) to profit or loss *(note 9)*	135	–	(68)	67
Charge to other comprehensive income	–	7	–	7
At 31 December 2012	462	61	(89)	434
Charge to profit or loss *(note 9)*	56	–	65	121
Charge to other comprehensive income	–	4	–	4
At 31 December 2013	**518**	**65**	**(24)**	**559**

At the end of the reporting period, the Group has unused estimated tax losses of HK$697 million (2012: HK$1,072 million), of which HK$290 million (2012: HK$684 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$147 million (2012: HK$538 million) of such losses. No deferred tax asset has been recognised in respect of the estimated tax losses of HK$550 million (2012: HK$534 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. For the year ended 31 December 2012, deferred tax liability of the Company had been recognised in respect of the accelerated tax depreciation of HK$1 million. At the end of the reporting period, the Company has deferred tax liability of HK$1 million (2012: HK$1 million).

31. SHARE CAPITAL

	Number of shares		Share capital	
	2013	2012	**2013 HK$ million**	2012 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	**1,063,007,056**	1,059,754,415	**5,315**	5,299
Issue of shares pursuant to scrip dividend schemes *(Note a)*	**–**	2,745,307	**–**	14
Issue of shares under share option scheme *(Note b)*	**625,987**	507,334	**3**	2
At 31 December	**1,063,633,043**	1,063,007,056	**5,318**	5,315

31. SHARE CAPITAL continued

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.

(b) Issue of shares under share option schemes

During the year, options to subscribe for shares of the Company for a total of 625,987 shares (2012: 507,334 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 38 of the Notes to the Financial Statements section.

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 2012	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)
At 31 December 2012	2,022	14	276	100	5,461	7,873
Issue of shares under share option schemes	16	(4)	–	–	–	12
Recognition of equity-settled share-based payments	–	10	–	–	–	10
Profit for the year	–	–	–	–	968	968
Dividends paid during the year *(note 14)*	–	–	–	–	(1,064)	(1,064)
At 31 December 2013	**2,038**	**20**	**276**	**100**	**5,365**	**7,799**

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 2013 amounted to HK$5,465 million (2012: HK$5,561 million), being its general reserve and retained profits at that date.

33. 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$8 million (2012: HK$7 million).

34. CONTINGENT LIABILITIES

At the end of the reporting period, there were contingent liabilities in respect of the following:

	The Group		The Company	
	2013 HK$ million	2012 HK$ million	**2013 HK$ million**	2012 HK$ million
Corporate guarantee to note holders				
– for issue of floating rate notes	**–**	–	**200**	200
– for issue of fixed rate notes	**–**	–	**5,026**	2,700
– for issue of zero coupon notes	**–**	–	**430**	430
	–	–	**5,656**	3,330
Guarantees to banks for providing financing facilities to subsidiaries	**–**	–	**2,000**	2,700

35. 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	
	2013 HK$ million	2012 HK$ million	**2013 HK$ million**	2012 HK$ million
Authorised but not contracted for	**410**	336	**–**	–
Contracted but not provided for	**258**	214	**–**	–

36. LEASE COMMITMENTS

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	The Group	
	2013 HK$ million	2012 HK$ million
Within one year	**2,582**	2,260
In the second to fifth year inclusive	**4,988**	4,315
Over five years	**1,751**	1,890
	9,321	8,465

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.

At the end of the reporting period, the Group and the Company as lessee had no commitment under non-cancellable operating lease.

37. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions and balances with related parties

The Group has the following transactions with related parties during the year and has the following balances with them at the end of the reporting period:

	The Group			
	Gross rental income received from		Amount due to non-controlling interests	
	2013 HK$ million	2012 HK$ million	**2013 HK$ million**	2012 HK$ million
Related company controlled by a shareholder *(Note a)*	**3**	3	**–**	–
Related companies controlled by Directors *(Note b (i) & (ii))*	**30**	26	**94**	94
Non-controlling shareholder of a subsidiary *(Note c (i) & (ii))*	**21**	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 40.72% (2012: 40.75%) 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	
	2013 HK$ million	2012 HK$ million
Amounts due from subsidiaries	**13,054**	13,029
Less: Allowances on amounts due therefrom	**(176)**	(248)
	12,878	12,781
Amounts due to subsidiaries	**1,275**	1,337

Details of amounts due from/to subsidiaries are disclosed in note 25 of the Notes to the Financial Statements section.

(b) Compensation of key management personnel

The remuneration of key management personnel of the Group and the Company (being Directors and an officer) are as follows.

	2013 HK$ million	2012 HK$ million
Directors' fees, salaries and other short-term employee benefits	**29**	21
Share-based payments	**7**	4
Retirement benefits scheme contributions	**–**	–
	36	25

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.

38. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

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 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.

(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.

38. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options

The following table discloses movements of the Company's share options held by the Directors and eligible employees during the current year:

Name	Date of grant	Exercise price HK$	Exercise period *(Note a)*	Balance as at 1.1.2013	Changes during the year: Granted	Changes during the year: Exercised	Changes during the year: Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2013
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	–	–	261,000
	7.3.2013	39.92 *(Note c)*	7.3.2014 – 6.3.2023	–	265,000	–	–	265,000
Siu Chuen LAU	14.5.2012	33.50	14.5.2013 – 13.5.2022	242,000	–	(80,666) *(Note d)*	–	161,334
	7.3.2013	39.92 *(Note c)*	7.3.2014 – 6.3.2023	–	246,000	–	–	246,000
Wendy Wen Yee YUNG	30.3.2007	21.25	30.3.2008 – 29.3.2017	95,000	–	(95,000) *(Note e)*	–	–
	31.3.2008	21.96	31.3.2009 – 30.3.2018	100,000	–	(100,000) *(Note e)*	–	–
	11.3.2009	11.76	11.3.2010 – 10.3.2019	100,000	–	(100,000) *(Note e)*	–	–
	11.3.2010	22.10	11.3.2011 – 10.3.2020	185,000	–	(185,000) *(Note e)*	–	–
	10.3.2011	35.71	10.3.2012 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.79	9.3.2013 – 8.3.2022	113,000	–	–	–	113,000
	7.3.2013	39.92 *(Note c)*	7.3.2014 – 6.3.2023	–	106,700	–	–	106,700
Eligible employees *(Note f)*	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	–	–	17,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	170,000	–	(6,000) *(Note g)*	–	164,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	272,668	–	(21,334) *(Note h)*	–	251,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	261,000	–	(13,659) *(Note i)*	(1,340)	246,001
	30.3.2012	31.61	30.3.2013 – 29.3.2022	372,000	–	(24,328) *(Note j)*	(11,337)	336,335
	28.3.2013	39.20 *(Note k)*	28.3.2014 – 27.3.2023	–	377,000	–	(15,000)	362,000
				2,291,668	**994,700**	**(625,987)**	**(27,677)**	**2,632,704**

38. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Notes:

(a) 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. In this table, "exercise period" begins with the 1st anniversary of the grant date.

(b) The options lapsed during the year upon resignations of certain eligible employees.

(c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 6 March 2013) was HK$39.55.

(d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$37.90.

(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$39.45.

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

(g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$32.65.

(h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$37.54.

(i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$38.26.

(j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$36.97.

(k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 27 March 2013) was HK$38.60.

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.

38. 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$	Exercise period *(Note a)*	Balance as at 1.1.2012	Changes during the year: Granted	Changes during the year: Exercised	Changes during the year: Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2012
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.500 *(Note c)*	14.5.2013 – 13.5.2022	–	261,000	–	–	261,000
Siu Chuen LAU	14.5.2012	33.500 *(Note c)*	14.5.2013 – 13.5.2022	–	242,000	–	–	242,000
Gerry Lui Fai YIM *(Note d)*	1.12.2009	22.800	1.12.2010 – 30.11.2019	218,000	–	(145,333) *(Note e)*	(72,667)	–
	10.3.2011	35.710	10.3.2012 – 9.3.2021	217,000	–	–	(217,000)	–
	9.3.2012	33.790 *(Note f)*	9.3.2013 – 8.3.2022	–	239,000	–	(239,000)	–
Wendy Wen Yee YUNG	30.3.2007	21.250	30.3.2008 – 29.3.2017	95,000	–	–	–	95,000
	31.3.2008	21.960	31.3.2009 – 30.3.2018	100,000	–	–	–	100,000
	11.3.2009	11.760	11.3.2010 – 10.3.2019	100,000	–	–	–	100,000
	11.3.2010	22.100	11.3.2011 – 10.3.2020	185,000	–	–	–	185,000
	10.3.2011	35.710	10.3.2012 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.790 *(Note f)*	9.3.2013 – 8.3.2022	–	113,000	–	–	113,000
Eligible employees *(Note g)*	31.3.2008	21.960	31.3.2009 – 30.3.2018	23,000	–	(6,000) *(Note h)*	–	17,000
	2.5.2008	23.900	2.5.2009 – 1.5.2018	95,000	–	(95,000) *(Note i)*	–	–
	2.10.2008	20.106	2.10.2009 – 1.10.2018	85,000	–	(85,000) *(Note j)*	–	–
	31.3.2009	13.300	31.3.2010 – 30.3.2019	262,668	–	(69,668) *(Note k)*	(23,000)	170,000
	31.3.2010	22.450	31.3.2011 – 30.3.2020	441,001	–	(102,333) *(Note l)*	(66,000)	272,668
	31.3.2011	32.000	31.3.2012 – 30.3.2021	370,000	–	(4,000) *(Note m)*	(105,000)	261,000
	30.3.2012	31.610 *(Note n)*	30.3.2013 – 29.3.2022	–	479,000	–	(107,000)	372,000
				2,294,669	1,334,000	(507,334)	(829,667)	2,291,668

38. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Notes:

(a) 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. In this table, "exercise period" begins with the 1st anniversary of the grant date.

(b) The options lapsed during the year upon resignations of a Director and certain eligible employees.

(c) 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.

(d) 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.

(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$33.60.

(f) 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.

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

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

38. 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$10 million (2012: HK$8 million) in relation to share options granted by the Company, of which HK$6 million (2012: HK$4 million) related to the Directors (see note 12), with a corresponding adjustment recognised in the Group's share options reserve.

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

The inputs into the Model were as follows:

Date of grant	**28.3.2013**	**7.3.2013**	14.5.2012	30.3.2012	9.3.2012
Closing share price at the date of grant	**HK$39.200**	**HK$39.850**	HK$33.500	HK$31.100	HK$33.050
Exercise price	**HK$39.200**	**HK$39.920**	HK$33.500	HK$31.610	HK$33.790
Risk free rate *(Note a)*	**0.515%**	**0.533%**	0.449%	0.606%	0.535%
Expected life of option *(Note b)*	**5 years**	**5 years**	5 years	5 years	5 years
Expected volatility *(Note c)*	**41.272%**	**41.256%**	40.715%	40.389%	40.197%
Expected dividend per annum *(Note d)*	**HK$0.768**	**HK$0.768**	HK$0.698	HK$0.698	HK$0.698
Estimated fair values per share option	**HK$12.051**	**HK$12.439**	HK$10.212	HK$9.210	HK$9.740

Notes:

(a) 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.

(b) 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.

(c) Expected volatility: being the appropriate historical volatility of closing prices of the shares of the Company in the past 5 years immediately before the date of grant.

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

Financial Risk Management

For the year ended 31 December 2013

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, 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, 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 34 of the Notes to the Financial Statements section.

For rents receivable from tenants, credit checks are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

For derivative financial instruments, principal-protected investments, term notes, time deposits and bank balances, the Group and the Company only deal with financial institutions and invest in debt securities issued by issuers that have strong credit ratings to mitigate counterparty risk. In order to limit exposure to each financial institution and debt securities issuer, 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; (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.

	2013		2012	
Category of counterparty	**Number of counterparty**	**Exposure HK$ million**	Number of counterparty	Exposure HK$ million
Credit rating of AA- or above or note issuing banks	**5**	**80 to 781**	5	140 to 355
Credit rating BBB- to A+	**25**	**1 to 489**	27	1 to 290

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
The Group						
As at 31 December 2013						
Non-derivative financial liabilities						
Accounts payable and accruals	**(500)**	**(500)**	**(500)**	**–**	**–**	**–**
Rental deposits from tenants	**(800)**	**(800)**	**(190)**	**(278)**	**(320)**	**(12)**
Amounts due to non-controlling interests	**(327)**	**(327)**	**(327)**	**–**	**–**	**–**
Unsecured bank loans *(Note)*	**(1,955)**	**(2,002)**	**(877)**	**(870)**	**(255)**	**–**
Floating rate notes *(Note)*	**(200)**	**(203)**	**(203)**	**–**	**–**	**–**
Fixed rate notes *(Note)*	**(5,022)**	**(6,621)**	**(195)**	**(592)**	**(672)**	**(5,162)**
Zero coupon notes *(Note)*	**(327)**	**(430)**	**–**	**–**	**–**	**(430)**
	(9,131)	**(10,883)**	**(2,292)**	**(1,740)**	**(1,247)**	**(5,604)**
As at 31 December 2012						
Non-derivative financial liabilities						
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 *(Note)*	(2,695)	(2,766)	(735)	(919)	(1,112)	–
Floating rate notes *(Note)*	(200)	(206)	(3)	(203)	–	–
Fixed rate notes *(Note)*	(2,722)	(3,636)	(114)	(114)	(698)	(2,710)
Zero coupon notes *(Note)*	(324)	(430)	–	–	–	(430)
	(7,435)	(8,532)	(1,838)	(1,420)	(2,116)	(3,158)

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk continued

	Carrying amount HK$ million	Total contractual undiscounted cash flow HK$ million	Within 1 year or on demand HK$ million	More than 1 year but not exceeding 2 years HK$ million	More than 2 years but not exceeding 5 years HK$ million	More than 5 years HK$ million
The Company						
As at 31 December 2013						
Non-derivative financial liabilities						
Other payable and accruals	(44)	(44)	(44)	–	–	–
Amounts due to subsidiaries	(1,275)	(1,275)	(1,275)	–	–	–
	(1,319)	(1,319)	(1,319)	–	–	–
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)	–	–	–
	(1,372)	(1,372)	(1,372)	–	–	–

Note:

These amounts also represent the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amounts if these 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.

The following table details the Group's remaining contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that settle on a net basis and undiscounted gross inflows (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than HKD, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK$ million	Total contractual undiscounted cash flow HK$ million	Within 1 year or on demand HK$ million	More than 1 year but not exceeding 2 years HK$ million	More than 2 years but not exceeding 5 years HK$ million	More than 5 years HK$ million
The Group						
As at 31 December 2013						
Derivative settled net						
Interest rate swaps	21	105	14	20	45	26
Derivative settled gross						
Forward foreign exchange contracts	–					
Outflow		(283)	(194)	–	(89)	–
Inflow		283	194	–	89	–
Cross currency swaps	(113)					
Outflow		(3,415)	(388)	(85)	(255)	(2,687)
Inflow		3,361	343	81	244	2,693

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk continued

	Carrying amount HK$ million	Total contractual undiscounted cash flow HK$ million	Within 1 year or on demand HK$ million	More than 1 year but not exceeding 2 years HK$ million	More than 2 years but not exceeding 5 years HK$ million	More than 5 years HK$ million
As at 31 December 2012						
Derivative settled net						
Interest rate swaps	30	111	6	14	49	42
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	–	–

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) 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 2013, about 32.0% (2012: 47.0%) 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") (2012: +100 and -25 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 (2012: +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.

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
As at 31 December 2013	**18**	**(5)**	**8**	**(2)**
As at 31 December 2012	(2)	–	8	(2)

(d) Currency risk

The Group aims to minimise its currency risk and does not speculate in currency movements. The majority of the Group's assets are located and all rental income are derived in Hong Kong, and denominated in HKD. At the end of the reporting period, the Group has the following monetary assets and monetary liabilities denominated in AUD, Renminbi ("RMB") and USD.

	The Group							
	2013				2012			
	AUD million	**RMB million**	**US$ million**	**Total equivalent to HK$ million**	AUD million	RMB million	US$ million	Total equivalent to HK$ million
Assets								
Cash	**–**	**2**	**–**	**2**	–	1	–	1
Time deposits	**–**	**259**	**4**	**361**	–	30	10	115
Principal-protected investments	**–**	**–**	**10**	**78**	–	–	32	247
Term notes	**–**	**61**	**95**	**815**	–	133	37	449
	–	**322**	**109**	**1,256**	–	164	79	812
Liabilities								
Unsecured bank loans	**37**	**–**	**–**	**255**	37	–	26	495
Fixed rate notes	**–**	**–**	**300**	**2,312**	–	–	–	–
	37	**–**	**300**	**2,567**	37	–	26	495

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") (2012: 500 pips) was applied to the HKD:RMB and HKD:USD spot and forward rates while a change of 10,000 pips (2012: 10,000 pips) was applied to the HKD:AUD spot and forward rates at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the currency risk as the year end exposure does not reflect the exposure during the year.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(d) Currency risk continued

	The Group			
	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	pips increase HK$ million	pips decrease HK$ million	pips increase HK$ million	pips decrease HK$ million
As at 31 December 2013				
– AUD	**–**	**–**	**–**	**–**
– RMB	**16**	**(16)**	**–**	**–**
– USD	**5**	**(5)**	**(1)**	**1**
As at 31 December 2012				
– AUD	–	–	–	–
– RMB	8	(8)	–	–
– USD	–	(2)	1	(1)

2. CATEGORIES OF FINANCIAL INSTRUMENTS

	The Group		The Company	
	2013 HK$ million	2012 HK$ million	**2013 HK$ million**	2012 HK$ million
Financial assets				
Fair value through profit or loss (“FVTPL”) – financial assets measured at FVTPL	**160**	382	**2**	2
Derivative instruments under hedge accounting	**30**	55	**–**	–
Fair value through other comprehensive income (“FVTOCI”)	**1**	1	**–**	–
Amortised cost (including cash and cash equivalents)	**5,420**	3,266	**12,948**	12,930
	5,611	3,704	**12,950**	12,932
Financial liabilities				
Derivative instruments under hedge accounting	**122**	30	**–**	–
Amortised cost	**8,331**	6,737	**1,319**	1,372
	8,453	6,767	**1,319**	1,372

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements (“ISDA Agreements”) signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts. Other than derivatives transactions mentioned above, the Group has no other financial assets and financial liabilities which are offset in the Group’s consolidated statement of financial statements or are subject to similar netting arrangements.

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS continued

(a) Financial assets subject to enforceable master netting arrangements or similar agreements

	The Group		
	Gross amounts of recognised financial assets HK$ million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$ million	Net amounts of financial assets presented in the consolidated statement of financial position HK$ million
As at 31 December 2013			
Derivatives under hedge accounting	**30**	**–**	**30**
As at 31 December 2012			
Derivatives under hedge accounting	55	–	55
Other derivatives classified as held for trading	2	–	2
Total	57	–	57

(b) Net financial assets subject to enforceable master netting arrangements or similar agreements, by counterparty

	The Group		
	Net amounts of financial assets presented in the consolidated statement of financial position HK$ million	Financial liabilities not set off in the consolidated statement of financial position HK$ million	Net amount HK$ million
As at 31 December 2013			
Counterparty A	**17**	**(17)**	**–**
Counterparty B	**13**	**–**	**13**
Total	**30**	**(17)**	**13**
As at 31 December 2012			
Counterparty A	29	(10)	19
Counterparty B	26	–	26
Counterparty C	2	–	2
Total	57	(10)	47

(c) Financial liabilities subject to enforceable master netting arrangements or similar agreements

	The Group		
	Gross amounts of recognised financial liabilities HK$ million	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$ million	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$ million
As at 31 December 2013			
Derivatives under hedge accounting	**(122)**	**–**	**(122)**
As at 31 December 2012			
Derivatives under hedge accounting	(30)	–	(30)

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS continued

(d) Net financial liabilities subject to enforceable master netting arrangements or similar agreements, by counterparty

	The Group		
	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$ million	Financial assets not set off in the consolidated statement of financial position HK$ million	Net amount HK$ million
As at 31 December 2013			
Counterparty A	**(71)**	**17**	**(54)**
Counterparty D	**(3)**	**–**	**(3)**
Counterparty E	**(3)**	**–**	**(3)**
Counterparty F	**(45)**	**–**	**(45)**
Total	**(122)**	**17**	**(105)**
As at 31 December 2012			
Counterparty A	(10)	10	–
Counterparty D	(7)	–	(7)
Counterparty E	(8)	–	(8)
Counterparty F	(3)	–	(3)
Counterparty G	(2)	–	(2)
Total	(30)	10	(20)

4. FAIR VALUE MEASUREMENT

(a) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair values of financial assets and financial liabilities measured at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow methodology taking into account the market interest rate and credit risk of the counterparties and of the Group as appropriate.

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values, except for the carrying amount of HK$5,022 million (31 December 2012: HK$2,722 million) fixed rate notes as stated in note 29 of the Notes to the Financial Statements section with fair value of HK$4,890 million (31 December 2012: HK$3,112 million).

The fair value of HK$2,155 million of the fixed rate notes is categorised into Level 1 of the fair value hierarchy, in which the fair value was derived from quoted prices in an active market translated at the spot foreign exchange rate of the respective currency at year end.

The fair value of HK$2,735 million of the fixed rate notes is categorised into Level 2 of the fair value hierarchy, in which the fair value was measured using discounted cash flow methodology based on observable yield curves of the respective currency taking into account the credit margin of the Group as appropriate.

4. FAIR VALUE MEASUREMENT continued

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the inputs to the fair value measurements are observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities.
- 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).

	2013			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Financial assets				
Derivatives under hedge accounting				
Interest rate swaps	–	30	–	30
Financial assets at FVTPL				
Principal-protected investments	–	158	–	158
Unlisted club debentures	–	2	–	2
Financial assets at FVTOCI				
Unlisted equity securities	–	–	1	1
Total	–	190	1	191
Financial liabilities				
Derivatives under hedge accounting				
Cross currency swaps	–	113	–	113
Interest rate swaps	–	9	–	9
Total	–	122	–	122

4. FAIR VALUE MEASUREMENT continued

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis continued

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

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

(c) Valuation techniques and inputs used in fair value measurements categorised within Level 2

- Interest rate swaps are measured using discounted cash flow methodology based on observable yield curves of the respective currencies taking into account the credit risk of the counterparties and of the Group as appropriate.
- Forward foreign exchange contracts and cross currency swaps are measured using discounted cash flow methodology based on observable spot and forward exchange rates as well as the yield curves of the respective currencies taking into account the credit risk of the counterparties and of the Group as appropriate.
- Principal-protected investments are measured using discounted cash flow methodology based on the observable yield curves of the respective currencies, as well as variable returns linked to certain forward exchange rates, forward prices of certain commodities and relevant indices with foreign exchange rates, interest rates and commodities prices as underlying and taking into account the credit risk of the counterparties.

5. 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	
	2013 HK$ million	2012 HK$ million
Unsecured bank loans	**1,955**	2,695
Floating rate notes	**200**	200
Fixed rate notes	**5,022**	2,722
Zero coupon notes	**327**	324
Borrowings	**7,504**	5,941
Less: Time deposits	**(4,042)**	(2,158)
Cash and bank balances	**(81)**	(153)
Net debt	**3,381**	3,630
Equity attributable to owners of the Company	**63,326**	58,123
Net debt to equity	**5.3%**	6.2%

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

	2013 HK$ million	2012 HK$ million	2011 HK$ million *(Note b)*	2010 HK$ million *(Note b)*	As restated 2009 HK$ million *(Notes a & b)*
Results					
Turnover	**3,063**	2,486	1,922	1,764	1,680
Property expenses	**(405)**	(423)	(262)	(250)	(235)
Gross profit	**2,658**	2,063	1,660	1,514	1,445
Investment income	**76**	55	90	49	38
Other gains and losses	**1**	18	(34)	(42)	(3)
Administrative expenses	**(208)**	(187)	(173)	(140)	(133)
Finance costs	**(242)**	(156)	(122)	(117)	(131)
Change in fair value of investment properties	**4,575**	8,533	7,532	2,594	1,249
Share of results of associates	**309**	334	254	394	768
Profit before taxation	**7,169**	10,660	9,207	4,252	3,233
Taxation	**(372)**	(289)	(217)	(201)	(189)
Profit for the year	**6,797**	10,371	8,990	4,051	3,044
Non-controlling interests	**(639)**	(416)	(445)	(207)	(130)
Profit attributable to owners of the Company	**6,158**	9,955	8,545	3,844	2,914
Underlying profit for the year	**2,043**	1,622	1,310	1,148	1,113
Recurring underlying profit for the year	**2,043**	1,622	1,310	1,148	1,110
Dividends					
Dividends paid	**1,064**	859	791	714	709
Dividends proposed	**1,010**	829	678	632	567
Dividends per share (HK cents)	**117.00**	95.00	79.00	74.00	68.00
Earnings per share (HK$), based on:					
Profit for the year					
– basic	**5.79**	9.38	8.08	3.65	2.79
– diluted	**5.79**	9.38	8.08	3.65	2.79
Underlying profit for the year – basic	**1.92**	1.53	1.24	1.09	1.06
Recurring underlying profit for the year – basic	**1.92**	1.53	1.24	1.09	1.06
Performance indicators					
Net debt to equity	**5.3%**	6.2%	7.6%	6.4%	5.1%
Net interest coverage (times)	**15.4x**	16.8x	12.3x	14.0x	11.7x
Net asset value per share (HK$)	**59.54**	54.68	46.00	38.61	35.42
Net debt per share (HK$)	**3.18**	3.41	3.49	2.46	1.82
Year end share price (HK$)	**33.40**	37.25	25.50	36.60	22.05

At 31 December

	2013 HK$ million	2012 HK$ million	2011 HK$ million *(Note b)*	2010 HK$ million *(Note b)*	As restated 2009 HK$ million *(Notes a & b)*
Assets and liabilities					
Investment properties	**65,322**	60,022	49,969	40,833	37,363
Interests in associates	**4,181**	3,759	3,423	3,153	2,886
Equity investments	**1**	1	989	–	–
Available-for-sale investments	**–**	–	–	1,152	1,002
Tax recoverable	**–**	2	–	–	–
Time deposits, cash and bank balances	**4,123**	2,311	2,961	1,993	1,984
Other assets	**2,467**	2,328	2,026	1,423	807
Total assets	**76,094**	68,423	59,368	48,554	44,042
Borrowings	**(7,504)**	(5,941)	(6,663)	(4,587)	(3,891)
Taxation	**(660)**	(511)	(433)	(387)	(342)
Other liabilities	**(1,749)**	(1,524)	(1,528)	(1,263)	(1,077)
Total liabilities	**(9,913)**	(7,976)	(8,624)	(6,237)	(5,310)
Net assets	**66,181**	60,447	50,744	42,317	38,732
Non-controlling interests	**(2,855)**	(2,324)	(1,991)	(1,640)	(1,516)
Shareholders' funds	**63,326**	58,123	48,753	40,677	37,216

Notes:

(a) The figures for the year 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 2013

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 2013 was in the approximate sum of Hong Kong Dollars Sixty Five Billion Three hundred and Twenty Two Million Only (i.e. HK$65,322 million).

The investment properties have been valued individually, on market value basis, on the basis of capitalisation of the net income with due allowance for the reversionary income potential, without allowances for any expenses or taxation which may be incurred in effecting a sale and cross reference by sales comparables, where appropriate.

Yours faithfully,
Knight Frank Petty Limited

Hong Kong, 10 February 2014

Schedule of Principal Properties

At 31 December 2013

INVESTMENT PROPERTIES

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
1. The Lee Gardens 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%
2. Bamboo Grove 74-86 Kennedy Road Mid-Levels Hong Kong	I.L. 8624	Residential	Medium term lease	100%
3. Lee Gardens Two 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%
4. Leighton Centre 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100%
5. Lee Theatre Plaza 99 Percival Street Causeway Bay Hong Kong	I.L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100%
6. 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%
7. 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	Commercial	Long lease	100%
8. One Hysan Avenue 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100%
9. 18 Hysan Avenue 18 Hysan Avenue Causeway Bay Hong Kong	Sec. N of I.L. 457 and Sec. LL of I.L. 29	Commercial	Long lease	100%

INVESTMENT PROPERTIES continued

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
10. 111 Leighton Road 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100%
11. Hysan Place 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%

* The properties are currently under redevelopment. Demolition work on the existing buildings which commenced in October 2013 are currently underway. The combined redevelopment site has an overall registered site area of approximately 31,000 square feet. The new development has a projected gross floor area of approximately 467,000 square feet and is targeted for completion around 2018.

Shareholding Analysis

SHARE CAPITAL

At 31 December 2013

	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	5,318,165,215	1,063,633,043	5

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

DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2013, 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	2,407	69.57	4,169,745	0.39
5,001 – 50,000	889	25.69	13,985,535	1.32
50,001 – 100,000	83	2.40	6,299,798	0.59
100,001 – 500,000	60	1.73	12,056,842	1.13
500,001 – 1,000,000	4	0.12	2,368,031	0.22
Above 1,000,000	17	0.49	1,024,753,092	96.35
Total	**3,460**	**100.00**	**1,063,633,043**	**100.00**

TYPES OF SHAREHOLDERS

(At 31 December 2013, 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	40.72
Other corporate shareholders	589,413,095	55.42
Individual shareholders	41,089,213	3.86
Total	**1,063,633,043**	**100.00**

LOCATION OF SHAREHOLDERS

(At 31 December 2013, as per register of members of the Company)

Location of shareholders	Number of ordinary shares held	% of the issued share capital *(Note)*
Hong Kong	1,057,617,855	99.43
United States and Canada	4,543,424	0.43
United Kingdom	1,233,167	0.12
Others	238,597	0.02
Total	**1,063,633,043**	**100.00**

Note:

The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2013 (i.e. 1,063,633,043 ordinary shares).

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	7 March 2014
Ex-dividend date for second interim dividend	20 March 2014
Closure of register of members and record date for second interim dividend	24 March 2014
Dispatch of second interim dividend warrants	(on or about) 3 April 2014
Closure of register of members for Annual General Meeting	12 to 13 May 2014
Annual General Meeting	13 May 2014
2014 interim results to be announced	8 August 2014*

* subject to change

DIVIDEND

The Board declares the payment of a second interim dividend of HK95 cents per share. The second interim dividend will be payable in cash to shareholders on the register of members as at Monday, 24 March 2014.

The register of members will be closed on Monday, 24 March 2014, 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 Registrar not later than 4:00 p.m. on Friday, 21 March 2014.

Dividend warrants will be dispatched to shareholders on or about Thursday, 3 April 2014.

The register of members will also be closed from Monday, 12 May 2014 to Tuesday, 13 May 2014, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting to be held on 13 May 2014, 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 Registrar not later than 4:00 p.m. on Friday, 9 May 2014.

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 Registrar, Tricor Standard Limited (the following new address effective 31 March 2014).

Tricor Standard Limited
Level 22, Hopewell Centre
183 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 Registrar promptly of any change of their address.

The Annual Report is printed in English and Chinese language and is available on our website at www.hysan.com.hk. Shareholders may at any time choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Annual Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Annual Report will promptly upon request be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Registrar at the address above. The Change Request Form may be downloaded from the Company's website at www.hysan.com.hk.

INVESTOR RELATIONS

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

Investor Relations
Hysan Development Company Limited
49/F. (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.

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MUJI
COTTON ON
利舞臺
ee Theatre
LEE GARDENS
KAVA

Hysan Development Company Limited
49/F The Lee Gardens, 33 Hysan Avenue, Hong Kong
T 852 2895 5777　F 852 2577 5153
www.hysan.com.hk