A BETTER FUTURE TODAY

Annual Report 2011

Hysan 希慎

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Contents

Photos on front and back covers:
Hysan Place, Hysan's next milestone

A BETTER FUTURE TODAY

2011 was a productive year for Hysan. Against the backdrop of continued global economic uncertainties, we delivered a sound business performance across our core leasing activities.

In addition, we made good progress with our Hysan Place redevelopment project and continued to enhance our existing assets, strategically adding longer-term competitiveness to our portfolio. We shall continue to further transform Hysan's Causeway Bay as a location of choice for both work and play.

Largest commercial landlord
in vibrant Causeway Bay

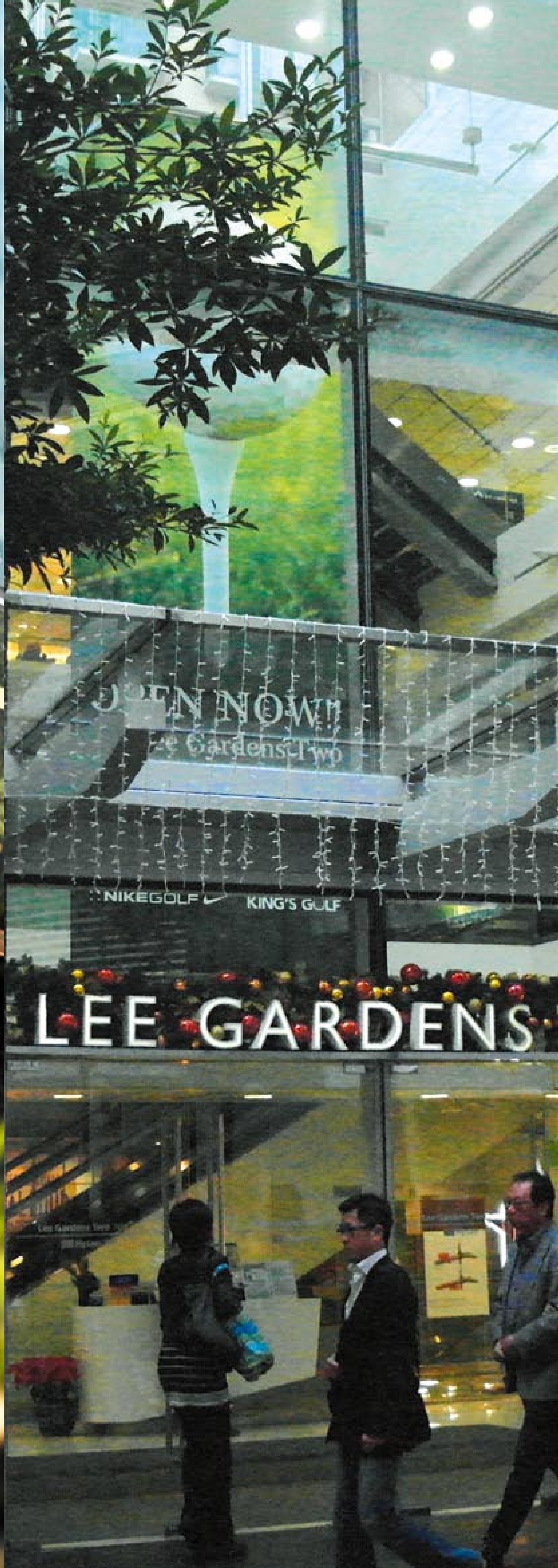

Asset enhancements:
Lee Theatre area at the western
gateway of the Hysan community

Next milestone:
Hysan Place

Hysan Place at the northern gateway of our community

Prime offices in a dynamic and green community


An energetic and
unique district in
further transformation




TERENCE RATTIGAN


1 \ Overview

This section begins by stating who we are, in terms of our mission and core values. An at-a-glance table gives an overview of our 2011 financial and non-financial performances. The Chairman's Statement reviews the year's work, and highlights our efforts to further transform our unique district of Causeway Bay.

Who We Are

MISSION

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

RESPONSIBLE BUSINESS AS THE GUIDING PRINCIPLE

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

OUR VALUES

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

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

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

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

2011 Performance at a Glance

With a clear focus and strategic actions, we continued to achieve results in a fast-changing business environment. It is also important that we do things the right way. Key financial and non-financial performance indicators are set out below.

FINANCIAL PERFORMANCE

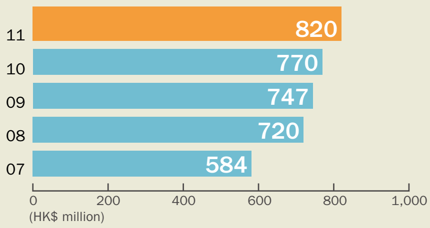
Turnover

HK$1,922m

9.0%

Office Sector's Revenue

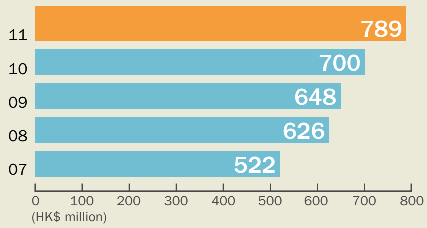
HK$820m 6.5%



- Occupancy at 96%
- Overall positive rental reversion
- Flagship Lee Gardens achieved rentals exceeding 2008 peak and set rental tone for new Hysan Place pre-leasing

Retail Sector's Revenue

HK$789m 12.7%



- Virtually fully-let
- Significant rise of turnover rent by 64.8% to HK$89 million
- Mainland tourist spending increased by 84% in The Lee Gardens and Lee Gardens Two shopping centres

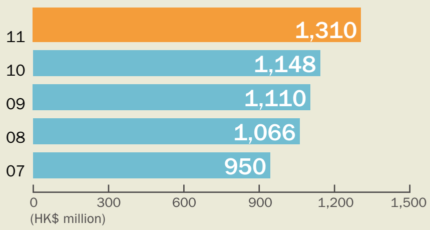
Recurring Underlying Profit

HK$1,310m

14.1%

Recurring Underlying Profit

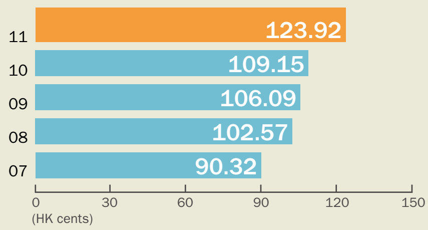
HK$1,310m 14.1%



- Increase reflects improvements in gross profit generated from core leasing activities and higher investment income

Recurring Underlying Earnings per Share

HK123.92cents 13.5%



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

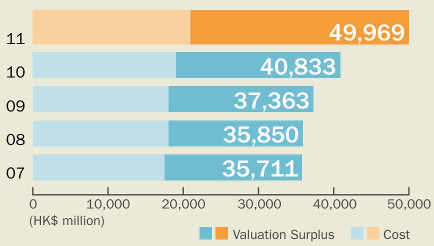
Net Asset Value per Share

HK$46.00

19.1%

Property Value

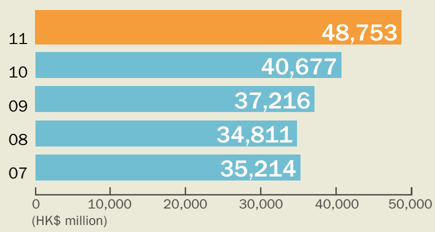
HK$49,969m 22.4%



- Investment property portfolio valued by an independent professional valuer, on the basis of open market value
- Valuation reflects improved rental rates as well as the increase in site value of and construction costs expended on Hysan Place, which is near completion

Shareholders' Funds

HK$48,753m 19.9%

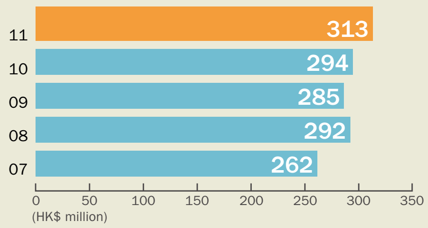


- Increase mainly due to a rise in valuation of investment properties

NON-FINANCIAL PERFORMANCE

Residential Sector's Revenue

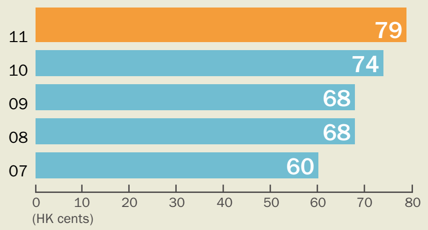
HK$313m ▲6.5%



- Occupancy at 95%
- Selective refurbished units at Bamboo Grove set pricing benchmark above 2008 market peak
- Further enhanced tenant relations resulted in high tenant retention and increase in direct deals

Dividends per Share

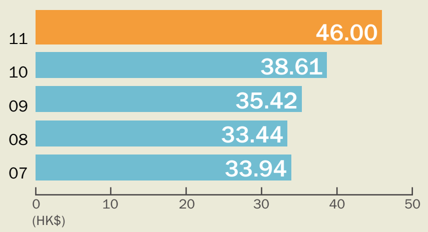
HK79cents ▲6.8%



- Recommended the payment of a final dividend of HK64 cents per share
- Together with the interim dividend of HK15 cents, an aggregate distribution of HK79 cents per share

Net Asset Value per Share

HK$46.00 ▲19.1%



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

Governance

- Recognition by industry for excellence in corporate governance:
  - Platinum Award (Non-Hang Seng Index Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards 2011, which was Hysan's ninth Best Corporate Governance Disclosure Award since 2000
  - Outstanding Corporate Governance in Greater China and Top 5 Corporate Governance in Asia/Pacific in the IR Global Rankings 2011

Environment

- Hysan Place project on track as Hong Kong's first building to be certified by United States Green Building Council's Leadership in Energy and Environmental Design standard (LEED) at its highest platinum level
- Hysan's long-term sustainable approach to the development of Causeway Bay as well as its Hysan Place project recognised for "Best Practices in Green Organisation Development" in the Best Practice Awards 2011 organised by Best Practice Management Group

Community

- Constituent member of Dow Jones Sustainability Index, FTSE4Good Index, and Hang Seng Corporate Sustainability Index, three of the best known indices to track responsible business practices around the world
- Awarded the 5 Years Plus Caring Company Logo by The Hong Kong Council of Social Service in recognition of Hysan's efforts in promoting corporate social responsibility

Dow Jones Sustainability Indexes Member 2011/12

FTSE4Good

5 years+ 商界展關懷 caringcompany Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

Hang Seng Corporate Sustainability Index Series Member 2011-2012

Chairman's Statement

Overview

The Hong Kong economy expanded strongly in the first quarter of 2011. This was followed by more moderate growth during the remaining part of 2011, principally attributable to weakened exports in light of increased uncertainties in the global economic environment. Nevertheless, domestic demand remained robust on the back of favourable labour market conditions and strength in inbound tourism. Strong consumption momentum continued to fuel growth in the retail leasing market. For the Grade "A" office leasing market, tight supply offered support amidst slowing new demand.

Business Performance

Against this backdrop, Hysan recorded a satisfactory performance in 2011 with revenue growth across our entire core leasing business. The Group's 2011 turnover was HK$1,922 million, up 9.0% from HK$1,764 million in 2010. The retail sector showed a growth of 12.7%, while both the office and residential sectors recorded an increase of 6.5%. The retail sector was virtually fully-let. Occupancy of office and residential sectors at year-end 2011 stood at 96% and 95% respectively.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was up 14.1% to HK$1,310 million (2010: HK$1,148 million), reflecting improvement in gross profit generated from our core leasing activities. Higher investment income was also recorded. Our Underlying Profit, which excludes unrealised changes in fair value of investment properties, was also HK$1,310 million (2010: HK$1,148 million). Basic earnings per share based on Recurring Underlying Profit correspondingly rose to HK123.92 cents (2010: HK109.15 cents).

At year-end 2011, the external valuation of the Group's investment property portfolio increased by 22.4% to HK$49,969 million (2010: HK$40,833 million), reflecting improved rental rates for our core portfolio as well as the increase in site value of and construction costs expended on Hysan Place, which is near completion. Taking into consideration the fair value change of investment properties, the Group's Reported Profit for 2011 was HK$8,545 million (2010: HK$3,844 million). Shareholders' Funds increased by 19.9% to HK$48,753 million (2010: HK$40,677 million).

Our financial position remains strong, with net interest coverage of 12.3 times (2010: 14.0 times) and net debt to equity ratio of 7.6% (2010: 6.4%).

The Board of Directors (the "Board") recommends the payment of a final dividend of HK64 cents per share (2010: HK60 cents). Together with the interim dividend of HK15 cents per share (2010: HK14 cents), there is an aggregate distribution of HK79 cents per share, representing a year-on-year increase of 6.8%. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative.

Further Transformation of Hysan's Causeway Bay

The Group's sound performance in year 2011 was complemented by the good progress of our major redevelopment project, Hysan Place, at the northern gateway of our hub. Hysan Place will bring significant strategic value to our portfolio. Its retail mall, scheduled for opening in August 2012, represents a 50% increase in our portfolio's retail gross floor area, and will bring many new attractions to Hong Kong's most vibrant retail district of Causeway Bay. Hysan Place's top quality office space will also strengthen our Grade "A" office hub positioning. It is Hong Kong's first platinum LEED (Leadership in Energy and Environmental Design) building, also reflecting the Group's strong commitment to sustainability.

In 2011, we also successfully made enhancements to our assets in the Lee Theatre area at the western gateway of our hub. The first phase has been completed with the relaunch of Leighton Centre, bringing in new retail outlets of international top brands, and the opening of a major flagship store at One Hysan Avenue. We shall carry these efforts through with the rejuvenation of Lee Theatre Plaza in 2012.

Moving forward, we will devote further efforts to promote the unique brand character of our hub in Causeway Bay, and to strengthen its recognition and appeal as a sustainable community and a location of choice for both work and play.

Board and People

The year 2011 marked my first year as Chairman. I am honoured to join Hysan's team to deliver value for our shareholders, clients and stakeholders. My new executive capacity, and the appointment of Mr. Siu Chuen LAU as Non-executive Deputy Chairman, both take effect on 8 March 2012, further reflect the founding Lee family's strong commitment to the future success of the Group.

I would like to take this opportunity to express my heartfelt thanks to Sir David AKERS-JONES, who stepped down during the year after having served the Board for more than 20 years, including as our Independent non-executive Chairman. He has made invaluable contribution to Hysan with his capable leadership over the years, and by guiding the Board through its continuing renewal process.

I am grateful for the strong guidance and support of all Board members. They have brought with them diverse professional experiences and expertise that contribute to the strength of the Board. My special thanks to Dr. Deanna Ruth Tak Yung RUDGARD who stepped down from the Board last May, after having served the Board for over 18 years. We are grateful for her guidance and the wise counsel she provided to the Board throughout the years.

Hysan has made enormous progress this year. On behalf of the Board, I would like to thank our management team and staff for their contribution and hard work.

Outlook

The local economy is not immune to the impact of the global economic uncertainties. However, Hong Kong's economic fundamentals are expected to remain sound. The overall retail market is expected to remain resilient and should benefit our retail leasing business. Tight supply of new Grade "A" office space in core locations should provide support to our office leasing business. In this light, Hysan's more balanced core office and retail portfolio should look forward to continuing steady performance in 2012.

The launch of Hysan Place at the northern gateway of our hub is strategic to the Group's long-term growth. It is being followed by the rejuvenation of the Lee Theatre Plaza hub at our western gateway, adding long-term competitiveness to our portfolio. By creating a new destination and new surroundings in Causeway Bay, we will continue to contribute to the further transformation of an energetic and unique district.

Irene Yun Lien LEE
Chairman

Hong Kong, 8 March 2012

2 \ Strategy in Action

This section starts with an overview of Hong Kong's macroeconomic environment and property leasing markets in 2011, followed by Hysan's strategic actions in response to the market developments. We then discuss in detail our operations and performances, finance, risks and people management during the year.

Our Marketplace and Our Response

In 2011, uncertain global economic environment set the backdrop for the property leasing market in Hong Kong. Our three leasing segments responded successfully to such market changes.

Hong Kong Economy

The Hong Kong economy recorded a moderate GDP growth in 2011

The Hong Kong economy recorded a moderate GDP growth of 5% in 2011. The growth moderation was mainly caused by a slowdown in exports since the second quarter of 2011 amid a worsening global economic environment. Domestic consumption nevertheless displayed remarkable resilience throughout the year, thereby rendering a strong cushion to overall economic performance. Total employment in Hong Kong rose to 3.7 million as of December 2011, while the unemployment rate fell to 3.3%. Inflation rate was 5.3% in 2011.

Office

The Grade "A" office market started strongly with buoyant demand in the first half of 2011. However, concerns over the growing global economic uncertainties led to slowing new demand and expansion activities since mid-year.

New Grade "A" office supply* totalled 1.6 million square feet in 2011. The majority of space was located in decentralised areas. Such a new supply level was considerably lower than that in 2008 (3.7 million square feet), which then coincided with reduced demand amidst the global financial crisis. Overall net take-up* in Hong Kong amounted to 2.0 million square feet in the year. Decentralised Kowloon East recorded a significant net-absorption. Among the core districts (Central, Causeway Bay/Wanchai and Tsim Sha Tsui), Causeway Bay/Wanchai was the largest contributor with a positive net take-up of around 160,000 square feet.

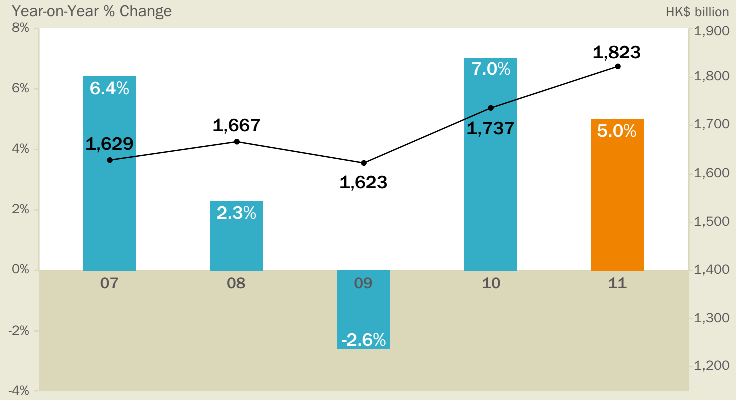
Hysan's office portfolio maintains a balanced tenant mix

Despite a slowdown in new demand and expansion activities, the market saw considerable demand from companies seeking cost-saving relocation opportunities – especially those from Central – to more affordable options in other sub-markets as mentioned above. At the end of December 2011, the overall vacancy rate in Causeway Bay/Wanchai fell to 1.9%. The graph on the right shows the vacancy rate of Grade "A" office in Central, Causeway Bay/Wanchai, Tsim Sha Tsui and Kowloon East for both 2010 and 2011.

All Grade "A" office sub-markets witnessed double-digit rental growth in 2011. Recording an annual rental growth of 20.2%, Causeway Bay/Wanchai outperformed the other two core districts, namely Central (10.2%) and Tsim Sha Tsui (19.2%). During the last quarter, Central rental levels fell by 4.5%. Rents in Causeway Bay/Wanchai fell by 1.1%, while those of Tsim Sha Tsui grew by 2.4%. It should be noted that the rental gap between Causeway Bay/Wanchai and Central remained wide during the year (see the graph on the right).

* The new supply and net take-up figures in 2011 exclude Hong Kong Government Headquarters in Admiralty.
Source: Jones Lang LaSalle (data as of March 2012)

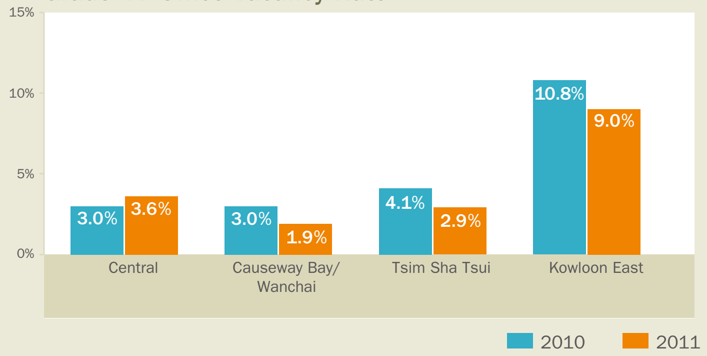
Real Gross Domestic Product*



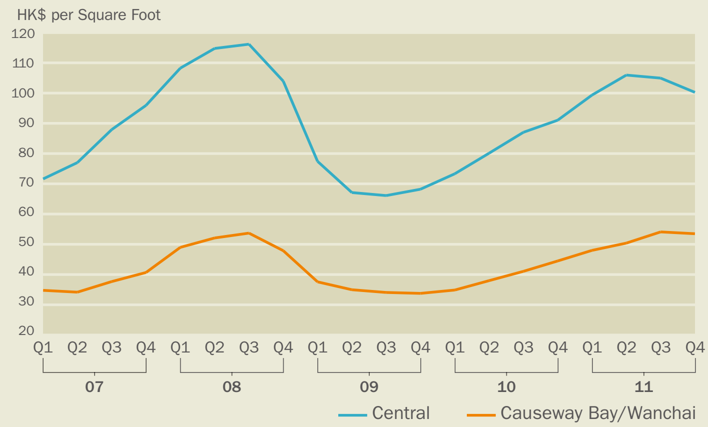
Year-on-Year % Change
Gross Domestic Product

* In chained (2009) dollars
Source: Census and Statistics Department (data as of March 2012)

Grade "A" Office Vacancy Rate



Grade "A" Office Rental Value



Source: Jones Lang LaSalle (data as of March 2012)

Hysan's Response

We concluded negotiations of a vast majority of 2011 expiring leases during the first half of the year, capitalising on the buoyant market environment. We achieved positive rental reversion as a whole, also supported by our strengthened marketing activities.

The rental level of The Lee Gardens climbed above the peak of 2008, setting the rental tone for the pre-leasing of Hysan Place.

We maintained a balanced tenant mix with no undue dependence on any particular industry segment.

With tight supply of quality office space in core locations, our office portfolio in Causeway Bay, offering good cost advantage versus other core areas, remains attractive to tenants.

See Review of Operations on Office Sector on pages 32-33 for more details.

Retail

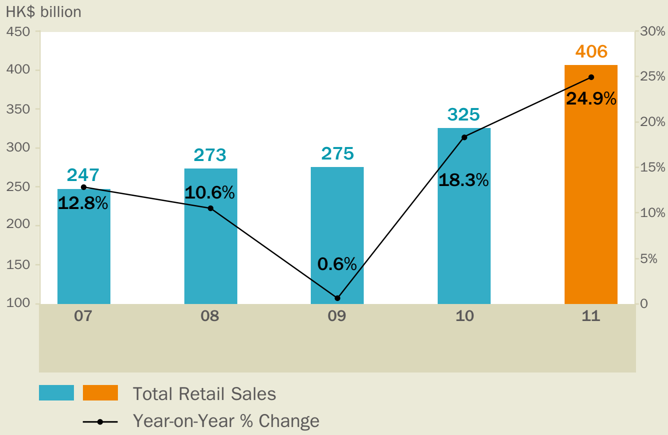
Overall annual retail sales in Hong Kong remained buoyant during the year, with an increase of 24.9% in 2011 over the previous year (see the graph below).

Consumer confidence remained high, with private consumption expenditure rising by 8.6% in 2011.

Retailers continued to benefit from the influx of Mainland visitors in Hong Kong. In 2011, Mainland arrivals hit 28.1 million, accounting for 67.0% of the total arrivals in the year (see the graph below).

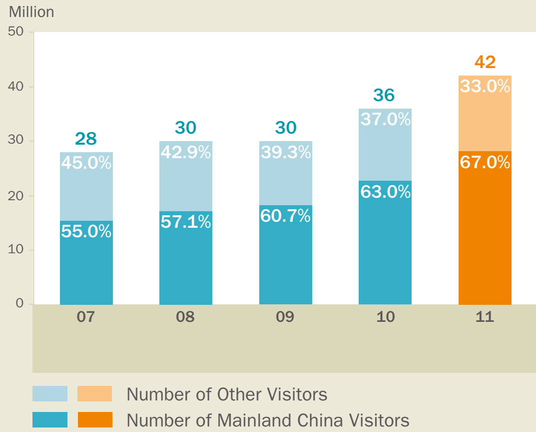
In terms of new supply, two major retail developments were completed in 2011. They are located in Kowloon and the New Territories. Rents for premium prime shopping centres rose by 16.1% in 2011.

Hong Kong Total Retail Sales



Source: Census and Statistics Department (data as of March 2012)

Total Number of Visitors



Source: Hong Kong Tourism Board (data as of March 2012)

Luxury Residential

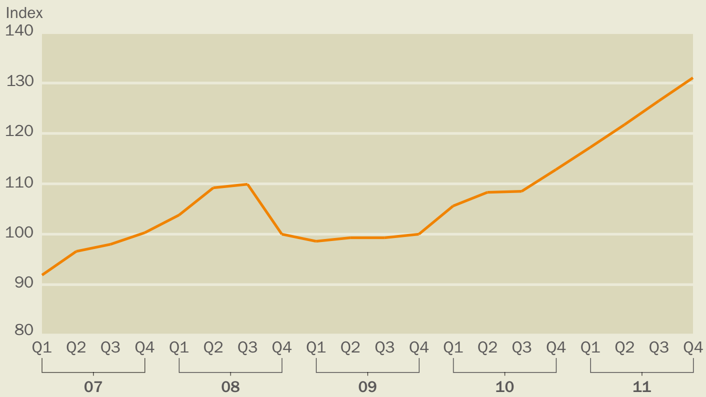
During the first half of the year, the luxury residential leasing market was characterised by a positive market sentiment on the back of increasing new expatriate arrivals. However, the market was affected by sluggish corporate expansion activity in the second half of the year, especially in the financial sector. It has resulted in reduced new demand for luxury residential leasing for expatriate staff. Leasing activity was mainly driven by local relocations as some expatriates embarked on cost-saving exercises.

Social and cultural activities in our Bamboo Grove help build a thriving community for residents

Rents for luxury properties edged down marginally by less than 1% in the second half of 2011 after rising by about 5% in the first half. Overall, luxury residential rents increased by 4.4% in 2011 but were still below the market highs of 2008 (see the graph on the right).

The renovated retail podium at Leighton Centre has become a trendy shopping venue

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



Source: Jones Lang LaSalle (data as of March 2012)

Hysan's Response

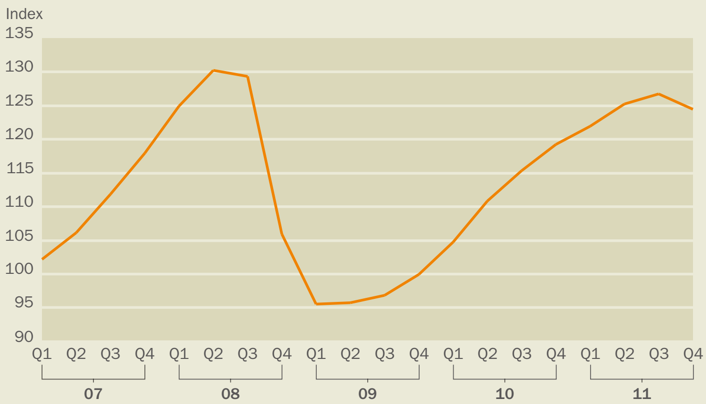
Riding on strong private consumption and inbound tourism, our retail portfolio recorded a sound growth.

We captured market opportunities by reinforcing the luxury positioning of the Lee Gardens hub and rejuvenating the trendy Lee Theatre hub.

Our marketing strategies include strengthening our customer base and loyalty of shoppers and launching promotion activities to attract tourists.

See Review of Operations on Retail Sector on page 34 for more details.

Luxury Residential Rental Index (2009 Q4=100)



Source: Jones Lang LaSalle (data as of March 2012)

Hysan's Response

In a changing market, we focused on optimising occupancy to maximise revenue.

At the same time, we enhanced our facilities and services. Refurbishment of selected units successfully established a new pricing benchmark, surpassing the peak of 2008.

We also strengthened tenant relations and our direct marketing initiatives.

See Review of Operations on Residential Sector on page 35 for more details.

The Hysan Community – Our Investment Property Portfolio

Our investment property interests totaled some 3.8 million gross square feet of high quality office, retail and residential space in Hong Kong. Hysan Place at 500 Hennessy Road, currently under redevelopment, will add an additional 710,000 square feet to our portfolio upon its completion in 2012.

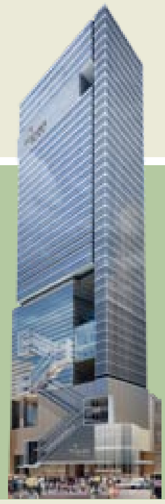
HYSAN PLACE

500 Hennessy Road, Causeway Bay

Hysan Place, formerly the Hennessy Centre, is Hysan's major redevelopment project with its shopping mall opening in August 2012. It includes 15 floors of Grade "A" offices and 17 floors of retail outlets. Situated at the northern gateway of Hysan's portfolio and the heart of bustling Causeway Bay, Hysan Place offers full harbour view offices, a shopping mall of exciting tenant mix and green building features that conform to the highest international sustainability standards.

Estimated Total Gross Floor Area Approx. 710,000 ft^2

See page **36** for more details



Hysan PLACE

Shopping Mall Opening August 2012

OFFICE

Our office portfolio's Grade "A" offices provide a core location with premium facilities and prestige for tenants and their clients. Hysan Place will further strengthen our Grade "A" office positioning with its world-class building specifications. Other office buildings provide quality office space for tenants' diversified use.

RETAIL

The Lee Gardens hub provides elegant and luxury premium retail spaces for high-end brands, while the Lee Theatre hub is home to stylish and chic lifestyle shops and renowned restaurants. Hysan Place represents an increase of 50% by gross floor area to our overall retail portfolio, offering a new and exciting shopping destination with international brands new to Hong Kong.

THE LEE GARDENS
33 Hysan Avenue, Causeway Bay

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

Approx. Gross Floor Area 900,000 ft^2
\ Number of Floors 53 \ Parking Spaces 200
\ Completed 1997

LEE THEATRE PLAZA
99 Percival Street, Causeway Bay

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

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

LEE GARDENS TWO
28 Yun Ping Road, Causeway Bay

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

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

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 264
\ Completed 1977 \ Renovated 2011

SUNNING PLAZA
10 Hysan Avenue, Causeway Bay

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

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

ONE HYSAN AVENUE
1 Hysan Avenue, Causeway Bay

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

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

18 HYSAN AVENUE
18 Hysan Avenue, Causeway Bay

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

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

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 trend-setting stores.

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

SUNNING COURT
8 Hoi Ping Road, Causeway Bay

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

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

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

Management's Discussion and Analysis

Hysan is principally engaged, together with its subsidiaries and associates, in investment, development 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. Throughout the year, our investment property interests totaled some 3.8 million gross square feet of high-quality office, retail and residential space in Hong Kong, excluding Hysan Place at 500 Hennessy Road, which is currently under redevelopment.

Review of Results

The Group's turnover continued to record growth and reached HK$1,922 million in 2011, representing an increase of 9.0% from HK$1,764 million in 2010. The rise principally reflected the further improvement in occupancy and positive rental reversion. Higher retail turnover rent also contributed to the revenue growth of our retail sector. The turnover of each sector was recorded as below:

	2011 HK$ million	2010 HK$ million	Change HK$ million	Change %
Office sector	**820**	770	50	+6.5
Retail sector	**789**	700	89	+12.7
Residential sector	**313**	294	19	+6.5
	1,922	1,764	158	+9.0

KEY PERFORMANCE INDICATORS

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

Turnover Growth	**How is it measured?** Rental revenue in 2011 as compared to that in 2010
Occupancy Rate	**How is it measured?** Percentage of total area leased to tenants over total lettable area of each sector
Property Expenses	**How are they measured?** Principally being costs directly associated with the day-to-day operations of the Group's property portfolio
Property Expenses as a Percentage of Turnover	**How is it measured?** Calculated by dividing property expenses by turnover

Recurring Underlying Profit, arrived at by excluding the fair value change of investment properties and items that are non-recurring in nature (such as gains or losses on disposal of long-term assets; impairment or its reversal; and tax provisions for prior years), was the key measurement of the Group's core leasing business. In 2011, our Recurring Underlying Profit was HK$1,310 million, up 14.1% from HK$1,148 million in 2010. Our Underlying Profit*, arrived at by excluding the fair value change of investment properties only, was also HK$1,310 million, up 14.1% from HK$1,148 million in 2010. Both profit indicators primarily reflected the improvement in gross profit generated from our core leasing activities. Higher investment income was also recorded. Taking into consideration the fair value change of investment properties, our Reported Profit* was HK$8,545 million, an increase of 122.3% from HK$3,844 million in 2010. Basic earnings per share based on Recurring Underlying Profit correspondingly rose to HK123.92 cents (2010: HK109.15 cents).

	2011 HK$ million	2010 HK$ million	Change HK$ million	Change %
Recurring Underlying Profit	**1,310**	1,148	162	+14.1
Underlying Profit	**1,310**	1,148	162	+14.1
Fair value change on investment properties located in				
– Hong Kong	**7,177**	2,469	4,708	+190.7
– Shanghai	**58**	227	(169)	-74.4
Reported Profit	**8,545**	3,844	4,701	+122.3

* In 2011, the Group had applied Hong Kong Financial Reporting Standard 9 ("HKFRS 9") (as revised in December 2011) prospectively in advance of its effective date of 1 January 2015. Following the application of HKFRS 9, the Group's Underlying Profit and Reported Profit in 2011 was decreased by HK$31 million as the cumulative gain of HK$33 million on disposal of investments in listed equity securities which would have been reclassified from investments revaluation reserve to profit or loss is now recognised as a transfer from investments revaluation reserve to retained profits, as well as the impairment loss of HK$2 million on investments in unlisted equity securities which would have been recognised as impairment loss in profit or loss is now recognised in investments revaluation reserve.

Why is it significant?
Reflects the combined effect of changes in rental rate and occupancy rate

Performance
Growth was recorded in all three leasing sectors

Office Sector
▲6.5%
for 2011
(▲3.1% for 2010)

Retail Sector
▲12.7%
for 2011
(▲8.0% for 2010)

Residential Sector
▲6.5%
for 2011
(▲3.2% for 2010)

Why is it significant?
- Rental revenue and management fees are directly proportional to occupancy rate
- Optimises revenue by balancing occupancy rate and rental level

Performance
- Retail sector was virtually fully-let
- Occupancy levels were further improved in both office and residential sectors

Office Sector
96%
at year-end 2011
(95% at year-end 2010)

Retail Sector
Virtually Fully-Let
at year-end 2011
(96% at year-end 2010)

Residential Sector
95%
at year-end 2011
(94% at year-end 2010)

Why are they significant?
Measures the costs incurred in operating the Group's property portfolio

Performance
Property expenses rose principally due to higher marketing expenses (including for new Hysan Place promotion), partly offset by lower agency fees on account of strong occupancy

Total Property Expenses
HK$262 million
for 2011
(HK$250 million for 2010)

Why is it significant?
An indication of the gross margin of our business

Performance
Ratio improved slightly in 2011

Property Expenses to Turnover Ratio
13.6%
for 2011
(14.2% for 2010)

Review of Operations

All three leasing sectors continued to record growth during the year. The portfolio, strategies and performance of each sector are discussed in detail below.

OFFICE SECTOR

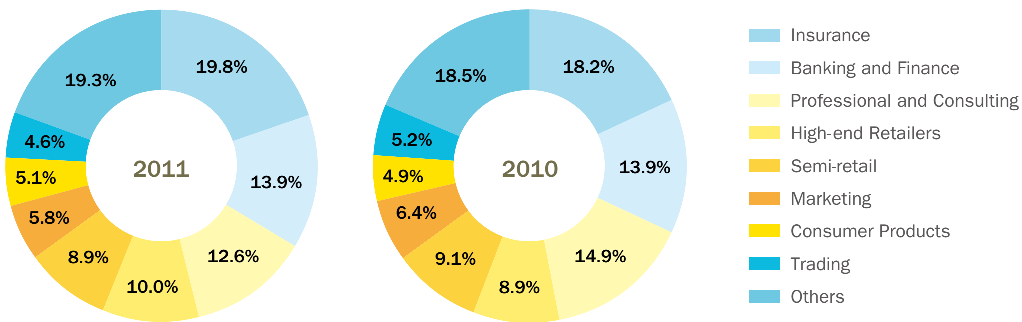
Hysan owns and manages 2.1 million gross square feet of premium office space in the core commercial district of Causeway Bay. Our office portfolio's Grade "A" offices (comprising The Lee Gardens, Lee Gardens Two, Sunning Plaza and 18 Hysan Avenue) provide a core location with premium facilities and prestige for tenants and their clients. Other office buildings within our portfolio (comprising One Hysan Avenue, 111 Leighton Road and Leighton Centre) provide quality office space for tenant use. In 2011, we completed the renovation work for Leighton Centre, giving a fresh look to its lobby and common areas.

Our office sector's revenue grew 6.5% to HK$820 million (2010: HK$770 million). Occupancy at year-end 2011 increased to 96%, as compared to 95% on both 30 June 2011 and 31 December 2010.

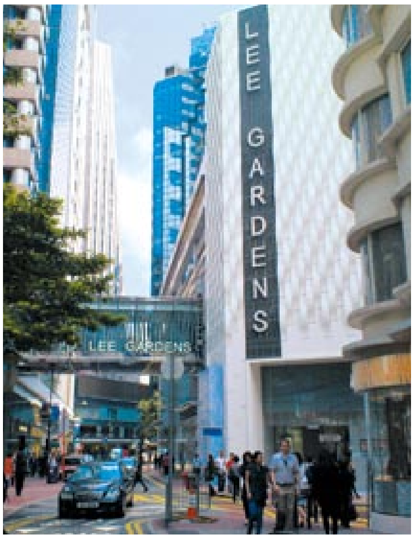
On renewing and negotiating new leases, we achieved positive rental reversion as a whole as compared to rental levels in 2008, the last market peak. This reflects the success of our marketing activities. In particular, the rental level of The Lee Gardens climbed above the peak of 2008, setting the rental tone for the pre-leasing of Hysan Place. The impact of overall positive rental reversion successfully offset the brought forward effect of low rental rates committed during the market troughs of 2009.

Our office has a balanced tenant mix. The top four industry groups are insurance, banking and finance, professional and consulting, and high-end retailers. Together they take up around 56.3% of total lettable area, with no single industry group accounting for more than 20% of total lettable area. The charts below illustrate our office portfolio tenant profile as analysed by area occupied.

Office Tenant Profile by Area Occupied as at Year-end



To increase our office portfolio's longer-term competitiveness, we continued to raise property service standards across our portfolio and form closer tenant relationships.



RETAIL SECTOR

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

Riding on strong private consumption on the back of a favourable labour market and increased spending by Mainland tourists in 2011, Hysan's retail sector revenue recorded strong growth of 12.7% to HK$789 million (2010: HK$700 million). Turnover rent increased significantly by 64.8% to HK$89 million (2010: HK$54 million), further reflecting the benefits generated by buoyant retail sales.

Retail spaces were virtually fully-let after the completed renovation of Leighton Centre's retail podium, as compared to 95% on 30 June 2011 and 96% on 31 December 2010.

Tenant sales of our overall retail portfolio recorded an increase of 22.2% over 2010. In 2011, tenant sales of the retail units in The Lee Gardens and Lee Gardens Two increased by 29.1%. Mainland tourist spending in The Lee Gardens and Lee Gardens Two increased by 84% compared to 2010.

These results reflect the success of our leasing and marketing strategies, which placed emphasis on reinforcing the luxury positioning of the Lee Gardens hub and rejuvenating the trendy Lee Theatre hub. In the Lee Gardens hub, our tenant mix and facilities were further upgraded to enhance the area's stylish ambience. We strengthened our customer base and the loyalty of our local shoppers. In addition, we launched promotion activities to target Mainland tourists including conducted tours for members of the Mainland media. These programmes helped stimulate shopper traffic and consumption.

In the Lee Theatre hub, the completed renovation of Leighton Centre complemented the arrival of a new fashion flagship store at One Hysan Avenue. These efforts helped redefine the hub as an even more fashionable shopping venue with a new wave of contemporary fashion brands and flagship stores. The completion of these projects paves the way for the next phase of renovation and rejuvenation of Lee Theatre Plaza planned for 2012.

RESIDENTIAL SECTOR

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

The Group's residential sector's revenue increased by 6.5% to HK$313 million (2010: HK$294 million). Occupancy remained strong, at 95% at the end of 2011, as compared to 96% on 30 June 2011 and 94% on 31 December 2010. Rising rental levels led to positive rental reversion in 2011.

Our tenant retention remained high, reflecting our continued efforts to enhance our facilities, services and clubhouse activities. Refurbishment of selected units has successfully established a new pricing benchmark, surpassing the peak of 2008. Strengthened tenant relations and direct marketing initiatives have helped increase tenant referrals and deals made directly with us.

Our team of experienced, bilingual Resident Services Associates will continue to provide personalised assistance to residents, while our regular social and cultural activities will help create a thriving community and foster long-term partnerships with residents.

HYSAN PLACE

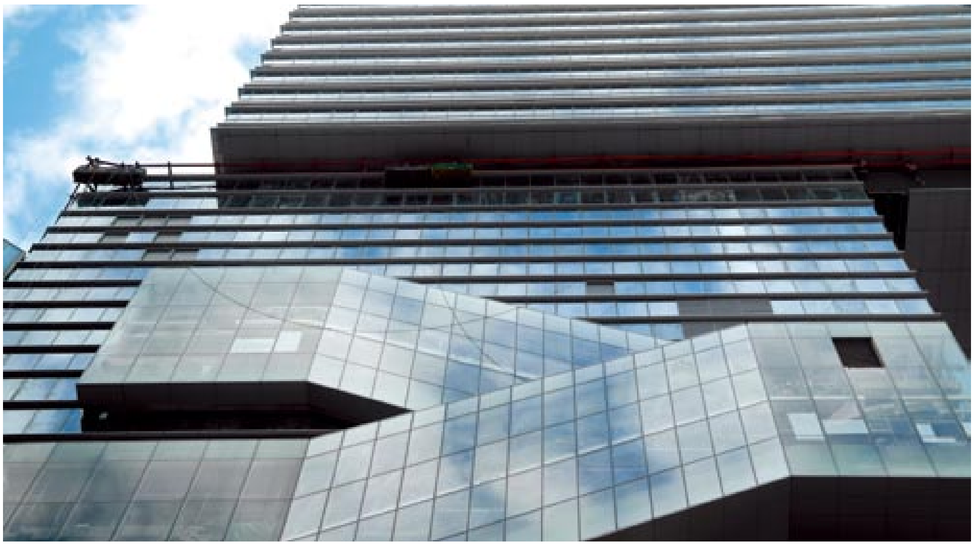
The next milestone for Hysan will be the redevelopment project of Hysan Place at 500 Hennessy Road, comprising 15 levels of office space and 17 floors of retail outlets, totaling 710,000 square feet. Hysan Place will bring long-term strategic significance to the overall Hysan portfolio:

- Hysan Place's retail portion will significantly strengthen Hysan's overall retail portfolio, in terms of both its size, which represents an increase of 50% by gross floor area, and its tenant mix, bringing many tenants which are new to Hong Kong.
- Hysan Place will also be an important part of Hysan's office cluster evolution, providing top quality space to strengthen our Grade "A" office positioning as the most natural extension of Central. Hysan Place will be the only triple A grade building to open on Hong Kong Island in 2012. Its sustainability design features are based on world-class building specifications and the building offers full harbour views from all office floors.
- Hysan Place demonstrates Hysan's commitment to find greener solutions for all our buildings and for Causeway Bay as a whole. The project is built to the highest international environmental and sustainability standards, having achieved pre-certification at the Platinum level for the United States Green Building Council's Leadership in Energy and Environmental Design (USGBC LEED), as well as the Hong Kong Building Environmental Assessment Method (HK BEAM) standard. With its specially designed "Urban Windows" and roof gardens, Hysan Place is set to become a green landmark in the heart of thriving Causeway Bay.

Construction of the building is making good progress. Leasing for the overall building proceeded well during the year, with over 90% of retail space leased by the end of February 2012. The shopping mall is expected to open in August 2012, to allow for better co-ordinated launch of retail outlets from August onwards. The arrangement should better ensure the long-term success of the mall.

Our retail tenants will include international brands new to Hong Kong, catering to the needs of trendy shoppers. The entire project promises to bring additional shopping dynamics and an exciting new variety to the district of Causeway Bay.

In terms of office leasing, following the commitment to one-third of the entire office space by an international accounting firm, the rest of the office space is under negotiation with prospective tenants. Leasing strategy will balance occupancy and strategic contribution towards further enhancing the tenant profile and hence attraction of our office portfolio.



Hysan Place: express escalators in the building facilitate shopper circulation in the vertical mall

Financial Review

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

OPERATING COSTS

The Group's operating costs were generally classified as property expenses and administrative expenses.

Property expenses were the costs directly associated with the 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. In 2011, higher marketing expenses were incurred for capturing local and tourist spending, as well as for Hysan Place's pre-leasing promotion activities. These were partly offset by a reduction in agency fees as occupancy and direct marketing further improved. As a result, property expenses rose 4.8% to HK$262 million (2010: HK$250 million). Coupled with the increase in turnover, the property expenses to turnover ratio improved slightly from 14.2% to 13.6% as compared to 2010.

Administrative expenses were the costs indirectly associated with the day-to-day operations of our investment properties, largely representing the payroll costs and related expenses of management and head-office staff. In addition to costs for continuing human resources upskilling for Hysan's existing property portfolio, additional payroll costs were incurred in 2011 for hiring new staff in relation to the upcoming Hysan Place. These factors resulted in administrative expenses increasing by 23.6% to HK$173 million (2010: HK$140 million).

FINANCE COSTS

Finance costs, after capitalisation of HK$44 million (2010: HK$12 million) interest expenses and related borrowing costs as part of the construction costs of Hysan Place, were HK$122 million in 2011, up 4.3% from HK$117 million in 2010. If the capitalised interest expenses and related borrowing costs were included, the Group's finance costs in 2011 would have been HK$166 million, an increase of HK$37 million or 28.7% as compared to last year (2010: HK$129 million). It was predominantly due to the increase in the Group's gross borrowings. During the year, the Group issued notes of HK$554 million from the Medium Term Notes Programme and drew down bank loans of HK$2,350 million, mainly for preparing for the repayment of debts maturing in early 2012.

The Group's average finance costs in 2011 (defined as interest expenses divided by average gross debt for the year) were 2.7%, at a level similar to 2010. Further discussion of the Group's treasury policy, including debt and interest rate management, is set out in the "Treasury Policy" section on pages 40 to 44.

REVALUATION OF INVESTMENT PROPERTIES

The Group's investment property portfolio was valued at 31 December 2011 by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The amount of this valuation was HK$49,969 million, an increase of 22.4% from HK$40,833 million at 31 December 2010. The valuation at year-end 2011 principally reflected improved rental rates for the Group's investment property portfolio as well as the increase in site value of and construction costs expended on Hysan Place, which is near completion. The following shows the property valuation of each portfolio at year-end.

	2011 HK$ million	2010 HK$ million	Change HK$ million	Change %
Office portfolio	**16,954**	14,708	2,246	+15.3
Retail portfolio	**15,089**	11,896	3,193	+26.8
Residential portfolio	**8,426**	7,821	605	+7.7
Property under redevelopment (Hysan Place)*	**9,500**	6,408	3,092	+48.3
	49,969	40,833	9,136	+22.4

* Property under redevelopment is valued at site value plus construction costs expended up to date.

Excluding capital expenditures for the Group's property portfolio, fair value gain on investment properties of HK$7,532 million (2010: HK$2,594 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 35.5% to HK$254 million (2010: HK$394 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 2011, 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$58 million (2010: HK$227 million).

The Shanghai Grand Gateway project continued to deliver a good performance in 2011. The Group's share of results, excluding revaluation gains on investment properties held by the associate, recorded a 17.4% increase year-on-year. As at the end of 2011, the residential properties were continuing to enjoy high occupancy while the retail and office properties remained virtually fully-let.

OTHER INVESTMENTS

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

In 2011, higher interest income from bank deposits was experienced as the average bank deposits rate increased. In addition, higher dividend income was derived from the Group's equity investments. As a result, the Group's investment income increased by 83.7% to HK$90 million from HK$49 million in 2010.

CASH FLOWS

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

	2011 HK$ million	2010 HK$ million	Change HK$ million	Change %
Operating cash inflow	**1,592**	1,460	132	+9.0
Financing	**2,041**	620	1,421	+229.2
Capital expenditure	**(1,547)**	(828)	(719)	+86.8
Investments	**(1,040)**	(147)	(893)	+607.5
Interest and taxation	**(273)**	(246)	(27)	+11.0
Dividends paid and share issues	**(679)**	(732)	53	-7.2
Net cash inflow	**94**	127	(33)	-26.0

Including the movements of working capital, the Group reported operating cash inflow of HK$1,592 million (2010: HK$1,460 million) in 2011, reflecting the growth in our core leasing business and better working capital management. Cash flow from financing rose to HK$2,041 million (2010: HK$620 million), mainly due to new borrowings of HK$2,350 million bank loans and HK$554 million fixed rate notes during the year, which was partly offset by the cash outflow for debts repayment.

Capital expenditure in 2011 was HK$1,547 million (2010: HK$828 million), largely used for the payment of construction costs of Hysan Place and other costs for building renovations. Cash used in investments was HK$1,040 million (2010: HK$147 million), of which the majority were time deposits with tenor matching debts maturing in early 2012.

CAPITAL EXPENDITURE AND MANAGEMENT

The Group is committed to enhancing the asset value of its investment property portfolio through selective refurbishment, repositioning and redevelopment. The Group has also in place a portfolio-wide whole-life cycle maintenance programme as part of its ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure (excluding principally purchase of plant and equipment) during the year was HK$1,520 million (2010: HK$871 million). The rise was mostly attributable to the increase in payments of construction costs for Hysan Place and other renovation costs for Hysan's existing portfolio.

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

Treasury Policy

MARKET HIGHLIGHT

The global economic recovery remained slow and uncertain in 2011. Concerns about sovereign debt risks in the Euro zone and economic slowdown and high unemployment rates in the developed economies exerted pressure on the financial markets. Although the Asian economies maintained its growth trend in 2011, the pace slowed down as tight liquidity led to depressed financial assets prices and increased borrowing costs in the second half of the year. Against this uncertain backdrop, the Group will continue to focus on liquidity management in 2012.

OBJECTIVES

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

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

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. Reflecting our strong financial position, the Group maintained its investment-grade credit ratings of Baa1 as rated by Moody's and BBB as rated by Standard and Poor's in 2011.

Treasury has an overall objective of optimising borrowing costs and the management of associated risks: that is, to minimise finance costs subject to the constraints of our operational parameters. The average cost of financing for 2011 was 2.7%, same as 2010.

KEY PERFORMANCE INDICATORS

Average Finance Costs
Bank Facilities: Capital Market Issuance
Average Debt Maturity
Floating Rate Debt (% on Total Debt)
Net Interest Coverage
Net Debt to Equity

How is it measured?	Why is it significant?	Performance	Indicator
How are they measured? Interest expenses divided by average gross debt for the year	**Why are they significant?** Our treasury aims to manage and optimise finance costs	**Performance** HIBOR in 2011 continued to hover at a level similar to 2010	**Average Finance Costs** 2.7% for 2011 (2.7% for 2010)
The proportion of the borrowings from banks and from capital markets relative to gross debt	As a measure of diversification of funding sources	More bank borrowings were utilised during the year to increase our financial flexibility	**Bank Facilities : Capital Market Issuance** 43.1% : 56.9% at year-end 2011 (29.7% : 70.3% at year-end 2010)
The weighted average of the remaining maturity period of the Group's gross debt	An indicator of the pressure for re-financing or repaying the existing borrowings in the near term	The average maturity was about the same as at year-end 2010	**Average Debt Maturity** 4.2 years at year-end 2011 (4.3 years at year-end 2010)
Debt effectively in floating interest rates divided by gross debt	A measure to calculate the percentage of borrowings subject to fluctuations in market interest rates	The ratio was kept around the same level as at year-end 2010	**Floating Rate Debt** 54.8% at year-end 2011 (53.6% at year-end 2010)
Gross profit less administrative expenses before depreciation divided by net interest expenses	It represents the Group's financial ability from operating activities to meet its interest payment obligations	Ratio reflects our stable profit against higher net interest expenses	**Net Interest Coverage** 12.3 times for 2011 (14.0 times for 2010)
Borrowings less time deposits, cash and bank balances divided by shareholders' funds	A benchmark as to the healthy debt level as well as an indicator of the Group's ability to raise further debt	The ratio remains low and the Group's ability to raise further debt remains strong	**Net Debt to Equity** 7.6% at year-end 2011 (6.4% at year-end 2010)

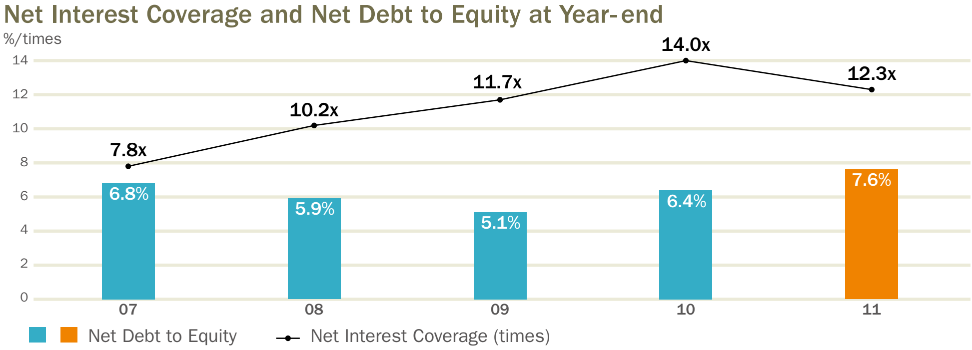
DEBT MANAGEMENT

Liquidity in the local bank loan market experienced significant changes in 2011. The market was flushed with liquidity at the beginning of the year. However, as China continued to tighten its monetary policy to contain inflation, together with worsening situation in regard to the Euro sovereign debt crisis, liquidity dropped substantially in the second half of the year. For capital market activities, investors also required a higher credit premium than before due to an uncertain economic outlook. As a result, credit spread on new borrowings increased significantly in 2011.

Leveraging its strong financial position, the Group successfully arranged new financings of HK$2,004 million despite the unfavourable credit environment in 2011. The new financings were mainly used for preparing for the repayment of debt maturing in early 2012. The HK$2,004 million financings comprised banking facilities of HK$1,450 million and notes of HK$554 million issued under the Medium Term Notes Programme.

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

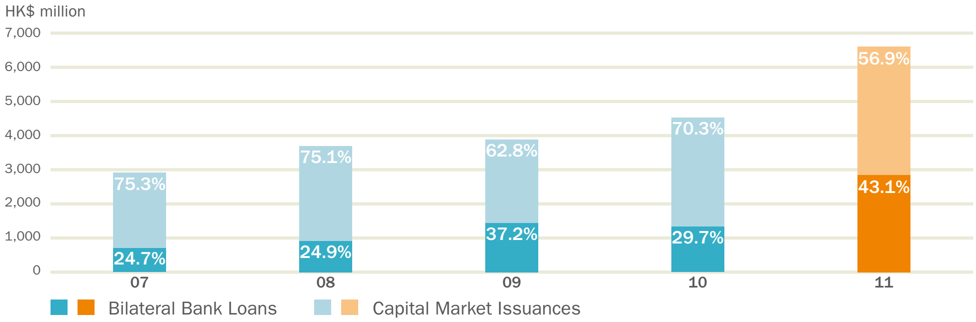


The Group always strives to lower the borrowing margin, to diversify the funding sources and to maintain a suitable maturity profile relative to the overall use of funds. As at 31 December 2011, the outstanding gross debt of the Group was HK$6,610 million (2010: HK$4,540 million), an increase of HK$2,070 million compared with 2010. All outstanding borrowings are on an unsecured basis.

To diversify 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 and such bank borrowings accounted for about 43.1% (2010: 29.7%) of the Group's outstanding gross debt. These facilities help to increase the Group's financial flexibility and to maintain a low level of funding costs. The Group also has access to local and international investors through notes issued under the Medium Term Notes Programme. As at the end of 2011, about 56.9% (2010: 70.3%) of the Group's outstanding gross debts were sourced from the debt capital markets through the Programme.

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

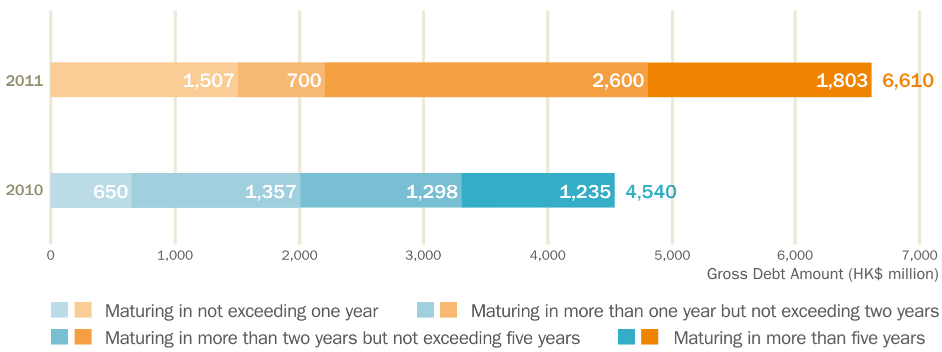
Sources of Financing at Year-end



The Group also strives to maintain an appropriate maturity profile. As at 31 December 2011, the average maturity of the debt portfolio was about 4.2 years (2010: 4.3 years), of which about HK$2,207 million or 33.4% (2010: HK$2,007 million or 44.2%) of the outstanding debts will be due in less than two years. As the Group has already arranged funding for the repayment of maturing debts in 2012, there is little re-financing pressure for the year. The Group, however, will continue to monitor the financial markets closely to identify the appropriate opportunity to tap the market if needed.

The graph below shows the debt maturity profile of the Group at 2011 and 2010 year-end.

Debt Maturity Profile at 2011 and 2010 Year-end



LIQUIDITY MANAGEMENT

The Group always places great emphasis on liquidity management in order to withstand any possible liquidity crunch amidst turbulent financial market conditions. Recurring cash flows from our business continued to remain steady and strong. As at 31 December 2011, the Group had cash and bank deposits totaling about HK$2,961 million (2010: HK$1,993 million), which will be used for capital expenditure and maturing debt repayments. All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. In order to preserve liquidity and enhance interest yields, the Group also invested HK$1,060 million (2010: HK$725 million) in debt securities and principal-protected investments.

Additional liquidity reserve was maintained in the form of highly liquid securities listed on The Stock Exchange of Hong Kong Limited. The market value of these securities amounted to HK$988 million at year-end 2011 (2010: HK$1,147 million).

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, which amounted to HK$1,000 million at year-end 2011 (2010: HK$2,550 million), essentially allow the Group to obtain additional liquidity as the needs arise.

INTEREST RATE MANAGEMENT

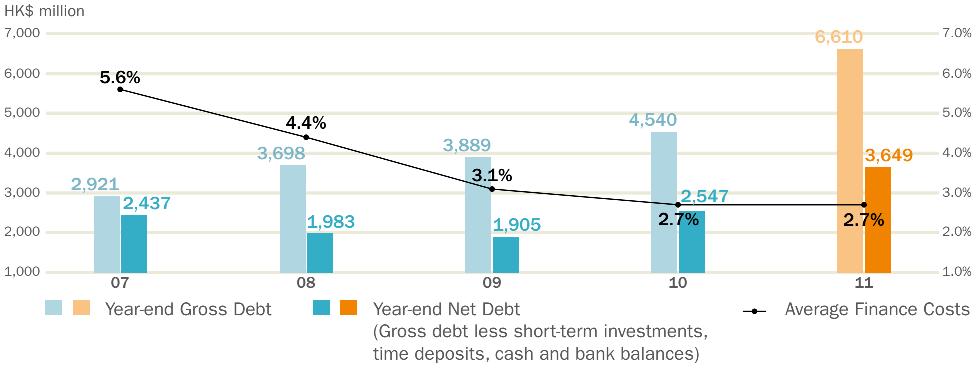
Interest expenses account for a significant proportion of the Group's total expenses and warrant close monitoring. Appropriate hedging strategies are adopted to manage exposure to projected movements in the interest rates.

Despite the tight liquidity in the credit market, 3-month Hong Kong Inter-bank Offered Rate (HIBOR) remained low, hovering between 0.19% and 0.38%. The benefit of low interest rates offset the impact of the slightly increased credit margin of new borrowings. As a result, the Group maintained the average cost of financing at 2.7% in 2011, same as 2010.

The Group managed the floating rate debt ratio at 54.8% at year-end 2011, similar to the level of last year-end at 53.6%.

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

Debt Levels and Average Finance Costs



FOREIGN EXCHANGE MANAGEMENT

The Group aims to have minimal mismatches in currency and does not speculate in currency movements for debt management. With the exception of the US$174 million 10-year notes, the US$26 million and AUD37 million bank loans, which have been hedged by appropriate hedging instruments, all of the Group's other borrowings were denominated in Hong Kong dollars. In regard to foreign exchange exposure on the investment side, the Group's outstanding investment in time deposits, principal-protected investments and debt securities amounted to US$60 million and RMB317 million, of which US$55 million and RMB167 million were hedged by foreign exchange forward contracts. Other foreign exchange exposure mainly relates to investments in the Shanghai project. These foreign exchange exposures amounted to the equivalent of HK$3,423 million (2010: HK$3,153 million) or 5.8% (2010: 6.5%) of total assets.

USE OF DERIVATIVES

As at 31 December 2011, outstanding derivatives 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

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.

2011 Review of Internal Controls Effectiveness

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

In respect of the year ended 31 December 2011, the Board considered the internal controls system effective and adequate. No significant areas of concern that might affect the operational, financial reporting, and compliance functions of the Group were identified. The scope of this review covers the adequacy of resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget.

Hysan's Internal Controls Model

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

- Control Environment – this is very important as it sets the tone for internal controls in a company. Hysan is a tightly-knit organisation with around 500 staff members. The actions of management and its demonstrated commitment to effective governance and control are therefore very transparent to all. We have a strong tradition of good corporate governance and a corporate culture based on good business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). Our "whistle-blowing" system is monitored by an independent third party service provider with direct reporting to the Audit Committee Chairman. We aim to build risk awareness and control responsibility into our culture and regard them as the foundation of our internal controls system.
- Control Activities – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on 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. During 2011, we established a plan, and are in progress of further strengthening the use of automation (information processing) in phases.

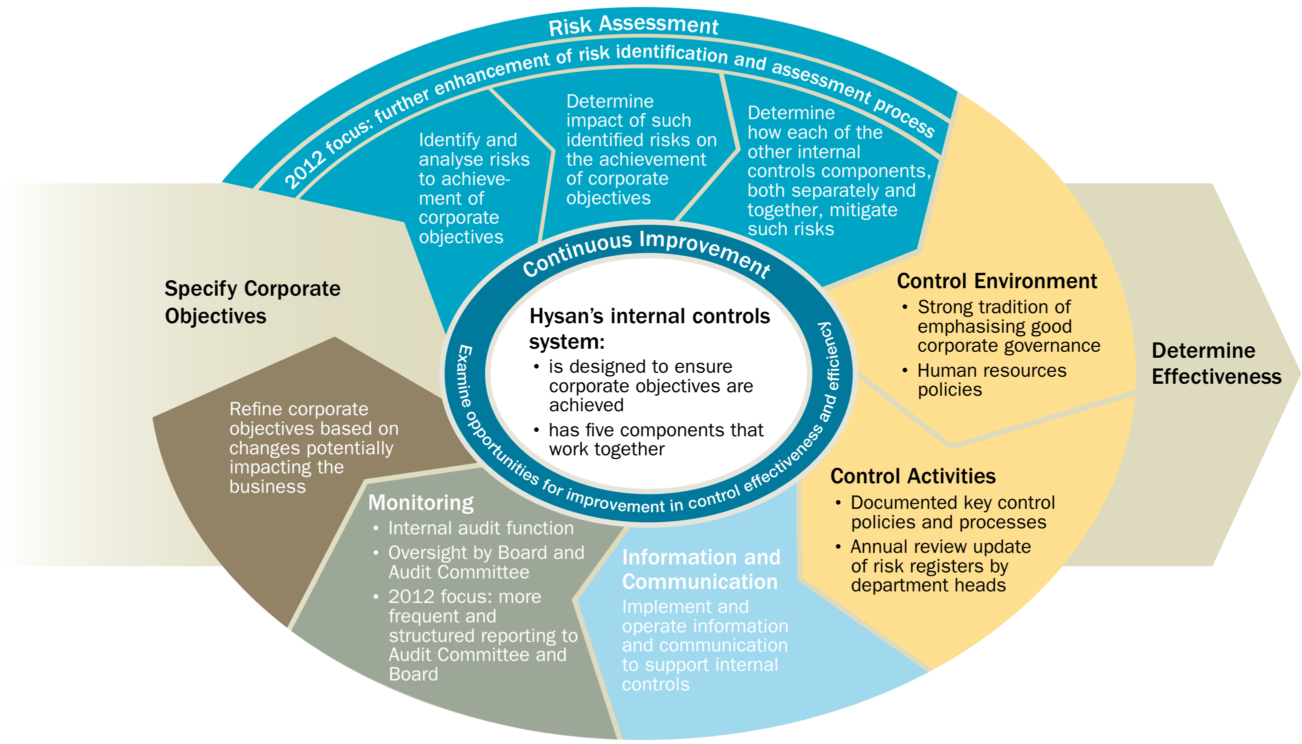
Currently, the key features of our system of internal controls include:

– Strategic and business planning: each business unit produces and obtains Board approval on a business plan each year, against which its performance is regularly monitored. Targets for a wide variety of key performance indicators are set. There is a Schedule of Matters Reserved for the Full Board to cover all major policies and directions of the Group. (See the separate Corporate Governance Report for details)

– Investment appraisal: capital projects are reviewed in detail and approved by the Chief Executive Officer, or the Board where appropriate, in accordance with delegated authority limits.

– Financial monitoring: profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board on a regular basis, including explanations of variances between actual and budgeted performance.

– Systems of control procedures and delegated authorities: there are clearly defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions.



Hysan's internal controls model is based on that set down by COSO

Our Approach to Risk Management

We maintain a simple and practical approach to risk management. Given the size and nature of our business, we do not have a separate risk management function. Instead, we seek to have risk management features embedded in our operations. The following summarizes our process to identify, evaluate, and manage the risks faced by the Group.

Methodology: We capture and report risk in a consistent manner across the Group by way of "risk registers", enabling management to assess the significance of risks by considering the relationship between the likelihood and consequence of their occurrence. We monitor and report risk as appropriate on both "Inherent" and "Residual" risk bases, the latter reflecting how management has reduced risks through appropriate controls and mitigating activities.

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

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

Way Forward

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

During 2012, our focus will centre around the following directions:

- **Risk Identification and Assessment** — We shall further refine the risk registers in phases by adopting a more risk-based approach, with clearer description of specific year-on-year risks. Training sessions and workshops will be provided to department heads, with guidance, facilitation, and discussions throughout the process.
- **Control Activities** — We shall continue to enhance our Control Activities by refining our documented policies and procedures, including greater use of automation (information processing). There will be a greater use of performance indicators, also facilitating top-level reviews.
- **More Structured and Frequent Reporting to Audit Committee** — In addition to meetings scheduled primarily for reviewing annual and interim results, an additional Audit Committee meeting will be held to review and monitor risk management activities. Management will report on progress in action plans against our principal risks.

Human Resources

Hysan's people are a highly valuable asset and the key to our continuous growth and success. We believe in teamwork and the development of talents. As at 31 December 2011, we employed a total of 541 staff, including our head office management team and front-line building management colleagues. Our workforce adheres strongly to the Group's core values of maintaining high standards of business ethics and deep respect for each individual staff member.

Building and Engaging a Strong Team

Hysan's team is strengthened from time to time by new members at all levels who enhance our capability to meet the Group's strategic objectives. Integration of teamwork by all staff members is key to ensuring that we achieve sustainable growth. To this end, a key activity to help build a winning team is the annual Company Day, an off-site one-day staff meeting attended by all head office staff and front-line building managers. With the motto "Together We Can Take the Lead", the Company Day provides an excellent platform to communicate the Group's directions and objectives for the year from the senior management to staff, and to align company goals with those of each individual.

A key component of the Company Day is the afternoon team-building session. Staff members participate in fun-filled activities that inspire better communication and encourage more effective cooperation to help maximise individual contributions to the Group.

Engaging closely with staff members plays an important role in achieving business success. Among various engagement channels, our staff briefing sessions on company annual and interim results hosted by senior management are useful avenues for employees to share success, obtain updates and provide feedback.

Chairman shares her vision on the Company Day


An enthusiastic team participates in games on the Company Day

Staff members share success at the annual results staff briefing hosted by top management

Talent Management

Our people management strategy focuses on creating a talented organisation by attracting, retaining and developing high-performing employees.

ATTRACTING THE BEST TALENTS

Hysan attracts talents by providing them with a motivating work environment that fosters open communication. The year 2011 saw intensive efforts made to attract new talents in preparation for the opening of Hysan Place, our key redevelopment project to be completed in 2012. More than 100 new career opportunities were offered at the operational level including the areas of customer service, property management and technical support, as well as at the management level with marketing and retail leasing being particularly important.

To meet demand for a strengthened team, we launched a hiring campaign by expanding recruitment channels, including Recruitment Days and employee referrals.

RETAINING AND DEVELOPING OUR STAFF

To create a culture of high performance, we focus on a strong performance management process to ensure that employee performance is objectively assessed and rewarded. We adopt the principle of "reward for performance" to motivate our employees and recognise their contribution.

In addition, we are committed to investing in our people and to helping them pursue career paths that match their aspirations. We promote continuous learning and offer a well-designed training curriculum for managerial and general staff to upgrade their competencies and capabilities. The training programmes include specialised business-related workshops such as Finance for Non-finance Managers, and Sales Behaviour for Success, both of which aim to enhance the professional training of staff. Operational training courses covering customer services and the development of service standards are organised on an on-going basis. We also offer training sponsorships to encourage our staff to remain well informed about the industry and to enhance their professional skills and knowledge.

A focus of operating staff development in 2011 was the preparation for the opening of Hysan Place. As Hysan Place features a 17-floor shopping mall and prime offices of sustainable design, operating staff are provided with training to equip them with skills and new knowledge related to green features for offices, technical features designed for a vertical shopping mall, and electronic applications that aim at enhancing shoppers' experiences.

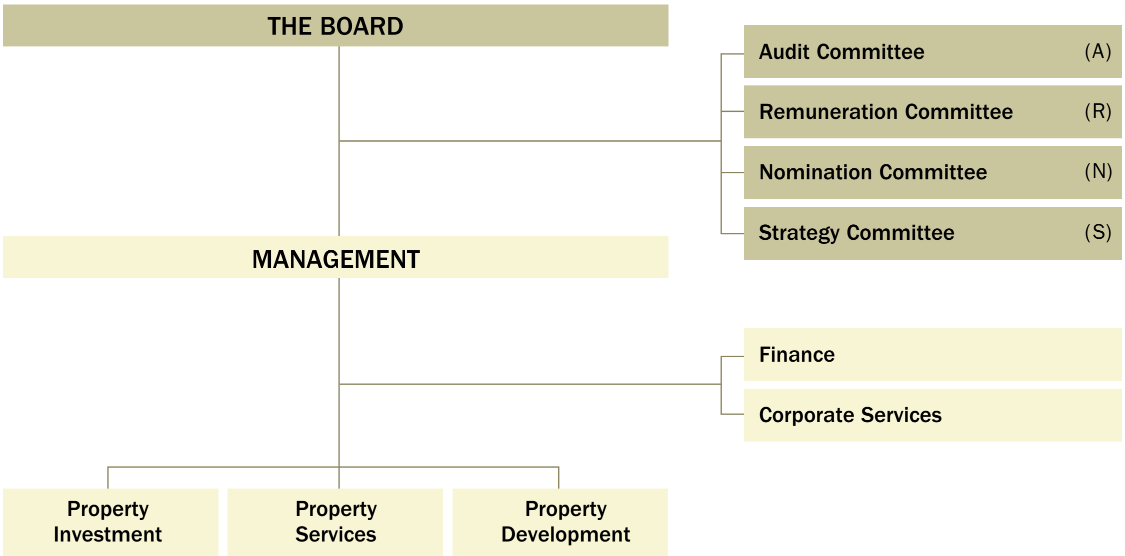
Way Forward

As Hysan's portfolio continues to evolve with the completion of Hysan Place, our human capital is playing an increasingly instrumental role in ensuring our sustainable development and future success. Collaborative teamwork and people development will continue to be central pillars for supporting the Group's transformation and for nurturing the next generation of Hysan leaders to maintain the succession pipeline.

3 \ Corporate Governance

This section introduces our Board of Directors and senior management, and gives an account of our governance structure and systems. It explains our best practices in corporate governance in place and reviews the Board's work focus in 2011.

Board of Directors and Senior Management



Chairman (chairing N, S)

Irene Yun Lien LEE

Ms. Lee is the non-executive chairman of Keybridge Capital Limited, a financial services company listed on the Australian Stock Exchange, a non-executive director of Cathay Pacific Airways Limited, QBE Insurance Group Limited (listed on the Australian Stock Exchange) and Noble Group Limited (listed on Singapore Exchange Limited). She is a member of the Advisory Council of JP Morgan Australia. She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee has been an executive director of Citicorp Investment Bank Limited in New York, London and Sydney; head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney; and a non-executive director of ING Bank (Australia) Limited and The Myer Family Company Pty Limited. Ms. Lee was formerly a member of the Australian Government Takeovers Panel. She is a member of the founding Lee family, a 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 and became Non-executive Chairman in May 2011. She was appointed Executive Chairman in March 2012. She is aged 58.

Non-executive Deputy Chairman (S)

Siu Chuen LAU

Mr. Lau is a private investor. Previously, he has worked as a management consultant at McKinsey & Company, a consumer analyst at Morgan Stanley Asia, and a brand manager of a French luxury product. He subsequently co-founded and became a Responsible Officer of a SFC licensed investment advisory firm. Mr. Lau was the acting Head of Finance of Hysan Group in 1999. He 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 and became Non-executive Deputy Chairman in March 2012. He is aged 53.

Chief Executive Officer (S)

Gerry Lui Fai YIM

Mr. Yim leads the management team and is responsible for the entire Group's business and development. Prior to joining Hysan, he was managing director (for the Americas, Middle East and Africa) of the ports division of a conglomerate and has held senior positions in general management, finance, and investment banking at major organisations in Hong Kong. Mr. Yim holds a Bachelor's degree in Economics from the University of Leeds, United Kingdom. He is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He was appointed Executive Director in December 2009 and Chief Executive Officer in March 2010. He is aged 52.

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 and VinaLand Limited. He has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers (PwC) from 1988 until his retirement in June 2007. His other appointments in Hong Kong prior to his retirement from PwC included: Member of the Securities 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 56.

Independent non-executive Director (A, N, S, chairing R)

Philip Yan Hok FAN

Mr. Fan is a non-executive director of China Everbright International Limited, an independent non-executive director of HKC (Holdings) Limited, an independent director of Zhuhai Zhongfu Enterprise Co. Ltd. and Goodman Group. 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 62.

Independent non-executive Director (R, N)

Joseph Chung Yin POON

Mr. Poon is group managing director and deputy chief executive officer of a private company and an independent non-executive director of AAC Technologies Holdings Inc. He was formerly managing director and deputy chief executive of Hang Seng Bank Limited and had held senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon is a member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee, also a committee member of the Chinese General Chamber of Commerce. He was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited. Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia. He was appointed Independent non-executive Director in January 2010. He is aged 57.

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

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 55.

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, the brother of Ms. Irene Yun Lien LEE and a director of Lee Hysan Estate Company, Limited (a substantial shareholder of the Company). He was appointed a Non-executive Director in 1994 and is aged 54.

Non-executive Director (N, S)

Chien LEE

Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and Television Broadcasts Limited and a number of private companies. He is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited, a substantial shareholder of the Company. Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University. Mr. Lee was appointed a Non-executive Director in 1988 and is aged 58.

Non-executive Director (R)

Michael Tze Hau LEE

Mr. Lee is currently the managing director of MAP Capital Limited, an investment management company. He is also an independent non-executive director of Hong Kong Exchanges and Clearing Limited, Chen Hsong Holdings Limited, Trinity Limited; and a Steward of The Hong Kong Jockey Club. Mr. Lee was an independent non-executive director of Tai Ping Carpets International Limited and a member of the Main Board and Growth Enterprise Market Listing Committees of The Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited, a substantial shareholder of the Company. He joined the Board in January 2010 having previously served as a Director from 1990 to 2007. Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University. He is aged 50.

Executive Director and Company Secretary

Wendy Wen Yee YUNG

Ms. Yung joined the Group in 1999 and was appointed an Executive Director in 2008. She advises the Board on all matters of corporate governance, and is responsible for the Group's shareholder communications and key stakeholder relations management. In addition, she has an oversight of all aspects of the Group's legal matters. As a member of the management team, she participates in the Group's strategic planning matters. Ms. Yung holds a Master of Arts degree from Oxford University, United Kingdom and is qualified as a solicitor of the Supreme Court of England and Wales as well as High Court of Hong Kong. She was a partner of an international law firm prior to joining the Group. Ms. Yung is also qualified as a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, and sits on the Institute's Professional Accountants in Business Leadership Panel. Her public services include serving as a member of the Securities and Futures Appeal Panel, and a member of the Hong Kong Selection Committee of the Rhodes Scholarships. She is aged 50.

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

Senior management team (from left)

Lai Kiu CHAN | Wendy Wen Yee YUNG | Gerry Lui Fai YIM | Cissy Ching Sze CHAN | Roger Shu Yan HAO

Director, Retail Portfolio and Marketing

Cissy Ching Sze CHAN

Ms. Chan is responsible for the Group's retail portfolio and related marketing activities. She joined the Group in 2008. Ms. Chan received a Master of Business Administration Degree from the Chinese University of Hong Kong and a Bachelor of Social Science Degree from the University of Hong Kong. She gained substantial general management experience in multinational companies while holding senior positions, with particular expertise in sales and marketing. She is aged 46.

Director, Design and Project

Lai Kiu CHAN

Ms. Chan oversees the Group's design and project affairs. She joined the Group in 2008. Ms. Chan holds a Doctor of Philosophy Degree in Architecture from the University of Hong Kong. She qualified as a PRC Class 1 Registered Architect, is a Registered Architect of Architects Registration Board of Hong Kong, and is also an Authorised Person (Architect) in Hong Kong. Ms. Chan has received various international and local awards for architectural designs. She is aged 49.

Chief Financial Officer

Roger Shu Yan HAO

Mr. Hao is responsible for the Group's financial control, treasury and information technology function. He joined the Group in 2008. Mr. Hao received a Bachelor's Degree in Business Administration from the Chinese University of Hong Kong, and is a Chartered Accountant with the Institute of Chartered Accountants in England and Wales, a Fellow of the Association of Chartered Certified Accountants and an Associate of the Hong Kong Institute of Certified Public Accountants. Mr. Hao accumulated extensive experience in auditing, financial management and control, while holding senior positions in multinational corporations. He is aged 46.

Corporate Governance Report

Refreshing of the Board and Board Leadership

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

We recognise the importance of having a broad complement of skills, experience and competencies on our Board to ensure the continued effective oversight of, and informed decision making with respect to, issues affecting Hysan. We are committed to continuing Board renewal to ensure that the Board is infused with fresh perspectives from time to time and that it always has the necessary skills and attributes required to oversee and govern in the ever-changing operating environment. Since October 2009, six Non-executive Directors with backgrounds in the areas of finance, general management and professional practices have joined our Board. Irene Yun Lien LEE was appointed Non-executive Chairman in May 2011, succeeding Sir David AKERS-JONES who has served the Board for over 20 years in a number of capacities.

Gerry Lui Fai YIM, Chief Executive Officer, has resigned from the Board effective as from the conclusion of the Annual General Meeting ("AGM") to be held on 14 May 2012. Effective 8 March 2012, the Chairman will assume an executive capacity. In addition to her role in leading the Board, she will advise, support and coach the management team, particularly regarding the long-term strategic development of the Group and management matters that drive shareholder value. Siu Chuen LAU, currently Non-executive Director, will be appointed Non-executive Deputy Chairman at the same time, to deputize and support the Chairman in her Board leadership role.

Meeting and Exceeding Compliance Requirements

Hysan meets the requirements of the Code Provisions contained in the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "HKSE"), with the exception that its Remuneration Committee (established since 1987) has the responsibility of determining compensation at Executive Director-level only. The Board is of the view that, in light of the current organisational structure and the nature of Hysan's business activities, this arrangement is appropriate. However, the Board will continue to review this arrangement going forward in light of the evolving needs of the Group. The Board has reviewed the composition of the Remuneration Committee. Philip Yan Hok FAN and Joseph Chung Yin POON, both being Independent non-executive Directors, were appointed Committee chairman and member respectively in March 2012. The other member is Michael Tze Hau LEE, Non-executive Director.

Hysan's system of corporate governance practices exceed the Corporate Governance Code in a number of key areas, some of which are contained in the new Code Provisions effective 1 April 2012 ("New April Code Provisions").

Exceeded Code Provisions	Best Practices in Corporate Governance in Place at Hysan
✓	The Board first established a formal Corporate Governance Policy* in 2004. (It is a New April Code Provision that the Board takes special responsibilities for corporate governance.)
✓	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. (Time commitment of directors is a New April Code Provision.)
✓	Board evaluation: The Chairman and Non-executive Directors meet at regularly scheduled sessions without management presence. (Board evaluation is a recommended best practice as from April 2012.)
✓	We have three Corporate Governance-related Committees, being the Audit Committee, Remuneration Committee and Nomination Committee. The Terms of Reference* of each Corporate Governance Committee provides for in-camera meetings without management presence to further encourage objective and independent discussions and assessment. The Audit, Remuneration, and Nomination Committees currently have a majority of Independent non-executive Directors. (Formation of a nomination committee is a New April Code requirement.)
✓	The Audit Committee meets the external auditors twice annually without management presence. (Such meeting frequency is a New April Code requirement.)
✓	The Group has a written Code of Ethics* applicable to all staff and Directors. Monitoring of the "whistle blowing" mechanism is performed by an external independent third party provider to further enhance independence. Such service provider reports directly to the Audit Committee. (The establishment of a "whistle blowing" policy is a proposed recommended best practice effective April 2012.)
✓	The Group has established a Code for Securities Dealing applicable to those employees likely to have access to unpublished price-sensitive information.
✓	The Group has established a Corporate Disclosure Policy* to guide its stakeholder communications and the determination of price sensitive information in order to ensure consistent and timely disclosure and fulfillment of the Group's continuous disclosure obligations.
✓	The Group has established an Auditor Service Policy* to identify areas of conflict and prohibit the engagement of auditors in such areas to ensure objectivity and independence.
✓	The Group has demonstrated its commitment to transparency in shareholder reporting by publishing a separate Corporate Governance Report since 2001. It also publishes the following reports: (i) Audit Committee Report; (ii) Directors' Remuneration and Interests Report; and (iii) Internal Controls and Risk Management Report.
✓	The Group has a formal Corporate Responsibility Policy and publishes a separate Corporate Responsibility Report.
✓	Since 2004, the Group has operated a new form of AGM that goes beyond discharging statutory business by including a detailed business review. All voting at AGMs has been conducted by poll since 2004.
✓	The Group has initiated and funded a programme inviting major nominee companies to proactively forward communication materials to the ultimate beneficial shareholders at the Group's expense.
✓	In 2012, the Group published its annual results within 70 days, well within the required time period of three months from the end of accounting period.
✓	The Group continually enhances the use of its corporate website as a means of communication with shareholders. Principal corporate governance policies, guidelines, and terms of reference of the Corporate Governance Committees are posted and publicly available.

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

What the Board has done during 2011

During the year, 4 Board meetings were held. The focus of these meetings included the following topics of discussion and yielded the following results:

1. Leadership

- appointment of Non-executive Chairman
- appointments of new Board members who bring new insights to the Board
- reviewed composition of Board Committees

2. Strategy

- reviewed strategic plans for the Group's core leasing (Office, Retail, and Residential segments) to meet short-term objectives and to strengthen medium-term competitiveness
- ongoing assessment of Hysan Place project, with a view to enabling it to take the Group to another level of commercial success and sustainability
- reviewed the positioning of our core property portfolio in Causeway Bay as a choice location for work and play; and management's plan to further strengthen its branding and marketing
- reviewed further opportunities in our core property portfolio with management

Roles of Board

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

3. Risk Management

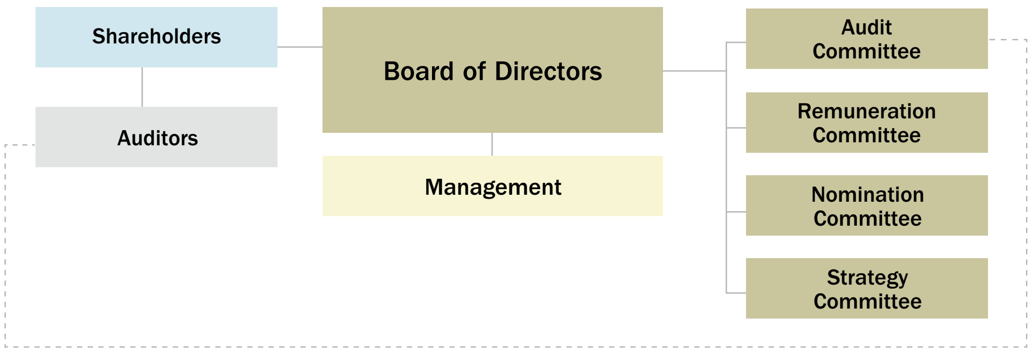
- Audit Committee received presentation on best practices in risk management and endorsed management's plans to further strengthen the risk identification and assessment process, and to adopt more frequent and structured reporting to the Audit Committee and the Board
- assessed effectiveness of financial controls, and other internal controls
  (Please refer to separate "Internal Controls and Risk Management Report")
- legal and regulatory compliance added as standing item for each Board meeting

4. Relations with Shareholders

- investor relations added as standing item for each Board meeting
- investor relations reports describing investor and analyst opinions are provided regularly to the Board
- enhanced investor relations programme to expand coverage by analysts

Governance Framework

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



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

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

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

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

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

These are reviewed periodically and a comprehensive review is scheduled for early 2012 in light of Board changes and the coming on board of Executive Chairman and Non-executive Deputy Chairman as from March.

Board Leadership

BOARD SIZE AND COMPOSITION

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

During the year, the following changes were made:

- Sir David AKERS-JONES stepped down from the conclusion of the AGM held on 9 May 2011 and was succeeded by Irene Yun Lien LEE.
- Deanna Ruth Tak Yung RUDGARD also stepped down as Non-executive Director and Siu Chuen LAU was appointed Non-executive Director as from the conclusion of the 2011 AGM.

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

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

At the AGM to be held on 14 May 2012, Nicholas Charles ALLEN, Philip Yan Hok FAN, Anthony Hsien Pin LEE and Siu Chuen LAU will retire and, being eligible, offer themselves for re-election. Gerry Lui Fai YIM will not seek re-election and will step down from the Board. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to shareholders.

Board and Management

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

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

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

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

The role of the Board is governed by a formal **Board of Directors Mandate** (details are also available on the Company's website: www.hysan.com.hk), which sets out the key responsibilities of the Board in fulfilling its stewardship roles. These are strategic planning, internal controls and risk management, culture and values, capital management, corporate governance, and Board succession.

Best Corporate Governance Disclosure Awards 2011: Non-Hang Seng Index (Large Market Capitalisation) Category – Platinum Award

Organised by the Hong Kong Institute of Certified Public Accountants

"The company's mission and values prefaced the report, with its aim to be a responsible business, fostering the highest standard of ethics and accountability and developing thought leadership and partnerships with stakeholders, whilst giving back to the community."

- Judges' Report

Schedule of Corporate Matters Reserved for the Board

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. These include the following:

General
- Long term objectives and strategies
- Extension of activities into new business areas / cease to operate any material part of existing business

Structure and capital
- Capital management framework and policy; material changes to capital structure
- Changes to the Company's listing status

Financial reporting and controls
- Announcements of results; annual report and accounts; dividends
- Treasury policies; annual funding plan and annual treasury investment plan
- Material banking facilities; material treasury investment transactions
- Annual operating and capital expenditure budgets
- Material acquisitions / disposals of fixed assets

Internal controls and risk management

Approval of resolutions and corresponding documentation for shareholder approval

Board membership and other appointments

Remuneration
- Remuneration policy for Chairman, Executive Directors; and non-executive director fee
- New share incentive plans or major changes
- Major changes to rules of pension scheme
- Key terms of new compensation and benefit plans with material financial, reputational or strategic impact

Delegation of authority by Board

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 subject to review periodically and in any event, at least once a year.

Board Effectiveness

SKILLS AND BALANCE

During 2011, we have 9 Non-executive Directors, drawn from diverse and complementary backgrounds:

Primary Background	Names
General management	Philip Yan Hok FAN, Irene Yun Lien LEE, Joseph Chung Yin POON
Finance and investment	Chien LEE, Anthony Hsien Pin LEE, Irene Yun Lien LEE, Joseph Chung Yin POON, Michael Tze Hau LEE, Siu Chuen LAU
Consumer products, marketing and distribution	Hans Michael JEBSEN, Siu Chuen LAU
Professional	Nicholas Charles ALLEN (accounting)

(Directors' full biographies are set out on pages 52 to 54 and are also available on the Company's website: www.hysan.com.hk.)

INDEPENDENCE

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

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

The Board carried out a detailed review of director independence in March 2012. It concluded that each of the 3 Independent non-executive Directors was independent as at that time. The Board will continually monitor and review whether there are relationships or circumstances that are likely to affect (or could appear to affect) independence.

Independence Status				
Name	Management	Independent	Not Independent	March 2012 Review- Reason for Independence Status
Sir David AKERS-JONES (up to 9 May 2011)		✓		N/A
Nicholas Charles ALLEN		✓		No business or other relationships with the Group or management
Philip Yan Hok FAN		✓		No business or other relationships with the Group or management
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
Dr. Deanna Ruth Tak Yung RUDGARD (up to 9 May 2011)			✓	
Gerry Lui Fai YIM	✓			
Wendy Wen Yee YUNG	✓			

SUPPLY OF INFORMATION

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

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

SUPPLY AND ACCESS TO INFORMATION

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

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

INDEPENDENT ADVICE

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

INDUCTION, BUSINESS AWARENESS AND DEVELOPMENT

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

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

In order to ensure that Directors continue to further their understanding of the issues facing the Group, we shall further strengthen the provision of management presentations, visits, and training sessions to our Directors. These will include visits to our property portfolio, presentations on market environment affecting the property leasing industry, and expert presentations on regulatory issues.

EVALUATION

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

The table overleaf sets out the number of meetings of the Board and its committees in 2011, individual attendance by Board and committee members at these meetings and the attendance of the Board members at the 2011 AGM.

Directors	Board *(Notes 1, 2)*	Audit Committee *(Note 1)*	Remuneration Committee *(Note 1)*	Strategy Committee *(Note 3)*	AGM *(Notes 1, 2)*
Executive					
Gerry Lui Fai YIM	4/4			3/3	1/1
Wendy Wen Yee YUNG	4/4			2/2 *(as attendee)*	1/1
Independent non-executive					
Sir David AKERS-JONES *(Note 4)*	2/2		2/2	1/1	1/1
Nicholas Charles ALLEN	4/4	4/4		3/3	1/1
Philip Yan Hok FAN	4/4	4/4	2/2	3/3	1/1
Joseph Chung Yin POON	3/4			2/2 *(as attendee)*	1/1
Non-executive					
Hans Michael JEBSEN	4/4 *(1 by alternate)*			1/2 *(as attendee)*	1/1
Irene Yun Lien LEE	3/3			3/3	1/1
Siu Chuen LAU	2/2			3/3	–
Anthony Hsien Pin LEE	4/4	4/4		1/2 *(as attendee)*	1/1
Michael Tze Hau LEE	4/4		2/2	2/2 *(as attendee)*	1/1
Chien LEE	4/4			3/3	1/1
Dr. Deanna Ruth Tak Yung RUDGARD *(Note 4)*	2/2 *(1 by alternate)*			–	1/1

Notes:
1. The attendance figure represents actual attendance / the number of meetings a Director is entitled to attend.
2. On 9 March 2011 and 9 May 2011, Irene Yun Lien LEE and Siu Chuen LAU were appointed Directors respectively.
3. The Strategy Committee convened its first meeting in March 2011. Invitation to attend was extended to all Board members as from May 2011 onwards.
4. Sir David AKERS-JONES stepped down as Board Chairman, Chairman of the Remuneration Committee, Nomination Committee and Strategy Committee on 9 May 2011. Dr. Deanna Ruth Tak Yung RUDGARD stepped down as a Director on 9 May 2011.

Board Committees in 2011

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

In addition, the Board established a Strategy Committee to review the long-term strategy of the Group. It is currently chaired by Irene Yun Lien LEE, Board Chairman, and its other members are Nicholas Charles ALLEN, Philip Yan Hok FAN, Siu Chuen LAU, Chien LEE and Gerry Lui Fai YIM (Chief Executive Officer). During the year, 3 meetings were held, with invitations extended to all Board members as from May 2011.

AUDIT COMMITTEE

COMPOSITION AND MEETINGS SCHEDULE

The Audit Committee is currently chaired by Nicholas Charles ALLEN (Independent non-executive Director), and its other members are Anthony Hsien Pin LEE and Philip Yan Hok FAN. There is an overall majority of Independent non-executive Directors. Nicholas Charles ALLEN (Chairman) is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in auditing and accounting, which he developed while working with a "Big Four" international firm. The Audit Committee had four meetings during the year and will have three scheduled meetings as for 2012. At the invitation of the Audit Committee, meetings are also attended by the Chairman and members of management (including the Chief Executive Officer and Chief Financial Officer).

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

ROLES AND AUTHORITY

Hysan believes a clear appreciation of the separate roles of management, the external auditors and Audit Committee members is crucial to the effective functioning of an audit committee. Management of Hysan is responsible for selecting appropriate accounting policies and the preparation of the financial statements. Formal statements of responsibilities of Directors in relation thereto are contained elsewhere in this Annual Report. The external auditors are responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls, to the extent that they consider necessary to support their audit report. The Audit Committee is responsible for overseeing the entire process.

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

ACTIVITIES AND REPORT IN 2011 AND TO DATE

Full details of the activities of the Audit Committee are also set out in the "Audit Committee Report" on pages 89 and 90. Four meetings were held during the year. Attendance of Audit Committee meetings is set out in the table on page 66. In addition to reviewing and approving annual and interim financial statements, the Committee has placed a focus on further strengthening our risk identification and assessment process, and adopting more frequent and structured internal controls and risk management reporting to the Committee and the Board.

REMUNERATION COMMITTEE (FORMERLY TITLED EMOLUMENTS REVIEW COMMITTEE)

COMPOSITION AND MEETINGS SCHEDULE

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

In-camera meetings held without management presence

ROLES AND AUTHORITY

Management makes recommendations to the Remuneration Committee on Hysan's framework for, and cost of, the remuneration of Executive Directors and the Committee then reviews these, and makes recommendations to the Board. The Remuneration Committee also reviews the remuneration fee payable to (where applicable) the Chairman and Non-executive Directors respectively prior to its being submitted for approval at the AGM. In addition, it also reviews new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans with material financial reputational and strategic impact. No Director is involved in deciding his or her own remuneration.

ACTIVITIES AND REPORT IN 2011 AND TO DATE

Full details of the activities of the Remuneration Committee are set out in the "Directors' Remuneration and Interests Report" on pages 81 to 88. Two meetings were held during the year. Attendance of Remuneration Committee meetings is set out in the table on page 66.

NOMINATION COMMITTEE

COMPOSITION AND MEETINGS SCHEDULE

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

ROLES AND AUTHORITY

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

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 Investor Relations function.

The analyst briefing on the annual results is one of the effective channels of our stakeholder engagement

INSTITUTIONAL SHAREHOLDERS

We are committed to maintaining a continuing open dialogue with institutional investors, fund managers and analysts as a means of developing their understanding of our strategy, operations, management and plans, and enabling them to raise any issues they may have. The Company has an ongoing programme of dialogue and meetings between Chief Executive Officer, Chief Financial Officer, and institutional investors, fund managers and analysts. At these meetings, a wide range of relevant issues, including strategy, performance, management and governance, are discussed within the constraints of information already made public. There are presentations to or conference calls with analysts and investors at the time of announcement of results. During the year, we have further strengthened our programme and extended the scope of our coverage of investors and analysts, including attending overseas investor roadshows. To provide more detailed knowledge of the Group, the Company also arranged analyst visits to Company sites. 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 2010, a review of business activities, and the Company’s outlook for 2011. The Company values the contributions of its shareholders during the question and answer session following the statutory part of the meeting.

CORPORATE DISCLOSURE POLICY

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

SHAREHOLDER RIGHTS

SELF-FUNDED PROGRAMME TO PROACTIVELY FORWARD SHAREHOLDER COMMUNICATION MATERIALS VIA NOMINEE COMPANIES

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

PROVISION OF SUFFICIENT AND TIMELY INFORMATION

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

VOTING

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

The AGM provides a good opportunity for communications with shareholders

RELEVANT PROVISIONS IN ARTICLES OF ASSOCIATION AND HONG KONG LAW

Under the Articles of Association of the Company and Hong Kong Companies Ordinance, shareholders holding not less than 5% of the paid up capital of the Company ("5% Shareholder") may convene an extraordinary general meeting by requisition stating the objects of the meeting, and deposit the signed requisition at the Company's registered office (49/F, The Lee Gardens, 33 Hysan Avenue, Hong Kong. Attention: The Company Secretary). Any 5% Shareholder may also requisition for the circulation of resolutions to be moved at a general meeting; and circulation of statements regarding resolution proposed. The special documents should be deposited at the Company's registered address as detailed above.

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

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

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2011, which were approved by the Board of Directors (the "Board") on 8 March 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2011 to be property investment, management and development. Details of the Group's principal subsidiaries and associates as at 31 December 2011 are set out in notes 18 and 19 respectively to the financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 94.

An interim dividend of HK15 cents per share, amounting to approximately HK$159 million, was paid to shareholders during the year.

The Board recommends the payment of a final dividend of HK64 cents per share with a scrip alternative to the shareholders on the register of members on 18 May 2012, absorbing approximately HK$678 million. The dividends proposed and paid for ordinary shares in respect of the full year 2011 will absorb approximately HK$837 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 98 and 99 and note 33 to the financial statements respectively.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2011 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 2011 are set out in the section under Schedule of Principal Properties of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and, save as otherwise stated and explained in the Corporate Governance Report, meets the requirements of the code provisions of the Code on Corporate Governance Practice (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Where appropriate, the Company has early-adopted new code provisions effective 1 April 2012.

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

(a) "Corporate Governance Report" (pages 56 to 72) – 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 81 to 88) – 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 89 and 90) – 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 45 to 47) – 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 2012; 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 Non-executive Deputy Chairman. The other Executive Directors are Gerry Lui Fai YIM (Chief Executive Officer) and Wendy Wen Yee YUNG (Executive Director and Company Secretary). There are seven other Non-executive Directors.

Irene Yun Lien LEE was appointed Non-executive Chairman as from the conclusion of the 2011 Annual General Meeting held on 9 May 2011 ("2011 AGM"). She succeeded Sir David AKERS-JONES, who stepped down following the 2011 AGM. Ms. Lee also serves as alternate Director to Anthony Hsien Pin LEE (as from 11 January 2011), and was appointed Non-executive Director on 9 March 2011. She assumed an executive capacity as from 8 March 2012.

Siu Chuen LAU was appointed Non-executive Director as from the conclusion of the 2011 AGM. He had previously served as alternate Director to Dr. Deanna Ruth Tak Yung RUDGARD, who stepped down as Non-executive Director as from the conclusion of the 2011 AGM. He was appointed Non-executive Deputy Chairman effective 8 March 2012.

Kam Wing LI served as alternate Director throughout the year.

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 52 to 54 have been Directors of the Company throughout the year.

THE BOARD continued

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.

Gerry Lui Fai YIM will step down as Chief Executive Officer and Executive Director as from the conclusion of annual general meeting to be held on 14 May 2012. Particulars of Directors seeking for re-election at the forthcoming annual general meeting are set out in the related circular to shareholders.

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

DIRECTORS' INTERESTS IN SHARES

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in Directors' Remuneration and Interests Report on pages 81 to 88.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2011, 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)*	40.87
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 *(Note b)*	40.87
Silchester International Investors LLP	Investment manager	85,161,000	8.04

Notes:

(a) The percentage has been compiled based on the total number of shares of the Company in issue as at 31 December 2011 (i.e. 1,059,754,415 ordinary shares).

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

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2011.

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 39 to the financial statements.

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

CONTINUING CONNECTED TRANSACTIONS

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

I. Leases granted by the Group

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

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

Connected person	Date of agreement	Terms	Premises	Annual consideration *(Note a)*
Oxer Limited *(Note b)*	14 June 2010 (Lease and Carpark Licence Agreement)	3 years commencing from 1 July 2010	Rooms 3703 and 3704 on the 37th Floor and 1 carparking space	2011: HK$1,638,876 2012: HK$1,638,876 2013: HK$819,438 (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 c)*	31 March 2010	3 years commencing from 1 September 2010	Office units on the 28th, 30th and 31st Floors	2011: HK$20,802,552 2012: HK$20,802,552 2013: HK$13,868,368 (on pro-rata basis)
(ii) Hang Seng Bank Limited *(Note c)*	15 October 2007 *(Note d)*	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	2011: HK$17,706,600 2012: HK$17,869,680 2013: HK$14,074,775 (on pro-rata basis) *(Notes f & g)*

CONTINUING CONNECTED TRANSACTIONS continued

I. Leases granted by the Group continued

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

Connected person	Date of agreement	Terms	Premises	Annual consideration *(Note a)*
(iii) Pearl Investments (HK) Limited *(Note h)*	(1) 23 May 2008	3 years commencing from 15 May 2008	Room 1401C on the 14th Floor	2011: HK$739,226 (on pro-rata basis)
	(2) 24 May 2011 (Lease and Carpark Licence Agreement) (renewal)	3 years commencing from 15 May 2011	Room 1401C on the 14th Floor and 1 carparking space	2011: HK$1,294,231 (on pro-rata basis) 2012: HK$2,057,496 2013: HK$2,057,496 2014: HK$763,265 (on pro-rata basis)
(iv) MF Jebsen International Limited *(Note i)*	(1) 22 December 2008	3 years commencing from 1 February 2008	Office units on the 24th and 25th Floors	2011: HK$1,127,761 (on pro-rata basis)
	(2) 7 September 2010 (renewal)	3 years commencing from 1 February 2011	Office units on the 25th Floor	2011: HK$6,612,419 (on pro-rata basis) 2012: HK$7,213,548 2013: HK$7,213,548 2014: HK$601,129 (on pro-rata basis)

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

The following lease arrangements were 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 40.87% interest). Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration *(Note a)*
Atlas Corporate Management Limited	(1) 14 November 2008	3 years commencing from 1 November 2008	Whole of 21st Floor	2011: HK$2,103,300 (on pro-rata basis)
	(2) 4 November 2011 (renewal)	3 years commencing from 1 November 2011	Whole of 21st Floor	2011: HK$466,590 (on pro-rata basis) 2012: HK$2,799,540 2013: HK$2,799,540 2014: HK$2,332,950 (on pro-rata basis)

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, a wholly-owned subsidiary of the Company, with Barrowgate for the provision of leasing, marketing and lease administration services to Lee Gardens Two:

Connected person	Date of agreement	Terms	Premises	Consideration
Barrowgate Limited	31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK$15,634,021 *(Note j)*

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

Connected person	Date of agreement	Terms	Premises	Consideration
Barrowgate Limited	31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK$3,039,590 *(Note j)*

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) 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.

(d) 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.

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

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

(g) The monthly operating charges were revised with effect from 1 January 2012 while the rental and promotional levies remained unchanged.

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

(i) MF Jebsen International Limited 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.

(j) These represent the actual consideration received for the year ended 31 December 2011, 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 76 to 79 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 lease arrangement between Barrowgate and Jebsen and Company is considered contract of significance under paragraph 15 of Appendix 16 of the Listing Rules due to the annual consideration of the lease having a percentage ratio of 1.18% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.04% and 0.08% respectively). Details of the transaction are set out under I(b)(i) of "Continuing Connected Transactions".

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate amount of purchases attributable to the Group's 5 largest suppliers and the aggregate amount of turnover attributable to the Group's 5 largest customers were less than 30% of total purchases and turnover of the Group respectively.

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 2012 AGM.

On behalf of the Board
Irene Yun Lien LEE
Chairman

Hong Kong, 8 March 2012

DIRECTOR COMPENSATION

Remuneration Committee

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

The Remuneration Committee currently has 3 members (with a majority of Independent non-executive Directors). It is chaired by Philip Yan Hok FAN, Independent non-executive Director and the other members are Joseph Chung Yin POON, Independent non-executive Director and Michael Tze Hau LEE, Non-executive Director. Sir David AKERS-JONES stepped down as Independent non-executive Chairman as well as chairman of the Committee after the conclusion of the May 2011 Annual General Meeting.

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 the Chairman and other Non-executive Directors are reviewed from time to time. Independent professional advice will be sought where appropriate. On matters other than those concerning him, the Chief Executive Officer may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

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

Details of Director (including individual Executive Director) emoluments for year 2011 and options movement during the year are set out in notes 12 and 40 respectively to the financial statements.

Non-executive Director Remuneration Policy

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

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

DIRECTOR COMPENSATION continued

Non-executive Director Remuneration Policy continued

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

Non-executive Directors (including the Independent non-executive Directors) received fees totalling HK$2,119,643.78 for 2011.

2011 Review

The Committee met twice in March 2011 with all members being present. The first meeting reviewed 2011 Executive Director compensation packages. The second meeting focused on reviewing (i) its terms of reference; and (ii) fee levels for Non-executive Directors and Board Committee members.

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

The Committee's terms of reference were refined to include reviewing the fee levels of Non-executive Directors (including additional fees for serving as Board Committee members). Taking into consideration the level of responsibility, experience, abilities required of the Directors, level of care and amount of time needed to be spent, and fees offered for similar positions in companies competing for the same talent, new fee levels of Non-executive Directors and Board Committee members were proposed and approved at the May 2011 Annual General Meeting. Effective 1 June 2011, Executive Directors will not receive Director fees.

March 2012 Review

The Committee met in March 2012 to review 2012 Executive Director compensation packages, including new package of the Chairman (who will assume an executive capacity as from 8 March 2012). New package of the Chairman was set at the same level as the former executive Chairman, with inflationary adjustment since 2010. Independent professional advice was also sought. All members attended the meeting.

Current Director Fee Levels

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

	Per annum HK$
Board of Directors	
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

DIRECTOR COMPENSATION continued

Long-term incentives: Share Option Schemes

The Company has granted options under 2 executive share option schemes. The purpose of both schemes was to strengthen the link between individual staff and shareholder interests. The power of grant to Executive Directors is vested in the 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 schemes of the Company are summarised as follows:

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

The 1995 Scheme was approved by shareholders on 28 April 1995 and had a term of 10 years. It expired on 28 April 2005. As at 31 December 2011, all options granted under the 1995 Scheme had been exercised.

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

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

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

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

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

Grant and vesting structures

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

DIRECTOR COMPENSATION continued

Long-term incentives: Share Option Schemes continued

Movement of share options

During the year, a total of 713,000 shares options were granted under the 2005 Scheme.

As at 31 December 2011, an aggregate of 2,294,669 shares are issuable for options granted under the Schemes, representing approximately 0.22% of the issued share capital of the Company.

As at the date of this Report, 97,202,433 shares are issuable under the Schemes representing 9.17% of the issued share capital.

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

Name	Date of grant	Exercise price HK$	Exercisable period *(Note a)*	Balance as at 1.1.2011	Changes during the year Granted	Exercised	Cancelled/ lapsed	Balance as at 31.12.2011
1995 Scheme								
Executive Director								
Wendy Wen Yee YUNG	30.3.2005	15.850	30.3.2005 – 29.3.2015	96,000	–	(96,000) *(Note b)*	–	–
2005 Scheme								
Executive Directors								
Peter Ting Chang LEE *(Note c)*	6.3.2007	21.380	6.3.2007 – 16.1.2011	235,000	–	(235,000) *(Note d)*	–	–
	13.3.2008	21.450	13.3.2008 – 16.1.2011	260,000	–	(173,333) *(Note d)*	(86,667)	–
	11.3.2009	11.760	11.3.2009 – 16.1.2011	500,000	–	(166,666) *(Note d)*	(333,334)	–
Gerry Lui Fai YIM	1.12.2009	22.800	1.12.2009 – 30.11.2019	218,000	–	–	–	218,000
	10.3.2011	35.710 *(Note e)*	10.3.2011 – 9.3.2021	–	217,000	–	–	217,000
Wendy Wen Yee YUNG	26.6.2006	20.110	26.6.2006 – 25.6.2016	110,000	–	(110,000) *(Note b)*	–	–
	30.3.2007	21.250	30.3.2007 – 29.3.2017	95,000	–	–	–	95,000
	31.3.2008	21.960	31.3.2008 – 30.3.2018	100,000	–	–	–	100,000
	11.3.2009	11.760	11.3.2009 – 10.3.2019	300,000	–	(200,000) *(Note b)*	–	100,000
	11.3.2010	22.100	11.3.2010 – 10.3.2020	185,000	–	–	–	185,000
	10.3.2011	35.710 *(Note e)*	10.3.2011 – 9.3.2021	–	103,000	–	–	103,000

DIRECTOR COMPENSATION continued

Long-term incentives: Share Option Schemes continued

Movement of share options continued

Name	Date of grant	Exercise price HK$	Exercisable period *(Note a)*	Balance as at 1.1.2011	Changes during the year: Granted	Exercised	Cancelled/ lapsed	Balance as at 31.12.2011
2005 Scheme continued								
Eligible employees *(Note f)*	30.3.2006	22.000	30.3.2006 – 29.3.2016	15,000	–	(15,000) *(Note g)*	–	–
	30.3.2007	21.250	30.3.2007 – 29.3.2017	15,000	–	(15,000) *(Note h)*	–	–
	31.3.2008	21.960	31.3.2008 – 30.3.2018	78,000	–	(55,000) *(Note i)*	–	23,000
	2.5.2008	23.900	2.5.2008 – 1.5.2018	95,000	–	–	–	95,000
	2.10.2008	20.106	2.10.2008 – 1.10.2018	85,000	–	–	–	85,000
	31.3.2009	13.300	31.3.2009 – 30.3.2019	363,334	–	(86,999) *(Note j)*	(13,667) *(Note k)*	262,668
	31.3.2010	22.450	31.3.2010 – 30.3.2020	523,000	–	(37,999) *(Note l)*	(44,000) *(Note k)*	441,001
	31.3.2011	32.000 *(Note m)*	31.3.2011 – 30.3.2021	–	393,000	–	(23,000) *(Note k)*	370,000
				3,273,334	713,000	(1,190,997)	(500,668)	2,294,669

Notes:

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

(b) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$34.25.

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

(d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$36.60.

(e) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 9 March 2011) was HK$35.70.

(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$33.65.

(h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$36.25.

(i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$34.68.

DIRECTOR COMPENSATION continued

Long-term incentives: Share Option Schemes continued

Movement of share options continued

(j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$34.98.

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

(l) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$35.06.

(m) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2011) was HK$31.95.

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

Particulars of the Schemes are set out in note 40 to the financial statements.

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	31.3.2011	10.3.2011
Closing share price at the date of grant	HK$32.000	HK$34.000
Exercise price	HK$32.000	HK$35.710
Risk free rate *(Note a)*	2.687%	2.717%
Expected life of option *(Note b)*	10 years	10 years
Expected volatility *(Note c)*	34.151%	34.026%
Expected dividend per annum *(Note d)*	HK$0.640	HK$0.640
Estimated fair values per share option	HK$12.409	HK$12.553

Notes:

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

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

(c) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company in the past 10 years immediately before the date of grant, matching the expected life of the options of 10 years.

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

SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2011, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

Aggregate long positions in shares and underlying shares of the Company

	Number of ordinary shares held					
Name	Personal interests	Family interests	Corporate interests	Other interests	Total	% of the issued share capital *(Note a)*
Hans Michael JEBSEN	60,984	–	2,473,316 *(Note b)*	–	2,534,300	0.239
Chien LEE	800,000	–	–	–	800,000	0.075
Gerry Lui Fai YIM	40,000	–	–	–	40,000	0.004
Wendy Wen Yee YUNG	378,000	–	–	–	378,000	0.036
Siu Chuen LAU	–	–	20,115 *(Note c)*	–	20,115	0.002

Notes:

(a) This percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,059,754,415 ordinary shares) as at 31 December 2011.

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

(c) Such shares were held through a corporation in which Siu Chuen LAU and his wife were members and each entitled to exercise no less than one-third of the voting power at general meeting.

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

Aggregate long positions in shares of associated corporations

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

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

Note:

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

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2011 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN SHARES continued

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

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

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

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

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

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

Hong Kong, 8 March 2012

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 4 meetings during the year, on 7 March, 11 May, 8 August and 8 November 2011. All the meetings were attended by Nicholas Charles ALLEN, Philip Yan Hok FAN and Anthony Hsien Pin LEE. The meetings in March 2011 and August 2011 were held to consider the financial statements for the 2010 annual report and 2011 interim report respectively. Additional meetings were held in May and November to review the Group's risk management process, with a view to further strengthening the same and determining the appropriate system way forward. Management responses to improvement areas relating to controls recommended by Internal Audit were also reviewed. The Committee last met on 5 March 2012 to consider the financial statements for the year ended 31 December 2011.

Details on the meeting held in March 2011 were set out in the 2010 Annual Report. Significant matters, as reviewed and discussed in the other meetings, include the following:

FINANCIAL REPORTING

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

- August 2011 : The Committee reviewed and recommended to the Board for approval of the unaudited financial statements for the first 6 months of 2011, prior to public announcement and filing. The Committee received reports from and met with the external auditor to discuss the scope of their review and findings. The Committee had discussions with management on significant judgments affecting Group's financial statements.
- March 2012 : The Committee reviewed and discussed with management and external auditor the 2011 financial statements included in the 2011 Annual Report, prior to public announcement and filing. The Committee received reports from and met with external auditor and internal auditor to discuss the general scope of their respective work and findings. The Committee had discussions with management with regard to significant judgments affecting the Group financial statements. Based on these review and discussions, and the report of the external auditor, the Audit Committee recommended to the Board approval of the financial statements for the year ended 31 December 2011, with the Independent Auditor's Report thereon.

REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

- May and August 2011 : The Committee considered the reports of Internal Audit, including status in implementing its recommendations.
- November 2011 : The Committee received a presentation by an external consultant on the best practices on risk management. It is satisfied that given the nature of the Group's business, the oversight and management of risk should be embedded in the existing operating functions instead of establishing a separate enterprise risk management team.

  The Committee considered and endorsed management's proposals to further strengthen the risk identification and assessment process; communications with Internal Audit; future reporting to Audit Committee on key risks (by adopting a more structured approach). In this light, it was decided that three Audit Committee meetings would be held every year.

REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS continued

- March 2012 : 2011 annual internal controls review – the Committee considered reports from and upon receiving confirmation of management and Internal Audit, was satisfied as to the effectiveness of the Company's internal controls system (including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget). There were no matters of material concern relating to financial, operational, or compliance controls.

RELATIONSHIP WITH EXTERNAL AUDITOR

- August 2011 : The Committee reviewed and considered the terms of engagement of the external auditor in respect of the 2011 annual audit and the related results announcement and annual confirmation.
- March 2012 : The Committee assessed the auditor's independence and objectivity. Factors considered include the arrangement for lead audit partner rotation, and the provision of non-audit services by the auditor. The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2012.

  The Committee also reviewed and considered the terms of engagement of the external auditor in respect of the 2012 interim results review.

  For the year ended 31 December 2011, external auditor received a total fee of HK$2,242,000 (audit services: HK$1,910,000 and non-audit services: HK$332,000).

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

Hong Kong, 8 March 2012

4 Financial Statements and Valuation

Directors' Responsibility for the Financial Statements

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

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

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

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

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

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 94 to 169, which comprise the consolidated and Company's statements of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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

8 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$ million	2010 HK$ million
Turnover	4	1,922	1,764
Property expenses		(262)	(250)
Gross profit		1,660	1,514
Investment income	6	90	49
Other gains and losses	7	(34)	(42)
Administrative expenses		(173)	(140)
Finance costs	8	(122)	(117)
Change in fair value of investment properties		7,532	2,594
Share of results of associates		254	394
Profit before taxation		9,207	4,252
Taxation	9	(217)	(201)
Profit for the year	10	8,990	4,051
Profit for the year attributable to:			
Owners of the Company		8,545	3,844
Non-controlling interests		445	207
		8,990	4,051
Earnings per share (expressed in HK cents)	15		
Basic		808.34	365.47
Diluted		807.71	365.16

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 HK$ million	2010 HK$ million
Profit for the year		**8,990**	4,051
Other comprehensive income:	11		
Losses arising from equity investments designated as at fair value through other comprehensive income		**(121)**	–
Gains arising from available-for-sale investments		**–**	150
Net gains (losses) on cash flow hedges		**4**	(22)
Gain on revaluation of properties held for own use		**71**	29
Share of translation reserve of an associate		**155**	103
Other comprehensive income for the year (net of tax)		**109**	260
Total comprehensive income for the year		**9,099**	4,311
Total comprehensive income attributable to:			
Owners of the Company		**8,654**	4,104
Non-controlling interests		**445**	207
		9,099	4,311

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$ million	2010 HK$ million
Non-current assets			
Investment properties	16	**49,969**	40,833
Property, plant and equipment	17	**530**	429
Investments in associates	19	**3,423**	3,014
Principal-protected investments	20	**365**	378
Term notes	21	**259**	168
Equity investments	22	**989**	–
Available-for-sale investments	22	**–**	1,152
Other financial assets	23	**68**	90
Other receivables		**163**	79
		55,766	46,143
Current assets			
Accounts receivable and other receivables	24	**134**	98
Amount due from an associate	26	**–**	139
Principal-protected investments	20	**265**	84
Term notes	21	**171**	95
Other financial assets	23	**71**	2
Time deposits	27	**2,899**	1,930
Cash and bank balances	27	**62**	63
		3,602	2,411
Current liabilities			
Accounts payable and accruals	28	**532**	433
Rental deposits from tenants		**170**	175
Amounts due to non-controlling interests	29	**327**	327
Borrowings	30	**1,507**	650
Other financial liabilities	23	**19**	–
Taxation payable		**73**	50
		2,628	1,635
Net current assets		**974**	776
Total assets less current liabilities		**56,740**	46,919
Non-current liabilities			
Borrowings	30	**5,156**	3,937
Other financial liabilities	23	**50**	52
Rental deposits from tenants		**430**	276
Deferred taxation	31	**360**	337
		5,996	4,602
Net assets		**50,744**	42,317
Capital and reserves			
Share capital	32	**5,299**	5,267
Reserves		**43,454**	35,410
Equity attributable to owners of the Company		**48,753**	40,677
Non-controlling interests		**1,991**	1,640
Total equity		**50,744**	42,317

The consolidated financial statements on pages 94 to 169 were approved and authorised for issue by the Board of Directors on 8 March 2012 and are signed on its behalf by:

Irene Y.L. LEE
Director

Gerry L.F. YIM
Director

Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$ million	2010 HK$ million
Non-current assets			
Property, plant and equipment	17	10	9
Investments in subsidiaries	18	1,904	–
Available-for-sale investments	22	–	2
Other financial assets	23	2	–
Amounts due from subsidiaries	25	5,126	–
		7,042	11
Current assets			
Other receivables		5	5
Amounts due from subsidiaries	25	6,088	12,671
Time deposits	27	466	547
Cash and bank balances	27	25	33
		6,584	13,256
Current liabilities			
Other payable and accruals		36	38
Amounts due to subsidiaries	25	480	175
Taxation payable		5	2
		521	215
Net current assets		6,063	13,041
Total assets less current liabilities		13,105	13,052
Non-current liability			
Deferred taxation	31	1	–
Net assets		13,104	13,052
Capital and reserves			
Share capital	32	5,299	5,267
Reserves	33	7,805	7,785
Total equity		13,104	13,052

The financial statements on pages 94 to 169 were approved and authorised for issue by the Board of Directors on 8 March 2012 and are signed on its behalf by:

Irene Y.L. LEE
Director

Gerry L.F. YIM
Director

Consolidated Statement of Changes in Equity
For the year ended 31 December 2011

	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 2010	5,253	1,703	10	276
Profit for the year	–	–	–	–
Change in fair value of available-for-sale investments	–	–	–	–
Change in fair value of derivatives designated as cash flow hedges	–	–	–	–
Transfer to profit and loss for cash flow hedges	–	–	–	–
Gain on revaluation of properties held for own use	–	–	–	–
Deferred taxation arising on revaluation of properties held for own use	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive income (expenses) for the year	–	–	–	–
Issue of shares pursuant to scrip dividend schemes	14	50	–	–
Issue of shares under share option schemes	–	1	–	–
Recognition of equity-settled share-based payments	–	–	6	–
Dividends paid during the year *(note 14)*	–	–	–	–
At 31 December 2010	5,267	1,754	16	276
Profit for the year	–	–	–	–
Change in fair value of 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	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive (expenses) income for the year	–	–	–	–
Issue of shares pursuant to scrip dividend schemes	26	159	–	–
Issue of shares under share option schemes	6	21	(6)	–
Recognition of equity-settled share-based payments	–	–	7	–
Forfeiture of share options	–	–	(2)	–
Dividends paid during the year *(note 14)*	–	–	–	–
Transfer to retained profits upon disposal of equity investments	–	–	–	–
At 31 December 2011	**5,299**	**1,934**	**15**	**276**

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	809	(22)	175	153	28,759	37,216	1,516	38,732
–	–	–	–	–	3,844	3,844	207	4,051
–	150	–	–	–	–	150	–	150
–	–	(40)	–	–	–	(40)	–	(40)
–	–	18	–	–	–	18	–	18
–	–	–	34	–	–	34	–	34
–	–	–	(5)	–	–	(5)	–	(5)
–	–	–	–	103	–	103	–	103
–	150	(22)	29	103	3,844	4,104	207	4,311
–	–	–	–	–	–	64	–	64
–	–	–	–	–	–	1	–	1
–	–	–	–	–	–	6	–	6
–	–	–	–	–	(714)	(714)	(83)	(797)
100	959	(44)	204	256	31,889	40,677	1,640	42,317
–	–	–	–	–	8,545	8,545	445	8,990
–	(121)	–	–	–	–	(121)	–	(121)
–	–	(25)	–	–	–	(25)	–	(25)
–	–	29	–	–	–	29	–	29
–	–	–	85	–	–	85	–	85
–	–	–	(14)	–	–	(14)	–	(14)
–	–	–	–	155	–	155	–	155
–	(121)	4	71	155	8,545	8,654	445	9,099
–	–	–	–	–	–	185	–	185
–	–	–	–	–	–	21	–	21
–	–	–	–	–	–	7	–	7
–	–	–	–	–	2	–	–	–
–	–	–	–	–	(791)	(791)	(94)	(885)
–	(33)	–	–	–	33	–	–	–
100	**805**	**(40)**	**275**	**411**	**39,678**	**48,753**	**1,991**	**50,744**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 HK$ million	2010 HK$ million
Operating activities			
Profit before taxation		9,207	4,252
Adjustments for:			
Other gains and losses		34	42
Finance costs		122	117
Change in fair value of investment properties		(7,532)	(2,594)
Share of results of associates		(254)	(394)
Dividend income		(54)	(34)
Interest income		(36)	(15)
Depreciation of property, plant and equipment		8	8
Share-based payment expenses		7	6
Operating cash flows before movements in working capital		1,502	1,388
Increase in accounts receivable and other receivables		(28)	(45)
(Decrease) increase in accounts payable and accruals		(31)	66
Increase in rental deposits from tenants		149	51
Cash generated from operations		1,592	1,460
Hong Kong profits tax paid		(185)	(171)
Hong Kong profits tax refund		–	10
Net cash from operating activities		1,407	1,299
Investing activities			
Interest received		40	12
Dividends received from equity investments		54	–
Dividends received from available-for-sale investments		–	34
Proceeds on disposal of an investment property		–	50
Proceeds on disposal of equity investments		40	–
Proceeds upon maturity of principal-protected investments		85	169
Proceeds upon maturity of term notes		91	–
Proceeds upon maturity of time deposits with original maturity over three months		1,928	2,225
Repayment from an associate		139	230
Payments in respect of investment properties		(1,520)	(871)
Purchases of property, plant and equipment		(8)	(7)
Purchases of term notes		(264)	(266)
Purchases of other financial assets		(60)	–
Additions to principal-protected investments		(251)	(432)
Acquisition of a subsidiary	34	(19)	–
Additions to time deposits with original maturity over three months		(2,802)	(2,107)
Net cash used in investing activities		(2,547)	(963)

	Note	2011 HK$ million	2010 HK$ million
Financing activities			
Interest paid		**(128)**	(97)
Payment of other finance costs		**(12)**	(11)
Medium Term Note Programme expenses		**(2)**	(1)
Dividends paid		**(606)**	(650)
Dividends paid to non-controlling interests of a subsidiary		**(94)**	(83)
Repayment of bank loans		**(849)**	(600)
Redemption of fixed rate notes		**–**	(68)
New bank loans		**2,350**	500
Issue of fixed rate notes		**554**	800
Proceeds on exercise of share options		**21**	1
Net cash from (used in) financing activities		**1,234**	(209)
Net increase in cash and cash equivalents		**94**	127
Cash and cash equivalents at 1 January		**560**	433
Cash and cash equivalents at 31 December	27	**654**	560

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

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

1. BASIS OF CONSOLIDATION

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

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

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

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

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

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

2. INVESTMENTS IN SUBSIDIARIES

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

3. INVESTMENTS IN ASSOCIATES

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

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

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

4. INVESTMENT PROPERTIES

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

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

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

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

5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

6. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

7. FINANCIAL INSTRUMENTS

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

Financial assets

(a) Classification and measurement prior to 1 January 2011

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

(i) Financial assets at FVTPL

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

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

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

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

(ii) Loans and receivables

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

7. FINANCIAL INSTRUMENTS continued

Financial assets continued

(a) **Classification and measurement prior to 1 January 2011** continued

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

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

(v) Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL for which interest income is included in other gains and losses as disclosed in note 7 of the Notes to the Financial Statements section.

(b) **Classification and measurement on and after 1 January 2011**

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

(i) Classification of financial assets

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

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

All other financial assets are subsequently measured at fair value.

(ii) Amortised cost and effective interest method

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

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

7. FINANCIAL INSTRUMENTS continued

Financial assets continued

(b) Classification and measurement on and after 1 January 2011 continued

(iii) Financial assets at FVTPL

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

Debt instruments that do not meet the amortised cost criteria (see (b)(i) above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group or the Company has not designated any debt instrument as at FVTPL on initial application of Hong Kong Financial Reporting Standard ("HKFRS") 9 and during the year.

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

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

(iv) Financial assets at FVTOCI

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.

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.

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 cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments.

The Group or the Company has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVTOCI on initial application of HKFRS 9 and during the year (see note 22 of the Notes to the Financial Statements section).

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 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.

(c) Impairment of financial assets

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

Prior to 1 January 2011, for an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place. Impairment losses for available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investments revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7. FINANCIAL INSTRUMENTS continued

Financial assets continued

(c) **Impairment of financial assets** continued

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

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

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

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

Prior to 1 January 2011, for financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

(d) **Derecognition of financial assets**

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group or the Company has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirely, 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 and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve 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.

Financial liabilities and equity

(a) **Classification and measurement**

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

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

7. FINANCIAL INSTRUMENTS continued

Financial liabilities and equity continued

(a) Classification and measurement continued

(i) Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities and is included in other gains and losses as disclosed in note 7 of the Notes to the Financial Statements section.

(ii) Other financial liabilities subsequently measured at amortised cost

Other financial liabilities (including accounts payable and accruals, other payable, amounts due to subsidiaries, amounts due to non-controlling interests and borrowings) are subsequently measured at amortised cost, using the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in finance costs as disclosed in note 8 of the Notes to the Financial Statements section.

(iii) Equity instruments

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

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

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments 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 and 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.

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.

Prior to 1 January 2011, derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

7. FINANCIAL INSTRUMENTS continued

Hedge accounting

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

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

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

(a) **Fair value hedges**

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

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

(b) **Cash flow hedges**

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

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

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

8. REVENUE RECOGNITION

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

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

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

Dividends on investments in equity instruments are recognised in profit or loss when the shareholders' right to receive payments has been established (provided that it is probable that the economic benefits will flow to the Group or the Company and the amount of revenue can be measured reliably), unless the dividends clearly represent a recovery of part of the cost of the investment in equity instruments designated as at FVTOCI.

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

9. LEASES

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

The Group as lessor

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

The Company as lessee

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

10. FOREIGN CURRENCIES

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

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

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.

13. TAXATION continued

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset 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 liabilities and deferred tax assets 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 or the Company whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e based on the expected manner as to how the properties will be recovered).

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

14. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Share options granted to employees

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

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

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

1. GENERAL

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

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

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

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

In the current year, the Group and the Company have applied all of the new and revised Standards, Amendments to Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the financial year beginning on 1 January 2011. In addition, the Group and the Company have applied Hong Kong Financial Reporting Standard ("HKFRS") 9 "Financial Instruments" (as revised in December 2011) in advance of its effective date of 1 January 2015 in the current year.

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

HKFRS 9 "Financial Instruments" (as revised in December 2011)

In the current year, the Group and the Company have applied HKFRS 9 in its entirety and the related consequential Amendments in advance of its effective date. The Group and the Company have chosen 1 January 2011 as its date of initial application (i.e. the date on which the Group and the Company have reassessed the classification of its financial assets and financial liabilities in accordance with requirements of HKFRS 9). The classification is based on the facts and circumstances as at 1 January 2011. In accordance with transition provisions set out in HKFRS 9, the Group and the Company have chosen not to restate comparative information, any difference between the carrying amount previously measured under Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and Measurement" and the carrying amount subsequently measured under HKFRS 9 as at 1 January 2011 is recognised in the opening retained profits at the date of initial application. HKFRS 9 does not apply to financial assets and financial liabilities that have already been derecognised at date of initial application. Other than the changes in classification of certain financial assets, the changes in accounting policies had no material financial impact on the amounts recognised on the statement of financial position of the Group or the Company as at 1 January 2011. Accordingly, the statement of financial position of the Group or the Company as at 1 January 2010 is not presented.

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

HKFRS 9 "Financial Instruments" (as revised in December 2011) continued

Financial assets

HKFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of HKAS 39. Specifically, HKFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the Group's or the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

As required by HKFRS 9, debt instruments and hybrid contracts are subsequently measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (collectively referred to as the "amortised cost criteria"). All other financial assets are subsequently measured at fair value.

However, the Group or the Company may choose at initial recognition to designate a debt instrument that meets the amortised cost criteria as at fair value through profit or loss ("FVTPL") if doing so eliminates or significantly reduces an accounting mismatch. Debt instruments that are subsequently measured at amortised cost are subject to impairment. Investments in equity instruments are classified and measured as at FVTPL except when the equity investment is not held for trading and is designated by the Group as at fair value through other comprehensive income ("FVTOCI"). If the equity investment is designated as at FVTOCI, all gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss except for dividend income, which is recognised in profit or loss in accordance with HKAS 18 "Revenue" unless the dividend income clearly represents a recovery of part of the cost of the investments.

As at 1 January 2011, the Directors of the Company have reviewed and reassessed the Group's financial assets on that date. The initial application of HKFRS 9 has had impacts on the following financial assets of the Group:

(i) the Group's investments in listed equity securities (not held for trading) of HK$1,147 million that were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as at FVTOCI; and

(ii) the Group's investments in unlisted equity securities (not held for trading) of HK$3 million that were previously classified as available-for-sale investments and measured at cost less impairment at each reporting date under HKAS 39 have been designated as at FVTOCI.

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

HKFRS 9 "Financial Instruments" (as revised in December 2011) continued

Financial assets continued

The list below illustrates the classification and measurement of the financial assets under HKAS 39 and HKFRS 9 at the date of initial application.

	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 HK$ million	New carrying amount under HKFRS 9 HK$ million
Principal-protected investments *(Note 20)*	Financial assets designated as at FVTPL	Financial assets at FVTPL	462	462
Term notes *(Note 21)*	Held-to-maturity investments/loans and receivables	Financial assets at amortised cost	263	263
Investments in listed equity securities *(Note 22)*	Available-for-sale investments	Financial assets designated as at FVTOCI	1,147	1,147
Investments in unlisted equity securities *(Note 22)*	Available-for-sale investments	Financial assets designated as at FVTOCI	3	3
Investments in club debentures	Available-for-sale investments *(Note 22)*	Financial assets at FVTPL *(Note 23)*	2	2
Other financial assets: Forward foreign exchange contracts under cash flow hedges *(Note 23)*	Derivatives designated as hedging instruments	Derivatives designated as hedging instruments	1	1
Other financial assets: Cross currency swaps under cash flow hedges *(Note 23)*	Derivatives designated as hedging instruments	Derivatives designated as hedging instruments	2	2
Other financial assets: Basis swaps under cash flow hedges *(Note 23)*	Derivatives designated as hedging instruments	Derivatives designated as hedging instruments	1	1
Other financial assets: Interest rate swaps under fair value hedges *(Note 23)*	Derivatives designated as hedging instruments	Derivatives designated as hedging instruments	50	50
Other financial assets: Cross currency swaps classified as held for trading (not under hedge accounting) *(Note 23)*	Financial assets at FVTPL	Financial assets at FVTPL	38	38
Accounts receivable and other receivables *(Note 24)*	Loans and receivables	Financial assets at amortised cost	177	177
Amount due from an associate *(Note 26)*	Loans and receivables	Financial assets at amortised cost	139	139
Time deposits *(Note 27)*	Loans and receivables	Financial assets at amortised cost	1,930	1,930
Cash and bank balances *(Note 27)*	Loans and receivables	Financial assets at amortised cost	63	63

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

HKFRS 9 "Financial Instruments" (as revised in December 2011) continued

Financial assets continued

The application of HKFRS 9 affected the Group's result in the current year as follows:

(i) The cumulative gain resulted upon disposal of investments in listed equity securities of HK$33 million that would have been reclassified from investments revaluation reserve to profit or loss under HKAS 39 is now recognised as a transfer from investments revaluation reserve to retained profits. Accordingly, both the investment income and profit reported for the year ended 31 December 2011 have been decreased by HK$33 million as a result of the change in accounting policy, resulting in a decrease on both the Group's basic and diluted earnings per share by HK3.12 cents for the year ended 31 December 2011.

(ii) The Group's unlisted equity securities previously measured at cost less impairment under HKAS 39 are now measured at fair value under HKFRS 9 and have been designated as at FVTOCI. The carrying amounts of these investments approximated their fair values as at 1 January 2011. During the year ended 31 December 2011, net fair value losses of HK$2 million, which would have been recognised as impairment losses in profit or loss under HKAS 39, have been recognised as other comprehensive expense. Accordingly, both the investment income and profit reported for the year ended 31 December 2011 have been increased by HK$2 million as a result of the change in accounting policy, resulting in an increase on both the Group's basic and diluted earnings per share by HK0.19 cents for the year ended 31 December 2011.

The fair value measurements of the Group's unlisted equity securities are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

Financial liabilities

HKFRS 9 also contains requirements for the classification and measurement of financial liabilities. One major change in the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at FVTPL) attributable to changes in the credit risk of that liability.

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

HKFRS 9 "Financial Instruments" (as revised in December 2011) continued

Financial liabilities continued

The list below illustrates the classification and measurement of the financial liabilities under HKAS 39 and HKFRS 9 at the date of initial application.

	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 HK$ million	New carrying amount under HKFRS 9 HK$ million
Accounts payable and accruals *(Note 28)*	Financial liabilities at amortised cost	Financial liabilities at amortised cost	433	433
Amounts due to non-controlling interests *(Note 29)*	Financial liabilities at amortised cost	Financial liabilities at amortised cost	327	327
Borrowings *(Note 30)*	Financial liabilities at amortised cost	Financial liabilities at amortised cost	4,587	4,587
Other financial liabilities: Interest rate swaps under cash flow hedges *(Note 23)*	Financial liabilities at FVTPL	Financial liabilities at FVTPL	48	48
Other financial liabilities: Net basis swaps classified as held for trading (not under hedge accounting) *(Note 23)*	Financial liabilities at FVTPL	Financial liabilities at FVTPL	4	4

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets[4]
	Disclosure – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 July 2011.

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

Amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities" and Amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"

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

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

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

HKFRS 13 "Fair Value Measurement"

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

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

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

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

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Fair value of investment properties

At the end of the reporting period, the Group's investment properties are stated at fair value of HK$49,969 million (2010: HK$40,833 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuers have applied a market value basis which involves, inter-alia, certain estimates, including comparable market transactions, appropriate capitalisation rates and reversionary income potential and redevelopment potential. In relying on the valuation, management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions.

Fair value of financial instruments

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

4. TURNOVER

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

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

5. SEGMENT INFORMATION

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

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

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

Residential segment – leasing of luxury residential properties and related facilities

5. SEGMENT INFORMATION continued

Segment turnover and results

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

	Office HK$ million	Retail HK$ million	Residential HK$ million	Consolidated HK$ million
For the year ended 31 December 2011				
Turnover				
Gross rental income from investment properties	701	721	283	1,705
Management fee income	119	68	30	217
Segment revenue	820	789	313	1,922
Property expenses	(102)	(104)	(56)	(262)
Segment profit	718	685	257	1,660
Investment income				90
Other gains and losses				(34)
Administrative expenses				(173)
Finance costs				(122)
Change in fair value of investment properties				7,532
Share of results of associates				254
Profit before taxation				9,207
For the year ended 31 December 2010				
Turnover				
Gross rental income from investment properties	654	636	264	1,554
Management fee income	116	64	30	210
Segment revenue	770	700	294	1,764
Property expenses	(119)	(81)	(50)	(250)
Segment profit	651	619	244	1,514
Investment income				49
Other gains and losses				(42)
Administrative expenses				(140)
Finance costs				(117)
Change in fair value of investment properties				2,594
Share of results of associates				394
Profit before taxation				4,252

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

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

	Office HK$ million	Retail HK$ million	Residential HK$ million	Consolidated HK$ million
As at 31 December 2011				
Segment assets	**16,957**	**15,092**	**8,426**	**40,475**
Investment properties under redevelopment				**9,500**
Investments in associates				**3,423**
Other assets				**5,970**
Consolidated assets				**59,368**
As at 31 December 2010				
Segment assets	14,708	11,900	7,822	34,430
Investment properties under redevelopment				6,408
Investments in associates				3,014
Other assets				4,702
Consolidated assets				48,554

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

Other than the investments in associates, which operated in the People's Republic of China (the "PRC") and Singapore with carrying amounts of HK$3,420 million (2010: HK$3,011 million) and HK$3 million (2010: HK$3 million) respectively, all the Group's assets are located in Hong Kong.

Other segment information

	Office HK$ million	Retail HK$ million	Residential HK$ million	Consolidated HK$ million
For the year ended 31 December 2011				
Additions to non-current assets	**37**	**444**	**21**	**502**
Additions to investment properties under redevelopment				**1,118**
				1,620
For the year ended 31 December 2010				
Additions to non-current assets	88	326	10	424
Additions to investment properties under redevelopment				502
				926

6. INVESTMENT INCOME

	2011 HK$ million	2010 HK$ million
Investment income comprises:		
Dividends from		
– listed investments	43	34
– unlisted investments	11	–
Interest income	36	15
	90	49

The following is an analysis of investment income:

	2011 HK$ million	2010 HK$ million
Held-to-maturity investments	–	1
Available-for-sale equity investments	–	34
Loans and receivables (including term notes, time deposits and bank balances)	–	14
Dividends from equity investments designated as at FVTOCI	54	–
Financial assets measured at amortised cost	40	–
Reclassification of losses from hedging reserve on financial instruments designated as cash flow hedges	(4)	–
	90	49

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

7. OTHER GAINS AND LOSSES

	2011 HK$ million	2010 HK$ million
Other gains and losses comprise:		
Change in fair value of financial assets or financial liabilities classified as at FVTPL	(33)	–
Change in fair value of financial assets designated as at FVTPL	–	(1)
Change in fair value of financial assets or financial liabilities classified as held for trading	–	(18)
Gains on hedging instruments under fair value hedge	16	19
Losses on adjustment for hedged items under fair value hedge	(17)	(19)
Amortisation of fair value gain adjusted to hedged items under fair value hedge in prior years	–	(23)
	(34)	(42)

8. FINANCE COSTS

	2011 HK$ million	2010 HK$ million
Finance costs comprise:		
Interest on bank loans and overdrafts wholly repayable within five years	**24**	13
Interest on floating rate notes wholly repayable within five years	**2**	3
Interest on fixed rate notes wholly repayable within five years	**116**	116
Interest on fixed rate notes not wholly repayable within five years	**44**	18
Imputed interest on zero coupon notes not wholly repayable within five years	**14**	13
Total interest expenses	**200**	163
Other finance costs	**7**	10
Less: Amounts capitalised *(Note)*	**(44)**	(12)
	163	161
Net interest receipts on interest rate swaps and cross currency swaps	**(68)**	(69)
Reclassification of losses from hedging reserve on financial instruments designated as cash flow hedges	**25**	18
Premium on redemption of fixed rate notes	**–**	6
Medium Term Note Programme expenses	**2**	1
	122	117

Note:

Interest expenses have been capitalised to investment properties under redevelopment at an average interest rate of 2.88% (2010: 1.60%) per annum.

9. TAXATION

	2011 HK$ million	2010 HK$ million
Current tax		
Hong Kong profits tax		
– current year	**207**	172
– underprovision (overprovision) in prior years	**1**	(6)
	208	166
Deferred tax *(note 31)*	**9**	35
	217	201

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:

	2011 HK$ million	2010 HK$ million
Profit before taxation	**9,207**	4,252
Tax at Hong Kong profits tax rate of 16.5%	**1,519**	701
Tax effect of share of results of associates	**(42)**	(65)
Tax effect of expenses not deductible for tax purposes	**46**	18
Tax effect of income not taxable for tax purposes	**(1,298)**	(447)
Tax effect of estimated tax losses not recognised	**3**	1
Tax effect of previously unrecognised unused tax losses now recognised as deferred tax assets	**(10)**	–
Reversal of previously recognised taxable temporary differences	**(2)**	–
Utilisation of estimated tax losses previously not recognised	**–**	(1)
Underprovision (overprovision) in prior years	**1**	(6)
Taxation for the year	**217**	201

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 31).

10. PROFIT FOR THE YEAR

	2011 HK$ million	2010 HK$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**2**	2
Depreciation of property, plant and equipment	**8**	8
Gross rental income from investment properties including contingent rentals of HK$89 million (2010: HK$54 million)	**(1,705)**	(1,554)
Less:		
– Direct operating expenses arising from properties that generated rental income	**233**	247
– Direct operating expenses arising from properties that did not generate rental income	**29**	3
	(1,443)	(1,304)
Staff costs, comprising:		
– Directors' emoluments *(note 12)*	**21**	14
– Share-based payments	**4**	4
– Other staff costs	**168**	147
	193	165
Share of income tax of an associate (included in share of results of associates)	**92**	153

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11. OTHER COMPREHENSIVE INCOME

	2011 HK$ million	2010 HK$ million
Other comprehensive income comprises:		
Losses arising from equity investments designated as at FVTOCI	(121)	–
Gain arising from available-for-sale investments	–	150
Cash flow hedges:		
– Losses arising during the year	(25)	(40)
– Reclassification adjustments for losses included in profit or loss	29	18
	4	(22)
Gain on revaluation of properties held for own use	85	34
Share of translation reserve of an associate	155	103
Other comprehensive income (before tax)	123	265
Income tax relating to components of other comprehensive income (see below)	(14)	(5)
Other comprehensive income for the year (net of tax)	109	260

Tax effect relating to other comprehensive income:

	2011			2010		
	Before-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million	Before-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million
Fair value losses arising from equity investments	(121)	–	(121)	–	–	–
Fair value gains arising from available-for-sale investments	–	–	–	150	–	150
Net gains (losses) on cash flow hedges	4	–	4	(22)	–	(22)
Gain on revaluation of properties held for own use	85	(14)	71	34	(5)	29
Share of translation reserve of an associate	155	–	155	103	–	103
	123	(14)	109	265	(5)	260

12. DIRECTORS' EMOLUMENTS

	2011 HK$ million	2010 HK$ million
Directors' fees	2	2
Other emoluments		
Basic salaries, housing and other allowances	8	8
Bonus	7	2
Share-based payments *(note 40)*	3	2
Retirement benefits scheme contributions	1	–
	21	14

12. DIRECTORS' EMOLUMENTS continued

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2011, calculated with reference to their employment as Directors of the Company, are set out below:

	Directors' fees HK$'000 *(Note a)*	Basic salaries, housing and other allowances HK$'000 *(Note b)*	Bonus HK$'000 *(Note b)*	Share-based payments HK$'000 *(Note c)*	Retirement benefits scheme contributions HK$'000	**Total HK$'000**
For the year ended 31 December 2011						
Executive Directors						
Gerry Lui Fai YIM *(Note d)*	57	5,255	4,424	1,880	12	**11,628**
Wendy Wen Yee YUNG	38	2,977	2,520	1,351	274	**7,160**
Non-executive Directors						
Irene Yun Lien LEE *(Note e)*	318	–	–	–	–	**318**
Hans Michael JEBSEN	159	–	–	–	–	**159**
Siu Chuen LAU *(Note f)*	140	–	–	–	–	**140**
Anthony Hsien Pin LEE	206	–	–	–	–	**206**
Chien LEE *(Note d)*	201	–	–	–	–	**201**
Michael Tze Hau LEE	191	–	–	–	–	**191**
Dr. Deanna Ruth Tak Yung RUDGARD *(Note g)*	35	–	–	–	–	**35**
Independent non-executive Directors						
Sir David AKERS-JONES *(Notes d & h)*	177	–	–	–	–	**177**
Nicholas Charles ALLEN *(Note d)*	265	–	–	–	–	**265**
Philip Yan Hok FAN *(Note d)*	281	–	–	–	–	**281**
Joseph Chung Yin POON	159	–	–	–	–	**159**
	2,227	8,232	6,944	3,231	286	**20,920**
For the year ended 31 December 2010						
Executive Directors						
Gerry Lui Fai YIM *(Note i)*	108	4,854	–	1,089	13	6,064
Wendy Wen Yee YUNG	100	2,805	1,476	1,293	259	5,933
Non-executive Directors						
Hans Michael JEBSEN	107	–	–	–	–	107
Anthony Hsien Pin LEE *(Note j)*	130	–	–	–	–	130
Chien LEE *(Note k)*	119	–	–	–	–	119
Michael Tze Hau LEE *(Note l)*	105	–	–	–	–	105
Dr. Deanna Ruth Tak Yung RUDGARD	100	–	–	–	–	100
Independent non-executive Directors						
Sir David AKERS-JONES *(Note m)*	652	–	–	–	–	652
Fa-kuang HU *(Note n)*	43	–	–	–	–	43
Dr. Geoffrey Meou-tsen YEH *(Note o)*	61	–	–	–	–	61
Nicholas Charles ALLEN	160	–	–	–	–	160
Philip Yan Hok FAN *(Note p)*	132	–	–	–	–	132
Joseph Chung Yin POON *(Note q)*	97	–	–	–	–	97
	1,914	7,659	1,476	2,382	272	13,703

12. DIRECTORS' EMOLUMENTS continued

Notes:

(a) Directors fees scales for Board and Board Committees were revised and approved by shareholders at the annual general meeting held on 9 May 2011 and took effect on 1 June 2011. Details are set out in Directors' Remuneration and Interests Report.

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

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2011 is set out below:

	Board HK$'000	Audit Committee HK$'000	Remuneration Committee HK$'000	Strategy Committee HK$'000	Nomination Committee HK$'000	**2011 Total HK$'000**	2010 Total HK$'000
Executive Directors							
Gerry Lui Fai YIM *(Note d)*	38	–	–	11	8	**57**	108
Wendy Wen Yee YUNG	38	–	–	–	–	**38**	100
Non-executive Directors							
Irene Yun Lien LEE *(Note e)*	276	–	–	23	19	**318**	–
Hans Michael JEBSEN	159	–	–	–	–	**159**	107
Siu Chuen LAU *(Note f)*	124	–	–	16	–	**140**	–
Anthony Hsien Pin LEE	159	47	–	–	–	**206**	130
Chien LEE *(Note d)*	159	–	–	22	20	**201**	119
Michael Tze Hau LEE	159	–	32	–	–	**191**	105
Dr. Deanna Ruth Tak Yung RUDGARD *(Note g)*	35	–	–	–	–	**35**	100
Independent non-executive Directors							
Sir David AKERS-JONES *(Notes d & h)*	141	–	11	14	11	**177**	652
Nicholas Charles ALLEN *(Note d)*	159	84	–	22	–	**265**	160
Philip Yan Hok FAN *(Note d)*	159	48	32	22	20	**281**	132
Joseph Chung Yin POON	159	–	–	–	–	**159**	97
Fa-kuang HU *(Note n)*	–	–	–	–	–	**–**	43
Dr. Geoffrey Meou-tsen YEH *(Note o)*	–	–	–	–	–	**–**	61
	1,765	179	75	130	78	**2,227**	1,914

(b) Year 2011:
The Remuneration Committee reviewed the 2011 fixed base salary of the Company's executive Directors and determined their 2010 performance-based bonus in March 2011. The stated bonus figures show the 2010 performance-based bonus approved by the Committee and paid to Executive Directors, namely HK$4,424,000 for Gerry Lui Fai YIM and HK$2,520,000 for Wendy Wen Yee YUNG respectively.

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

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

(d) The Strategy Committee was formed on 16 November 2010. Sir David AKERS-JONES was appointed Chairman of the Committee. Gerry Lui Fai YIM, Chien LEE, Nicholas Charles ALLEN and Philip Yan Hok FAN were appointed members of the Committee on the same date.

(e) Irene Yun Lien LEE was appointed Non-executive Director and member of Strategy Committee on 9 March 2011. She was appointed Non-executive Chairman of the Board, Chairman of the Nomination Committee and the Strategy Committee respectively as from the conclusion of 2011 Annual General Meeting held on 9 May 2011.

(f) Siu Chuen LAU (as alternate to Deanna Ruth Tak Yung RUDGARD) was appointed member of Strategy Committee on 9 March 2011. He was also appointed Non-executive Director as from the conclusion of 2011 Annual General Meeting held on 9 May 2011.

(g) Dr. Deanna Ruth Tak Yung RUDGARD stepped down as Non-executive Director as from the conclusion of 2011 Annual General Meeting held on 9 May 2011.

(h) Sir David AKERS-JONES stepped down as Independent non-executive Chairman and Chairman of the Remuneration Committee, the Nomination Committee and the Strategy Committee respectively as from the conclusion of 2011 Annual General Meeting held on 9 May 2011.

12. DIRECTORS' EMOLUMENTS continued

(i) Gerry Lui Fai YIM was appointed Chief Executive Officer on 10 March 2010 and member of the Nomination Committee on 10 August 2010.

(j) Anthony Hsien Pin LEE was appointed member of the Audit Committee as from the conclusion of 2010 Annual General Meeting held on 11 May 2010.

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

(l) Michael Tze Hau LEE was appointed Non-executive Director and member of the Remuneration Committee on 11 January 2010 and 10 August 2010 respectively.

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

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

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

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

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

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2010: two) were Directors of the Company, details of whose emoluments are included in note 12 above. The emoluments of all of the five individuals with the highest emoluments for the year ended 31 December 2011 and 2010 were as follows:

	2011 HK$ million	2010 HK$ million
Basic salaries, housing and other allowances	**16**	14
Bonus	**9**	4
Share-based payments *(Note)*	**5**	4
	30	22

Note:

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

Their emoluments are within the following bands:

	Number of individuals	
	2011	2010
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,500,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	1
HK$7,000,001 to HK$7,500,000	**1**	–
HK$11,500,001 to HK$12,000,000	**1**	–
	5	5

The five individuals with the highest emoluments in the Group were also the senior management of the Group.

14. DIVIDENDS

(a) Dividends recognised as distribution during the year:

	2011 HK$ million	2010 HK$ million
2011 interim dividend paid – HK15 cents per share	159	–
2010 interim dividend paid – HK14 cents per share	–	147
2010 final dividend paid – HK60 cents per share	632	–
2009 final dividend paid – HK54 cents per share	–	567
	791	714

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

	2011 HK$ million	2010 HK$ million
2011 interim dividend (2010 interim dividend):		
– Cash payment	142	112
– Share alternative	17	35
2010 final dividend (2009 final dividend):		
– Cash payment	464	538
– Share alternative	168	29
	791	714

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

	2011 HK$ million	2010 HK$ million
Final dividend proposed – HK64 cents per share (2010: HK60 cents per share)	678	632

The 2011 final dividend of HK64 cents per share (2010: HK60 cents per share) has been proposed by the Directors on 8 March 2012 and is subject to approval by the shareholders at the forthcoming annual general meeting. Such dividend is not recognised as a liability as at 31 December 2011.

The proposed 2011 final dividend will be payable in cash with a scrip dividend alternative.

15. EARNINGS PER SHARE

(a) Basic and diluted earnings per share

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

	Earnings 2011 HK$ million	Earnings 2010 HK$ million
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	**8,545**	3,844

	Number of shares 2011	Number of shares 2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,057,109,763**	1,051,785,240
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**817,621**	900,002
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,057,927,384**	1,052,685,242

For 2011, 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:

	2011 Profit HK$ million	2011 Basic earnings per share HK cents	2010 Profit HK$ million	2010 Basic earnings per share HK cents
Profit for the year attributable to owners of the Company	**8,545**	**808.34**	3,844	365.47
Change in fair value of investment properties	**(7,532)**	**(712.51)**	(2,594)	(246.63)
Effect of non-controlling interests' shares	**355**	**33.58**	125	11.89
Share of change in fair value of investment properties (net of deferred taxation) of an associate	**(58)**	**(5.49)**	(227)	(21.58)
Underlying Profit	**1,310**	**123.92**	1,148	109.15
Recurring Underlying Profit	**1,310**	**123.92**	1,148	109.15

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-term assets; impairment or its reversal; and tax provisions for prior years). As there were no such adjustments in both years, the Recurring Underlying Profit is the same as the Underlying Profit.

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

16. INVESTMENT PROPERTIES

	The Group	
	2011 HK$ million	2010 HK$ million
Fair value		
At 1 January	**40,833**	37,363
Additions	**1,601**	926
Acquisition of a subsidiary *(note 34)*	**19**	–
Disposal	**–**	(50)
Transfer to property, plant and equipment	**(16)**	–
Change in fair value recognised in profit or loss	**7,532**	2,594
At 31 December	**49,969**	40,833

The carrying amount of investment properties shown above comprises:

	The Group	
	2011 HK$ million	2010 HK$ million
Land in Hong Kong:		
– Medium-term lease	**7,680**	7,130
– Long lease	**42,289**	33,703
	49,969	40,833

The fair value of the Group's investment properties at 31 December 2011 and 2010 have been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's investment properties have been valued individually, on market value basis, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties. The valuation was mainly arrived at by reference to comparable market transactions for similar properties and on the basis of capitalisation of net income with due allowance for the reversionary income and redevelopment potential. For the investment properties under redevelopment, residual method of valuation was adopted. The valuation was mainly arrived at by reference to actual sales or rental information publicly available to determine the value of the proposed development as if it were completed as at the date of valuation.

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

During the year ended 31 December 2011, certain investment properties with a fair value of HK$16 million became property, plant and equipment because their uses have changed as evidenced by commencement of owner-occupation.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK$ million	Furniture, fixtures and equipment HK$ million	Computers HK$ million	Motor vehicles HK$ million	Total HK$ million
The Group					
Cost or valuation					
At 1 January 2010	381	59	27	1	468
Additions	–	3	4	–	7
Surplus on revaluation	32	–	–	–	32
At 31 December 2010	413	62	31	1	507
Additions	–	4	4	–	8
Transfer from investment properties	16	–	–	–	16
Surplus on revaluation	83	–	–	–	83
At 31 December 2011	**512**	**66**	**35**	**1**	**614**
Comprising:					
At cost	–	66	35	1	102
At valuation 2011	512	–	–	–	512
	512	66	35	1	614
Accumulated depreciation					
At 1 January 2010	–	51	21	–	72
Provided for the year	2	3	2	1	8
Eliminated on revaluation	(2)	–	–	–	(2)
At 31 December 2010	–	54	23	1	78
Provided for the year	2	3	3	–	8
Eliminated on revaluation	(2)	–	–	–	(2)
At 31 December 2011	**–**	**57**	**26**	**1**	**84**
Carrying amounts					
At 31 December 2011	**512**	**9**	**9**	**–**	**530**
At 31 December 2010	413	8	8	–	429

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 2010	23	25	1	49
Additions	1	3	–	4
At 31 December 2010	24	28	1	53
Additions	1	3	–	4
At 31 December 2011	**25**	**31**	**1**	**57**
Accumulated depreciation				
At 1 January 2010	21	20	–	41
Provided for the year	1	1	1	3
At 31 December 2010	22	21	1	44
Provided for the year	1	2	–	3
At 31 December 2011	**23**	**23**	**1**	**47**
Carrying amounts				
At 31 December 2011	**2**	**8**	**–**	**10**
At 31 December 2010	2	7	–	9

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

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

The Group's leasehold land and buildings were revalued at 31 December 2011 and 2010 by Knight Frank Petty Limited, an independent qualified professional valuer, on market value basis, by reference to comparable market transactions for similar properties and on the basis of capitalisation of net income with due allowance for the reversionary income. The gain of HK$85 million (2010: HK$34 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$182 million (2010: HK$168 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK$25 million (2010: HK$24 million) and accumulated depreciation of HK$21 million (2010: HK$20 million) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK$1 million (2010: 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 2011 HK$ million	The Company 2010 HK$ million
Investments in subsidiaries comprise:		
Unlisted shares, at cost	–	–
Deemed capital contribution in subsidiaries	1,904	–
	1,904	–

The table below lists the principal subsidiaries of the Group at 31 December 2011 and 2010:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company directly	Proportion of nominal value of issued share capital held by the Company indirectly	Principal activities
Admore Investments Limited	Hong Kong	HK$2	100%	–	Investment holding
Golden Capital Investment Limited	Hong Kong	HK$2	100%	–	Investment holding
HD Treasury Limited	Hong Kong	HK$2	100%	–	Treasury operation
Hysan (MTN) Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK$1	100%	–	Investment holding
Hysan 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
Kochi Investments Limited	British Virgin Islands	HK$1	–	100%	Capital market investment
Lee Theatre Realty Limited	Hong Kong	HK$10	–	100%	Property investment
Leighton Property Company Limited	Hong Kong	HK$2	–	100%	Property investment
Main Rise Development Limited	Hong Kong	HK$2	–	100%	Investment holding
OHA Property Company Limited	Hong Kong	HK$2	–	100%	Property investment
Perfect Win Properties Limited	Hong Kong	HK$2	–	100%	Property investment
Silver Nicety Company Limited	Hong Kong	HK$20	–	100%	Property investment
Barrowgate Limited	Hong Kong	HK$10,000	–	65.36%	Property investment

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

19. INVESTMENTS IN ASSOCIATES

	The Group 2011 HK$ million	The Group 2010 HK$ million
Cost of unlisted investments	3	3
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,417	3,008
	3,420	3,011
Loan to an associate	118	119
Less: Loss allocated in excess of cost of investments	(115)	(116)
	3	3
	3,423	3,014

Loan to an associate of HK$118 million (2010: HK$119 million) is unsecured and interest-free. In the opinion of the Directors, the loan is considered as part of the Group's net investment in the associate and, accordingly, the loan is included in the amount of investments in associates.

Details of the Group's associates at 31 December 2011 and 2010 are as follows:

Name of associate	Form of business structure	Place of registration and operation	Class of share held/ registered capital	Effective interest held by the Group	Principal activities
Country Link Enterprises Limited	Private limited company	Hong Kong	Ordinary share	26.3%*	Investment holding
Shanghai Kong Hui Property Development Co., Ltd	Sino-Foreign equity joint venture	The PRC	US$165,000,000#	24.7%*	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd	Sino-Foreign equity joint venture	The PRC	US$140,000#	23.7%*	Property management
Wingrove Investment Pte Ltd	Private company limited by shares	Singapore	Ordinary share	25.0%*	Property development and investment (inactive in both 2011 and 2010)

* Indirectly held

Registered capital

19. INVESTMENTS IN ASSOCIATES continued

The summarised financial information in respect of the Group's associates based on the unaudited management accounts for the year ended 31 December 2011 and 2010 is as follows:

	2011 HK$ million	2010 HK$ million
Total assets	18,055	16,690
Total liabilities	(4,677)	(4,920)
Net assets	13,378	11,770
Group's share of net assets of associates	3,305	2,895
Turnover	1,317	1,184
Profit for the year	964	1,498
Group's share of results of associates for the year	254	394

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	
	2011 HK$ million	2010 HK$ million
Within 1 year	265	84
More than 1 year but not exceeding 5 years	365	378
	630	462

The Group entered into certain contracts of structured investments with certain financial institutions. The structured investments are principal-protected at the maturity dates and contain embedded derivatives which are not closely related to the host contracts. The interest rates of such investments vary in relation to the relative movements of the underlying variables, such as foreign exchange rates and 3-month Hong Kong Interbank Offered Rate ("HIBOR"). Prior to 1 January 2011, the entire combined contracts have been designated as financial assets at FVTPL on initial recognition.

Upon the application of HKFRS 9 on 1 January 2011, the Group's principal-protected investments that were previously designated as financial assets at FVTPL have been classified as financial assets at FVTPL. The investments previously designated as at FVTPL under HKAS 39, continue to be measured at FVTPL because they do not meet the amortised cost criteria under HKFRS 9.

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

	The Group			
	2011		2010	
	Notional amount HK$ million	Fair value HK$ million	Notional amount HK$ million	Fair value HK$ million
Within 1 year	262	265	81	84
More than 1 year but not exceeding 5 years	371	365	382	378
	633	630	463	462

21. TERM NOTES

	The Group	
	2011 HK$ million	2010 HK$ million
Term notes, at amortised cost, comprise:		
– Debt securities listed in Hong Kong	**19**	–
– Debt securities listed in overseas	**120**	216
– Unlisted debt securities	**291**	47
Total	**430**	263
Analysed for reporting purposes as:		
Current assets	**171**	95
Non-current assets	**259**	168
	430	263

Upon the application of HKFRS 9 on 1 January 2011, the Group's debt securities listed in overseas and unlisted debt securities that were previously classified as held-to-maturity investments and loans and receivables respectively have been classified as financial assets measured at amortised cost. The term notes previously measured at amortised cost under HKAS 39, which also meet amortised cost criteria under HKFRS 9, continue to be measured at amortised cost.

As at 31 December 2011, the effective yield of the debt securities ranged from 1.05% to 3.13% (2010: 1.73% to 3%) per annum, payable quarterly or semi-annually, and the securities will mature from January 2012 to June 2014 (2010: from November 2012 to July 2013). None of these assets are past due or impaired at the end of the reporting period.

22. EQUITY INVESTMENTS/AVAILABLE-FOR-SALE INVESTMENTS

	The Group		The Company	
	2011 HK$ million	2010 HK$ million	**2011 HK$ million**	2010 HK$ million
Equity investments/available-for-sale investments comprise:				
Listed investments:				
– Equity securities listed in Hong Kong, at fair value	**988**	1,147	**–**	–
Unlisted investments:				
– Overseas equity securities, at fair value	**1**	–	**–**	–
– Overseas equity securities, at cost	**–**	58	**–**	–
Less: Impairment loss recognised	**–**	(55)	**–**	–
	1	3	**–**	–
– Club debentures, at fair value	**–**	2	**–**	2
	989	1,152	**–**	2

The overseas equity securities represent the Group's investments in unlisted equity securities issued by private entities incorporated in Singapore. These private entities are engaged in property investment and development activities in Singapore. Prior to 1 January 2011, they are measured at cost less any identified impairment loss under HKAS 39 because the range of reasonable fair value estimates is so significant that the management is of the opinion that their fair values cannot be measured reliably.

These investments in equity securities are not held for trading. Upon the application of HKFRS 9 on 1 January 2011, the Group's investments in listed and unlisted equity securities and the Group's and the Company's unlisted club debentures that were previously classified as available-for-sale investments have been classified as equity investments designated as at FVTOCI and financial assets measured at FVTPL (see note 23(d)(ii)) respectively. The Group has chosen to designate these investments in equity instruments as at FVTOCI as the management believes that this provides a more meaningful presentation for these investments, than reflecting changes in fair value in profit or loss.

23. OTHER FINANCIAL ASSETS/LIABILITIES

	The Group			
	Current		Non-current	
	2011 HK$ million	2010 HK$ million	**2011 HK$ million**	2010 HK$ million
Other financial assets				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	**1**	1	**–**	–
– Cross currency swaps	**–**	–	**–**	2
– Basis swaps	**–**	1	**–**	–
Fair value hedges				
– Interest rate swaps	**–**	–	**66**	50
	1	2	**66**	52
Financial assets measured at FVTPL:				
Other derivatives classified as held for trading (not under hedge accounting):				
– Cross currency swaps	**–**	–	**–**	38
Zero coupon convertible note	**70**	–	**–**	–
Club debentures	**–**	–	**2**	–
	70	–	**2**	38
Total	**71**	2	**68**	90
Other financial liabilities				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	**2**	–	**–**	–
– Cross currency swaps	**–**	–	**10**	–
– Interest rate swaps	**5**	–	**40**	48
	7	–	**50**	48
Financial liabilities measured at FVTPL:				
Other derivatives classified as held for trading (not under hedge accounting):				
– Net basis swaps	**2**	–	**–**	4
– Asset swap	**10**	–	**–**	–
	12	–	**–**	4
Total	**19**	–	**50**	52

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									
	2011					2010				
	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										
Buy US dollars ("USD") *(Note a)*										
Within 1 year	7.6059	USD	2	15	1	7.6169	USD	4	30	1
More than 1 year but not exceeding 5 years	–	USD	–	–	–	7.6059	USD	2	15	–
	7.6059	USD	2	15	1	7.6134	USD	6	45	1
Sell USD *(Note b)*										
Within 1 year	7.7865	USD	18	140	–	7.7373	USD	16	125	–
More than 1 year but not exceeding 5 years	7.7309	USD	10	77	–	–	USD	–	–	–
	7.7667	USD	28	217	–	7.7373	USD	16	125	–
Sell Renminbi ("RMB") *(Note c)*										
Within 1 year	1.2065	RMB	167	202	(2)	–	RMB	–	–	–
Cross currency swaps										
Hedging interest and principal of Australian dollars ("AUD") bank loan *(Note d)*										
More than 1 year but not exceeding 5 years	8.1497	AUD	37	300	(10)	–	AUD	–	–	–
Hedging interest and principal of USD bank loans *(Note e)*										
More than 1 year but not exceeding 5 years	7.8000	USD	26	200	–	7.7753	USD	51	399	2
Total				934	(11)				569	3

* 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$15 million (2010: HK$45 million) forward foreign exchange contract to hedge the foreign exchange rate risk in relation to the semi-annual coupon payment of US$57 million (2010: US$57 million) out of the US$174 million (2010: US$174 million) fixed rate notes.

(b) The Group used HK$217 million (2010: HK$125 million) forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes and principal-protected investments denominated in USD at their respective maturity dates.

(c) The Group used HK$202 million (2010: nil) forward foreign exchange contracts to hedge the foreign exchange rate risk of the principal and interest amount of a time deposit denominated in RMB at its maturity date.

(d) The Group used HK$300 million (2010: nil) cross currency swap to convert AUD interest and principal of AUD37 million (2010: nil) bank loan into HKD.

(e) The Group used HK$200 million (2010: HK$399 million) cross currency swap to convert USD interest and principal of US$26 million (2010: US$51 million) bank loan into HKD.

As at 31 December 2011, cumulative fair value gains of HK$5 million (2010: HK$3 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$3 million (2010: gains of HK$3 million) on forward foreign exchange contracts and cross currency swaps were reclassified from hedging reserve to profit or loss as finance costs and losses of HK$4 million (2010: nil) on forward foreign exchange contracts were reclassified from hedging reserve to profit or loss as investment income.

The fair values of forward foreign exchange contracts and cross currency swaps are measured using quoted forward exchange rates and yield curves from quoted interest rates matching maturities of the contracts and swaps.

(ii) Interest rate risk

During the year, the Group used interest rate swaps and basis swaps to hedge its interest rate risk exposure. The terms of the swaps have been negotiated to match the major terms of the respective hedged underlying items so that the management considers that the interest rate swaps and basis swaps are highly effective hedging instruments.

23. OTHER FINANCIAL ASSETS/LIABILITIES continued

(a) Cash flow hedges continued

(ii) Interest rate risk continued

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

	The Group							
	2011				2010			
	Average interest rate*	Notional amount US$ million	Notional amount HK$ million	Fair value HK$ million	Average interest rate*	Notional amount US$ million	Notional amount HK$ million	Fair value HK$ million
Interest rate swaps								
Hedging interest of HKD bank loans *(Note a)*								
Within 1 year	0.32%	n/a	200	–	–	–	–	–
More than 1 year but not exceeding 5 years	3.32%	n/a	525	(28)	3.32%	n/a	525	(26)
	2.49%	n/a	725	(28)	3.32%	n/a	525	(26)
Hedging floating-interest-rate payments of financial instruments *(Note b)*								
Within 1 year	3.80%	n/a	200	(5)	–	–	–	–
More than 1 year but not exceeding 5 years	2.99%	n/a	200	(12)	3.39%	n/a	400	(22)
	3.39%	n/a	400	(17)	3.39%	n/a	400	(22)
Basis swaps								
Hedging interest of HKD bank loans *(Note c)*								
Within 1 year	0.08%	n/a	325	–	0.11%	n/a	325	–
Hedging interest of USD bank loans *(Note d)*								
Within 1 year	0.07%	26	200	–	0.14%	51	399	1
Total			1,650	(45)			1,649	(47)

* For interest rate swaps, the average interest rate represented the average fixed interest rate paid by the Group against receipts of 3-month HIBOR or 6-month HIBOR weighted by the notional amounts of the swaps. For basis swaps, the average interest rate represented the average spread (weighted by the notional amounts of the swaps) that was added to 1-month HIBOR or 1-month London-Interbank Offered Rate ("LIBOR") received by the Group against 3-month HIBOR or 3-month LIBOR paid by the Group.

Notes:

(a) The Group used HK$725 million (2010: HK$525 million) interest rate swaps to manage its exposure to interest rate changes of the monthly or quarterly interest payments of HKD bank loans. HK$200 million of the swaps will be effective in 2012 for hedging forecast transactions of borrowings at that time.

(b) The Group used HK$400 million (2010: HK$400 million) interest rate swaps to hedge the interest rate risk in relation to the quarterly floating-interest-rate payments of certain financial instruments.

(c) The Group used HK$325 million (2010: HK$325 million) basis swaps to combine with interest rate swaps referred to note (a) to hedge the interest rate changes of the monthly or quarterly interest payments of HK$325 million (2010: HK$325 million) bank loans.

(d) The Group used HK$200 million (2010: HK$399 million) basis swaps to combine with cross currency swaps referred to note (e) of "foreign currency risk" to hedge the interest rate changes of the monthly or quarterly interest payments of US$26 million (2010: US$51 million) bank loan.

23. OTHER FINANCIAL ASSETS/LIABILITIES continued

(a) Cash flow hedges continued

(ii) **Interest rate risk** continued

As at 31 December 2011, net cumulative fair value losses of HK$45 million (2010: HK$47 million) from the interest rate swaps and basis swaps under cash flow hedges have been recognised in other comprehensive income and accumulated in hedging reserve, and are expected to be released to the consolidated income statement at various dates during the lives of the swaps when the hedged interest expenses are recognised and impact the profit or loss.

During the year, losses of HK$22 million (2010: HK$21 million) on interest rate swaps and basis swaps were reclassified from hedging reserve to profit or loss as finance costs.

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

(b) Fair value hedges

The Group used interest rate swaps to minimise its exposure to fair value changes of its HKD fixed rate notes and zero coupon notes by swapping the notes from fixed rates to floating rates. The major terms of the interest rate swaps match the corresponding notes and the management considers that the swaps are highly effective hedging instruments.

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

	The Group							
	2011				2010			
	Average interest rate*	Notional amount US$ million	Notional amount HK$ million	Fair value HK$ million	Average interest rate*	Notional amount US$ million	Notional amount HK$ million	Fair value HK$ million
Interest rate swaps *(Note)*								
Within 1 year	–	n/a	–	–	1.42%	n/a	65	–
More than 1 year but not exceeding 5 years	4.18%	n/a	300	35	4.18%	n/a	300	30
More than 5 years	4.50%	n/a	278	31	4.50%	n/a	264	20
	4.33%	n/a	578	66	4.03%	n/a	629	50

* 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 (2010: HK$365 million) fixed-to-floating interest rate swaps to hedge interest rate risk related to part of the coupon payments of the HK$300 million (2010: HK$365 million) fixed rate notes. The Group also designated a fixed-to-floating interest rate swap with nominal amount of HK$278 million (2010: HK$264 million) as at 31 December 2011 to hedge the zero coupon notes with nominal amount of HK$430 million by converting a fixed rate of 5.19% per annum to HIBOR plus 0.69% per annum.

As a result of the hedge accounting, the carrying amount of the fixed rate notes as at 31 December 2011 was adjusted by losses of HK$35 million (2010: HK$30 million) while the carrying amount of the zero coupon notes as at 31 December 2011 was adjusted by losses of HK$32 million (2010: HK$20 million). The changes in fair values of the notes for the hedged risk were included in profit or loss at the same time that the changes in fair value of the swaps were included in profit or loss.

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

23. OTHER FINANCIAL ASSETS/LIABILITIES continued

(c) Other derivatives classified as held for trading (not under hedge accounting)

At the end of the reporting period, the Group had certain derivatives classified as held for trading and not under hedge accounting. The table below is prepared based on the maturity dates of respective contracts. The major terms of these derivatives are as follows:

	The Group							
	2011				2010			
	Average interest/ exchange rate*	Notional amount US$ million	Notional amount HK$ million	Fair value HK$ million	Average interest/ exchange rate*	Notional amount US$ million	Notional amount HK$ million	Fair value HK$ million
Net basis swaps *(Note a)*								
Within 1 year	7.8000	57	445	(2)	–	–	–	–
More than 1 year but not exceeding 5 years	–	–	–	–	7.8000	57	445	(4)
	7.8000	57	445	(2)	7.8000	57	445	(4)
Cross currency swaps *(Note b)*								
Within 1 year	7.7998	117	913	–	–	–	–	–
More than 1 year but not exceeding 5 years	–	–	–	–	7.7998	117	913	38
	7.7998	117	913	–	7.7998	117	913	38
Interest rate swap *(Note c)*								
Within 1 year	–	–	–	–	1.49%	n/a	65	–
Forward foreign exchange contracts *(Note d)*								
More than 1 year but not exceeding 5 years	7.8400	27	212	–	–	–	–	–
Asset swap *(Note e)*								
Within 1 year	2.00%	n/a	60	(10)	n/a	n/a	–	–

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

Notes:

(a) The Group used US$57 million (2010: US$57 million) net basis swaps to minimise the foreign currency exposure in relation to the principal payment and part of the coupon payment of the US$57 million (2010: US$57 million) of the US$174 million (2010: US$174 million) fixed rate notes at maturity.

(b) The Group used US$117 million (2010: US$117 million) cross currency swaps to manage the interest rate and foreign exchange risks of US$117 million (2010: US$117 million) of the US$174 million (2010: US$174 million) fixed rate notes.

(c) The Group had no interest rate swap classified as held for trading as at 31 December 2011. As at 31 December 2010, the Group used HK$65 million fixed-to-floating interest rate swap to manage the interest rate risk in relation to the quarterly interest payment of part of the Group's borrowings.

(d) The Group used HK$212 million (2010: nil) forward foreign exchange contracts to manage the foreign exchange rate risk in relation to investment amount of US$27 million (2010: nil) of term notes and principal-protected investments. The contracts will effectively manage the foreign exchange rate risk if HKD:USD is above 7.74 at the respectively maturity dates. If HKD:USD is at or below 7.74, the contracts will be knocked out and the Group will have no obligation on the settlement of the contracts.

(e) The Group used a HK$60 million (2010: nil) asset swap to convert the return of a zero coupon convertible note of investment amount of HK$60 million (2010: nil) into a floating rate note with interest income of 3-month HIBOR plus 2%. The mark-to-market losses were offset by corresponding mark-to-market gains of the note.

23. OTHER FINANCIAL ASSETS/LIABILITIES continued

(d) Financial assets measured at FVTPL

(i) Zero coupon convertible note

During the year, the Group purchased a zero coupon convertible note of HK$60 million with an embedded equity option of a listed company in Hong Kong. The note will mature in February 2012. As disclosed in note (c) of other derivatives classified as held for trading, an asset swap was used to manage the fair value exposure to the notes at the end of the reporting period. The entire combined contracts have been classified as financial assets measured at FVTPL on initial recognition.

(ii) Club debentures

Upon the application of HKFRS 9 on 1 January 2011, the Group's and the Company's investments in unlisted club debentures that were previously classified as available-for-sale investments (see note 22) have been classified as financial assets measured at FVTPL.

The Group's and the Company's club debentures previously measured at fair value at each reporting date under HKAS 39, continued to be measured at FVTPL under HKFRS 9.

24. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

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$6 million (2010: HK$5 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

25. AMOUNTS DUE FROM/TO SUBSIDIARIES

	The Company	
	2011 HK$ million	2010 HK$ million
Amounts due from subsidiaries are classified as:		
– Current assets *(Note a)*	**6,088**	12,671
– Non-current assets *(Note b)*	**5,126**	–
	11,214	12,671
Amounts due to subsidiaries *(Note a)*	**480**	175

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. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate is unsecured, interest-free and repayable on demand. During the year ended 31 December 2011, all outstanding balances were fully recovered.

27. TIME DEPOSITS/CASH AND BANK BALANCES

	The Group	
	2011 HK$ million	2010 HK$ million
Time deposits	**2,899**	1,930
Cash and bank balances	**62**	63
Cash and deposits with banks shown in the consolidated statement of financial position	**2,961**	1,993
Less: Time deposits with original maturity over three months	**(2,307)**	(1,433)
Cash and cash equivalents shown in the consolidated statement of cash flows	**654**	560

Included in the Company's time deposits as at 31 December 2011, were HK$395 million (2010: HK$497 million) of time deposits with original maturity over three months. The bank balances and remaining time deposits of the Company were with original maturity of three months or less.

Time deposits, cash and bank balances comprise cash and bank deposits carrying effective interest rates ranging from 0.205% to 2.46% (2010: 0.005 % to 1.55%) per annum.

28. ACCOUNTS PAYABLE AND ACCRUALS

At the end of the reporting period, accounts payable of the Group with carrying amount of HK$324 million (2010: HK$229 million) were aged less than 90 days.

29. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

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

30. BORROWINGS

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

	The Group			
	Current		Non-current	
	2011 HK$ million	2010 HK$ million	**2011 HK$ million**	2010 HK$ million
Unsecured bank loans	**150**	650	**2,690**	699
Floating rate notes	**–**	–	**200**	200
Fixed rate notes	**1,357**	–	**1,952**	2,750
Zero coupon notes	**–**	–	**314**	288
	1,507	650	**5,156**	3,937

In the current year, the average finance cost of the Group's total borrowings calculated based on their contracted interest rates was 3.7% (2010: 3.9%). To manage the interest rate and foreign exchange risks, the Group used certain derivatives to hedge part of the borrowings, which resulted in a reduction of the Group's average finance cost to 2.7% (2010: 2.7%). As at 31 December 2011, the floating rate debt ratio was 54.8% (2010: 53.6%).

30. BORROWINGS continued

(a) Unsecured bank loans

The unsecured bank loans of HK$2,840 million (2010: HK$1,349 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	
	2011 HK$ million	2010 HK$ million
Within 1 year	**150**	650
More than 1 year, but not exceeding 2 years	**699**	–
More than 2 years, but not exceeding 5 years	**1,991**	699
	2,840	1,349

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 0.59% to 5.37% (2010: 0.69% to 1.51%) per annum at the end of the reporting period. Interest rates of the loans are normally re-fixed at every one to six months.

As disclosed in note 23(a), cross currency swaps, interest rate swaps and basis swaps were designated as cash flow hedges to hedge the foreign exchange and interest rate risks of part of the Group's unsecured bank loans.

(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 1.26% (2010: 1.30%) 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.

30. BORROWINGS continued

(c) Fixed rate notes

	The Group 2011 HK$ million	2010 HK$ million
Fixed rate notes – principal amount	**3,274**	2,720
Add: Net loss attributable to hedged risks	**35**	30
	3,309	2,750

Details of the Group's fixed rate notes at 31 December 2011 and 2010 are as follows:

Principal amount	Contracted interest rate per annum	Coupon payment term	Issue date	Maturity date
US$174 million*	7.00%	semi-annual basis	February 2002	February 2012
HK$300 million	5.25%	quarterly basis	August 2008	August 2015
HK$100 million	5.10%	annual basis	August 2008	August 2015
HK$165 million	5.38%	annual basis	September 2008	September 2020
HK$400 million	3.78%	quarterly basis	August 2010	August 2020
HK$200 million	4.00%	annual basis	September 2010	September 2025
HK$200 million	3.70%	quarterly basis	October 2010	October 2022
HK$150 million	3.86%	quarterly basis	May 2011	May 2018
HK$404 million	4.10%	annual basis	December 2011	December 2023

* In February 2002, US$200 million 10-year fixed rate notes were issued by Hysan (MTN) Limited. In 2006 and 2010, US$18 million and US$8 million of the notes were repurchased and cancelled respectively. The outstanding amount of the notes at the end of the reporting period was US$174 million (2010: US$174 million).

All the fixed rate notes were issued by Hysan (MTN) Limited. The notes are guaranteed as to principal and interest by the Company and bear an effective interest rate equal to their respective contracted interest rate.

As detailed in note 23, forward foreign exchange contracts, interest rate swaps, cross currency swaps and net basis swaps were used to hedge or manage the foreign exchange and interest rate risks of the Group's fixed rate notes at the end of the reporting period.

The net loss of HK$35 million (2010: HK$30 million) represented the change in fair value attributable to the hedged interest rate risk of the HK$300 million (2010: HK$365 million) fixed rate notes under fair value hedge.

(d) Zero coupon notes

	The Group 2011 HK$ million	2010 HK$ million
Zero coupon notes	**282**	268
Add: Loss attributable to hedged risk	**32**	20
	314	288

In February 2005, 15-year zero coupon notes of nominal amount of HK$430 million were issued at an issue price of around 46.37% of the nominal amount by Hysan (MTN) Limited. The notes are guaranteed as to nominal amount by the Company, bear an effective yield (which is equal to contracted yield) at the rate of 5.19% per annum and are repayable at par in February 2020.

Hysan (MTN) Limited has the option to redeem the notes on 7 February 2015 at a price of about 77.4% of the nominal amount.

The Group has entered into an interest rate swap to hedge against the interest rate risk of the zero coupon notes under fair value hedge (see note 23(b) for details).

The loss of HK$32 million (2010: HK$20 million) represented changes in fair value attributable to the hedged interest rate risk of the zero coupon notes under fair value hedge.

31. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$ million	Revaluation of properties HK$ million	Tax losses HK$ million	Total HK$ million
The Group				
At 1 January 2010	266	35	(4)	297
Charge to profit or loss *(note 9)*	31	–	4	35
Charge to other comprehensive income	–	5	–	5
At 31 December 2010	297	40	–	337
Charge (credit) to profit or loss *(note 9)*	30	–	(21)	9
Charge to other comprehensive income	–	14	–	14
At 31 December 2011	**327**	**54**	**(21)**	**360**

At the end of the reporting period, the Group has unused estimated tax losses of HK$648 million (2010: HK$570 million), of which HK$327 million (2010: HK$253 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$126 million (2010: nil) of such losses. No deferred tax asset has been recognised in respect of the estimated tax losses of HK$522 million (2010: HK$570 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

The Company does not have any unused tax loss at the end of the reporting period. During the year, deferred tax liability of the Company has been recognised in respect of the accelerated tax depreciation of HK$1 million (2010: nil). At the end of the reporting period, the Company has deferred tax liability of HK$1 million (2010: nil).

32. SHARE CAPITAL

	Number of shares		Share capital	
	2011	2010	**2011 HK$ million**	2010 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	**1,053,426,635**	1,050,608,090	**5,267**	5,253
Issue of shares pursuant to scrip dividend schemes *(Note a)*	**5,136,783**	2,762,879	**26**	14
Issue of shares under share option scheme *(Note b)*	**1,190,997**	55,666	**6**	–
At 31 December	**1,059,754,415**	1,053,426,635	**5,299**	5,267

Notes:

(a) Issue of shares pursuant to scrip dividend schemes

For the year ended 31 December 2011

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

For the year ended 31 December 2010

On 3 June 2010 and 21 September 2010 respectively, the Company issued and allotted a total of 1,321,595 shares and 1,441,284 shares of HK$5 each in the Company at HK$21.68 and HK$24.19 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2009 final and 2010 interim dividends pursuant to the scrip dividend schemes announced by the Company on 11 May 2010 and 26 August 2010. These shares rank pari passu in all respects with other shares in issue.

(b) Issue of shares under share option schemes

During the year, options to subscribe for shares of the Company for a total of 1,190,997 shares (2010: 55,666 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 40.

33. RESERVES OF THE COMPANY

The Company's reserves available for distribution to its owners as at 31 December 2011 amounted to HK$5,580 million (2010: HK$5,739 million), being its general reserve and retained profits at that date.

	Share premium HK$ million	Share options reserve HK$ million	Capital redemption reserve HK$ million	General reserve HK$ million *(Note)*	Retained profits HK$ million	Total HK$ million
At 1 January 2010	1,703	10	276	100	5,760	7,849
Issue of shares pursuant to scrip dividend schemes	50	–	–	–	–	50
Issue of shares under share option schemes	1	–	–	–	–	1
Recognition of equity-settled share-based payments	–	6	–	–	–	6
Profit for the year	–	–	–	–	593	593
Dividends paid during the year *(note 14)*	–	–	–	–	(714)	(714)
At 31 December 2010	1,754	16	276	100	5,639	7,785
Issue of shares pursuant to scrip dividend schemes	159	–	–	–	–	159
Issue of shares under share option schemes	21	(6)	–	–	–	15
Recognition of equity-settled share-based payments	–	7	–	–	–	7
Forfeiture of share options	–	(2)	–	–	2	–
Profit for the year	–	–	–	–	630	630
Dividends paid during the year *(note 14)*	–	–	–	–	(791)	(791)
At 31 December 2011	**1,934**	**15**	**276**	**100**	**5,480**	**7,805**

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

34. ACQUISITION OF A SUBSIDIARY

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

35. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced Mandatory Provident Fund Scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK$6 million (2010: HK$6 million). Forfeited contributions for the year amounting to HK$1 million (2010: HK$1 million) were refunded to the Group.

36. CONTINGENT LIABILITIES

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

	The Group		The Company	
	2011 HK$ million	2010 HK$ million	**2011 HK$ million**	2010 HK$ million
Corporate guarantee to note holders				
– for issue of floating rate notes	**–**	–	**200**	200
– for issue of fixed rate notes	**–**	–	**3,276**	2,722
– for issue of zero coupon notes	**–**	–	**430**	430
	–	–	**3,906**	3,352
Guarantees to banks for providing financing facilities to subsidiaries	**–**	–	**2,850**	1,349

37. 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	
	2011 HK$ million	2010 HK$ million	**2011 HK$ million**	2010 HK$ million
Authorised but not contracted for	**505**	535	**7**	11
Contracted but not provided for	**885**	1,535	**6**	–

38. LEASE COMMITMENTS

(a) The Group as lessor

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

	The Group	
	2011 HK$ million	2010 HK$ million
Within one year	**1,795**	1,260
In the second to fifth year inclusive	**3,708**	1,586
Over five years	**2,229**	252
	7,732	3,098

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.

38. LEASE COMMITMENTS continued

(b) The Company as lessee

At the end of the reporting period, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Company	
	2011 HK$ million	2010 HK$ million
Within one year	**7**	22
In the second to fifth year inclusive	**–**	9
	7	31

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

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

39. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions and balances with related parties

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

	The Group			
	Gross rental income received from *(Note a)*		Amount due to a non-controlling interest *(Note b)*	
	2011 HK$ million	2010 HK$ million	**2011 HK$ million**	2010 HK$ million
Substantial shareholder	**3**	3	**–**	–
Directors	**–**	1	**–**	–
Companies controlled by Directors or their associates	**26**	25	**94**	94

Notes:

(a) The sum of transactions with substantial shareholder represented the aggregate gross rental income received from Atlas Corporate Management Limited, a wholly-owned subsidiary of Lee Hysan Estate Company, Limited, which holds 40.87% (2010: 41.12%) beneficial interest in the Company.

(b) The sum represents outstanding loan advanced to a non wholly-owned subsidiary of the Group, Barrowgate Limited (“Barrowgate”) by Mightyhall Limited, a wholly-owned subsidiary of Jebsen and Company Limited, of which Hans Michael JEBSEN is a director and shareholder, as shareholders’ loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

39. RELATED PARTY TRANSACTIONS AND BALANCES continued

(a) Transactions and balances with related parties continued

The Company has the following balances with its subsidiaries at the end of the reporting period:

	The Company	
	2011 HK$ million	2010 HK$ million
Amounts due from subsidiaries	**11,462**	12,919
Less: Allowances on amounts due therefrom	**(248)**	(248)
	11,214	12,671
Amounts due to subsidiaries	**480**	175

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

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group and the Company during the year were as follows:

	2011 HK$ million	2010 HK$ million
Directors' fees, salaries and other short-term employee benefits	**27**	18
Share-based payments	**5**	4
Retirement benefits scheme contributions	**–**	–
	32	22

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.

40. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option schemes

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

The 1995 Scheme was approved by shareholders on 28 April 1995 and had a term of 10 years. It expired on 28 April 2005. As at 31 December 2011, all options granted under the 1995 Scheme had been exercised.

The purpose of the 1995 Scheme was to strengthen the links between individual staff and shareholder interests.

Under the 1995 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any of its wholly-owned subsidiaries selected by the Board at its discretion.

The maximum number of shares in respect of which options may be granted under the 1995 Scheme (together with shares issued and issuable under the scheme) was 3% of the issued share capital of the Company (excluding shares issued pursuant to the scheme and any other share option scheme) from time to time. The maximum number of shares issued under the scheme and other scheme will not exceed 10% of the issued share capital of the Company from time to time (excluding shares issued pursuant to the scheme and any other share option scheme).

40. SHARE-BASED PAYMENT TRANSACTIONS continued

(a) Equity-settled share option schemes continued

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

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

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

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

The purpose of the 2005 Scheme is to provide an incentive for employees of the Company and its wholly-owned subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the 2005 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including executive Directors) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

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

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of 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.

40. SHARE-BASED PAYMENT TRANSACTIONS continued

(b) Grant and vesting structures

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

(c) Movement of share options

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

Name	Date of grant	Exercise price HK$	Exercisable period *(Note a)*	Balance as at 1.1.2011	Changes during the year: Granted	Changes during the year: Exercised	Changes during the year: Cancelled/ lapsed	Balance as at 31.12.2011
1995 Scheme								
Executive Director								
Wendy Wen Yee YUNG	30.3.2005	15.850	30.3.2005 – 29.3.2015	96,000	–	(96,000) *(Note b)*	–	–
2005 Scheme								
Executive Directors								
Peter Ting Chang LEE *(Note c)*	6.3.2007	21.380	6.3.2007 – 16.1.2011	235,000	–	(235,000) *(Note d)*	–	–
	13.3.2008	21.450	13.3.2008 – 16.1.2011	260,000	–	(173,333) *(Note d)*	(86,667)	–
	11.3.2009	11.760	11.3.2009 – 16.1.2011	500,000	–	(166,666) *(Note d)*	(333,334)	–
Gerry Lui Fai YIM	1.12.2009	22.800	1.12.2009 – 30.11.2019	218,000	–	–	–	218,000
	10.3.2011	35.710 *(Note e)*	10.3.2011 – 9.3.2021	–	217,000	–	–	217,000
Wendy Wen Yee YUNG	26.6.2006	20.110	26.6.2006 – 25.6.2016	110,000	–	(110,000) *(Note b)*	–	–
	30.3.2007	21.250	30.3.2007 – 29.3.2017	95,000	–	–	–	95,000
	31.3.2008	21.960	31.3.2008 – 30.3.2018	100,000	–	–	–	100,000
	11.3.2009	11.760	11.3.2009 – 10.3.2019	300,000	–	(200,000) *(Note b)*	–	100,000
	11.3.2010	22.100	11.3.2010 – 10.3.2020	185,000	–	–	–	185,000
	10.3.2011	35.710 *(Note e)*	10.3.2011 – 9.3.2021	–	103,000	–	–	103,000

40. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Name	Date of grant	Exercise price HK$	Exercisable period *(Note a)*	Balance as at 1.1.2011	Changes during the year: Granted	Changes during the year: Exercised	Changes during the year: Cancelled/ lapsed	Balance as at 31.12.2011
2005 Scheme continued								
Eligible employees *(Note f)*	30.3.2006	22.000	30.3.2006 – 29.3.2016	15,000	–	(15,000) *(Note g)*	–	–
	30.3.2007	21.250	30.3.2007 – 29.3.2017	15,000	–	(15,000) *(Note h)*	–	–
	31.3.2008	21.960	31.3.2008 – 30.3.2018	78,000	–	(55,000) *(Note i)*	–	23,000
	2.5.2008	23.900	2.5.2008 – 1.5.2018	95,000	–	–	–	95,000
	2.10.2008	20.106	2.10.2008 – 1.10.2018	85,000	–	–	–	85,000
	31.3.2009	13.300	31.3.2009 – 30.3.2019	363,334	–	(86,999) *(Note j)*	(13,667) *(Note k)*	262,668
	31.3.2010	22.450	31.3.2010 – 30.3.2020	523,000	–	(37,999) *(Note l)*	(44,000) *(Note k)*	441,001
	31.3.2011	32.000 *(Note m)*	31.3.2011 – 30.3.2021	–	393,000	–	(23,000) *(Note k)*	370,000
				3,273,334	**713,000**	**(1,190,997)**	**(500,668)**	**2,294,669**

Notes:

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

(b) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$34.25.

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

(d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$36.60.

(e) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 9 March 2011) was HK$35.70.

(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$33.65.

(h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$36.25.

(i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$34.68.

(j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$34.98.

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

(l) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$35.06.

(m) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2011) was HK$31.95.

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

40. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

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

Name	Date of grant	Exercise price HK$	Exercisable period *(Note a)*	Balance as at 1.1.2010	Changes during the year: Granted	Exercised	Cancelled/ lapsed	Balance as at 31.12.2010
1995 Scheme								
Executive Director								
Wendy Wen Yee YUNG	30.3.2005	15.850	30.3.2005 – 29.3.2015	96,000	–	–	–	96,000
2005 Scheme								
Executive Directors								
Peter Ting Chang LEE *(Note b)*	6.3.2007	21.380	6.3.2007 – 16.1.2011	235,000	–	–	–	235,000
	13.3.2008	21.450	13.3.2008 – 16.1.2011	260,000	–	–	–	260,000
	11.3.2009	11.760	11.3.2009 – 16.1.2011	500,000	–	–	–	500,000
Gerry Lui Fai YIM	1.12.2009	22.800	1.12.2009 – 30.11.2019	218,000	–	–	–	218,000
Wendy Wen Yee YUNG	26.6.2006	20.110	26.6.2006 – 25.6.2016	110,000	–	–	–	110,000
	30.3.2007	21.250	30.3.2007 – 29.3.2017	95,000	–	–	–	95,000
	31.3.2008	21.960	31.3.2008 – 30.3.2018	100,000	–	–	–	100,000
	11.3.2009	11.760	11.3.2009 – 10.3.2019	300,000	–	–	–	300,000
	11.3.2010	22.100 *(Note c)*	11.3.2010 – 10.3.2020	–	185,000	–	–	185,000
Eligible employees *(Note d)*	30.3.2006	22.000	30.3.2006 – 29.3.2016	23,000	–	(8,000) *(Note e)*	–	15,000
	30.3.2007	21.250	30.3.2007 – 29.3.2017	31,000	–	(16,000) *(Note e)*	–	15,000
	31.3.2008	21.960	31.3.2008 – 30.3.2018	88,000	–	(10,000) *(Note e)*	–	78,000
	2.5.2008	23.900	2.5.2008 – 1.5.2018	95,000	–	–	–	95,000
	2.10.2008	20.106	2.10.2008 – 1.10.2018	85,000	–	–	–	85,000
	31.3.2009	13.300	31.3.2009 – 30.3.2019	411,000	–	(21,666) *(Note f)*	(26,000) *(Note g)*	363,334
	31.3.2010	22.450 *(Note h)*	31.3.2010 – 30.3.2020	–	529,000	–	(6,000) *(Note g)*	523,000
				2,647,000	714,000	(55,666)	(32,000)	3,273,334

40. 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.

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

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

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

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

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

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

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

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

40. 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$7 million (2010: HK$6 million) in relation to share options granted by the Company, of which HK$3 million (2010: HK$2 million) related to the Directors (see note 12), with a corresponding adjustment recognised in the Group's share options reserve.

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

The inputs into the Model were as follows:

Date of grant	31.3.2011	10.3.2011	31.3.2010	11.3.2010
Closing share price at the date of grant	**HK$32.000**	**HK$34.000**	HK$22.450	HK$22.100
Exercise price	**HK$32.000**	**HK$35.710**	HK$22.450	HK$22.100
Risk free rate *(Note a)*	**2.687%**	**2.717%**	2.843%	2.780%
Expected life of option *(Note b)*	**10 years**	**10 years**	10 years	10 years
Expected volatility *(Note c)*	**34.151%**	**34.026%**	35.489%	35.459%
Expected dividend per annum *(Note d)*	**HK$0.640**	**HK$0.640**	HK$0.582	HK$0.582
Estimated fair values per share option	**HK$12.409**	**HK$12.553**	HK$8.598	HK$8.425

Notes:

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

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

(c) Expected volatility: being the appropriate historical volatility of closing prices of the shares of the Company in the past 10 years immediately before the date of grant, matching the expected life of the options of 10 years.

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

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include cash and bank balances, time deposits, principal-protected investments, term notes, amount due from an associate, accounts receivable, other receivables, equity investments, available-for-sale financial assets, zero coupon convertible note, accounts payable, accruals, rental deposits from tenants, amounts due to non-controlling interests, borrowings and derivative financial instruments. The Company's major financial instruments include cash and bank balances, time deposits, other receivables, amounts due from/to subsidiaries, other payable and accruals. Details of these financial instruments are disclosed in respective Notes to the Financial Statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The credit risk of the Group or the Company are primarily attributable to rents receivable from tenants, amounts due from subsidiaries, amount due from an associate, principal-protected investments, derivative financial instruments, zero coupon convertible note, term notes, time deposits and bank balances. The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Company is arising from:

(i) the carrying amount of the respective recognised financial assets as stated in the consolidated and Company's statement of financial position; and

(ii) the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 36 of the Notes to the Financial Statements section.

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

For derivative financial instruments, zero coupon convertible note, principal-protected investments, term notes, time deposits and bank balances, the Group and the Company only deal with financial institutions and invest in debt securities issued by issuers that have strong credit ratings to mitigate counterparty risk. In order to limit exposure to each financial institution and debt securities issuer, an exposure limit was set with each counterparty according to their credit rating with regular review by management.

Credit exposure to financial institutions and debt securities issuers are monitored and reported regularly to the management. The exposure to each counterparty comprised (i) investment value of financial assets (including time deposits, principal-protected investments and term notes; (ii) net positive value of derivative financial instruments and zero coupon convertible note and; (iii) potential exposures to derivatives which are based on the remaining term and the notional amount of the derivative financial instruments. The table below provides a high level summary of the Group's exposure to each counterparty at the end of the reporting period.

	2011		2010	
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**	**180 to 385**	5	9 to 379
Credit rating BBB- to A+	**23**	**1 to 295**	13	10 to 297

To minimise the credit risk of amounts due from subsidiaries and an associate, the management reviews the recoverable amount of each individual balance at the end of the reporting period to ensure adequate impairment losses are made for irrecoverable amounts. Other than concentration of credit risk on amount due from an associate, the Group and the Company have no significant concentration of credit risk, with exposure spread over a number of counterparties and tenants.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk

The Group and the Company closely monitor their liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following table details the remaining contractual maturity of the Group and the Company for their non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company are required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if floating, based on the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars ("HKD"), the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK$ million	Total contractual undiscounted cash flow HK$ million	Within 1 year or on demand HK$ million	More than 1 year but not exceeding 2 years HK$ million	More than 2 years but not exceeding 5 years HK$ million	More than 5 years HK$ million
The Group						
As at 31 December 2011						
Non-derivative financial liabilities						
Accounts payable and accruals	(532)	(532)	(532)	–	–	–
Rental deposits from tenants	(600)	(600)	(170)	(167)	(230)	(33)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans	(2,840)	(2,956)	(190)	(739)	(2,027)	–
Floating rate notes	(200)	(208)	(3)	(3)	(202)	–
Fixed rate notes	(3,309)	(4,040)	(1,482)	(83)	(623)	(1,852)
Zero coupon notes	(314)	(430)	–	–	–	(430)
	(8,122)	(9,093)	(2,704)	(992)	(3,082)	(2,315)
As at 31 December 2010						
Non-derivative financial liabilities						
Accounts payable and accruals	(433)	(433)	(433)	–	–	–
Rental deposits from tenants	(451)	(451)	(175)	(100)	(150)	(26)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans	(1,349)	(1,374)	(658)	(8)	(708)	–
Floating rate notes	(200)	(210)	(3)	(2)	(205)	–
Fixed rate notes	(2,750)	(3,405)	(155)	(1,460)	(577)	(1,213)
Zero coupon notes	(288)	(430)	–	–	–	(430)
	(5,798)	(6,630)	(1,751)	(1,570)	(1,640)	(1,669)

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 2011						
Non-derivative financial liabilities						
Other payable and accruals	(36)	(36)	(36)	–	–	–
Amounts due to subsidiaries	(480)	(480)	(480)	–	–	–
	(516)	(516)	(516)	–	–	–
As at 31 December 2010						
Non-derivative financial liabilities						
Other payable and accruals	(38)	(38)	(38)	–	–	–
Amounts due to subsidiaries	(175)	(175)	(175)	–	–	–
	(213)	(213)	(213)	–	–	–

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 2011						
Derivative settled net						
Interest rate swaps, basis swaps and asset swap	11	98	(13)	6	48	57
Derivative settled gross						
Forward foreign exchange contracts	(1)					
Outflow		(646)	(359)	(210)	(77)	–
Inflow		646	357	212	77	–
Cross currency and net basis swaps	(12)					
Outflow		(1,883)	(1,375)	(205)	(303)	–
Inflow		1,923	1,404	217	302	–

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 2010						
Derivative settled net						
Interest rate swaps and basis swaps	3	114	3	(3)	41	73
Derivative settled gross						
Forward foreign exchange contracts	1					
Outflow		(171)	(156)	(15)	–	–
Inflow		171	156	15	–	–
Cross currency and net basis swaps	36					
Outflow		(1,805)	(28)	(1,374)	(403)	–
Inflow		1,866	70	1,391	405	–

At the end of the reporting period, the Company has no derivative financial instruments.

(c) Interest rate risk

The Group manages its interest rate exposure by assessing the potential impact on the Group's financial position arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed rates and floating rates and ensure that they are within an appropriate range. Accordingly, the Group used (i) interest rate swaps to hedge the interest rate risk of the Group's floating rate bank loans; and (ii) cross currency swaps and interest rate swaps to hedge the interest rate risk of certain amounts of the Group's fixed rate notes. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting. The Group mainly used comparison of change in fair value of the hedging instruments and the hedged items attributable to the hedged risk for assessing the hedging effectiveness.

As at 31 December 2011, about 54.8% (2010: 53.6%) 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 had been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -5 basis points ("bps") (2010: +100 and -5 bps) was applied to the HKD and US dollars ("USD") yield curves at the end of the reporting period. For the Australian dollars ("AUD") yield curve, a change of +100 and -100 bps (2010: nil) was applied. The applied change of bps represented management's assessment of the reasonably possible change in interest rates based on the current market conditions. For the HKD and USD yield curve, the increase in positive change reflected potential interest rate increase in 2012 and the decrease in negative change is due to the low level of prevailing market interest rates at the end of the reporting period. For the AUD yield curve, the change reflected potential interest rate increase or decrease in 2012.

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 2011	**(6)**	**–**	**18**	**–**
As at 31 December 2010	(13)	1	21	(1)

(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					
	2011				2010	
	AUD million	**RMB million**	**US$ million**	**Total equivalent to HK$ million**	US$ million	Total equivalent to HK$ million
Assets						
Time deposits	**–**	**167**	**–**	**204**	–	–
Principal-protected investments	**–**	**–**	**39**	**300**	30	233
Term notes	**–**	**150**	**21**	**347**	34	263
	–	**317**	**60**	**851**	64	496
Liabilities						
Unsecured bank loans	**37**	**–**	**26**	**490**	51	399
Fixed rate notes	**–**	**–**	**174**	**1,357**	174	1,356
	37	**–**	**200**	**1,847**	225	1,755

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 had been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of 500 percentage in points ("pips") (2010: 500 pips) was applied to the HKD:RMB and HKD:USD spot and forward rates while a change of 5,000 pips (2010: nil) was applied to the HKD:AUD spot and forward rates at the end of the reporting period. The applied change of pips represented management's assessment of the reasonably possible change in foreign exchange rates.

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 2011				
– AUD	**–**	**–**	**–**	**–**
– RMB	**8**	**(8)**	**–**	**–**
– USD	**(2)**	**2**	**1**	**(1)**
As at 31 December 2010				
– USD	3	(3)	–	–

(e) Equity price risk

The Group is exposed to equity price risks in relation to its equity investments and available-for-sale investments in listed securities which are measured at fair value at the end of the reporting period with reference to the listed share price. The management will monitor the price movements and takes appropriate actions when it is required.

Sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in the corresponding equity prices had occurred at the end of the reporting period and had been applied to the investments that would have affected the equity. A change of 25% (2010: 25%) in stock prices was applied at the end of the reporting period. The applied change of percentage represented management's assessment of the reasonably possible change in stock prices.

	The Group Increase (decrease) in equity	
	25% increase HK$ million	25% decrease HK$ million
As at 31 December 2011	**247**	**(247)**
As at 31 December 2010	287	(287)

2. CATEGORIES OF FINANCIAL INSTRUMENTS

	The Group		The Company	
	2011 HK$ million	2010 HK$ million	**2011 HK$ million**	2010 HK$ million
Financial assets				
Fair value through profit or loss ("FVTPL")				
– financial assets measured at FVTPL	**702**	–	**2**	–
– designated as at FVTPL	**–**	462	**–**	–
– held for trading	**–**	38	**–**	–
Derivative instruments under hedge accounting	**67**	54	**–**	–
Fair value through other comprehensive income ("FVTOCI")	**989**	–	**–**	–
Held-to-maturity investments	**–**	216	**–**	–
Available-for-sale financial assets	**–**	1,152	**–**	2
Amortised cost (including cash and cash equivalents)	**3,447**	–	**–**	–
Loans and receivables (including cash and cash equivalents)	**–**	2,356	**11,710**	13,256
	5,205	4,278	**11,712**	13,258
Financial liabilities				
FVTPL				
– held for trading	**12**	4	**–**	–
Derivative instruments under hedge accounting	**57**	48	**–**	–
Amortised cost	**7,522**	5,347	**516**	213
	7,591	5,399	**516**	213

3. FAIR VALUE

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

- the fair value of listed investments traded in active liquid markets are determined with reference to the published price quotations;
- the fair value of financial assets and financial liabilities (excluding derivative instruments) are based on quoted prices from independent financial institutions or determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments are based on quoted prices from independent financial institutions or calculated using discounted cash flow analysis based on the applicable yield curve derived from quoted interest rates and based on the quoted spot and forward foreign exchange rates or calculated using an option pricing model based on quoted share prices, time to maturity, volatility and interest rates.

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised costs in the consolidated and the Company's financial statements approximate their fair values, except for the carrying amount of HK$3,309 million (2010: HK$2,750 million) fixed rate notes as stated in note 30 of the Notes to the Financial Statements section with fair value of HK$3,484 million (2010: HK$2,787 million).

3. FAIR VALUE continued

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Notes:

(a) The carrying amounts of the unlisted equity securities approximated their fair values of HK$3 million as at 1 January 2011. During the year ended 31 December 2011, net fair value losses of HK$2 million, which would have been recognised as impairment losses in profit or loss under Hong Kong Accounting Standard 39, have been recognised as other comprehensive expense. The fair value measurements of the Group's unlisted equity securities are grouped into Level 3, which are derived from valuation techniques that include inputs for the assets that are not based on observable market data (unobservable inputs).

(b) The Group newly entered an asset swap with notional amount of HK$60 million. During the year ended 31 December 2011, the unrealised fair value loss of HK$10 million is included in other gains and losses.

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

3. FAIR VALUE continued

	2010 Level 1 HK$ million	2010 Level 2 HK$ million	2010 Total HK$ million
Financial assets			
Derivatives under hedge accounting			
Forward foreign exchange contracts	–	1	1
Cross currency swaps	–	2	2
Interest rate swaps	–	50	50
Basis swaps	–	1	1
Other derivatives classified as held for trading (not under hedge accounting)			
Cross currency swaps	–	38	38
Financial assets designated as at FVTPL			
Principal-protected investments	–	462	462
Available-for-sale financial assets			
Listed equity securities	1,147	–	1,147
Unlisted club debentures	–	2	2
Total	1,147	556	1,703
Financial liabilities			
Derivatives under hedge accounting			
Interest rate swaps	–	48	48
Other derivatives classified as held for trading (not under hedge accounting)			
Net basis swaps	–	4	4
Total	–	52	52

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

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors its capital structure on the basis of a net debt to equity ratio. For this purpose, the Group defines net debt as borrowings as shown in the consolidated statement of financial position less time deposits and cash and bank balances.

The management reviews the Group's net debt to equity ratio regularly and adjust the ratio through the payment of dividends, the issue of new share or debt, the repurchase of shares and the redemption of existing debt.

The net debt to equity ratio at the year end was as follows:

	The Group	
	2011 HK$ million	2010 HK$ million
Unsecured bank loans	**2,840**	1,349
Floating rate notes	**200**	200
Fixed rate notes	**3,309**	2,750
Zero coupon notes	**314**	288
Borrowings	**6,663**	4,587
Less: Time deposits	**(2,899)**	(1,930)
Cash and bank balances	**(62)**	(63)
Net debt	**3,702**	2,594
Equity attributable to owners of the Company	**48,753**	40,677
Net debt to equity	**7.6%**	6.4%

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

	2011 HK$ million	2010 HK$ million	As restated 2009 HK$ million (Note)	As restated 2008 HK$ million (Note)	As restated 2007 HK$ million (Note)
Results					
Turnover	**1,922**	1,764	1,680	1,638	1,368
Property expenses	**(262)**	(250)	(235)	(217)	(208)
Gross profit	**1,660**	1,514	1,445	1,421	1,160
Investment income	**90**	49	38	63	98
Other gains and losses	**(34)**	(42)	(3)	146	302
Administrative expenses	**(173)**	(140)	(133)	(134)	(106)
Finance costs	**(122)**	(117)	(131)	(155)	(175)
Change in fair value of investment properties	**7,532**	2,594	1,249	(212)	3,131
Share of results of associates	**254**	394	768	590	452
Profit before taxation	**9,207**	4,252	3,233	1,719	4,862
Taxation	**(217)**	(201)	(189)	(237)	(205)
Profit for the year	**8,990**	4,051	3,044	1,482	4,657
Non-controlling interests	**(445)**	(207)	(130)	(118)	(190)
Profit attributable to owners of the Company	**8,545**	3,844	2,914	1,364	4,467
Underlying profit for the year	**1,310**	1,148	1,113	1,201	1,158
Recurring underlying profit for the year	**1,310**	1,148	1,110	1,066	950
Dividends					
Dividends paid	**791**	714	709	644	549
Dividends proposed	**678**	632	567	562	498
Dividends per share (HK cents)	**79.00**	74.00	68.00	68.00	60.00
Earnings per share (HK$), based on:					
Profit for the year					
– basic	**8.08**	3.65	2.79	1.31	4.24
– diluted	**8.08**	3.65	2.79	1.31	4.24
Underlying profit for the year – basic	**1.24**	1.09	1.06	1.16	1.10
Recurring underlying profit for the year – basic	**1.24**	1.09	1.06	1.03	0.90
Performance indicators					
Net debt to equity	**7.6%**	6.4%	5.1%	5.9%	6.8%
Net interest coverage (times)	**12.3x**	14.0x	11.7x	10.2x	7.8x
Net assets value per share (HK$)	**46.00**	38.61	35.42	33.44	33.94
Net debt per share (HK$)	**3.49**	2.46	1.82	1.96	2.29
Year end share price (HK$)	**25.50**	36.60	22.05	12.52	22.25

At 31 December

	2011 HK$ million	2010 HK$ million	As restated 2009 HK$ million *(Note)*	As restated 2008 HK$ million *(Note)*	As restated 2007 HK$ million *(Note)*
Assets and liabilities					
Investment properties	**49,969**	40,833	37,363	35,850	35,711
Interests in associates	**3,423**	3,153	2,886	2,340	1,601
Equity investments	**989**	–	–	–	–
Available-for-sale investments	**–**	1,152	1,002	1,022	2,479
Time deposits, cash and bank balances	**2,961**	1,993	1,984	1,015	484
Other assets	**2,026**	1,423	807	1,493	789
Total assets	**59,368**	48,554	44,042	41,720	41,064
Borrowings	**(6,663)**	(4,587)	(3,891)	(3,751)	(2,861)
Taxation	**(433)**	(387)	(342)	(620)	(565)
Other liabilities	**(1,528)**	(1,263)	(1,077)	(1,076)	(1,001)
Total liabilities	**(8,624)**	(6,237)	(5,310)	(5,447)	(4,427)
Net assets	**50,744**	42,317	38,732	36,273	36,637
Non-controlling interests	**(1,991)**	(1,640)	(1,516)	(1,462)	(1,423)
Shareholders' funds	**48,753**	40,677	37,216	34,811	35,214

Note:

The figures for the years 2007 to 2009 have been restated to reflect the prior year adjustments arising from (i) reclassification of leasehold land that qualifies for finance lease from prepaid lease payments to property, plant and equipment in accordance with the amendments to HKAS 17 "Leases"; and (ii) recognition of deferred taxation in respect of revalued investment properties that have been presumed to be recovered through sale in accordance with the amendments to HKAS 12 "Income Taxes".

Definitions:

(1) Underlying profit for the year: profit adjusted for group's share of unrealised fair value changes on investment properties

(2) Recurring underlying profit for the year: underlying profit adjusted for 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 assets 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 and 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 2011

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 2011 was in the approximate sum of Hong Kong Dollars Forty Nine Billion Nine Hundred and Sixty Nine Million Only (i.e. HK$49,969 million).

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

For the investment properties under redevelopment, residual method of valuation was adopted. The valuation was mainly arrived at by reference to sales or rental evidences as available on the market to determine the value of the proposed development as if it were completed as at the date of valuation. All the costs of the development, namely the cost of construction, cost of finance, professional fees, marketing costs and an allowance of the profit required for the development were then deducted from the completion value of the proposed development to derive the market value of the property as at the date of valuation.

Yours faithfully,
Knight Frank Petty Limited

Hong Kong, 13 February 2012

Schedule of Principal Properties

At 31 December 2011

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. **Sunning Plaza** 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. **Sunning Court** 8 Hoi Ping Road Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29 and the R.P. of Sec. J of I.L. 29	Residential	Long lease	100%
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 property (the site of the former Hennessy Centre) is currently under redevelopment. The site has a registered site area of approximately 47,738 square feet. The redevelopment has a projected gross floor area of around 710,000 square feet and is expected to be open in August 2012.

Shareholding Analysis

SHARE CAPITAL

At 31 December 2011

	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	5,298,772,075	1,059,754,415	5

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

DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2011, 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	2443	68.91	4,411,652	0.42
5,001 – 50,000	933	26.32	14,438,895	1.36
50,001 – 100,000	86	2.43	6,600,037	0.62
100,001 – 500,000	61	1.72	12,119,908	1.14
500,001 – 1,000,000	4	0.11	2,350,306	0.22
Above 1,000,000	18	0.51	1,019,833,617	96.24
Total	**3,545**	**100.00**	**1,059,754,415**	**100.00**

TYPES OF SHAREHOLDERS

(At 31 December 2011, 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	40.87
Other corporate shareholders	584,214,190	55.13
Individual shareholders	42,409,490	4.00
Total	**1,059,754,415**	**100.00**

LOCATION OF SHAREHOLDERS

(At 31 December 2011, as per register of members of the Company)

Location of shareholders	Number of ordinary shares held	% of the issued share capital *(Note)*
Hong Kong	1,052,116,459	99.28
United States and Canada	4,293,261	0.41
United Kingdom	3,103,966	0.29
Others	240,729	0.02
Total	**1,059,754,415**	**100.00**

Note:

The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2011 (i.e. 1,059,754,415 ordinary shares).

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	8 March 2012
Closure of register of members for Annual General Meeting	11 to 14 May 2012
Annual General Meeting	14 May 2012
Ex-dividend date for final dividend	16 May 2012
Closure of register of members and record date for final dividend	18 May 2012
Dispatch of scrip dividend circular and election form	(on or about) 24 May 2012
Dispatch of final dividend warrants/definitive share certificates	(on or about) 14 June 2012
2012 interim results to be announced	7 August 2012*

* subject to change

DIVIDEND

The Board recommends the payment of a final dividend of HK64 cents per share. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative to shareholders on the register of members as at Friday, 18 May 2012. The scrip dividend alternative is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto.

The register of members will be closed from Friday, 11 May 2012 to Monday, 14 May 2012, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting to be held on 14 May 2012, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars not later than 4:00 p.m. on Thursday, 10 May 2012.

The register of members will also be closed on Friday, 18 May 2012, for the purpose of determining shareholders' entitlement to the proposed final dividend, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars not later than 4:00 p.m. on Thursday, 17 May 2012.

A circular containing details of the scrip dividend and the form of election will be mailed to shareholders on or about Thursday, 24 May 2012. Shareholders who elect for the scrip dividend, in lieu of the cash dividend, in whole or in part, shall return the form of election to the Company's Registrars on or before Friday, 8 June 2012.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) will be dispatched to shareholders on or about Thursday, 14 June 2012.

SHARE LISTING

Hysan's shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipts (ADR) Programme in the New York market.

STOCK CODE

The Stock Exchange of Hong Kong Limited: 00014
Bloomberg: 14HK
Reuters: 0014.HK
Ticket Symbol for ADR Code: HYSNY
CUSIP reference number: 449162304

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrars:

Tricor Standard Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong
Telephone: (852) 2980 1768
Facsimile: (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrars promptly of any change of their address.

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

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

INVESTOR RELATIONS

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

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

Cover and theme page photography: Michael Cheung

It is not just our quality assets
that make Hysan special.
It is the team behind.

Hysan employees participate in a dragon dance team-building exercise on the Company Day 2012 with the theme "Together We Can Take the Lead". A strongly committed team gears up for the Hysan Place opening.

Hysan Development Company Limited

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