



Hysan Development Company Limited

INTERIM REPORT 2012

 **Hysan** 希慎

stock code 00014

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.

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Highlights

- **Group turnover up 18.1%; Recurring Underlying Profit up 12.8%**
- **Solid occupancy across the existing portfolio (Office: 98%; Retail: 92% (8% under renovation); Residential: 95%)**
- **Steady performance of existing portfolio expected for the rest of the year**
- **New Hysan Place mall is fully-let and has begun to make revenue contribution in 2012**

Results

	Notes	Six months ended 30 June		Change
		2012 HK\$ million	2011 HK\$ million	
Turnover	1	1,109	939	+18.1%
Recurring Underlying Profit	2	748	663	+12.8%
Underlying Profit	3	748	663	+12.8%
Reported Profit	4	5,822	6,012	-3.2%
		HK cents	HK cents	
Earnings per share, based on:				
Recurring Underlying Profit	2	70.57	62.86	+12.3%
Underlying Profit	3	70.57	62.86	+12.3%
Reported Profit	4	549.27	569.98	-3.6%
Interim dividend per share		17.00	15.00	+13.3 %
		At 30 June 2012 HK\$ million	At 31 December 2011 HK\$ million	
Shareholders' Funds	5	54,061	48,753	+10.9%
		HK\$	HK\$	
Net Asset Value per Share	6	50.92	46.00	+10.7%

Notes:

1. **Turnover** comprises rental income and management fee income derived from the Group's investment properties portfolio in Hong Kong.
2. **Recurring Underlying Profit** is a performance indicator of the Group's core property investment business and 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).
3. **Underlying Profit** is arrived at by excluding from Reported Profit unrealised fair value changes on investment properties. As a property investor, the Group's results are principally derived from the rental revenues on its investment properties. The inclusion of the unrealised fair value changes on investment properties in the consolidated income statement causes an increase in fluctuation in earnings and poses limitations on the use of the unadjusted earning figures, financial ratios, trends and comparisons against prior period(s). Accordingly, unrealised fair value changes on investment properties are excluded in arriving at the Underlying Profit.
4. **Reported Profit** is the profit attributable to owners of the Company. It is prepared in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance.
5. **Shareholders' Funds** is the equity attributable to owners of the Company.
6. **Net Asset Value per Share** represents Shareholders' Funds divided by the number of issued shares at interim period end/year end.

Chairman's Statement

Overview

During the first half of 2012, the Hong Kong economy was further impacted by the challenging macro economic environment in Europe and the United States. In particular, Hong Kong's export performance was weak. Domestic consumption, including contributions by Mainland tourists, remained more resilient despite a moderation in the growth rate. This benefitted retail leasing activities.

For the Grade "A" office leasing market, overall tight supply continued to provide support amidst slowing demand. Rental levels in non-Central core locations (including Causeway Bay) remained relatively stable.

Results

The Group's turnover for the 2012 interim period was HK\$1,109 million, representing a year-on-year increase of 18.1% from HK\$939 million in 2011. If the rental contribution of HK\$87 million from Hysan Place is excluded, the like-for-like turnover increase in the first six months in 2012 would be 8.8% to HK\$1,022 million. As at 30 June 2012, solid occupancy was recorded across our existing portfolio (Office: 98%; Retail: 92% (remaining 8% space at Lee Theatre Plaza being under renovation); Residential: 95%).

Recurring Underlying Profit, the key measurement of our core leasing business performance, was HK\$748 million, up 12.8% from HK\$663 million in 2011. This principally reflected the increase in revenue generated from our leasing activities. Our Underlying Profit, which excludes unrealised changes in fair value of investment properties, was also HK\$748 million. Our Reported Profit for the 2012 interim period was HK\$5,822 million (2011: HK\$6,012 million), reflecting a smaller fair value gain on investment properties valuation recorded in this period.

As at 30 June 2012, the investment properties for the Group were revalued at HK\$56,452 million (31 December 2011: HK\$49,969 million), reflecting improved rentals for our existing portfolio and a higher valuation for Hysan Place since the project was in the final stages of completion. The fair value gain was, however, smaller when compared with that recorded in the previous year. The Group's Shareholders' Funds rose by 10.9% to HK\$54,061 million (31 December 2011: HK\$48,753 million).

Dividends

The Board of Directors has declared an interim dividend of HK17.0 cents per share (2011: HK15.0 cents). The dividend will be payable in cash with a scrip dividend alternative. Details of the payment of an interim dividend including the scrip dividend arrangements are set out in "Shareholder Information" on the inside back cover.

Outlook

The performance of our existing leasing portfolio should continue to be steady during the second half of the year. Our new Hysan Place project, situated at the northern gateway of our hub, is an important milestone in our long-term growth. The shopping mall, which is fully-let, will open on 10 August. It will further strengthen our retail portfolio, and add to the diversity of our retail tenant base. Overall, our commercial properties portfolio (comprising office and retail segments) will become more balanced. Hysan Place is beginning to make a revenue contribution in 2012, and we are confident that it will realise its full financial potential in due course.

Irene Yun Lien LEE

Chairman

Hong Kong, 6 August 2012

Management's Discussion and Analysis

Operations and Financial Review

Turnover – The Group's turnover for the first half of 2012 was HK\$1,109 million, being HK\$170 million or 18.1% higher than that in the same period in 2011 (2011: HK\$939 million). Excluding the rental contribution from Hysan Place of HK\$87 million, the like-for-like turnover for the first six months in 2012 increased by 8.8% to HK\$1,022 million. The Group continued to enjoy a good performance across all three leasing sectors.

Office Sector – Office sector turnover grew 7.4% to HK\$434 million (2011: HK\$404 million), attributable to improved occupancy as well as positive rental reversion on renewals. Excluding the new Hysan Place, office segment occupancy as at 30 June 2012 further improved to 98%, as compared with 96% as at 31 December 2011 and 95% as at 30 June 2011. A majority of the current year's expiring leases have been committed.

The latest transaction in Hysan Place has set a new rental benchmark for Causeway Bay. 40% of office space in Hysan Place had been committed as at 30 June 2012. Our leasing strategy will balance occupancy and a long-term strategic contribution towards enhancing the tenant profile and hence attraction of our entire office portfolio.

Retail Sector – The Group's retail sector turnover grew 33.5% during the interim period to HK\$510 million (2011: HK\$382 million), including turnover rent of HK\$58 million (2011: HK\$47 million). Revenue contribution of Hysan Place during the period has also been included. Excluding the new Hysan Place, retail occupancy was 92% as at 30 June 2012, reflecting the fact that part of Lee Theatre Plaza was under renovation (31 December 2011: virtually fully-let; 30 June 2011: 95%). A majority of the current year's expiring leases have been committed.

The rejuvenation of Lee Theatre Plaza represents the final phase of the Group's efforts to redefine and rebrand the Lee Theatre retail hub. Following the repositioning of One Hysan Avenue and Leighton Centre, the hub has been transformed into a fashionable and chic shopping venue. The current renovation in the lower zone of Lee Theatre Plaza, scheduled to complete around mid-2013, will further add to the sophistication of our retail offerings. An anchor tenant has already been signed.

The new Hysan Place mall was virtually fully-let as at 30 June 2012. It will open on 10 August and is now fully-let. Hysan Place's retail portion will significantly strengthen the Group's overall retail portfolio. It will increase our overall retail gross floor area by 50%. In addition, it will introduce to the public many retailers that are new to Hong Kong, thereby making the tenant mix of our retail portfolio more diversified.

Residential Sector – The Group's residential sector turnover increased by 7.8% to HK\$165 million (2011: HK\$153 million). This reflected positive rental reversion on renewals, and high occupancy (30 June 2012: 95%) maintained throughout the interim period (31 December 2011: 95%; 30 June 2011: 96%).

Property Expenses – Property expenses increased to HK\$152 million (2011: HK\$107 million). The increase was principally due to the costs attributable to Hysan Place, a significant part of which related to revenue-generating activities such as agency fees. Excluding Hysan Place, the like-for-like property expenses increased by 9.3% to HK\$117 million (2011: HK\$107 million). This reflected an increase in utilities costs, cleaning expenses (following the implementation of statutory minimum wages) as well as front-line staff costs. As a result, the property expenses to turnover ratio increased from 11.4% to 13.7% as compared to the same period in 2011.

Investment Income – Investment income, comprising principally dividend income and interest income, amounted to HK\$26 million (2011: HK\$40 million). The decrease mainly reflected lower dividend income derived from the Group's equity investments, after taking into consideration the disposals made during the first half of 2012.

Other Gains and Losses – The Group used a variety of financial instruments to manage its interest rate and foreign exchange rate exposures and continued to hold its principal-protected investments to maturity. The net gain of HK\$13 million (2011: net loss of HK\$5 million) primarily represented the mark-to-market fair value movements of these financial instruments and principal-protected investments, as required under the current accounting standards.

Administrative Expenses – Administrative expenses rose by 21.8% to HK\$95 million (2011: HK\$78 million) for the first half of 2012, reflecting continuing human resources upskilling for Hysan's existing portfolio and additional hiring for Hysan Place. In addition, consulting expenses were incurred for the review and application for judicial review of the government's proposed Outline Zoning Plans, which affect the long-term redevelopment of the Group's Causeway Bay properties portfolio.

Finance Costs – Finance costs, after capitalisation of HK\$17 million (2011: HK\$18 million) interest expenses and related borrowing costs referable to Hysan Place construction costs, were HK\$70 million in 2012, an increase of 18.6% from HK\$59 million in 2011.

If the capitalised interest expenses and related borrowing costs were included, the Group's finance costs in the first half of 2012 would have been HK\$87 million, an increase of HK\$10 million or 13.0% as compared to the same period last year (2011: HK\$77 million). This principally reflected the increase in the Group's average debt levels since the second half of 2011, as new financings were arranged to increase the liquidity for the Group in view of the volatile credit market. The Group's average finance costs for the interim period were 2.7%, a slight decrease from 2.8% in the first half of 2011 and at the same level for 2011 full-year.

Change in Fair Value of Investment Properties – As at 30 June 2012, the investment properties of the Group were revalued at HK\$56,452 million (31 December 2011: HK\$49,969 million) by an independent professional valuer. Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK\$5,142 million (2011: HK\$5,608 million) was recognised in the condensed consolidated income statement during the interim period.

Share of Results of Associates – The Group's share of results of associates increased by 28.2% to HK\$159 million (2011: HK\$124 million), primarily due to the increase in revaluation gain on the Shanghai Grand Gateway project, of which the Group owns 24.7%.

Taxation – Taxation for the period (aggregation of current and deferred tax) increased from HK\$118 million in 2011 to HK\$136 million, which is in line with the growth in the Group's core business operating results.

Contingent Liabilities – There have been no significant changes since the publication of the Group's 2011 Annual Report in March 2012.

Capital Expenditure – The Group has an established asset enhancement programme that involves selective repositioning, refurbishment and redevelopment of its investment properties portfolio. Total capital expenditure on these activities amounted to HK\$1,338 million during the period (2011: HK\$416 million), including the payment of the construction costs of Hysan Place.

Financial Policy

The Group considers that there are sufficient financial resources to fund its general operating expenses and the planned level of capital expenditure. These financial resources include funds generated from operating activities, access to the debt capital market through the Medium Term Note Programme, availability of undrawn committed banking facilities, and liquid treasury assets.

Financial Management – The key objective of the Group's financial management is to maintain sufficient liquidity and manage financial risks. This is achieved by way of diversifying our funding sources; keeping appropriate levels of cash and committed banking facilities; spreading out debt maturity to minimise funding and refinancing risks; maintaining an appropriate interest rate profile; and controlling foreign exchange exposure arising from borrowings and investments. To manage our exposures to the volatile market, we strictly monitor counter-party risks and restrict our investments to simple and liquid products.

Liquidity – Our debt maturity profile was lengthened during the interim period. The Group issued HK\$781 million of medium to long-term fixed rate notes and all refinancing due in 2012 were completed. The Group's total gross debt level at 30 June 2012 was HK\$5,891 million, a reduction of HK\$719 million compared to HK\$6,610 million at the year end of 2011. The Group's time deposits, cash and bank balances stood at HK\$1,612 million as at 30 June 2012 (31 December 2011: HK\$2,961 million).

The Group's average debt maturity improved to 5.5 years as at 30 June 2012 (31 December 2011: 4.2 years), with HK\$1,200 million being repayable in more than one year but not exceeding two years, HK\$2,100 million being repayable in more than two years but not exceeding five years, and HK\$2,591 million being repayable beyond five years. (31 December 2011: HK\$1,507 million being repayable within one year, HK\$700 million being repayable in more than one year but not exceeding two years, HK\$2,600 million being repayable in more than two years but not exceeding five years, and HK\$1,803 million being repayable beyond five years.) As at 30 June 2012, bank loans accounted for approximately 45.8% of the Group's total gross debt, with the remaining 54.2% from capital market financing (31 December 2011: 43.1%: 56.9%).

All of the Group's debts are unsecured and on a committed basis. To maintain sufficient liquidity for the Group's operations, undrawn committed facilities of HK\$1,000 million were maintained as at 30 June 2012 (31 December 2011: HK\$1,000 million).

The Group holds listed equity investments for long-term purposes. During the review period, the Group disposed of a substantial part of such securities and, in light of the volatile financial market, placed the proceeds as bank deposits and debt securities.

Risk Management – Interest expenses represent a key cost driver of the Group’s business. Therefore, the Group monitors its interest rate exposure closely and adopts an appropriate hedging strategy in light of market conditions. As at 30 June 2012, the ratio of floating rate debt was approximately 40.2% of the total gross debt (31 December 2011: 54.8%).

The Group aims to have minimal foreign currency exposure when managing its liabilities. On the liability side, with the exception of the US\$26 million and AUD37 million of bank loans (both of which have been hedged into Hong Kong dollars by appropriate hedging instruments), all of the Group’s other borrowings were denominated in Hong Kong dollars.

On the asset side, the Group closely monitors its foreign currency exposure to ensure it falls within the internal limits. The Group only has exposures in USD and CNY mainly arising from investments in principal-protected investments and debt securities. Unhedged foreign currency positions were US\$42 million and CNY 163 million. Other foreign exchange exposure mainly relates to the Shanghai Grand Gateway project amounting to HK\$3,564 million (31 December 2011: HK\$3,423 million) or 5.5% of the Group’s total assets (31 December 2011: 5.8%).

Financial Ratios – Net interest coverage (defined as gross profit less administrative expenses before depreciation divided by net interest expenses) was 14.6 times for the first half of 2012 (2011: 13.4 times).

Net debt to equity (defined as borrowings less time deposits, cash and bank balances divided by Shareholders’ Funds) as at 30 June 2012 was 8.0% (31 December 2011: 7.6%).

Credit Ratings – As at 30 June 2012, the Group’s ratings remained unchanged, being Baa1 from Moody’s and BBB from Standard and Poor’s.

Report on Review of Interim Financial Information



TO THE BOARD OF DIRECTORS OF HYSAN DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 9 to 33, which comprises the condensed consolidated statement of financial position of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2012 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

6 August 2012

Condensed Consolidated Income Statement

For the six months ended 30 June 2012 (unaudited)

	Notes	Six months ended 30 June	
		2012 HK\$ million	2011 HK\$ million
Turnover	3	1,109	939
Property expenses		(152)	(107)
Gross profit		957	832
Investment income		26	40
Other gains and losses		13	(5)
Administrative expenses		(95)	(78)
Finance costs	5	(70)	(59)
Change in fair value of investment properties		5,142	5,608
Share of results of associates		159	124
Profit before taxation		6,132	6,462
Taxation	6	(136)	(118)
Profit for the period	7	5,996	6,344
Profit for the period attributable to:			
Owners of the Company		5,822	6,012
Non-controlling interests		174	332
		5,996	6,344
Earnings per share (expressed in HK cents)			
Basic	8	549.27	569.98
Diluted	8	549.14	569.39

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 (unaudited)

	Six months ended 30 June	
	2012 HK\$ million	2011 HK\$ million
Profit for the period	5,996	6,344
Other comprehensive income		
Equity investments designated as at fair value through other comprehensive income:		
Net gains (losses) arising during the period	107	(100)
Derivatives designated as cash flow hedges:		
Gains (losses) arising during the period	2	(14)
Reclassification adjustments for losses included in profit or loss	3	10
	5	(4)
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	15	34
Deferred taxation arising on revaluation	(3)	(6)
	12	28
Share of translation reserve of an associate	(18)	71
Other comprehensive income (expense) for the period (net of tax)	106	(5)
Total comprehensive income for the period	6,102	6,339
Total comprehensive income attributable to:		
Owners of the Company	5,928	6,007
Non-controlling interests	174	332
	6,102	6,339

Condensed Consolidated Statement of Financial Position

At 30 June 2012 (unaudited)

	Notes	At 30 June 2012 HK\$ million	At 31 December 2011 HK\$ million
Non-current assets			
Investment properties	10	56,452	49,969
Property, plant and equipment		537	530
Investments in associates		3,564	3,423
Principal-protected investments		325	365
Term notes		684	259
Equity investments		70	989
Other financial assets		67	68
Other receivables	11	150	163
		61,849	55,766
Current assets			
Accounts receivable and other receivables	11	167	134
Principal-protected investments		88	265
Term notes		576	171
Other financial assets		–	71
Time deposits	12	1,569	2,899
Cash and bank balances	12	43	62
		2,443	3,602
Current liabilities			
Accounts payable and accruals	13	586	532
Rental deposits from tenants		192	170
Amounts due to non-controlling interests		327	327
Borrowings	14	–	1,507
Other financial liabilities		6	19
Taxation payable		148	73
		1,259	2,628
Net current assets		1,184	974
Total assets less current liabilities		63,033	56,740
Non-current liabilities			
Borrowings	14	5,936	5,156
Other financial liabilities		41	50
Rental deposits from tenants		495	430
Deferred taxation	15	380	360
		6,852	5,996
Net assets		56,181	50,744
Capital and reserves			
Share capital		5,308	5,299
Reserves		48,753	43,454
Equity attributable to owners of the Company		54,061	48,753
Non-controlling interests		2,120	1,991
Total equity		56,181	50,744

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 (unaudited)

	Attributable to owners of the Company			
	Share capital HK\$ million	Share premium HK\$ million	Share options reserve HK\$ million	Capital redemption reserve HK\$ million
At 1 January 2012	5,299	1,934	15	276
Profit for the period	–	–	–	–
Net gains arising from equity investments	–	–	–	–
Change in fair value of derivatives designated as cash flow hedges	–	–	–	–
Transfer to profit and loss for cash flow hedges	–	–	–	–
Gain on revaluation of properties held for own use (Note)	–	–	–	–
Deferred taxation arising on revaluation of properties held for own use	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive income (expense) for the period	–	–	–	–
Issue of shares pursuant to scrip dividend schemes	7	38	–	–
Issue of shares under share option schemes	2	12	(4)	–
Recognition of equity-settled share-based payments	–	–	4	–
Forfeiture of share options	–	–	(3)	–
Dividends paid during the period (note 9)	–	–	–	–
Transfer to retained profits upon disposal of equity investments	–	–	–	–
At 30 June 2012	5,308	1,984	12	276
At 1 January 2011	5,267	1,754	16	276
Profit for the period	–	–	–	–
Net losses arising from equity investments	–	–	–	–
Change in fair value of derivatives designated as cash flow hedges	–	–	–	–
Transfer to profit and loss for cash flow hedges	–	–	–	–
Gain on revaluation of properties held for own use (Note)	–	–	–	–
Deferred taxation arising on revaluation of properties held for own use	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive (expense) income for the period	–	–	–	–
Issue of shares pursuant to scrip dividend schemes	23	145	–	–
Issue of shares under share option schemes	4	12	(3)	–
Recognition of equity-settled share-based payments	–	–	3	–
Forfeiture of share options	–	–	(2)	–
Dividends paid during the period (note 9)	–	–	–	–
Transfer to retained profits upon disposal of equity investments	–	–	–	–
At 30 June 2011	5,294	1,911	14	276

Note:

The Group's leasehold land and buildings classified as property, plant and equipment were revalued at 30 June 2012 and 2011 by Knight Frank Petty Limited, an independent qualified professional valuer, on market value basis, by reference to comparable transactions for similar properties and on the basis of capitalisation of net income with due allowance for the reversionary income. The gain of HK\$15 million (2011: HK\$34 million) arising on revaluation have been recognised and accumulated in properties revaluation reserve.

Attributable to owners of the Company

General reserve HK\$ million	Investments revaluation reserve HK\$ million	Hedging reserve HK\$ million	Properties revaluation reserve HK\$ million	Translation reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Non- controlling interests HK\$ million	Total HK\$ million
100	805	(40)	275	411	39,678	48,753	1,991	50,744
-	-	-	-	-	5,822	5,822	174	5,996
-	107	-	-	-	-	107	-	107
-	-	2	-	-	-	2	-	2
-	-	3	-	-	-	3	-	3
-	-	-	15	-	-	15	-	15
-	-	-	(3)	-	-	(3)	-	(3)
-	-	-	-	(18)	-	(18)	-	(18)
-	107	5	12	(18)	5,822	5,928	174	6,102
-	-	-	-	-	-	45	-	45
-	-	-	-	-	-	10	-	10
-	-	-	-	-	-	4	-	4
-	-	-	-	-	3	-	-	-
-	-	-	-	-	(679)	(679)	(45)	(724)
-	(868)	-	-	-	868	-	-	-
100	44	(35)	287	393	45,692	54,061	2,120	56,181
100	959	(44)	204	256	31,889	40,677	1,640	42,317
-	-	-	-	-	6,012	6,012	332	6,344
-	(100)	-	-	-	-	(100)	-	(100)
-	-	(14)	-	-	-	(14)	-	(14)
-	-	10	-	-	-	10	-	10
-	-	-	34	-	-	34	-	34
-	-	-	(6)	-	-	(6)	-	(6)
-	-	-	-	71	-	71	-	71
-	(100)	(4)	28	71	6,012	6,007	332	6,339
-	-	-	-	-	-	168	-	168
-	-	-	-	-	-	13	-	13
-	-	-	-	-	-	3	-	3
-	-	-	-	-	2	-	-	-
-	-	-	-	-	(632)	(632)	(48)	(680)
-	(33)	-	-	-	33	-	-	-
100	826	(48)	232	327	37,304	46,236	1,924	48,160

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012 (unaudited)

	Note	Six months ended 30 June	
		2012 HK\$ million	2011 HK\$ million
Net cash from operating activities		874	680
Investing activities			
Interest received		52	14
Dividends received from equity investments		3	26
Proceeds on disposal of equity investments		1,026	40
Proceeds upon maturity of principal-protected investments		226	35
Proceeds upon maturity of terms notes		119	–
Proceeds upon maturity of other financial assets		61	–
Proceeds upon maturity of time deposits with original maturity over three months		2,267	822
Repayment from an associate		–	125
Payments in respect of investment properties		(1,249)	(446)
Purchases of property, plant and equipment		(7)	(2)
Purchases of term notes		(953)	(146)
Purchases of other financial assets		–	(60)
Additions to principal-protected investments		–	(251)
Additions to time deposits with original maturity over three months		(968)	(1,357)
Net cash from (used in) investing activities		577	(1,200)
Financing activities			
Interest paid		(96)	(51)
Payment of other finance costs		(2)	(7)
Medium Term Note Programme expenses		(1)	(1)
Dividends paid		(634)	(464)
Dividends paid to non-controlling interests of a subsidiary		(45)	(48)
Repayment of bank loans		(150)	(849)
Repayment of fixed rate notes		(1,357)	–
New bank loans		–	1,750
Issue of fixed rate notes		774	150
Proceeds on exercise of share options		10	13
Net cash (used in) from financing activities		(1,501)	493
Net decrease in cash and cash equivalents		(50)	(27)
Cash and cash equivalents at 1 January	12	654	560
Cash and cash equivalents at 30 June	12	604	533

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012 (unaudited)

1. Basis of Preparation

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal Accounting Policies

The unaudited condensed consolidated 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 appropriate.

The accounting policies, presentation and methods of computation followed in the preparation of the unaudited condensed consolidated financial statements are the same as those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011.

The Group had early applied the Amendments to HKAS 12 "Income Taxes", in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40 "Investment Property" since the Group's financial year beginning on 1 January 2010. In the current period, the Group has applied the Amendments to Standard issued by the HKICPA that are relevant to its operations and effective for the Group's financial year beginning on 1 January 2012. The adoption of the Amendments to Standard had no material effect on the results and financial position of the Group for the current and/or prior accounting periods.

2. Principal Accounting Policies *continued*

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income 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)	Disclosures – 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
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidation Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ²
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 cycle ²
HK(IFRIC) – Int 20	Stripping Costs in the Production Phases 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.

The assessment for the impact of Hong Kong Financial Reporting Standards (“HKFRS”) 7 (Amendments), HKAS 32 (Amendments) and HKFRS 13 on the results and the financial position of the Group have been disclosed in the Group’s annual consolidated financial statements for the year ended 31 December 2011. Excluding the above new Standard and Amendments to Standards, the Directors of the Company anticipate that the application of the other new Standards, Amendments to Standards and Interpretation will have no material impact on the results and the financial position of the Group.

3. Turnover

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

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.

4. 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

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
<i>For the six months ended 30 June 2012 (unaudited)</i>				
Turnover				
Gross rental income from investment properties	372	469	149	990
Management fee income	62	41	16	119
Segment revenue	434	510	165	1,109
Property expenses	(64)	(64)	(24)	(152)
Segment profit	370	446	141	957
Investment income				26
Other gains and losses				13
Administrative expenses				(95)
Finance costs				(70)
Change in fair value of investment properties				5,142
Share of results of associates				159
Profit before taxation				6,132

4. Segment Information *continued*

Segment turnover and results *continued*

	Office HK\$ million	Retail HK\$ million	Residential HK\$ million	Consolidated HK\$ million
For the six months ended				
30 June 2011 (unaudited)				
Turnover				
Gross rental income from investment properties	343	349	138	830
Management fee income	61	33	15	109
Segment revenue	404	382	153	939
Property expenses	(41)	(45)	(21)	(107)
Segment profit	363	337	132	832
Investment income				40
Other gains and losses				(5)
Administrative expenses				(78)
Finance costs				(59)
Change in fair value of investment properties				5,608
Share of results of associates				124
Profit before taxation				6,462

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

Segment profit represents the profit earned by each segment without allocation of investment income, administrative expenses (including 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 purposes of resource allocation and performance assessment.

4. Segment Information *continued*

Segment assets

The following is an analysis of the Group's assets by operating segments.

	Office HK\$ million	Retail HK\$ million	Residential HK\$ million	Consolidated HK\$ million
As at 30 June 2012				
(unaudited)				
Segment assets	21,404	26,587	8,471	56,462
Investments in associates				3,564
Other assets				4,266
Consolidated assets				64,292
As at 31 December 2011				
(audited)				
Segment assets	16,957	15,092	8,426	40,475
Investment properties under redevelopment (Note)				9,500
Investments in associates				3,423
Other assets				5,970
Consolidated assets				59,368

Note:

The investment properties under redevelopment as at 31 December 2011 were substantially completed as at 30 June 2012.

5. Finance Costs

	Six months ended 30 June	
	2012	2011
	HK\$ million	HK\$ million
Finance costs comprise:		
Interest on bank loans wholly repayable within five years	20	8
Interest on floating rate notes wholly repayable within five years	1	1
Interest on fixed rate notes wholly repayable within five years	18	58
Interest on fixed rate notes not wholly repayable within five years	43	20
Imputed interest on zero coupon notes not wholly repayable within five years	7	7
	89	94
Total interest expenses		
Other finance costs	6	7
Less: Amounts capitalised (Note)	(17)	(18)
	78	83
Net interest receipts on interest rate swaps and cross currency swaps	(15)	(34)
Reclassification of losses from hedging reserve on financial instruments designated as cash flow hedges	6	9
Medium Term Note Programme expenses	1	1
	70	59

Note:

Interest expenses have been capitalised to investment properties under redevelopment at an average interest rate of 3.16% (2011: 2.92%) per annum.

6. Taxation

	Six months ended 30 June	
	2012 HK\$ million	2011 HK\$ million
Current tax		
Hong Kong profits tax (for current period)	119	105
Deferred tax (note 15)	17	13
	136	118

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for both periods.

7. Profit for the Period

	Six months ended 30 June	
	2012	2011
	HK\$ million	HK\$ million
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	5	3
Dividends from listed equity investments	(3)	(26)
Gross rental income from investment properties including contingent rentals of HK\$58 million (2011: HK\$47 million)	(990)	(830)
Less:		
– Direct operating expenses arising from properties that generated rental income	149	105
– Direct operating expenses arising from properties that did not generate rental income	3	2
	(838)	(723)
Interest income	(23)	(14)
Staff costs, comprising:		
– Directors' emoluments (Note)	12	12
– Share-based payments	2	2
– Other staff costs	94	83
	108	97
Share of income tax of an associate (included in share of results of associates)	66	43

7. Profit for the Period *continued*

Note:

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

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

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

- (i) Irene Yun Lien LEE's annual fixed base salary was determined to be HK\$4,931,096, at the same level as the former Executive Chairman, with inflationary adjustment since 2010. The annual fixed base salary of Gerry Lui Fai YIM remained at the same level during 2012 (HK\$5,340,400) until his last working day. Siu Chuen LAU received the same annual base salary (HK\$5,340,400) upon his appointment as Deputy Chairman and Chief Executive Officer. Taking into consideration the changes in her roles, Wendy Wen Yee YUNG's 2012 annual fixed base salary was determined to be HK\$3,042,000.
- (ii) 2011 total cash packages (comprising annual fixed base salary and allowances, Directors' fees (both items as previously disclosed in 2011 Annual Report); and bonus determined by the Committee) were HK\$6,311,968 for Gerry Lui Fai YIM and HK\$4,652,900 for Wendy Wen Yee YUNG.

8. 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	
	Six months ended 30 June	
	2012	2011
	HK\$ million	HK\$ million
<hr/>		
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the period attributable to owners of the Company	5,822	6,012
	<hr/>	
	Number of shares	
	Six months ended 30 June	
	2012	2011
<hr/>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,059,952,885	1,054,776,587
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	246,666	1,082,184
	<hr/>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,060,199,551	1,055,858,771
	<hr/>	

For the six months period ended 30 June 2012, 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 were higher than the average market price for shares.

8. Earnings Per Share *continued*

(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 period attributable to the owners of the Company should be adjusted in the calculation of basic earnings per share as follows:

	Six months ended 30 June			
	2012		2011	
	Profit	Basic earnings	Profit	Basic earnings
	HK\$ million	per share	HK\$ million	per share
		HK cents		HK cents
Profit for the period attributable to owners of the Company	5,822	549.27	6,012	569.98
Change in fair value of investment properties	(5,142)		(5,608)	
Effect of non-controlling interests' shares	126		287	
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(58)		(28)	
Underlying Profit	748	70.57	663	62.86
Recurring Underlying Profit	748	70.57	663	62.86

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 the six months period ended 30 June 2012 and 2011, the Recurring Underlying Profit is the same as the Underlying Profit.
- (2) The denominators in calculating the adjusted earnings per share used are the same as those detailed above for basic earnings per share.

9. Dividends

(a) Dividends recognised as distribution during the period:

	Six months ended 30 June	
	2012 HK\$ million	2011 HK\$ million
2011 final dividend paid – HK64 cents per share	679	–
2010 final dividend paid – HK60 cents per share	–	632
	679	632

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

	Six months ended 30 June	
	2012 HK\$ million	2011 HK\$ million
2011 final dividend (2010 final dividend):		
Cash payment	634	464
Share alternative	45	168
	679	632

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

	Six months ended 30 June	
	2012 HK\$ million	2011 HK\$ million
Interim dividend declared – HK17 cents per share (2011: HK15 cents per share)	180	159

The above interim dividends were declared after the interim reporting dates and have not been recognised as liabilities at the end of the respective reporting periods.

The declared 2012 interim dividend will be payable in cash with a scrip dividend alternative.

10. Investment Properties

	Fair value HK\$ million
At 1 January 2012	49,969
Additions	1,331
Transfer from property, plant and equipment	10
Change in fair value recognised in profit or loss	5,142
At 30 June 2012	56,452

The fair value of the Group's investment properties at 30 June 2012 have been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's investment properties have been valued individually, on market value basis, which conforms to Hong Kong Institute of Surveyors Valuation Standards 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. In addition to the above valuation method for the investment properties under redevelopment as at 31 December 2011, which was substantially completed as at 30 June 2012, the outstanding costs to complete these investment properties were deducted 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.

11. Accounts Receivable and Other Receivables

	At 30 June 2012 HK\$ million	At 31 December 2011 HK\$ million
Accounts receivable	10	6
Interest receivable	22	51
Prepayments in respect of investment properties	45	98
Other receivables	240	142
	317	297
Analysis for reporting purposes as:		
Current assets	167	134
Non-current assets	150	163
	317	297

Rents from leasing of investment properties are normally received in advance. At 30 June 2012, accounts receivable of the Group with carrying amount of HK\$10 million (31 December 2011: HK\$6 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

12. Time Deposits/Cash and Bank Balances

	At 30 June 2012 HK\$ million	At 31 December 2011 HK\$ million
Time deposits	1,569	2,899
Cash and bank balances	43	62
Cash and deposits with banks shown in the condensed consolidated statement of financial position	1,612	2,961
Less: Time deposits with original maturity over three months	(1,008)	(2,307)
Cash and cash equivalents shown in the condensed consolidated statement of cash flows	604	654

13. Accounts Payable and Accruals

	At 30 June 2012 HK\$ million	At 31 December 2011 HK\$ million
Accounts payable	355	324
Interest payable	48	70
Other payables	183	138
	586	532

As at 30 June 2012, accounts payable of the Group with carrying amount of HK\$355 million (31 December 2011: HK\$324 million) were aged less than 90 days.

14. Borrowings

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

	Current		Non-Current	
	At 30 June 2012 HK\$ million	At 31 December 2011 HK\$ million	At 30 June 2012 HK\$ million	At 31 December 2011 HK\$ million
Unsecured bank loans	–	150	2,689	2,690
Floating rate notes	–	–	200	200
Fixed rate notes	–	1,357	2,726	1,952
Zero coupon notes	–	–	321	314
	–	1,507	5,936	5,156

During the current period, the Group issued new fixed rate notes of HK\$781 million which carry interest at fixed rates ranging from 3.9% to 4.5% per annum payable quarterly/annually and are repayable in more than five years.

15. Deferred Taxation

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

	Accelerated tax depreciation HK\$ million	Revaluation of properties HK\$ million	Tax losses HK\$ million	Total HK\$ million
At 1 January 2012	327	54	(21)	360
Charge to profit or loss (note 6)	16	–	1	17
Charge to other comprehensive income	–	3	–	3
At 30 June 2012	343	57	(20)	380

15. Deferred Taxation *continued*

As at 30 June 2012, the Group has unused estimated tax losses of HK\$665 million (31 December 2011: HK\$648 million), of which HK\$344 million (31 December 2011: HK\$327 million) has not been agreed by the Hong Kong Inland Revenue Department, available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$121 million (31 December 2011: HK\$126 million) of such losses. No deferred tax asset has been recognised in respect of the estimated tax losses of HK\$544 million (31 December 2011: HK\$522 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

16. Capital Commitments

As at 30 June 2012, the Group had the following capital commitments in respect of its investment properties and property, plant and equipment:

	At 30 June 2012 HK\$ million	At 31 December 2011 HK\$ million
Authorised but not contracted for	706	505
Contracted but not provided for	359	885

17. Related Party Transactions and Balances

(a) Transactions with related parties

During the period, the Group has received gross rental income from the following related parties:

	Six months ended 30 June	
	2012 HK\$ million	2011 HK\$ million
Related company controlled by a substantial shareholder (Note 1)	1	1
Related companies controlled by Directors (Note 2)	13	13
	14	14

Notes:

- (1) The shareholder has significant influence over the Company and controlling interests over the related company.
- (2) The Directors have controlling interests over the related companies.

(b) Balance with a related party

As at 30 June 2012, the Group has an amount of HK\$94 million (31 December 2011: HK\$94 million) due to a non-controlling interest, which represented 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 ("Jebsen and Company"), of which Hans Michael JEBSEN is a director and a controlling shareholder, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

17. Related Party Transactions and Balances *continued*

(c) Compensation of key management personnel

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

	Six months ended 30 June	
	2012	2011
	HK\$ million	HK\$ million
Salaries and other short-term employee benefits	16	16
Share-based payments	3	2
	19	18

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.

Additional Information

Corporate Governance

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

We recognise the importance of having a broad complement of skills, experience and competencies on our Board to ensure the continued effective oversight of, and informed decision making with respect to, issues affecting Hysan. We are committed to continuing Board renewal to ensure that the Board of Directors (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 Directors with backgrounds in the areas of finance, general management and professional practices have joined our Board.

Hysan meets the requirements of the Code Provisions contained in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, 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, the current arrangement is appropriate. However, the Board will continue to review this arrangement going forward in light of the evolving needs of the Group. Further information on the Company's corporate governance practices is available on our website www.hysan.com.hk.

Board Effectiveness

Board Responsibilities and Board/Management Relationship

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.

Board Effectiveness *continued*

Board Responsibilities and Board/Management Relationship *continued*

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

These are governed by a formal Board of Directors Mandate (details are 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 include strategic planning, internal controls and risk management, culture and values, capital management, corporate governance, and Board succession.

Board Composition

The Board currently comprises 3 Executive Directors, 3 Independent non-executive Directors and 4 Non-executive Directors. There is a majority of Non-executive Directors on the Board with a wide range of experience and calibre who bring valuable judgment on issues of strategy, performance and resources.

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

Board Process

The Board meets at least quarterly. 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 and such list is reviewed periodically, at least once a year. These matters include: the extension of Group activities into new business areas; capital management framework and policy; treasury policies; material investment transactions; connected transactions; annual budgets; preliminary announcements of interim and final results; and the declaration of dividends.

An important element of the Company's corporate governance programme is the continuous improvement in the quality and timeliness of the dissemination of information to Directors. 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. From time to time, the Board also receives presentations, including from non-Board management members, on significant issues or new opportunities for the Group. This facilitates the build-up of constructive relations and dialogue between the Board and the management team.

Board Effectiveness *continued*

Board Process *continued*

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. These processes ensure that the Board receives the answers and information it needs to fulfill its obligations.

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

Internal Controls

The Group is committed to implementing effective risk management policies and internal controls procedures to identify, evaluate and manage the risks that the Group may be exposed to, thereby providing reasonable assurance regarding the achievement of corporate objectives.

The Board 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 the internal controls system to manage risks. As stated in our 2011 Annual Report, the Board considered the internal controls system effective and adequate. 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. No significant areas of concern that might affect the operational, financial reporting, and compliance functions of the Group were identified.

Our Internal Audit function assists management in its monitoring function by providing independent assessment and assurance. The principle of independence was firmly established, as evident by its direct access to Audit Committee Chairman.

Board Effectiveness *continued*

Board Committees

In order to provide effective oversight and leadership and pursuant to its Corporate Governance Guidelines, the Board has established 3 corporate governance-related Board committees (being the Audit, Remuneration and Nomination Committees). During the review period, following every committee meeting, committee chairs report to the Board on the activities of their respective committees.

- ***Audit Committee***

The Audit Committee is currently chaired by Nicholas Charles ALLEN, Independent non-executive Director, and has an overall majority of Independent non-executive Directors. The other members of the Audit Committee are Philip Yan Hok FAN and Anthony Hsien Pin LEE. 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 meets three times a year. At the invitation of the Audit Committee, meetings are also attended by the Chairman and members of management (including Chief Executive Officer and Chief Financial Officer). Pre-meeting sessions with external and internal auditors were held without management presence. Full terms of reference are available on the Company’s website: www.hysan.com.hk.

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

The 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.

The Committee has reviewed and discussed with management and external auditor the unaudited condensed consolidated financial statements for the first six months of 2012 included in this Report.

Board Effectiveness *continued*

Board Committees *continued*

- ***Remuneration Committee***

The Board reviewed the composition of the Remuneration Committee during the review period. Philip Yan Hok FAN, Independent non-executive Director, was appointed chairman in March 2012. The other members are Joseph Chung Yin POON, Independent non-executive Director (appointed Committee member in March 2012), and Michael Tze Hau LEE, Non-executive Director. It has an overall majority of Independent non-executive Directors. The Remuneration Committee generally meets at least once every year. In-camera meetings were held without management presence. Full terms of reference are available on the Company's website: www.hysan.com.hk.

The Committee reviews and determines the remuneration of the Executive Directors. Management makes recommendations to the Committee on the Company'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 fee payable to Non-executive Directors prior to its being submitted for approval at the AGM. In addition, the Committee 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.

A separate "Directors' Remuneration and Interests Report" in the 2011 Annual Report sets out details of the level of the Directors' remuneration including remuneration breakdown of each individual Executive Directors on a "named" basis.

- ***Nomination Committee***

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 are Philip Yan Hok FAN, Chien LEE, Nicholas Charles ALLEN and Joseph Chung Yin POON (Messrs. Allen and Poon, both being Independent non-executive Directors, were appointed in March 2012). Gerry Lui Fai YIM resigned from the Committee in March, in line with good corporate governance practices. The Nomination Committee meets when it is considered necessary. Full terms of reference are available on the Company's website: www.hysan.com.hk.

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

Board Effectiveness *continued*

Board Committees *continued*

In addition, the Board formed a Strategy Committee which is currently chaired by Irene Yun Lien LEE, Chairman of the Board. Its other members are Siu Chuen LAU (Deputy Chairman and Chief Executive Officer), Nicholas Charles ALLEN, Philip Yan Hok FAN and Chien LEE. Other Board members are also invited to attend Committee meetings.

Communication with Shareholders

The Group is committed to maintaining a policy of open and timely disclosure of relevant information on its attributes to shareholders and other stakeholders, subject to applicable legal requirements. A communication programme is in place to maintain an on-going dialogue with the Company's stakeholders, including communication with shareholders in a regular and timely manner, through the Group's annual and interim reports and accounts, press releases/announcements; and holding regular briefings and meetings between Chief Executive Officer, Chief Financial Officer and institutional investors, fund managers and analysts.

The Board is equally interested in the concerns of private shareholders and recognises the significance of constructive use of the AGM as a useful means to enter into a dialogue with private shareholders based on mutual understanding of objectives. Individual shareholders can put questions to the Chairman at the general meeting. Board Committee Chairmen, as provided under the respective terms of references, attend AGMs to respond to any shareholder questions on the activities of those Committees. Since 2004, to enable shareholders to gain a better understanding of our business activities, we have included a "business review" session in addition to the statutory part of the meeting. In the May AGM, topics addressed include overview of the 2011 business environment, financial position, annual results and subsequent updates, and 2012 outlook.

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.

Updated Information on Directors Pursuant to Rule 13.51B(1) of the Listing Rules

Directors' Updated Biographical Details

The Directors' updated information is set out below. Upon specific enquiry by the Company and following confirmations from Directors, save as otherwise set out in this Report, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B of the Listing Rules since the Company's last published annual report.

Chairman

Irene Yun Lien LEE

Ms. Lee is 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 the non-executive chairman of Keybridge Capital Limited; an executive director of Citicorp Investment Bank Limited in New York, London and Sydney; head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney; and a non-executive director of ING Bank (Australia) Limited and The Myer Family Company Pty Limited. Ms. Lee was formerly a member of the Australian Government Takeovers Panel. She is a member of the founding Lee family, sister of Mr. Anthony Hsien Pin LEE (Non-executive Director) and his alternate on the Board. Ms. Lee holds a Bachelor of Arts Degree from Smith College, United States of America, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, United Kingdom. She was appointed a Non-executive Director in March 2011, Non-executive Chairman in May 2011, and Executive Chairman in March 2012.

Deputy Chairman and Chief Executive Officer

Siu Chuen LAU

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

Updated Information on Directors Pursuant to Rule 13.51B(1) of the Listing Rules *continued*

Directors' Updated Biographical Details *continued*

Independent non-executive Director

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.

Independent non-executive Director

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. He is a member of the Asian Advisory Committee of AustralianSuper Pty Ltd (a pension fund in Australia). Mr. Fan holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from Massachusetts Institute of Technology. He was appointed Independent non-executive Director in January 2010.

Independent non-executive Director

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.

Updated Information on Directors Pursuant to Rule 13.51B(1) of the Listing Rules *continued*

Directors' Updated Biographical Details *continued*

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.

Non-executive Director

Anthony Hsien Pin LEE

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

Non-executive Director

Chien LEE

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

Updated Information on Directors Pursuant to Rule 13.51B(1) of the Listing Rules *continued*

Directors' Updated Biographical Details *continued*

Non-executive Director

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.

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.

Directors' Emoluments

The Remuneration Committee met in March 2012 to approve the 2012 annual fixed base salary and determine the 2011 performance-based bonus of the Company's Executive Directors. In May 2012, following the appointment of Deputy Chairman and Chief Executive Officer, the Committee considered and approved his annual remuneration package. Further details are set out in the note to the condensed consolidated financial statements on pages 22 and 23.

Share options were also granted to Executive Directors on 9 March 2012 and to the Chairman and the Deputy Chairman and Chief Executive Officer on 14 May 2012 pursuant to the Company's share option scheme, details are set out in the section "Long-term Incentives: Share Option Scheme" below.

Directors' Interests in Shares

As at 30 June 2012, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

Aggregate long positions in shares and underlying shares of the Company

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

Notes:

- (a) This percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,061,657,372 ordinary shares) as at 30 June 2012.
- (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 Company's share option scheme (details are set out in the section headed "Long-term incentives: Share Option Scheme" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Directors' Interests in Shares *continued*

Aggregate long positions in shares of associated corporations

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

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

Note:

Jebsen and Company 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 30 June 2012 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Long-term incentives: Share Option Scheme

The Company has currently granted options under an executive share option scheme. The purpose of the scheme was to strengthen the link between individual staff and shareholder interests. The power of grant to Executive Directors is vested in the Remuneration Committee and endorsed by all Independent non-executive Directors as required under the Listing Rules. The Chairman or the Chief Executive Officer may make grants to management staff below Executive Director level.

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

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and will be expiring on 9 May 2015.

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Scheme *continued*

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

As at 30 June 2012, an aggregate of 2,500,669 shares are issuable for options granted (including 953,323 fully-vested shares options) under the 2005 Scheme, representing approximately 0.24% of the issued share capital of the Company.

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

Name	Date of grant	Exercise price HK\$	Exercisable period (Note a)	Balance as at 1.1.2012	Changes during the period			Balance as at 30.6.2012
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.500 (Note c)	14.5.2012 – 13.5.2022	–	261,000	–	–	261,000
Siu Chuen LAU	14.5.2012	33.500 (Note c)	14.5.2012 – 13.5.2022	–	242,000	–	–	242,000
Gerry Lui Fai YIM (Note d)	1.12.2009	22.800	1.12.2009 – 30.11.2019	218,000	–	(145,333) (Note e)	(72,667)	–
	10.3.2011	35.710	10.3.2011 – 9.3.2021	217,000	–	–	(217,000)	–
	9.3.2012	33.790 (Note f)	9.3.2012 – 8.3.2022	–	239,000	–	(239,000)	–

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Scheme *continued*

Name	Date of grant	Exercise price HK\$	Exercisable period (Note a)	Balance as at 1.1.2012	Changes during the period			Balance as at 30.6.2012
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Executive Directors <i>continued</i>								
Wendy Wen Yee YUNG	30.3.2007	21.250	30.3.2007 – 29.3.2017	95,000	–	–	–	95,000
	31.3.2008	21.960	31.3.2008 – 30.3.2018	100,000	–	–	–	100,000
	11.3.2009	11.760	11.3.2009 – 10.3.2019	100,000	–	–	–	100,000
	11.3.2010	22.100	11.3.2010 – 10.3.2020	185,000	–	–	–	185,000
	10.3.2011	35.710	10.3.2011 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.790 (Note f)	9.3.2012 – 8.3.2022	–	113,000	–	–	113,000
Eligible employees (Note g)								
	31.3.2008	21.960	31.3.2008 – 30.3.2018	23,000	–	–	–	23,000
	2.5.2008	23.900	2.5.2008 – 1.5.2018	95,000	–	(95,000) (Note h)	–	–
	2.10.2008	20.106	2.10.2008 – 1.10.2018	85,000	–	(85,000) (Note i)	–	–
	31.3.2009	13.300	31.3.2009 – 30.3.2019	262,668	–	(61,000) (Note j)	(23,000)	178,668
	31.3.2010	22.450	31.3.2010 – 30.3.2020	441,001	–	(86,000) (Note k)	(28,000)	327,001
	31.3.2011	32.000	31.3.2011 – 30.3.2021	370,000	–	(4,000) (Note l)	(35,000)	331,000
	30.3.2012	31.610 (Note m)	30.3.2012 – 29.3.2022	–	479,000	–	(37,000)	442,000
				2,294,669	1,334,000	(476,333)	(651,667)	2,500,669

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Scheme *continued*

Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and became fully vested on the 3rd anniversary of the grant.
- (b) The options lapsed during the period upon resignations of a Director and certain eligible employees.
- (c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 11 May 2012) was HK\$33.00.
- (d) Gerry Lui Fai YIM resigned as Chief Executive Officer and Executive Director of the Company as from the conclusion of 2012 Annual General Meeting held on 14 May 2012.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.60.
- (f) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 8 March 2012) was HK\$33.45.
- (g) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$32.55.
- (i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$33.60.
- (j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$32.48.
- (k) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$30.23.
- (l) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.10.
- (m) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 29 March 2012) was HK\$31.10.

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

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Scheme *continued*

Value of share options

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

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

The inputs into the Model were as follows:

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

Notes:

- (a) Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- (b) Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- (c) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company in the past 5 years immediately before the date of grant, matching the expected life of the options of 5 years.
- (d) Expected dividend per annum: being the approximate average annual cash dividend for the past 5 financial years.

Substantial Shareholders' and Other Persons' Interests in Shares

As at 30 June 2012, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the 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)	40.80
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	40.80
Silchester International Investors LLP	Investment manager	84,246,000	7.94

Notes:

- (a) The percentage has been compiled based on the total number of shares of the Company in issue as at 30 June 2012 (i.e. 1,061,657,372 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 30 June 2012.

Related Party Transactions

The Group entered into certain transactions with parties regarded as “Related Parties” under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm’s length basis. Further details are set out in note 17 to the condensed consolidated financial statements.

Some of these transactions also constitute “Continuing Connected Transactions” under the Listing Rules, as identified on pages 51 to 54.

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 review period. Details of the Transactions required to be disclosed are set out as follows:

I. Leases granted by the Group

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

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

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
Oxer Limited (Note b)	14 June 2010 (Lease and Carpark Licence Agreement)	3 years commencing from 1 July 2010	Rooms 3703 and 3704 on the 37th Floor and 1 carparking space	2012: HK\$1,638,876 2013: HK\$819,438 (on pro-rata basis)

Continuing Connected Transactions *continued*

I. Leases granted by the Group *continued*

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

The following lease arrangements were entered into by Barrowgate, 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	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	2012: HK\$17,869,680 2013: HK\$14,074,775 (on pro-rata basis) (Notes f & g)
(iii) Pearl Investments (HK) Limited (Note h)	24 May 2011 (Lease and Carpark Licence Agreement)	3 years commencing from 15 May 2011	Room 1401C on the 14th Floor and 1 carparking space	2012: HK\$2,057,496 2013: HK\$2,057,496 2014: HK\$763,265 (on pro-rata basis)
(iv) MF Jebsen International Limited (Note i)	7 September 2010	3 years commencing from 1 February 2011	Office units on the 25th Floor	2012: HK\$7,213,548 2013: HK\$601,129 (on pro-rata basis) (Note j)

Continuing Connected Transactions *continued*

I. Leases granted by the Group *continued*

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

The following lease arrangement was entered into by OHA Property Company Limited, a wholly-owned subsidiary of the Company and property owner of One Hysan Avenue, as landlord with Atlas Corporate Management Limited, a wholly-owned subsidiary of LHE, a substantial shareholder of the Company (holding 40.80% interest). Details of the lease are set out below:

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

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

(a) The following management agreement was entered into by Hysan Leasing Company Limited, 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\$8,315,080 (Note k)

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

Connected person	Date of agreement	Terms	Premises	Consideration
Barrowgate Limited	31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK\$1,460,305 (Note k)

Continuing Connected Transactions *continued*

Notes:

- (a) The annual considerations are based on current rates of rental, operating charges, (for retail premises) promotional levies and (for carparking spaces) licence fees for each of the relevant financial years as provided in the relevant agreements. The rental, operating charges, promotional levies and licence fees (as the case may be) are payable monthly in advance.
- (b) Ozer 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) Jebesen and Company and Hang Seng Bank Limited ("Hang Seng") are beneficial substantial shareholders of Barrowgate and having equity interest of 10% and 24.64% respectively in Barrowgate.
- (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 Jebesen International Limited is a connected person of the Company by virtue of its being controlled (more than 50%) by the brother of Hans Michael JEBSEN, Non-executive Director of the Company.
- (j) The lease will be early terminated on 31 January 2013.
- (k) These represent the actual consideration received for the period from 1 January 2012 to 30 June 2012, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

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

Compliance of the Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' 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 review period.

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

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

Human Resources Practices

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 30 June 2012 was 580 (31 December 2011: 541), including new staff hired for the new Hysan Place. The Group's human resources practices are aligned with our corporate objectives so as to maximise shareholder value and achieve growth.

There has been no material change in respect of the human resources programs, training and development as set out in our 2011 Annual Report.

Corporate Information

Board of Directors

Chairman

Irene Yun Lien LEE

Deputy Chairman and Chief Executive Officer

Siu Chuen LAU

Independent non-executive Directors

Nicholas Charles ALLEN

Philip Yan Hok FAN

Joseph Chung Yin POON

Non-executive Directors

Hans Michael JEBSEN
B.B.S.

Anthony Hsien Pin LEE

Chien LEE

Michael Tze Hau LEE

Executive Director and Company Secretary

Wendy Wen Yee YUNG

Auditor

Deloitte Touche Tohmatsu

Share Registrars and Transfer Office

Tricor Standard Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Registered Office

49/F. (Reception: 50/F.)
The Lee Gardens
33 Hysan Avenue
Hong Kong

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Announcement of interim results	6 August 2012
Ex-dividend date for interim dividend	16 August 2012
Closure of register of members	20 to 22 August 2012
Record date for interim dividend	22 August 2012
Dispatch of scrip dividend circular and election form	(on or about) 24 August 2012
Dispatch of interim dividend warrants / definitive share certificates	(on or about) 13 September 2012

INTERIM DIVIDEND

The Board declares the payment of an interim dividend of HK17 cents per share. The interim dividend will be payable in cash with a scrip dividend alternative to shareholders on the register of members as at Wednesday, 22 August 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 Monday, 20 August 2012 to Wednesday, 22 August 2012, both dates inclusive, for the purpose of determining shareholders' entitlements to the interim dividend, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars not later than 4:00 p.m. on Friday, 17 August 2012.

A circular containing details of the scrip dividend and the form of election is to be mailed to shareholders on or about Friday, 24 August 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, 7 September 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, 13 September 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 Interim Report is printed in English and Chinese languages and is available on our website: www.hysan.com.hk. Shareholders may at any time choose to receive the Interim Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Interim Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Interim 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 Interim 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 website: www.hysan.com.hk.



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