



Hysan Development Company Limited
INTERIM REPORT 2013

 **Hysan** 希慎

stock code 00014

VISION

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

MISSION

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

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Highlights

- **Group turnover up 38.1% reflecting 14.0% like-for-like growth and Hysan Place contributions**
- **Recurring Underlying Profit up 38.1%**
- **Hysan Place office achieved 93% commitment during the review period**
- **Steady performance expected for the rest of the year, with further contributions by Hysan Place**
- **Well-positioned for further growth with on-going asset enhancement programmes**

Results

	Notes	Six months ended 30 June		Change
		2013 HK\$ million	2012 HK\$ million	
Turnover	1	1,531	1,109	+38.1%
Recurring Underlying Profit	2	1,033	748	+38.1%
Underlying Profit	3	1,033	748	+38.1%
Reported Profit	4	3,243	5,822	-44.3%
		HK cents	HK cents	
Earnings per share, based on:				
Recurring Underlying Profit	2	97.15	70.57	+37.7%
Underlying Profit	3	97.15	70.57	+37.7%
Reported Profit	4	304.98	549.27	-44.5%
First interim dividend per share		22.00	17.00	+29.4%
		At 30 June 2013 HK\$ million	At 31 December 2012 HK\$ million	
Shareholders' Funds	5	60,603	58,123	+4.3%
		HK\$	HK\$	
Net Asset Value per Share	6	56.98	54.68	+4.2%

Notes:

1. **Turnover** comprises rental income and management fee income derived from the Group's investment property 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 comparison 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

Hong Kong's economy remained steady in the first half of 2013. Private consumption stayed resilient, despite concerns over the possible tapering of United States quantitative easing measures, slowing growth in China, and negative impact on the stock market towards the end of the review period. Retail businesses, and in turn retail leasing activities, were underpinned by healthy local employment conditions, and contribution of tourist spending though at a more moderate growth rate generally.

Although the demand was subdued, the Grade "A" office leasing market continued to see tight supply, and rental levels in core locations (including Causeway Bay) were stable.

Results

The Group's turnover for the 2013 interim period was HK\$1,531 million (2012: HK\$1,109 million), representing a year-on-year increase of 38.1%. If the rental contribution of HK\$366 million (2012: HK\$87 million) from Hysan Place (its retail section opened in August 2012) is excluded, the like-for-like turnover increase in the first six months in 2013 would be 14.0% to HK\$1,165 million (2012: HK\$1,022 million). As at 30 June 2013, the occupancy of Retail, Office and Residential sectors were 99%, 93% and 87% respectively.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was HK\$1,033 million (2012: HK\$748 million). This reflected Hysan Place's contribution and 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\$1,033 million. Our Reported Profit for the 2013 interim period was HK\$3,243 million (2012: HK\$5,822 million), primarily due to a smaller fair value gain on investment properties valuation recorded in this period.

As at 30 June 2013, the investment properties for the Group were revalued at HK\$62,507 million (31 December 2012: HK\$60,022 million), reflecting improved rentals for our portfolio. The fair value gain was, however, smaller when compared with that recorded in the previous year. The Group's Shareholders' Funds rose by 4.3% to HK\$60,603 million (31 December 2012: HK\$58,123 million).

Dividends

The Board of Directors has declared a first interim dividend of HK22 cents per share (2012: HK17 cents). The dividend will be payable in cash. Details of the payment of a first interim dividend are set out in "Additional Information".

Outlook

Our performance is expected to remain steady in the second half of 2013, as the majority of our commercial leases due for renewal in 2013 have already been committed.

Hysan Place's shopping centre opened last August, thus reflecting its maiden full-year contribution. We have achieved 93% commitment for the Hysan Place office during the review period. This will bring further contribution in due course.

The launch of Hysan Place has added significant strategic value to our portfolio. Together with our ongoing asset enhancement programmes, we are well-positioned for further growth in the longer term with a better balanced portfolio, as well as a broader and more diverse tenant mix.

Irene Yun Lien LEE

Chairman

Hong Kong, 5 August 2013

Management's Discussion and Analysis

Review of Operations

The Group's turnover for the first half of 2013 was HK\$1,531 million, representing a 38.1% year-on-year increase (2012: HK\$1,109 million). If the rental contribution of HK\$366 million (2012: HK\$87 million) from Hysan Place is excluded, the like-for-like turnover increase would be 14.0% to HK\$1,165 million (2012: HK\$1,022 million). Strong performances in the retail and office sectors offset the relatively weaker showing in the residential sector.

Retail Sector

The Group's retail sector turnover grew 65.5% to HK\$844 million (2012: HK\$510 million), including turnover rent of HK\$64 million (2012: HK\$58 million). This principally reflected the contribution of Hysan Place during the entire period. In addition, strong positive rental reversions on renewals/reviews and new lettings were recorded in the first half of 2013. Following the completion of renovations at the Lee Theatre Plaza, our retail portfolio was virtually fully-let as at 30 June 2013 (31 December 2012: 93%).

The Hysan Retail Triangle continued to offer a unique shopping experience with diversity, contrast and variety, with a broad range of styles and price-points. Visitors to our retail portfolio averaged to close to 130,000 per day in the month of June. Hysan Place made a significant contribution to our retail portfolio both in terms of turnover and tenant mix. It continued to attract shoppers through active marketing events and activities: the Rugby Hong Kong Sevens, Iron Man 3 and Breathe Paris promotions were all well received.

For the rest of the portfolio, a vast majority of leases due for renewals in 2013 have already been committed. The luxury Lee Gardens hub continued to do well with strong rental reversions on renewals/reviews and new leases. The renovated Lee Theatre Plaza welcomed a fresh range of flagship stores during the review period. This also completed the transformation of the Lee Theatre hub by creating an urban lifestyle zone at our western gateway.

Office Sector

The office sector turnover grew 22.6% during the interim period to HK\$532 million (2012: HK\$434 million), principally reflecting positive rental reversions on renewals/reviews and new lettings. Hysan Place also made its contributions. Office portfolio occupancy as at 30 June 2013 increased to 93% (Hysan Place: 69%), as compared to 91% on 31 December 2012.

93% of Hysan Place's office space had been committed as of 30 June 2013, representing a significant increase from 53% commitment as of 31 December 2012. New tenants of the building include financial services and professional sectors.

For the rest of the portfolio, a majority of the current year's expiring leases have been committed.

Our office portfolio is positioned to offer the clear choice for companies that want premier office space in the heart of the city, while providing true work-life balance for their employees. We have a balanced tenant mix. The top four industry groups representing around 56% of our office tenant mix by lettable floor area are insurance, professional and consulting, banking and finance and high-end retailers. No single category took up more than 20% of the total lettable area.

Residential Sector

The Group's residential sector turnover decreased by 6.1% to HK\$155 million (2012: HK\$165 million) in the slow market environment. The sector recorded 87% occupancy as at 30 June 2013 (31 December 2012: 92%; 30 June 2012: 95%). The Group continued to broaden tenant base beyond the financial sector. Tenant retention is also a main focus.

Continuing Asset Enhancement Programme

Planning and preparations for the combined re-development of Sunning Plaza (commercial property) and Sunning Court (residential property) are underway. Tenants are expected to vacate the buildings beginning Q4, 2013, for the eventual demolition of the buildings in phases. The re-development project is expected to be completed around 2018.

Financial Review

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

Operating Costs

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

Property expenses rose 19.1% to HK\$181 million (2012: HK\$152 million), mainly due to the operating costs (including revenue-generating marketing activities) attributable to Hysan Place, reflecting its first full-period operation. Like-for-like property expenses increased by 9.4% to HK\$128 million (2012: HK\$117 million), reflecting the increase in revenue-generating marketing expenses and agency fees, as well as front-line staff salary increment. Although property expenses increased in 2013, the property expenses to turnover ratio improved from 13.7% to 11.8% as compared to the same period in 2012. This reflected the stabilisation of Hysan Place property expenses following its opening.

Administrative expenses rose by 8.4% to HK\$103 million (2012: HK\$95 million) for the first half of 2013. This reflected human resources upskilling and salary increment.

Finance Costs

During the construction period of Hysan Place (which was completed in March 2012), interest expenses and related borrowing costs were capitalised as construction costs. No further interest expenses and related borrowing costs were capitalised since then, as required under the accounting standard.

Finance costs were HK\$121 million in 2013, an increase of 72.9% from HK\$70 million in 2012. The increase in finance costs would reduce to 39.1% from HK\$87 million in 2012 if the interest expenses and related borrowing costs capitalised in 2012 for Hysan Place (HK\$17 million) were included. The increase was the result of higher Group's average debt level after the issuance of the US\$300 million fixed rate notes at the beginning of the year. The new financing helps to increase the liquidity and extend the maturity profile of the Group.

The Group's average finance costs for the interim period were 2.9%, slightly higher than the 2.7% reported for both the first half of 2012 and 2012 full-year.

Revaluation of Investment Properties

As at 30 June 2013, the investment properties of the Group were revalued at HK\$62,507 million (31 December 2012: HK\$60,022 million) by an independent professional valuer. Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK\$2,356 million (2012: HK\$5,142 million) was recognised in the condensed consolidated income statement during the interim period.

Investments in Associates

The Group's share of results of associates decreased by 8.8% to HK\$145 million (2012: HK\$159 million), primarily due to a smaller year-on-year revaluation gain on the Shanghai Grand Gateway project, of which the Group owns 24.7%, as compared to the same period in 2012. Excluding revaluation gain on investment properties, the Group's share of results of associates recorded an increase of 10.9%. This reflects the continuing good performance of the Shanghai Grand Gateway project.

Other Investments

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

Investment income, principally being interest income, amounted to HK\$36 million (2012: HK\$26 million). The growth was mainly due to a larger principal amount for investment in time deposits and debt securities.

Capital Expenditure

The Group is committed to enhancing the asset value of its investment property portfolio through selective re-positioning, refurbishment and re-development. Total capital expenditure on these activities amounted to HK\$130 million during the period (2012: HK\$1,338 million), including the payment of the construction costs of Hysan Place.

Treasury Policy

The Group considers that it has 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.

Objective

Our key objective 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 exposures arising from borrowings and investments. To manage our exposure to the volatile market, we strictly monitor counter-party risks and restrict our investments to simple and liquid products.

Liquidity Management

To lengthen the maturity profile, the Group issued 10-year US\$300 million fixed rate notes with coupon at 3.5% during the interim period. The Group's total gross debt¹ level at 30 June 2013 was HK\$8,232 million, up by HK\$2,333 million compared to HK\$5,899 million at the year-end of 2012.

The Group's average debt maturity improved to 5.9 years as at 30 June 2013 (31 December 2012: 5.0 years), with HK\$1,200 million being repayable within one year, HK\$900 million being repayable in more than one year but not exceeding two years, HK\$1,350 million being repayable in more than two years but not exceeding five years, and HK\$4,782 million being repayable beyond five years. (31 December 2012: HK\$700 million being repayable within one year, HK\$1,100 million being repayable in more than one year but not exceeding two years, HK\$1,500 million being repayable in more than two years but not exceeding five years, and HK\$2,599 million being repayable beyond five years). As at 30 June 2013, bank loans accounted for approximately 32.8% of the Group's total gross debt, with the remaining 67.2% from capital market financing (31 December 2012: 45.8%: 54.2%).

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 2013 (31 December 2012: HK\$1,000 million).

¹ The gross debt represents the contractual principal payment obligations as at 30 June 2013. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. Also, if the Group designates certain derivatives as hedging instruments (i.e. interest rate swaps) for fair value hedge, the net cumulative gains/losses attributable to the hedged interest rate risk of the hedged items (i.e. fixed rate notes and zero coupon notes) are adjusted to the hedged items. Therefore, as disclosed in the condensed consolidated statement of financial position as at 30 June 2013, the book value of the outstanding debt of the Group was HK\$8,215 million (31 December 2012: HK\$5,941 million).

Interest Rate 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 2013, the fixed rate debt was approximately 63.5% of the total gross debt (31 December 2012: 53.0%).

Foreign Exchange Management

The Group aims to have minimal foreign currency exposure when managing its liabilities. On the liability side, with the exception of the newly issued US\$300 million fixed rate notes, US\$26 million and AUD37 million of bank loans (all 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 time deposits, investments in principal-protected investments and debt securities. Unhedged foreign currency positions were US\$64 million and CNY269 million. Other foreign exchange exposure mainly relates to the Shanghai Grand Gateway project amounting to HK\$3,967 million (31 December 2012: HK\$3,759 million) or 5.4% (31 December 2012: 5.5%) of the Group's total assets.

Financial Ratios

Net interest coverage (defined as gross profit less administrative expenses before depreciation divided by net interest expenses) was 15.3 times for the first half of 2013 (2012: 14.6 times).

Net debt to equity (defined as borrowings less time deposits, cash and bank balances divided by Shareholders' Funds) was 6.3% as at 30 June 2013 (31 December 2012: 6.2%).

Credit Ratings

During the interim period, Moody's upgraded the Group's credit rating from Baa1 to A3 to reflect the Group's improved position following the opening of Hysan Place. Credit rating from Standard and Poor's was BBB+ as at 30 June 2013.

Report on Review of Condensed Consolidated Financial Statements



**TO THE BOARD OF DIRECTORS OF
HYSAN DEVELOPMENT COMPANY LIMITED**
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 9 to 37, which comprise the condensed consolidated statement of financial position as of 30 June 2013 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
5 August 2013

Condensed Consolidated Income Statement

For the six months ended 30 June 2013 (unaudited)

	Notes	Six months ended 30 June	
		2013 HK\$ million	2012 HK\$ million
Turnover	3	1,531	1,109
Property expenses		(181)	(152)
Gross profit		1,350	957
Investment income		36	26
Other gains and losses		(1)	13
Administrative expenses		(103)	(95)
Finance costs	5	(121)	(70)
Change in fair value of investment properties		2,356	5,142
Share of results of associates		145	159
Profit before taxation		3,662	6,132
Taxation	6	(188)	(136)
Profit for the period	7	3,474	5,996
Profit for the period attributable to:			
Owners of the Company		3,243	5,822
Non-controlling interests		231	174
		3,474	5,996
Earnings per share (expressed in HK cents)			
Basic	8	304.98	549.27
Diluted	8	304.91	549.14

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013 (unaudited)

	Six months ended 30 June	
	2013 HK\$ million	2012 HK\$ million
Profit for the period	3,474	5,996
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Equity investments designated as at fair value through other comprehensive income:		
Net gains arising during the period	–	107
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	19	15
Deferred taxation arising on revaluation	(3)	(3)
	16	12
	16	119
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Derivatives designated as cash flow hedges:		
Net (losses) gains arising during the period	(74)	2
Reclassification adjustments for net losses included in profit or loss	39	3
	(35)	5
Share of translation reserve of an associate	67	(18)
	32	(13)
Other comprehensive income for the period (net of tax)	48	106
Total comprehensive income for the period	3,522	6,102
Total comprehensive income attributable to:		
Owners of the Company	3,291	5,928
Non-controlling interests	231	174
	3,522	6,102

Condensed Consolidated Statement of Financial Position

At 30 June 2013 (unaudited)

	Notes	At 30 June 2013 HK\$ million	At 31 December 2012 HK\$ million
Non-current assets			
Investment properties	10	62,507	60,022
Property, plant and equipment		593	580
Investments in associates		3,967	3,759
Principal-protected investments		81	160
Term notes		646	527
Equity investments		1	1
Other financial assets		43	57
Other receivables	11	364	243
		68,202	65,349
Current assets			
Accounts receivable and other receivables	11	236	158
Principal-protected investments		246	218
Term notes		614	383
Other financial assets		2	2
Tax recoverable		1	2
Time deposits	12	4,353	2,158
Cash and bank balances	12	71	153
		5,523	3,074
Current liabilities			
Accounts payable and accruals	13	512	469
Rental deposits from tenants		188	190
Amounts due to non-controlling interests		327	327
Borrowings	14	1,199	699
Other financial liabilities		3	5
Taxation payable		161	77
		2,390	1,767
Net current assets		3,133	1,307
Total assets less current liabilities		71,335	66,656
Non-current liabilities			
Borrowings	14	7,016	5,242
Other financial liabilities		93	25
Rental deposits from tenants		629	508
Deferred taxation	15	491	434
		8,229	6,209
Net assets		63,106	60,447
Capital and reserves			
Share capital		5,318	5,315
Reserves		55,285	52,808
Equity attributable to owners of the Company		60,603	58,123
Non-controlling interests		2,503	2,324
Total equity		63,106	60,447

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013 (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 2013	5,315	2,022	14	276
Profit for the period	-	-	-	-
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 (note 15)	-	-	-	-
Share of translation reserve of an associate	-	-	-	-
Total comprehensive (expenses) income for the period	-	-	-	-
Issue of shares under share option schemes	3	15	(4)	-
Recognition of equity-settled share-based payments	-	-	5	-
Dividends paid during the period (note 9)	-	-	-	-
At 30 June 2013	5,318	2,037	15	276
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 (expenses) 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

Note:

The Group's leasehold land and buildings classified as property, plant and equipment were revalued at 30 June 2013 and 2012 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\$19 million (2012: HK\$15 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	(3)	(24)	308	413	49,702	58,123	2,324	60,447
-	-	-	-	-	3,243	3,243	231	3,474
-	-	(74)	-	-	-	(74)	-	(74)
-	-	39	-	-	-	39	-	39
-	-	-	19	-	-	19	-	19
-	-	-	(3)	-	-	(3)	-	(3)
-	-	-	-	67	-	67	-	67
-	-	(35)	16	67	3,243	3,291	231	3,522
-	-	-	-	-	-	14	-	14
-	-	-	-	-	-	5	-	5
-	-	-	-	-	(830)	(830)	(52)	(882)
100	(3)	(59)	324	480	52,115	60,603	2,503	63,106
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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013 (unaudited)

	Note	Six months ended 30 June	
		2013 HK\$ million	2012 HK\$ million
Net cash from operating activities		1,244	874
Investing activities			
Interest received		8	52
Dividends received from equity investments		–	3
Proceeds on disposal of equity investments		–	1,026
Proceeds upon maturity of principal-protected investments		50	226
Proceeds upon maturity of term notes		285	119
Proceeds upon maturity of other financial assets		–	61
Proceeds upon maturity of time deposits with original maturity over three months		1,013	2,267
Repayment from an associate		5	–
Payments in respect of investment properties		(225)	(1,249)
Purchases of property, plant and equipment		(1)	(7)
Purchases of term notes		(641)	(953)
Additions to time deposits with original maturity over three months		(3,272)	(968)
Net cash (used in) from investing activities		(2,778)	577
Financing activities			
Interest paid		(52)	(96)
Payment of other finance costs		(17)	(2)
Medium Term Note Programme expenses		(1)	(1)
Dividends paid		(830)	(634)
Dividends paid to non-controlling interests of a subsidiary		(52)	(45)
Repayment of bank loans		–	(150)
Repayment of fixed rate notes		–	(1,357)
Issue of fixed rate notes		2,326	774
Proceeds on exercise of share options		14	10
Net cash from (used in) financing activities		1,388	(1,501)
Net decrease in cash and cash equivalents		(146)	(50)
Cash and cash equivalents at 1 January	12	963	654
Cash and cash equivalents at 30 June	12	817	604

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013 (unaudited)

1. Basis of Preparation

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013 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.

In the current period, the Group has applied all of the new and revised Standards, Amendments to Standards and Interpretation issued by the HKICPA that are relevant to its operations and effective for the Group's financial year beginning on 1 January 2013. The adoption of these new and revised Standards, Amendments to Standards and Interpretation had no material effect on the results and financial position of the Group for the current and/or prior accounting periods.

Except as described below, the same accounting policies 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 2012.

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

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

2. Principal Accounting Policies *continued*

Amendments to HKFRS 7 “Disclosures – Offsetting Financial Assets and Financial Liabilities”

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

The amendments have been applied retrospectively. For the purpose of preparing the condensed consolidated financial statements, the additional disclosures are not presented but will be included in the Group’s annual consolidated financial statements for the year ending 31 December 2013.

HKFRS 13 “Fair Value Measurement”

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial Instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope. Some of these disclosures are specifically required to condensed consolidated financial statements for financial instruments under the consequential amendments to HKAS 34. Accordingly, the Group has included additional disclosures in note 18.

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. The application of HKFRS 13 has had no impact on the results or financial position of the Group but will result in more disclosures in the Group’s annual consolidated financial statements for the year ending 31 December 2013.

2. **Principal Accounting Policies** *continued*

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

HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ¹
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets ¹
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting ¹
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities ¹
HK(IFRIC) – Int 21	Levies ¹

¹ Effective for annual periods beginning on or after 1 January 2014.

The Directors of the Company anticipate that the application of these 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 and reportable segments are as follows:

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

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

Residential segment – leasing of luxury residential properties and related facilities

4. Segment Information *continued*

Segment turnover and results

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<i>For the six months ended 30 June 2013 (unaudited)</i>				
Turnover				
Gross rental income from investment properties	781	466	140	1,387
Management fee income	63	66	15	144
Segment revenue	844	532	155	1,531
Property expenses	(92)	(60)	(29)	(181)
Segment profit	752	472	126	1,350
Investment income				36
Other gains and losses				(1)
Administrative expenses				(103)
Finance costs				(121)
Change in fair value of investment properties				2,356
Share of results of associates				145
Profit before taxation				3,662

4. Segment Information *continued*

Segment turnover and results *continued*

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
For the six months ended				
30 June 2012 (unaudited)				
Turnover				
Gross rental income from investment properties	469	372	149	990
Management fee income	41	62	16	119
Segment revenue	510	434	165	1,109
Property expenses	(64)	(64)	(24)	(152)
Segment profit	446	370	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

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, other gains and losses, administrative expenses (including central administration costs and directors' salaries), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the Chief Executive Officer of the Group for the 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 and reportable segment.

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<i>As at 30 June 2013</i> <i>(unaudited)</i>				
Segment assets	30,365	23,688	8,475	62,528
Investments in associates				3,967
Other assets				7,230
Consolidated assets				73,725
<i>As at 31 December 2012</i> <i>(audited)</i>				
Segment assets	28,918	22,623	8,494	60,035
Investments in associates				3,759
Other assets				4,629
Consolidated assets				68,423

No segment liabilities analysis is presented as the Group's liabilities are monitored on a group basis.

5. Finance Costs

	Six months ended 30 June	
	2013	2012
	HK\$ million	HK\$ million
Finance costs comprise:		
Interest on bank loans wholly repayable within five years	18	20
Interest on floating rate notes wholly repayable within five years	1	1
Interest on fixed rate notes wholly repayable within five years	10	18
Interest on fixed rate notes not wholly repayable within five years	84	43
Imputed interest on zero coupon notes not wholly repayable within five years	8	7
	121	89
Total interest expenses		89
Other finance costs	5	5
Less: Amounts capitalised (Note)	–	(17)
	126	77
Net interest receipts on interest rate swaps and cross currency swaps	(12)	(15)
Net exchange (gains) losses on borrowings	(33)	1
Reclassification of net losses from hedging reserve on financial instruments designated as cash flow hedges	39	6
Medium Term Note Programme expenses	1	1
	121	70

Note:

For the six months ended 30 June 2012, interest expenses had been capitalised to investment properties under redevelopment at an average interest rate of 3.16% per annum.

6. Taxation

	Six months ended 30 June	
	2013 HK\$ million	2012 HK\$ million
Current tax		
Hong Kong profits tax (for current period)	134	119
Deferred tax (note 15)	54	17
	188	136

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	
	2013 HK\$ million	2012 HK\$ million
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	7	5
Dividends from listed equity investments	–	(3)
Gross rental income from investment properties including contingent rentals of HK\$64 million (2012: HK\$58 million)	(1,387)	(990)
Less:		
– Direct operating expenses arising from properties that generated rental income	179	149
– Direct operating expenses arising from properties that did not generate rental income	2	3
	(1,206)	(838)
Interest income	(36)	(23)
Staff costs, comprising:		
– Directors' emoluments (Note)	19	12
– Other staff costs	110	96
	129	108
Share of income tax of an associate (included in share of results of associates)	57	66

7. Profit for the Period *continued*

Notes:

The Remuneration Committee met in February 2013 to approve the 2013 annual fixed base salary and determined the 2012 performance-based bonus of the Company's Executive Directors. Details are as follows:

- (i) 2013 annual fixed base salary for all Executive Directors remained at the same level as 2012, namely HK\$4,931,096 for Irene Yun Lien LEE, HK\$5,340,400 for Siu Chuen LAU and HK\$3,042,000 for Wendy Wen Yee YUNG respectively.
- (ii) 2012 performance-based bonus approved by the Committee were HK\$4,951,754 for Irene Yun Lien LEE, HK\$3,187,420 for Siu Chuen LAU and HK\$1,638,000 for Wendy Wen Yee YUNG respectively.

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	
	2013	2012
	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	3,243	5,822
	<hr/>	
	Number of shares	
	Six months ended 30 June	
	2013	2012
<hr/>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,063,344,504	1,059,952,885
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	236,446	246,666
	<hr/>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,063,580,950	1,060,199,551
	<hr/>	

In both periods, 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			
	2013		2012	
	Profit	Basic earnings	Profit	Basic earnings
	HK\$ million	per share	HK\$ million	per share
	HK cents	HK cents	HK\$ million	HK cents
Profit for the period attributable to owners of the Company	3,243	304.98	5,822	549.27
Change in fair value of investment properties	(2,356)		(5,142)	
Effect of non-controlling interests' shares	179		126	
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(33)		(58)	
Underlying Profit	1,033	97.15	748	70.57
Recurring Underlying Profit	1,033	97.15	748	70.57

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 ended 30 June 2013 and 2012, 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	
	2013 HK\$ million	2012 HK\$ million
2012 second interim dividend paid – HK78 cents per share	830	–
2011 final dividend paid – HK64 cents per share	–	679
	830	679

Scrip dividend alternatives were offered to the shareholders in respect of the 2011 final dividend. These alternatives were accepted by the shareholders. The 2011 final dividend was settled in cash by HK\$634 million and in share alternative by HK\$45 million.

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

	Six months ended 30 June	
	2013 HK\$ million	2012 HK\$ million
First interim dividend declared – HK22 cents per share (2012: HK17 cents per share)	234	180

The first interim dividend is not recognised as a liability as at 30 June 2013 and 2012 because it has been declared after the end of the reporting period.

The declared 2013 first interim dividend will be payable in cash.

10. Investment Properties

	Fair value HK\$ million
At 1 January 2013	60,022
Additions	129
Change in fair value recognised in profit or loss	2,356
At 30 June 2013	62,507

The fair value of the Group's investment properties at 30 June 2013 and 31 December 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 re-development potential, where appropriate.

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 2013 HK\$ million	At 31 December 2012 HK\$ million
Accounts receivable	21	13
Interest receivable	72	27
Prepayments in respect of investment properties	173	59
Other receivables	334	302
	600	401
Analysis for reporting purposes as:		
Current assets	236	158
Non-current assets	364	243
	600	401

Rents from leasing of investment properties are normally received in advance. At 30 June 2013, accounts receivable of the Group with carrying amount of HK\$21 million (31 December 2012: HK\$13 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

12. Time Deposits/Cash and Bank Balances

	At 30 June 2013 HK\$ million	At 31 December 2012 HK\$ million
Time deposits	4,353	2,158
Cash and bank balances	71	153
Cash and deposits with banks shown in the condensed consolidated statement of financial position	4,424	2,311
Less: Time deposits with original maturity over three months	(3,607)	(1,348)
Cash and cash equivalents shown in the condensed consolidated statement of cash flows	817	963

13. Accounts Payable and Accruals

	At 30 June 2013 HK\$ million	At 31 December 2012 HK\$ million
Accounts payable	221	261
Interest payable	100	32
Other payables	191	176
	512	469

As at 30 June 2013, accounts payable of the Group with carrying amount of HK\$221 million (31 December 2012: HK\$261 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 2013 HK\$ million	At 31 December 2012 HK\$ million	At 30 June 2013 HK\$ million	At 31 December 2012 HK\$ million
Unsecured bank loans	1,199	699	1,464	1,996
Floating rate notes	–	–	200	200
Fixed rate notes	–	–	5,027	2,722
Zero coupon notes	–	–	325	324
	1,199	699	7,016	5,242

During the current period, the Group issued new fixed rate notes of US\$300 million which carry interest at fixed rate of 3.5% per annum payable semi-annually and are repayable in full in 2023.

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 2013	462	61	(89)	434
Charge to profit or loss (note 6)	24	–	30	54
Charge to other comprehensive income	–	3	–	3
At 30 June 2013	486	64	(59)	491

15. Deferred Taxation *continued*

As at 30 June 2013, the Group has unused estimated tax losses of HK\$902 million (31 December 2012: HK\$1,072 million), of which HK\$517 million (31 December 2012: HK\$684 million) has not been agreed by the Hong Kong Inland Revenue Department, available for offset against future profits. A deferred tax asset had been recognised in respect of HK\$357 million (31 December 2012: HK\$538 million) of such losses. No deferred tax asset has been recognised in respect of the estimated tax losses of HK\$545 million (31 December 2012: HK\$534 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 2013, the Group had the following capital commitments in respect of its investment properties and property, plant and equipment:

	At 30 June 2013 HK\$ million	At 31 December 2012 HK\$ million
Authorised but not contracted for	513	336
Contracted but not provided for	572	214

17. Related Party Transactions and Balances

(a) Transactions and balances with related parties

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

	Gross rental income received from		Amount due to non-controlling interests	
	Six months ended 30 June		At 30 June	At 31 December
	2013 HK\$ million	2012 HK\$ million	2013 HK\$ million	2012 HK\$ million
Related company controlled by a shareholder (Note a)	1	1	–	–
Related companies controlled by Directors (Note b (i) & (ii))	13	13	94	94
Non-controlling shareholder of a subsidiary (Note c (i) & (ii))	9	9	233	233

Notes:

- (a) The sum of transactions represents the aggregate gross rental income received from Atlas Corporate Management Limited, a wholly-owned subsidiary of Lee Hysan Estate Company, Limited (“LHE”). LHE holds 40.72% (30 June 2012: 40.80%) beneficial interest and has significant influence over the Company.
- (b) (i) The sum of transactions represents the aggregate gross rental income received from related companies where the directors have controlling interests over these related companies.
- (ii) The balance represents outstanding loan advanced to a non wholly-owned subsidiary of the Group, Barrowgate Limited (“Barrowgate”) by Mightyhall Limited, a wholly-owned subsidiary of Jebsen and Company Limited (“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*

(a) Transactions and balances with related parties *continued*

- (c) (i) The transaction represents the gross rental income received from Hang Seng Bank Limited ("Hang Seng"), the intermediate holding company of Imenson Limited ("Imenson"). Imenson is a non-controlling shareholder with significant influence over Barrowgate.
- (ii) The balance represents outstanding loan advanced to Barrowgate by Imenson, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

(b) Compensation of key management personnel

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

	Six months ended 30 June	
	2013	2012
	HK\$ million	HK\$ million
Directors' fees, salaries and other short-term employee benefits	20	11
Share-based payments	3	2
Retirement benefits scheme contributions	–	–
	23	13

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.

18. Financial Risk Management and Fair Value Measurements

(a) Financial risk management

The Group's financial risk management objectives and policies are the same as those disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2012.

(b) Fair value measurements

(i) *Financial assets and financial liabilities measured at amortised cost*

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

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the condensed consolidated financial statements approximate their fair values, except for the carrying amount of HK\$5,027 million (31 December 2012: HK\$2,722 million) fixed rate notes as stated in note 14 with fair value of HK\$4,932 million (31 December 2012: HK\$3,112 million).

(ii) *Financial assets and financial liabilities measured at fair value*

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

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18. Financial Risk Management and Fair Value Measurements *continued*

(b) Fair value measurements *continued*

(ii) *Financial assets and financial liabilities measured at fair value continued*

	At 30 June 2013			
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Financial assets				
<i>Derivatives under hedge accounting</i>				
Interest rate swaps	-	41	-	41
<i>Financial assets at fair value through profit or loss</i>				
Principal-protected investments	-	327	-	327
Unlisted club debentures	-	2	-	2
Forward foreign exchange contracts	-	2	-	2
<i>Financial assets at fair value through other comprehensive income</i>				
Unlisted equity securities	-	-	1	1
Total	-	372	1	373
Financial liabilities				
<i>Derivatives under hedge accounting</i>				
Cross currency swaps	-	80	-	80
Interest rate swaps	-	16	-	16
Total	-	96	-	96

There were no transfers between Levels 1 and 2.

18. Financial Risk Management and Fair Value Measurements *continued*

(b) Fair value measurements *continued*

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

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

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

Hysan meets the requirements of the Code Provisions contained in the Corporate Governance Code 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, this 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, 4 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.

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

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.

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

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 2012 Annual Report, the Board considered the internal controls system effective and adequate. No significant areas of concern that might affect the operational, financial reporting, and compliance controls of the Group were identified. The scope of this review covers the adequacy of resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget.

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 a 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 the Chief Executive Officer and the 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 2013 included in this Report.

Board Effectiveness *continued*

Board Committees *continued*

- ***Remuneration Committee***

The Remuneration Committee is currently chaired by Philip Yan Hok FAN, Independent non-executive Director, and its other members are Joseph Chung Yin POON, Independent non-executive Director, and Michael Tze Hau LEE, Non-executive Director. It has a majority of Independent non-executive Directors. The Remuneration Committee generally meets at least once every year. 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, Executive Director remuneration. The Committee then reviews these, and makes recommendations to the Board. The Remuneration Committee also reviews the fee payable to Non-executive Directors prior to its being submitted for approval at the Annual General Meeting ("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 2012 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. The Nomination Committee generally meets at least once every year. 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.

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.

Board Effectiveness *continued*

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, as well as analysts.

The Board is equally interested in the concerns of private shareholders and recognises the significance of the constructive use of AGMs 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 AGM. 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 2013 May AGM, topics addressed include overview of the 2012 business environment, financial position, annual results and subsequent updates, and 2013 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. It has been updated in light of the new "inside information" disclosure regime under the Securities and Futures Ordinance, effective January 2013. (Details of the Corporate Disclosure Policy are available at the Company's website: www.hysan.com.hk)

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

Independent non-executive Director

Frederick Peter CHURCHOUSE

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

Independent non-executive Director

Philip Yan Hok FAN

Mr. Fan is an independent non-executive director of China Everbright International Limited, First Pacific Company Limited and HKC (Holdings) Limited, and an independent director of Suntech Power Holdings Co., Ltd. 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.

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

Directors' Updated Biographical Details *continued*

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.

Non-executive Director

Hans Michael JEBSEN B.B.S.

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

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 the 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, Standing Committee on Company Law Reform and the Hong Kong Selection Committee of the Rhodes Scholarships respectively.

Directors' Emoluments

The Remuneration Committee met in February 2013 to approve the 2013 annual fixed base salary and determine the 2012 performance-based bonus of the Company's Executive Directors. Further details are set out in the note to the condensed consolidated financial statements on pages 23 and 24.

Share options were also granted to Executive Directors on 7 March 2013 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 2013, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

Aggregate long positions in shares and underlying shares of the Company

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

Notes:

- (a) This percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,063,623,043 ordinary shares) as at 30 June 2013.
- (b) Such shares were held jointly by Nicholas Charles ALLEN and his wife.
- (c) Such shares were held through a corporation in which Hans Michael JEBSEN was a member entitled to exercise no less than one-third of the voting power at general meeting.
- (d) Such shares were held through a corporation in which Siu Chuen LAU and his wife were members and each entitled to exercise no less than one-third of the voting power at general meeting.

Certain Executive Directors of the Company have been granted share options under the 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 2013 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Long-term incentives: Share Option Scheme

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

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Scheme *continued*

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.

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

As at 30 June 2013, an aggregate of 2,656,704 shares are issuable for options granted (including 895,656 fully-vested shares options) under the 2005 Scheme, representing approximately 0.25% 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 1.1.2013	Changes during the period			Balance as at 30.6.2013
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2012 – 13.5.2022	261,000	–	–	–	261,000
	7.3.2013	39.92 (Note c)	7.3.2013 – 6.3.2023	–	265,000	–	–	265,000
Siu Chuen LAU	14.5.2012	33.50	14.5.2012 – 13.5.2022	242,000	–	(80,666) (Note d)	–	161,334
	7.3.2013	39.92 (Note c)	7.3.2013 – 6.3.2023	–	246,000	–	–	246,000

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 1.1.2013	Changes during the period			Balance as at 30.6.2013
					Granted	Exercised	Cancelled/lapsed (Note b)	
Executive Directors <i>continued</i>								
Wendy Wen Yee YUNG	30.3.2007	21.25	30.3.2007 – 29.3.2017	95,000	–	(95,000) (Note e)	–	–
	31.3.2008	21.96	31.3.2008 – 30.3.2018	100,000	–	(100,000) (Note e)	–	–
	11.3.2009	11.76	11.3.2009 – 10.3.2019	100,000	–	(100,000) (Note e)	–	–
	11.3.2010	22.10	11.3.2010 – 10.3.2020	185,000	–	(185,000) (Note e)	–	–
	10.3.2011	35.71	10.3.2011 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.79	9.3.2012 – 8.3.2022	113,000	–	–	–	113,000
	7.3.2013	39.92 (Note c)	7.3.2013 – 6.3.2023	–	106,700	–	–	106,700
Eligible employees (Note f)	31.3.2008	21.96	31.3.2008 – 30.3.2018	17,000	–	–	–	17,000
	31.3.2009	13.30	31.3.2009 – 30.3.2019	170,000	–	–	–	170,000
	31.3.2010	22.45	31.3.2010 – 30.3.2020	272,668	–	(20,000) (Note g)	–	252,668
	31.3.2011	32.00	31.3.2011 – 30.3.2021	261,000	–	(11,993) (Note h)	(1,340)	247,667
	30.3.2012	31.61	30.3.2012 – 29.3.2022	372,000	–	(23,328) (Note i)	(9,337)	339,335
	28.3.2013	39.20 (Note j)	28.3.2013 – 27.3.2023	–	377,000	–	(3,000)	374,000
				2,291,668	994,700	(615,987)	(13,677)	2,656,704

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 become fully vested on the 3rd anniversary of the grant.
- (b) The options lapsed during the period upon resignations of certain eligible employees.
- (c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 6 March 2013) was HK\$39.55.
- (d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.90.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$39.45.
- (f) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- (g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.62.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.51.
- (i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.99.
- (j) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 27 March 2013) was HK\$38.60.

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

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

Notes:

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

Substantial Shareholders' and Other Persons' Interests in Shares

As at 30 June 2013, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	% of the issued share capital (Note a)
Lee Hysan Estate Company, Limited	Beneficial owner and interests of controlled corporations	433,130,735 (Note b)	40.72
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	40.72
Silchester International Investors LLP	Investment manager	63,614,000	5.98

Notes:

- (a) The percentage has been compiled based on the total number of shares of the Company in issue as at 30 June 2013 (i.e. 1,063,623,043 ordinary shares).
- (b) These interests represent the same block of shares of the Company. 270,118,724 shares were held by 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 2013.

Related Party Transactions

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

Some of these transactions also constitute “Continuing Connected Transactions” under the Listing Rules, as identified on pages 55 to 59.

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 (Note c)	Rooms 3703 and 3704 on the 37th Floor and 1 carparking space	2013: HK\$821,238 (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 d)	(1) 31 March 2010 (Lease)	3 years commencing from 1 September 2010	Office units on the 28th, 30th and 31st Floors	2013: HK\$13,868,368 (on pro-rata basis)
	(2) 28 March 2013 (Lease and Carpark Licence Agreements) (Renewal)	5 years commencing from 1 September 2013 (Note e)	Office units on the 28th, 30th and 31st Floors and 3 carparking spaces	2013: HK\$9,570,800 (on pro-rata basis) 2014: HK\$28,712,400 2015: HK\$28,712,400 2016: HK\$28,712,400 2017: HK\$28,712,400 2018: HK\$19,141,600 (on pro-rata basis) (Note f)
(ii) Hang Seng Bank Limited (Note d)	15 October 2007 (Note g)	72 months commencing from 15 October 2007 (for Shops 2-10 on the Lower Ground Floor) 68 months commencing from 15 February 2008 (for Shop G13A on the Ground Floor and Shops 11-12 on the Lower Ground Floor) (Note e)	Shop G13A on the Ground Floor and Shops 2-10 and 11-12 on the Lower Ground Floor	2013: HK\$14,267,446 (on pro-rata basis) (Notes h & i)
(iii) Pearl Investments (HK) Limited (Note j)	24 May 2011 (Lease and Carpark Licence Agreement)	3 years commencing from 15 May 2011	Room 1401C on the 14th Floor and 1 carparking space	2013: HK\$2,061,096 2014: HK\$764,600 (on pro-rata basis)
(iv) MF Jebsen International Limited (Note k)	7 September 2010	3 years commencing from 1 February 2011 (Note k)	Office units on the 25th Floor	2013: HK\$601,129 (on pro-rata basis)

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 40.72% interest). Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
Atlas Corporate Management Limited	4 November 2011	3 years commencing from 1 November 2011	Whole of 21st Floor	2013: HK\$2,811,720 2014: HK\$2,343,100 (on pro-rata basis) (Note l)

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	(1) 31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK\$8,798,739 (Note m)
	(2) 28 March 2013 (Renewal)	3 years commencing from 1 April 2013	Whole premises of Lee Gardens Two	HK\$20,901,725 (Note n)

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

Connected person	Date of agreement	Terms	Premises	Consideration
Barrowgate Limited	(1) 31 March 2010	3 years commencing from 1 April 2010	Whole premises of Lee Gardens Two	HK\$606,635 (Note m)
	(2) 28 March 2013 (Renewal)	3 years commencing from 1 April 2013	Whole premises of Lee Gardens Two	HK\$845,528 (Note n)

Continuing Connected Transactions *continued*

Notes:

- (a) The annual considerations are based on current rates of rental, operating charges, (for retail premises) promotional levies and (for carparking spaces) licence fees for each of the relevant financial years as provided in the relevant agreements. The rental, operating charges, promotional levies and licence fees (as the case may be) are payable monthly in advance.
- (b) Oxer is a connected person of the Company by virtue of its being an associate of Michael Tze Hau LEE, Non-executive Director of the Company.
- (c) The lease and carpark licence agreement had been renewed for a further term of 9 months commencing from 1 July 2013 to 31 March 2014.
- (d) Jebesen and Company and Hang Seng are beneficial substantial shareholders of Barrowgate and having equity interest of 10% and 24.64% respectively in Barrowgate.
- (e) The term of the agreements mentioned under I(b)(i) and I(b)(ii) above exceeds 3 years. According to Listing Rules requirement, an independent financial adviser to the Board was engaged in each case. It formed the view, in each case, that the term with duration longer than 3 years was required and it was normal business practice for leases of this type to be of such duration.
- (f) The rent for the period from 1 September 2016 to 31 August 2018 will be reviewed at the then prevailing market rent and to be agreed by Barrowgate and Jebesen and Company.
- (g) Barrowgate and Hang Seng entered into an agreement for lease dated 15 October 2007. A formal lease agreement, a supplemental deed and an endorsement (following rent review as provided under the lease arrangements) in respect of the premises mentioned under I(b)(ii) above were entered on 15 February 2008, 13 May 2008 and 22 November 2010 respectively.
- (h) Pursuant to an endorsement dated 22 November 2010 as mentioned in Note (g) above, the rent for the period from 15 October 2010 to 14 October 2013 was revised at the then prevailing market rent.
- (i) The retail monthly operating charges and promotional levies were revised with effect from 1 January 2013.
- (j) Pearl Investments (HK) Limited is a connected person of the Company by virtue of its being an associate of Chien LEE, Non-executive Director of the Company.
- (k) MF Jebesen International Limited is a connected person of the Company by virtue of its being controlled (more than 50%) by the brother of Hans Michael JEBSEN, Non-executive Director of the Company. The lease was early terminated on 31 January 2013.

Continuing Connected Transactions *continued*

Notes: *continued*

- (l) The monthly operating charges were revised with effect from 1 January 2013.
- (m) These represent the actual consideration received for the period from 1 January 2013 to 31 March 2013, calculated on the basis of the fee schedules as prescribed in the respective management agreements.
- (n) These represent the actual consideration received for the period from 1 April 2013 to 30 June 2013, 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 2013 was 640 (31 December 2012: 630). 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 2012 Corporate Responsibility 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

Frederick Peter CHURCHOUSE

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	5 August 2013
Ex-dividend date for first interim dividend	16 August 2013
Closure of register of members and record date for first interim dividend	20 August 2013
Dispatch of first interim dividend warrants	(on or about) 2 September 2013

FIRST INTERIM DIVIDEND

The Board declares the payment of a first interim dividend of HK22 cents per share. The first interim dividend will be payable in cash to shareholders on the register of members as at Tuesday, 20 August 2013.

The register of members will be closed on Tuesday, 20 August 2013, for the purpose of determining shareholders' entitlement to the first interim dividend, during which period no transfer of shares will be registered. In order to qualify for the first 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 Monday, 19 August 2013.

Dividend warrants will be dispatched to shareholders on or about Monday, 2 September 2013.

SHARE LISTING

Hysan's shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipts (ADR) Programme in the New York market.

STOCK CODE

The Stock Exchange of Hong Kong Limited: 00014
Bloomberg: 14HK
Reuters: 0014.HK
Ticket Symbol for ADR Code: HYSNY
CUSIP reference number: 449162304

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrars:

Tricor Standard Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong
Telephone : (852) 2980 1768
Facsimile : (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrars promptly of any change of their address.

The Interim Report is printed in English and Chinese language 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.



Hysan Development Company Limited

49/F The Lee Gardens

33 Hysan Avenue, Hong Kong

T 852 2895 5777 F 852 2577 5153

www.hysan.com.hk

