



# ExperienceHysan



annual report 2014

 **Hysan** 希慎

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## The Essential Read and Why

Key Facts about Hysan and its business	4
2014 financial and non-financial performance	10
Chairman's 2014 review and outlook	14
2014 market conditions	24
Results highlights	28
Review of our core leasing segments	29
Report on financial position and management	34
Prudent treasury policy	37
Risk controls and management	42
Review of our sustainability achievements	48
Governance structure and the Board's work in 2014	80

Look out for these icons within this report



Read more content within this report



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

Read more on our website [www.hysan.com.hk](http://www.hysan.com.hk)

## Contents

<b>1</b>	<b>Overview</b>
4	Key Facts
4	Who We Are, How We Do Things, and Value Creation
6	A Balanced Portfolio
8	The Hysan Community
10	2014 Performance at a Glance
14	Chairman's Statement
<b>2</b>	<b>Financial Performance</b>
20	Feature Stories: Creating a Unique and Satisfying Experience (U.S.E.) for All
24	The Marketplace
28	Management's Discussion and Analysis
28	Strategy and Review of Results
29	Review of Operations
34	Financial Review
37	Treasury Policy
42	Internal Controls and Risk Management Report
<b>3</b>	<b>Responsible Business</b>
50	Feature Stories: (i) Walking the Talk, and (ii) Supporting our People at Work and Beyond
54	Guiding Principle
56	Environment
64	Workplace Quality
68	Health and Safety
70	Community Contributions
<b>4</b>	<b>Corporate Governance</b>
74	Board of Directors
80	Corporate Governance Report
98	Directors' Report
105	Directors' Remuneration and Interests Report
113	Audit Committee Report
<b>5</b>	<b>Financial Statements, Valuation and Other Information</b>
118	Directors' Responsibility for the Financial Statements
119	Independent Auditor's Report
120	Financial Statements
186	Five-Year Financial Summary
188	Report of the Valuer
189	Schedule of Principal Properties
191	Shareholding Analysis
192	Shareholder Information
194	On The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide
Inside Back Cover	Corporate Responsibility Reporting Verification Statement

## Experience Hysan

This Annual Report follows an “integrated” approach by combining our financial and non-financial (environmental, social and governance) performance into one document. Underlying this is our belief that sustainable financial results are only achieved if we do things the right way.

We have also improved the readability of this Report by enhancing the inter-connectivity of the various sections, including how we respond to the changing market environment in terms of managing our operations, finances, risks, as well as human talent. Feature stories are also used – all these towards bringing to life our theme, “Experience Hysan”.



We begin by stating who we are, how we do things and create value, as well as showcasing our portfolio. This section then highlights Hysan's 2014 financial and non-financial performance, while our Chairman's Statement details how Hysan responds successfully to changes in Hong Kong's business environment.

## Overview





# Hysan PLACE

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## 4 Key Facts

4 Who We Are, How We Do Things,  
and Value Creation

6 A Balanced Portfolio

8 The Hysan Community

10 2014 Performance at a Glance

14 Chairman's Statement

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Overview

Financial Performance

Responsible Business

Corporate Governance

Financial Statements and Valuation

# Key Facts

## Who We Are

Hysan Development is a leading property development, investment and management company based in Hong Kong. Hysan's roots run deep in Causeway Bay, Hong Kong's most vibrant commercial district. It has an investment property portfolio of approximately 4.1 million square feet of high quality retail, office and residential space, excluding properties under redevelopment. It is one of the largest commercial landlords in Causeway Bay.

## How We Do Things

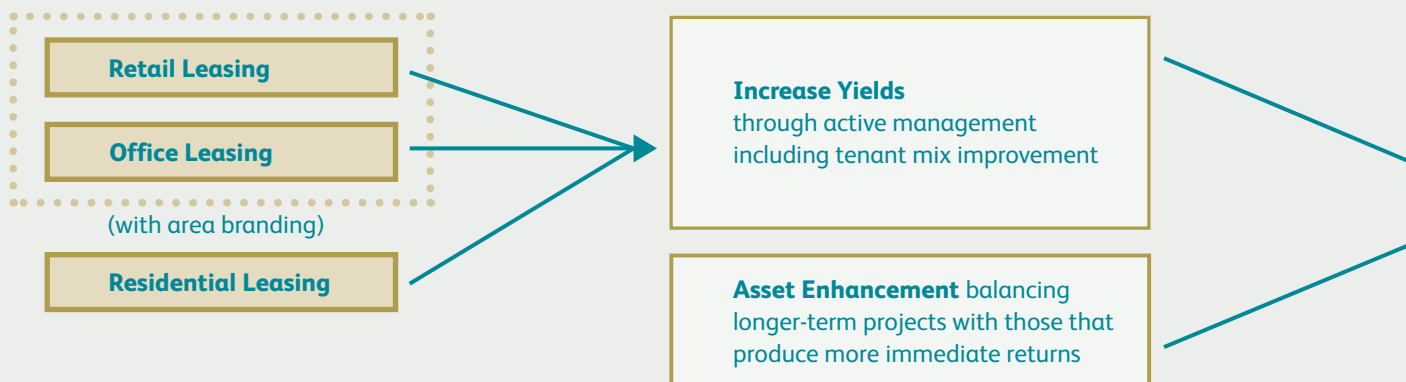
### Vision

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.

## Value Creation



**Supported by Strong Underlying Non-Financial Achievements:**

### Environment

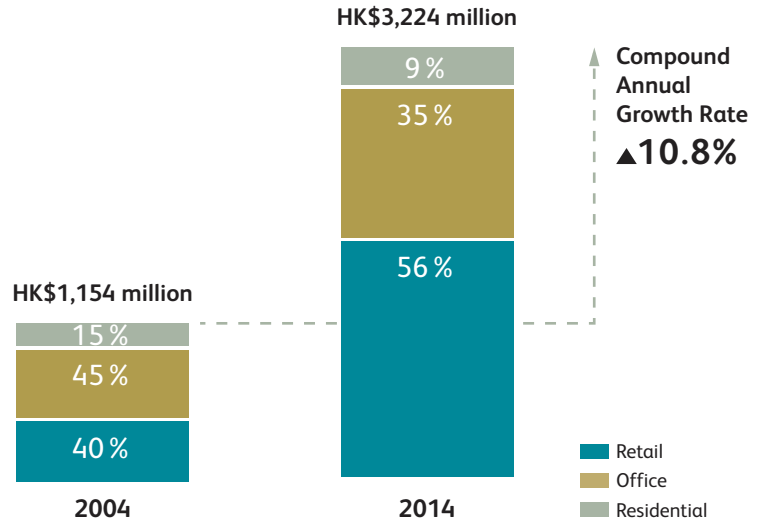
Minimise our activities' impact on the environment, and achieve higher efficiency at the same time

**Continue strong focus in Causeway Bay and concurrently seek opportunities beyond our core portfolio**

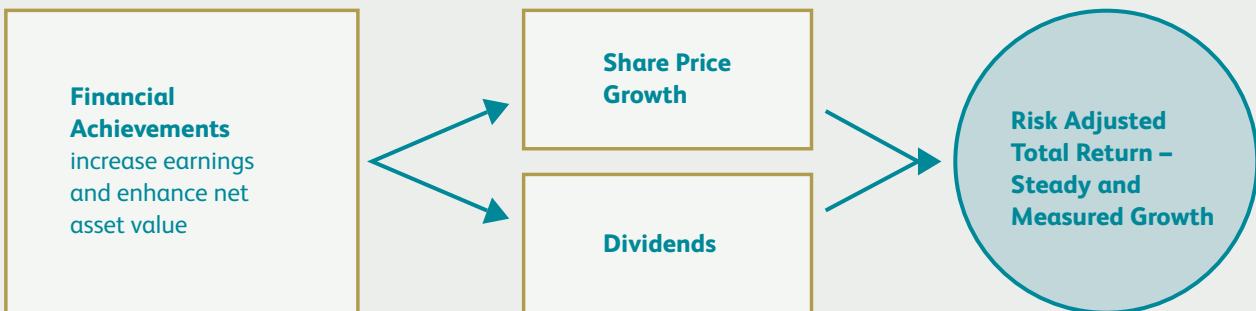
# Values

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

## Revenue Growth 2004 – 2014



Hysan’s successful asset enhancement and active management efforts ensured the Group’s revenue nearly tripled, on the basis of the same lettable floor area, between 2004 and 2014.



**Employees**  
Maintain good working environment to unleash potential

**Community**  
Make positive contributions to communities where we operate

**Governance**  
Strong governance is the heart of long-term sustainable performance



## A Balanced Portfolio

We have a well-balanced and quality portfolio comprising principally of retail and office segments. For retail, we strategically created a diversified and distinct retail portfolio with shops and eateries of different price points and style, catering to shoppers from different parts of the community, as well as overseas visitors. Our office portfolio is home to a well-balanced group of major international and local tenants.

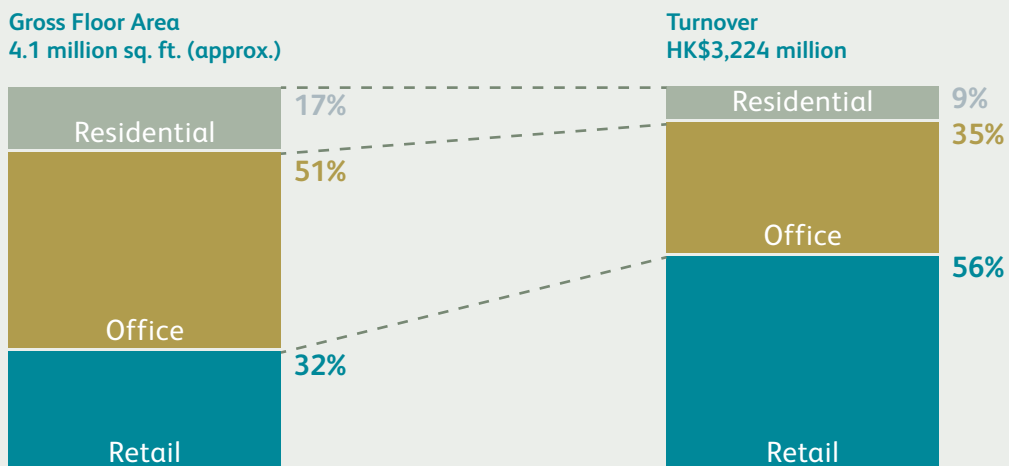
### Overall

#### Investment Properties

(by Gross Floor Area excluding properties under redevelopment)

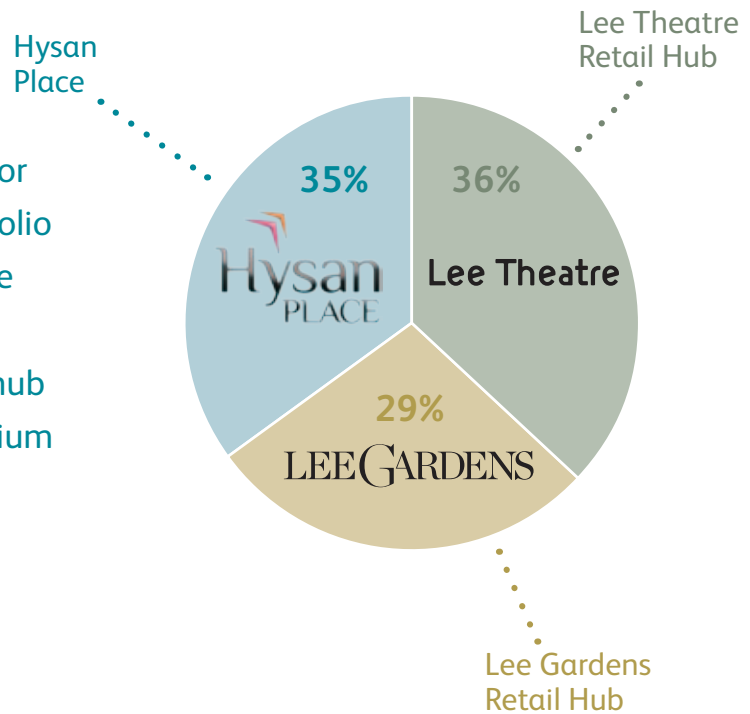
#### Investment Properties

(Turnover Contribution)

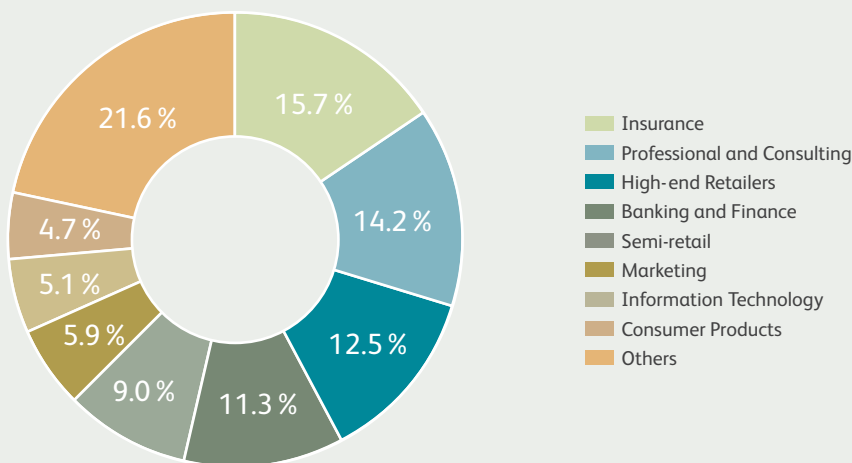


## A Retail Portfolio that Caters to All

Each of the three hubs accounts for about one-third of the retail portfolio gross floor area. Hysan Place is the hip and trendy home of major flagship stores. The Lee Gardens hub provides elegant and luxury premium retail spaces for high-end brands. The Lee Theatre hub is home to urban fashion and lifestyle shops, as well as renowned restaurants.



## An Office Portfolio for Different Businesses



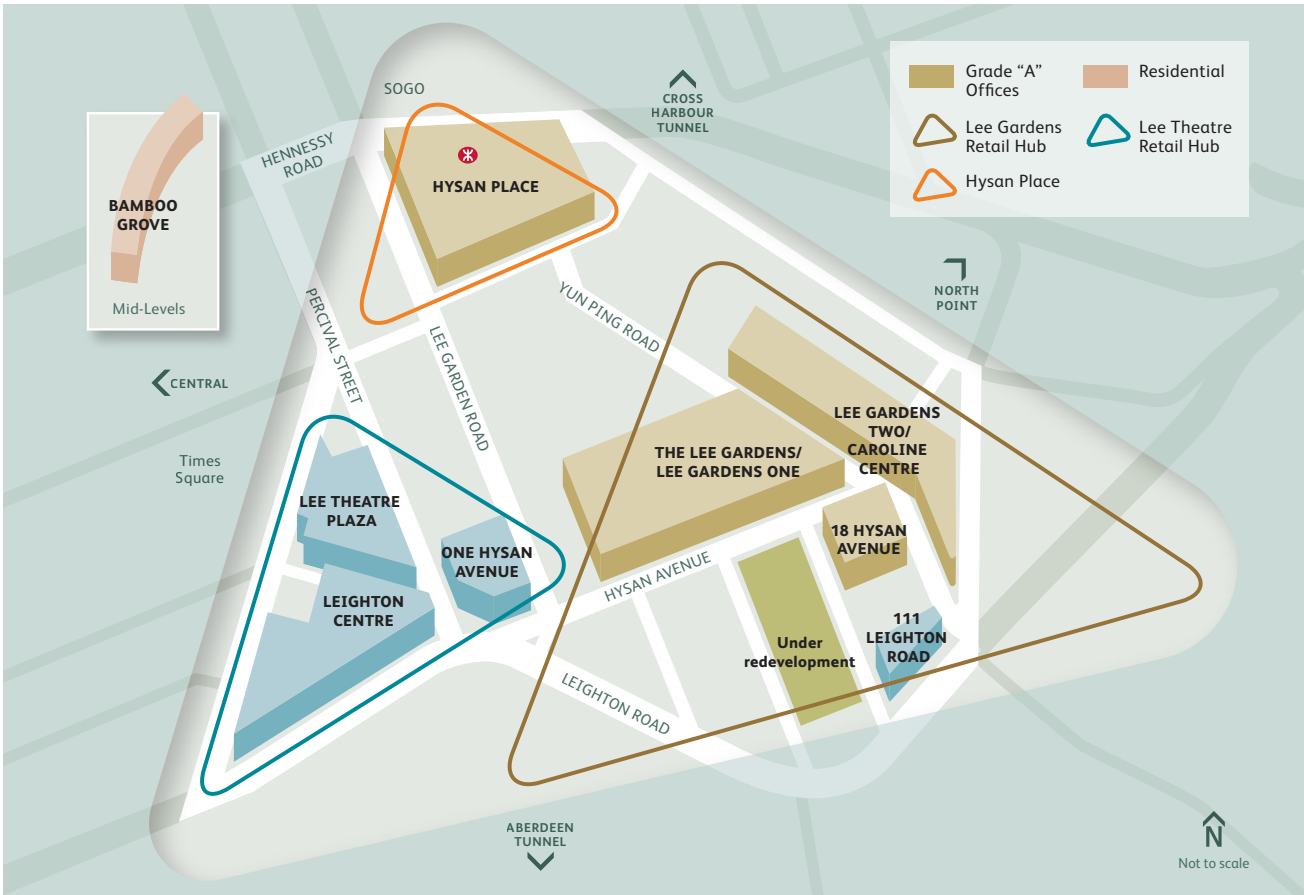
The top four industries in our office portfolio are insurance, professional and consulting, high-end retailers and banking and finance. They represent 53.7% of our office lettable floor area, but no category takes up more than 20% of the total lettable area.

# The Hysan Community

A unique work, lifestyle and shopping destination

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

For more information on our portfolios



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

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

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



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

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

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



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

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

*Approx. Gross Floor Area 900,000 ft<sup>2</sup>  
Number of Floors 53 / Parking Spaces 200  
Completed 1997*



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

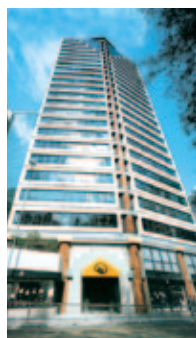
18 Hysan Avenue is a 25-level office and retail complex at the corner of Hysan Avenue. The building boasts a bright and spacious lobby.

*Approx. Gross Floor Area 132,000 ft<sup>2</sup>  
Number of Floors 25  
Completed 1989 / Renovated 2009*



## RETAIL PORTFOLIO

- Owns, markets and manages approximately 1.3 million gross square feet of prime retail space
- Our retail portfolio consists of three geographically separate hubs of retailers at different price points, and is positioned to differentiate itself from the typical shopping malls by offering a unique experience with diversity, variety and contrast under the **LEE GARDENS** brand. It is a multi-faceted yet integrated shopping environment that combines a host of street-front shops with shopping malls of different characteristics, and is complemented by a vibrant streetscape and a low-rise local neighbourhood

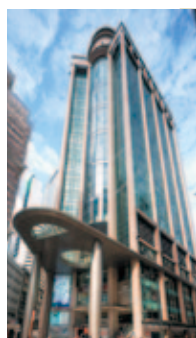


### 111 LEIGHTON ROAD

111 Leighton Road, Causeway Bay

Located in a pleasant and quieter area in the heart of Causeway Bay, 111 Leighton Road is an ideal office location offering convenience as well as privacy. The retail shops include food and beverage as well as luxurious appliances and furniture offerings.

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



### LEE THEATRE PLAZA

99 Percival Street, Causeway Bay

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

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



### LEIGHTON CENTRE

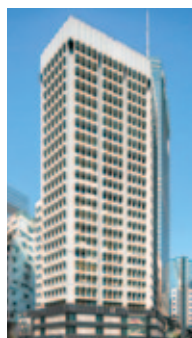
77 Leighton Road, Causeway Bay

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

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

## OFFICE PORTFOLIO

- Owns, markets and manages approximately 2.1 million gross square feet of premium office space
- Our office portfolio is positioned to be a credible alternative to Central and Admiralty. It is perfect for those companies that want to better manage the cost-benefit of their office space, and also care about the work-life integration of their employees



### ONE HYSAN AVENUE

1 Hysan Avenue, Causeway Bay

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

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



### BAMBOO GROVE

74-86 Kennedy Road, Mid-Levels

A luxury residential complex in the Mid-Levels, Bamboo Grove commands panoramic views of the harbour and the greenery of the Peak, and is well served by a multitude of public transport. In addition to superb property management services and full club-house and sports facilities, tenants also enjoy personalised resident services that help ensure a comfortable stay.

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



### SUNNING PLAZA/SUNNING COURT COMBINED REDEVELOPMENT

Causeway Bay

A future office and retail complex under redevelopment.

# 2014 Performance at a Glance

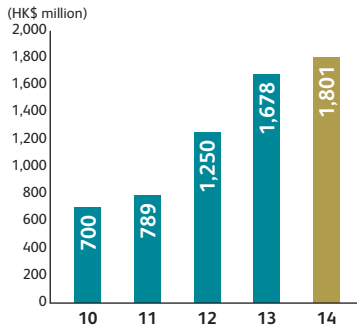
## Financial Performance

### Turnover

**HK\$3,224m ▲ 5.3%**

#### Retail Sector

**HK\$1,801m ▲ 7.3%**

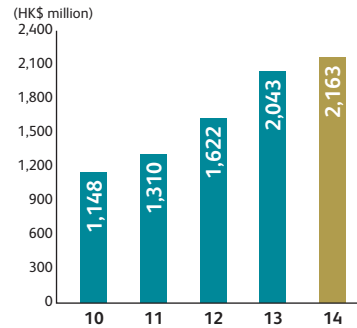


### Recurring Underlying Profit

**HK\$2,163m ▲ 5.9%**

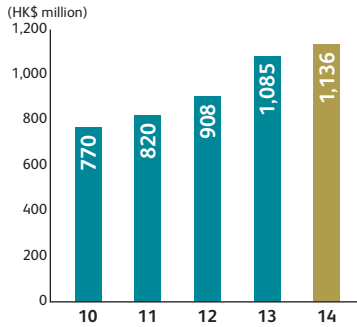
#### Recurring Underlying Profit

**HK\$2,163m ▲ 5.9%**



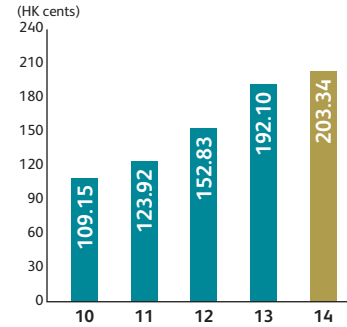
#### Office Sector

**HK\$1,136m ▲ 4.7%**



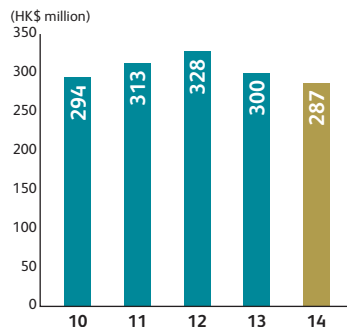
#### Recurring Underlying Earnings per Share

**HK203.34 cents ▲ 5.9%**



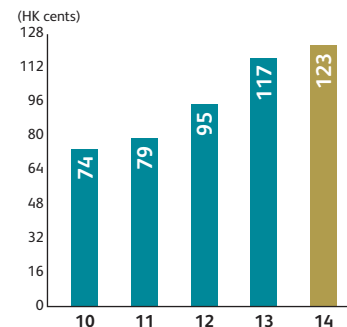
#### Residential Sector

**HK\$287m ▼ 4.3%**



#### Dividends per Share

**HK123 cents ▲ 5.1%**

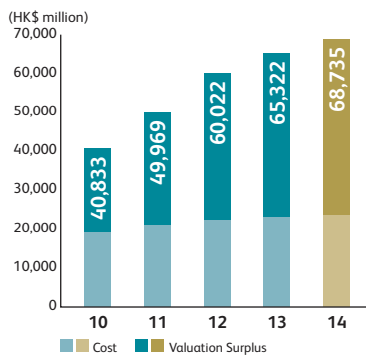


## Net Asset Value per Share

**HK\$63.02** ▲ **5.8%**

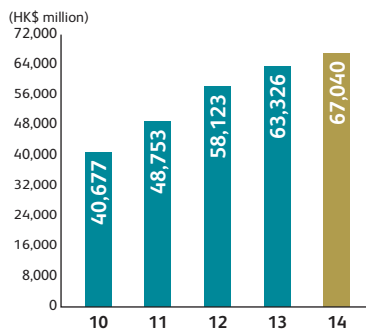
### Property Value

**HK\$68,735m** ▲ **5.2%**



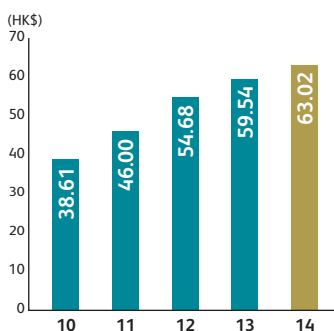
### Shareholders' Funds

**HK\$67,040m** ▲ **5.9%**



### Net Asset Value per Share

**HK\$63.02** ▲ **5.8%**



## Financial Prudence

### Net Interest Coverage (Note 1)

**17.1 times**  
(2013: 15.4 times)

### Net Debt to Equity (Note 2)

**4.2%**  
(31 Dec 2013: 5.3 %)

### Average Finance Costs

**3.1%**  
(2013: 2.9 %)

### Average Debt Maturity

**5.6 years**  
(31 Dec 2013: 6.0 years)

### Fixed Rate Debt

**76.3%**  
(31 Dec 2013: 68.0 %)

### Capital Market Issuances

**83.0%**  
(31 Dec 2013: 73.5 %)

### Credit Ratings

Moody's: **A3**  
Standard and Poor's: **BBB+**

#### Notes:

- 1 Net Interest Coverage is defined as gross profit less administrative expenses before depreciation divided by net interest expenses
- 2 Net Debt to Equity is defined as borrowings less short-term investments, time deposits, cash and bank balances divided by shareholders' funds



## Environment

-20.5%

- Reduced Greenhouse Gas (GHG) emissions by 20.5% (2005 as baseline)

>60%

- More than 60% of Sunning Redevelopment Project's construction waste recycled

VIVA

- Hysan Place won VIVA "Best of the Best" Sustainable Design and Development Award, organised by the International Council of Shopping Centers



“AA-”

- “AA-” rating by Hang Seng Corporate Sustainability Index (Hysan achieved the highest score of 90.0 among Hong Kong's property and construction companies in the Environment subject score)



Hang Seng Corporate  
Sustainability Index  
Series Member 2014-2015

# Social

- Constituent member of the FTSE4Good index and Hang Seng Corporate Sustainability Index
- Awarded 10 Years Plus Caring Company Logo by the Hong Kong Council of Social Service
- Gold Award for Volunteer Service (Organisation) (in 2014) under the Steering Committee on Promotion of Volunteer Service of Social Welfare Department



# Governance

- Gold Award (Non-Hang Seng Index Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards 2014
- Bronze Award (General Category) in The Hong Kong Management Association's 2014 HKMA Best Annual Reports Awards



# Chairman's Statement

“

We will continue to create value through a strategy of differentiation to provide a unique and satisfying experience (U.S.E.) for our visitors, shoppers and tenants. ”



## Overview

Hong Kong's economy continued its moderate growth of 2.3% in 2014. Mild improvements in exports were recorded, supported by stronger U.S. GDP growth. The private consumption expenditure growth slowed to 2.7% year-on-year.

Softer spending by locals and tourists was reflected in the 0.2% decline in 2014 retail sales, the first such contraction since 2003. However, with tight labour market conditions, low unemployment and a buoyant property market, Hong Kong's consumer spending on items related more to local consumption remained resilient. Limited supply gave support both to retail leasing of prime mall spaces in core areas, as well as to the office leasing market.

A number of structural changes which have been evolving over the past few years will present challenges going forward.

- Despite a year-on-year increase of 16% in Mainland visitors for 2014, spending patterns have been changing to mid-priced items and goods which are novel and trendy, yet affordable, due to the official drive to curb luxury gifts giving, compounded by the slowdown in China's economic growth
- Current political and social sentiment may diminish Mainlanders' enthusiasm to visit and shop in Hong Kong
- "Occupy Movement" had a short-term impact on some retailers. In the long run, concerns about polarisation of political views and potential future large-scale protests cannot be ignored
- Comparatively high cost of doing business in terms of resources and manpower will erode Hong Kong's competitiveness

- Even though e-commerce's effect on Hong Kong's brick and mortar retail experience has been limited, shopping patterns may change when online shopping becomes easier and more user-friendly
- Intense competition among retail landlords, who are increasing spending on crowd drawing events, loyalty programmes and upgrading shopping malls

Hysan has been responsive to these developments to Hong Kong's business environment, including changes in shopping trends. We have refined and re-positioned our portfolio in recent years, starting with strengthening the LEE GARDENS brand identity. The already familiar LEE GARDENS brand represents quality and our commitment for the long term. We continue to actively curate our retail and office portfolios' tenant mix. We are committed to establishing strong partnerships with our tenants, shoppers and visitors by understanding their needs and working closely with them. In all, Hysan is dedicated to providing them with a unique and satisfying experience, which can only be made possible with our commitment to first class service and continuous asset enhancement, all within an environment which seamlessly integrates lifestyle, work, play and shopping.

Under the LEE GARDENS brand, the retail portfolio has been grouped into three hubs, each with individual characteristics and price points to attract different clientele. From premium brands to urban lifestyle offerings and trend-setting must-haves, our diverse yet balanced hubs cater to the needs of all for every occasion. With Hong Kong people's growing appreciation of healthier lifestyles, our portfolio has become home to a number of sports and leisure names, most prominently in Hysan Place and Leighton Centre. We augmented our Lee Gardens Two renowned kids' floor with toys and widened our children's product offerings. We launched a user-friendly state of the art app for our Club Avenue V.I.P. clients to enter reward points, check on their spending rewards, and showcase Lee Gardens offers through a few easy swipes on their mobile devices. Apart from the shops, our food and beverage offerings were refined and significantly strengthened with some new to Hong Kong eateries. These include our very own Seasons, where we partnered celebrity chef Olivier Elzer to showcase French fare with a difference.

All these were complemented by placemaking activities hosted by Hysan or in partnership with other stakeholders. Many eye-catching displays, from Marvel's Captain America to our Make a Wish Christmas baubles, dominated the Causeway Bay landscape and delighted shoppers and visitors. Our "Leeisure" campaign highlighted our beautiful tree-lined surroundings where modern high-rises meet historic old Hong Kong, inspiring phrases like "Pace of Life" and "Business of Life".

The Lee Theatre hub and Hysan Place have been well-placed to capture shoppers' gravitation towards mid-priced spending. This is evidenced by the daily shopper traffic figures that registered amongst the highest levels ever in the last quarter of the year, despite the "Occupy Movement".

In all, estimated retail sales within Hysan's portfolio increased by 22% when compared to the year before, a pleasing contrast to a 0.2% decline for Hong Kong's overall retail sales during the same period.

For our office portfolio, we saw strong demand from a diverse group of international and local firms, from insurance, banking and professional services, to high-end retailers and technology companies, as evidenced by a 98% occupancy rate. In 2014, around 35% of our office portfolio's newly-let office space was taken up by tenants relocating from Central and Admiralty. Lee Gardens, with its value proposition and its attractive work life integration, has established itself as a strong credible alternative to Central. In this regard, we have begun receiving a significant number of enquiries about our combined Sunning site redevelopment project. The mixed-use building's construction work is progressing smoothly and is on schedule for an early 2018 completion.

To further highlight Lee Garden's heritage and distinct character, Hysan will bring all the buildings in the eastern part of Hysan's portfolio under the LEE GARDENS brand name. We are proud of our long history and we will strive to develop Lee Gardens as a sustainable community in the years to come.

Up on Hong Kong Island's coveted residential neighbourhood of Mid-Levels, our residential Bamboo Grove complex remains a favourite home, or home away from home, for its predominantly international community. We will continue to refine our renowned five-star service for Bamboo Grove, which is set in its open, tranquil and evergreen setting, minutes away from what Hong Kong can best offer in terms of transport, workplace, shops and schools.

Hysan Place was again recognised for its efforts in sustainability with the coveted International Council of Shopping Center's VIVA Best of the Best Sustainable Development Award in 2014, one of only five VIVA winners worldwide. Hysan Place has become a regular stop on all Hong Kong sustainable building visit agenda.

## Business Performance

The Group's 2014 turnover was HK\$3,224 million, up 5.3% from HK\$3,063 million in 2013. Excluding the revenue attributable to Sunning Plaza and Sunning Court (under redevelopment) in both years, the turnover would have increased by 9.2% (2013: HK\$2,952 million). At year-end 2014, our retail portfolio was fully-let. Occupancy of our office and residential portfolios stood at 98% and 97% respectively.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was up 5.9% to HK\$2,163 million (2013: HK\$2,043 million). This reflected the increase in revenue generated from our retail and office leasing activities. Our Underlying Profit, which excludes unrealised changes in fair value of investment properties, was also HK\$2,163 million (2013: HK\$2,043 million). Basic earnings per share based on Recurring Underlying Profit correspondingly rose to HK203.34 cents (2013: HK192.10 cents), up 5.9%.

Our Reported Profit for 2014 was HK\$4,902 million (2013: HK\$6,158 million), reflecting a smaller fair value gain on the Group's investment properties valuation recorded this year. At year-end 2014, the external valuation of the Group's investment property portfolio increased by 5.2% to HK\$68,735 million (2013: HK\$65,322 million), reflecting improved



rentals for our portfolio. Shareholders' Fund increased by 5.9% to HK\$67,040 million (2013: HK\$63,326 million).

Our financial position remains strong, with net interest coverage of 17.1 times (2013: 15.4 times) and net debt to equity ratio of 4.2% (2013: 5.3%).

## Dividends

The Board of Directors (the "Board") is pleased to declare a second interim dividend of HK100 cents per share (2013: HK95 cents). Together with the first interim dividend of HK23 cents per share (2013: HK22 cents), there is an aggregate distribution of HK123 cents per share (2013: HK117 cents), representing a year-on-year increase of 5.1%. The dividend will be payable in cash.

## Outlook

We expect the Hong Kong economy will continue to achieve modest growth which is affected by global headwind and normalised consumption growth locally. Hysan expects steady performance from our portfolio. We will continue to create value through a strategy of differentiation to provide a unique and satisfying experience (U.S.E.) for our visitors, shoppers and tenants.

With a strong balance sheet, proven financial discipline and a record for value creation, Hysan is now well-positioned to seek opportunities beyond our core portfolio in Causeway Bay.

## Appreciation

On behalf of the Board, I would like to thank our management team and colleagues for their diligent work during the year. I would also like to thank my fellow directors for their guidance and commitment throughout 2014. As part of our efforts to refresh and further strengthen our Board, we welcome Professor Lawrence Juen-Yee Lau as our new Independent non-executive Director. Professor Lau is best known as the former Chinese University Vice-Chancellor (President), but is also a renowned expert on economic development and growth in East Asia, including China. Professor Lau should be able to further enrich our Board with his wealth of expertise.

### Irene Yun Lien LEE

Chairman

Hong Kong, 11 March 2015

This section focuses first on the Hong Kong economic and property market dynamics in 2014. We then provide details on how we responded to the changing macro-environment, with an analysis of our operations, our finance, and how we managed risks.

## Financial Performance

# 2

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20	Feature Stories: Creating a Unique and Satisfying Experience (U.S.E.) for All
24	The Marketplace
28	Management's Discussion and Analysis
28	Strategy and Review of Results
29	Review of Operations
34	Financial Review
37	Treasury Policy
42	Internal Controls and Risk Management Report

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Hysan strives to provide a “unique and satisfying experience” to our clients, and none more so than to those who come to shop. Our Club Avenue is renowned for providing personal service and offerings for Lee Gardens’ VIPs. This is now enhanced by “Mobile App for Club Avenue”, a state-of-the-art app which allows members to handle Club activities with a few swipes on screens.

“I really appreciate the thoughts your colleagues put into the app design,” says Karen Liu. “You care about the users’ experience. Now it is so easy for me to monitor my points earned and Lee Gardens’ news.” “Technology is one thing, of course, but Lee Gardens’ service and the whole ambience really makes this place the best in Hong Kong to shop and unwind. I come all the way from Kowloon to shop all the time!”

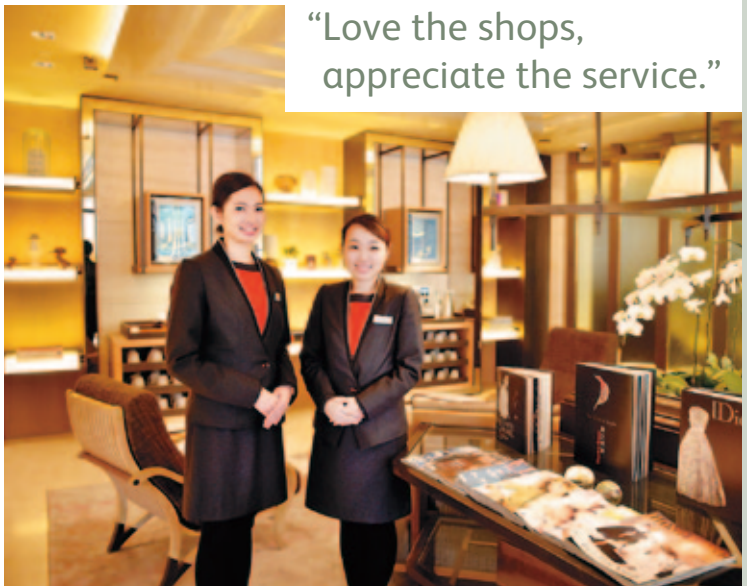


**Karen Liu**  
Lee Gardens Club Avenue member

## Retail – A total shopping experience



“Love the shops,  
appreciate the service.”





Smiley faces, LINE characters, towering Captain Tsubasa footballers and legendary Captain America: Hysan's placemaking events all made their mark in our 2014 collective memory. But it was the Xmas baubles which truly captivated the public's attention, combining elements of upcycling, beautifully-designed limited edition decorative items, a special festive café, and unique performances.

"The events at your malls are full of surprises!" says Corinne Cook. "For this Christmas event, you can feel the atmosphere all over the Lee Gardens. I particularly like the thoughts behind the upcycled Xmas baubles. Both my boy and I love the fact that we are contributing to help the environment while we shop."



**Corinne Cook**  
Lee Gardens shopper

## Retail – Awe-inspiring placemaking



"Your events are meaningful and full of surprises!"







## Office – Seamless work life integration



**Mina Chung**  
Assistant Manager  
KPMG China

Causeway Bay has it all. Shops that open till late; restaurants that come in an amazing variety; health clubs to stay fit, and transportation that takes you everywhere in terms of minutes. On top of it all, offices in the Lee Gardens district provide some of the most up-to-date facilities and efficient spaces to make work just that much more enjoyable.

“It’s a privilege to work in a city centre location, especially somewhere like Lee Gardens district,” says Mina Chung. “There are so many different types of shops at every corner: from trendy clothing stores to a cultural oasis full of books. The restaurants around here serving a variety of cuisines are simply amazing. On top of that, even when we work late, the transportation network is so good we are spoilt for choice. Did I even mention getting on the Hysan Place rooftop to get in touch with nature at the Urban Farm?”



“Lee Gardens district is a perfect office venue!”





Our residential project, Bamboo Grove, is renowned for its international living experience, its community spirit, as well as the high quality service provided by Hysan's ever-helpful staff members.

"We have made friends from all over the world on the Bamboo Grove podium, at the pool, in the playrooms and at some of the brilliant social events," says Sally Doe. "The staff is a large part of why we enjoy living here. We love seeing staff members at the various theme days such as Chinese New Year, Christmas and Halloween, as they really enjoy themselves while helping everyone to have a good time. My children will take home lots of happy memories from Bamboo Grove."

## Residential – Vibrant international community



**Sally Doe**  
Bamboo Grove resident



"My children will take home lots of happy memories from here!"

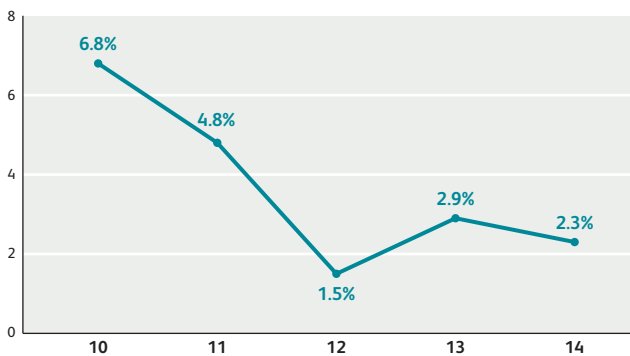
# The Marketplace

## Hong Kong Economy

The Hong Kong economy recorded growth of 2.3% for the full year. Private consumption maintained moderate growth of 2.7% under low level of unemployment while investment expenditure was soft and contracted 0.3%. Exports of goods slightly grew by 1.0% and exports of services by 0.5% due to the weakening Eurozone, Japan and China economies and despite a resilient recovery in the U.S.

### Real Gross Domestic Product\*

Year-on-year % change



\* In chained (2012) dollars

Source: Census and Statistics Department (data as of March 2015)

## Retail

Retail sales recorded an annual decline of 0.2% as compared to the previous year. During the year, sales in the luxury sector experienced a notable drop. Most other categories, including mid-priced and basic products, recorded a moderate growth. In addition, robust sales of new launches of electronic goods and computers were recorded since the third quarter of the year. However, these were not able to reverse the overall negative trend.

Despite an increase of 16.0% in Mainland China visitors for the whole year, structural changes in the Mainland tourists' spending patterns from luxury to mid-priced and basic products was seen as reflected by the slower growth in per visitor spending.

Retail categories that recorded a year-on-year growth included i) other consumer durable goods (up 19.4%, which included electronic goods and computers), ii) medicines and cosmetics (up 9.3%), iii) food, alcoholic drinks and tobacco (up 6.6%), iv) clothing, footwear and allied products (up 4.1%). By contrast, jewelry, watches and clocks and valuable gifts recorded a decrease (down 13.7%).

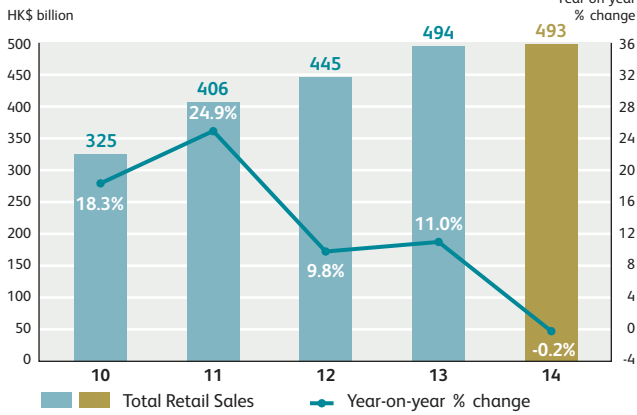


For Hysan's response, see "Retail Portfolio" (page 30)

	Categories	2014 growth rate
Mainly mid-priced and basic products	Other consumer durable goods (included electronic goods and computers)	+19.4 %
	Medicines and cosmetics	+9.3 %
	Food, alcoholic drinks and tobacco	+6.6 %
	Clothing, footwear and allied products	+4.1 %
Higher-priced products	Jewelry, watches and clocks, valuable gifts	-13.7 %

Source: Census and Statistics Department (data as of March 2015)

### Hong Kong Total Retail Sales



Source: Census and Statistics Department (data as of March 2015)

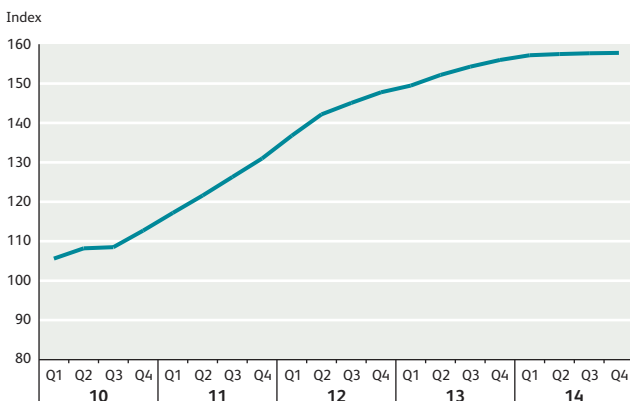
### Total Number of Visitors



Source: Hong Kong Tourism Board (data as of March 2015)

According to Jones Lang LaSalle, rents for retail premises in prime shopping centres were able to grow mildly at around 1 % for the whole year under flattish retail sales performance, largely due to sustained leasing demand from local and international retailers together with limited supply pipeline. There was only one major prime retail development (totaling around 66,000 square feet) completed in 2014.

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



Source: Jones Lang LaSalle (data as of March 2015)

## Office

Amidst a divergent external environment, Grade “A” office market showed some improvement. Leasing demand in Central was driven by both financial and non-financial firms, including those from Mainland China. Multinational corporate tenants continued to opt for decentralisation due to cost-saving considerations, although the pace has slowed down compared to recent years.

According to Jones Lang LaSalle, new Grade “A” office supply totaled 1.0 million square feet in 2014, with all of the space located in decentralised areas. Moreover, the new supply level was far lower than the average for the last 10 years (1.8 million square feet), and also lower than the average annual take-up (1.9 million square feet) of the same period.

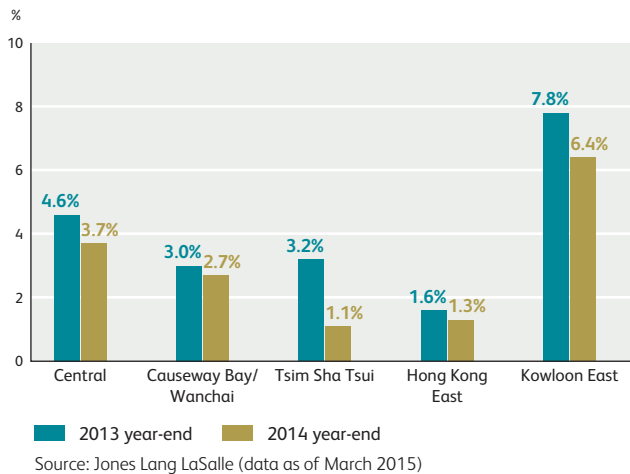
As at the end of December 2014, all districts recorded a decline in vacancy rate due to improved demand.

Among the Grade “A” office sub-markets, Central rents rose by 2.7%, Kowloon East remained stable and Causeway Bay/Wanchai recorded an annual rental growth of 1.6%.

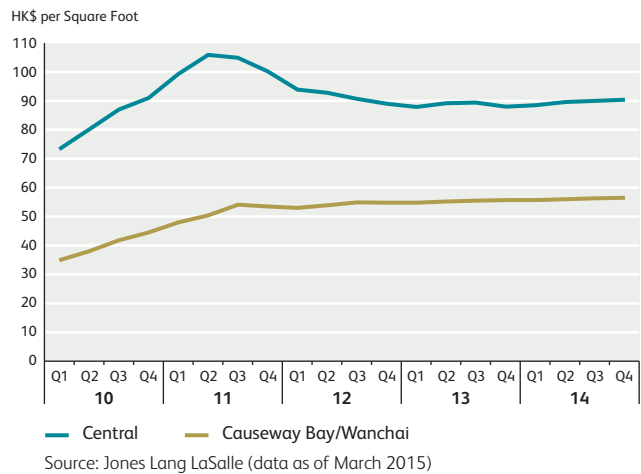


For Hysan’s response, see “Office Portfolio” (page 32)

**Grade “A” Office Vacancy Rate in 2013 and 2014**



**Grade “A” Office Rental Value**





## Luxury Residential

Leasing demand for the luxury residential market remained low for the year as a result of lackluster expatriate hiring and tight housing budgets in the financial sector which is traditionally the biggest tenant group.

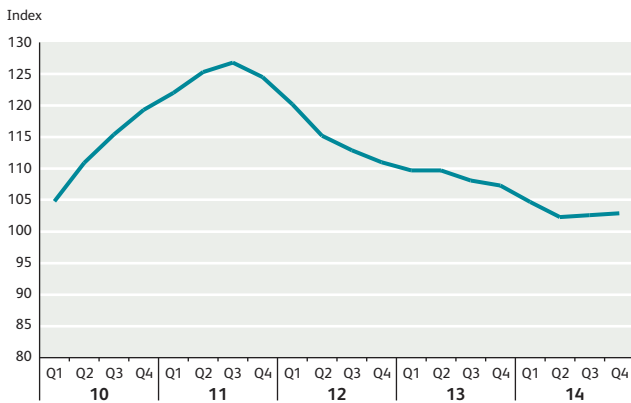
During the first half of the year, the market was generally quiet. Activity in the second half slightly picked up, mainly in the lower-end market generated from the arrival of junior and middle management level expatriates. However, the top-end market remained muted with limited activity.

According to Jones Lang LaSalle, overall luxury residential rents further decreased 4.1% in 2014 compared to a drop of 3.3% in 2013.



For Hysan's response, see "Residential Portfolio" (page 33)

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



Source: Jones Lang LaSalle (data as of March 2015)

# Management's Discussion and Analysis

The aggregate gross floor area attributable to the Group was approximately 4.1 million square feet of high-quality retail, office and residential investment properties in Hong Kong, excluding Sunning Plaza and Sunning Court, which are currently under redevelopment.

## Strategy

The Group has always strived to bring steady and risk-adjusted return to its shareholders. Without increasing the total gross floor area of its overall investment portfolio in the last few years, the Group worked to increase the yield of its existing space through the re-positioning of its office, retail and residential portfolio, and complemented by corresponding redevelopment and asset enhancement projects.

The Group believes that its core Causeway Bay portfolio continues to provide great opportunities for value creation and will ensure we focus our main efforts there to bring about further changes.

## Review of Results

The Group's turnover was HK\$3,224 million in 2014, representing an increase of 5.3% from HK\$3,063 million in 2013. Excluding Sunning Plaza and Sunning Court (currently under redevelopment) in both years, the like-for-like turnover would have increased by 9.2% (2013: HK\$2,952 million). The rise principally reflected the further improvement in occupancy and positive rental reversion. The turnover of each sector is shown as below:

	2014 HK\$ million	2013 HK\$ million	Change %
Retail sector	1,801	1,678	+7.3
Office sector	1,136	1,085	+4.7
Residential sector	287	300	-4.3
	<b>3,224</b>	<b>3,063</b>	<b>+5.3</b>

Recurring Underlying Profit, arrived at by excluding the fair value change of investment properties and items that are non-recurring in nature (such as gains or losses on disposal of long-term assets) was HK\$2,163 million, up 5.9% from HK\$2,043 million in 2013.

Our Underlying Profit, arrived at by excluding the fair value change of investment properties, was also HK\$2,163 million (2013: HK\$2,043 million). The performance of these two profit indicators primarily reflected the continued improvement in gross profit generated from our core leasing activities. Basic earnings per share based on Recurring Underlying Profit was HK203.34 cents (2013: HK192.10 cents), up 5.9%.

Our Reported Profit for 2014 was HK\$4,902 million (2013: HK\$6,158 million) down by 20.4% and reflecting a smaller fair value gain on the Group's investment properties valuation recorded this year.

	2014 HK\$ million	2013 HK\$ million	Change %
<b>Recurring Underlying Profit</b>	<b>2,163</b>	<b>2,043</b>	<b>+5.9</b>
<b>Underlying Profit</b>	<b>2,163</b>	<b>2,043</b>	<b>+5.9</b>
Fair value change on investment properties located in			
– Hong Kong	2,732	4,043	-32.4
– Shanghai*	7	72	-90.3
<b>Reported Profit</b>	<b>4,902</b>	<b>6,158</b>	<b>-20.4</b>

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



For principal risks we face, see "Internal Controls and Risk Management Report" (page 47)



For our human resources strategy to support growth, see "Responsible Business" section (page 64)



## Review of Operations

As at 31 December 2014, about 83% of the Group's investment properties by gross floor area were retail and office properties in Causeway Bay, and the remaining 17% was residential. In terms of turnover contribution by the different portfolios, about 56% was attributable to the retail portfolio, while 35% and 9% derived from the office and the residential portfolios respectively.

**Turnover:** both the retail and office portfolios saw healthy turnover growth in 2014 of 7.3% and 4.7% respectively. These successfully offset the loss of turnover attributable to properties under redevelopment.

**Occupancy:** retail was fully-let (2013: 96%), and office occupancy remained strong at 98% (2013: 98%) while housing a well-balanced group of international and local blue chip tenants. Residential occupancy improved to 97% (2013: 92%), amidst a generally weak market environment, with turnover dropping 4.3% in 2014.

**Property expenses ratio (as a percentage of turnover):** improved to 12.5% in 2014 (2013: 13.2%) as a result of the healthy organic growth of turnover.



## RETAIL PORTFOLIO

Hysan's retail portfolio turnover grew 7.3% to HK\$1,801 million (2013: HK\$1,678 million), including turnover rent of HK\$93 million (2013: HK\$106 million). Lower turnover rent reflects the Group's strategy of increasing the base rent over the last two years, as a response to its anticipation of the normalisation of retail sales growth. On a like-for-like basis excluding Sunning Plaza in both years, the turnover would have increased by 8.5% (2013: HK\$1,660 million), reflecting healthy organic growth.

There were positive rental reversions in rental renewals, reviews and new lettings with an average increase of around 50%, driven by our asset enhancement at Lee Gardens Two, and further refinement of tenant mix. However, a relatively small portion (18%) of leases was due for renewal and rent review in 2014.

Excluding Sunning Plaza, the portfolio was fully-let as at 31 December 2014 (31 December 2013: 96%, with Sunning Plaza already vacated). The improvement was due to the completion of Lee Gardens Two's enhancement programme.

Visitors' traffic to our buildings saw healthy growth, about 10% over last year. For the festive period of December 2014, footfall numbered around 170,000 per day. The growth can be attributed to footfall increases in Lee Theatre hub and Hysan Place, while Lee Gardens hub was steady. The newly renovated and repositioned Lee Theatre Plaza has been drawing bigger crowds, as expected, with its lower price points and offerings, at a time when the market has begun to see shifts in consumer spending patterns. Footfall there increased by around 40% as compared to 2013. Hysan Place, with its cool architecture, iconic retailers like Apple Store and eslite, as well as stand-out features like the Urban Farm, continued to attract a faithful group of followers who appreciate something different to the ordinary shopping mall.

Our strategy of creating a diversified and distinct retail portfolio, with shops and restaurants of different price points and style, catering for shoppers from different segments of the community, as well as overseas visitors, paid off. This success was further complemented by our LEE GARDENS area branding, which includes hosting a range of popular and well-received events.



For market environment, see "The Marketplace" (page 24)



For risk management, and other principal risks we face, see "Internal Controls and Risk Management Report" (page 47)



As a result, the estimated overall tenant sales within the retail portfolio improved by around 22% as compared to 2013, substantially outperforming Hong Kong's overall retail sales which showed a 0.2% decline.

Among our three retail hubs, Hysan Place showed double-digit percentage growth in tenant sales, and is now a renowned gathering place for the younger crowd. It was the main site for our 2014 placemaking events like Captain America, Captain Tsubasa x Adidas, Line and Smiley World, all of which helped to enhance the shopping destination's hip and trendy image.

Lee Gardens hub experienced positive rental reversions, but its estimated tenant sales were slightly lower than last year, which was principally attributable to the life cycles and distribution strategies of a few brands. Lee Gardens Two saw the completion of an asset enhancement project and the addition of Ralph Lauren's store for men's and women's fashion. The building is now also home to an additional half floor of children's stores, complementing the existing floor of successful shops for youngsters. Furthermore, Seasons by Olivier E., where Hysan partnered top chef Olivier Elzer to present classical French cuisine with a modern Asian twist, received a Michelin star within six months of its opening.

Lee Theatre hub's flagship stores were the driving force behind the double-digit percentage increase in estimated tenant sales growth in 2014. Lee Theatre Plaza's lower zone stores were particularly popular, complemented by a number of well-received new restaurants, like Putien and Paradise Dynasty.



For corporate social responsibility efforts in marketing, see "Responsible Business" (page 51)





**OFFICE PORTFOLIO**

Hysan’s office portfolio turnover grew by 4.7% in 2014 to HK\$1,136 million (2013: HK\$1,085 million). On a like-for-like basis excluding Sunning Plaza in both years, the turnover would have been a healthy organic increase of 12.5% (2013: HK\$1,010 million). This reflected Hysan Place’s full occupancy effect, as well as positive rental reversions on renewals, reviews and new lettings in other buildings, with an average rental increase of around 17%. These offset the redevelopment impact of Sunning Plaza, which was completely vacated by the end of 2013.

Excluding Sunning Plaza, the office portfolio’s occupancy was 98% as at 31 December 2014 (31 December 2013: 98%, with Sunning Plaza vacated since year-end).

The portfolio is home to a well-balanced group of international and local blue chip tenants, with the top four industries being insurance, professional and consulting, high-end retailers and banking and finance. They represented 53.7% of our office lettable floor area, but no category took up more than 20% of the total lettable area. The chart below illustrates the office portfolio tenant profile as analysed by area occupied:

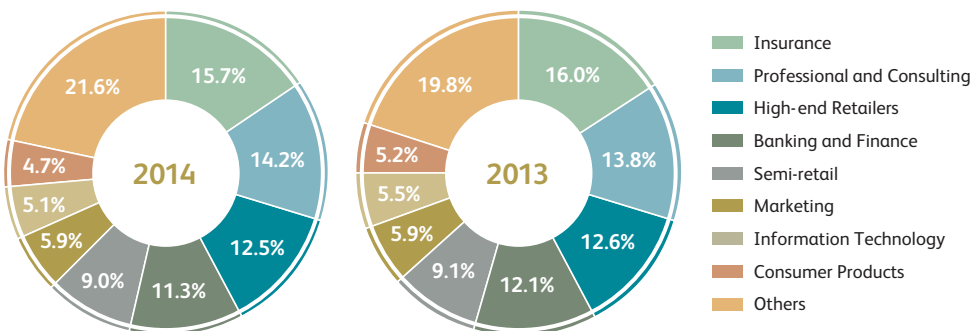


For market environment, see “The Marketplace” (page 26)



For risk management, and other principal risks we face, see “Internal Controls and Risk Management Report” (page 47)

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



Among the well-known tenants from these industries are AIA, Gucci, KPMG, Manulife, National Australia Bank and Sun Hung Kai Financial. Through our active marketing, the portfolio continues to be seen as a credible alternative to Central and Admiralty offices. Commerzbank, Germany’s second largest bank, will move its Hong Kong headquarters into Hysan’s office portfolio in the first half of 2015. Moreover, with excellent amenities in the neighbourhood which provide quality service throughout the day, our offices are also popular with renowned technology companies, with Apple, LinkedIn, Oracle and Yahoo among those setting up offices in Lee Gardens.



## RESIDENTIAL PORTFOLIO

Our residential portfolio's revenue declined slightly by 4.3% to HK\$287 million (2013: HK\$300 million). On a like-for-like basis excluding Sunning Court in both years, the turnover would have seen an increase of 1.8% (2013: HK\$282 million). The performance reflected the success of our occupancy optimising strategy, against a generally weak market environment.

Excluding Sunning Court, the residential occupancy was 97% as at 31 December 2014 (31 December 2013: 92%, with Sunning Court being substantially vacated).

The tenant base for Bamboo Grove has now been broadened beyond the traditional financial fields in light of weakened demand in recent years. Hysan is continuing to strengthen its marketing efforts, as well as enhancing its tenant relationships and services provided.

## SUNNING REDEVELOPMENT

After the successful completion of the demolition work for Sunning Plaza and Sunning Court, piling, excavation and other foundation works commenced in the third quarter of 2014, and will be completed by early 2016. The project is on schedule for its anticipated completion around 2018.

## ASSET ENHANCEMENT PROJECT

The Lee Gardens One ground floor lobby and higher floors retail space enhancement project began on schedule in the fourth quarter of 2014. The project will improve the accessibility and circulation of the office and retail areas, and create new shop space and retail offerings. A new space of 6,500 sq. ft. has been preleased to Valentino for a flagship store to be open in Q3 2016. The first phase construction work, revamping the office lobby and adding elevators, is on schedule for its target completion in the third quarter of 2015. The entire project is scheduled to be completed in the second half of 2016.



For market environment, see "The Marketplace" (page 27)



For risk management, and other principal risks we face, see "Internal Controls and Risk Management Report" (page 47)

## Financial Review

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

### OPERATING COSTS

The Group's operating costs are generally classified as property expenses (direct costs and front-line staff wages and benefits) and administrative expenses (indirect costs largely representing payroll related costs of management and head office staff).

Property expenses were broadly the same, at HK\$404 million (2013: HK\$405 million). Improved occupancy led to reduced agency fees and government rates payable by the landlord, setting off increased repairs and maintenance costs and revenue-generating promotion expenses. Coupled with an increase in rental income, the property expenses to turnover ratio decreased from 13.2% to 12.5% as compared to 2013.

Administrative expenses rose by 2.9% to HK\$214 million (2013: HK\$208 million). This reflected our increased investment in human capital and technology applications.

### FINANCE COSTS

Finance costs reduced by 5.8% to HK\$228 million (2013: HK\$242 million) in 2014. The decrease was attributable to the lower average debt level in 2014 as compared to 2013 after repayment of around HK\$900 million bank loans and HK\$200 million floating rate notes during the year. As these floating rate debts generally carried lower finance costs compared with fixed rate debts, the Group's average finance costs in 2014 were 3.1%, slightly higher than 2.9% reported for 2013.

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

### REVALUATION OF INVESTMENT PROPERTIES

The Group's investment property portfolio was valued at 31 December 2014 by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The amount of this valuation was HK\$68,735 million, an increase of 5.2% from HK\$65,322 million at 31 December 2013. The valuation at year-end 2014 principally reflected improved rental rates for the Group's investment property portfolio. The following shows the property valuation of each portfolio at year-end.

	2014 HK\$ million	2013 HK\$ million	Change %
Retail	34,313	32,234	+6.4
Office	22,684	21,949	+3.3
Residential	7,718	7,716	n/m
Sunning Plaza and Sunning Court <sup>1</sup>	–	3,423	n/m
Property under redevelopment <sup>2</sup>	4,020	–	n/m
	<b>68,735</b>	<b>65,322</b>	<b>+5.2</b>

\* n/m – not meaningful



For Treasury Policy, see  
"Treasury Policy"  
(page 37)

<sup>1</sup> 2013 valuation figures of Sunning Plaza and Sunning Court have been reclassified from Retail, Office and Residential to conform to current year presentation. Upon the commencement of the redevelopment of Sunning Plaza and Sunning Court in 2014, its valuation is classified as and disclosed under "property under redevelopment".

<sup>2</sup> Property under redevelopment is valued at site value plus construction costs expended up to date.



Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK\$2,940 million (2013: HK\$4,575 million) was recognised in the Group's consolidated income statement for the year.

### INVESTMENTS IN ASSOCIATES

The Group's share of results of associates decreased by 18.4% to HK\$252 million (2013: HK\$309 million), principally due to a smaller revaluation gain of the Shanghai Grand Gateway project, of which the Group owns 24.7%, as compared to last year. At 31 December 2014, properties at Shanghai Grand Gateway had been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, of the associate amounted to HK\$7 million (2013: HK\$72 million).

The Shanghai Grand Gateway project continued to deliver a good performance in 2014. The Group's share of results, excluding revaluation gain on investment properties held by the associate, recorded a 3.4% increase year-on-year. As at the end of 2014, the retail units were virtually fully-let while around 98% occupancy was achieved for office units.

### OTHER INVESTMENTS

In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in investment grade debt securities and principal-protected investments for higher yields.

Investment income, comprising mainly of interest income, amounted to HK\$68 million (2013: HK\$76 million). Although the average investment yields improved for 2014, the increase yields were partially offset by the exchange loss arisen from time deposits and term notes denominated in Renminbi.





## CASH FLOW

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

	2014 HK\$ million	2013 HK\$ million	Change %
Operating cash inflow	2,712	2,498	+8.6
Investments	750	(2,236)	n/m
Financing	(1,114)	1,607	n/m
Capital expenditure	(591)	(704)	-16.1
Interest and taxation	(439)	(350)	+25.4
Dividends paid and proceeds on exercise of options	(1,363)	(1,157)	+17.8
<b>Net cash outflow</b>	<b>(45)</b>	<b>(342)</b>	<b>-86.8</b>

\* n/m – not meaningful

The Group reported operating cash inflow of HK\$2,712 million (2013: HK\$2,498 million) in 2014, reflecting the growth in our core leasing business. Net cash from investments was HK\$750 million (2013: net cash used in investments: HK\$2,236 million), mainly attributable to reduction in investments in term notes and time deposits with longer tenors, and dividend income received from an associate during the year. In 2013, net cash used in investments was HK\$2,236 million, of which the majority were time deposits with longer tenors.

Net cash used in financing was HK\$1,114 million (2013: net cash from financing: HK\$1,607 million), principally reflecting the repayment of around HK\$900 million bank loans and HK\$200 million floating rate notes during the year. In 2013, net cash from financing was HK\$1,607 million, mainly due to the new borrowings of 10-year US\$300 million fixed rate notes.

## CAPITAL EXPENDITURE AND MANAGEMENT

The Group is committed to enhancing the asset value of its investment property portfolio through selective asset enhancement and redevelopment. The Group has also in place a portfolio-wide whole-life cycle maintenance programme as part of its ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK\$591 million (2013: HK\$704 million).



For internal controls, see "Internal Controls and Risk Management Report" (page 45)

## Treasury Policy

### MARKET HIGHLIGHTS

Divergent economic growth and prospects were the major characteristics of the leading global economies in 2014. While the U.S. progressed with a moderate pace of economic growth, Japan and the Euro zone recorded a weaker performance. The Chinese economic growth decelerated in 2014 due to structural economic reform and slowdown in real estate investment. Accordingly, different monetary policies were adopted in different countries. The U.S. Federal Reserve ended its asset purchase program during the year. However, central banks of Japan and the Euro zone adopted relaxing monetary policies. China also reduced its benchmark lending and deposit rates in the fourth quarter of 2014. The long-term interest rate of the U.S. Treasuries dropped noticeably in the year due to the uncertain outlook for global economic growth and increasing global deflationary pressure. In the longer term, the market is still expecting an increase in the US benchmark interest rate in 2015.



For key performance indicators, see "2014 Performance at a Glance" (page 10)

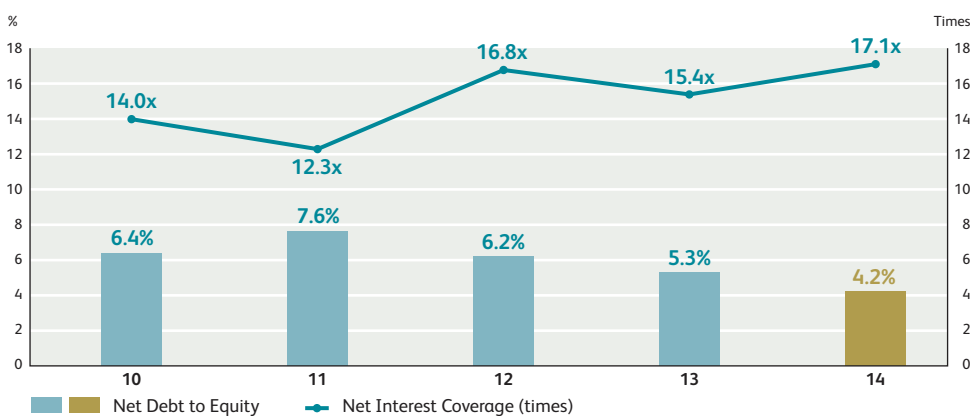
### DEBT MANAGEMENT

The debt capital markets remained active in 2014 and continued to be flushed with liquidity. As the Group issued a 10-year US\$300 million fixed rate notes with coupon at 3.5% in January 2013 under the Medium Term Notes Programme to build up funds for future use, the Group had no funding requirement to issue debt in the capital market again in 2014. On the other hand, the Group repaid around HK\$900 million bank loans and HK\$200 million floating rate notes during the year upon their maturities. No refinancing was arranged during the year in the light of ample cash and bank deposits on hand, equivalent to HK\$3,640 million as at end of 2014 (2013: HK\$4,123 million).

Net Debt to Equity ratio<sup>1</sup> reduced from 5.3% to 4.2% as at 31 December 2014, mainly due to debt repayment. The Group's Net Interest Coverage<sup>2</sup> also improved to 17.1 times for 2014 (2013: 15.4 times) as cash inflow from business further strengthened. The low gearing and strong ability to meet interest payments underscored the Group's strong ability to raise further debt in case of need.

The graph below shows the level of leverage and our ability to meet interest payment obligations in the past five years.

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



<sup>1</sup> Net Debt to Equity is defined as borrowings less short-term investments, time deposits, cash and bank balances divided by shareholders' funds

<sup>2</sup> Net Interest Coverage is defined as gross profit less administrative expense before depreciation divided by net interest expenses

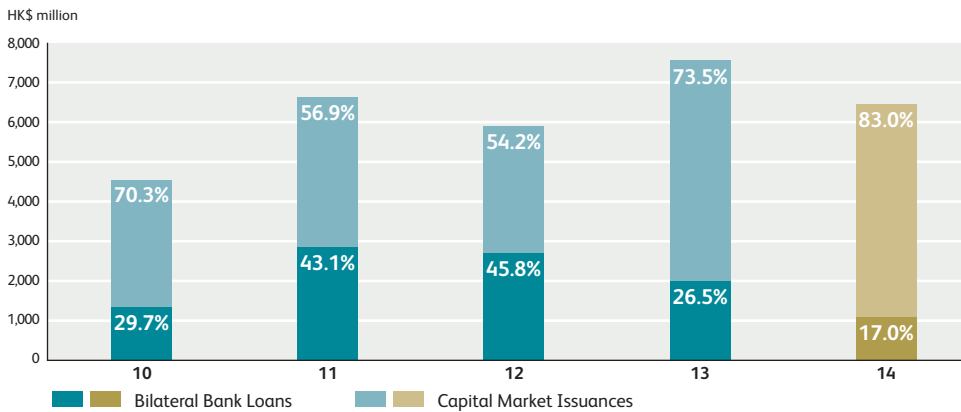


The Group always strives to lower its borrowing margin, to diversify its funding sources and to maintain a suitable maturity profile relative to the overall use of funds. As at 31 December 2014, the outstanding gross debt<sup>1</sup> of the Group was HK\$6,457 million (2013: HK\$7,540 million), a decrease of HK\$1,083 million compared with 2013 as a result of net repayment of around HK\$1,100 million of debt during the year. All the outstanding borrowings are on an unsecured basis.

At year-end of 2014, about 83.0% (2013: 73.5%) of the Group's outstanding gross debts were sourced from the capital market with the remaining from banking facilities. The Group continued to maintain long-term relationships with a number of local and overseas banks in order to diversify its funding sources. At year-end of 2014, eight local and overseas banks had provided bilateral banking facilities to the Group as funding alternatives.

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

### Sources of Financing at Year-end

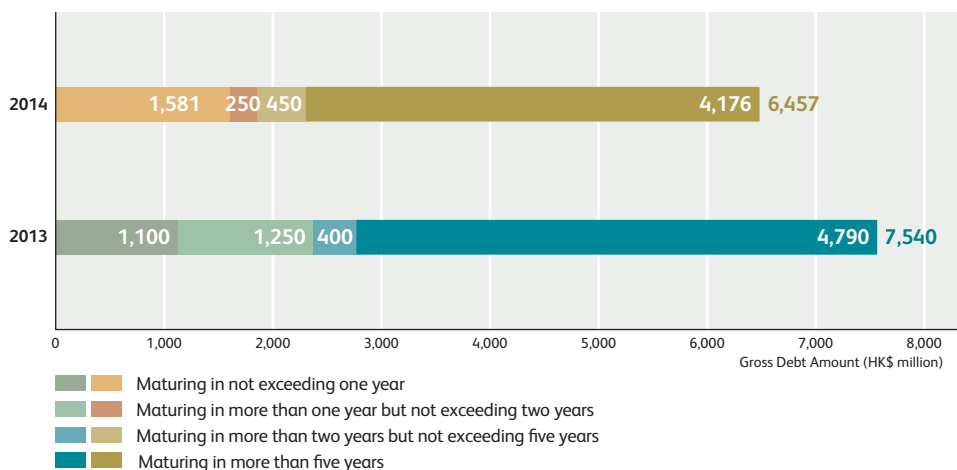


The Group also strives to maintain an appropriate maturity profile. As at 31 December 2014, the average maturity of the debt portfolio was about 5.6 years (2013: 6.0 years), of which about HK\$1,581 million or 24.5% of the outstanding gross debt will be due not exceeding one year. Given that the Group has cash and bank deposits of around HK\$3,640 million, the Group is able to meet its debt repayment schedule in 2015 without much refinancing pressure.

<sup>1</sup> The gross debt represents the contractual principal payment obligations at 31 December 2014. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. Also, if the Group designates certain derivatives as hedging instruments (i.e. interest rate swaps) for fair value hedge, the net cumulative gains/losses attributable to the hedged interest rate risk of the hedged items (i.e. fixed rate notes and zero coupon notes) are adjusted to the hedged items. Therefore, as disclosed in the consolidated statement of financial position as at 31 December 2014, the book value of the outstanding debt of the Group was HK\$6,447 million (31 December 2013: HK\$7,504 million).

The graph below shows the debt maturity profile of the Group at 2014 and 2013 year-end.

### Debt Maturity Profile at 2014 and 2013 Year-end



### LIQUIDITY MANAGEMENT

Recurring cash flows from our business continued to remain steady and strong. Accordingly, the Group maintained investment-grade credit ratings of A3 as rated by Moody's and BBB+ as rated by Standard and Poor's.

As at 31 December 2014, the Group had cash and bank deposits totalling about HK\$3,640 million (2013: HK\$4,123 million). The decrease in deposits was mainly resulted from debt repayment. All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. In order to preserve liquidity and enhance interest yields, the Group also invested HK\$1,285 million (2013: HK\$1,360 million) in debt securities and principal-protected investments.

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, which amounted to HK\$1,200 million at year-end 2014 (2013: HK\$900 million), essentially allow the Group to obtain additional liquidity as the need arises.

### INTEREST RATE MANAGEMENT

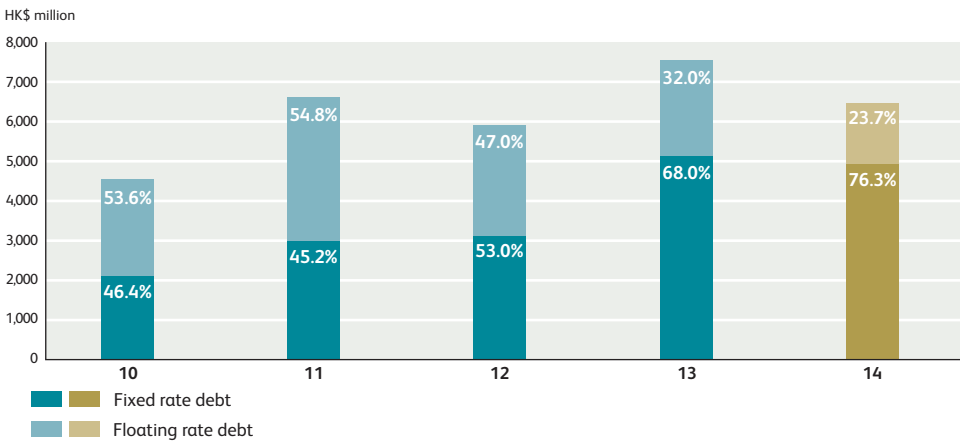
Appropriate hedging strategies are adopted to manage exposure to projected movements in the interest rate. During the year, the 3-month Hong Kong Inter-bank Offered Rate (“HIBOR”) remained low and was in a range bounded between 0.36% and 0.40%.

As a result of repayment of around HK\$1,100 million floating rate debt that generally carried a lower finance cost compared with fixed rate debts, the average cost of financing increased to 3.1% in 2014 compared to 2.9% in 2013. The fixed debt ratio also increased to 76.3% at year-end of 2014 from 68.0% at year-end of 2013.

As the Group believes that interest rates will rise in coming few years, we expect the higher proportion of fixed rate debt will reduce the overall interest rate exposures.

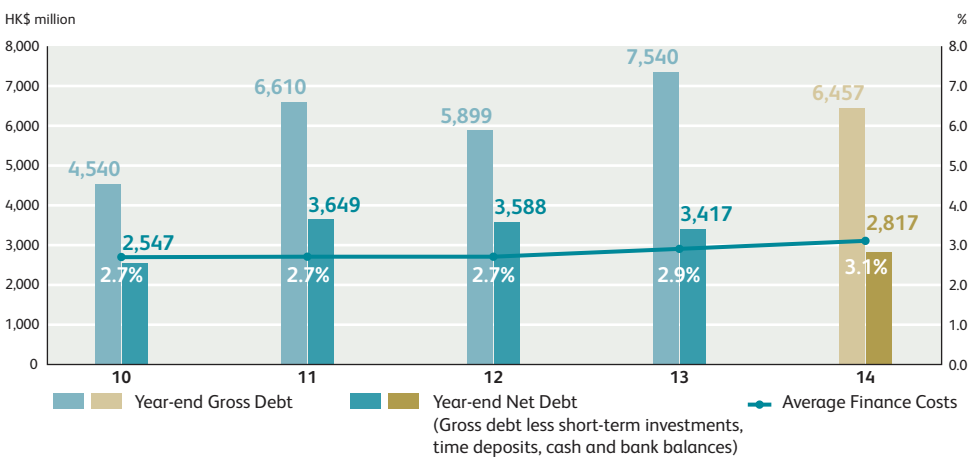
The diagram below shows the fixed rate debt and floating rate debt portions in the past five years.

**Fixed Rate Debt and Floating Rate Debt Portions**



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

**Debt Levels and Average Finance Costs**



## FOREIGN EXCHANGE MANAGEMENT

The Group aims to have minimal mismatches in currency and does not speculate in currency movements for debt management. With the exception US\$300 million fixed rate notes, which have been hedged by an appropriate hedging instrument, all of the Group's other borrowings were denominated in Hong Kong dollars. For the 10-year US\$300 million fixed rate notes issued in January 2013, hedge was entered to effectively convert the borrowing into Hong Kong dollars. For the foreign exchange exposure on the investment side, the Group's outstanding balances in cash, time deposits, and debt securities amounted to US\$94 million and RMB800 million, of which US\$66 million and RMB665 million were hedged by foreign exchange forward contracts. Other foreign exchange exposure mainly relates to investments in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent of HK\$4,154 million (2013: HK\$4,181 million) or 5.3% (2013: 5.5%) of total assets.

## USE OF DERIVATIVES

As at 31 December 2014, outstanding derivatives were mainly related to the hedging of interest rate and foreign exchange exposure. Strict internal guidelines have been established to ensure derivatives are used mainly to manage volatilities or adjust the appropriate risk profile of the Group's treasury assets and liabilities.

Before entering into any hedging transaction, the Group will ensure that its counterparty possesses strong investment-grade ratings to control credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty, which reflects the credit quality of the counterparty.



# Internal Controls and Risk Management Report

## Responsibility

Our Board of Directors has the overall responsibility to ensure that sound and effective internal controls are maintained, while management is charged with the responsibility to design and implement an internal controls system to manage risks. A sound system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance.

## Our Risk Management Framework

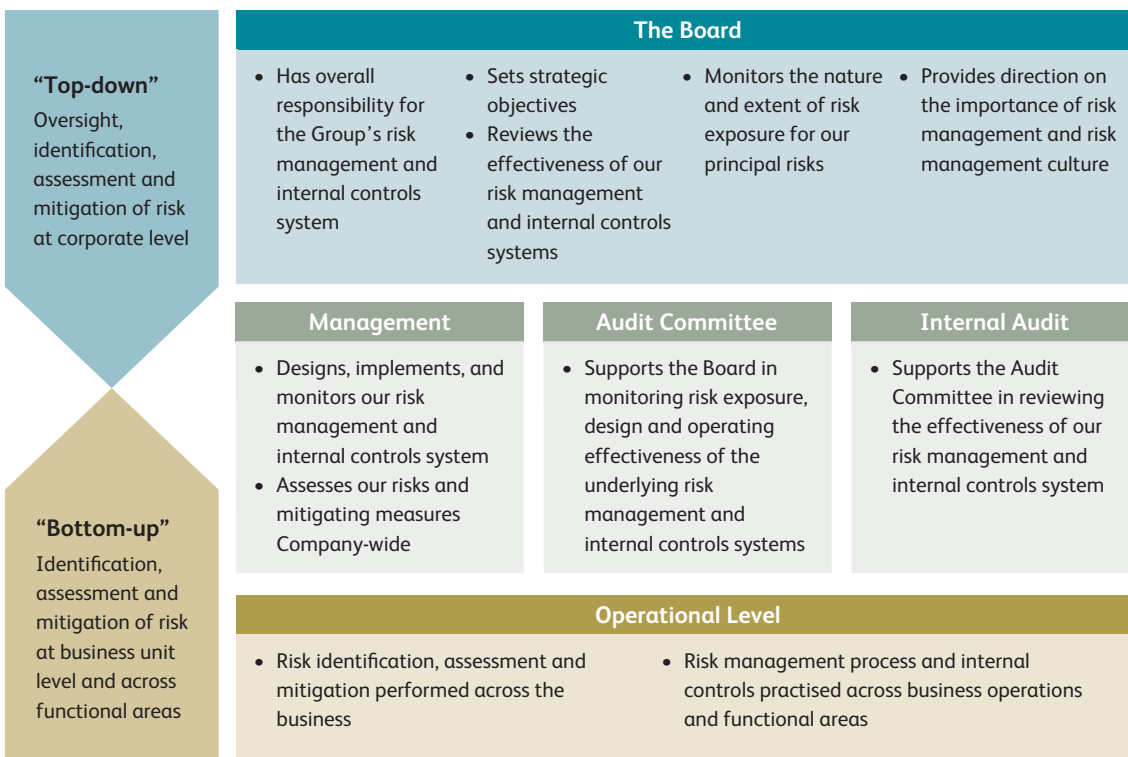
The Board is responsible for the Group’s system of internal controls and for reviewing its effectiveness. The Audit Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. Management assesses and presents regular reports to the Audit Committee on its own assessments of key risks, the strengths and weaknesses of the overall internal controls systems, with action plans to address the weaknesses. Internal Audit regularly reports on reviews of the business processes and activities, including action plans to address any identified control weaknesses. External auditors also report on any control issues identified in the course of their work. Taking these into consideration, the Audit Committee reviews the effectiveness of the Group’s system of internal controls and reports to the Board on such reviews. Work and findings of the Committee are considered by the Board in forming its own view on the effectiveness of the system.

(Please also see “Audit Committee Report” on page 113 regarding the Committee’s detailed review work, including the forms of “assurance” received from management, external auditor, and internal auditor).



On detailed work performed by the Audit Committee, see “Audit Committee Report” (page 113)

## Hysan Risk Management Framework Diagram



## 2014 Review of Internal Controls Effectiveness

In respect of the year ended 31 December 2014, the Board considered the internal controls system effective and adequate. No significant areas of concern that might affect the financial, operational, compliance controls, and risk management functions of the Group were identified. The scope of this review covers the adequacy of resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget.

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

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

Since 2012, we have put in place a phased improvement plan and progressed to further enhance our internal controls and risk management system. The initial phase of the plan focused on adopting a more risk-based (instead of process-based) approach in risk identification and assessment. This approach enriches our ability to analyse risks and respond to opportunities as we pursue our strategic objectives. Management reporting to the Audit Committee has also been enhanced, including the presentation of special reports on selected risk topics.

In the current phase, we aim to further integrate internal controls and risk management into our business processes, including in annual budgeting and planning. The COSO framework has been revised, effective December 2013. Instead of treating this as a framework-update exercise, a holistic approach has been adopted, taking into consideration the Company's circumstances, including its ongoing internal controls and risk management improvement plan as well as other strategic initiatives. (e.g. corporate social responsibility strategy and reporting). All these further our ultimate objective to make our risk management system a "live" one that is practised on a day-to-day basis by operating units.

- **Control Environment** – this is very important as it sets the tone for internal controls in a company. Hysan is a tightly-knit organisation with around 600 staff members. The actions of management and its demonstrated commitment to effective governance and control are therefore very transparent to all.

We have a strong tradition of good corporate governance and a corporate culture based on good business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). Our “whistle-blowing” system is monitored by an independent third party service provider with direct reporting to the Audit Committee Chairman. We aim to build risk awareness and control responsibility into our culture and regard them as the foundation of our internal controls system.

- **Risk Assessment** – we continue to drive improvements to our risk management process and the quality of risk information generated, while at the same time maintaining a simple and practical approach. Instead of setting up a separate risk management department, we instead seek to have risk management features embedded within our operations (leasing, property management, and project) as well as functional areas (including finance, human resources, IT, and legal). We aim to have a “live” risk management system that is practised on a day-to-day basis by our operating units.

On an annual basis, department heads review and update their risk registers, providing assurances that controls are both embedded and effective within the business.

Management also forms a risk management committee (headed by the Chief Executive Officer) which sets the relevant policies and monitors potential weaknesses and action items regularly. It is also responsible for identifying and assessing risks of a more macro and strategic nature, including emerging risks.

This “top-down” approach is complemented by the “bottom-up” aspects and the involvement of operating unit heads in identifying operational risks. These together determine the Group’s top risks. Discussion sessions with all department heads led by the Chief Executive Officer were held, with the view to further enhancing the “participatory” aspect of the overall risk assessment process.



For our underlying corporate governance system and culture, see “Corporate Governance Report” (page 80)

- **Control Activities; Information and Communication** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on top-level reviews, segregation of duties; and physical controls. Over the past few years, we have been formalising and documenting the control processes in policies and procedures. Written policies and procedures with defined limits of delegated authority are in place, which facilitate effective segregation of duties and controls. A greater use of automation (information processing) is also being implemented.

The annual budgeting and planning process is one of our key control activities, which has been refined to take into consideration risk factors. All operating units prepare their respective operating plans pursuant to corporate objectives for consideration. In this process, they are required to identify material risks that may impact the achievement of their business objectives. Action items to mitigate the identified risks are developed for implementation as well as for finalising the budget and business objectives. An annual budget with financial targets, as approved by the Board, provides the foundation for the allocation of resources. Variance analyses are regularly performed, and reported to management and the Board. These help identify deficiencies and enable timely remedial actions to be taken.

Capital expenditures monitoring is also significant given the capital-intensive nature of our property business. Depending on strategic importance, cost / benefit and the size of the projects, detailed analysis of expected risks and returns is submitted to operating unit heads, Executive Directors or the Board for consideration and approval. The criteria for assessment of financial feasibility are generally based on net present value, payback period and internal rate of return from projected cash flow.

- **Monitoring Activities** – the Board and Audit Committee oversee the process, assisted by our Internal Audit team. Management has enhanced its update reports to the Audit Committee on movements of top risks and appropriate mitigating measures. There are three Audit Committee meetings annually, with one meeting substantially devoted to special risks items.



## Further Strengthening of Our Underlying Systems

We have made further progress in strengthening our internal controls and risk management systems, highlighted as follows:





Risk Assessment – enhanced monitoring of “emerging risks”	
<ul style="list-style-type: none"> <li>Further strengthened the monitoring of “emerging risks” (i.e. risks that are new or evolving, which have potentially significant impact even though the likelihood of their happening may not be certain). Management’s Risk Management Committee takes a key role in identifying and tracking these risks. The Chief Executive Officer also led further discussions with all department heads.</li> </ul> <p>Examples include political / socio risks, hazards / catastrophic loss (for example, natural disasters).</p>	Crucial in the context of a fast changing global as well as local environment.
Risk Assessment – strengthening fraud risks assessment	
<ul style="list-style-type: none"> <li>Refined our Fraud Handling Policy, including providing for periodic fraud risk assessments.</li> <li>Fraud risk assessment performed, by a combined “top-down” (by management) and “bottom-up” (by departments) process. Improvement areas identified and completed include the performance by Human Resources Department of credit check for promotions and transfers to critical positions of responsibility, and the refinement of the exit interview process for leaving staff to identify potential fraud opportunities.</li> </ul>	Further strengthened the anti-fraud aspects of our Code of Ethics, which is particularly important as the Group evolves and looks into other growth opportunities.
Risk Assessment – strengthening non-financial reporting objective	
<ul style="list-style-type: none"> <li>Introduced independent third-party verification (HKQAA) for our corporate social responsibility report in March 2014</li> </ul>	Reflected our commitment to being a responsible business, stressing financial performance as well as the manner of achieving such financial results.
Control Activities – policies and procedures	
<ul style="list-style-type: none"> <li>Identified and in the process of implementing new policies to address cross-departmental issues. For instance, corporate policies relating to privacy, in addition to departmental policies and procedures already in place. This ensures that a more holistic approach is taken. It also signifies the importance we place on the subject, which has become more important in light of fast-changing regulatory requirements and heightened stakeholder expectations.</li> </ul>	Continual review and refinement of policies and procedures in light of the changing external and internal environment.
Monitoring – enhanced “management assurance” to the Audit Committee and the Board in their respective reviews	
<ul style="list-style-type: none"> <li>To further strengthen management’s “assurance” to Audit Committee and the Board, control self-assessment questionnaires were rolled out across all departments. Department heads were required to certify their departmental controls effectiveness including identifying any control issues. This in turn backs up management’s certification to Audit Committee and the Board.</li> </ul>	Facilitates and enhances the work of the Audit Committee and the Board in monitoring our risk exposure.

## Way Forward

In the context of a fast-changing global and local environment, the monitoring of “emerging risks” will be a focus. In general, achieving a “live” risk management system practised on a day-to-day basis by our operating units is a continuous journey. We shall continue this path, with further integration of internal controls and risk management into our business processes.

## Our Risk Profile

Our approach for managing risk is underpinned by our understanding of our current risk exposures, and how our risks are changing over time. The following illustrates the nature of some of our principal risks, although it does not represent an exhaustive list of the risks we face. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

Risk	Risk change during 2014	Description of risk change
Impact of Hong Kong and global macroeconomic developments on: <ol style="list-style-type: none"> <li>Office leasing operations</li> <li>Retail leasing operations</li> <li>Residential leasing operations</li> </ol>	↔	Considering the impact of changes in demand and competition on the three leasing units, which continued to be challenging during the year. When compared with good growth over the past few years, Hong Kong retail sales declined slightly during the year. New supply remains, however, tight for all three units. For Hysan, a relatively small portion of commercial leases were due for renewal or rent review during the year.   For more analysis and mitigating measures, see "The Marketplace" (pages 24 to 27) & "Review of Operations" (pages 29 to 33)
4. Projects (including combined Sunning site redevelopment)	↔	Asset enhancement at Lee Gardens Two shopping centre completed. Demolition work for the Sunning buildings completed in Q3 2014. Excavation and other foundation works had commenced. The project is on schedule for its anticipated completion around 2018.   See "Review of Operations" (pages 29 to 33)
5. Human resources	↑	Greater competition for skilled personnel, and labour shortage for front-line staff, to support the Group's growth strategy.   For more analysis and mitigating measures, See "Responsible Business" section – "Workplace Quality" (pages 64 to 67)
6. Emerging risks including political risks / hazards / catastrophic loss (health epidemics, natural disasters, man-made hazards like fire, flooding)	↑	We maintain comprehensive emergency handling procedures covering all our properties. Their effectiveness were demonstrated during Q4 2014, when some main roads in Hong Kong (including Causeway Bay) were blocked by the "Occupy Central" protests. Our Property Services team implemented special measures and successfully mitigated their adverse impact on our tenants, visitors and shoppers.   For operations performance during the period, see pages 30 to 31

Note:

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

Hysan has an established Guiding Principle of being a responsible business. We place a strong emphasis not only on our financial results, but also on how we achieve the same. In this section, we highlight our policies in the areas of environment, workplace quality, health and safety, and community contributions, as well as our accomplishments in those areas in 2014.

## Responsible Business

# 3



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50	Feature Stories: (i) Walking the Talk, and (ii) Supporting Our People at Work and Beyond
54	Guiding Principle
56	Environment
64	Workplace Quality
68	Health and Safety
70	Community Contributions

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## Engaging our Stakeholders

Hysan walks the talk when it comes to recycling. In 2014, we partnered Greeners Action to bring the food waste reduction message to Hysan Place and engage our shoppers and restaurant tenants. Hysan also promoted collecting food waste using specially-marked bags, making it easy to recycle into fishmeal, and as fertilisers for its Urban Farm.

“It was a real success,” says Angus Ho. “We had training sessions with frontline staff, online and onsite games with diners. With high-profile mall activities, we even had the chance to reach out to groups we did not have a chance to contact before, like tourists and office workers.”



**Angus Ho**  
Greeners Action Founder



“We brought our anti-food waste message to the trendiest shopping landmark!”







## In Redevelopment Project

Another thought-provoking project saw some of the wood reclaimed from Sunning Court's redevelopment turned into two benches for shoppers at Lee Theatre Plaza. Social enterprise Woodrite, which took on the wood, designed and produced the benches in conjunction with Hysan. The effort hopes to send a message that wood discarded from renovations can still be used productively.

## In Marketing Activities

For our 2014 Christmas project, Hysan led its partners to collect and upcycle more than 30,000 plastic water bottles and turned them into 40,000 plus designer Christmas baubles. These limited edition decorations were so popular that they were sold out two weeks after the launch, more than a fortnight before Christmas day. Hysan was most encouraged by the strong media attention on this story, which carried a clear message on the need to recycle and preferably, to upcycle. Around half a million Hong Kong dollars was collected during this successful campaign, benefitting seriously ill children from Make a Wish foundation.



# Committed Talent Development

Each day close to 100,000 people visit Hysan Place. They may want burgers and fries from the food court, or attend important meetings in the office floors. Others come in for the precious peacefulness of the book store, but some are ready to harvest at the Urban Farm on its rooftop.

“Hysan’s training for our younger staff members helps them deal with all manners of customer requests, and respond swiftly to different types of incidents,” says Venus Lam. “We may be coordinating an art exhibition one minute, and trying to help out a lost child the next,” says Albert Fung. “Different levels of staff now learn using different modules. They have more structured training from grooming to language skills. If you run a place that’s as busy as a small town, you really have to be up-to-date with all aspects of property management knowledge.”



**Venus Lam and Albert Fung**  
Hysan Place Senior Manager and  
Assistant Manager

“Running Hysan Place is like running a busy town!”





# Our Volunteer Team

Hysan is a “Business of Life” and contributing to the community is high on its corporate responsibility agenda. The volunteer team took on projects to help build houses in Guangdong, China, raised money in charitable football matches, visited the elderly during festive seasons, and most popular of all, served disadvantaged children.

“It’s the smiles and laughs which are priceless,” says Carrie Chan. “It may only be one day for us, but a visit to the Tai Po Treetop Cottage, for example, is something that may stay in the minds of these kids for a long time. We are just proud to be part of Hysan’s team to give something back to the community.”



**Carrie Chan**  
member of Hysan’s  
volunteer team



“We love it. We can have fun while helping out others.”



# Responsible Business

## Guiding Principle

Hysan has an established Guiding Principle of being a responsible business. We place a strong emphasis not just on our financial results, but also on our non-financial achievements. As a “Business of Life” Hysan has been creating sustainable and outstanding returns for our shareholders, while also making positive impact on the lives of our stakeholders: tenants, business partners, employees, and members of the community.

In 2014, Hysan was rewarded for its achievements with a number of awards and recognitions.



For key performance indicators, see “2014 Performance at a Glance” (page 12)

## Corporate Responsibility Reporting

We have adopted an “integrated” approach in corporate responsibility reporting, as we believe that sustainable financial results are only achieved if we do things the right way.

We have early-adopted the The Stock Exchange of Hong Kong Limited’s Environmental, Social and Governance Reporting Guide (ESG Guide). Evidencing our commitment in this area of reporting, we have also started to obtain independent verification since our 2013 Annual Report.



– For details on our compliance with the ESG Guide, see page 194

– For verification statement by Hong Kong Quality Assurance Agency, see inside back cover

## Corporate Responsibility Policy

Hysan’s approach to being a responsible business is underpinned by our Corporate Responsibility Policy, which sets the framework for the way we manage our corporate responsibilities.

### MAINTAIN HIGHEST ETHICAL STANDARDS

- We aim to maintain the highest ethical standards in the conduct of our business. We are committed to maintaining the highest standards of corporate governance

### FOCUS ON HEALTH AND SAFETY

- Health and safety issues are of fundamental concern to us

### MINIMISE ENVIRONMENTAL IMPACT

- We aim to minimise the impact of our activities on the environment

### CONTRIBUTE TO COMMUNITIES

- We make positive contributions to the communities in which we operate

### RESPECT OUR STAFF

- We treat our staff with fairness and respect, and maintain a working environment to realise their full potential

### ENCOURAGE PARTNERS TO SET HIGH STANDARDS

- We encourage our suppliers and contractors to embrace high standards similar to our own

## How the Policy is implemented: Hysan's Corporate Responsibility Model

We believe in the importance of the manner in which we deliver our business results. For the implementation of our Corporate Responsibility Policy, we have two major considerations. Firstly, we strive to integrate our contribution to society into our core everyday business operations and partnerships. Good examples are found in our environmental, as well as in our workplace quality solutions. Secondly, in regard to community involvement and giving, while we sometimes provide financial support, we prefer to offer expertise, manpower and venues, as well as to set up platforms to network talent and resources. We believe this is the best way for those in need to receive maximum benefits from Hysan and other givers.





## Environment

### OUR ENVIRONMENTAL IMPACTS

As a property company with a focus on investment and management, we believe our impacts on the environment are mainly as follows:

- Greenhouse Gas (GHG) emissions from our operations
- Indoor environmental quality
- Waste generation
- Water consumption

### OUR NEW ENVIRONMENTAL POLICY

Previously, Hysan's Environment, Health and Safety Policy combined our strategies on two distinct fronts within one policy. Now that both our operations and the surrounding environment have undergone many changes, we believe it is appropriate to set out a separate Environmental Policy to signify the issue's importance, and to show how it has become an integral part of our culture and thinking.

Among our focuses within the new Policy are our measuring and reporting efforts for carbon reduction, setting targets on environmental performance, promoting waste reduction at source, and enhancing green purchasing. On top of all, the significance of stakeholder engagement has also been further underlined. In all, Hysan will:

- Ensure compliance with all applicable environmental and related legislation and encourage staff, business partners and other stakeholders to meet their environmental obligations
- Identify environmental impacts associated with our operations, and set targets to continually improve our environmental performance
- Improve energy efficiencies by adopting best practicable designs and technologies without compromising service
- Measure and report our GHG emissions, and actively encourage our stakeholders to reduce their carbon footprint
- Minimise waste generation whenever practical in daily operations through source reduction and recycling
- Embrace green purchasing practices and adopt best practicable technologies to conserve natural resources where applicable
- Provide good indoor environmental quality in our buildings to ensure that all the working/living environments are healthy
- Provide regular environmental training to employees and continue to raise their awareness on the issues

**HIGHLIGHTS OF 2014**

The establishment of a new Environmental Policy has helped to guide us and sharpen our focus on the main areas where we impact upon the environment, as well as to enhance our capabilities to make improvements.

Among the most important parts of the Policy is stakeholder engagement. We provided comprehensive information kits to aid our Hysan Place office tenants to achieve highest international environmental certification for their interiors. We also helped highlight food waste recycling in our retail portfolio. Moreover, we conducted talks and visits on recycling and other green topics for our business partners, as well as for our own colleagues.

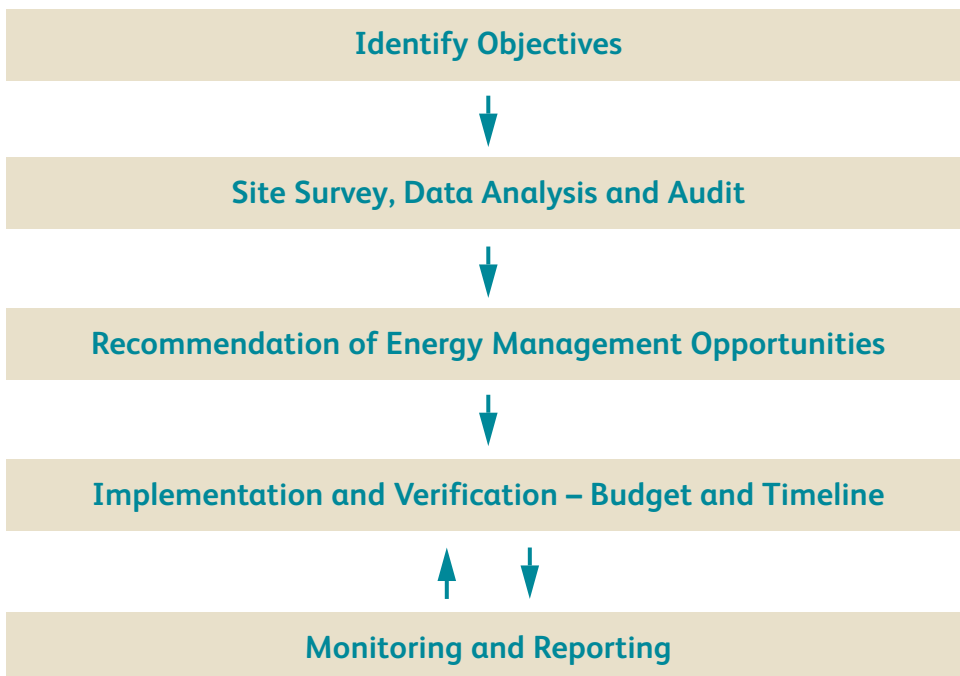
Also on the topic of recycling but on a much larger scale, our Sunning Plaza and Sunning Court redevelopment project recycled a significant amount of the materials generated from the buildings’ demolition.

We also continued to help broaden the scope of how to tackle green issues through using both hardware and software: like new green roofs and walls, quick chargers for electric cars, and major seasonal placemaking events.

Finally, we enhanced our external sustainability reporting, as well as unveiling a new energy accounting system across our commercial portfolio to help identify energy improvement opportunities.

**ENERGY EFFICIENCY**

**HYSAN’S ENERGY MANAGEMENT MODEL**





### IDENTIFY OBJECTIVES AND PHASES IN PROJECT IMPLEMENTATION

We began by identifying energy management objectives for the portfolio back in 2003, and started on projects that would produce results quickly and easily. These were operational schedule adjustments like lighting, fresh air supply and lift operation. The next phase was to install new energy efficient hardware. The air-conditioning system conversion to a more energy-efficient water-cooled system began in 2006 and was completed in 2012. This was a major move in our effort to integrate environmental performance and resources efficiency considerations into the full life-cycle maintenance programme. Also in 2012, we completed Hysan Place, which became the first LEED Core and Shell Platinum mixed-use office and vertical mall complex in Greater China. We have since moved into a new phase that emphasises stakeholder engagement, and will continue to work in a systematic way based on the Energy Management Model.

### MONITORING AND REPORTING

Hysan is a strong believer in improvement through monitoring and reporting. We will continue with independent verification of our sustainability results, which we began with our Corporate Responsibility Report in 2014. In the meantime, we have also begun to install a brand new energy accounting system with energy meters at the common areas of our commercial buildings in phases to measure and analyse energy consumption within each building. After the completion of the installation, we shall better understand our energy usage within our Group's portfolio as a whole, and come up with ways to meet targets and further reduce energy waste.

## ENERGY SAVINGS INITIATIVES OF 2014

As part of our efforts to integrate environmental performance and resources efficiency considerations into our full cycle maintenance programme, we are in progress to install higher efficiency motors for our air handling units and chilled water pumps for our air conditioning systems. These were complemented by new heat pumps, using waste heat from cooling systems, to provide hot water in selected retail and residential areas. We have also put in place all the preliminary work to replace an aging air-cooled chiller in Lee Theatre Plaza to help improve the system's efficiency, with the work anticipated to be completed in 2015. To further cut down on electricity use, we have finalised a plan to acquire more energy efficient lighting equipment, for example, LED lamps, for use in shopping malls, office lift lobbies and car parks.

## ENERGY SAVINGS AND REDUCTION OF GREENHOUSE GAS EMISSIONS ACHIEVEMENTS: 2005 BASELINE AND FROM 2012 TO 2014

Issue		2005 baseline	2012 including HP <sup>(a)</sup>	2012 excluding HP	2013 incl. SP/SC <sup>(d)</sup>	2013 excl. SP/SC	2014 <sup>(d)</sup>
GHG Emissions for Scope 1 & 2 <sup>(a) (b)</sup>	Total (tonnes CO <sub>2</sub> e)	48,421	34,155	29,295	40,610	38,137	38,515
Purchased Electricity	Total (MWh)	52,598	44,718	38,349	50,829	47,747	49,353

<sup>(a)</sup> According to Guidelines to account for Report on Greenhouse Gas Emissions and Removals for Buildings in Hong Kong (2010 Edition) issued by Electrical and Mechanical Services Department and Environmental Protection Department, Scope 1 (Direct emission and removals e.g. diesel, refrigerant) and Scope 2 (energy indirect emissions e.g. electricity and Towngas) are included

<sup>(b)</sup> The emission associated with the electricity purchased based on emission factors provided by Hong Kong Electric in 2014

<sup>(c)</sup> Data record period of Hysan Place (HP): August to December 2012

<sup>(d)</sup> Sunning Plaza (SP) vacated in November 2013, Sunning Court (SC) vacated in January 2014. The 2014 data include (where applicable) SP and SC data

\* The data have been adjusted upwards (based on past consumption pattern) for periods with significant vacancy during renovations

We continued to make efforts to reduce GHG emissions. Using 2005 figures as a baseline, a reduction of around 20.5% was achieved by the end of 2014. The electricity purchased was also reduced by 6.2% using a 2005 baseline. On a like-for-like basis, excluding properties under redevelopment, there was a 1% increase in GHG emissions and 3% increase in electricity purchased between 2013 and 2014. This was due to more air-conditioning use, partly attributable to improved office occupancy, and partly to climatic reasons, when Hong Kong experienced one of the warmest summers on record.

We have been a signatory to the Carbon Reduction Charter as promulgated by the Hong Kong Government to combat climate change since 2008. In 2014, we provided comprehensive data on our carbon footprint to the Carbon Footprint Repository for Listed Companies in Hong Kong.

## ENVIRONMENTAL QUALITY

### BUILDING CERTIFICATIONS

For our Sunning redevelopment project, we target three different green building certification standards, including U.S. Green Building Council's LEED, the locally renowned BEAM Plus, as well as the China Green Building Label.

In regard to our existing properties, Hysan is in the process of obtaining a BEAM Plus pre-certification for The Lee Gardens. Making changes to existing buildings to adapt to green requirements presents a different set of challenges as compared to incorporating green features into a new building. However, Hysan is ready to grasp the opportunity to ensure our community can benefit not just from sustainable new buildings, but also from existing ones.

Our stakeholder engagement efforts are also bearing fruit in this area. Hysan is proud of the fact that more than 45% of Hysan Place's office space (7 out of 15 floors) has been awarded LEED Commercial Interiors Platinum certification. Tenants including KPMG, National Bank of Australia and LinkedIn have put in the green efforts to ensure that their offices incorporate some of the most sustainable designs in Hong Kong and internationally, making full use of the environmental features already included in Hysan Place's original design, as well as information and support from Hysan's staff.

### AIR QUALITY

Hysan has long been a proponent of good indoor environmental quality and has vigorously monitored and provided solutions to improve air quality of our buildings' public areas. All our buildings, including the newest Hysan Place, achieved either "Excellent Class" or "Good Class" standards in the Hong Kong Government's IAQ Certification Scheme.

We do not just focus on our own indoor air quality, but also contribute to the improvement of air quality in the surrounding areas. Hysan partnered with Tesla Motors to install two Superchargers at The Lee Gardens/Lee Gardens One car park. This allows the popular Tesla Model S vehicles to be replenished with a half charge in 20 minutes. Hysan is keen to promote the use of electric vehicles which help reduce pollution at street level and improve overall air quality.

### URBAN MICROCLIMATE AND BIODIVERSITY

Preparation work for a new green roof began for Lee Gardens One in 2014, complementing our Urban Farm on top of Hysan Place. These are all aimed at further reducing the heat island effect within our portfolio's area and help improve its microclimate.

Another advantage of having more green spaces is the opportunity to further improve the biodiversity within this urban area of Causeway Bay. Hysan is taking the lead in adding green spaces to help plants and living organisms grow in an otherwise hostile urban landscape. One more green wall was added on the 4<sup>th</sup> floor Sky Garden of Hysan Place for this cause.

In 2015, Hysan plans to promote the importance of urban biodiversity through hosting or sponsoring activities to raise the topic's profile.

## WASTE MANAGEMENT, RECYCLING AND WATER CONSUMPTION

Hysan is keen to conserve natural resources through reduction in water usage and increase recycling, including the waste from our daily operations, as well as construction waste. We have adopted a high recycling and upcycling profile through a series of stakeholder engagement activities.



## WASTE MANAGEMENT

Among the stakeholder engagement activities are ones which promoted curbing food waste. We collected more than 30 tonnes of food waste from Hysan Place's popular food court, Kitchen 11, and extended its collection service to restaurant tenants within the building. The effort was complemented by the fact that a portion of the food waste collected was turned into compost for Hysan Place's Urban Farm during the year, thereby completing a very sustainable cycle. Moreover, Hysan joined the Government Environmental Protection Department and Greeners Action's Food Waste Reduction Programme, both spearheading its promotion on Hong Kong Island through an opening event, and arranging visits by the mascot "Big Waster" to remind eaters not to waste food.

Hysan's malls and office lobbies now provide biodegradable plastic bags for umbrella on rainy days, and we have also installed a number of umbrella dryers on site to help cut down on bag use. Extra waste separation bins have also been placed in malls and office buildings common areas to provide more recycling incentives.

In 2014, Hysan was awarded another full set of "Class of Excellence" Wastewi\$e labels for all buildings in the portfolio, under the Government's Hong Kong Awards for Environmental Excellence Scheme, except the new Hysan Place, where the first full set of data will be submitted in 2015. In addition, The Lee Gardens and Lee Gardens Two were honoured as being among "The Top 3 organisations which achieved cumulatively the most number of goals in Wastewi\$e Label in 2013".

## SUNNING REDEVELOPMENT PROJECT'S RECYCLING

The demolition of Sunning Plaza and Sunning Court's superstructure was completed in 2014. Close to 40,000 tonnes of construction waste was generated, but more than 60%, including around 19,000 tonnes of concrete and close to 5,000 tonnes of metal were recycled.

We plan to also recycle 60% of our construction waste from Sunning's basement upon its demolition.

## WASTE MANAGEMENT ACHIEVEMENTS (EXCEPT CONSTRUCTION WASTE) 2005 BASELINE, AND FROM 2012 TO 2014 <sup>(a)</sup>

Issue	2005	2012 <sup>(b)</sup>	2013 <sup>(c)</sup>	2014
Paper recycled (kg)	741,502	895,412	991,817	936,873
Aluminium cans recycled (kg)	1,098	1,931	2,214	2,382
Plastic bottles recycled (kg)	1,529	2,290	2,412	2,704
Old clothing donation (kg)	960	5,400	3,840	3,500
Toner/Cartridge recycled (pcs)	206	531	475	309
Computer and equipment recycled (pcs)	100	189	99	77
Food waste recycled (kg) <sup>(d)</sup>	–	–	–	33,231

<sup>(a)</sup> Data record period from 1 September (of previous year) to 31 August (of year stated)

<sup>(b)</sup> As Hysan Place opened in August 2012, no data was available during the data record period

<sup>(c)</sup> Hysan Place included

<sup>(d)</sup> Data record period from March to December 2014

Reduced paper recycled and old clothing donations were due to Sunning Plaza and Sunning Court being vacated in November 2013 and January 2014.

### TENANT ENGAGEMENT ON RECYCLING

During the year, Hysan provided sustainability-related workshops for staff of a number of tenants, further promoting the advantages of upcycling. Food and beverage tenants were engaged on food waste collection. The issue was further highlighted during food waste recycling seminars and a visit to a food waste recycling plant organised for tenants by Hysan. At a more operational level, Hysan joined a Lai See packet recycling programme to encourage shoppers and tenants to reuse and reduce waste.

### WATER MANAGEMENT

In Hysan Place's second full year of operation, we have succeeded in achieving a more optimal level of water use. On a like-for-like basis, excluding properties under redevelopment, potable water usage for properties and landscaping in 2014 decreased by 3%, when compared to 2013.

Cooling in the commercial portfolio's air-conditioning systems remained the main consumer of water. In 2014 air-conditioning usage increased, leading to more cooling water being used. The increased usage was due to improved office occupancy, as well as Hong Kong experiencing one of the warmest summers on record. However, we have also been successful in reusing more cooling water for flushing.

### WATER MANAGEMENT ACHIEVEMENTS 2005 BASELINE, AND FROM 2012 TO 2014

Issue	2005	2012 including HP <sup>(a)</sup>	2012 excluding HP	2013 incl. SP/SC	2013 excl. SP/SC	2014 <sup>(b)</sup>
Potable water used for properties and landscaping (m <sup>3</sup> )	62,665	64,514	58,182	83,821	81,230	78,706
Potable water used for cooling (m <sup>3</sup> )	–	135,669	113,655	171,012	162,060	167,748
Wastewater reused for flushing (m <sup>3</sup> )	–	13,567	11,366	17,101	16,206	16,775
Wastewater discharged from properties and landscaping (m <sup>3</sup> )	56,399	58,063	52,364	75,439	73,107	70,836

<sup>(a)</sup> 2012 data record period of Hysan Place: August to December 2012

<sup>(b)</sup> Sunning Plaza (SP) vacated in November 2013, Sunning Court (SC) vacated in January 2014. The 2014 data include (where applicable) SP and SC data

Our Hysan Place Sky Wetland obtained its permit from the Government to release filtered water within Victoria Harbour, an encouraging move to highlight the quality of water we recycle at the premises. The Wetland on the 16<sup>th</sup> floor of the building also provides a relaxing environment for our office tenants on top of its main function of recycling grey water.

## GREEN PROCUREMENT

Environmental issues have long been taken into consideration regarding procurement in a number of areas. With regards to the redevelopment of Sunning Plaza/Court, we plan to use materials extracted and manufactured locally for around 10% of the total materials value. On the daily operations front, all existing buildings now use hand towels made from recycled paper and degradable umbrella bags. Painting work in all buildings is now carried out using no or low VOC paints. Moreover, the use of green cleaning products will be extended to more buildings within our portfolio.

## OTHER GREEN PARTNERSHIPS WITH STAKEHOLDERS

### TENANTS AND VISITORS

Hysan staff made good use of farming sessions at the Urban Farm to share environmental messages with our retail, office and residential tenants, as well as other visitors. Those who visited ranged from long-time Wanchai urban farmers, to students from the U.K.'s University of Manchester, as well as senior environmental officials from the U.S. government.

Hysan Place was the venue partner of Standard Chartered and Friends of the Earth's well-regarded "Take A Brake" programme to promote sustainable living and a green lifestyle. Visitors were impressed by the fun education sessions for the younger audience, as well as the chance to help recycle the event set on the last day of the exhibition. The shopping mall also hosted Redress' EcoChic Design Award to inspire fashion designers to create mainstream clothing with minimal waste.

### STAFF ENGAGEMENT

Our Go Green Committee continued to stimulate colleagues' interest in the topic of sustainability. A "Low Carbon Photo Competition" took place during the year to spread the message. It also organised visits to a food waste composting facility and grease trap waste recycling facilities to enhance our staff members' understanding of food waste. Environmental news and tips were disseminated through our staff intranet, while enhanced environmental information was used in the induction training for new staff.

### GREEN ORGANISATIONS

We continue to support green organisations with staff participation and sponsorships. They include:

- Business Environment Council
- The Conservancy Association
- Environmental Protection Department (Carbon Reduction Charter)
- Friends of the Earth
- Greeners Action
- Green Sense
- Hong Kong Green Building Council
- Smiley Planet
- World Wide Fund for Nature

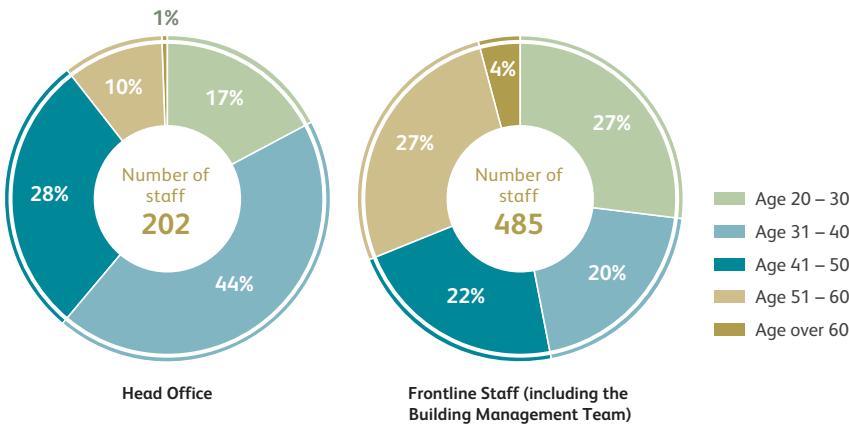
We will also maintain our dialogue with other green organisations in order to partner with them on sustainability projects in the future.

## Workplace Quality

### STAFF COMPOSITION

In 2014, we continued with our focus on talent management and staff engagement. As at 31 December 2014, we employed a total of 687 staff, including our Head Office management team, and frontline building management colleagues. All our staff members are located in Hong Kong.

#### Age-group of Staff



### OUR VALUES

Our values underpin everything with respect to how we do business, and Hysan’s Code of Ethics makes clear our three main guiding principles that form those values: firstly respect for people; secondly ethics and business integrity; and thirdly meeting our responsibilities. The Code applies to Directors, officers and employees of the Group, and is clearly communicated to all, including new recruits.

For details of the Code of Ethics, updated in October 2014, please visit our website.

Our Code of Ethics covers a range of topics, including data privacy, protection of copyright and anti-bribery, and has in place a “whistle-blowing system” which is monitored by an independent third party service provider with direct reporting to the Audit Committee Chairman. In line with the Group’s efforts to further enhance internal controls and risk management effectiveness, we have updated our Code of Ethics, and refined our anti-fraud policy, expressly providing for regular anti-fraud assessment and monitoring.

### TRAINING AND DEVELOPMENT

The comprehensive training curriculum for Building Management Team colleagues of various levels of seniority was launched in 2014. The aim was to further improve their professional customer service standards or management skills. The curriculum was structured into seven different modules and relevant colleagues would complete them within set time periods. The modules included a new hire transition programme, customer services, grooming, personal effectiveness, management development for supervisors, languages and legislation/ordinances updates. The way the course is structured helps colleagues learn new skills at regular intervals, further benefitting their career development.

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

For details of the Code of Ethics



For its significance on risk management, see “Internal Controls and Risk Management Report” (page 46)

For Head Office colleagues, after the successful completion of the Leadership Excellence Programme, we decided to provide more intensive training on marketing and trends-related issues to support our ever-growing retail and client-centric tasks. Leasing and marketing teams, for example, attended more advanced sessions on how to apply marketing fundamentals to developing business plans. Property Services colleagues received further training on property management to be enhanced with a marketing angle. Meanwhile, as our leasing and marketing colleagues have to interface increasingly with visitors from different parts of the world, we began to provide a number of language courses for their training needs.

It is also heartening to see that more staff members are making use of our training sponsorships to enhance their work-related knowledge, benefitting both the colleagues and the Group. Examples of training courses attended include BEAM Plus green building certification courses to legal studies for property management. Education sponsorships were provided from professional diploma in construction site supervision, all the way to Master of Business Administration.

In 2014, Hysan provided an average of 17 hours of training per Head Office staff, and 11 hours of training per Building Management Team employee.

### ATTRACTING AND RETAINING TALENT THROUGH SUCCESSFUL EMPLOYEE ENGAGEMENT

Our efforts to maintain our staff retention competitiveness through enhanced staff development began to bear fruit. Operating in the tight labour markets of property and service industries, we managed to keep our Head Office employee turnover rate down to 15%, and the Building Management Team to 21%. Both figures improved from those of 2013, and also bettered the 26% Hong Kong property sector turnover rate (sourced from a Towers Watson survey). Much of 2014's talent retention successes may be credited to easy and constructive communications which help nurture the relationships between the employer and employees. Our most recent Company Day, hosted by the Chairman, Chief Executive Officer and Heads of Departments, was an excellent example of direction and strategy being shared by host speakers with Head Office staff and building managers. The information was then cascaded down to the attendees' departments and teams. Non-executive directors were invited to the event and they appreciated the opportunity to get to know the managers and staff better in an informal setting. The genuinely friendly atmosphere created by the host speakers prompted useful exchanges during and after the event.



For other principal risks we face, see "Internal Controls and Risk Management Report" (page 47)





Apart from the annual Company Day, we also brief staff members on the Group's latest news and achievements after each annual and interim results announcement. These are also useful occasions for staff members to understand more about the operations of the Group and to ask questions.

The Group intranet system has become a must-read every morning when colleagues turn on their computers at work. With fast and regular updates, the Group's new company events, placemaking efforts, volunteer team news, tenants' latest offers can now all be easily received by colleagues. Among those who bring the most company news and information to our colleagues is the Environmental team, providing plenty of sustainability and green knowledge to benefit our staff members.

Our "Lunch and Learn" series, created to broaden employees' horizons, also flourished, with talks on speech-giving, the art of tea-making and family well-being being among the most well-attended events. The Friday afternoon gatherings, to help colleagues get to know each other better informally, also began to acquire themes, including one which celebrated the 2014 success of the Hysan Trailwalker team which bested their 2013 effort, and members shared the pleasures and pains of the challenging event.

Our Recreation Club had a very fruitful year in 2014. Their events have always been good occasions for colleagues from different parts of the Group to get to know others, thereby helping to promote adhesion and team spirit among staff members. Apart from the well-organised film premieres and outdoor explorations, we added a number of popular handicraft classes, plus cooking sessions where members could learn from seasoned professionals.

## **REWARD AND RECOGNITION**

Our performance appraisal system remains the core of our staff reward system, which is based firmly on our belief in the importance of recognising staff members through their work performance and contribution to the Group. Aligning pay with performance ensures the Group can move onwards and upwards led by professionals who are passionate and forward-looking.

## HUMAN RESOURCES POLICIES

Our human resources thoughts and actions are underpinned by a set of detailed human resources policies and a well-planned system. We have an Employment and Staff Policy that deals with recruitment, employee movement, salary adjustments and promotions, separation of employment, and equal opportunities (non-discrimination against gender, marital status, disability, age, race, family status, sexual orientation, nationality and religion). Our Code of Ethics, which applies to our directors, officers and employees, has a key focus on anti-discrimination. In 2014, we did not identify any material non-compliance or breach of legislation related to equal opportunities.

We do not believe that we operate in environments that carry high risks for child labour and forced labour, as we are based in Hong Kong and have our core operations in the city. We fully comply with labour or other relevant legislations that prohibits child labour and forced labour. We did not identify any breach in the said areas in 2014.

Hysan respects the right of association and ensures employees enjoy the freedom of joining trade unions. We did not identify any material breach of any right to exercise freedom of association and freedom of joining trade unions in our core operations in 2014.

The Hong Kong Government does not explicitly recognise the right to collective bargaining. While Hysan does not have a collective bargaining policy nor is a party to a collective bargaining agreement, we strongly believe company management and employees should maintain a clear and constructive dialogue on company issues. As part of the process, we have developed written policies on compensation, work hours, staff training, health and safety, as well as grievance mechanisms, including a “whistle-blowing” system monitored by an independent third-party service provider directly reporting to the Audit Committee Chairman (as detailed in our Code of Ethics).

We closely monitor our compliance with the above said laws through a cross-company compliance programme.

We also have a minority interest in a commercial and residential joint venture development in Mainland China. Having made appropriate enquiries, we are not aware of any incident of staff discrimination or rights violations in 2014.

## Health and Safety

As a property investment and management company, the nature of our daily operations ensure we have a relatively low safety risk profile. The potential injury hazards are ones of slips, trips and falls, as well as manual handling issues faced by our Building Management Team colleagues. In addition, in redevelopment and asset enhancement construction projects where contractors deal with the bulk of health and safety risks, we also have to remain vigilant. Apart from risks to physical health, we believe our colleagues' mental wellness needs to be taken care of. We offer an Employee Assistance Programme of counseling services, which is operated by a non-governmental organisation on our behalf. This has proven to be useful in helping to resolve work or personal issues faced by employees.

### NEW HEALTH AND SAFETY POLICY

Our previous health and safety policy was only a part of the Environment, Health and Safety Policy which generally encouraged safety practices and health and safety training to employees. We believe it is time to have an independent Health and Safety Policy to provide clear guiding principles on all such issues.

Under our new Health and Safety Policy, Hysan is committed to providing and maintaining a safe and healthy workplace for all staff, tenants, contractors and members of the general public. This Policy will:

- Ensure health and safety standards are given prime consideration in the operation and management of our properties, for which a Safety Management Plan to ensure regulatory compliance has been developed
- Ensure employees at every level are committed to, and accountable for, the delivery of the safety initiatives contained in this Plan, with a view to maintaining a vigorous and injury-free culture
- Provide employees with appropriate induction and external/internal training, as well as protective equipment in accordance with established procedures
- Encourage staff to engage actively in the Plan and to exceed and improve upon the safety measures that have been set
- Mandate our contractors, who are equally responsible for establishing their own organisational structure, work processes, supervision and training, to avoid or minimise risks to health and safety, particularly in the services which they provide us
- Conduct regular reviews on the Health and Safety Policy so that it reflects changes in the products, services and activities of the Company
- Raise further awareness through the use of third-party health and safety experts to conduct regular safety audits

## HEALTH AND SAFETY IN ACTION

Our General Manager of Property Services chairs the Safety Committee, which deals with all Building Management Team staff in regard to the bulk of Hysan's health and safety issues. The Committee's role is to oversee the implementation of the Health and Safety Policy among Property Services colleagues, to monitor the results, and to report back to senior management. In the process, the Committee not only helps to promote things that are being done right, but also seek solutions for areas that require improvement. General ideas espoused by the Health and Safety Policy are further elaborated in a detail Safety Management Plan with an aim to provide clear safety procedures for Building Management Team colleagues.

In 2014, third-party safety audits were carried out for all buildings within our portfolios to assess the effectiveness of our safety management system. Fire safety audits were also provided by all buildings, while a comprehensive review of the fire safety manual also took place.

We were also active in encouraging our staff to take work safety to heart. A number of colleagues joined the "Sixth Hong Kong Outstanding Employees in Occupational Safety and Health Award competition", and Hysan Place's Poon Kar Man was a merit award winner.

There were 16 work injury cases at Hysan in 2014, the majority of which did not incur more than five sick leave days. There were 737 lost days due to work injury, including 392 days brought forward to 2014 from 2013 (one case of 365 days), as well as 273 days from one particular 2014 case.

## HEALTH AND SAFETY: OUR PARTNERS

We place great emphasis on health and safety, and also actively encourage our business partners to aim for high standards here. In 2014, demolition work for our Sunning Plaza and Sunning Court combined redevelopment project was completed. The project's safety committee, with the developer, contractor, independent safety advisor and other consultants as members, oversees all safety-related aspects and ensures all such standards are maintained at the highest levels by the contractor and its sub-contractors.

To further mandate contractors to put health and safety high on the agenda, our Property Services department also implemented a work permit system for our service contractors, as well as those of our tenants. Contractors now have to sign and agree that they comply with both statutory regulations and our own house rules, before they are issued work permits by Hysan. Throughout the contractors' work sessions, Hysan staff check to see whether they follow the relevant regulations and rules, and they also review their work periodically and at the end of the sessions.

## Community Contributions

Hysan's community involvement has long been recognised by the Hong Kong Council of Social Services, which again awarded the Group a 10 Years Plus Caring Company logo in 2014.

### ACTIVITIES TO PROMOTE ENVIRONMENTAL ISSUES AND HEALTHY LIVING

In the Environment section, we highlighted a host of our upcycling activities involving different Hysan stakeholders. Aside from upcycling, another main theme for our community activities was "work life integration". Hysan's Urban Farm on the rooftop of Hysan Place continued to serve stakeholders including tenants (e.g. Apple Asia, Jebsen, Valentino, Tod's Hong Kong) members of local community groups, professional groups as well as schools. In addition to the regular farmers visits, we played host to visits from organisations like the Urban Land Institute, Hong Kong General Chamber of Commerce, Business Environment Council, Hong Kong Council of Social Services as well as local Wanchai farming groups.

Our Hysan Healthy Hike and Run went from strength to strength, attracting a record-breaking number of 1,300 entries to tackle the scenic Tai Lam trail. On the topic of running, the Hysan Trailwalker team performed better in 2014 than the year before, despite the bad weather encountered. The team inspired dozens of colleagues to become supporting team members and helped spread the message of healthy living throughout the Group. Unfortunately, our strongly-themed "Work Life Jam" corporate games day was cancelled due to venue uncertainties within Causeway Bay towards the end of the year. However, we are determined as ever to support "work life integration", both here in Lee Gardens and throughout Hong Kong.

### ACTIVITIES TO BRING HYSAN AND THE COMMUNITY CLOSER

Hysan has long provided venues to support community causes. Due to high visitor traffic volume in the heart of the city, community groups relish the opportunity to place their activities and exhibitions at these venues. Since its opening in 2012, Hysan Place has become "a place to be" for such displays and activities.

In 2014, we hosted several events that aimed to improve the lives of underprivileged youngsters. Hundreds of film fans jammed the atrium for the promotion of the upbeat film "My Voice My Life", which documented how a summer musical transformed a group of "down and out" teenagers. The atrium also saw celebratory events for Evangelical Lutheran Church's Uncle Long Legs letter box service programme, as well as Plan International's pencil donations to support underprivileged girls in different parts of the world. Primary and secondary school age visitors sponsored by St. James' Settlement and Make a Wish Foundation also enjoyed afternoons at our placemaking exhibitions and took part in fun activities. Hysan staff members who served them also appreciated the opportunity to share the joy.

Our summer ethnic minority youngsters study-and-career programme went from strength to strength and in 2014, it became a much more comprehensive activity serving more than 100 children. "Exploration for Hope" as the programme is now known, became the first ever ethnic minority social enterprise competition in Hong Kong, encouraging these special young people to come up with ideas to help not just their own ethnic communities, but for others in need in Hong Kong. Throughout the summer months our partners, including Hong Kong Christian Service and the Hong Kong University of Science and Technology's Business School provided time, space and manpower to guide our young social entrepreneurs. We believe the programme will grow further in 2015.





We were also a strong supporter of community arts and cultural performances. Hysan Place hosted an exhibition of Hong Kong's theatre set designs, as well as concerts organised by the Hong Kong Federation of Youth Groups and the Leisure and Cultural Services Department. Arts in the Park's Night Parade, held so successfully in Lee Gardens in 2013, unfortunately had to be moved to Victoria Park for 2014 due to Occupy Movement's road blockage. We hope to bring it back to Lee Gardens in 2015.

### OUR VOLUNTEER TEAM

Hysan colleagues put in more than 1,050 hours of volunteer service in 2014, encouraging their friends and families to clock another 622 hours service to help with good causes. We are proud that our staff members are not only serving the community by themselves, but are influencing people around them to help the disadvantaged.


In all, the Team organised 15 events in the year, including helping to build houses in Guangdong, China; touring Sai Kung's Hoi Ha with underprivileged children; taking part in the Homeless World Cup fundraising football matches; and visiting different groups of elderly during festive seasons.

The organisations Hysan partnered were:

- Habitat for Humanity Hong Kong
- Helping Hand
- Hong Chi Association
- Hong Kong Breast Cancer Foundation
- Hong Kong Movie Star Sports Association Charities Ltd
- The Hong Kong Society for the Protection of Children
- Oxfam Hong Kong
- St. James' Settlement and its Food Bank
- Wofoo Social Enterprises

Hysan was given the Gold Award for Volunteer Service under the Steering Committee on Promotion of Volunteer Service of Social Welfare Department. Among our staff, two families also collected Gold Awards, while one family took Silver. Seven individuals were also honoured with Bronze Awards.





Good corporate governance is the foundation to delivering consistent and sustainable performance. This “Corporate Governance” section presents Hysan’s Board of Directors, as well as our governance structure, systems and best practices. 2014 was a busy year for our Board. In this section, we also highlight the Board’s actions during the year.

# Corporate Governance 4





74 Board of Directors

80 Corporate Governance Report

98 Directors' Report

105 Directors' Remuneration and Interests Report

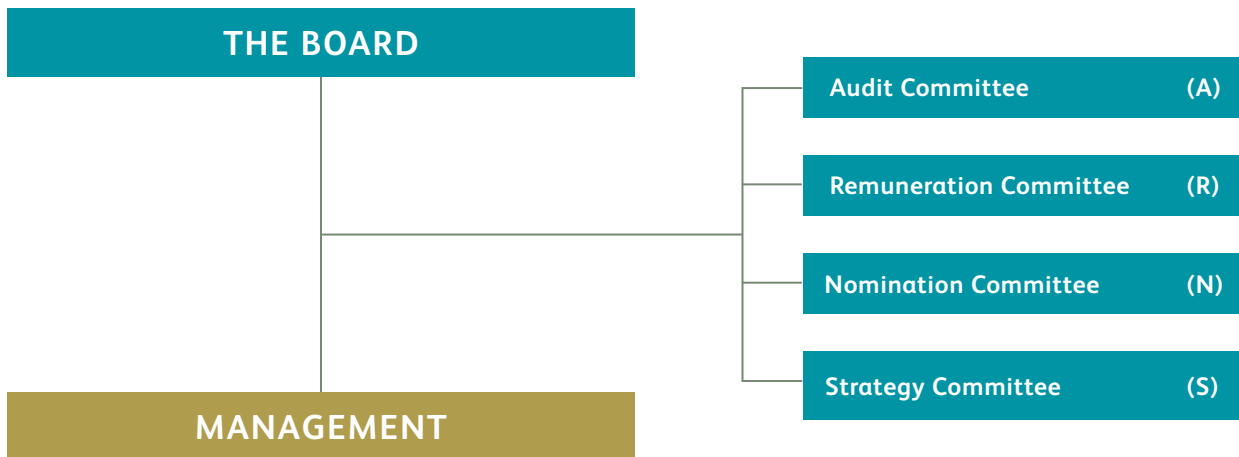
113 Audit Committee Report

# Board of Directors

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.



For analysis of the significance of a strong corporate governance culture on risk management, see “Internal Controls and Risk Management Report” (page 44)



## Why Corporate Governance matters – An Institutional Investor’s Perspective

“A primary goal, and the focus of our governance work, is to assess the quality of the leadership at companies in which we invest. We appreciate that successful companies come in many shapes and sizes and that good governance alone does not generate financial returns. But in our experience, well-managed, well-led companies with clearly understood strategies, sound operational practices and a focus on the future tend to deliver more consistent returns over time, withstanding short-term shocks by building trust with long-term shareholders and other stakeholders. This kind of good governance is the ultimate risk-management strategy, which is crucial to us as investors. Accordingly, we encourage companies to engage with us in an ongoing dialogue addressing specific governance issues, an approach we consider more productive and less distracting than taking high-profile “activist” positions.”



**Larry Fink**  
Chairman and CEO  
BlackRock

*(extracts from BlackRock’s “2013 Corporate Governance and Responsible Investment Report: Taking the Long View”)*

## Governance calendar for 2014

The overall calendar of meetings of the Board and its Committees for 2014 is shown below:





	Further report	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board	Page 82			✓	✓	✓			✓			✓ (Note 1)	
Audit Committee	Page 113			✓					✓			✓	
Remuneration Committee	Page 105			✓									
Nomination Committee	Page 94											✓	
AGM						✓							














































Note:

- 1 A full-day Board meeting was held, covering 2015 budget and business plan, as well as longer-term directional strategy for further growth.

## Meeting attendance by Directors in 2014

The attendance of Directors at the meetings of the Board and its Committees is shown below:

-  Attended
  Attended by tele-conference  
 Attended by alternate
  Attended all or part of meetings as invitee

Directors	Board Meetings (total: 5) (Note 1)	Audit Committee Meetings (total: 3) (Note 1)	Remuneration Committee Meeting (total: 1) (Note 1)	Nomination Committee Meeting (total: 1) (Note 1)	Annual General Meeting ("AGM") (Note 1)
<b>Executive</b>					
Irene Yun Lien LEE			 (Note 4)		
Siu Chuen LAU			 (Note 4)		
Wendy Wen Yee YUNG			N/A	N/A	
<b>Independent non-executive</b>					
Nicholas Charles ALLEN			N/A		
Frederick Peter CHURCHOUSE (Note 2)		N/A	N/A	N/A	
Philip Yan Hok FAN					
Lawrence Juen-Yee LAU (Note 3)	 	N/A	N/A	N/A	N/A
Joseph Chung Yin POON	 	N/A			
<b>Non-executive</b>					
Hans Michael JEBSEN	 	N/A	N/A	N/A	
Anthony Hsien Pin LEE	 		N/A	N/A	
Chien LEE	 	N/A	N/A		
Michael Tze Hau LEE		N/A		N/A	

Notes:

- The attendance figure represents actual attendance a Director is entitled to attend or invited to attend.
- Effective 25 November 2014, Frederick Peter CHURCHOUSE was appointed member of Audit Committee.
- Effective 12 December 2014, Lawrence Juen-Yee LAU was appointed Independent non-executive Director.
- Except the session regarding the director's own compensation package.





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

Ms. Lee is an independent non-executive director of Cathay Pacific Airways Limited, CLP Holdings Limited, Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited and Noble Group Limited (listed on Singapore Exchange Limited). She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee was an executive director of Citicorp Investment Bank Limited in New York, London and Sydney; head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney. She was also the non-executive chairman of Keybridge Capital Limited (listed on Australian Stock Exchange), a non-executive director of ING Bank (Australia) Limited, QBE Insurance Group Limited, and The Myer Family Company Pty Limited; and a member of the Advisory Council of JP Morgan Australia. Ms. Lee was formerly a member of the Australian Government Takeovers Panel. She is a member of the founding Lee family, sister of Mr. Anthony Hsien Pin LEE (Non-executive Director) and his alternate on the Board. Ms. Lee holds a Bachelor of Arts Degree from Smith College, United States of America, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, United Kingdom. She was appointed a Non-executive Director in March 2011, Non-executive Chairman in May 2011, and Executive Chairman in March 2012. She is aged 61.



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

Mr. Lau was the acting Head of Finance of Hysan Group in 1999. He has also worked as a management consultant at McKinsey & Company, a consumer analyst at Morgan Stanley Asia, and a brand manager of French luxury products. He subsequently co-founded and became a Responsible Officer of a SFC licensed investment advisory firm. Mr. Lau is a member of the founding Lee family and an alternate director of Lee Hysan Company Limited, a substantial shareholder of the Company. Mr. Lau holds a Bachelor of Social Sciences Degree in Management and Economics from The University of Hong Kong, and a Master of Business Administration Degree from INSEAD, France. He was appointed a Non-executive Director in May 2011, Non-executive Deputy Chairman in March 2012, Deputy Chairman and Chief Executive Officer in May 2012. He is aged 56.



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

Mr. Allen is an independent non-executive director of CLP Holdings Limited, Lenovo Group Limited, VinaLand Limited and Texon International Group Limited. He has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers (PwC) from 1988 until his retirement in June 2007. His other appointments in Hong Kong prior to his retirement from PwC included: Member of the Securities and Futures Appeal Panel; Member of the Takeovers & Merger Panel; Member of the Takeovers Appeal Committee; Member of the Share Registrars' Disciplinary Committee; and Member of the Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants. Mr. Allen holds a Bachelor of Arts degree in Economics/Social Studies from Manchester University, United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He was appointed an Independent non-executive Director in November 2009 and is aged 59.



**Independent non-executive  
Director (A)**

**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 Company Ltd. He is an independent non-executive director of Longfor Properties Co. Ltd. He is also the publisher and author of "The Churchouse Letter". 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. He was also a board member of Macquarie Retail Management (Asia) Limited. Mr. Churchouse gained a Bachelor of Arts degree and a Master of Social Sciences degree from the University of Waikato in New Zealand. He was appointed an Independent non-executive Director in December 2012 and is aged 65.



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

**Philip Yan Hok FAN**

Mr. Fan is an independent non-executive director of China Everbright International Limited, First Pacific Company Limited, and China Aircraft Leasing Group Holdings Limited, and an independent director of Goodman Group. He is a member of the Asia Advisory Committee of AustralianSuper Pty Ltd (a pension fund in Australia). He was previously an independent non-executive director of HKC (Holdings) Limited, and an independent director of Suntech Power Holdings Co., Ltd. (under provisional liquidation) and Zhuhai Zhongfu Enterprise Co. Ltd. Mr. Fan holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from Massachusetts Institute of Technology. He was appointed Independent non-executive Director in January 2010. He is aged 65.



**Independent non-executive  
Director**

**Lawrence Juen-Yee LAU**

Professor Lau is currently Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. He is also an independent non-executive director of AIA Group Limited and CNOOC Limited. Professor Lau is an independent director of Far EasTone Telecommunications Co., Ltd. (listed on the Taiwan Stock Exchange).

Professor Lau received his B.S. degree (with Great Distinction) in Physics from Stanford University and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley. He joined the faculty of the Department of Economics at Stanford University in 1966, and had a long and distinguished career there. Upon his retirement in 2006, he became Kwoh-Ting Li Professor in Economic Development, Emeritus, at Stanford University. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, he served as Chairman of CIC International (Hong Kong) Co., Limited, a subsidiary of China Investment Corporation. Professor Lau was also a non-executive director of Semiconductor Manufacturing International Corporation.

Professor Lau is a member of the 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Economics Sub-committee. He also serves as a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority and Chairman of its Governance Sub-committee. He was appointed a Justice of the Peace in July 2007 and awarded the Gold Bauhinia Star in 2011 by the Government of the Hong Kong Special Administrative Region. He was appointed Independent non-executive Director in December 2014. He is aged 70.



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

Mr. Poon is group managing director and deputy chief executive officer of a private company and an independent non-executive director of AAC Technologies Holdings Inc. He was formerly managing director and deputy chief executive of Hang Seng Bank Limited and had held senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon is a committee member of the Chinese General Chamber of Commerce. He was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited, and a former member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee. Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of Chartered Accountants Australia and New Zealand, and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is also a Fellow of the Hong Kong Institute of Directors. He was appointed Independent non-executive Director in January 2010. He is aged 60.



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

Mr. Jebesen is chairman of Jebesen and Company Limited as well as a director of other Jebesen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited. He was appointed a Non-executive Director in 1994 and is aged 58.



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

Mr. Lee is a director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. He is also a non-executive director of Television Broadcasts Limited. 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. Mr. Lee received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong. He was appointed a Non-executive Director in 1994 and is aged 57.



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

Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and a number of private companies. He was previously an independent non-executive director of Television Broadcasts Limited. He is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited, a substantial shareholder of the Company. Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University. Mr. Lee was appointed a Non-executive Director in 1988 and is aged 61.



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

Mr. Lee is currently the managing director of MAP Capital Limited, an investment management company. He is also an independent non-executive director of Hong Kong Exchanges and Clearing Limited, Chen Hsong Holdings Limited, Trinity Limited; an independent non-executive director and chairman of OTC Clearing Hong Kong Limited; and a Steward of The Hong Kong Jockey Club. Mr. Lee was a member of the Main Board and Growth Enterprise Market Listing Committees of The Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited, a substantial shareholder of the Company. He joined the Board in January 2010, having previously served as a Director from 1990 to 2007. Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University. He is aged 53.



**Executive Director and Company Secretary**  
**Wendy Wen Yee YUNG**

Ms. Yung joined the Group in 1999 and was appointed an Executive Director in 2008. She advises the Board on all matters of corporate governance, and is responsible for the Group's shareholder communications and key stakeholder relations management. In addition, she has an oversight of all aspects of the Group's legal matters. As a member of the management team, she participates in the Group's strategic planning matters. Ms. Yung holds a Master of Arts degree from Oxford University, United Kingdom and is qualified as a solicitor of the Supreme Court of England and Wales as well as High Court of Hong Kong. She was a partner of an international law firm prior to joining the Group. Ms. Yung is also a member of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Hong Kong Institute of Chartered Secretaries. Her public services include serving as a member of the Main Board and Growth Enterprise Market Listing Committee of The Stock Exchange of Hong Kong Limited, Standing Committee on Company Law Reform, a co-opted member of the Audit and Risk Committee of the Hospital Authority, and (representing Hong Kong Institute of Certified Public Accountants) a member of the Professional Accountants in Business Committee of the International Federation of Accountants. She is aged 53.

## Our Team Members

### Officer – Chief Financial Officer

#### Roger Shu Yan HAO

BBA (Hons), CPA, ACA, ACCA

Mr. Hao is responsible for the Group's financial control, treasury and information technology function. He joined the Group in 2008. Mr. Hao accumulated extensive experience in auditing, financial management and control, while holding senior positions in multinational corporations. He is aged 49.

### General Manager, Project Management

#### Sunny Wing Chung CHAN

BEng (Hons), CEng, MCIBSE, MHKIE, LEED™ AP, BEAM Pro

### General Manager, Retail Leasing

#### Kitty Man Wai CHOY

MSc

### General Manager, Property Services

#### Lawrence Wai Leung LAU

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

### Director, Office Leasing

#### Jessica Mo Ching YIP

MBA, MHKIS, MRICS



# Corporate Governance Report

## Meeting and Exceeding Compliance Requirements

Hysan meets the requirements of the Code Provisions contained in the Code on Corporate Governance Practices (the “Corporate Governance Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), with the exception that its Remuneration Committee (established since 1987) has the responsibility of determining compensation at Executive Director-level only. While the Remuneration Committee does not determine staff compensation below Executive Director-level, its terms of reference have been expanded to cover (inter alia) the review of key terms of new compensation and benefits plans with material financial, reputational and strategic impact. The Board is of the view that, in light of the current organisational structure and the nature of Hysan’s business activities, this arrangement is appropriate. However, the Board will continue to review this arrangement going forward in light of the evolving needs of the Group.

Hysan’s system of corporate governance practices exceed the Corporate Governance Code in a number of key areas.

Exceed Code Provisions	Best Practices in Corporate Governance in Place at Hysan
✓	The Board first established formal Corporate Governance Guidelines* in 2004.
✓	The Board has established formal mandates and responsibilities* for itself, with a clear division of roles with management. The Board’s responsibilities in the formulation of strategy, in addition to its monitoring function, are expressly provided for.
✓	The Board has established formal criteria and requirements* for Non-executive Director appointments. Newly appointed Non-executive Directors are given formal letters of appointment, which address (among other things) the expected time commitment of the Non-executive Director. The Board has a detailed list of Matters Reserved for Board Decisions* that are retained for the decision of the full Board, which covers all major policies and directions of the Group.
✓	Board evaluation: For the past few years, this has taken the form of meetings of the Non-executive Directors without the presence of management. In 2014, the board evaluation process was formalised with the adoption of an evaluation questionnaire. Our Corporate Governance Guidelines were refined in this light. Director feedback was analysed and discussed at the May Board meeting.
✓	The Group has a written Code of Ethics* applicable to all staff and Directors. Monitoring of the “whistle blowing” mechanism is performed by an external independent third party provider to further enhance independence. Such service provider reports directly to the Audit Committee.
✓	The Group has established a Corporate Disclosure Policy* to guide its stakeholder communications and the determination of price sensitive information in order to ensure consistent and timely disclosure and fulfillment of the Group’s continuous disclosure obligations.
✓	The Group has established an Auditor Services Policy* to identify areas of conflict and prohibit the engagement of auditors in such areas to ensure objectivity and independence.
✓	The Group has demonstrated its commitment to transparency in shareholder reporting by publishing a separate Corporate Governance Report since 2001. It also publishes the following reports: (i) Audit Committee Report; (ii) Directors’ Remuneration and Interests Report; and (iii) Internal Controls and Risk Management Report.
✓	The Group has a formal Corporate Responsibility Policy and publishes a Corporate Responsibility Report. It has early-adopted the environmental, social and governance reporting guidelines under the Listing Rules. An “integrated” approach is adopted for the 2014 Annual Report, to provide a more holistic view of the Group’s financial as well as non-financial performance.
✓	Since 2004, the Group has operated a new form of Annual General Meeting (“AGM”) that goes beyond discharging statutory business by including a detailed business review. All voting at AGMs has been conducted by poll since 2004.
✓	The Group continually enhances its communications with shareholders. It has initiated and funded a programme inviting major nominee companies to proactively forward communication materials to the ultimate beneficial shareholders at the Group’s expense. At the same time, it also continually enhances the use of its corporate website as a means of shareholder communications.

\* Detailed policies/terms of reference are available on the Company’s website: [www.hysan.com.hk](http://www.hysan.com.hk).

## Governance Framework

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

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

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

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

These are reviewed periodically, typically on an annual basis.



### Best Corporate Governance Disclosure Awards 2014: Non-Hang Seng Index (Large Market Capitalisation) Category – Gold Award

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

“The corporate governance report is very extensive and highlights the company's overall governance structure. A concise summary table is prepared showing that Hysan's corporate governance practices exceed the revised Code in a number of key areas. This provides positive information to readers and evidence of a well-embedded governance culture in the company.”

– Judges' Report



## The Board in 2014: driving continuous improvement

During the year, 5 Board meetings were held including an additional meeting for discussions on Group strategy matters. Pursuant to its roles under the formal Board Mandate, the Board discussed, acted on, and yielded results on the following themes. It was also supported by the work of various Board committees, which had an active year.

### 1. Leadership

- appointment of a new Independent non-executive Director to bring new insights to the Board
- Board effectiveness: adopted a formal board evaluation process during the year. To reflect the Board’s commitment to the principle of board effectiveness and evaluation, the Corporate Governance Guidelines were refined accordingly. The responses to the evaluation questionnaire were thoroughly analysed and discussed. (see section on “Evaluation”)

### 2. Strategic Planning

- received and discussed strategic plans and regular updates for the Group’s core leasing (Office, Retail, and Residential segments) to meet short-term objectives; and longer-term directional strategy for further growth
- re-development and asset enhancement projects: received and discussed management’s regular updates on the combined redevelopment of Sunning Plaza and Sunning Court
- talent management: Board committee received, and reported back to the Board, implementation status of new compensation structure for senior management to drive performance, and updates on succession planning. These actions are important for the long-term success of the Group

### Formal Board Mandate: board roles

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

### 3. Risk Management

- assessed effectiveness of financial controls, and other internal controls (Please refer to separate “Internal Controls and Risk Management Report”, “Audit Committee Report”)
- Audit Committee reviewed and monitored management’s plans to further strengthen the risk management process, including further integrating the same with other key business processes (including budgeting), and the transition to the new “COSO” (Committee of Sponsoring Organisations of the U.S. Treadway Commission) standard
- legal and regulatory update is a regular agenda item for each Board meeting

### 4. Relations with Shareholders

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

## BOARD CALENDAR 2014

Special items			
March	April – Special strategy meeting	August	November
<p><b>Review of reports from:</b></p> <ul style="list-style-type: none"> <li>• Remuneration Committee</li> <li>• Audit Committee; and review of internal controls and risk management effectiveness</li> </ul> <p><b>Review and approval of 2013 annual results, including:</b></p> <ul style="list-style-type: none"> <li>• Preliminary announcement</li> <li>• Declaration of 2013 2nd interim dividend</li> <li>• Other key reports               <ul style="list-style-type: none"> <li>– Corporate Governance Report</li> <li>– Internal Controls and Risk Management Report</li> <li>– Audit Committee Report</li> <li>– Directors’ Remuneration and Interests Report</li> <li>– Directors’ Report</li> </ul> </li> </ul> <p><b>Approval of proposals to be submitted to the AGM</b></p> <p><b>Annual review of corporate governance matters</b></p>	<p><b>Review and discussions of:</b></p> <ul style="list-style-type: none"> <li>• Group strategy</li> </ul>	<p><b>Review of reports from:</b></p> <ul style="list-style-type: none"> <li>• Audit Committee; and review of internal controls and risk management effectiveness</li> </ul> <p><b>Review and approval of 2014 interim results, including:</b></p> <ul style="list-style-type: none"> <li>• Interim results announcement</li> <li>• Interim report</li> <li>• Declaration of 2014 1st interim dividend</li> </ul>	<p><b>Review of reports from:</b></p> <ul style="list-style-type: none"> <li>• Nomination Committee (including review of Board size and composition; “independence” of Directors; and appointment of a new Independent non-executive Director)</li> <li>• Audit Committee (focusing on internal controls and risk management matters)</li> </ul> <p><b>Review and discussions of:</b></p> <ul style="list-style-type: none"> <li>• 2015 budget</li> <li>• Longer-term directional strategy</li> </ul> <p><b>Review of corporate governance matters – annual review of Schedule of Matters reserved for the full Board (related to 2015 budget and business plan)</b></p>
	<p><b>May</b></p> <p><b>Analysis of feedback and discussions of:</b></p> <ul style="list-style-type: none"> <li>• Board and Board Committees evaluation questionnaires</li> </ul>		
Regular items			
<p><b>Review and discussions of reports on:</b></p> <ul style="list-style-type: none"> <li>• Operating results and regular updates for the Group’s core leasing business (Office, Retail and Residential segments)</li> <li>• Current development and asset enhancement projects update (including the combined redevelopment of Sunning Plaza and Sunning Court)</li> </ul> <p><b>Review and discussions of:</b></p> <ul style="list-style-type: none"> <li>• Financial forecasts</li> </ul>		<p><b>Update on:</b></p> <ul style="list-style-type: none"> <li>• Analysts feedback</li> <li>• Legal and regulatory issues</li> </ul> <p><b>Review and approval of:</b></p> <ul style="list-style-type: none"> <li>• Minutes of previous meeting</li> </ul>	



## Board Leadership

### FORMAL BOARD MANDATE

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

A detailed list of **Matters Reserved for Board Decisions** sets out the key matters that are to be retained for the decision of the full Board, which covers all major policies and directions of the Company. These matters include: long-term objectives and strategies; the extension of Group activities into new business areas; capital management framework and policy; treasury policies; annual budgets, annual funding plan and annual treasury investment plan; material acquisitions/disposals of fixed assets; connected transactions; preliminary announcements of interim and final results; and the declaration of dividends; internal controls; Board membership; Corporate Governance matters; major prosecution, defence or settlement of litigation.

Where applicable, "materiality" thresholds are set at appropriate levels to ensure proper control while allowing for smooth day-to-day operations to be carried out by management. These thresholds are set out in a schedule that is subject to review periodically and in any event, at least once a year.

(These documents are available on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk))



### REFRESHING THE BOARD – BOARD SIZE, COMPOSITION, AND APPOINTMENTS

There are currently twelve Directors on the Board: the Chairman, two other Executive Directors, and nine Non-executive Directors (including five Independent non-executive Directors). The roles of the Chairman and the Chief Executive Officer are currently separate. Irene Yun Lien LEE is currently the Board Chairman. In addition to her role in leading the Board, she advises, supports and coaches the management team, particularly regarding the long-term strategic development of the Group and management matters that drive shareholder value.

The Board will review its size and composition from time to time. We are committed to continuing Board renewal to ensure that the Board is infused with fresh perspectives from time to time and that it always has the necessary diversity of skills and attributes required to oversee and govern in the ever-changing operating environment. Since October 2009, six Non-executive Directors (including five Independent non-executive Directors) with backgrounds in the areas of economics, finance, general management, professional practices, and property industry have joined our Board. The Board last reviewed its size and composition in November 2014. Lawrence Juen-Yee LAU was appointed Independent non-executive Director effective 12 December 2014.

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

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

At the AGM to be held on 15 May 2015, Siu Chuen LAU, Philip Yan Hok FAN, Michael Tze Hau LEE, Joseph Chung Yin POON and Lawrence Juen-Yee LAU will retire and, being eligible, offer themselves for re-election. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to shareholders.

## Board Effectiveness

### SKILLS, BALANCE, AND DIVERSITY

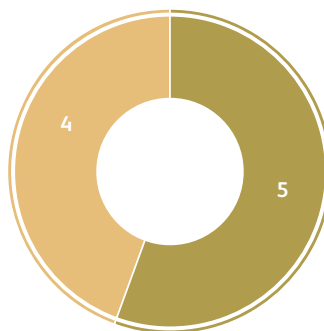
We recognise the importance of having a broad complement of skills, experience and competencies on our Board to ensure the continued effective oversight of, and informed decision making with respect to, issues affecting Hysan. Our Corporate Governance Guidelines, first adopted by the Board in 2004, reflects this broad concept of diversity. It was further refined in 2014 to more clearly bring out the Board’s endorsement of this approach.

**Balance of Non-executive Directors and Executive Directors  
31 December 2014**



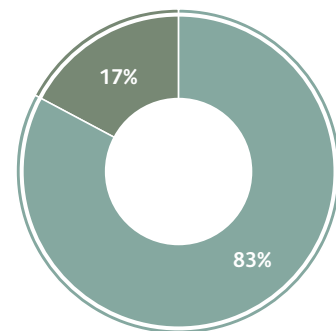
■ Executive Directors  
■ Independent non-executive Directors  
■ Non-executive Directors

**Length of tenure of  
Non-executive Directors  
31 December 2014**



■ 0 – 5 years  
(being the five Independent non-executive Directors)  
■ 6 years and above  
(being the four Non-executive Directors)

**Board Diversity by Gender  
31 December 2014**



■ Men  
■ Women

During 2014, we have 9 Non-executive Directors drawn from diverse and complementary backgrounds. They bring valuable experience and insight in the following areas of experience and expertise, driving the corporate strategy and growth of the Group:

Experience / Expertise	Name of Directors
<p><b>1. General management</b> Broad business experience through senior level position in another major company.</p>	Philip Yan Hok FAN Joseph Chung Yin POON
<p><b>2. Property Industry</b> Experience as a senior executive in another major company in property investment, development or facilities management; or related industry.</p>	Frederick Peter CHURCHOUSE
<p><b>3. Financial Services and investment</b> Experience in the financial services industry or experience in overseeing financial transactions and investment management.</p>	Anthony Hsien Pin LEE Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON
<p><b>4. Marketing</b> Experience as a senior executive in a major retail, customer products, services or distribution company.</p>	Hans Michael JEBSEN
<p><b>5. Macro-environment affecting the Group</b> Expertise in the economic, political or social environment affecting the Group and its operations, with a special focus on Hong Kong and China.</p>	Lawrence Juen-Yee LAU
<p><b>6. "Audit Committee" Accounting Expertise</b> Expertise based on definition of "Audit Committee accounting expertise" under Listing Rules.</p>	Nicholas Charles ALLEN
<p><b>7. Risk Management</b> An understanding of the Board's role in the oversight of risk management principles and practices, including an understanding of current risk management principles and practices, which may have been gained through current or previous experience on another public company board committee that oversees risk management; role at another public company as "chief risk officer" or risk management executive; role at another public company as chief executive officer or chief financial officer.</p>	Nicholas Charles ALLEN Philip Yan Hok FAN Lawrence Juen-Yee LAU Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON
<p><b>8. Human Resources / Compensation</b> An understanding of the principles and practices relating to Human Resources and / or actual "hands-on" experience in managing or overseeing Human Resources in another major company, including experience in: compensation plan design and administration; leadership development / talent management; succession planning; and compensation decision-making, including risk-related aspects of compensation.</p>	Philip Yan Hok FAN Joseph Chung Yin POON

(Directors' full biographies are set out on pages 76 to 79 and are also available on the Company's website: [www.hysan.com.hk](http://www.hysan.com.hk))

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



## INDEPENDENCE

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

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

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

The Nomination Committee reviewed the proposed appointment of a new Independent non-executive Director in November 2014. At the same meeting, the Committee carried out a detailed review of director independence. It concluded that each of the 5 Independent non-executive Directors (including the then proposed appointee) was independent as at that time. Independent non-executive Directors are identified in our Annual and Interim Reports and other communications with shareholders. The Board will continually monitor and review whether there are relationships or circumstances that are likely to affect (or could appear to affect) independence.



### “Connected Transactions” with related persons subject to full Board decision

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

### Appointment of five independent Directors with a diverse background

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



(See page 86)

## INDEPENDENCE

### Checks and Balances

### Clear “independence” standards for individual Directors

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

### Detailed annual review of independence of individual Directors

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



(See table on page 88 summarising 2014 review)



Independence Status				
Name	Management	Independent	Not Independent	November 2014 Review—Reason for Independence Status
Nicholas Charles ALLEN		✓		No business or other relationships with the Group or management that will affect independence
Frederick Peter CHURCHOUSE		✓		No business or other relationships with the Group or management that will affect independence
Philip Yan Hok FAN		✓		No business or other relationships with the Group or management that will affect independence
Hans Michael JEBSEN			✓	
Siu Chuen LAU	✓			
Lawrence Juen-Yee LAU		✓		No business or other relationships with the Group or management that will affect independence (Note 1)
Anthony Hsien Pin LEE			✓	
Chien LEE			✓	
Irene Yun Lien LEE	✓			
Michael Tze Hau LEE			✓	
Joseph Chung Yin POON		✓		No business or other relationships with the Group or management that will affect independence
Wendy Wen Yee YUNG	✓			

## Note:

- 1 Professor Lau's spouse is Partner in-charge, Tax, Hong Kong, at KPMG China, and a board member of KPMG China. KPMG is a tenant of the Group and provided taxation services principally in acting as tax representative of the Company and certain subsidiaries, which are routine in nature. Mrs. Lau has not been involved in any business negotiations with the Group, or in the provision of any services, and will refrain from doing so. The Board and its Nomination Committee had assessed the independence of Professor Lau in light of the circumstances, including (i) Professor Lau's background, experience, achievements, as well as character; (ii) the nature of the Company's relationship with KPMG and Mrs. Lau's roles as described above; and concluded that his independence would not be affected.

## EVALUATION

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

In 2014, the board evaluation process was formalised, by adopting a board evaluation questionnaire for the full Board as well as Board Committees. To reflect the Board's commitment to the principle of board effectiveness and evaluation, the Corporate Governance Guidelines were refined in March 2014 accordingly. The responses to the questionnaire were thoroughly analysed and discussed at Board meeting held in May 2014.

Areas covered in the questionnaire included the Board's roles (including Director responsibilities, relationship with Board Committees); Board composition (size; balance of knowledge, experience and skills; independence); Board meetings and processes (including satisfaction with integrity of financial statements and accounting policies; risk management process); Board in action (including strengths and weaknesses); and training.

Out of a total of 29 questions, none has a scoring that is lower than 3 ("Agree") according to a scale of 1 ("Strongly Disagree") to 4 ("Strongly Agree").

Items that received the highest score (with over 70% indicated a scoring of "Strongly Agree") are: satisfaction with integrity of financial statements and accounting policies; Board independence; and clarity in providing for the roles of the Board as well as individual director responsibilities.

Valuable feedback received include the need to continually review the Board's size, balance of knowledge, experience, and skills as the Group evolves. In terms of the Board process, suggestions for agenda items included more coverage of customer feedback (including customer satisfaction surveys), corporate social responsibility, and more frequent updates on new initiatives. For Directors' training, refresher seminars on corporate governance, directors' duties, and the regulatory framework were suggested. Other proposals include visits to emerging districts and shopping malls, and further exposure to international trends. These feedback, duly noted by management, are being incorporated in the continual improvement of the Board's programmes and processes.

To further strengthen the independence of the Non-executive Directors and to enable them to discuss more freely the evaluation of performance of the Board as well as the Group's management, the Non-executive Directors also had two discussion sessions during 2014 without the presence of executive members or Board members relating to the founding Lee family.

### Extracts from responses to Board Evaluation Questionnaires

On the significance of having a strong and independent element on the Board –

*"This is particularly important given our Company has a major family shareholder."*

– Feedback of a founding Lee family Non-executive Director

## How The Board Works Together

### BOARD AND MANAGEMENT

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

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

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

### HOW MANAGEMENT SUPPORTS THE EFFECTIVE WORKINGS OF THE BOARD SUPPLY OF INFORMATION

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

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

During the year, the interaction of Non-executive Directors with non-Director members of the management team was further strengthened. In addition to receiving presentations from non-Board management members at Board meetings, Non-executive Directors are also invited to attend Company events. Such events included the annual “Company Day” when the management team shared management objectives for the coming year with all Head office staff and supervisors of the building offices. All these facilitate the build-up of constructive relations and dialogue between the Board and the management team, as well as first-hand experience of our people and culture.



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

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

### INDUCTION, BUSINESS AWARENESS AND DEVELOPMENT

Upon their appointment, Directors are advised on the legal and other duties and obligations they have as directors of a listed company. Newly appointed Directors receive a comprehensive induction briefing designed to provide a general understanding of the Group, its businesses and operations (including the key risks it faces), and an overview of the additional responsibilities of Non-executive Directors. Site visits to the Group’s property portfolios are also arranged.

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

In order to ensure that Directors continue to further their understanding of the issues facing the Group, management has further strengthened the provision of Board training during the year, ranging from the macro socio-political environment affecting the Group, corporate governance from the investor perspective, and regulatory issues. The following is a summary of Director training provided by us and participated by Directors during the year. In addition to activities organised by us, Directors also participated in other forms of training.

#### Example of Board training – interactive discussions on corporate governance from investor perspective

“BlackRock was invited to meet with the Board of Hysan in May 2014. The Board wanted to understand how BlackRock viewed corporate governance from an investor perspective. In addition, it would like to know how BlackRock viewed its corporate governance and what was considered best practice. Hysan has high standards of corporate governance. The meeting gave BlackRock the opportunity to communicate how it assesses corporate governance issues and also to understand the key corporate governance issues facing Hong Kong listed companies.”

#### Pru Bennett

Head of Corporate Governance and  
Responsible Investment for Asia-Pacific  
BlackRock

Directors	2014 Training Matters organised by Hysan (Note)
<b>Executive</b> Irene Yun Lien LEE Siu Chuen LAU Wendy Wen Yee YUNG	a, b, c a, b, c a, b, c
<b>Independent non-executive</b> Nicholas Charles ALLEN Frederick Peter CHURCHOUSE Philip Yan Hok FAN Lawrence Juen-Yee LAU (appointed effective 12 December 2014) Joseph Chung Yin POON	a, b, c a, b, c a, b, c Not applicable a, b, c
<b>Non-executive</b> Hans Michael JEBSEN Anthony Hsien Pin LEE Chien LEE Michael Tze Hau LEE	c a, b a, b, c a, b, c

## Notes:

- a. regulatory updates:-
  - an overview of the new COSO framework for internal controls
  - new Competition Ordinance
- b. broad macro environment:-
  - update on the changing socio-political dynamics in Hong Kong
  - discussion session on corporate governance with a corporate governance expert (focusing on institutional investor perspective)
- c. training organised by third parties, with invitation extended to Hysan Directors – these included 2014 Hong Kong budget discussion forum and quarterly independent non-executive director forums organised by Big Four accounting firms

## BOARD PROCESS AND ADMINISTRATION PROCEDURES

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

## INDEPENDENT ADVICE

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

## Board Committees in 2014

In order to provide effective oversight and leadership and pursuant to its Corporate Governance Guidelines, the Board has established 3 governance-related Board Committees as detailed below. Like the Board, each Committee has access to independent advice and counsel as required and each is supported by the Company Secretary. These committees report to the Board. The terms of reference of these Committees are available on the Company's website. It was an active year for the Audit Committee and the Remuneration Committee in particular, as detailed below.



Strategic planning is an important function of the Board. An additional scheduled Board meeting was held in 2014 and will be held onwards for discussions on strategy matters. The Board also has a Strategy Committee to support it in this regard. It is currently chaired by Irene Yun Lien LEE, Board Chairman, and its other members are Siu Chuen LAU (Deputy Chairman and Chief Executive Officer), Nicholas Charles ALLEN (Independent non-executive Director), Philip Yan Hok FAN (Independent non-executive Director) and Chien LEE (Non-executive Director).

## AUDIT COMMITTEE

### COMPOSITION AND MEETINGS SCHEDULE

The Audit Committee is currently chaired by Nicholas Charles ALLEN (Independent non-executive Director), and its other members are Philip Yan Hok FAN (Independent non-executive Director), Anthony Hsien Pin LEE (Non-executive Director), and Frederick Peter CHURCHOUSE (Independent non-executive Director, appointed as a member of Audit Committee in November 2014). There is an overall majority of Independent non-executive Directors. Nicholas Charles ALLEN (Committee Chairman) is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in auditing and accounting, which he developed while working with a “Big Four” international firm. The Audit Committee had three meetings during the year. At the invitation of the Audit Committee, meetings are also attended by the Board Chairman and members of management (including the Chief Executive Officer and the Chief Financial Officer).

### ROLES AND AUTHORITY

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

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

### ACTIVITIES AND REPORT IN 2014 AND TO DATE

Full details of the activities of the Audit Committee are also set out in the “Audit Committee Report” on pages 113 to 116. Three meetings were held during the year. Attendance of Audit Committee meetings is set out in the table on page 75. In addition to reviewing and approving annual and interim financial statements, the Committee had a separate meeting substantially focusing on internal controls and risk management. During the year, a focus was placed on further integrating our internal controls and risk management system with other key business processes (including budgeting). (Details are also set out in the “Internal Controls and Risk Management” Report on pages 42 to 47)

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



## REMUNERATION COMMITTEE

### COMPOSITION AND MEETINGS SCHEDULE

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

### ROLES AND AUTHORITY

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

### ACTIVITIES AND REPORT IN 2014 AND TO DATE

Full details of the activities of the Remuneration Committee are set out in the "Directors' Remuneration and Interests Report" on pages 105 to 112. A meeting was held during the year. Attendance of Remuneration Committee meeting is set out in the table on page 75.

## NOMINATION COMMITTEE

### COMPOSITION AND MEETINGS SCHEDULE

The Board established a Nomination Committee in 2005. The Nomination Committee is currently chaired by Irene Yun Lien LEE, Chairman of the Board and has a majority of Independent non-executive Directors. The other members of the Nomination Committee during the year are Nicholas Charles ALLEN (Independent non-executive Director), Philip Yan Hok FAN (Independent non-executive Director), Chien LEE (Non-executive Director), and Joseph Chung Yin POON (Independent non-executive Director).

### ROLES AND AUTHORITY

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

A meeting was held during the year to (i) review the structure, size, and composition of the Board; (ii) assess the independence of Independent non-executive Directors; and (iii) consider the appointment of Lawrence Juen-Yee LAU as Independent non-executive Director. Attendance of Nomination Committee meeting is set out in the table on page 75.



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– See "Directors' Remuneration and Interests Report" (page 105)

– For Attendance (page 75)



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For Attendance (page 75)

## Shareholders

The Board and management fully recognise the significance and importance of having a governance framework that protects shareholder rights and their exercise of the same. At the same time, we aim to continually improve our communications with shareholders and to obtain their feedback.

### COMMUNICATION WITH SHAREHOLDERS

#### ACCOUNTABILITY TO SHAREHOLDERS AND CORPORATE REPORTING

Disciplined measurement of our performance is an important aspect of our strategy to achieve long-term success. Recognising that we are accountable to our stakeholders, reporting financial and non-financial results in a transparent fashion is critical. A number of formal communication channels are used to account to shareholders for the performance of the Group. These include the Annual Report and Accounts, Interim Report and Accounts and press releases/announcements.

Hysan's corporate website provides an additional channel for shareholders and other interested parties to access information about the Group. The Group's key corporate governance policies and supporting documents, including the terms of reference of the various Board Committees, as well as the Group's financial reports, press releases and announcements are available on the website. Shareholders are given the option of electing to receive corporate communications by electronic means. We continue to review how to better utilise the Company's website for the purposes of timely disclosure and to enhance transparency.



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

#### INSTITUTIONAL SHAREHOLDERS

We are committed to maintaining a continuing open dialogue with institutional investors, fund managers and analysts as a means of developing their understanding of our strategy, operations, management and plans, and enabling them to raise any issues they may have. The Company has an ongoing programme of dialogue and meetings between Chief Executive Officer, Chief Financial Officer, and institutional investors, fund managers and analysts. At these meetings, a wide range of relevant issues, including strategy, performance, management and governance, are discussed within the constraints of information already made public. There are regular presentations to or conference calls with analysts and investors, also at the time of announcement of results. Results announcement presentations to analysts are also disseminated to a broader audience by way of webcast. Investor relations reports describing investor and analyst opinions are provided regularly to the Board.





### CONSTRUCTIVE USE OF AGM

The Board is equally interested in the concerns of private shareholders. The Company Secretary, on behalf of the Board, oversees communication with these investors. The Board recognises the significance of the constructive use of AGMs as a means to enter into a dialogue with private shareholders based on the mutual understanding of objectives. Individual shareholders can put questions to the Chairman at the AGM. The Chairmen of the various Board Committees, as provided under their respective terms of references, attend AGMs to respond to any shareholder questions on the activities of those Committees.

Since 2004, to enable shareholders to gain a better understanding of our business activities, we have included a “business review” session to our AGMs, in addition to the statutory part of the meeting. Topics covered at the last AGM included the business environment in 2013, a review of business activities, and the Company’s outlook for 2014. The Company values the contributions of its shareholders during the question and answer session following the statutory part of the meeting.

### CORPORATE DISCLOSURE POLICY

We recognise the significance of consistent disclosure practices aimed at accurate, timely and broadly disseminated disclosure of material information about Hysan. The Group’s Corporate Disclosure Policy provides guidance for coordinating the disclosure of material information to investors, analysts and media as well as our processes for results announcements. This policy also identifies who may speak on Hysan’s behalf, and outlines the responsibilities for communications with various stakeholders groups. It has been updated in light of the new “inside information” disclosure regime under the Securities and Futures Ordinance, effective January 2013. (Details of the Corporate Disclosure Policy are available at the Company’s website: [www.hysan.com.hk](http://www.hysan.com.hk))

### SHAREHOLDER RIGHTS

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

Shareholders must be furnished with sufficient and timely information concerning the Company and any material developments. There is currently no requirement in Hong Kong providing for mandatory forwarding of shareholder communication materials by nominee

companies to beneficial shareholders. Since 2005, we have initiated and funded a programme inviting major nominee companies to proactively forward communication materials to shareholders at our expense. We have balanced this with the Group's aim to further enhance the use of its corporate website as a means of shareholder communications. Greater publicity of the Group's website is being made.

### PROVISION OF SUFFICIENT AND TIMELY INFORMATION

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

### VOTING

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

### RELEVANT PROVISIONS IN ARTICLES OF ASSOCIATION AND HONG KONG LAW

Under the current Articles of Association of the Company and Hong Kong Companies Ordinance (with new amendments effective 3 March 2014), shareholders holding not less than 5% of the total voting rights of shareholders of the Company ("5% Shareholder") may convene a general meeting by requisition stating the objects of the meeting, and deposit the signed requisition at the Company's registered office (49/F, The Lee Gardens, 33 Hysan Avenue, Hong Kong. Attention: The Company Secretary). Any 5% Shareholder may also requisition for passing of resolutions by way of written resolutions. Any shareholders holding not less than 2.5% of the total voting rights of shareholders of the Company (or 50 or more shareholders entitled to vote) may requisition for the circulation of resolutions to be moved at annual general meeting; and circulation of statements regarding resolutions proposed at general meetings. The special documents should be deposited at the Company's registered address as detailed above.

Hong Kong Companies Ordinance also provides for shareholder approval of decisions concerning fundamental corporate changes, including amendments to the Articles of Association. The amended Ordinance also provides for disinterested shareholder approval (excluding these shareholders related to the relevant directors) for certain transactions with directors as well as their connected entities, and ratification of director misconduct.

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

During the year, changes reflecting the impact of the new Companies Ordinance (effective 3 March 2014) were made to the Company's Memorandum and Articles of Association by removing/amending provisions that are in conflicts with the new Companies Ordinance. Such changes were proposed and approved by shareholders at the AGM held in May 2014.





# Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2014, which were approved by the Board of Directors (the "Board") on 11 March 2015.

## PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2014 to be property investment, management, and development. Details of the Group's principal subsidiaries and associates as at 31 December 2014 are set out in notes 18 and 19 respectively to the financial statements.

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated income statement on page 120.

The first interim dividend of HK23 cents per share, amounting to approximately HK\$245 million, was paid to shareholders during the year.

The Board declares a second interim dividend of HK100 cents per share to the shareholders on the register of members on 26 March 2015, absorbing approximately HK\$1,064 million. The dividends declared and paid for ordinary shares in respect of the full year 2014 will absorb approximately HK\$1,309 million, the balance of the profit will be retained.

## RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 124 and 125 and note 31 to the financial statements respectively.

## INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2014 using the fair value model. Details of movements during the year in the investment properties of the Group are set out in note 16 to the financial statements.

Details of the major investment properties of the Group as at 31 December 2014 are set out in the section under Schedule of Principal Properties of this Annual Report.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the financial statements.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and, save as otherwise stated and explained in the Corporate Governance Report, meets the requirements of the code provisions of the Code on Corporate Governance Practice (the “Corporate Governance Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

- (a) “Corporate Governance Report” (pages 80 to 97) – it gives detailed information on the Company’s compliance with the Corporate Governance Code, and adoption of local and international best practices;
- (b) “Directors’ Remuneration and Interests Report” (pages 105 to 112) – it gives detailed information of Directors’ remuneration and interests (including information on Directors’ compensation, service contracts, Directors’ interests in shares; contracts and competing business);
- (c) “Audit Committee Report” (pages 113 to 116) – it sets out the terms of reference, work performed and findings of the Audit Committee for the year;
- (d) “Internal Controls and Risk Management Report” (pages 42 to 47) – it sets out the Company’s framework on internal controls and risks assessment (including control environment, control activities, work done during the year and the focus for 2015); and
- (e) “Responsible Business” section (pages 48 to 71) – it sets out the Company’s corporate responsibility policies and practices reflecting its commitment to maintaining a high standard of corporate governance.

## THE BOARD

The Board is currently chaired by Irene Yun Lien LEE, Chairman, with Siu Chuen LAU as Deputy Chairman and Chief Executive Officer. Wendy Wen Yee YUNG serves as Executive Director and Company Secretary. There are nine other Non-executive Directors.

Lawrence Juen-Yee LAU was appointed Independent non-executive Director effective 12 December 2014.

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

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 76 to 79 have been Directors of the Company throughout the year.

According to Article 97 of the Company’s current Articles of Association, a Director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting.

Under Article 114 of the Company’s current Articles of Association, one-third (or such other number as may be required under applicable legislation) of the Directors; and where the applicable number is not an integral number, to be rounded upwards, who have been longest in office shall retire from office by rotation. A retiring Director is eligible for re-election.

Particulars of Directors seeking for re-election at the forthcoming annual general meeting are set out in the related circular to shareholders.

The Company has received from each Independent non-executive Director an annual confirmation of his independence as regard each of the factors referred to in Rule 3.13 (1) to (8) of the Listing Rules and the Company considered all of them to be independent. The Nomination Committee also reviewed director independence in a meeting held in November 2014. (see Corporate Governance Report)

## DIRECTORS' INTERESTS IN SHARES

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in "Directors' Remuneration and Interests Report" on pages 105 to 112.

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

As at 31 December 2014, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company, were as follows:

### Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	% of total no. of issued shares (Note a)
Lee Hysan Estate Company, Limited	Beneficial owner and interests of a controlled corporation	433,130,735 (Note b)	40.71
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	40.71
Silchester International Investors LLP	Investment manager	74,457,000	7.00

Notes:

- (a) The percentage has been compiled based on the total number of shares of the Company in issue as at 31 December 2014 (i.e. 1,063,871,692 ordinary shares).
- (b) These interests represent the same block of shares of the Company. 393,321,734 shares were held by Lee Hysan Estate Company, Limited ("LHE") and 39,809,001 shares were held by a subsidiary of LHE. LHE is a wholly-owned subsidiary of Lee Hysan Company Limited.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2014.

## RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 37 to the financial statements.

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

## CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions (the “Transactions”) under Rule 14A.76(2) of the Listing Rules during the year. Details of the Transactions required to be disclosed are set out as follows:

### I. Leases granted by the Group

#### (a) Lee Gardens Two, 28 Yun Ping Road, Hong Kong (“Lee Gardens Two”)

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

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
(i) Jebsen and Company Limited (Note b)	28 March 2013 (Lease and Carpark Licence Agreement)	5 years commencing from 1 September 2013 (Note c)	Office units on the 28th, 30th and 31st Floors and 3 carparking spaces	2014: HK\$28,884,708 2015: HK\$29,115,636 2016: HK\$29,115,636 2017: HK\$29,115,636 2018: HK\$19,410,424 (on pro-rata basis) (Notes d & j)
(ii) Hang Seng Bank Limited (Note b)	16 August 2013 (Lease and Licence Agreement) (as amended – Note e)	2 years, 4 months and 15 days commencing from 15 October 2013	Shop G13A on the Ground Floor and Shops 2-10 and 11-12 on the Lower Ground Floor and certain areas on the Lower Ground Floor and Ground Floor	2014: HK\$27,618,660 2015: HK\$26,756,100 2016: HK\$23,944,700 (Note j)
(iii) Pearl Investments (HK) Limited (Note f)	24 May 2011 (Lease and Carpark Licence Agreement)	3 years commencing from 15 May 2011 (Note g)	Room 1401C on the 14th Floor and 1 carparking space	2014: HK\$770,130 (on pro-rata basis) (Note j)
(iv) Treasure Matrix Limited (Note h)	28 March 2014 (Lease and Licence Agreements)	5 years commencing from 28 March 2014 (Note c)	Shop Nos. 308 & 311 on the 3rd Floor (connected to an outdoor garden)	2014: HK\$4,601,567 (on pro-rata basis) 2015: HK\$7,830,800 2016: HK\$7,830,000 2017: HK\$7,830,000 2018: HK\$7,830,000 2019: HK\$1,873,306 (on pro-rata basis) (Notes i & j)

**CONTINUING CONNECTED TRANSACTIONS** *continued***I. Leases granted by the Group** *continued***(b) 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 40.71 % interest). Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
Atlas Corporate Management Limited	(i) 4 November 2011	3 years commencing from 1 November 2011	Whole of 21st Floor	2014: HK\$2,343,100 (on pro-rata basis)
	(ii) 21 August 2014 (Renewal)	3 years commencing from 1 November 2014	Whole of 21st Floor	2014: HK\$495,566 (on pro-rata basis) 2015: HK\$3,003,864 2016: HK\$3,003,864 2017: HK\$2,503,220 (on pro-rata basis) (Note j)

**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 received during the year
Barrowgate Limited	28 March 2013	3 years commencing from 1 April 2013	Whole premises of Lee Gardens Two	HK\$30,611,348 (Note k)

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

Connected person	Date of agreement	Terms	Premises	Consideration received during the year
Barrowgate Limited	28 March 2013	3 years commencing from 1 April 2013	Whole premises of Lee Gardens Two	HK\$2,919,245 (Note k)



## CONTINUING CONNECTED TRANSACTIONS continued

### Notes:

- (a) The annual considerations are based on current rates of rental (including estimated turnover rent, where applicable), operating charges, (for retail premises) promotion levies and (for carparking spaces) licence fees for each of the relevant financial years as provided in the relevant agreements. The rental, operating charges, promotion levies and licence fees (as the case may be) are payable monthly in advance.
- (b) Jebesen and Company Limited ("Jebesen and Company") and Hang Seng Bank Limited are beneficial substantial shareholders of Barrowgate and having equity interest of 10 % and 24.64 % respectively in Barrowgate.
- (c) The term of the agreements mentioned under I(a)(i) and I(a)(iv) 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.
- (d) 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.
- (e) On 1 December 2014, a partial surrender agreement had been entered into and pursuant to which the lease for Shop G13A on the Ground Floor at Lee Gardens Two will be early surrendered effective 31 October 2015. On 15 December 2014, a new lease and licence agreement had been entered into and pursuant to which the remaining spaces had been renewed for a further term of 3 years commencing from 1 March 2016 to 28 February 2019. As the annual consideration under the renewed lease and licence agreement falls below the applicable de minimis threshold under the Listing Rules, it constitutes an exempted continuing connected transaction of the Company.
- (f) 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.
- (g) On 30 May 2014, the lease and carpark licence agreement had been renewed for a further term of 3 years commencing from 15 May 2014 to 14 May 2017. As the annual consideration under the renewed lease and carpark licence agreement falls below the applicable de minimis threshold under the Listing Rules, it constitutes an exempted continuing connected transaction of the Company. (Total consideration for 2014: HK\$2,259,562)
- (h) Treasure Matrix Limited ("Treasure Matrix") is a non-wholly owned subsidiary of the Company. Under this transaction, Barrowgate was considered a connected person of the Company under the Listing Rules by virtue of its being a non-wholly owned subsidiary of the Company and also having a substantial shareholder which is an associate of a Director of the Company.
- (i) The rent for the period from 28 March 2017 to 27 March 2019 will be reviewed at the then prevailing market rent and to be agreed by Barrowgate and Treasure Matrix.
- (j) Office and retail monthly operating charges and carpark licence fee for Lee Gardens Two were revised with effect from 1 January 2014 and further revised on 1 January 2015. Office monthly operating charges for One Hysan Avenue were revised with effect from 1 January 2015.
- (k) These represent the actual consideration received for the year ended 31 December 2014, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

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

Announcements were published regarding the Transactions in accordance with the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in so far as they are applicable.

### **CONTINUING CONNECTED TRANSACTIONS** continued

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 101 to 103 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

All Independent non-executive Directors of the Company have reviewed the Transactions and the report of the auditor and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business of the Company;
2. on normal commercial terms; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the commercial interests of the Group as a whole.

### **INTEREST IN CONTRACTS OF SIGNIFICANCE**

No agreement is considered a contract of significance under paragraph 15 of Appendix 16 of the Listing Rules.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, 35.33% of the aggregate amount of purchases were attributable to the Group's 5 largest suppliers with the largest supplier accounting for 16.23% of the Group's total purchases. The aggregate amount of turnover attributable to the Group's 5 largest customers was less than 30% (being the Listing Rule disclosure threshold) of total turnover of the Group.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's 5 largest suppliers.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

### **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

### **DONATIONS**

During the year, the Group made donations of approximately HK\$0.5 million to charitable and non-profit-making organisations.

### **AUDITOR**

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2015 AGM.

By Order of the Board  
**Irene Yun Lien LEE**  
*Chairman*

Hong Kong, 11 March 2015

## COMPENSATION REVIEW

### Remuneration Committee

The Board recognises the significance of having in place a transparent and objective process for determining Executive Director compensation. The Remuneration Committee (first established in 1987) reviews and determines the remuneration of Executive Directors as well as recommending for shareholder approval fees payable to Non-executive Directors. Its terms of reference have been expanded to cover review of share option plans, changes to key terms of service pension plans, and key terms of new compensation and benefits plan with material financial, reputational, and strategic impact.

The Remuneration Committee currently has 3 members (with a majority of Independent non-executive Directors). It is chaired by Philip Yan Hok FAN (Independent non-executive Director) and the other members are Joseph Chung Yin POON (Independent non-executive Director) and Michael Tze Hau LEE (Non-executive Director).

Management makes recommendations to the Committee on the Company's framework for, and cost of, Executive Director remuneration and the Committee then reviews these recommendations. Fees payable to other Non-executive Directors are reviewed from time to time. Independent professional advice will be sought where appropriate. On matters other than those concerning them, the Chairman and Chief Executive Officer may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

### Executive Director Remuneration Policy

The Group's remuneration policy aims to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff. At the same time, such awards must be aligned with shareholder interests.

The following principles had been established:

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

Details of Director (including individual Executive Director) emoluments for year 2014 and options movement during the year are set out in notes 12 and 38 respectively to the financial statements.

**COMPENSATION REVIEW** continued**Non-executive Director Remuneration Policy**

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

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

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

Non-executive Directors (including the Independent non-executive Directors) received fees totalling HK\$2,124,631 for 2014.

**2014 Review**

The Committee met in March 2014 with all members present to (i) approve the 2014 annual fixed base salary and determine the 2013 performance-based bonus of the Executive Directors; (ii) review the fee for Non-executive Directors and Board Committee members; and (iii) review and discuss an update on the implementation of a new compensation structure for (non-Director) management staff of the Group. The portion of performance-based variable pay was increased, to better align pay and performance so as to drive the long-term success of the Company.

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

**March 2015 Review**

The Committee met in March 2015 to (i) approve 2015 Executive Director compensation packages and 2014 performance-based bonus; (ii) review the fee for Non-executive Directors and Board Committee members; and (iii) review a new share option scheme of the Group. All members attended the meeting.

## COMPENSATION REVIEW continued

### Current Director Fee Levels

Director fees are subject to shareholder approval at general meeting. Revision to fees of the respective chairmen of the Audit Committee and Remuneration Committee were approved at the Annual General Meeting (“AGM”) held in May 2014. The current fee scale for Directors and Board Committee members are set out below. Executive Directors will not receive any fee.

	Per annum HK\$
<b>Board of Directors (Non-executive Directors only)</b>	
Chairman	400,000
Director	200,000
<b>Audit Committee</b>	
Chairman	120,000
Member	60,000
<b>Remuneration Committee</b>	
Chairman	60,000
Member	40,000
<b>Other Committees</b>	
Chairman	30,000
Member	20,000

### Long-term incentives: Share Option Scheme

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

Key terms of the share option scheme of the Company are summarised as follows:

#### The 2005 Share Option Scheme (the “2005 Scheme”)

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and will be expiring on 9 May 2015. A new share option scheme will be proposed for consideration and adoption by the shareholders at the AGM to be held on 15 May 2015. Details are set out in the circular to shareholders accompanying the AGM notice.

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

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



**COMPENSATION REVIEW** *continued***Long-term incentives: Share Option Scheme** *continued***Grant and vesting structures**

Under the Company's current policy, grants will be made on a periodic basis. Exercise period is 10 years. Vesting period is 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

**Movement of share options**

During the year, a total of 1,187,000 shares options were granted under the 2005 Scheme.

As at 31 December 2014, an aggregate of 3,435,704 shares are issuable for options granted (including 1,392,884 fully-vested shares options) under the 2005 Scheme, representing approximately 0.32 % of the total number of issued shares of the Company.

As at the date of this Report, 94,611,428 shares are issuable under the 2005 Scheme representing 8.89 % of the total number of issued shares.

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

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2014	Changes during the year			Balance as at 31.12.2014
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>Executive Directors</b>								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	–	–	261,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84 (Note c)	10.3.2015 – 9.3.2024	–	325,000	–	–	325,000
Siu Chuen LAU	14.5.2012	33.50	14.5.2013 – 13.5.2022	161,334	–	–	–	161,334
	7.3.2013	39.92	7.3.2014 – 6.3.2023	246,000	–	–	–	246,000
	10.3.2014	32.84 (Note c)	10.3.2015 – 9.3.2024	–	302,000	–	–	302,000
Wendy Wen Yee YUNG	10.3.2011	35.71	10.3.2012 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.79	9.3.2013 – 8.3.2022	113,000	–	–	–	113,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	106,700	–	–	–	106,700
	10.3.2014	32.84 (Note c)	10.3.2015 – 9.3.2024	–	95,000	–	–	95,000

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

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2014	Changes during the year			Balance as at 31.12.2014
					Granted	Exercised	Cancelled/ lapsed (Note b)	
<b>Eligible employees</b> (Note d)	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	–	–	17,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	164,000	–	(30,000) (Note e)	–	134,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	251,334	–	(97,000) (Note f)	–	154,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	246,001	–	(63,666) (Note g)	(1,334)	181,001
	30.3.2012	31.61	30.3.2013 – 29.3.2022	336,335	–	(47,983) (Note h)	(26,017)	262,335
	28.3.2013	39.20	28.3.2014 – 27.3.2023	362,000	–	–	(64,000)	298,000
	31.3.2014	33.75 (Note i)	31.3.2015 – 30.3.2024	–	465,000	–	(54,000)	411,000
				<b>2,632,704</b>	<b>1,187,000</b>	<b>(238,649)</b>	<b>(145,351)</b>	<b>3,435,704</b>

## Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- (b) The options lapsed during the year upon resignations of certain eligible employees.
- (c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 7 March 2014) was HK\$32.95.
- (d) Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.35.
- (f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.95.
- (g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.04.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.07.
- (i) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2014) was HK\$33.30.

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

Particulars of the 2005 Scheme are set out in note 38 to the financial statements.

**COMPENSATION REVIEW** *continued***Long-term incentives: Share Option Scheme** *continued***Value of share options**

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

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

The inputs into the Model were as follows:

Date of grant	31.3.2014	10.3.2014
Closing share price at the date of grant	HK\$33.750	HK\$32.200
Exercise price	HK\$33.750	HK\$32.840
Risk free rate ( <i>Note a</i> )	1.529 %	1.328 %
Expected life of option ( <i>Note b</i> )	5 years	5 years
Expected volatility ( <i>Note c</i> )	33.517 %	33.509 %
Expected dividend per annum ( <i>Note d</i> )	HK\$0.866	HK\$0.866
Estimated fair values per share option	HK\$8.422	HK\$7.712

Notes:

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

**SERVICE CONTRACTS**

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

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2014, 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 total no. of issued shares (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:

- This percentage has been compiled based on the total number of shares of the Company in issue (i.e. 1,063,871,692 ordinary shares) as at 31 December 2014.
- Such shares were held jointly by Nicholas Charles ALLEN and his wife.
- Such shares were held through a corporation in which Hans Michael JEBSEN was a member entitled to exercise no less than one-third of the voting power at general meeting.
- Such shares were held through a corporation in which Siu Chuen LAU and his wife were members and each entitled to exercise no less than one-third of the voting power at general meeting.

Certain Executive Directors of the Company have been granted share options under the 2005 Scheme (details are set out in the section headed “Long-term incentives: Share Option Scheme” above). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

### Aggregate long positions in shares of associated corporations

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

Name	Number of ordinary shares held		Total	% of the total no. of issued shares
	Corporate interests	Other interests		
Hans Michael JEBSEN	1,000	–	1,000	10 (Note)

Note:

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

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2014 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**DIRECTORS' INTERESTS IN SHARES** *continued***Compliance of the Model Code for Securities Transactions by Directors of Listed Issuers**

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

**DIRECTORS' INTERESTS IN CONTRACTS**

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

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

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

- (i) Irene Yun Lien LEE, Siu Chuen LAU, Anthony Hsien Pin LEE, Chien LEE and Michael Tze Hau LEE are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) Hans Michael JEBSEN and his alternate, Kam Wing LI, hold the offices of directors in Jebsen and Company. Business activities of some of its subsidiaries include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Mr. Jebsen is also a substantial shareholder of the companies.

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

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

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

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

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

By Order of the Board

**Wendy W.Y. YUNG**

*Executive Director and Company Secretary*

Hong Kong, 11 March 2015



# Audit Committee Report

The Audit Committee has 4 members (with a majority of Independent non-executive Directors). Currently, it is chaired by Nicholas Charles ALLEN (Independent non-executive Director) and the other members are Frederick Peter CHURCHOUSE (Independent non-executive Director, appointed as a member of the Committee effective 25 November 2014), Philip Yan Hok FAN (Independent non-executive Director) and Anthony Hsien Pin LEE (Non-executive Director).

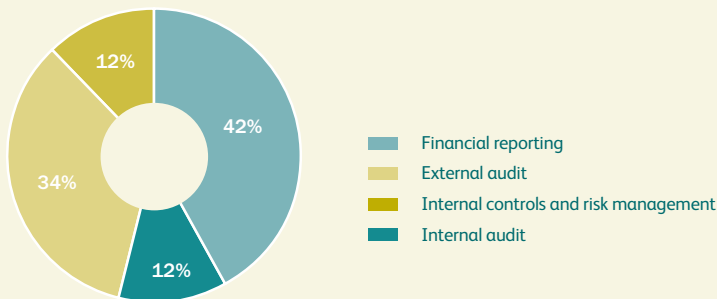
Under its terms of reference, the Committee oversees the Company's financial reporting process; it also reviews the Company's internal controls and risk management systems and its relationship with the external auditor. The Committee also has the responsibility to review the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The Committee Chairman reports to the Board on its findings after each Committee meeting.

The Committee held 3 meetings during the year, on 5 March, 6 August and 21 November 2014. The meetings in March 2014 and August 2014 were held to consider the financial statements for the 2013 annual report and 2014 interim report respectively. An additional meeting was held in November to review the Group's internal controls and risk management process; and miscellaneous issues not directly related to the approval of financial statements and results announcements. The Committee last met on 6 March 2015 to consider the financial statements for the year ended 31 December 2014.

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

Details of the meeting held in March 2014 were set out in the 2013 Annual Report. Significant matters, as reviewed and discussed in the other meetings, include the following:

## How the Audit Committee spent its time in 2014 (%)



## FINANCIAL REPORTING

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

- August 2014 : The Committee reviewed and recommended to the Board for approval of the unaudited financial statements for the first 6 months of 2014, prior to public announcement and filing. The Committee received reports from and met with the external auditor and internal auditor to discuss the scope of their respective review and findings.

Judgmental issues considered: The Committee had discussions with management on significant judgments affecting Group's financial statements. These included valuation of investment properties as at 30 June 2014, and valuation of investment in an associate with principal assets in Shanghai, China as at 30 June 2014. In particular, there were discussions on the valuation methodology of the Group's investment properties under development (being Sunning Plaza and Sunning Court). Following the demolition of the buildings, the valuation approach based on capitalisation of net income would no longer be applicable. No further revenue could be derived from the properties. The properties had been valued by using the "residual method" as a hypothetical development, using assumptions including land use, maximum gross floor area minus costs and an allowance for profit required for the re-development.

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

For valuation of investment properties, the Committee also noted that external auditor had performed various procedures before relying on the valuation prepared by the Group's independent professional valuer. As regards valuation of investment in associates, the Committee also noted that external auditors had obtained management accounts of the relevant associate for the 6 months ended 30 June 2014 and valuation reports for the investment properties held by such associate. The Committee noted that external auditor performed additional procedures to conclude that the Group's investments in associates had been properly accounted for in the Group's relevant financial statements.

Based on such review and discussions, and the external auditor's review work, the Audit Committee recommended to the Board approval of the financial statements for the first 6 months ended 30 June 2014.

- March 2015 : The Committee reviewed and discussed with management and external auditor the 2014 financial statements included in the 2014 Annual Report, prior to public announcement and filing. The Committee received reports from and met with the external auditor and internal auditor to discuss the general scope of their respective work and findings.

Judgmental issues considered: The Committee had discussions with management with regard to significant judgments affecting the Group's financial statements. These included valuation of investment properties as at 31 December 2014, and valuation of investment in an associate with principal assets in Shanghai, China as at 31 December 2014. In particular, there were discussions on the valuation methodology of the Group's investment properties under development (being Sunning Plaza and Sunning Court).

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

For valuation of investment properties, the Committee also noted that external auditor had performed various procedures before relying on the valuation prepared by the Group's independent professional valuer. As regards valuation of investment in associates, the Committee also noted that external auditors had obtained management accounts of the relevant associate for the year ended 31 December 2014, valuation reports for the investment properties held by such associate, and the latest available audited financial statements of such associate. The Committee further noted that external auditors performed additional procedures to conclude that the Group's investments in associates had been properly accounted for in the Group's relevant financial statements.

Based on these review and discussions, and the report of the external auditor, the Audit Committee recommended to the Board for approval of the financial statements for the year ended 31 December 2014, with the Independent Auditor's Report thereon.

## RELATIONSHIP WITH EXTERNAL AUDITOR

- August 2014 : The Committee reviewed and considered the terms of engagement of the external auditor in respect of: 2014 final results (including 2014 annual audit, the related results announcement, and annual review of continuing connected transactions); and annual update of the Group's Medium-Term Notes programme.
- November 2014 : The Committee reviewed the audit progress report of the external auditor.
- March 2015 : Annual Assessment: The Committee assessed and is satisfied as to the auditor's qualification, expertise and services and independence. In particular, it is satisfied itself that the auditor's independence and objectivity have not been impaired by reason of the provision of non-audit services. An arrangement for lead audit partner rotation is also in place by the auditor. For the year ended 31 December 2014, external auditor received a total fee of HK\$2,927,000 (audit services: HK\$2,160,000 and non-audit services: HK\$767,000). "Non-audit services" refer to agreed-upon-procedures reports or statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters. Specifically, these included 2014 review of interim financial statements, issue of confirmation letters for continuing connected transactions, and review of financial information in connection with the annual update of the Group's Medium-Term Notes programme.

The Committee also reviewed and considered the 2015 audit service plan of the external auditor, and the terms of its engagement in respect of the 2015 interim results review.

The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2015.

## REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

- August and November 2014 : The Committee received from, and discussed with, management (i) update report on top risks facing the Group; (ii) (for November meeting) special reports on selected top risks facing the Company, being the impact of "Occupy Central"; and cyber security of the Group; (iii) progress report on implementing an improvement programme to further strengthen agreed aspects of the Group's internal controls and risk management system including transition to new COSO (Committee of Sponsoring Organisations of the U.S. Treadway Commission) standards. The ultimate aim is to make the system a "live" one practised on a day-to-day basis by operating units.

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

At the November 2014 meeting, the Committee also reviewed the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.

- March 2015 : 2014 annual internal controls review – based on:
  - regular reports by management of top risks, and special reports on selected top risk items
  - regular reports of Internal Audit, including status in implementing its recommendations
  - certification of controls effectiveness by management, covering financial, operational, and compliance controls, noting the adoption of a control self-assessment questionnaire across the operating departments
  - confirmation from external auditor that it had not identified any control weaknesses during the course of its audit

The Committee was satisfied as to the effectiveness of the Company's internal controls system (including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget). No significant areas of concern which might affect financial, operational, compliance controls and risk management functions were identified.

### INTERNAL AUDIT

- August and November 2014, March 2015 : For each of the meeting: reviewed management responses to audit reports issued during the year; and progress made in implementing improvement actions.
- November 2014 : Considered and approved the scope of work to be undertaken by the Internal Audit function in 2015.

### EVALUATION

The Committee was concluded to be effective in fulfilling its roles in 2014, as reflected in the Board and Committee evaluation process which took place during the year. (For details, please refer to Corporate Governance Report – “Evaluation”. (page 89)).

Members of the Audit Committee

**Nicholas Charles ALLEN** (*Chairman*)

**Frederick Peter CHURCHOUSE**

**Philip Yan Hok FAN**

**Anthony Hsien Pin LEE**

Hong Kong, 11 March 2015

# Financial Statements, Valuation and Other Information

# 5

- |   |  |
|---|--|
| <b>118</b> Directors' Responsibility for the Financial Statements | <b>127</b> Significant Accounting Policies   |
| <b>119</b> Independent Auditor's Report                           | <b>137</b> Notes to the Financial Statements   |
| <b>120</b> Consolidated Income Statement                          | <b>176</b> Financial Risk Management   |
| <b>121</b> Consolidated Statement of Comprehensive Income         | <b>186</b> Five-Year Financial Summary   |
| <b>122</b> Consolidated Statement of Financial Position           | <b>188</b> Report of the Valuer  |
| <b>123</b> Statement of Financial Position                        | <b>189</b> Schedule of Principal Properties  |
| <b>124</b> Consolidated Statement of Changes in Equity            | <b>191</b> Shareholding Analysis   |
| <b>126</b> Consolidated Statement of Cash Flows                   | <b>192</b> Shareholder Information   |
|   | <b>194</b> On The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide |



# Directors' Responsibility for the Financial Statements

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

- (a) select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;
- (b) state the reasons for any significant departure from accounting standards; and
- (c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

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

# Independent Auditor's Report



## TO THE MEMBERS OF HYSAN DEVELOPMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 120 to 185, which comprise the consolidated and Company's statements of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance (Cap. 622) (the "Hong Kong Companies Ordinance"), and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

### Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

11 March 2015

120 **Consolidated Income Statement**

For the year ended 31 December 2014

	Notes	2014 HK\$ million	2013 HK\$ million
Turnover	4	3,224	3,063
Property expenses		(404)	(405)
Gross profit		2,820	2,658
Investment income	6	68	76
Other gains and losses	7	(2)	1
Administrative expenses		(214)	(208)
Finance costs	8	(228)	(242)
Change in fair value of investment properties		2,940	4,575
Share of results of associates		252	309
Profit before taxation		5,636	7,169
Taxation	9	(386)	(372)
<b>Profit for the year</b>	10	<b>5,250</b>	<b>6,797</b>
Profit for the year attributable to:			
Owners of the Company		4,902	6,158
Non-controlling interests		348	639
		<b>5,250</b>	<b>6,797</b>
<b>Earnings per share</b> (expressed in HK cents)	15		
Basic		460.82	579.04
Diluted		460.69	578.84

# Consolidated Statement of Comprehensive Income

121

For the year ended 31 December 2014

	Note	2014 HK\$ million	2013 HK\$ million
<b>Profit for the year</b>		<b>5,250</b>	<b>6,797</b>
<b>Other comprehensive income</b>	11		
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Gains on revaluation of properties held for own use		16	20
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net adjustments to hedging reserve		51	(53)
Share of translation reserve of an associate		(16)	117
		35	64
Other comprehensive income for the year (net of tax)		51	84
<b>Total comprehensive income for the year</b>		<b>5,301</b>	<b>6,881</b>
Total comprehensive income attributable to:			
Owners of the Company		4,953	6,242
Non-controlling interests		348	639
		<b>5,301</b>	<b>6,881</b>

Overview

Financial Performance

Responsible Business

Corporate Governance

Financial Statements and Valuation

# Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 HK\$ million	2013 HK\$ million
<b>Non-current assets</b>			
Investment properties	16	68,735	65,322
Property, plant and equipment	17	710	604
Investments in associates	19	4,154	4,181
Principal-protected investments	20	–	81
Term notes	21	720	622
Other financial assets	22	3	32
Other receivables	23	226	231
		<b>74,548</b>	<b>71,073</b>
<b>Current assets</b>			
Accounts and other receivables	23	255	241
Principal-protected investments	20	80	77
Term notes	21	485	580
Other financial assets	22	15	–
Time deposits	25	3,534	4,042
Cash and bank balances	25	106	81
		<b>4,475</b>	<b>5,021</b>
<b>Current liabilities</b>			
Accounts payable and accruals	26	481	500
Rental deposits from tenants		306	190
Amounts due to non-controlling interests	27	327	327
Borrowings	28	1,589	1,055
Other financial liabilities	22	2	48
Taxation payable		104	101
		<b>2,809</b>	<b>2,221</b>
<b>Net current assets</b>			
		<b>1,666</b>	<b>2,800</b>
<b>Total assets less current liabilities</b>			
		<b>76,214</b>	<b>73,873</b>
<b>Non-current liabilities</b>			
Borrowings	28	4,858	6,449
Other financial liabilities	22	30	74
Rental deposits from tenants		569	610
Deferred taxation	29	628	559
		<b>6,085</b>	<b>7,692</b>
<b>Net assets</b>			
		<b>70,129</b>	<b>66,181</b>
<b>Capital and reserves</b>			
Share capital	30	7,640	5,318
Reserves		59,400	58,008
<b>Equity attributable to owners of the Company</b>			
		<b>67,040</b>	<b>63,326</b>
<b>Non-controlling interests</b>			
		<b>3,089</b>	<b>2,855</b>
<b>Total equity</b>			
		<b>70,129</b>	<b>66,181</b>

The consolidated financial statements on pages 120 to 185 were approved and authorised for issue by the Board of Directors on 11 March 2015 and are signed on its behalf by:

Irene Y. L. LEE  
Director

S. C. LAU  
Director



# Statement of Financial Position

At 31 December 2014

123

	Notes	2014 HK\$ million	2013 HK\$ million
<b>Non-current assets</b>			
Property, plant and equipment	17	11	16
Investments in subsidiaries	18	1,422	1,471
Other financial assets	22	2	2
Amounts due from subsidiaries	24	3,514	3,711
		<b>4,949</b>	<b>5,200</b>
<b>Current assets</b>			
Other receivables		2	3
Amounts due from subsidiaries	24	9,194	9,167
Tax recoverables		2	–
Cash and bank balances	25	1	67
		<b>9,199</b>	<b>9,237</b>
<b>Current liabilities</b>			
Other payables and accruals		43	44
Amounts due to subsidiaries	24	1,051	1,275
		<b>1,094</b>	<b>1,319</b>
<b>Net current assets</b>			
		<b>8,105</b>	<b>7,918</b>
<b>Total assets less current liabilities</b>			
		<b>13,054</b>	<b>13,118</b>
<b>Non-current liability</b>			
Deferred taxation	29	1	1
<b>Net assets</b>			
		<b>13,053</b>	<b>13,117</b>
<b>Capital and reserves</b>			
Share capital	30	7,640	5,318
Reserves	31	5,413	7,799
<b>Total equity</b>			
		<b>13,053</b>	<b>13,117</b>

The financial statements on pages 120 to 185 were approved and authorised for issue by the Board of Directors on 11 March 2015 and are signed on its behalf by:

Irene Y. L. LEE  
Director

S. C. LAU  
Director

Overview

Financial Performance

Responsible Business

Corporate Governance

Financial Statements and Valuation

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	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 year	–	–	–	–
Net losses arising from hedging instruments	–	–	–	–
Reclassification adjustments for net losses included in profit or loss	–	–	–	–
Gain on revaluation of properties held for own use	–	–	–	–
Deferred taxation arising on revaluation of properties held for own use (note 29)	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive (expenses) income for the year	–	–	–	–
Issue of shares under share option schemes	3	16	(4)	–
Recognition of equity-settled share-based payments	–	–	10	–
Dividends paid during the year (note 14)	–	–	–	–
At 31 December 2013	5,318	2,038	20	276
Profit for the year	–	–	–	–
Net gains arising from hedging instruments	–	–	–	–
Reclassification adjustments for net gains included in profit or loss	–	–	–	–
Amortisation of forward element excluded from hedge designation	–	–	–	–
Gain on revaluation of properties held for own use	–	–	–	–
Deferred taxation arising on revaluation of properties held for own use (note 29)	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive income (expenses) for the year	–	–	–	–
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance (note 30(a))	2,314	(2,038)	–	(276)
Issue of shares under share option schemes on or after 3 March 2014	8	–	(2)	–
Recognition of equity-settled share-based payments	–	–	10	–
Forfeiture of share options	–	–	(1)	–
Dividends paid during the year (note 14)	–	–	–	–
<b>At 31 December 2014</b>	<b>7,640</b>	<b>–</b>	<b>27</b>	<b>–</b>

## Attributable to owners of the Company

General reserve HK\$ million	Investments revaluation reserve HK\$ million	Hedging reserve HK\$ million	Properties revaluation reserve HK\$ million	Translation reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million	Non-controlling interests HK\$ million	Total HK\$ million
100	(3)	(24)	308	413	49,702	58,123	2,324	60,447
-	-	-	-	-	6,158	6,158	639	6,797
-	-	(105)	-	-	-	(105)	-	(105)
-	-	52	-	-	-	52	-	52
-	-	-	24	-	-	24	-	24
-	-	-	(4)	-	-	(4)	-	(4)
-	-	-	-	117	-	117	-	117
-	-	(53)	20	117	6,158	6,242	639	6,881
-	-	-	-	-	-	15	-	15
-	-	-	-	-	-	10	-	10
-	-	-	-	-	(1,064)	(1,064)	(108)	(1,172)
100	(3)	(77)	328	530	54,796	63,326	2,855	66,181
-	-	-	-	-	4,902	4,902	348	5,250
-	-	95	-	-	-	95	-	95
-	-	(51)	-	-	-	(51)	-	(51)
-	-	7	-	-	-	7	-	7
-	-	-	19	-	-	19	-	19
-	-	-	(3)	-	-	(3)	-	(3)
-	-	-	-	(16)	-	(16)	-	(16)
-	-	51	16	(16)	4,902	4,953	348	5,301
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	6	-	6
-	-	-	-	-	-	10	-	10
-	-	-	-	-	1	-	-	-
-	-	-	-	-	(1,255)	(1,255)	(114)	(1,369)
100	(3)	(26)	344	514	58,444	67,040	3,089	70,129

Overview

Financial Performance

Responsible Business

Corporate Governance

Financial Statements and Valuation

# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 HK\$ million	2013 HK\$ million
<b>Operating activities</b>			
Profit before taxation		5,636	7,169
Adjustments for:			
Other gains and losses		2	(1)
Finance costs		228	242
Change in fair value of investment properties		(2,940)	(4,575)
Share of results of associates		(252)	(309)
Net interest income		(68)	(76)
Depreciation of property, plant and equipment		17	16
Share-based payment expenses		10	10
Operating cash flows before movements in working capital		2,633	2,476
Decrease (increase) in accounts and other receivables		32	(34)
Decrease in accounts payable and accruals		(28)	(46)
Increase in rental deposits from tenants		75	102
Cash generated from operations		2,712	2,498
Hong Kong profits tax paid		(323)	(231)
Hong Kong profits tax refund		6	6
<b>Net cash from operating activities</b>		<b>2,395</b>	<b>2,273</b>
<b>Investing activities</b>			
Interest received		71	36
Dividends received from an associate		263	–
Proceeds upon maturity of principal-protected investments		140	218
Proceeds upon maturity of term notes		574	403
Proceeds upon maturity of time deposits with original maturity over three months		5,483	3,826
Repayment from an associate		–	5
Payments in respect of investment properties		(335)	(696)
Purchases of property, plant and equipment		(24)	(8)
Purchase of principal-protected investment		(64)	–
Purchases of term notes		(601)	(708)
Acquisition of an investment property through a subsidiary	32	(232)	–
Additions to time deposits with original maturity over three months		(5,045)	(5,980)
<b>Net cash from (used in) investing activities</b>		<b>230</b>	<b>(2,904)</b>
<b>Financing activities</b>			
Interest paid		(193)	(161)
Payment of other finance costs		(12)	(18)
Medium Term Note Programme expenses		(2)	(1)
Dividends paid		(1,255)	(1,064)
Dividends paid to non-controlling interests of a subsidiary		(114)	(108)
Repayment of bank loans		(900)	(700)
Repayment of floating rate notes		(200)	–
Issue of fixed rate notes		–	2,326
Proceeds on exercise of share options		6	15
<b>Net cash (used in) from financing activities</b>		<b>(2,670)</b>	<b>289</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(45)</b>	<b>(342)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>621</b>	<b>963</b>
<b>Cash and cash equivalents at 31 December</b>	25	<b>576</b>	<b>621</b>

# Significant Accounting Policies

For the year ended 31 December 2014

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

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance which concern the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements set out in Part 9 of Schedule 11 of the Hong Kong Companies Ordinance (Cap. 622) (“New Companies Ordinance”). In addition, these financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The principal accounting policies adopted are as follows:

## 1. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

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

Total comprehensive income and expenses of a subsidiary are attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## 2. INVESTMENTS IN SUBSIDIARIES

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



### 3. INVESTMENTS IN ASSOCIATES

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

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

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

### 4. INVESTMENT PROPERTIES

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

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

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

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

### 5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

## 5. PROPERTY, PLANT AND EQUIPMENT continued

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

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

## 6. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

## 7. FINANCIAL INSTRUMENTS

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

### Financial assets

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

#### (a) Classification of financial assets

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

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

All other financial assets are subsequently measured at fair value.

## 7. FINANCIAL INSTRUMENTS continued

### Financial assets continued

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

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

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

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

##### (ii) Financial assets at FVTPL

Financial assets at FVTPL comprise derivatives that are not designated and effective as hedging instruments, principal-protected investments and club debentures.

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

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in other gains and losses as disclosed in note 7 of the Notes to the Financial Statements section. Fair value is determined in the manner described in note 4 of the Financial Risk Management section.

The Group or the Company has not designated any debt instrument as at FVTPL or reclassified any debt instruments to or from FVTPL since the application of the 2010 version of the Hong Kong Financial Reporting Standard ("HKFRS") 9.

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

#### (b) Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

## 7. FINANCIAL INSTRUMENTS continued

### Financial assets continued

#### (b) Impairment of financial assets continued

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

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

#### (c) Derecognition of financial assets

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

### Financial liabilities and equity instruments

#### (a) Classification and measurement

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

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

#### (i) Effective interest method

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

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

#### (ii) Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

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

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

## 7. FINANCIAL INSTRUMENTS continued

### Financial liabilities and equity instruments continued

#### (a) Classification and measurement continued

##### (iv) Equity instruments

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

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

##### (b) Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Derivative financial instruments and hedging

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 22 of the Notes to the Financial Statements section.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

### Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contracts are classified and subsequently measured as either amortised cost or FVTPL as appropriate.

### Hedge accounting

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

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

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Note 22 of the Notes to the Financial Statements sets out details of the fair values of the derivative instruments used for hedging purposes.



## 7. FINANCIAL INSTRUMENTS continued

### Hedge accounting continued

#### (a) Fair value hedges

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

#### (b) Cash flow hedges

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

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

Upon discontinuation of the hedging relationship of a cash flow hedge, any cumulative gain or loss accumulated in hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

When the Group separates the spot element of a forward contract and designates only the change in the fair value of the spot element as hedging instrument, the change in fair value of the spot element that is determined to be an effective hedge is recognised in other comprehensive income in hedging reserve and the ineffective portion is recognised in profit or loss. The amount that has been accumulated in hedging reserve is reclassified to profit or loss as a reclassification adjustment in the same period during which the relevant hedged items affect profit or loss.

If the forward elements of a forward contract have the character of a cost for obtaining protection against a risk over a particular period of time, the change in fair value of the forward element is recognised in other comprehensive income in hedging reserve to the extent it relates to the hedged item. The value of the aligned forward element that exists at the date of designation of the forward contract is amortised from hedging reserve to profit or loss on a rational basis over the period during which the hedge adjustment for the forward contract could affect profit or loss. At the end of reporting period, the amortisation amount is reclassified from hedging reserve to profit or loss as a reclassification adjustment.

#### (c) Discontinuation of hedges

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

## 8. REVENUE RECOGNITION

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

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

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

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

## 9. LEASES

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

### The Group as lessor

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

## 10. FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in translation reserve.

## 11. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 12. RETIREMENT BENEFIT COSTS

Payments to the Enhanced Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

## 13. TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

### (a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's or the Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### (b) Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group or the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property", such properties' value are presumed to be recovered through sale. Such a presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 "Income Taxes" (i.e. based on the expected manner as to how the properties will be recovered).

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

## 14. EQUITY-SETTLED SHARE-BASED PAYMENTS TRANSACTIONS

### Share options granted to employees

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

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

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital (to share premium prior to New Companies Ordinance became effective on 3 March 2014). When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

## 15. FAIR VALUE MEASUREMENT

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

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

# Notes to the Financial Statements

For the year ended 31 December 2014

## 1. GENERAL

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

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

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

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

In the current year, the Group and the Company have applied all of the Amendments to Standards and Interpretation issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for the Group’s financial year beginning on 1 January 2014. The adoption of these Amendments to Standards and Interpretation had no material effect on the results and financial position of the Group or the Company for the current and/or prior accounting years.

In addition, the Group had applied the new requirements for hedge accounting under the 2013 version of the Hong Kong Financial Reporting Standard (“HKFRS”) 9 in advance of its effective date further to the Group’s early application of the 2010 version of HKFRS 9 in prior years.

### HKFRS 9 “Financial instrument: Hedge Accounting”

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

In accordance with the transitional provision for hedge accounting of HKFRS 9, the Group is only required to prospectively apply the new requirements for hedge accounting under HKFRS 9 except for certain limited exceptions from the date of initial application on 1 January 2014. At initial application, hedging relationships that qualified for hedge accounting in accordance with Hong Kong Accounting Standard (“HKAS”) 39 “Financial Instruments: Recognition and Measurement” that also qualify for hedge accounting in accordance with the criteria of the new requirements after taking into account any rebalancing of the hedging relationship on transition were regarded as continuing hedging relationships.

Upon the early application of these new requirements for hedge accounting under HKFRS 9, the Group separates the spot element of certain forward contracts and designated only the change in the fair value of the spot elements of these forward contracts as hedging instruments during the year. The relevant accounting policies of these changes are disclosed in note 7 of the “Significant Accounting Policies” section and have had no material impact on the results and financial position of the Group or the Company for the current and/or prior years.



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

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

HKFRS 9	Financial Instruments <sup>5</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>3</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>1</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2018, except for the 2010 version of HKFRS 9 and the new requirements for hedge accounting issued in 2013, which the Group early adopted.

### HKFRS 9 “Financial Instruments”

A revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for the financial assets and (b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (“FVTOCI”) measurement category for certain debt instruments.

In terms of the amendments, debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. Under the impairment approach of HKFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Directors of the Company have reviewed the Group’s and the Company’s financial assets as at 31 December 2014 and anticipate that the application of the 2014 version of HKFRS 9 in the future is not likely to have material impact on the results and financial position of the Group or the Company based on an analysis of the Group’s and the Company’s existing business model.

The Directors of the Company anticipate that the application of the other new Standards and Amendments to Standards will have no material impact on the results and financial position of the Group or the Company.

In addition, the annual report requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) (“New Companies Ordinance”) will come into operation as from the Company’s financial year commencing on 1 January 2015. The Group is in the process of making an assessment of expected impact of the changes in the New Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the New Companies Ordinance. The Directors of the Company have concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

### 3. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

#### Fair value of investment properties

At the end of the reporting period, the Group's investment properties are stated at fair value of HK\$ 68,735 million (2013: HK\$65,322 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates and reversionary income potential and redevelopment potential taking into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In relying on the valuation, management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions.

#### Fair value of financial instruments

Financial instruments, such as principal-protected investments, interest rate swaps, cross currency swaps and foreign exchange derivatives, are carried in the Group's consolidated statement of financial position at fair value, as disclosed in note 22 of the Notes to the Financial Statements section. The management of the Company uses its judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates. Most of the financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in the "Financial Risk Management" section.

### 4. TURNOVER

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

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

For the year ended 31 December 2014

## 5. SEGMENT INFORMATION

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

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

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

Residential segment – leasing of luxury residential properties and related facilities

### Segment turnover and results

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>For the year ended 31 December 2014</b>				
<b>Turnover</b>				
Gross rental income from investment properties	1,674	1,002	257	2,933
Management fee income	127	134	30	291
<b>Segment revenue</b>	<b>1,801</b>	<b>1,136</b>	<b>287</b>	<b>3,224</b>
Property expenses	(226)	(118)	(60)	(404)
<b>Segment profit</b>	<b>1,575</b>	<b>1,018</b>	<b>227</b>	<b>2,820</b>
Investment income				68
Other gains and losses				(2)
Administrative expenses				(214)
Finance costs				(228)
Change in fair value of investment properties				2,940
Share of results of associates				252
Profit before taxation				5,636
<b>For the year ended 31 December 2013</b>				
<b>Turnover</b>				
Gross rental income from investment properties	1,553	952	270	2,775
Management fee income	125	133	30	288
<b>Segment revenue</b>	<b>1,678</b>	<b>1,085</b>	<b>300</b>	<b>3,063</b>
Property expenses	(212)	(128)	(65)	(405)
<b>Segment profit</b>	<b>1,466</b>	<b>957</b>	<b>235</b>	<b>2,658</b>
Investment income				76
Other gains and losses				1
Administrative expenses				(208)
Finance costs				(242)
Change in fair value of investment properties				4,575
Share of results of associates				309
Profit before taxation				7,169

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

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

## 5. SEGMENT INFORMATION continued

### Segment assets

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>As at 31 December 2014</b>				
<b>Segment assets</b>	<b>34,315</b>	<b>22,685</b>	<b>7,718</b>	<b>64,718</b>
Investment properties under redevelopment ( <i>Note</i> )				4,020
Investments in associates				4,154
Other assets				6,131
Consolidated assets				<b>79,023</b>
<b>As at 31 December 2013</b>				
<b>Segment assets</b>	<b>32,655</b>	<b>24,205</b>	<b>8,472</b>	<b>65,332</b>
Investments in associates				4,181
Other assets				6,581
Consolidated assets				<b>76,094</b>

Note:

During the year ended 31 December 2014, certain investment properties were under redevelopment and transferred out from segment assets (see note 16).

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

Other than the investments in associates, which operated in the People's Republic of China (the "PRC") with carrying amounts of HK\$4,154 million (2013: HK\$4,181 million), all the Group's assets are located in Hong Kong.

### Other segment information

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
<b>For the year ended 31 December 2014</b>				
Additions to non-current assets	<b>315</b>	<b>68</b>	<b>4</b>	<b>387</b>
Additions to investment properties under redevelopment				<b>166</b>
				<b>553</b>
<b>For the year ended 31 December 2013</b>				
Additions to non-current assets	679	50	10	<b>739</b>

For the year ended 31 December 2014

**6. INVESTMENT INCOME**

Investment income comprises net interest income of HK\$68 million (2013: HK\$76 million).

The following is an analysis of investment income:

	2014 HK\$ million	2013 HK\$ million
Financial assets measured at amortised cost	61	76
Reclassification of net gains from hedging reserve on financial instruments designated as cash flow hedges	14	–
Amortisation of forward element excluded from hedge designation	(7)	–
	<b>68</b>	<b>76</b>

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

**7. OTHER GAINS AND LOSSES**

	2014 HK\$ million	2013 HK\$ million
Other gains and losses comprise:		
Change in fair value of financial assets or financial liabilities classified as at FVTPL	(2)	–
Losses on hedging instruments under fair value hedge	(22)	(25)
Gains on adjustment for hedged items under fair value hedge	22	26
	<b>(2)</b>	<b>1</b>

**8. FINANCE COSTS**

	2014 HK\$ million	2013 HK\$ million
Finance costs comprise:		
Interest on bank loans wholly repayable within five years	20	32
Interest on floating rate notes wholly repayable within five years	2	3
Interest on fixed rate notes wholly repayable within five years	38	26
Interest on fixed rate notes not wholly repayable within five years	157	166
Imputed interest on zero coupon notes wholly repayable within five years	17	–
Imputed interest on zero coupon notes not wholly repayable within five years	–	17
Total interest expenses	<b>234</b>	<b>244</b>
Other finance costs	<b>8</b>	<b>9</b>
	<b>242</b>	<b>253</b>
Net interest receipts on interest rate swaps	(25)	(24)
Net exchange losses (gains) on borrowings	46	(40)
Reclassification of net (gains) losses from hedging reserve on financial instruments designated as cash flow hedges	(37)	52
Medium Term Note Programme expenses	2	1
	<b>228</b>	<b>242</b>

## 9. TAXATION

	2014 HK\$ million	2013 HK\$ million
Current tax		
Hong Kong profits tax		
– current year	323	250
– (overprovision) underprovision in prior years	(3)	1
	320	251
Deferred tax ( <i>note 29</i> )	66	121
	386	372

Hong Kong Profits Tax is calculated at 16.5 % of the estimated assessable profit for both years.

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2014 HK\$ million	2013 HK\$ million
Profit before taxation	5,636	7,169
Tax at Hong Kong profits tax rate of 16.5 %	930	1,183
Tax effect of share of results of associates	(42)	(51)
Tax effect of expenses not deductible for tax purposes	31	49
Tax effect of income not taxable for tax purposes	(551)	(812)
Tax effect of estimated tax losses not recognised	21	5
Reversal of previously recognised taxable temporary differences	–	(1)
Utilisation of estimated tax losses previously not recognised	–	(2)
(Overprovision) underprovision in prior years	(3)	1
Taxation for the year	386	372

In addition to the amount charged to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties held for own use has been charged directly to properties valuation reserve (see note 29).

## 10. PROFIT FOR THE YEAR

	2014 HK\$ million	2013 HK\$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	3	2
Depreciation of property, plant and equipment	17	16
Gross rental income from investment properties including contingent rentals of HK\$93 million (2013: HK\$106 million)	(2,933)	(2,775)
Less:		
– Direct operating expenses arising from properties that generated rental income	399	400
– Direct operating expenses arising from properties that did not generate rental income	5	5
	(2,529)	(2,370)
Staff costs, comprising:		
– Directors' emoluments ( <i>note 12</i> )	35	32
– Share-based payments	4	4
– Other staff costs	224	218
	263	254
Share of income tax of an associate (included in share of results of associates)	106	119



**11. OTHER COMPREHENSIVE INCOME**

	2014 HK\$ million	2013 HK\$ million
Other comprehensive income comprises:		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	19	24
Deferred taxation arising on revaluation	(3)	(4)
	<b>16</b>	<b>20</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Derivatives designated as cash flow hedges:		
Net gains (losses) arising during the year	95	(105)
Reclassification adjustments for net (gains) losses included in profit or loss	(51)	52
	<b>44</b>	<b>(53)</b>
Amortisation of forward element excluded from hedge designation	7	–
	<b>51</b>	<b>(53)</b>
Share of translation reserve of an associate	(16)	117
	<b>35</b>	<b>64</b>
Other comprehensive income for the year (net of tax)	<b>51</b>	<b>84</b>

Tax effect relating to other comprehensive income:

	Before-tax amount HK\$ million	2014 Tax expense HK\$ million	Net-of-tax amount HK\$ million	Before-tax amount HK\$ million	2013 Tax expense HK\$ million	Net-of-tax amount HK\$ million
Net adjustments to hedging reserve	51	–	51	(53)	–	(53)
Gains on revaluation of properties held for own use	19	(3)	16	24	(4)	20
Share of translation reserve of an associate	(16)	–	(16)	117	–	117
	<b>54</b>	<b>(3)</b>	<b>51</b>	<b>88</b>	<b>(4)</b>	<b>84</b>

**12. DIRECTORS' EMOLUMENTS**

	2014 HK\$ million	2013 HK\$ million
Directors' fees	2	2
Other emoluments		
Basic salaries, housing and other allowances	13	13
Bonus	13	10
Share-based payments	6	6
Retirement benefits scheme contributions	1	1
	<b>35</b>	<b>32</b>

## 12. DIRECTORS' EMOLUMENTS continued

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2014, calculated with reference to their employment as Directors of the Company, are set out below:

	Directors' fees HK\$'000 (Note b)	Basic salaries, housing and other allowances HK\$'000 (Note a)	Bonus HK\$'000 (Note a)	Share-based payments HK\$'000 (Note d)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2014</b>						
<b>Executive Directors</b>						
Irene Yun Lien LEE	–	4,931	6,082	2,819	17	13,849
Siu Chuen LAU	–	5,340	5,176	2,618	17	13,151
Wendy Wen Yee YUNG	–	3,042	1,474	992	281	5,789
<b>Non-executive Directors</b>						
Hans Michael JEBSEN	200	–	–	–	–	200
Anthony Hsien Pin LEE	260	–	–	–	–	260
Chien LEE	240	–	–	–	–	240
Michael Tze Hau LEE	240	–	–	–	–	240
<b>Independent non-executive Directors</b>						
Nicholas Charles ALLEN	352	–	–	–	–	352
Frederick Peter CHURCHOUSE (Note e)	206	–	–	–	–	206
Philip Yan Hok FAN	356	–	–	–	–	356
Lawrence Juen-Yee LAU (Note f)	11	–	–	–	–	11
Joseph Chung Yin POON	260	–	–	–	–	260
	2,125	13,313	12,732	6,429	315	34,914
<b>For the year ended 31 December 2013</b>						
<b>Executive Directors</b>						
Irene Yun Lien LEE	–	4,931	4,952	2,715	15	12,613
Siu Chuen LAU	–	5,341	3,187	2,519	15	11,062
Wendy Wen Yee YUNG	–	3,042	1,638	1,251	281	6,212
<b>Non-executive Directors</b>						
Hans Michael JEBSEN	200	–	–	–	–	200
Anthony Hsien Pin LEE	260	–	–	–	–	260
Chien LEE	240	–	–	–	–	240
Michael Tze Hau LEE	240	–	–	–	–	240
<b>Independent non-executive Directors</b>						
Nicholas Charles ALLEN	340	–	–	–	–	340
Frederick Peter CHURCHOUSE	200	–	–	–	–	200
Philip Yan Hok FAN	350	–	–	–	–	350
Joseph Chung Yin POON	260	–	–	–	–	260
	2,090	13,314	9,777	6,485	311	31,977

For the year ended 31 December 2014

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

Notes:

## a. Year 2014:

The Remuneration Committee met in March 2014 to approve the 2014 annual fixed base salary and determine the 2013 performance-based bonus of the Company's Executive Directors. The annual cash compensation of Siu Chuen LAU, Deputy Chairman and Chief Executive Officer, was revised to HK\$8,900,667, based on market benchmark, and the jobholder's experience, qualification, and performance. His annual base salary remained unchanged at HK\$5,340,400 (making up 60% of the total package instead of 65% as in 2013). Annual fixed base salary of all Executive Directors remained the same for 2014. The stated bonus figures show the 2013 performance-based bonus approved by the Committee and paid to Executive Directors.

## b. Directors' fees scales for Board and Board Committees were approved by shareholders at the annual general meeting held on 9 May 2011. Revision to fees of chairmen of Audit Committee and Remuneration Committee (effective 1 June 2014) were approved by shareholders at the annual general meeting held on 13 May 2014. Details are set out in Directors' Remuneration and Interests Report.

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

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2014 is set out below:

	Board HK\$'000	Audit Committee HK\$'000	Remuneration Committee HK\$'000	Strategy Committee HK\$'000	Nomination Committee HK\$'000	2014 Total HK\$'000	2013 Total HK\$'000
<b>Executive Directors</b>							
Irene Yun Lien LEE	–	–	–	–	–	–	–
Siu Chuen LAU	–	–	–	–	–	–	–
Wendy Wen Yee YUNG	–	–	–	–	–	–	–
<b>Non-executive Directors</b>							
Hans Michael JEBSEN	200	–	–	–	–	200	200
Anthony Hsien Pin LEE	200	60	–	–	–	260	260
Chien LEE	200	–	–	20	20	240	240
Michael Tze Hau LEE	200	–	40	–	–	240	240
<b>Independent non-executive Directors</b>							
Nicholas Charles ALLEN	200	112	–	20	20	352	340
Frederick Peter CHURCHHOUSE	200	6	–	–	–	206	200
Philip Yan Hok FAN	200	60	56	20	20	356	350
Lawrence Juen-Yee LAU	11	–	–	–	–	11	–
Joseph Chung Yin POON	200	–	40	–	20	260	260
	1,611	238	136	60	80	2,125	2,090

## c. Year 2013:

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

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

## e. Frederick Peter CHURCHHOUSE was appointed a member of Audit Committee effective 25 November 2014.

## f. Lawrence Juen-Yee LAU was appointed Independent non-executive Director effective 12 December 2014.

### 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2013: three) were Directors of the Company, details of whose emoluments are included in note 12 of the Notes to the Financial Statements section. The emoluments of all of the five individuals with the highest emoluments for the year ended 31 December 2014 and 2013 were as follows:

	2014 HK\$ million	2013 HK\$ million
Basic salaries, housing and other allowances	19	19
Bonus	15	11
Share-based payments ( <i>Note</i> )	7	8
	<b>41</b>	<b>38</b>

Note:

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

Their emoluments are within the following bands:

	Number of individuals	
	2014	2013
HK\$3,500,001 to HK\$4,000,000	2	1
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$6,000,001 to HK\$6,500,000	–	1
HK\$11,000,001 to HK\$11,500,000	–	1
HK\$12,500,001 to HK\$13,000,000	–	1
HK\$13,000,001 to HK\$13,500,000	1	–
HK\$13,500,001 to HK\$14,000,000	1	–
	<b>5</b>	<b>5</b>

Senior management (for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange (“the Listing Rules”)) during the year are Executive Directors and an officer. Their emoluments are within the following bands.

	Number of individuals	
	2014	2013
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$6,000,001 to HK\$6,500,000	–	1
HK\$11,000,001 to HK\$11,500,000	–	1
HK\$12,500,001 to HK\$13,000,000	–	1
HK\$13,000,001 to HK\$13,500,000	1	–
HK\$13,500,001 to HK\$14,000,000	1	–
	<b>4</b>	<b>4</b>

For the year ended 31 December 2014

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

	2014 HK\$ million	2013 HK\$ million
2014 first interim dividend paid – HK23 cents per share	245	–
2013 first interim dividend paid – HK22 cents per share	–	234
2013 second interim dividend paid – HK95 cents per share	1,010	–
2012 second interim dividend paid – HK78 cents per share	–	830
	<b>1,255</b>	<b>1,064</b>

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

	2014 HK\$ million	2013 HK\$ million
Second interim dividend (in lieu of a final dividend) – HK100 cents per share (2013: HK95 cents per share)	<b>1,064</b>	1,010

The second interim dividend is not recognised as a liability as at 31 December 2014 because it has been declared after the end of the reporting period. Such dividend will be accounted for as an appropriation of the retained profits in the year ending 31 December 2015.

The declared second interim dividend will be payable in cash.

**15. EARNINGS PER SHARE****(a) Basic and diluted earnings per share**

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

	Earnings	
	2014 HK\$ million	2013 HK\$ million
Earnings for the purposes of basic and diluted earnings per share: Profit for the year attributable to owners of the Company	<b>4,902</b>	6,158
	Number of shares	
	2014	2013
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,063,758,157</b>	1,063,488,216
Effect of dilutive potential ordinary shares: Share options issued by the Company	<b>298,254</b>	365,948
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,064,056,411</b>	1,063,854,164

In both years, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options are higher than the average market price for shares.

## 15. 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 year attributable to the owners of the Company should be adjusted in the calculation of basic earnings per share as follows:

	2014		2013	
	Profit HK\$ million	Basic earnings per share HK cents	Profit HK\$ million	Basic earnings per share HK cents
Profit for the year attributable to owners of the Company	4,902	460.82	6,158	579.04
Change in fair value of investment properties	(2,940)	(276.38)	(4,575)	(430.19)
Effect of non-controlling interests' shares	208	19.55	532	50.02
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(7)	(0.65)	(72)	(6.77)
Underlying Profit	2,163	203.34	2,043	192.10
Recurring Underlying Profit	2,163	203.34	2,043	192.10

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). As there were no such adjustments in both years, the Recurring Underlying Profit is the same as the Underlying Profit.
- (2) The denominators used in calculating the adjusted earnings per share are the same as those detailed above for basic earnings per share.

## 16. INVESTMENT PROPERTIES

	The Group	
	2014 HK\$ million	2013 HK\$ million
<b>Fair Value</b>		
At 1 January	65,322	60,022
Additions	553	733
Transfer from property, plant and equipment	–	6
Transfer to property, plant and equipment	(80)	(14)
Change in fair value recognised in profit or loss – unrealised	2,940	4,575
<b>At 31 December</b>	<b>68,735</b>	<b>65,322</b>

The carrying amount of investment properties shown above comprises:

	The Group	
	2014 HK\$ million	2013 HK\$ million
Land in Hong Kong:		
– Medium-term lease	7,718	7,716
– Long lease	61,017	57,606
	<b>68,735</b>	<b>65,322</b>

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.



**16. INVESTMENT PROPERTIES** *continued***Fair value measurements and valuation processes**

The fair value of the Group's investment properties at 31 December 2014 and 2013 and at the date of transfer to and from property, plant and equipment has been arrived at on the basis of a valuation carried out on those dates 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 The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the investment properties, the management of the Group has considered the highest and best use of the investment properties.

The value of the completed investment properties is derived from the basis of capitalisation of net income with due allowance for the reversionary income and redevelopment potential, where appropriate.

For investment properties under redevelopment as at 31 December 2014, residual method of valuation was adopted. The value is based on the redevelopment potential of the properties as if they were completed in accordance with the existing development controls at the date of valuation. The value has also taken into consideration all costs of redevelopment and allowance of profit required for the redevelopment, which duly reflected the risks associated with the redevelopment.

There has been no change to the valuation technique during the year for completed properties. For the investment properties under redevelopment, the valuation technique has been changed from income capitalisation approach to residual method during the year.

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

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

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

**Fair value measurements using significant unobservable inputs (Level 3)**

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

	Retail HK\$ million	Office HK\$ million	The Group Residential HK\$ million	Investment properties under redevelopment HK\$ million	Total HK\$ million
At 1 January 2013	28,906	22,622	8,494	–	60,022
Additions	679	44	10	–	733
Transfer from property, plant and equipment	–	6	–	–	6
Transfer to property, plant and equipment	–	(14)	–	–	(14)
Change in fair value recognised in profit or loss – unrealised	3,066	1,542	(33)	–	4,575
At 31 December 2013	32,651	24,200	8,471	–	65,322
Additions	315	68	4	166	553
Transfer to property, plant and equipment	(80)	–	–	–	(80)
Transfer to investment properties under redevelopment	(417)	(2,251)	(755)	3,423	–
Change in fair value recognised in profit or loss – unrealised	1,844	667	(2)	431	2,940
<b>At 31 December 2014</b>	<b>34,313</b>	<b>22,684</b>	<b>7,718</b>	<b>4,020</b>	<b>68,735</b>

## 16. INVESTMENT PROPERTIES continued

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

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

Description	Fair value as at 31 December		Valuation techniques	The Group		Relationship of unobservable inputs to fair value
	2014 HK\$ million	2013		Unobservable inputs	Range/ weighted average of unobservable inputs	
Retail	34,313	32,651	Income capitalisation approach	(i) Capitalisation rate	5.00 % – 5.25 % (2013: 5.00 % – 5.25 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$141 per square foot (2013: HK\$132 per square foot)	The higher the market rent, the higher the fair value.
Office	22,684	24,200	Income capitalisation approach	(i) Capitalisation rate	4.25 % – 5.00 % (2013: 4.25 % – 5.00 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$47 per square foot (2013: HK\$46 per square foot)	The higher the market rent, the higher the fair value.
Residential	7,718	8,471	Income capitalisation approach	(i) Capitalisation rate	3.75 % (2013: 3.75 % – 4.00 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$35 per square foot (2013: HK\$34 per square foot)	The higher the market rent, the higher the fair value.
Investment properties under redevelopment	4,020	–	Residual method	(i) Capitalisation rate	4.25 % – 5.00 % (2013: N/A)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$100 per square foot (2013: N/A)	The higher the market rent, the higher the fair value.

N/A: not applicable

For the year ended 31 December 2014

**17. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold land and buildings in Hong Kong HK\$ million (Note)	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
<b>The Group</b>					
<b>Cost or valuation</b>					
At 1 January 2013	539	91	40	2	672
Additions	–	4	3	1	8
Disposal	–	(1)	–	(1)	(2)
Transfer from investment properties	14	–	–	–	14
Transfer to investment properties	(6)	–	–	–	(6)
Surplus on revaluation	20	–	–	–	20
At 31 December 2013	567	94	43	2	706
Additions	–	20	4	–	24
Disposals	–	(4)	–	–	(4)
Transfer from investment properties	80	–	–	–	80
Surplus on revaluation	15	–	–	–	15
<b>At 31 December 2014</b>	<b>662</b>	<b>110</b>	<b>47</b>	<b>2</b>	<b>821</b>
Comprising:					
At cost	–	110	47	2	159
At valuation 2014	662	–	–	–	662
	662	110	47	2	821
<b>Accumulated depreciation</b>					
At 1 January 2013	–	62	29	1	92
Provided for the year	4	8	4	–	16
Eliminated on disposals	–	(1)	–	(1)	(2)
Eliminated on revaluation	(4)	–	–	–	(4)
At 31 December 2013	–	69	33	–	102
Provided for the year	4	9	3	1	17
Eliminated on disposals	–	(4)	–	–	(4)
Eliminated on revaluation	(4)	–	–	–	(4)
<b>At 31 December 2014</b>	<b>–</b>	<b>74</b>	<b>36</b>	<b>1</b>	<b>111</b>
<b>Carrying amounts</b>					
<b>At 31 December 2014</b>	<b>662</b>	<b>36</b>	<b>11</b>	<b>1</b>	<b>710</b>
At 31 December 2013	567	25	10	2	604

## 17. PROPERTY, PLANT AND EQUIPMENT continued

	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
<b>The Company</b>				
<b>Cost</b>				
At 1 January 2013	40	31	1	72
Disposal	–	–	(1)	(1)
<b>At 31 December 2013 and 2014</b>	<b>40</b>	<b>31</b>	<b>–</b>	<b>71</b>
<b>Accumulated depreciation</b>				
At 1 January 2013	24	25	1	50
Provided for the year	4	2	–	6
Eliminated on disposal	–	–	(1)	(1)
At 31 December 2013	28	27	–	55
Provided for the year	3	2	–	5
<b>At 31 December 2014</b>	<b>31</b>	<b>29</b>	<b>–</b>	<b>60</b>
<b>Carrying amounts</b>				
<b>At 31 December 2014</b>	<b>9</b>	<b>2</b>	<b>–</b>	<b>11</b>
At 31 December 2013	12	4	–	16

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

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

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

Note:

### Fair value measurements and valuation processes

The fair value of the Group's leasehold land and buildings in Hong Kong at 31 December 2014 and 2013 and at the date of transfer to property, plant and equipment has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's leasehold land and buildings in Hong Kong have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the properties, the management of the Group has considered the highest and best use of the properties. The value was derived from the basis of capitalisation of net income with due allowance for the reversionary income potential. There has been no change to the valuation technique during the year.

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

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

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

For the year ended 31 December 2014

**17. PROPERTY, PLANT AND EQUIPMENT** *continued***Information about fair value measurements using significant unobservable inputs (Level 3)**

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

Description	Fair value as at 31 December		Valuation techniques	The Group		Relationship of unobservable inputs to fair value
	2014 HK\$ million	2013		Unobservable inputs	Range/ weighted average of unobservable inputs	
Leasehold land and buildings in Hong Kong	662	567	Income capitalisation approach	(i) Capitalisation rate	4.25 % – 5.25 % (2013: 4.25 % – 5.00 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$57 per square foot (2013: HK\$55 per square foot)	The higher the market rent, the higher the fair value.

The gains of HK\$19 million (2013: HK\$24 million) arising on revaluation have been recognised in other comprehensive income and accumulated in properties revaluation reserve.

Had the Group's land and buildings been measured on a historical cost basis, their carrying amounts would have been HK\$261 million (2013: HK\$185 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$29 million (2013: HK\$31 million) and accumulated depreciation of HK\$23 million (2013: HK\$24 million) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$2 million (2013: HK\$2 million).

There is no property, plant and equipment of the Company held for renting out under operating leases for the year or at the end of the reporting period.

**18. INVESTMENTS IN SUBSIDIARIES**

	The Company	
	2014 HK\$ million	2013 HK\$ million
Investments in subsidiaries comprise:		
Unlisted shares, at cost	–	–
Deemed capital contribution in subsidiaries ( <i>Note</i> )	1,422	1,471
	<b>1,422</b>	<b>1,471</b>

Note:

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

## 18. INVESTMENTS IN SUBSIDIARIES continued

The table below lists the principal subsidiaries of the Group at 31 December 2014 and 2013:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of ownership interests/ voting rights held by the Company		Principal activities
			directly	indirectly	
Admore Investments Limited	Hong Kong	HK\$2	100 %	–	Investment holding
HD Treasury Limited	Hong Kong	HK\$2	100 %	–	Treasury operation
Hysan (MTN) Limited	British Virgin Islands/ Hong Kong	US\$1	100 %	–	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK\$1	100 %	–	Investment holding
Hysan Corporate Services Limited	Hong Kong	HK\$2	100 %	–	Provision of corporate services
Hysan Leasing Company Limited	Hong Kong	HK\$2	100 %	–	Leasing administration
Hysan Property Management Limited	Hong Kong	HK\$2	100 %	–	Property management
Hysan Treasury Limited	Hong Kong	HK\$2	100 %	–	Treasury operation
Kwong Hup Holding Limited	British Virgin Islands	HK\$1	100 %	–	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK\$1,000	100 %	–	Property investment
Minsal Limited	Hong Kong	HK\$2	100 %	–	Property investment
Mondsee Limited	Hong Kong	HK\$2	100 %	–	Property investment
Stangard Limited	Hong Kong	HK\$300,000	100 %	–	Provision of security services
Teamfine Enterprises Limited	Hong Kong	HK\$2	100 %	–	Investment holding
Bamboo Grove Recreational Services Limited	Hong Kong	HK\$2	–	100 %	Resident club management
Earn Extra Investments Limited	Hong Kong	HK\$1	–	100 %	Property investment
Alpha Ace Limited	Hong Kong	HK\$1	–	100 %	Property development
HD Investment Limited	British Virgin Islands	HK\$1	–	100 %	Investment holding
Lee Theatre Realty Limited	Hong Kong	HK\$10	–	100 %	Property investment
Leighton Property Company Limited	Hong Kong	HK\$2	–	100 %	Property investment
Main Rise Development Limited	Hong Kong	HK\$2	–	100 %	Investment holding
OHA Property Company Limited	Hong Kong	HK\$2	–	100 %	Property investment
Perfect Win Properties Limited	Hong Kong	HK\$2	–	100 %	Property investment
Silver Nicety Company Limited	Hong Kong	HK\$20	–	100 %	Property investment
Barrowgate Limited	Hong Kong	HK\$10,000	–	65.36 %	Property investment

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially contribute to the net income of the Group or hold a material portion of the assets or liabilities or otherwise are operating subsidiaries of the Group. Other than floating rate notes, fixed rate notes and zero coupon notes issued by Hysan (MTN) Limited as disclosed in note 28 of the Notes to the Financial Statements section, none of the subsidiaries had issued any debt securities at the end of the reporting period.

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



For the year ended 31 December 2014

**18. INVESTMENTS IN SUBSIDIARIES** *continued***Barrowgate Limited**

	2014 HK\$ million	2013 HK\$ million
Current assets	188	112
Non-current assets	10,007	9,357
Current liabilities	(1,063)	(1,030)
Non-current liabilities	(215)	(196)
Equity attributable to owners of the Company	5,828	5,388
Non-controlling interests	3,089	2,855
Turnover	567	463
Profit and total comprehensive income for the year	1,004	1,844
Profit and total comprehensive income attributable to owner of the Company	656	1,205
Profit and total comprehensive income attributable to the non-controlling interests	348	639
Dividends paid to non-controlling interests	114	108
Net cash inflows from operating activities	419	360
Net cash outflows from investing activities	(28)	(27)
Cash outflows from financing activities	(330)	(310)
Net cash inflows	61	23

**19. INVESTMENTS IN ASSOCIATES**

	The Group	
	2014 HK\$ million	2013 HK\$ million
Cost of unlisted investments	2	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	4,152	4,179
	4,154	4,181

Details of the Group's associates at 31 December 2014 and 2013 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Class of share held/ registered capital	Effective interest held by the Group	Principal activities
Country Link Enterprises Limited ( <i>Note</i> )	Private limited company	Hong Kong	Ordinary share of HK\$5,000,000	26.3%*	Investment holding
Shanghai Kong Hui Property Development Co., Ltd ( <i>Note</i> )	Sino-Foreign equity joint venture	The PRC	US\$165,000,000 <sup>#</sup>	24.7%*	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd ( <i>Note</i> )	Sino-Foreign equity joint venture	The PRC	US\$140,000 <sup>#</sup>	23.7%*	Property management
Wingrove Investment Pte Ltd <sup>^</sup>	Private company limited by shares	Singapore	Ordinary share of S\$1,000,000	25.0%*	Inactive

\* Indirectly held

<sup>#</sup> Fully paid-up registered capital<sup>^</sup> The company is under liquidation as at 31 December 2014 and 2013. This associate is not material to the Group during both years or as at the end of the reporting period.

Note:

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

## 19. INVESTMENTS IN ASSOCIATES continued

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

### Country Link

	2014 HK\$ million	2013 HK\$ million
Current assets	3,171	3,048
Non-current assets	18,639	18,660
Current liabilities	(957)	(902)
Non-current liabilities	(4,048)	(3,960)
Turnover	1,595	1,526
Profit for the year	1,022	1,248
Other comprehensive income for the year	(63)	474
Total comprehensive income for the year	959	1,722
Group's share of results of associates for the year	252	309
Group's share of other comprehensive income of associates for the year	(16)	117

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

	2014 HK\$ million	2013 HK\$ million
Net assets of the associate	16,805	16,846
Non-controlling interests of the associate	(1,005)	(944)
Net assets of the associate after deducting non-controlling interests of the associate	15,800	15,902
Proportion of the Group's ownership interest in the associate	26.3%	26.3%
Group's share of net assets of the associate	4,157	4,184
Others	(3)	(3)
Carrying amount of the Group's interest in the associate	4,154	4,181

## 20. PRINCIPAL-PROTECTED INVESTMENTS

The carrying amounts of principal-protected investments based on the maturity dates of respective contracts are analysed as follows:

	The Group	
	2014 HK\$ million	2013 HK\$ million
Within 1 year	80	77
More than 1 year but not exceeding 5 years	–	81
	80	158

The Group entered into certain contracts of structured investments with certain financial institutions. The structured investments are principal-protected at the maturity dates and contain embedded derivatives. The interest rates of such investments vary in relation to the relative movements of the underlying variables, such as foreign exchange rates and interest rates. The entire combined contracts have been classified as financial assets at FVTPL.

For the year ended 31 December 2014

**20. PRINCIPAL-PROTECTED INVESTMENTS** *continued*

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

	2014		2013	
	Notional amount HK\$ million	Fair value HK\$ million	Notional amount HK\$ million	Fair value HK\$ million
Within 1 year	80	80	78	77
More than 1 year but not exceeding 5 years	–	–	80	81
	<b>80</b>	<b>80</b>	<b>158</b>	<b>158</b>

**21. TERM NOTES**

	The Group	
	2014 HK\$ million	2013 HK\$ million
Term notes, at amortised cost, comprise:		
– Debt securities listed in Hong Kong	213	110
– Debt securities listed in overseas	197	168
– Unlisted debt securities	795	924
Total	<b>1,205</b>	<b>1,202</b>
Analysed for reporting purposes as:		
Current assets	485	580
Non-current assets	720	622
	<b>1,205</b>	<b>1,202</b>

As at 31 December 2014, the effective yield of the debt securities ranged from 1.20 % to 3.27 % (2013: 1.11 % to 3.27 %) per annum, payable quarterly, semi-annually or annually, and the securities will mature from January 2015 to October 2017 (2013: from January 2014 to June 2016). At the end of the reporting period, none of these assets were past due but not impaired.

**22. OTHER FINANCIAL ASSETS/LIABILITIES**

	Current		Non-current	
	2014 HK\$ million	2013 HK\$ million	2014 HK\$ million	2013 HK\$ million
<b>Other financial assets</b>				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	7	–	1	–
Fair value hedges				
– Interest rate swaps	8	–	–	30
	<b>15</b>	<b>–</b>	<b>1</b>	<b>30</b>
Financial assets measured at FVTPL:				
Club debentures	–	–	2	2
Total	<b>15</b>	<b>–</b>	<b>3</b>	<b>32</b>
<b>Other financial liabilities</b>				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	1	–	–	–
– Cross currency swaps	–	45	30	68
– Interest rate swaps	1	3	–	6
Total	<b>2</b>	<b>48</b>	<b>30</b>	<b>74</b>

## 22. OTHER FINANCIAL ASSETS/LIABILITIES continued

### (a) Cash flow hedges

#### (i) Foreign currency risk

During the year, the Group used forward foreign exchange contracts and cross currency swaps to manage its foreign currency exposure. The principal terms of the forward foreign exchange contracts and cross currency swaps have been negotiated to match the major terms of the respective designated hedged items and the management considers that the hedges are highly effective.

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

	The Group									
	Average exchange rate*	Foreign currency	2014			2013				
			Notional amount million	HK\$ million	Fair value HK\$ million	Average exchange rate*	Foreign currency	Notional amount million	HK\$ million	Fair value HK\$ million
<b>Forward foreign exchange contracts</b>										
<b>Sell US dollars ("USD")</b> <i>(Note a)</i>										
Within 1 year	7.7520	USD	10	77	–	7.7426	USD	25	194	–
More than 1 year but not exceeding 5 years	7.7612	USD	56	434	–	7.7435	USD	12	89	–
	7.7598	USD	66	511	–	7.7429	USD	37	283	–
<b>Sell Renminbi ("RMB")</b> <i>(Note b)</i>										
Within 1 year	1.2484	RMB	610	762	6	–	–	–	–	–
More than 1 year but not exceeding 5 years	1.2185	RMB	55	67	1	–	–	–	–	–
	1.2459	RMB	665	829	7	–	–	–	–	–
<b>Cross currency swaps</b>										
<b>Hedging interest and principal of Australian dollars ("AUD") bank loan</b> <i>(Note c)</i>										
Within 1 year	–	–	–	–	–	8.1497	AUD	37	300	(45)
<b>Hedging interest and principal of USD fixed rate notes</b> <i>(Note d)</i>										
More than 5 years	7.7519	USD	300	2,326	(30)	7.7519	USD	300	2,326	(68)
<b>Total</b>				<b>3,666</b>	<b>(23)</b>				<b>2,909</b>	<b>(113)</b>

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

Notes:

- The Group used HK\$511 million (2013: HK\$283 million) forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes and principal-protected investments denominated in USD at their respective maturity dates.
- The Group used HK\$829 million (2013: nil) forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes and time deposits denominated in RMB at their respective maturity dates. The forward element of forward contracts has been excluded from the cash flow hedge.
- As at 31 December 2013, the Group used HK\$300 million cross currency swap to convert AUD interest and principal of AUD37 million bank loan into HKD. The swap matured in September 2014.
- The Group used HK\$2,326 million (2013: HK\$2,326 million) cross currency swap to convert USD interest and principal of US\$300 million (2013: US\$300 million) fixed rate notes into HKD.

For the year ended 31 December 2014

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

As at 31 December 2014, net cumulative fair value losses of HK\$25 million (2013: HK\$68 million) from the forward foreign exchange contracts and cross currency swaps have been recognised in other comprehensive income and accumulated in hedging reserve, and are expected to be released to the consolidated income statements at various dates when the hedged items impact the profit or loss.

During the year, net gains of HK\$47 million (2013: losses of HK\$36 million) on cross currency swaps were reclassified from hedging reserve to profit or loss as finance costs.

For the year ended 31 December 2014, net gains of HK\$14 million (2013: nil) on forward foreign exchange contracts were reclassified from hedging reserves to profit or loss as investment income. The forward element of forward contracts has been excluded from the cash flow hedge. During the year, the Group amortised HK\$7 million (2013: nil) of forward premium to profit or loss against investment income.

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

**(ii) Interest rate risk**

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

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

	The Group					
	Average interest rate*	2014 Notional amount HK\$ million	Fair value HK\$ million	Average interest rate*	2013 Notional amount HK\$ million	Fair value HK\$ million
<b>Interest rate swaps</b>						
<i>Hedging interest of HKD bank loans (Note a)</i>						
Within 1 year	3.65%	200	(1)	–	–	–
More than 1 year but not exceeding 5 years	–	–	–	3.65%	200	(6)
	3.65%	200	(1)	3.65%	200	(6)
<i>Hedging floating-interest – rate payments of financial instruments (Note b)</i>						
Within 1 year	–	–	–	2.99%	200	(3)
<b>Total</b>		<b>200</b>	<b>(1)</b>		<b>400</b>	<b>(9)</b>

\* Average interest rate represented the average fixed interest rate paid by the Group against receipts of 3-month HIBOR or 6-month HIBOR weighted by the notional amounts of the swaps.

Notes:

- The Group used HK\$200 million (2013: HK\$200 million) interest rate swaps to manage its exposure to interest rate changes of the quarterly interest payments of HKD bank loans.
- As at 31 December 2013, the Group used HK\$200 million interest rate swaps to hedge the interest rate risk in relation to the quarterly floating-interest-rate payments of certain financial instruments. The swap matured in July 2014.

## 22. OTHER FINANCIAL ASSETS/LIABILITIES continued

### (a) Cash flow hedges continued

#### (ii) Interest rate risk continued

As at 31 December 2014, cumulative fair value losses of HK\$1 million (2013: HK\$9 million) from the interest rate swaps under cash flow hedges have been recognised in other comprehensive income and accumulated in hedging reserve, and are expected to be released to the consolidated income statement at various dates during the lives of the swaps when the hedged interest expenses are recognised and impact the profit or loss.

During the year, losses of HK\$10 million (2013: HK\$16 million) on interest rate swaps were reclassified from hedging reserve to profit or loss as finance costs.

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

### (b) Fair value hedges

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

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

	The Group					
	Average interest rate*	2014 Notional amount HK\$ million	Fair value HK\$ million	Average interest rate*	2013 Notional amount HK\$ million	Fair value HK\$ million
<b>Interest rate swaps (Note)</b>						
Within 1 year	4.34%	624	8	–	–	–
More than 1 year but not exceeding 5 years	–	–	–	4.18%	300	17
More than 5 years	–	–	–	4.50%	308	13
	<b>4.34%</b>	<b>624</b>	<b>8</b>	<b>4.34%</b>	<b>608</b>	<b>30</b>

\* The average interest rate represented the average fixed interest rate (weighted by the notional amounts of the interest rate swaps) received by the Group against payments of 3-month HIBOR.

Note:

The Group designated HK\$300 million (2013: HK\$300 million) fixed-to-floating interest rate swaps to hedge interest rate risk related to part of the coupon payments of the HK\$300 million (2013: HK\$300 million) fixed rate notes. The Group also designated a fixed-to-floating interest rate swap with notional amount of HK\$324 million (2013: HK\$308 million) as at 31 December 2014 to hedge the zero coupon notes with notional amount of HK\$430 million by converting a fixed rate of 5.19% per annum to HIBOR plus 0.69% per annum. As at 9 February 2015, the zero coupon notes and the respective fixed-to-floating interest rate swap were redeemed or terminated by the Group and the counterparty respectively.

As a result of the hedge accounting, the carrying amount of the fixed rate notes as at 31 December 2014 was adjusted by cumulative losses of HK\$7 million (2013: HK\$17 million) while the carrying amount of the zero coupon notes as at 31 December 2014 was adjusted by cumulative losses of HK\$1 million (2013: HK\$13 million). The changes in fair values of the notes for the hedged risk were included in profit or loss at the same time that the changes in fair value of the swaps were included in profit or loss.

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

### (c) Financial assets measured at FVTPL

#### Club debentures

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



For the year ended 31 December 2014

**23. ACCOUNTS AND OTHER RECEIVABLES**

	The Group	
	2014 HK\$ million	2013 HK\$ million
Accounts receivable	3	10
Interest receivable	93	80
Prepayments in respect of investment properties	71	47
Other receivables and prepayments	314	335
<b>Total</b>	<b>481</b>	<b>472</b>
Analysed for reporting purposes as:		
Current assets	255	241
Non-current assets	226	231
	<b>481</b>	<b>472</b>

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK\$3 million (2013: HK\$10 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

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

**24. AMOUNTS DUE FROM/TO SUBSIDIARIES**

	The Company	
	2014 HK\$ million	2013 HK\$ million
Amounts due from subsidiaries are classified as:		
Current assets ( <i>Note a</i> )	9,194	9,167
Non-current assets ( <i>Note b</i> )	3,514	3,711
	<b>12,708</b>	<b>12,878</b>
Amounts due to subsidiaries ( <i>Note a</i> )	<b>1,051</b>	<b>1,275</b>

Notes:

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

**25. TIME DEPOSITS/CASH AND BANK BALANCES**

	The Group	
	2014 HK\$ million	2013 HK\$ million
Time deposits	3,534	4,042
Cash and bank balances	106	81
Cash and deposits with banks shown in the consolidated statement of financial position	3,640	4,123
Less: Time deposits with original maturity over three months	(3,064)	(3,502)
Cash and cash equivalents shown in the consolidated statement of cash flows	<b>576</b>	<b>621</b>

The Company's cash and bank balances represent cash on hand and bank balances with original maturity of three months or less.

Time deposits, cash and bank balances include bank deposits carrying effective interest rates ranging from 0.10% to 4.65% (2013: 0.08% to 3.75%) per annum.

## 26. ACCOUNTS PAYABLE AND ACCRUALS

	The Group	
	2014 HK\$ million	2013 HK\$ million
Accounts payable	173	162
Interest payable	83	83
Other payables	225	255
	<b>481</b>	<b>500</b>

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$173 million (2013: HK\$162 million) were aged less than 90 days.

## 27. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

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

## 28. BORROWINGS

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

	The Group			
	2014 HK\$ million	Current 2013 HK\$ million	2014 HK\$ million	Non-current 2013 HK\$ million
Unsecured bank loans	850	855	250	1,100
Floating rate notes	–	200	–	–
Fixed rate notes	407	–	4,608	5,022
Zero coupon notes	332	–	–	327
	<b>1,589</b>	<b>1,055</b>	<b>4,858</b>	<b>6,449</b>

In the current year, the average finance costs (excluding net exchange gains or losses) of the Group's total borrowings calculated based on their contracted interest rates was 3.3% (2013: 3.1%). To manage the interest rate and foreign exchange risks, the Group used certain derivatives to hedge part of the borrowings, which resulted in a reduction of the Group's average finance cost to 3.1% (2013: 2.9%). As at 31 December 2014, the floating rate debt ratio relative to gross total debt after considering the hedges was 23.7% (2013: 32.0%).

### (a) Unsecured bank loans

The unsecured bank loans of HK\$1,100 million (2013: HK\$1,955 million) are guaranteed as to principal and interest by the Company and are repayable, based on the scheduled repayment dates set out in the respective loan agreement, as follows:

	The Group	
	2014 HK\$ million	2013 HK\$ million
Within 1 year	850	855
More than 1 year, but not exceeding 2 years	250	850
More than 2 years, but not exceeding 5 years	–	250
	<b>1,100</b>	<b>1,955</b>

All the Group's unsecured bank loans are variable-rate borrowings with effective interest rates (which were also equal to contracted interest rates) ranging from 0.68% to 1.15% (2013: 0.69% to 3.52%) per annum at the end of the reporting period. Interest rates of the loans are normally re-fixed at every one to three months.

As disclosed in note 22(a) of the Notes to the Financial Statements section, during the years ended 31 December 2014 and 2013, cross currency swaps and interest rate swaps were designated as cash flow hedges to hedge the foreign exchange and interest rate risks of part of the Group's unsecured bank loans.

For the year ended 31 December 2014

**28. BORROWINGS** *continued***(b) Floating rate notes**

In October 2009, HK\$200 million five-year floating rate notes were issued by Hysan (MTN) Limited, a wholly-owned subsidiary of the Company. The notes are guaranteed as to principal and interest by the Company. The floating rate notes were matured and repaid in full in October 2014.

The HK\$200 million five-year floating rate notes were not hedged by any derivative in both years.

**(c) Fixed rate notes**

	The Group	
	2014 HK\$ million	2013 HK\$ million
Fixed rate notes – principal amount	5,008	5,005
Add: Net losses attributable to hedged risks	7	17
	<b>5,015</b>	<b>5,022</b>

Details of the Group's fixed rate notes as at 31 December 2014 and 2013 are as follows:

Principal amount	Contracted interest rate per annum	Coupon payment term	Issue date	Maturity date
HK\$300 million	5.25 %	quarterly basis	August 2008	August 2015
HK\$100 million	5.10 %	annual basis	August 2008	August 2015
HK\$165 million	5.38 %	annual basis	September 2008	September 2020
HK\$400 million	3.78 %	quarterly basis	August 2010	August 2020
HK\$200 million	4.00 %	annual basis	September 2010	September 2025
HK\$200 million	3.70 %	quarterly basis	October 2010	October 2022
HK\$150 million	3.86 %	quarterly basis	May 2011	May 2018
HK\$404 million	4.10 %	annual basis	December 2011	December 2023
HK\$331 million	4.00 %	quarterly basis	January 2012	January 2022
HK\$300 million	3.90 %	quarterly basis	March 2012	March 2019
HK\$150 million	4.50 %	annual basis	March 2012	March 2027
US\$300 million	3.50 %	semi-annual basis	January 2013	January 2023

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

As detailed in note 22 of the Notes to the Financial Statements section, during the years ended 31 December 2014 and 2013, interest rate swaps and cross currency swaps were used to hedge or manage the foreign exchange and interest rate risks of the Group's fixed rate notes.

The net cumulative losses of HK\$7 million (2013: HK\$17 million) represented the change in fair value attributable to the hedged interest rate risk of the HK\$300 million (2013: HK\$300 million) fixed rate notes under fair value hedge.

## 28. BORROWINGS continued

### (d) Zero coupon notes

	The Group	
	2014 HK\$ million	2013 HK\$ million
Zero coupon notes	331	314
Add: Loss attributable to hedged risk	1	13
	<b>332</b>	<b>327</b>

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

Hysan (MTN) Limited exercised the option to redeem the zero coupon notes on 9 February 2015 at a price of about 77.4% of the nominal amount.

The Group used an interest rate swap to hedge against the interest rate risk of the zero coupon notes under fair value hedge (see note 22(b) for details). The counterparty exercised the option to terminate the interest rate swap on 9 February 2015.

The cumulative losses of HK\$1 million (2013: HK\$13 million) represented changes in fair value attributable to the hedged interest rate risk of the zero coupon notes under fair value hedge.

## 29. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$ million	Revaluation of properties HK\$ million	Tax losses HK\$ million	Total HK\$ million
<b>The Group</b>				
At 1 January 2013	462	61	(89)	434
Charge to profit or loss (note 9)	56	–	65	121
Charge to other comprehensive income	–	4	–	4
At 31 December 2013	518	65	(24)	559
Charge to profit or loss (note 9)	42	–	24	66
Charge to other comprehensive income	–	3	–	3
<b>At 31 December 2014</b>	<b>560</b>	<b>68</b>	<b>–</b>	<b>628</b>

At the end of the reporting period, the Group has unused estimated tax losses of HK\$674 million (2013: HK\$697 million), of which HK\$273 million (2013: HK\$290 million) has not been agreed by the Hong Kong Inland Revenue Department, available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses of HK\$674 million (2013: HK\$550 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely. As at 31 December 2013, a deferred tax asset had been recognised in respect of HK\$147 million of such losses.

The Company does not have any unused tax loss at the end of the reporting period. As at 31 December 2014, the Company has deferred tax liability of HK\$1 million (2013: HK\$1 million).

### 30. SHARE CAPITAL

	Number of shares	Share capital HK\$ million
Authorised:		
At 1 January 2013 and 31 December 2013		
Ordinary shares of HK\$5 each	1,450,000,000	7,250
<b>At 31 December 2014 (Note a)</b>	<b>–</b>	<b>–</b>
Issued and fully paid:		
Ordinary shares of HK\$5 each		
At 1 January 2013	1,063,007,056	5,315
Issue of shares under share option scheme (Note b)	625,987	3
At 31 December 2013	1,063,633,043	5,318
Transfer from share premium and capital redemption reserve upon abolition of par value (Note a)	–	2,314
Issue of shares under share option scheme prior to 3 March 2014 (Note b)	3,999	–
Issue of shares under share option scheme on or after 3 March 2014	234,650	8
Ordinary shares with no par value		
<b>At 31 December 2014 (Note a)</b>	<b>1,063,871,692</b>	<b>7,640</b>

Notes:

**(a) Abolition of par value under the New Companies Ordinance**

The New Companies Ordinance came into effect on 3 March 2014, which abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. As such, in accordance with the transitional provisions set out in section 37 of Schedule 11 to the said Ordinance, the existing share premium and capital redemption reserve as of 3 March 2014 became part of the Company's share capital. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition. Comparative figures in the financial statements are not required to be restated.

**(b) Issue of shares under share option schemes prior to 3 March 2014**

Prior to 3 March 2014, options to subscribe for shares of the Company were exercised at various exercise prices and credited to share capital and share premium account in accordance with the predecessor Hong Kong Companies Ordinance (Cap.32). These shares rank *pari passu* in all respects with other shares in issue. Details of options outstanding and movements during the year are set out in note 38 of the Notes to the Financial Statements section.

### 31. RESERVES OF THE COMPANY

	Share premium HK\$ million	Share options reserve HK\$ million	Capital redemption reserve HK\$ million	General reserve HK\$ million (Note a)	Retained profits HK\$ million	Total HK\$ million
At 1 January 2013	2,022	14	276	100	5,461	7,873
Issue of shares under share option schemes	16	(4)	–	–	–	12
Recognition of equity-settled share-based payments	–	10	–	–	–	10
Profit for the year	–	–	–	–	968	968
Dividends paid during the year (note 14)	–	–	–	–	(1,064)	(1,064)
At 31 December 2013	2,038	20	276	100	5,365	7,799
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance (Note b)	(2,038)	–	(276)	–	–	(2,314)
Issue of shares under share option schemes on or after 3 March 2014	–	(2)	–	–	–	(2)
Recognition of equity-settled share-based payments	–	10	–	–	–	10
Forfeiture of share option	–	(1)	–	–	1	–
Profit for the year	–	–	–	–	1,175	1,175
Dividends paid during the year (note 14)	–	–	–	–	(1,255)	(1,255)
<b>At 31 December 2014</b>	<b>–</b>	<b>27</b>	<b>–</b>	<b>100</b>	<b>5,286</b>	<b>5,413</b>

Notes:

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

(b) The Company has no authorised share capital and its shares have no par value from the commencement date of the new Hong Kong Companies Ordinance (i.e. 3 March 2014).

The Company's reserves available for distribution to its owners as at 31 December 2014 amounted to HK\$5,386 million (2013: HK\$5,465 million), being its general reserve and retained profits at that date.

### 32. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2014, the Group acquired 100% interest in Max Strength Limited ("Max Strength") from an independent third party, for a cash consideration of HK\$229 million. The major asset of Max Strength is an investment property situated in Hong Kong. The Directors of the Company are of the opinion that the subsidiary acquired does not constitute a business as defined in HKFRS 3, therefore, the acquisition has been accounted for as acquisition of an asset rather than a business combination. Acquisition-related costs amounting to HK\$3 million were capitalised as part of the carrying amount of the investment property.

### 33. RETIREMENT BENEFITS PLANS

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

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

Total contributions made by the Group during the year amounted to HK\$9 million (2013: HK\$8 million).



For the year ended 31 December 2014

**34. CONTINGENT LIABILITIES**

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

	The Group		The Company	
	2014 HK\$ million	2013 HK\$ million	2014 HK\$ million	2013 HK\$ million
Corporate guarantee to note holders				
– for issue of floating rate notes	–	–	–	200
– for issue of fixed rate notes	–	–	5,026	5,026
– for issue of zero coupon notes	–	–	430	430
	–	–	5,456	5,656
Guarantees to banks for providing financing facilities to subsidiaries	–	–	1,100	2,000

**35. CAPITAL COMMITMENTS**

At the end of the reporting period, the Group and the Company had the following capital commitments in respect of its investment properties and property, plant and equipment:

	The Group		The Company	
	2014 HK\$ million	2013 HK\$ million	2014 HK\$ million	2013 HK\$ million
Authorised but not contracted for	476	410	–	–
Contracted but not provided for	561	258	–	–

**36. LEASE COMMITMENTS**

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

	The Group	
	2014 HK\$ million	2013 HK\$ million
Within one year	2,664	2,582
In the second to fifth year inclusive	4,891	4,988
Over five years	1,309	1,751
	8,864	9,321

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

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

### 37. RELATED PARTY TRANSACTIONS AND BALANCES

#### (a) Transactions and balances with related parties

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

	Gross rental income received from		The Group	
	2014 HK\$ million	2013 HK\$ million	2014 HK\$ million	2013 HK\$ million
Related company controlled by a shareholder (Note a)	3	3	–	–
Related companies controlled by Directors (Note b (i) & (ii))	39	30	94	94
Non-controlling shareholder of a subsidiary (Note c (i) & (ii))	31	21	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 40.71% (2013: 40.72%) beneficial interest and has significant influence over the Company.
- (b) (i) The sum of transactions represents the aggregate gross rental income received from related companies where the directors have controlling interests over these related companies.
- (ii) The balance represents outstanding loan advanced to a non wholly-owned subsidiary of the Group, Barrowgate Limited (“Barrowgate”) by Mightyhall Limited, a wholly-owned subsidiary of Jebsen and Company Limited, of which Hans Michael JEBSEN is a director and a controlling shareholder, as shareholders’ loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.
- (c) (i) The transaction represents the gross rental income received from Hang Seng Bank Limited, the intermediate holding company of Imenson Limited (“Imenson”). Imenson is a non-controlling shareholder with significant influence over Barrowgate.
- (ii) The balance represents outstanding loan advanced to Barrowgate by Imenson, as shareholders’ loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

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

	The Company	
	2014 HK\$ million	2013 HK\$ million
Amounts due from subsidiaries	12,713	13,054
Less: Allowances on amounts due therefrom	(5)	(176)
	12,708	12,878
Amounts due to subsidiaries	1,051	1,275

During the year, HK\$171 million (2013: nil) of allowances on amount due from a subsidiary was written off.

Details of amounts due from/to subsidiaries are disclosed in note 24 of the Notes to the Financial Statements section.

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

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

	2014 HK\$ million	2013 HK\$ million
Directors’ fees, salaries and other short-term employee benefits	32	29
Share-based payments	7	7
Retirement benefits scheme contributions	–	–
	39	36

The remuneration of the Directors and key executives is determined by the Remuneration Committee and Chief Executive Officer respectively having regard to the performance of individuals and market trends.

### 38. SHARE-BASED PAYMENT TRANSACTIONS

#### (a) Equity-settled share option scheme

##### The 2005 Share Option Scheme (the “2005 Scheme”)

The Company adopted the 2005 Scheme at its Annual General Meeting (“AGM”) held on 10 May 2005, which has a term of 10 years and will be expiring on 9 May 2015.

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

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

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

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

#### (b) Grant and vesting structures

Under the Company’s current policy, grants will be made on a periodic basis. Exercise period is 10 years. Vesting period is 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

### 38. SHARE-BASED PAYMENT TRANSACTIONS *continued*

#### (c) Movement of share options

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

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2014	Changes during the year			Balance as at 31.12.2014
					Granted	Exercised	Cancelled/lapsed (Note b)	
<b>Executive Directors</b>								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	–	–	261,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84 (Note c)	10.3.2015 – 9.3.2024	–	325,000	–	–	325,000
Siu Chuen LAU	14.5.2012	33.50	14.5.2013 – 13.5.2022	161,334	–	–	–	161,334
	7.3.2013	39.92	7.3.2014 – 6.3.2023	246,000	–	–	–	246,000
	10.3.2014	32.84 (Note c)	10.3.2015 – 9.3.2024	–	302,000	–	–	302,000
Wendy Wen Yee YUNG	10.3.2011	35.71	10.3.2012 – 9.3.2021	103,000	–	–	–	103,000
	9.3.2012	33.79	9.3.2013 – 8.3.2022	113,000	–	–	–	113,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	106,700	–	–	–	106,700
	10.3.2014	32.84 (Note c)	10.3.2015 – 9.3.2024	–	95,000	–	–	95,000
<b>Eligible employees (Note d)</b>								
	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	–	–	17,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	164,000	–	(30,000) (Note e)	–	134,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	251,334	–	(97,000) (Note f)	–	154,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	246,001	–	(63,666) (Note g)	(1,334)	181,001
	30.3.2012	31.61	30.3.2013 – 29.3.2022	336,335	–	(47,983) (Note h)	(26,017)	262,335
	28.3.2013	39.20	28.3.2014 – 27.3.2023	362,000	–	–	(64,000)	298,000
	31.3.2014	33.75 (Note i)	31.3.2015 – 30.3.2024	–	465,000	–	(54,000)	411,000
				<b>2,632,704</b>	<b>1,187,000</b>	<b>(238,649)</b>	<b>(145,351)</b>	<b>3,435,704</b>

**38. SHARE-BASED PAYMENT TRANSACTIONS** *continued***(c) Movement of share options** *continued*

Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- (b) The options lapsed during the year upon resignations of certain eligible employees.
- (c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 7 March 2014) was HK\$32.95.
- (d) Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.35.
- (f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.95.
- (g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.04.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.07.
- (i) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2014) was HK\$33.30.

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

### 38. SHARE-BASED PAYMENT TRANSACTIONS continued

#### (c) Movement of share options continued

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

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



**38. SHARE-BASED PAYMENT TRANSACTIONS** *continued***(c) Movement of share options** *continued*

Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- (b) The options lapsed during the year upon resignations of certain eligible employees.
- (c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 6 March 2013) was HK\$39.55.
- (d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.90.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$39.45.
- (f) Eligible employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.
- (g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$32.65.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$37.54.
- (i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$38.26.
- (j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.97.
- (k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 27 March 2013) was HK\$38.60.

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

### 38. SHARE-BASED PAYMENT TRANSACTIONS *continued*

#### (d) Fair values of share options

The Group has applied HKFRS 2 “Share-based Payments” to account for its share options granted after 7 November 2002 and vested after 1 January 2005. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group’s share options reserve. In the current year, the Group recognised the share option expenses of HK\$10 million (2013: HK\$10 million) in relation to share options granted by the Company, of which HK\$6 million (2013: HK\$6 million) related to the Directors (see note 12), with a corresponding adjustment recognised in the Group’s share options reserve.

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

The inputs into the Model were as follows:

Date of grant	31.3.2014	10.3.2014	28.3.2013	7.3.2013
Closing share price at the date of grant	HK\$33.750	HK\$32.200	HK\$39.200	HK\$39.850
Exercise price	HK\$33.750	HK\$32.840	HK\$39.200	HK\$39.920
Risk free rate ( <i>Note a</i> )	1.529%	1.328%	0.515 %	0.533 %
Expected life of option ( <i>Note b</i> )	5 years	5 years	5 years	5 years
Expected volatility ( <i>Note c</i> )	33.517%	33.509%	41.272 %	41.256 %
Expected dividend per annum ( <i>Note d</i> )	HK\$0.866	HK\$0.866	HK\$0.768	HK\$0.768
Estimated fair values per share option	HK\$8.422	HK\$7.712	HK\$12.051	HK\$12.439

Notes:

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

# Financial Risk Management

For the year ended 31 December 2014

## 1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include cash and bank balances, time deposits, principal-protected investments, term notes, accounts receivable, other receivables, accounts payable, accruals, amounts due to non-controlling interests, borrowings and derivative financial instruments. The Company's major financial instruments include cash and bank balances, other receivables, amounts due from/to subsidiaries, other payables and accruals. Details of these financial instruments are disclosed in respective Notes to the Financial Statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (a) Credit risk

The credit risk of the Group or the Company is primarily attributable to rents receivable from tenants, amounts due from subsidiaries, principal-protected investments, derivative financial instruments, term notes, time deposits and bank balances. The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Company is arising from:

- (i) the carrying amount of the respective recognised financial assets as stated in the consolidated and Company's statements of financial position; and
- (ii) the amount of contingent liabilities in relation to financial guarantee issued by the Company as disclosed in note 34 of the Notes to the Financial Statements section.

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

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

Credit exposure to financial institutions and debt securities issuers are monitored and reported regularly to the management. The exposure to each counterparty comprised (i) investment value of financial assets (including time deposits, principal-protected investments and term notes); (ii) net positive value of derivative financial instruments and; (iii) potential exposures to derivatives which are based on the remaining term and the notional amount of the derivative financial instruments. The table below provides a high level summary of the Group's exposure to each counterparty at the end of the reporting period.

Category of counterparty	2014		2013	
	Number of counterparty	Exposure HK\$ million	Number of counterparty	Exposure HK\$ million
Credit rating of AA- or above or note issuing banks	6	17 to 728	5	80 to 781
Credit rating BBB- to A+	21	13 to 485	25	1 to 489

To minimise the credit risk of amounts due from subsidiaries, the management reviews the recoverable amount of each individual balance at the end of the reporting period to ensure adequate impairment losses are made for irrecoverable amounts. The Group and the Company have no significant concentration of credit risk, with exposure spread over a number of counterparties and tenants.

## 1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

### (b) Liquidity risk

The Group and the Company closely monitor their liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following table details the remaining contractual maturity of the Group and the Company for their non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company are required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if floating, based on the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars ("HKD"), the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
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#### The Group

##### As at 31 December 2014

#### Non-derivative financial liabilities

Accounts payable and accruals	(481)	(481)	(481)	–	–	–
Rental deposits from tenants	(875)	(875)	(306)	(237)	(310)	(22)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans (Note)	(1,100)	(1,112)	(861)	(251)	–	–
Fixed rate notes (Note)	(5,015)	(6,426)	(592)	(175)	(957)	(4,702)
Zero coupon notes (Note)	(332)	(333)	(333)	–	–	–
	<b>(8,130)</b>	<b>(9,554)</b>	<b>(2,900)</b>	<b>(663)</b>	<b>(1,267)</b>	<b>(4,724)</b>

##### As at 31 December 2013

#### Non-derivative financial liabilities

Accounts payable and accruals	(500)	(500)	(500)	–	–	–
Rental deposits from tenants	(800)	(800)	(190)	(278)	(320)	(12)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans (Note)	(1,955)	(2,002)	(877)	(870)	(255)	–
Floating rate notes (Note)	(200)	(203)	(203)	–	–	–
Fixed rate notes (Note)	(5,022)	(6,621)	(195)	(592)	(672)	(5,162)
Zero coupon notes (Note)	(327)	(430)	–	–	–	(430)
	<b>(9,131)</b>	<b>(10,883)</b>	<b>(2,292)</b>	<b>(1,740)</b>	<b>(1,247)</b>	<b>(5,604)</b>

For the year ended 31 December 2014

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

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
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**The Company****As at 31 December 2014****Non-derivative financial liabilities**

Other payable and accruals	(43)	(43)	(43)	–	–	–
Amounts due to subsidiaries	(1,051)	(1,051)	(1,051)	–	–	–
	<b>(1,094)</b>	<b>(1,094)</b>	<b>(1,094)</b>	<b>–</b>	<b>–</b>	<b>–</b>

**As at 31 December 2013****Non-derivative financial liabilities**

Other payable and accruals	(44)	(44)	(44)	–	–	–
Amounts due to subsidiaries	(1,275)	(1,275)	(1,275)	–	–	–
	<b>(1,319)</b>	<b>(1,319)</b>	<b>(1,319)</b>	<b>–</b>	<b>–</b>	<b>–</b>

Note:

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

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

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
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**The Group****As at 31 December 2014****Derivative settled net**

Interest rate swaps	7	15	15	–	–	–
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**Derivative settled gross**

Forward foreign exchange contracts	7					
Outflow		(1,341)	(839)	(369)	(133)	–
Inflow		1,340	839	369	132	–
Cross currency swaps	30					
Outflow		(3,027)	(85)	(85)	(255)	(2,602)
Inflow		3,019	81	82	244	2,612

## 1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

### (b) Liquidity risk continued

	Carrying amount HK\$ million	Total contractual undiscounted cash flow HK\$ million	Within 1 year or on demand HK\$ million	More than 1 year but not exceeding 2 years HK\$ million	More than 2 years but not exceeding 5 years HK\$ million	More than 5 years HK\$ million
<b>As at 31 December 2013</b>						
<b>Derivative settled net</b>						
Interest rate swaps	21	28	14	14	–	–
<b>Derivative settled gross</b>						
Forward foreign exchange contracts	–					
Outflow		(283)	(194)	–	(89)	–
Inflow		283	194	–	89	–
Cross currency swaps	(113)					
Outflow		(3,415)	(388)	(85)	(255)	(2,687)
Inflow		3,361	343	81	244	2,693

At the end of the reporting period, the Company has no derivative financial instruments.

### (c) Interest rate risk

The Group manages its interest rate exposure by assessing the potential impact on the Group's financial position arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed rates and floating rates and ensure that they are within an appropriate range. Accordingly, the Group used (i) interest rate swaps to hedge the interest rate risk of the Group's floating rate bank loans; and (ii) interest rate swaps to hedge the interest rate risk of certain amounts of the Group's fixed rate notes. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting. The Group mainly used comparison of change in fair value of the hedging instruments and the hedged items attributable to the hedged risk for assessing the hedging effectiveness.

As at 31 December 2014, about 23.7% (2013: 32.0%) of the Group's gross debts was effectively on a floating rate basis. The ratio could be adjusted according to views about changes in the interest rate trend going forward. In addition, the Group is exposed to (i) cash flow interest rate risk as the interest income derived from time deposits and bank balances is subject to interest rate changes; and (ii) fair value interest rate risk in relation to its fixed-rate debt securities. Other than the concentration of interest rate risk related to the movements in Hong Kong Interbank Offered Rate, the Group has no significant concentration of interest rate risk.

### Sensitivity analysis

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and all other variables were held constant. Such change has been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -25 basis points ("bps") (2013: +100 and -25 bps) was applied to the HKD and US dollars ("USD") yield curves at the end of the reporting period. For the RMB yield curve, a change of +125 and -125 bps (2013: +100 and -25 bps) was applied. A greater change is adopted in view of a greater change of the RMB yield curve occurred in 2014. For the Australian dollars ("AUD") yield curve as at 31 December 2013, a change of +100 and -100 bps was applied. The applied change of bps represented management's assessment of the reasonably possible change in interest rates based on the current market conditions.

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



For the year ended 31 December 2014

**1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *continued***(c) Interest rate risk** *continued*

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	bps increase HK\$ million	bps decrease HK\$ million	bps increase HK\$ million	bps decrease HK\$ million
<b>As at 31 December 2014</b>	<b>23</b>	<b>(12)</b>	<b>2</b>	<b>–</b>
As at 31 December 2013	18	(5)	8	(2)

**(d) Currency risk**

The Group aims to minimise its currency risk and does not speculate in currency movements for debt management. The majority of the Group's assets are located and all rental income are derived in Hong Kong, and denominated in HKD. At the end of the reporting period, the Group has the following monetary assets and monetary liabilities denominated in Renminbi ("RMB") and USD (2013: RMB, AUD and USD). The Group's foreign currency bank loans and fixed rate notes are hedged by cross currency swaps. During the year ended 31 December 2014, forward contracts were entered to hedge part of the RMB exposure in view of depreciation of RMB against HKD.

	2014				2013			
	AUD million	RMB million	US\$ million	Total equivalent to HK\$ million	AUD million	RMB million	US\$ million	Total equivalent to HK\$ million
<b>Assets</b>								
Cash	–	–	1	5	–	2	–	2
Time deposits	–	565	6	753	–	259	4	361
Principal-protected investments	–	–	–	–	–	–	10	78
Term notes	–	235	87	966	–	61	95	815
	–	800	94	1,724	–	322	109	1,256
<b>Liabilities</b>								
Unsecured bank loans	–	–	–	–	37	–	–	255
Fixed rate notes	–	–	300	2,314	–	–	300	2,312
	–	–	300	2,314	37	–	300	2,567

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

Other than concentration of currency risk of the above items denominated in RMB and USD, the Group and the Company have no other significant currency risk.

The Group has entered into appropriate hedging instruments, mentioned in note 22 of the Notes to the Financial Statements section, to hedge against part of the potential currency risk of the above items. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting.

**Sensitivity analysis**

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and all other variable were held constant. Such change has been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of 500 percentage in points ("pips") (2013: 500 pips) was applied to the HKD:RMB and HKD:USD spot and forward rates at the end of the reporting period while a change of 10,000 pips was applied to the HKD:AUD spot and forward rates as at 31 December 2013.

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

## 1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

### (d) Currency risk continued

	The Group		The Group	
	Increase (decrease) in profit or loss pips increase HK\$ million	pips decrease HK\$ million	Increase (decrease) in equity pips increase HK\$ million	pips decrease HK\$ million
<b>As at 31 December 2014</b>				
– RMB	7	(7)	–	–
– USD	1	(1)	2	(2)
<b>As at 31 December 2013</b>				
– AUD	–	–	–	–
– RMB	16	(16)	–	–
– USD	5	(5)	(1)	1

## 2. CATEGORIES OF FINANCIAL INSTRUMENTS

	The Group		The Company	
	2014 HK\$ million	2013 HK\$ million	2014 HK\$ million	2013 HK\$ million
<b>Financial assets</b>				
Fair value through profit or loss (“FVTPL”) – financial assets measured at FVTPL	82	160	2	2
Derivative instruments under hedge accounting	16	30	–	–
Amortised cost (including cash and cash equivalents)	4,944	5,420	12,711	12,948
	<b>5,042</b>	<b>5,610</b>	<b>12,713</b>	<b>12,950</b>
<b>Financial liabilities</b>				
Derivative instruments under hedge accounting	32	122	–	–
Amortised cost	7,255	8,331	1,094	1,319
	<b>7,287</b>	<b>8,453</b>	<b>1,094</b>	<b>1,319</b>

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

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

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

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

	Gross amounts of recognised financial assets HK\$ million	The Group Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK\$ million	Net amounts of financial assets presented in the consolidated statement of financial position HK\$ million
<b>As at 31 December 2014</b>			
Derivatives under hedge accounting	16	–	16
<b>As at 31 December 2013</b>			
Derivatives under hedge accounting	30	–	30

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

	Net amounts of financial assets presented in the consolidated statement of financial position HK\$ million	The Group Financial liabilities not set off in the consolidated statement of financial position HK\$ million	Net amount HK\$ million
<b>As at 31 December 2014</b>			
Counterparty A	8	(8)	–
Counterparty B	1	–	1
Counterparty D	2	(1)	1
Counterparty F	5	–	5
<b>Total</b>	<b>16</b>	<b>(9)</b>	<b>7</b>
<b>As at 31 December 2013</b>			
Counterparty A	17	(17)	–
Counterparty B	13	–	13
<b>Total</b>	<b>30</b>	<b>(17)</b>	<b>13</b>

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

	Gross amounts of recognised financial liabilities HK\$ million	The Group Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK\$ million	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$ million
<b>As at 31 December 2014</b>			
Derivatives under hedge accounting	(32)	–	(32)
<b>As at 31 December 2013</b>			
Derivatives under hedge accounting	(122)	–	(122)

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

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

	Net amounts of Financial liabilities presented in the consolidated statement of financial position HK\$ million	The Group Financial assets not set off in the consolidated statement of financial position HK\$ million	Net amount HK\$ million
<b>As at 31 December 2014</b>			
Counterparty A	(30)	8	(22)
Counterparty D	(1)	1	–
Counterparty E	(1)	–	(1)
<b>Total</b>	<b>(32)</b>	<b>9</b>	<b>(23)</b>
<b>As at 31 December 2013</b>			
Counterparty A	(71)	17	(54)
Counterparty D	(3)	–	(3)
Counterparty E	(3)	–	(3)
Counterparty F	(45)	–	(45)
<b>Total</b>	<b>(122)</b>	<b>17</b>	<b>(105)</b>

### 4. FAIR VALUE MEASUREMENT

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

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

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values, except for the carrying amount of HK\$5,015 million (2013: HK\$5,022 million) fixed rate notes as stated in note 28 of the Notes to the Financial Statements section with fair value of HK\$5,110 million (2013: HK\$4,890 million).

The fair value of HK\$2,317 million (2013: HK\$2,155 million) of the fixed rate notes is categorised into Level 1 of the fair value hierarchy, in which the fair value was derived from quoted prices in an active market translated at the spot foreign exchange rate of the respective currency at year end.

The fair value of HK\$2,793 million (2013: HK\$2,735 million) of the fixed rate notes is categorised into Level 2 of the fair value hierarchy, in which the fair value was measured using discounted cash flow methodology based on observable yield curves of the respective currency taking into account the credit margin of the Group as appropriate.

For the year ended 31 December 2014

**4. FAIR VALUE MEASUREMENT** *continued***(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis**

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

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

	2014			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
<b>Financial assets</b>				
<b>Derivatives under hedge accounting</b>				
Forward foreign exchange contracts	–	8	–	8
Interest rate swaps	–	8	–	8
<b>Financial assets at FVTPL</b>				
Principal-protected investments	–	80	–	80
Unlisted club debentures	–	2	–	2
Total	–	98	–	98
<b>Financial liabilities</b>				
<b>Derivatives under hedge accounting</b>				
Forward foreign exchange contracts	–	1	–	1
Cross currency swaps	–	30	–	30
Interest rate swaps	–	1	–	1
Total	–	32	–	32
	2013			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
<b>Financial assets</b>				
<b>Derivatives under hedge accounting</b>				
Interest rate swaps	–	30	–	30
<b>Financial assets at FVTPL</b>				
Principal-protected investments	–	158	–	158
Unlisted club debentures	–	2	–	2
Total	–	190	–	190
<b>Financial liabilities</b>				
<b>Derivatives under hedge accounting</b>				
Cross currency swaps	–	113	–	113
Interest rate swaps	–	9	–	9
Total	–	122	–	122

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

#### 4. FAIR VALUE MEASUREMENT continued

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

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

#### 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors its capital structure on the basis of a net debt to equity ratio. For this purpose, the Group defines net debt as borrowings as shown in the consolidated statement of financial position less time deposits, cash and bank balances.

The management reviews the Group's net debt to equity ratio regularly and adjusts the ratio through the payment of dividends, the issue of new share or debt, the repurchase of shares and the redemption of existing debt.

The net debt to equity ratio at the year end was as follows:

	The Group	
	2014 HK\$ million	2013 HK\$ million
Unsecured bank loans	1,100	1,955
Floating rate notes	–	200
Fixed rate notes	5,015	5,022
Zero coupon notes	332	327
Borrowings	6,447	7,504
Less: Time deposits	(3,534)	(4,042)
Cash and bank balances	(106)	(81)
Net debt	2,807	3,381
Equity attributable to owners of the Company	67,040	63,326
Net debt to equity	4.2%	5.3%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.



# Five-Year Financial Summary

## For the year ended 31 December

	2014 HK\$ million	2013 HK\$ million	2012 HK\$ million	2011 HK\$ million (Note)	2010 HK\$ million (Note)
<b>Results</b>					
Turnover	3,224	3,063	2,486	1,922	1,764
Property expenses	(404)	(405)	(423)	(262)	(250)
Gross profit	2,820	2,658	2,063	1,660	1,514
Investment income	68	76	55	90	49
Other gains and losses	(2)	1	18	(34)	(42)
Administrative expenses	(214)	(208)	(187)	(173)	(140)
Finance costs	(228)	(242)	(156)	(122)	(117)
Change in fair value of investment properties	2,940	4,575	8,533	7,532	2,594
Share of results of associates	252	309	334	254	394
Profit before taxation	5,636	7,169	10,660	9,207	4,252
Taxation	(386)	(372)	(289)	(217)	(201)
Profit for the year	5,250	6,797	10,371	8,990	4,051
Non-controlling interests	(348)	(639)	(416)	(445)	(207)
Profit attributable to owners of the Company	4,902	6,158	9,955	8,545	3,844
Underlying profit for the year	2,163	2,043	1,622	1,310	1,148
Recurring underlying profit for the year	2,163	2,043	1,622	1,310	1,148
<b>Dividends</b>					
Dividends paid	1,255	1,064	859	791	714
Dividends proposed	1,064	1,010	829	678	632
Dividends per share (HK cents)	123.00	117.00	95.00	79.00	74.00
<b>Earnings per share (HK\$), based on:</b>					
Profit for the year					
– basic	4.61	5.79	9.38	8.08	3.65
– diluted	4.61	5.79	9.38	8.08	3.65
Underlying profit for the year – basic	2.03	1.92	1.53	1.24	1.09
Recurring underlying profit for the year – basic	2.03	1.92	1.53	1.24	1.09
<b>Performance indicators</b>					
Net debt to equity	4.2%	5.3%	6.2%	7.6%	6.4%
Net interest coverage (times)	17.1x	15.4x	16.8x	12.3x	14.0x
Net asset value per share (HK\$)	63.02	59.54	54.68	46.00	38.61
Net debt per share (HK\$)	2.64	3.18	3.41	3.49	2.46
Year end share price (HK\$)	34.65	33.40	37.25	25.50	36.60

**At 31 December**

	2014 HK\$ million	2013 HK\$ million	2012 HK\$ million	2011 HK\$ million (Note)	2010 HK\$ million (Note)
<b>Assets and liabilities</b>					
Investment properties	68,735	65,322	60,022	49,969	40,833
Interests in associates	4,154	4,181	3,759	3,423	3,153
Equity investments	–	–	1	989	–
Available-for-sale investments	–	–	–	–	1,152
Tax recoverable	–	–	2	–	–
Time deposits, cash and bank balances	3,640	4,123	2,311	2,961	1,993
Other assets	2,494	2,468	2,328	2,026	1,423
<b>Total assets</b>	<b>79,023</b>	<b>76,094</b>	<b>68,423</b>	<b>59,368</b>	<b>48,554</b>
Borrowings	(6,447)	(7,504)	(5,941)	(6,663)	(4,587)
Taxation	(732)	(660)	(511)	(433)	(387)
Other liabilities	(1,715)	(1,749)	(1,524)	(1,528)	(1,263)
<b>Total liabilities</b>	<b>(8,894)</b>	<b>(9,913)</b>	<b>(7,976)</b>	<b>(8,624)</b>	<b>(6,237)</b>
<b>Net assets</b>	<b>70,129</b>	<b>66,181</b>	<b>60,447</b>	<b>50,744</b>	<b>42,317</b>
Non-controlling interests	(3,089)	(2,855)	(2,324)	(1,991)	(1,640)
<b>Shareholders' funds</b>	<b>67,040</b>	<b>63,326</b>	<b>58,123</b>	<b>48,753</b>	<b>40,677</b>

## Note:

Other than the changes in classification of certain financial assets, the early adoption of the 2010 version of the HKFRS 9 on 1 January 2011 had no material financial impact on the amounts recognised on the financial statements of the Group for the year ended 31 December 2010.

## Definitions:

- (1) Underlying profit for the year: profit adjusted for group's share of unrealised fair value changes on investment properties
- (2) Recurring underlying profit for the year: underlying profit adjusted for items that are non-recurring in nature (such as gains or losses on disposal of long-term assets)
- (3) Net debt to equity: borrowings less short-term investments, time deposits, cash and bank balances divided by shareholders' funds
- (4) Net interest coverage: gross profit less administrative expenses before depreciation divided by net interest expenses
- (5) Net asset value per share: shareholders' funds divided by number of issued shares at year end
- (6) Net debt per share: borrowings less short-term investments, time deposits, cash and bank balances divided by number of issued shares at year end

# Report of the Valuer

To the Board of Directors  
**Hysan Development Company Limited**

Dear Sirs,

## **Annual Revaluation of Investment Properties as at 31 December 2014**

In accordance with your appointment of Knight Frank Petty Limited to value the investment properties in Hong Kong owned by Hysan Development Company Limited and its subsidiaries, we are pleased to advise that the market value of the investment properties as at 31 December 2014 was in the approximate sum of Hong Kong Dollars Sixty Eight Billion Seven hundred and Thirty Five Million Only (i.e. HK\$68,735 million).

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

For the investment properties under redevelopment, residual method of valuation has been adopted. The valuation was mainly arrived at by reference to sales or rental evidences as available on the market to determine the value of the proposed redevelopment as if it were completed in accordance with the existing development controls as at the date of valuation. All costs of the redevelopment, namely cost of construction, cost of finance, professional fees and allowance of profit required for the redevelopment were then deducted from the completion value of the proposed redevelopment to derive the market value of the properties as at the date of valuation.

Yours faithfully,  
**Knight Frank Petty Limited**

Hong Kong, 9 February 2015

# Schedule of Principal Properties

At 31 December 2014

## INVESTMENT PROPERTIES

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

Overview

Financial Performance

Responsible Business

Corporate Governance

Financial Statements and Valuation

At 31 December 2014

**INVESTMENT PROPERTIES** *continued*

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

\* The properties are currently under redevelopment. Demolition work on the existing above-ground structure was completed in July 2014. The lateral support works are currently underway in good progress for the next construction stage including demolition of existing basement, excavation and foundation construction. The combined redevelopment site has an overall registered site area of approximately 31,000 square feet. The new development has a projected gross floor area of approximately 467,000 square feet and is targeted for completion around 2018.

# Shareholding Analysis

## SHARE CAPITAL

At 31 December 2014

	HK\$	Number of Ordinary Shares
Issued and fully paid-up capital	7,640,080,563	1,063,871,692

There was one class of ordinary shares with equal voting rights.

## DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2014, as per register of members of the Company)

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of ordinary shares	% of the total no. of issued shares (Note)
5,000 or below	2,347	69.70	3,997,678	0.38
5,001 – 50,000	867	25.75	13,635,603	1.28
50,001 – 100,000	78	2.32	5,990,681	0.56
100,001 – 500,000	61	1.81	11,797,807	1.11
500,001 – 1,000,000	3	0.09	1,874,206	0.18
Above 1,000,000	11	0.33	1,026,575,717	96.49
<b>Total</b>	<b>3,367</b>	<b>100.00</b>	<b>1,063,871,692</b>	<b>100.00</b>

## TYPES OF SHAREHOLDERS

(At 31 December 2014, as per register of members of the Company)

Type of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Lee Hysan Company Limited, Lee Hysan Estate Company, Limited and their subsidiary	433,130,735	40.71
Other corporate shareholders	590,610,308	55.52
Individual shareholders	40,130,649	3.77
<b>Total</b>	<b>1,063,871,692</b>	<b>100.00</b>

## LOCATION OF SHAREHOLDERS

(At 31 December 2014, as per register of members of the Company)

Location of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Hong Kong	1,057,866,741	99.43
United States and Canada	4,541,924	0.43
United Kingdom	1,233,668	0.12
Others	229,359	0.02
<b>Total</b>	<b>1,063,871,692</b>	<b>100.00</b>

Note:

The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2014 (i.e. 1,063,871,692 ordinary shares).



# Shareholder Information

## FINANCIAL CALENDAR

Full year results announced	11 March 2015
Ex-dividend date for second interim dividend	24 March 2015
Closure of register of members and record date for second interim dividend	26 March 2015
Dispatch of second interim dividend warrants	(on or about) 9 April 2015
Closure of register of members for Annual General Meeting	14 to 15 May 2015
Annual General Meeting	15 May 2015
2015 interim results to be announced	5 August 2015*

\* subject to change

## DIVIDEND

The Board declares the payment of a second interim dividend of HK100 cents per share. The second interim dividend will be payable in cash to shareholders on the register of members as at Thursday, 26 March 2015.

The register of members will be closed on Thursday, 26 March 2015, for the purpose of determining shareholders' entitlement to the second interim dividend, during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Wednesday, 25 March 2015.

Dividend warrants will be dispatched to shareholders on or about Thursday, 9 April 2015.

The register of members will also be closed from Thursday, 14 May 2015 to Friday, 15 May 2015, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting to be held on 15 May 2015, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Wednesday, 13 May 2015.

## SHARE LISTING

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

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 00014

Bloomberg: 14HK

Reuters: 0014.HK

Ticket Symbol for ADR Code: HYSNY

CUSIP reference number: 449162304

## SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrar, Tricor Standard Limited:

Tricor Standard Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong  
Telephone: (852) 2980 1768  
Facsimile : (852) 2861 1465

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

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

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

## INVESTOR RELATIONS

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

Investor Relations  
Hysan Development Company Limited  
49/F. (Reception: 50/F.), The Lee Gardens  
33 Hysan Avenue  
Hong Kong  
Telephone : (852) 2895 5777  
Facsimile : (852) 2577 5153

## OUR WEBSITE

Press releases and other information of the Group can be found at our internet website: [www.hysan.com.hk](http://www.hysan.com.hk).

# On The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide

A. Workplace Quality	Reference in “Responsible Business” section
<b>A1 Working conditions</b>	
<ul style="list-style-type: none"> <li>Information on policies; and compliance and material non-compliance with relevant standards, rules and regulations on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, benefits and welfare</li> </ul>	<ul style="list-style-type: none"> <li>“Workplace Quality – Human Resources Policies”</li> <li>Not aware of any material non-compliance</li> </ul>
<ul style="list-style-type: none"> <li>KPI A1.1 Total workforce by employment type, age group and geographical region</li> </ul>	<ul style="list-style-type: none"> <li>“Workplace Quality – Staff Composition”</li> </ul>
<ul style="list-style-type: none"> <li>KPI A1.2 Employee turnover rate by age group and geographical region</li> </ul>	<ul style="list-style-type: none"> <li>“Workplace Quality – Staff Composition”</li> </ul>
<b>A2 Health and safety</b>	
<ul style="list-style-type: none"> <li>Information on policies; and compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards</li> </ul>	<ul style="list-style-type: none"> <li>“Health and Safety”</li> <li>Not aware of any material non-compliance</li> </ul>
<ul style="list-style-type: none"> <li>KPI A2.1 Number and rate of work-related fatalities</li> </ul>	<ul style="list-style-type: none"> <li>No fatality</li> </ul>
<ul style="list-style-type: none"> <li>KPI A2.2 Lost days due to work injury</li> </ul>	<ul style="list-style-type: none"> <li>“Health and Safety – Health and Safety in Action”</li> </ul>
<ul style="list-style-type: none"> <li>KPI A2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored</li> </ul>	<ul style="list-style-type: none"> <li>“Health and Safety – Health and Safety in Action”</li> </ul>
<b>A3 Development and training</b>	
<ul style="list-style-type: none"> <li>Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities</li> </ul>	<ul style="list-style-type: none"> <li>“Workplace Quality – Training and Development”</li> <li>Our focus in 2014 included the introduction of a comprehensive training curriculum for Building Management Team colleagues of various levels. We shall continue to strengthen our staff capabilities through training programmes and activities.</li> </ul>
<ul style="list-style-type: none"> <li>KPI A3.1 The percentage of employees trained by employee category</li> </ul>	
<ul style="list-style-type: none"> <li>KPI A3.2 Average training hours completed per employee by employee category</li> </ul>	
<b>A4 Labour standards</b>	
<ul style="list-style-type: none"> <li>Information on policies; and compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour</li> </ul>	<ul style="list-style-type: none"> <li>“Workplace Quality – Human Resources Policies”</li> <li>We believe our property investment and management business (primarily in Hong Kong) has a very low risk profile on use of forced or child labour. We are not aware of any material non-compliance with applicable provisions. We are against the use of forced or child labour.</li> </ul>
<ul style="list-style-type: none"> <li>KPI A4.1 Description of measures to review employment practices to avoid child and forced labour</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
<ul style="list-style-type: none"> <li>KPI A4.2 Description of steps taken to eliminate such practices when discovered</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>

B. Environmental Protection	Reference in “Responsible Business” section
<b>B1 Emissions</b>	
<ul style="list-style-type: none"> <li>Information on policies; and compliance and material non-compliance with relevant standards, rules and regulations on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Our New Environmental Policy”</li> <li>“Environment – Energy Efficiency”</li> <li>“Environment – Waste Management, Recycling and Water Consumption”</li> <li>Not aware of any material non-compliance</li> </ul>
<ul style="list-style-type: none"> <li>KPI B1.1 Types of emissions and data</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Energy Efficiency”</li> <li>“Environment – Waste Management, Recycling and Water Consumption”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B1.2 Greenhouse gas emission in total</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Energy Efficiency”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B1.3 Total hazardous waste produced</li> <li>KPI B1.4 Total non-hazardous waste produced</li> </ul>	<ul style="list-style-type: none"> <li>We believe our business does not generate a material amount of hazardous waste.</li> </ul>
<ul style="list-style-type: none"> <li>KPI B1.5 Description of measures to mitigate emissions and results achieved</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Energy Efficiency”</li> <li>“Environment – Waste Management, Recycling and Water Consumption”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B1.6 Description of how wastes are handled, reduction initiatives and results achieved</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Waste Management, Recycling and Water Consumption”</li> </ul>
<b>B2 Use of resources</b>	
<ul style="list-style-type: none"> <li>Policies on efficient use of resources like energy, water and other raw materials</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Our New Environmental Policy”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B2.1 Energy consumption by type in total and intensity</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Energy Efficiency”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B2.2 Water consumption in total and intensity</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Waste Management, Recycling and Water Consumption”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B2.3 Description of energy use efficiency initiatives and results achieved</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Energy Efficiency”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Waste Management, Recycling and Water Consumption”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B2.5 Total packaging material used for finished products</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
<b>B3 The environment and natural resources</b>	
<ul style="list-style-type: none"> <li>Policies on minimising the operation’s significant impact on the environment and natural resources</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Our New Environmental Policy”</li> </ul>
<ul style="list-style-type: none"> <li>KPI B3.1 Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them</li> </ul>	<ul style="list-style-type: none"> <li>“Environment – Our Environmental Impacts”</li> <li>“Environment – Energy Efficiency”</li> <li>“Environment – Waste Management, Recycling and Water Consumption”</li> </ul>

C. Operating Practices	Reference in “Responsible Business” section
<b>C1 Supply chain management</b>	
<ul style="list-style-type: none"> <li>• Policies on risk management of supply chain</li> </ul>	<ul style="list-style-type: none"> <li>• “Health and Safety – New Health and Safety Policy”;</li> <li>• “Health and Safety – Health and Safety: Our Partners”</li> <li>• “Environment – Our New Environmental Policy”;</li> <li>• “Environment – Highlights of 2014” (covered stakeholder engagement)</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C1.1 Number of suppliers by geographical region</li> </ul>	<ul style="list-style-type: none"> <li>• “Environment – Green Procurement” (With regards to the redevelopment of Sunning Plaza/Court, we plan to use materials extracted and manufactured locally for around 10 % of total materials value.)</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C1.2 Description of practices relating to engaging suppliers, number of suppliers, and how practices are implemented and monitored</li> </ul>	<ul style="list-style-type: none"> <li>• “Health and Safety – Health and Safety: Our Partners”</li> <li>• “Environment – Green Procurement”</li> </ul>
<b>C2 Product responsibility</b>	
<ul style="list-style-type: none"> <li>• Information on policies and compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labelling, privacy and methods of redress</li> </ul>	<ul style="list-style-type: none"> <li>• “Health and Safety – New Health and Safety Policy”</li> <li>• “Workplace Quality – Our Values” (including the reference to “Code of Ethics”, which covers data privacy)</li> <li>• Not aware of any material non-compliance</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C2.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C2.2 Number of products and service related complaints received and how they are dealt with</li> </ul>	<ul style="list-style-type: none"> <li>• Our “Service Scan” highlights customer complaint and request handling. For each service, the service levels are stated, each with an accompanying KPI and monitoring methodology.</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C2.3 Description of practices related to observing and protecting intellectual property rights</li> </ul>	<ul style="list-style-type: none"> <li>• “Workplace Quality – Our Values” (including the reference to “Code of Ethics”, which covers protection of copyrights)</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C2.4 Description of quality assurance process and recall procedures</li> </ul>	<ul style="list-style-type: none"> <li>• “Service Scan” details standard service levels and their related KPIs and methods of measurement. It is used regularly to measure tenants’ satisfaction levels for service improvements.</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C2.5 Description of consumer data protection and privacy policies, how they are implemented and monitored</li> </ul>	<ul style="list-style-type: none"> <li>• “Workplace Quality – Our Values” (including the reference to “Code of Ethics”)</li> </ul>
<b>C3 Anti-corruption</b>	
<ul style="list-style-type: none"> <li>• Information on policies; and compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering</li> </ul>	<ul style="list-style-type: none"> <li>• “Workplace Quality – Our Values” (including the reference to “Code of Ethics”, which covers anti-bribery)</li> <li>• Not aware of any material non-compliance</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C3.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases</li> </ul>	<ul style="list-style-type: none"> <li>• No such cases</li> </ul>
<ul style="list-style-type: none"> <li>• KPI C3.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored</li> </ul>	<ul style="list-style-type: none"> <li>• “Workplace Quality – Our Values” (including the reference to “Code of Ethics”, which covers our whistle-blowing procedures)</li> </ul>
D. Community Investment	Reference in “Responsible Business” Section
<ul style="list-style-type: none"> <li>• Policies on community engagement to understand the community’s needs where it operates and to ensure its activities takes into consideration of communities’ interests</li> </ul>	<ul style="list-style-type: none"> <li>• “Corporate Responsibility Policy”</li> </ul>
<ul style="list-style-type: none"> <li>• KPI D1.1 Focus areas of contribution</li> </ul>	<ul style="list-style-type: none"> <li>• “Corporate Responsibility Policy – How the Policy is implemented: Hysan’s Corporate Responsibility Model” (contributions through regular business activities and also giving through community involvement)</li> <li>• “Community Contributions”</li> </ul>
<ul style="list-style-type: none"> <li>• KPI D1.2 Resources contributed</li> </ul>	<ul style="list-style-type: none"> <li>• “Community Contributions”</li> </ul>

# Corporate Responsibility Reporting Verification Statement

## Third-party Independent Verification



### VERIFICATION STATEMENT

#### Scope and Objective

Hong Kong Quality Assurance Agency ("HKQAA") conducted an independent verification of the Responsible Business Section of the Annual Report of Hysan Development Company Limited ("Hysan"). The content of the Responsible Business Section depicts Hysan's commitments and progress on sustainability for the period of 1st January 2014 to 31st December 2014.

The aim of this verification was to provide a reasonable assurance on the completeness and accuracy of the information stated in the Responsible Business Section, which is the second reporting of Hysan that prepared in accordance with the Environmental, Social and Governance Reporting Guide (ESG Reporting Guide) issued by the Hong Kong Stock Exchange.

#### Methodology

The process applied in this verification was based on the current best practices such as the "ISAE 3000- Assurance Engagements Other Than Audits or Reviews of Historical Financial Information".

The verification process included reviewing of relevant documentation, interviewing responsible personnel with accountability for preparing the reporting contents and verifying the selected representative sample of data and information. Raw data and supporting evidence of the selected samples were thoroughly examined.

#### Independence

HKQAA was not involved in collecting and calculating data, or in the development of the reporting contents. HKQAA's activities are independent from Hysan.

#### Conclusion

The results of our verification provided confidence in the systems and processes used by Hysan for managing and reporting sustainability performance information. It is confirmed that the contents stated within the Responsible Business Section of the Annual Report are accurate and reliable. The key performance indicators specified in the ESG Reporting Guide has been adequately addressed. The information presents in the Responsible Business Section is fair in all material respects, and the reporting contents articulate a balanced account of Hysan's sustainability performance during the reporting period.

Hysan has established effective mechanism to proactively engage with its stakeholders. Feedbacks from stakeholders were taken into account very seriously for incorporating into the company's sustainability strategies and for preparing the reporting contents. Also, Hysan has been responsive to stakeholder concerns and expectations, a number of highlighted cases are demonstrated within the Responsible Business Section. Overall, the Responsible Business Section itself was found to be inclusive of Hysan's commitments, progress and achievement of its material sustainability issues.

#### Signed on behalf of Hong Kong Quality Assurance Agency

Connie Sham  
Head of Audit  
March 2015



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