



CHANGES

2015
annual report

 **Hysan** 希慎

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2015 was a challenging year in economic and financial terms, both globally and locally in Hong Kong. In this Annual Report, we highlight how Hysan created unique and delightful experiences for our stakeholders through creativity, resourcefulness, professionalism, strong teamwork and swift action, as we responded to both expected and unexpected business changes.



RETAIL



around

25%

average
rental reversion



around

10%

increase in estimated
tenant sales



100%

occupancy

Hysan's strategy of diversification and pivoting the retail portfolio towards the mid-to-affordable market pays off in a generally weaker retail environment.



RETAIL



20+

renowned brands'
flagship stores within
our retail portfolio



O2O

successful online
promotions for
offline sales

Building upon a stable base that caters to a wider group of consumers, we strive to provide a unique and satisfying experience to our shoppers.



PLACEMAKING



around

5%

increase in overall
foot traffic
achieved against a
weaker retail climate



each of the

3 hubs

saw growth in
shoppers' numbers

Whether they are vigorous yoga sessions in the Sky Garden, glamorous baubles for the holidays or delightful junior cooking classes, our placemaking experiences and features attract those from near and far.



FOOD AND BEVERAGE



62 food and beverage establishments

7 including Michelin-starred or recommended gourmet eateries



5

celebrated international restaurants make Lee Gardens their first home in Hong Kong



around

10%

increase in estimated food and beverage tenant sales

Our food and beverage offering covers a range of price points, and attracts casual, chic or business diners, as well as family gatherings.



OFFICE



around
30%
average
rental reversion



99%
occupancy

Our office portfolio benefits from significant demand and limited supply of premium office space in Hong Kong, but we also actively reconfigure and upgrade our buildings through asset enhancement programmes.



OFFICE



Lee Gardens Offices =
work-life balance +
cost effectiveness

since 2013

18 quality office tenants have
moved to Lee Gardens
from Central and Admiralty

now

25 technology, media and
telecom companies reside in
inspirational Lee Gardens

With commuting convenience, good workplace facilities and an abundance of nearby shops and restaurants, Lee Gardens Offices offers a peerless work-life balance environment, in addition to the portfolio's cost effectiveness.



SUSTAINABILITY



Lee Garden One is the

1st

Hong Kong commercial building with a provisional BEAM Plus (Existing Building) Platinum certification for its office portion



975,000+ kg
paper and
3,000+ kg
plastic bottles
recycled



1,300+ hours
of volunteer service
performed

As a “Business of Life”, we endeavour to create positive and sustainable changes in the lives of our stakeholders and the communities we serve.

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Overview



Key Facts

Where We Are

Hysan owns an investment property portfolio which is set predominantly in the heart of Hong Kong's vibrant Causeway Bay, and is clustered in hubs. Our ownership concentration, which intensifies our ability to extract synergies from the tenant mix, makes our high quality retail, office and residential collection truly exceptional.

While the approximately 4.1 million square feet of rental space, excluding properties under redevelopment, has essentially remained the same in size in the past decade, our revenue has nearly tripled.

How We Translate Our Values into Our Daily Work

– Unique and Satisfying Experience (U.S.E.)

A delighting experience exceeding customer expectations that enchants him/her

Internal Customers

Employees and Departments



Resourcefulness + Professionalism

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.

VALUES

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

S . E .



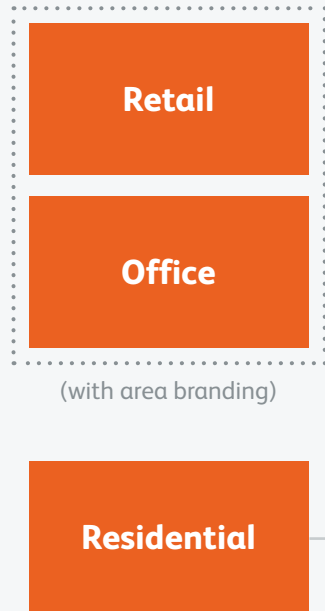
External Customers

Shoppers and Tenants



+ Teamwork + Swift Action

Value Creation

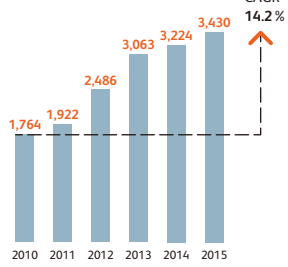


Increase Yields

through active management including tenant mix improvement

Turnover

2010-2015 (HK\$ million)



Asset Enhancement

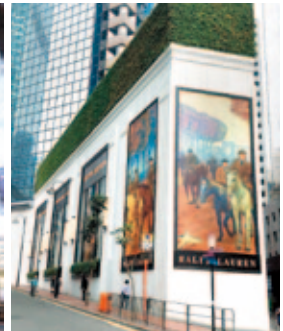
balance longer-term projects with those that produce more immediate returns

Hysan Place

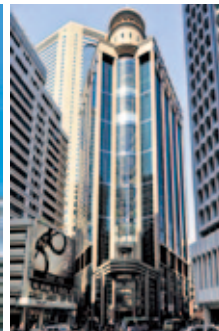
Lee Theatre Plaza

Lee Garden Two

After Enhancement



Before Enhancement



Supported by Strong Underlying Non-Financial Achievements:

Environment

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

Employees

Maintain good working environment to unleash potential

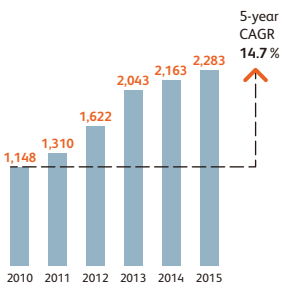
Continue strong focus in Causeway Bay and concurrently seek opportunities beyond our core portfolio

Financial Achievements

increase earnings and enhance net asset value

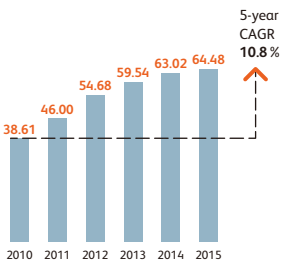
Recurring Underlying Profit

2010-2015 (HK\$ million)



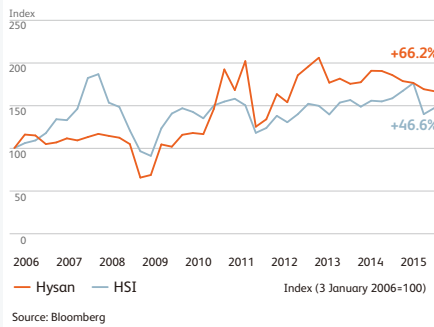
Net Asset Value per Share

2010-2015 (HK\$)



Share Price Growth

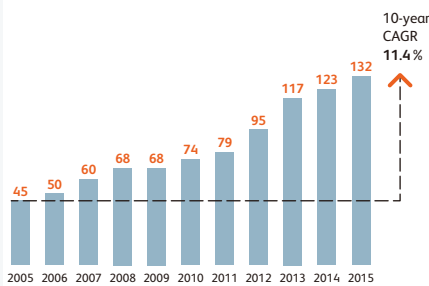
increase long term value



Dividends per Share

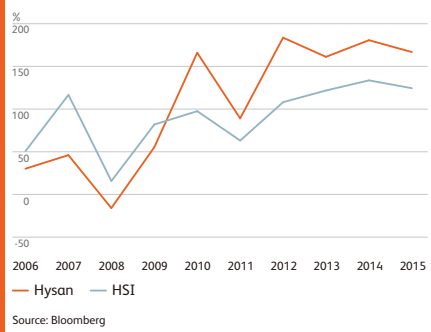
provide steady growth

2005-2015 (HK cents)



Risk Adjusted Total Return – Steady and Measured Growth

Cumulative Total Returns for Hysan versus Hang Seng Index



Community

Make positive contributions to communities where we operate

Governance

Strong governance is the heart of long-term sustainable performance

A Balanced Portfolio

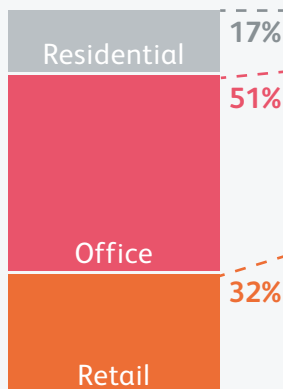
A key feature of Hysan’s portfolio, comprising principally retail and office segments, is its balanced nature.

Our retail portfolio houses international renowned and popular local brands of different price points and style. The office portfolio is also home to a variety of multinational as well as Hong Kong-based companies.

Overall

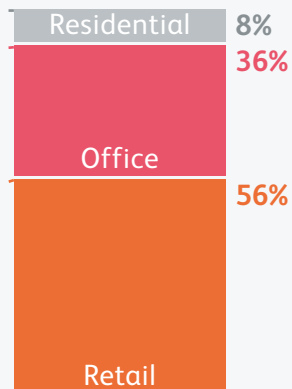
Investment Properties
(by Gross Floor Area excluding properties under redevelopment)

Total Gross Floor Area
4.1 million sq. ft. (approx.)



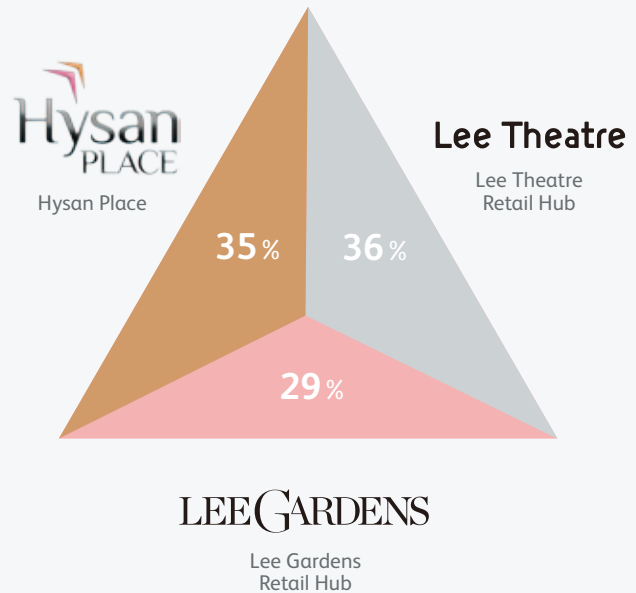
Investment Properties
(by Turnover Contribution)

Turnover
HK\$3,430 million



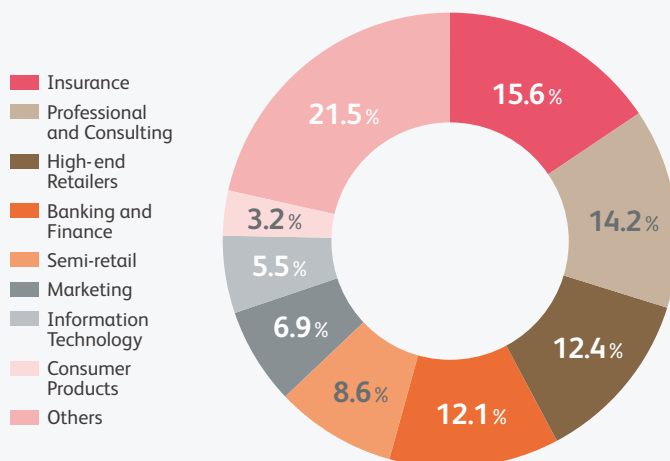
A Diversified and Distinct Retail Portfolio

Each of the three retail hubs is approximately one-third of the total portfolio's area. Hysan Place places an emphasis on trendiness and houses a number of brand name flagship stores. Lee Gardens hub is well known for high-end brands and its luxury premium setting. Lee Theatre hub projects a healthy and sporty lifestyle image, and showcases some of the city's best known food and beverage outlets.



An Office Portfolio for Different Businesses

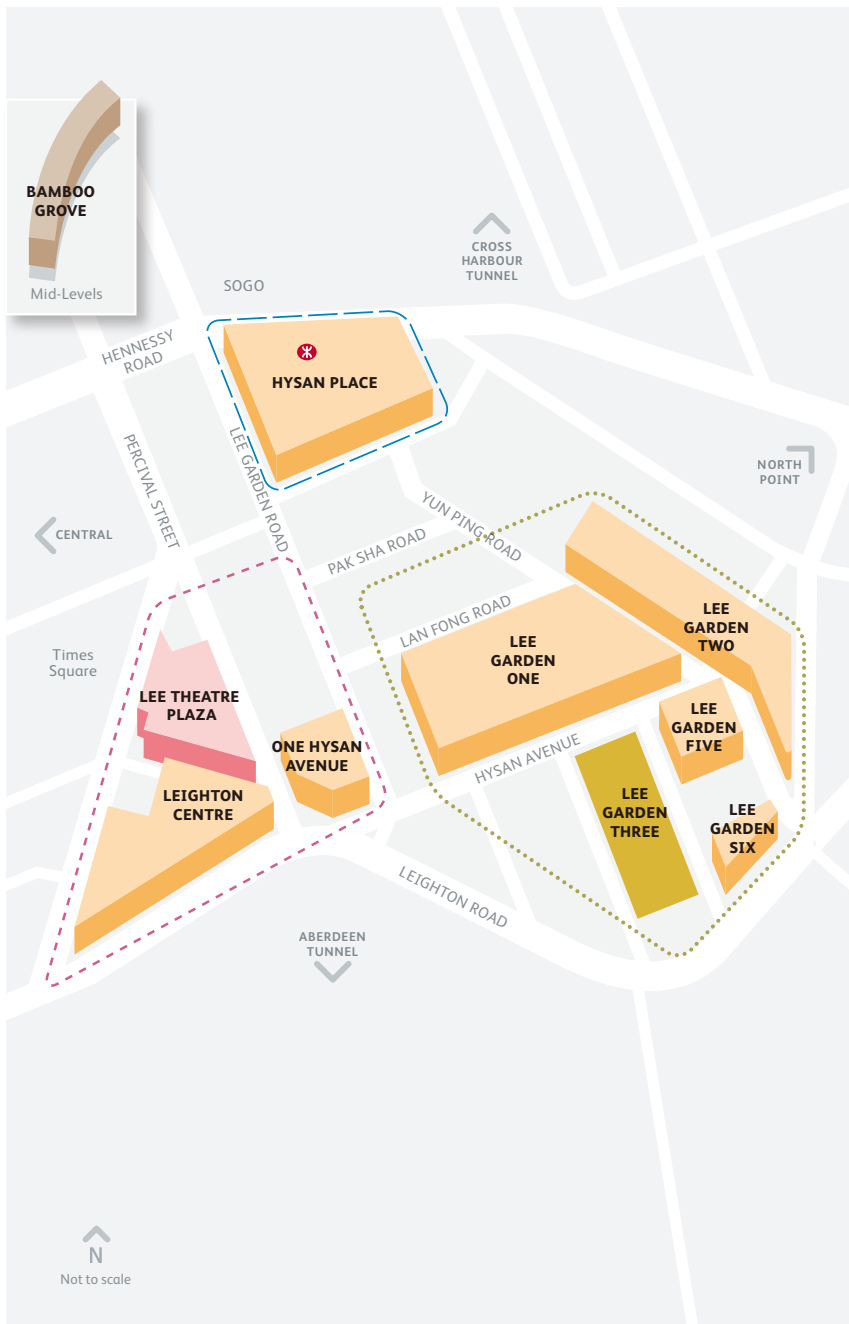
The top four industries in our office portfolio are insurance, professional and consulting, high-end retailers and banking and finance. They represent 54% of our office lettable floor area, but no category takes up more than 20% of the total lettable area.



Key Facts

The Hysan Community

A unique work, lifestyle and shopping destination



HYSAN PLACE

500 Hennessy Road, Causeway Bay
Completed 2012

Approx. Gross Floor Area **716,000** ft²
Number of Floors **40** Parking Spaces **66**

RETAIL

- 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. Under the **LEE GARDENS** brand, it combines street-front shops with shopping malls of different characteristics, and is complemented by a vibrant low-rise neighbourhood

OFFICE

- Owns, markets and manages approximately 2.1 million gross square feet of premium office space
- Our office portfolio is positioned as a credible alternative to Central and Admiralty, providing a perfect destination for companies that care about both work-life balance and cost effectiveness

RESIDENTIAL

- Bamboo Grove in Hong Kong's Mid-Levels has a total area of approximately 0.7 million gross square feet
- It offers a quality international living experience with top class facilities, personalised service and easy access to work, school and play



Home to international corporations and premium brands

LEE GARDEN ONE

33 Hysan Avenue, Causeway Bay
Completed 1997

Approx. Gross Floor Area **900,000** ft²
Number of Floors **53** Parking Spaces **200**



Spacious offices plus renowned children's concept floor

LEE GARDEN TWO

28 Yun Ping Road, Causeway Bay
Completed 1992 /
Renovation of retail podium 2003

Approx. Gross Floor Area **627,000** ft²
Number of Floors **34** Parking Spaces **167**

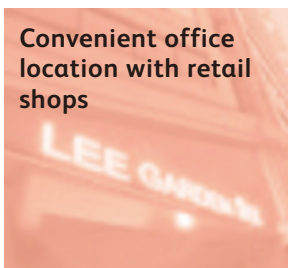


A 25-level office and retail complex

LEE GARDEN FIVE

18 Hysan Avenue, Causeway Bay
Completed 1989 / Renovated 2009

Approx. Gross Floor Area **132,000** ft²
Number of Floors **25**



Convenient office location with retail shops

LEE GARDEN SIX

111 Leighton Road, Causeway Bay
Completed 1988 / Renovated 2004

Approx. Gross Floor Area **80,000** ft²
Number of Floors **24**



Popular offices and sporty lifestyle shops

LEIGHTON CENTRE

77 Leighton Road, Causeway Bay
Completed 1977 / Renovated 2011

Approx. Gross Floor Area **430,000** ft²
Number of Floors **28** Parking Spaces **321**



Iconic office and retail building in prime site

ONE HYSAN AVENUE

1 Hysan Avenue, Causeway Bay
Completed 1976 / Renovated 2011

Approx. Gross Floor Area **169,000** ft²
Number of Floors **26**



One of Hong Kong's best-loved shopping/dining complexes

LEE THEATRE PLAZA

99 Percival Street, Causeway Bay
Completed 1994 /
Renovation of lower zone 2013

Approx. Gross Floor Area **317,000** ft²
Number of Floors **26**



Soon-to-be among the city's best known commercial addresses

LEE GARDEN THREE

Causeway Bay
To be completed in late 2017



Quality international living in Mid-Levels

BAMBOO GROVE

74-86 Kennedy Road, Mid-Levels
Completed 1985 / Renovated 2002

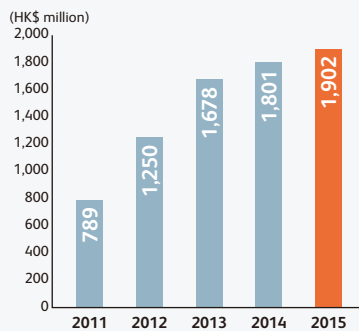
Approx. Gross Floor Area **691,000** ft²
Number of Units **345** Parking Spaces **436**

2015 Performance at a Glance

Financial Performance

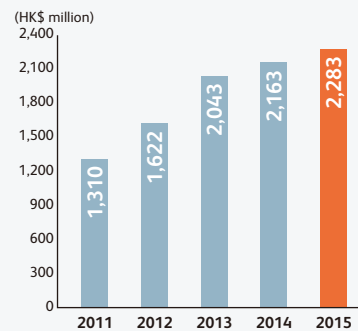
Turnover **HK\$3,430m**
 \wedge **6.4%**

Retail Sector
HK\$1,902m \wedge **5.6%**

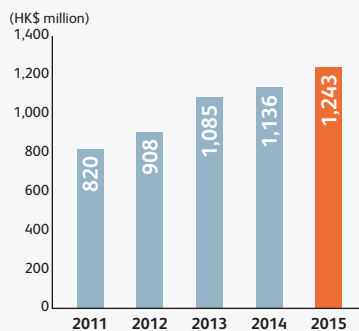


Recurring Underlying Profit **HK\$2,283m**
 \wedge **5.5%**

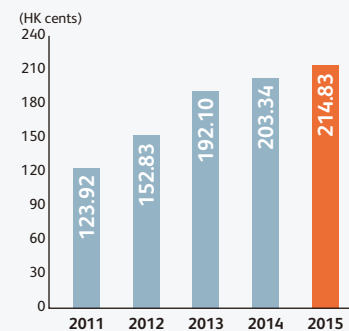
Recurring Underlying Profit
HK\$2,283m \wedge **5.5%**



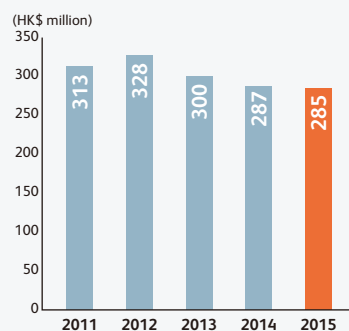
Office Sector
HK\$1,243m \wedge **9.4%**



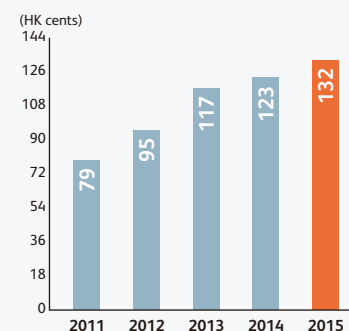
Recurring Underlying Earnings per Share
HK214.83 cents \wedge **5.7%**



Residential Sector
HK\$285m ∇ **0.7%**



Dividends per Share
HK132 cents \wedge **7.3%**

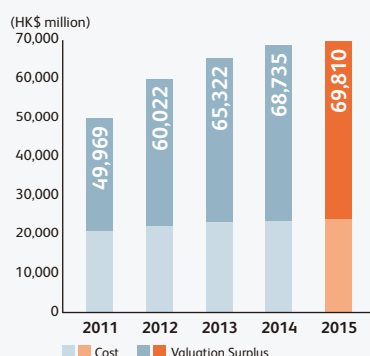


Net Asset Value per Share

HK\$64.48
 \wedge 2.3%

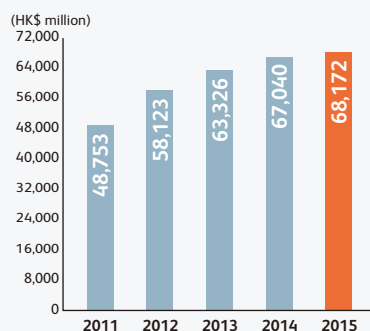
Property Value

HK\$69,810m \wedge 1.6%



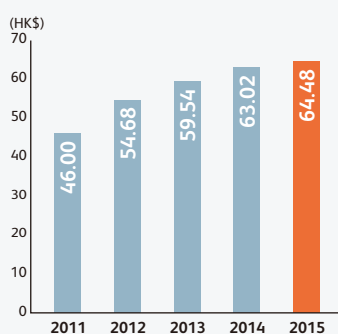
Shareholders' Funds

HK\$68,172m \wedge 1.7%



Net Asset Value per Share

HK\$64.48 \wedge 2.3%



Financial Prudence

Net Interest Coverage (Note 1)

19.5 times
 (2014: 17.1 times)

Net Debt to Equity (Note 2)

3.0%
 (31 Dec 2014: 4.2%)

Average Cost of Finance

3.5%
 (2014: 3.2%)

Average Debt Maturity

6.3 years
 (31 Dec 2014: 5.6 years)

Fixed Rate Debt

94.9%
 (31 Dec 2014: 76.3%)

Capital Market Issuances

94.9%
 (31 Dec 2014: 83.0%)

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 time deposits, cash and bank balances divided by shareholders' funds

2015 Performance at a Glance

Non-Financial Performance

Environment

“AA”

- MSCI Global Sustainability Indexes: ‘AA’ rating and ‘top 5 industry leaders’ in the sub-category of “opportunities in green building”

“AA”

- Hang Seng Corporate Sustainability Index: ‘AA’ rating

- Lee Garden One is the first Hong Kong commercial building with a provisional BEAM Plus (Existing Building) Platinum certification for its office portion
- Winner of World Green Organisation’s first Sustainable Business Award
- Best Practice Management Award in Green Development



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Social

- Constituent member of FTSE4Good index and STOXX® Global ESG Leaders indices
- Finalist of The Hong Kong Council of Social Service's Outstanding Partnership Award (through Exploration of Hope programme)
- Best Practice Management Award in Corporate Social Enterprise
- Gold Award for Volunteer Service (Organisation) (in 2015) 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 2015
- Honourable Mention in The Hong Kong Management Association's 2015 HKMA Best Annual Reports Awards



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Chairman's Statement



We are confident that Hysan is uniquely placed to capture opportunities as Hong Kong benefits from the continuing development of China.

Overview

We anticipated a challenging 2015 but the year turned out to be far more volatile and difficult than expected. Crashing oil prices and a noticeably slowing Chinese economy together with alarming worldwide geopolitical issues were only some of the dark clouds that gathered. In a local context, the decline in retail sales, especially in the luxury sector, gathered pace. Although largely expected in a climate of adjustment, there were a number of structural changes that affected spending patterns and shopper mix.

The softer retail market was helped by a stronger commercial office market which was in turn aided by tight supply and demands from Chinese financial institutions. Overall, 2015 was a tale of two halves. In the second half, China's slowing economic growth, the depreciation of the Yuan and weaker and volatile equity markets had an immediate and direct impact on Hong Kong.

We enter 2016 with a continued commitment to build on our already well diversified, unique and well curated portfolio. Our balance sheet strength and our dynamic capital management will place us in a strong position to face the headwinds of the coming year. Just as importantly, they will enable us to seek opportunities to make Hysan an even stronger company.

Business Performance

The Group's 2015 turnover was HK\$3,430 million, up 6.4% from HK\$3,224 million in 2014. At year-end 2015, our retail portfolio was fully-let. Occupancy of our office portfolio was 99%, while that of the residential portfolio was 89%.

Recurring Underlying Profit, our key core leasing business performance indicator, and Underlying Profit, were both HK\$2,283 million (both up 5.5% from HK\$2,163 million in 2014). These performances primarily reflected the continued improvement in gross profit generated from our retail and office leasing activities. Basic earnings per share based on Recurring Underlying Profit was HK214.83 cents (2014: HK203.34 cents), up 5.7%.

Our Reported Profit for 2015 was HK\$2,903 million (2014: HK\$4,902 million), down 40.8%. This reflected a smaller fair value gain on the Group's investment properties valuation recorded this year. At year-end 2015, the external valuation of the Group's investment property portfolio increased by 1.6% to HK\$69,810 million (2014: HK\$68,735 million). This in part reflected the more efficient design for Lee Garden Three, finalised in Q4 2015, as

compared to the earlier valuation based on more generic assumptions. The higher external valuation also reflected improved rental rates for the Group's office investment property portfolio. Shareholders' Fund increased by 1.7% to HK\$68,172 million (2014: HK\$67,040 million).

Our financial position remains strong, with net interest coverage of 19.5 times (2014: 17.1 times) and net debt to equity ratio of 3.0% (2014: 4.2%).

Capital Management

The Board of Directors (the "Board") is pleased to declare a second interim dividend of HK107 cents per share (2014: HK100 cents). Together with the first interim dividend of HK25 cents per share (2014: HK23 cents), the total distribution is HK132 cents per share (2014: HK123 cents), representing a year-on-year increase of 7.3%. The dividend will be payable in cash.

Hysan announced its first share repurchase since 2007 in August 2015, as part of our commitment to dynamic capital management. 6.75 million shares were repurchased during the year. Such repurchases should further enhance shareholders' value, which will include the associated improvement in net asset value and earnings per share. We will closely monitor the market and may continue our share repurchase during 2016.

Resilience and Flexibility

The challenging socio-political and global economic and financial conditions in 2015 will continue into 2016 and create even greater uncertainty. This will be reflected in lower consumer confidence, as reflected in dollars spent, and also in the frequency of visits and consumer numbers.

The Yuan, while lower compared to the US dollar and against the pegged Hong Kong dollar, is still strong compared to most other currencies. Increasingly sophisticated Chinese tourists are more interested in visiting and spending their relatively strong Yuan in Europe and other Asian destinations such as Japan.

Luxury retail had a challenging 2015. Hysan witnessed slower sales in this sector. Since we anticipated that the market would normalise after strong growth during the past decade, we committed to a strategy of diversification by pivoting our portfolio towards the mid-to-affordable market and we leveraged on our leading position in children's offerings and in sport and lifestyle products.

Hysan continues to build on and fine-tune the clear positioning of our three hubs. Each hub represents approximately one-third of our portfolio in size. Our well balanced and diversified portfolio forms the platform for our retail strategy and will position Hysan well to meet the challenges ahead.

Building upon a base that caters for a wider group of consumers, we have also maintained our commitment to provide a unique and satisfying experience to our tenants, shoppers and other visitors. For us, it is simply not enough to meet our customers' expectations. We strive to give experiences that delight and surprise our stakeholders' expectations through creativity, resourcefulness, professionalism, strong teamwork and the swift action of everyone in the Hysan team.

Chairman's Statement

Our strategy “to exceed expectations” began with the enhancement of diversity in our retail tenant mix. In recent years, we have built a retail portfolio anchored by more than 20 flagship stores covering a range of products and price points. By adding a significant number of health and leisure brands and their products targeting different segments of customers, both Hysan Place and the Lee Theatre hub have developed a more “sporty” look and feel that appeals to those members of our society, both young and young-at-heart, who focus on health and work-life balance.

Food and beverage (F&B) is an increasingly vital and integral part of retailing. Hysan ensures a flow of new concepts which appeal to consumers’ increasing sophistication and demands for all things original and exciting. Our F&B offering covers a range of price points which attracts casual, chic, professional and business diners as well as family gatherings. There are seven Michelin-starred or -recommended F&B outlets in the Hysan portfolio. Our reputation as a “foodie haven” enhances our profile as a leisure venue that goes beyond shopping.

We continued to devote significant resources to stage unique promotional activities and programmes to increase foot traffic. Against a generally weak retail environment, the annual foot traffic for the Hysan portfolio increased by around 5% in 2015 as compared to 2014. We differentiated from other shopping malls, which also significantly stepped up their promotional activities, by working closely with our tenants to create targeted promotions to support their marketing strategies.

Finally, we have further enhanced our customer service on all fronts. We clearly understand that a commercial property owner’s attention should not end with its tenants, but also focus on those who frequent its shops. As part of our drive to create positive customer experiences, our initiatives have included continuous refinement of the Club Avenue V.I.P. service, new events for our ever-popular Kids’ Zone programmes, and a new and enhanced training setup for our front-line property management personnel.

Our clustering in the prime commercial district of Causeway Bay is a unique advantage. This geographic concentration in one area powers and magnifies the effects of our diverse tenant mix, our varied F&B offering, our significant number of flagship stores, our popular promotional activities and our consistent and renowned customer service. We intend to maintain a holistic approach to our portfolio in order to deliver a brand with a quality and experience which is unique to LEE GARDENS.

In 2015, our office portfolio continued to benefit from the significant demand for premium office space by financial and related industries in Hong Kong. Whereas Mainland Chinese securities and financial companies continued to take up the available limited supply of space in the core central districts, other industries have looked towards Causeway Bay in general, and Lee Gardens in particular, as a strong alternative to core central areas because of our excellent facilities, amenities and transport ties.

A recent survey conducted by Hong Kong’s Community Business reiterated that commuting convenience, good workplace facilities and the availability of nearby shops, restaurants and entertainment are local workers’ most important criteria in achieving work-life balance. We take pride in the fact that our office portfolio offers all these attractions in abundance. Moreover, Lee Gardens Offices maintains a significant edge in cost effectiveness as compared to other core areas like Central and Admiralty.

The Lee Garden Three redevelopment is progressing well and is on schedule to be completed in late 2017, slightly earlier than the original estimated date of 2018. A major feature of this project is the addition of around 200 parking spaces. These will further channel shoppers with cars into our portfolio, and will significantly alleviate the parking issues experienced in Causeway Bay.

On the environmental and community fronts, Lee Garden One's office portion was a proud recipient of a provisional BEAM Plus Platinum Certification for existing buildings, Hong Kong's first commercial building's offices to be on the way to achieving this significant green building standard. We are also delighted to report that our RE:SHARE A WISH Xmas Baubles upcycling programme raised more than HK\$1.1 million for Save the Children through the sales of limited-edition designer baubles made from recycled water bottles.

Outlook

As the world's most visited city, we are confident that Hong Kong will remain relevant and vital, in its own right and as a part of an increasingly outward looking China. 2016 will see continued adjustments, particularly in the high end retail sector, while volatility in the currency and equity markets and a slower China growth will contribute to a challenging year.

Hysan prides itself on a deep understanding of and commitment to Hong Kong, especially the commercial heart of Causeway Bay. It is important to recognise the resilience that our diversified and balanced portfolio and our balance sheet strength provide. We are confident that Hysan is uniquely placed to capture opportunities as Hong Kong benefits from the continuing development of China. We anticipate our Group will deliver another year of steady performance.

Appreciation

On behalf of the Board, I would like to thank our management team and colleagues for all their commitment and hard work in 2015. I would also like to thank my fellow directors for their advice throughout the year. My special thanks to Mr. Nicholas Charles ALLEN, who is stepping down from the Board upon the conclusion of our annual general meeting in May. Nick joined Hysan as an Independent non-executive Director back in November 2009. I am grateful for his wise counsel and diligent work as Chairman of the Audit Committee. I would also like to thank Ms. Wendy Wen Yee YUNG, our Executive Director from April 2008 until October 2015, for all her contributions to Hysan, and wish her every success in her future endeavours.

Irene Yun Lien LEE

Chairman

Hong Kong, 8 March 2016

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Financial Performance

Overview

Financial Performance

Responsible Business

Corporate Governance

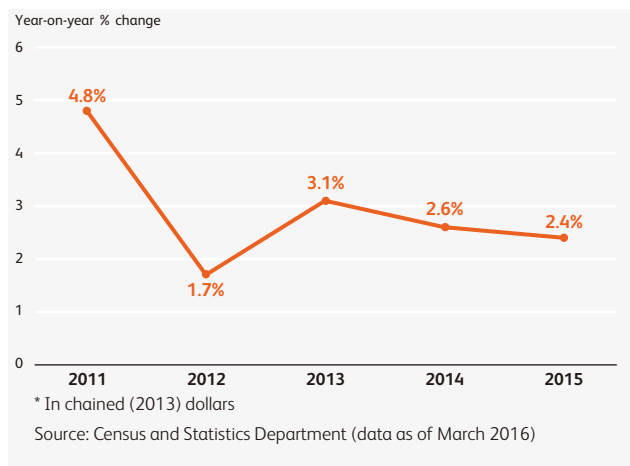
Financial Statements and Valuation

The Marketplace

Hong Kong economy

The Hong Kong economy recorded growth of 2.4% for the full year. Private consumption increased 4.8% under broadly favorable job and income conditions, although a slower pace was recorded in the second half of the year. Investment expenditure experienced a decline of 2.2%, dragged lower by public sector activities. Exports of goods declined by 1.7% and exports of services by 0.6% mainly due to Mainland China's subdued economic performance, as well as weakness in other advanced markets.

Real Gross Domestic Product*



Retail

Retail sales recorded an annual decline of 3.7% as compared to the previous year. During the year, sales of discretionary products, including luxury and clothing, experienced a notable drop. Some non-discretionary categories, including supermarket and food-related items, recorded growth. In addition, strong sales of electronic goods and computers were recorded for the first three quarters of the year. However, these positive factors were unable to compensate for the drop.

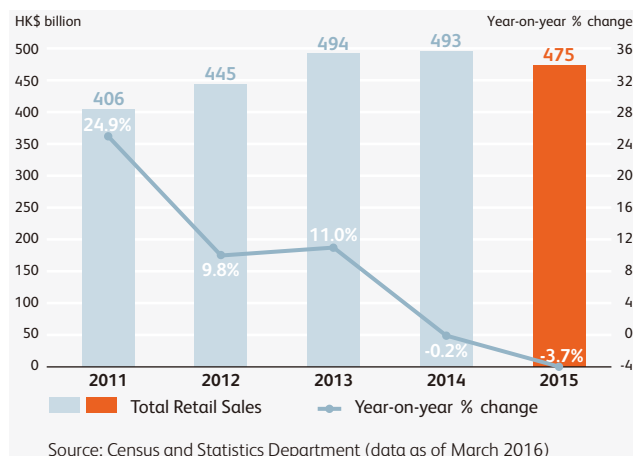
A 3% decline in the number of Mainland China visitors during the year was one of the core reasons for the decline in retail sales. In addition, the price corrections in the residential property and stock market that occurred since third quarter of the year also affected local spending sentiment.

Retail categories that recorded year-on-year growth included i) other consumer durable goods (up 16.3%, which included electronic goods and computers), ii) food, alcoholic drinks and tobacco (up 5.9%), iii) supermarket (up 1.3%). By contrast, sales of jewelry, watches and clocks and valuable gifts recorded a significant decline (down 15.6%) while sales of clothing, footwear and allied products also dropped (down 6.7%).

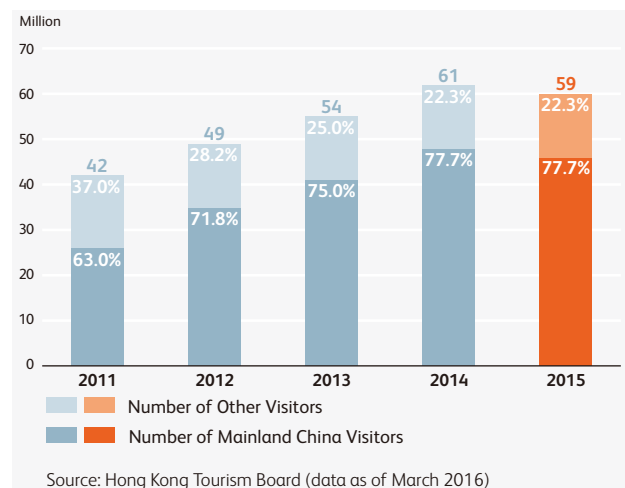
	Categories	2015 growth rate
Mainly non-discretionary products and consumer electronics	Other consumer durable goods (including electronic goods and computers)	+ 16.3 %
	Food, alcoholic drinks and tobacco	+ 5.9 %
	Supermarket	+ 1.3 %
Discretionary products	Jewelry, watches and clocks, valuable gifts	- 15.6 %
	Clothing, footwear and allied products	- 6.7 %

Source: Census and Statistics Department (data as of March 2016)

Hong Kong Total Retail Sales

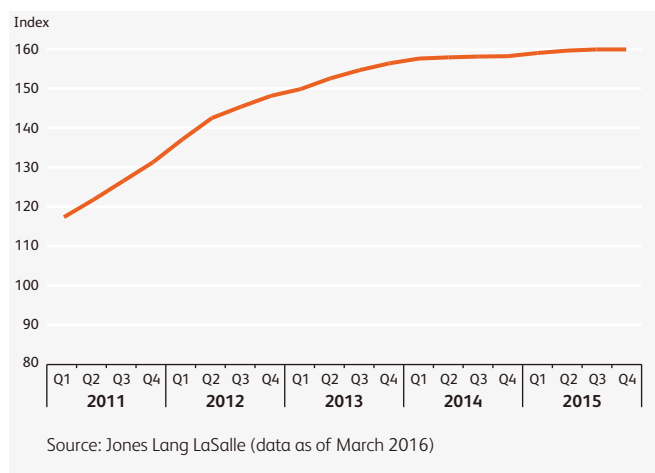


Total Number of Visitors



According to Jones Lang LaSalle, rents for retail premises in prime shopping centres grew mildly at around 1 percent for the whole year in an environment of declining retail sales, largely due to the limited supply pipeline (only one major prime retail development totaling around 65,455 square feet was completed in 2015). However, the rental trend started to flatten out in the fourth quarter, reflecting worsening local sentiment.

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



The Marketplace

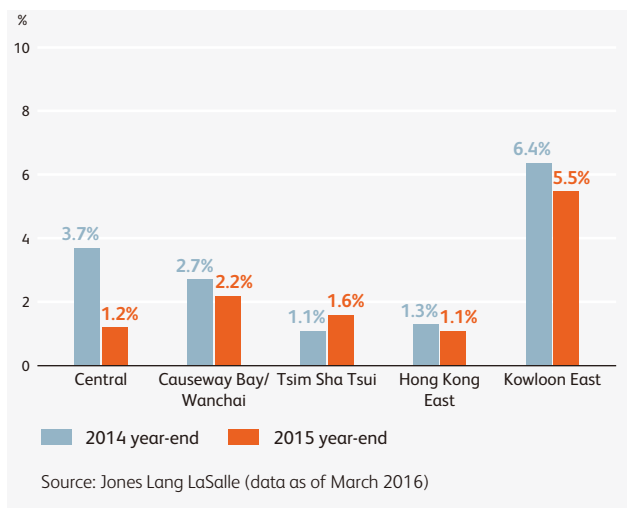
Office

Despite weaknesses in the global economy, the Grade “A” office market recorded good growth. This strong rental performance was a result of robust demand from China firms that offset the downsizing of many MNC firms. China companies accounted for 37% of new lettings in Central during the year. In particular, the leasing market was very active in the second quarter on the back of a buoyant stock market.

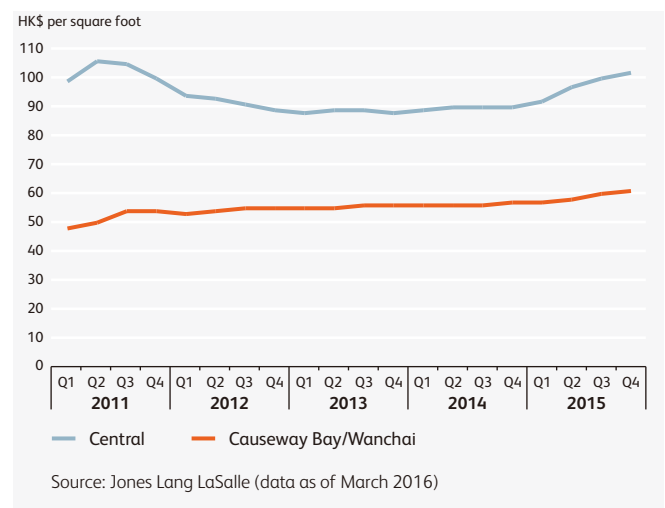
According to Jones Lang LaSalle, although new Grade “A” office supply totaled 1.8 million square feet in 2015, which reached a similar level to the average supply of the last 10 years (1.9 million square feet), the average net take-up of 2.9 million square feet in 2015 was far higher than the average of the last 10 years (1.9 million square feet).

As at the end of December 2015, almost all districts (except Tsim Sha Tsui) recorded a decline in the vacancy rate due to improving demand. As a result, all Grade “A” office sub-markets witnessed rental growth. Recording annual growth of 13.3%, Central outperformed other districts namely Tsim Sha Tsui (7.2%), Causeway Bay / Wanchai (7.1%), Kowloon East (2.6%) and Hong Kong East (2.5%).

Grade “A” Office Vacancy Rate in 2014 and 2015



Grade “A” Office Rental Value



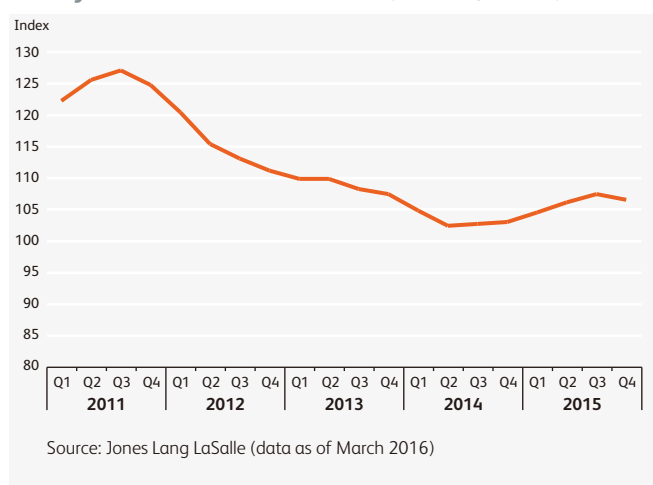
Luxury Residential

Luxury residential rents bottomed out last year and began to pick up in 2015. The typical tenant profile has shifted and there were fewer traditional western expatriates and more Asians, including Mainland and Hong Kong returnees.

During the year, flats in the lower-end market remained the most active. However, the top-end segment continued to suffer from a limited pool of high-budget tenants due to a thinning in the ranks of senior executives in the financial sector.

According to Jones Lang LaSalle, overall luxury residential rents increased 3.4% in 2015 as compared to a decline of 4.1% in 2014.

Luxury Residential Rental Index (2009 Q4=100)



Management's Discussion and Analysis

Hysan's aggregate gross floor area was approximately 4.1 million square feet of retail, office and residential investment properties in Hong Kong, excluding the site of the forthcoming Lee Garden Three currently under redevelopment.

Strategy

The Group aims at providing our shareholders with a steady growth of total return over a reasonable investment holding period. The Group maintains a near term focus in Causeway Bay, our historic home base, and begins to seek investment and development opportunities beyond our core portfolio for longer term growth.

We adopt a differentiating strategy to create and add value to our existing properties through redevelopment, enhancement and active portfolio management. In addition to building a strong tenant mix, we leverage on our distinctive physical environment to establish a unique commercial community of three retail hubs and an office portfolio with diversity and value points, while responding to our customers' changing tastes and addressing their concerns for the environment and work-life balance.

In our pursuit of new investment opportunities for future long-term growth, we adopt stringent financial discipline and we shall continue to place emphasis on our ability to add value.

Review of Results

The Group's turnover in 2015 was HK\$3,430 million, an increase of 6.4% from HK\$3,224 million in 2014. The rise principally reflected higher average occupancy during the year and positive rental reversion. Both the retail and office sectors were up, while the residential sector declined slightly.

The turnover of each sector is shown as below:

	2015 HK\$ million	2014 HK\$ million	Change %
Retail sector	1,902	1,801	+5.6
Office sector	1,243	1,136	+9.4
Residential sector	285	287	-0.7
	3,430	3,224	+6.4

The Group's Recurring Underlying Profit and its Underlying Profit were both HK\$2,283 million, up 5.5% from HK\$2,163 million in 2014. The performance of these two profit indicators primarily reflected the continued improvement in gross profit generated from our retail and office leasing activities. Basic earnings per share based on Recurring Underlying Profit were HK214.83 cents (2014: HK203.34 cents), up 5.7%.

Our Reported Profit for 2015 was HK\$2,903 million (2014: HK\$4,902 million), a 40.8% decrease from the year before, principally reflecting a smaller fair value gain on the Group's investment properties valuation recorded this year.

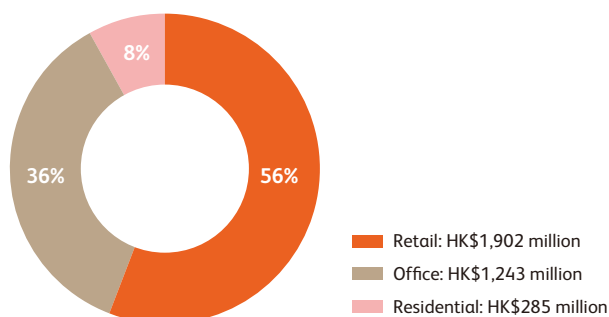
	2015 HK\$ million	2014 HK\$ million	Change %
Recurring Underlying Profit and Underlying Profit	2,283	2,163	+5.5
Fair value change on investment properties located in			
– Hong Kong	616	2,732	-77.5
– Shanghai*	4	7	-42.9
Reported Profit	2,903	4,902	-40.8

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

Review of Operations

As at 31 December 2015, about 83% of the Group's investment properties by gross floor area were retail and office properties in Causeway Bay, and the remaining 17% represented residential properties in the Mid-Levels.

In terms of turnover contributions by the different business portfolios, about 56% was attributable to retail, 36% to office and 8% to residential properties.



KEY PERFORMANCE INDICATORS

While many factors contribute to the results of the Group's businesses, turnover growth and occupancy rate are the key drivers used by the Group's management for assessment of the performance of our core leasing business. In addition, the management uses the property expenses ratio (as a percentage of turnover) to assess cost effectiveness.

Key Performance Indicators	Definition	Business Performance (vs 2014)
Turnover Growth	Rental revenue in 2015 vs that in 2014	Retail: +5.6% (vs +7.3%) Office: +9.4% (vs +4.7%) Residential: -0.7% (vs -4.3%)
Occupancy Rate	Percentage of total area leased*/ total lettable area* of each portfolio	Retail: fully-let (2014: fully-let) Office: 99% (2014: 98%) Residential: 89% due to ongoing renovation of one of the blocks (2014: 97%)
Property Expenses Ratio	Property expenses divided by turnover	12.1% in 2015 (2014: 12.5%) as a result of the healthy turnover growth

*Source of underlying data: Internal company data

Note: No changes have been made to the source of data or calculation methods used compared to 2014.

Management's Discussion and Analysis

RETAIL PORTFOLIO

Turnover	Rental reversion	Occupancy	Foot traffic	Overall estimated tenant sales
▲ 5.6 %	▲ around 25 %	fully-let	▲ around 5 %	▲ around 10 %

Hysan's retail portfolio turnover grew 5.6% to HK\$1,902 million (2014: HK\$1,801 million), including turnover rent of HK\$71 million (2014: HK\$93 million). The lower turnover rent reflects the Group's strategy of increasing the base rent over the past few years, as a response to our anticipation of the retail sales growth normalisation.

The portfolio reported positive rental reversion in rental renewals, reviews and new lettings, with average increase of around 25%. The portfolio was fully-let as at 31 December 2015 (31 December 2014: fully-let).

The entire portfolio's total foot traffic increased by around 5%, when compared to the year before. This was achieved against a fall in overseas visitors coming to Hong Kong in 2015 when compared to 2014. In particular, the foot traffic for the Lee Theatre hub improved by around 10% as consumers are seen to gravitate towards trendy and good quality low-to-mid-price items, such as those from Uniqlo, Cotton On, Aland and Muji, as well as our improved food and beverage offerings.

The estimated overall tenant sales increase within Hysan's retail portfolio was around 10% in 2015, outperforming Hong Kong's overall retail sales which showed a 3.7% decline.

Among the three hubs, Hysan Place achieved around 20% in estimated tenant sales growth. The tenant mix was refined throughout the year with the addition of 32 new tenants, many providing themed unisex sports and leisure offerings, like Columbia, Nike and The North Face. These offerings were complemented by unique activities and events created to meet local consumers' demand for healthier lifestyles. lululemon athletica, for example, opened its largest Hong Kong store and provided yoga activities on a regular basis in Hysan Place's Sky Garden. Our original "Living – Lee Gardens" and "Green Wonders" events also helped to consolidate the hub's reputation as a healthy living destination. Other major placemaking events like Avengers 2 and Wooderful Life drew the attention of traditional and social media, which translated into exceptional mall traffic during these exhibitions. Other significant changes and additions included DFS T-Galleria's new lower-priced beauty hall concept at the basement floor, as well as LINE's first ever Hong Kong outlet. Kyo Hayashiya, a 262-year-old Japanese tea shop, also opened its first outlet outside of Japan in Hysan Place.

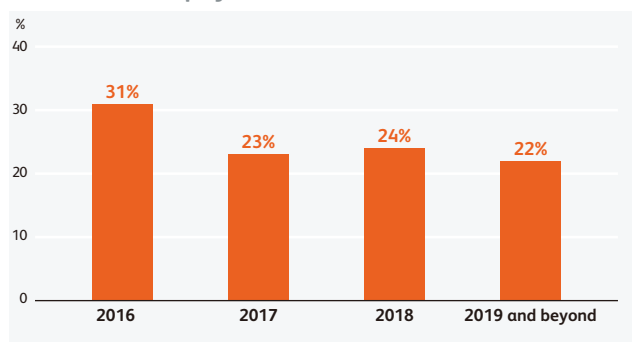


Lee Gardens hub, with its premium positioning, saw a drop in estimated tenant sales. These figures were impacted by the slowdown in tourist spending, the depressed consumer sentiment due to local stock market volatility, as well as the life cycle and distribution strategies of certain brands. This hub’s food and beverage offerings, including three Michelin Guide-starred or -recommended restaurants, continued to be very popular and saw a strong double-digit percentage growth in tenant sales.

Lee Theatre hub saw a healthy percentage growth of around 5 % in estimated tenant sales. Both the Lee Theatre Plaza lower floor anchor stores and the upper floor food and beverage outlets performed well. Putien, Sorabol and Wu Kong are among Lee Theatre Plaza’s top restaurants and are recommended by the Michelin Guide. The sports and lifestyle stores in Leighton Centre also saw good tenant sales growth. adidas Originals, Asics and Onitsuka Tiger were among the 2015 additions, while Fila and Haglöfs joined the ground floor street front at the turn of the year.

We strive to strengthen the links among the Group, our tenants and their customers. In 2015, we partnered with a premium brand on an online to offline project whereby a number of world-wide exclusive items were to be reserved online in the Club Avenue app and picked up in store in Lee Gardens. The results were very encouraging and several more brands decided to participate in similar programmes. We will continue to work closely with our tenants and find new ways to provide unique and delighting shopping experiences for our shoppers.

Retail Lease Expiry Profile (As at 31 December 2015)



Management's Discussion and Analysis

OFFICE PORTFOLIO

Turnover	Rental reversion	Occupancy
▲ 9.4%	▲ around 30%	99%

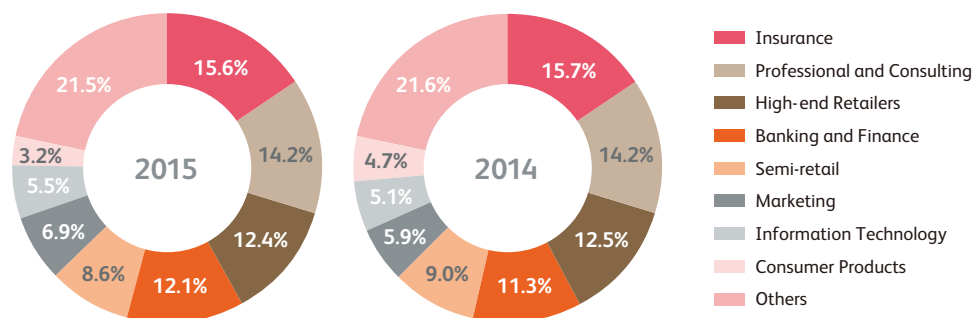
The Group's office portfolio turnover grew by 9.4% to HK\$1,243 million (2014: HK\$1,136 million). This reflected positive rental reversion on renewals, reviews and new lettings, with an average rental increase of around 30%.

The portfolio's occupancy was 99% as at 31 December 2015 (31 December 2014: 98%).

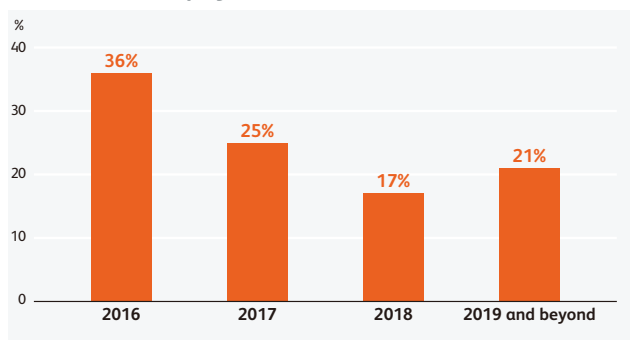
Office space vacancy remained tight throughout Hong Kong in 2015, even though leasing activities experienced some moderation towards the end of the year. One factor influencing generally strong demand was the establishment or expansion of local and mainland securities and financial companies riding on the launch of the Shanghai-Hong Kong stock connect scheme, and on anticipation of the commencement of its Shenzhen-Hong Kong counterpart. Although these companies would consider the core Central district as their first choice, quality companies in other industries look towards Causeway Bay in general, and Lee Gardens in particular, as a highly convenient office venue. They recognised Hysan's office portfolio as a genuine alternative to Central and Admiralty, since we offer a variety of retail and leisure outlets in the area, as well as being an exceptional transport hub. In addition, Lee Gardens Offices maintains an edge in cost effectiveness when compared to other core areas. In 2015, Commerzbank, Bank of Communications and Akamai Technologies were among the major corporations which joined Hysan's office portfolio as tenants.

The portfolio maintained a balanced tenant mix, with the top four industries being insurance, professional and consulting, high-end retailers and banking and finance. These industries represent 54% of our office lettable floor area, and no category took up more than 20% of the total lettable area.

Office Tenant Profile by Area Occupied as at Year-end



Office Lease Expiry Profile (As at 31 December 2015)



RESIDENTIAL PORTFOLIO

Turnover	Rental reversion	Occupancy
▼ 0.7%	▲ around 5%	89%

The Group's residential portfolio (Bamboo Grove on Kennedy Road) saw a small turnover drop of 0.7% to HK\$285 million (2014: HK\$287 million). This was attributable to renovation work being carried out in one of the blocks with a number of units vacated in the second half of the year. The portfolio's occupancy was 89% at 31 December 2015 (31 December 2014: 97%).

However, there was positive rental reversion on renewals, reviews and new lettings at Bamboo Grove, with an average rental increase of around 5%, due to an improvement in demand for quality executive rentals.

As the renovation project progresses, Bamboo Grove will continue to improve its services and facilities to ensure the provision of a superior international living experience for its tenants.

LEE GARDEN THREE PROJECT

Piling, excavation and foundation works of this project was completed in the first quarter of 2016 for the commencement of the basement and superstructure construction. The project is on schedule for its anticipated completion in late 2017, slightly ahead of its original estimation of early 2018.

LEE GARDEN ONE ENHANCEMENT PROJECT

The Lee Garden One ground floor lobby and higher floors retail space enhancement project is making good progress. The first phase construction work, revamping the ground floor lobby and adding three elevators, was completed in July 2015 as scheduled. The second phase construction work for new shop space commenced in the third quarter of 2015. The entire project is scheduled to be completed in the middle of 2016.

Lee Garden One Offices was awarded the first provisional BEAM Plus Platinum Certificate for an existing commercial building in Hong Kong.



Management's Discussion and Analysis

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 increased by 2.5% to HK\$414 million (2014: HK\$404 million), mainly due to higher marketing expenses to enhance shopping attractions. Coupled with an increase in rental income, the property expenses to turnover ratio improved slightly from 12.5% to 12.1% as compared to 2014.

Administrative expenses rose by 9.3% to HK\$234 million (2014: HK\$214 million). This reflected human resources upskilling and the filling of previously vacant positions, as well as salary increment.

FINANCE COSTS

Finance costs reduced by 10.5% to HK\$204 million (2014: HK\$228 million) in 2015. The decrease was attributable to the lower average debt level in 2015 as compared to 2014 after repayment of HK\$1,582 million debts. Among these debts, HK\$1,482 million of the borrowings were on a floating rate basis, which generally carried lower effective interest cost compared with fixed rate debts. As a result, the Group's average cost of finance in 2015 was 3.5%, slightly higher than 3.2% reported for 2014.

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 2015 by Knight Frank Petty Limited, an independent professional valuer, on the basis of open market value. The amount of this valuation was HK\$69,810 million, an increase of 1.6% from HK\$68,735 million at 31 December 2014.

The valuation at year-end 2015, when excluding property under redevelopment, principally reflected improved rental rates for the Group's office investment property portfolio. The increase in valuation of property under redevelopment was mainly due to the more efficient design, finalised in Q4 2015, as compared to the earlier valuation based on more generic assumptions. The capitalisation rates of each portfolio remained unchanged from those used as at 31 December 2014.

The following shows the property valuation of each portfolio at year-end.

	2015 HK\$ million	2014 HK\$ million	Change %
Retail	34,334	34,313	+0.1
Office	23,110	22,684	+1.9
Residential	7,729	7,718	+0.1
	65,173	64,715	+0.7
Properties under redevelopment*	4,637	4,020	+15.3
	69,810	68,735	+1.6

* Properties 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\$695 million (2014: HK\$2,940 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 2.4% to HK\$246 million (2014: HK\$252 million), due to a smaller revaluation gain of the Shanghai Grand Gateway project, of which the Group owns 24.7%, as compared to last year. As at 31 December 2015, 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\$4 million (2014: HK\$7 million).

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. This helped to preserve the Group's liquidity and to enhance interest yields.

Investment income, comprising mainly of interest income, amounted to HK\$54 million (2014: HK\$68 million). This principally reflected lower average investment amount as matured debt was repaid without refinancing, and lower average interest yield as Renminbi investments (which carried a higher yield) was reduced, as compared to 2014. As at 31 December 2015, all RMB investments open positions have been hedged.

Further discussion of the Group's foreign exchange management is set out in the "Treasury Policy" section.

Management's Discussion and Analysis

CASH FLOW

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

	2015 HK\$ million	2014 HK\$ million	Change %
Operating cash inflow	2,908	2,712	+7.2
Investments	1,250	750	+66.7
Financing	(1,587)	(1,114)	+42.5
Interest and taxation	(480)	(439)	+9.3
Dividends paid and proceeds on exercise of options	(1,454)	(1,363)	+6.7
Capital expenditure	(414)	(591)	-29.9
Consideration for shares repurchased	(215)	–	n/m
Net cash inflow (outflow)	8	(45)	n/m

* n/m – not meaningful

The Group's net operating cash inflow was HK\$2,908 million (2014: HK\$2,712 million), HK\$196 million higher than in 2014, reflecting the growth in our core leasing business. Net cash from investments was HK\$1,250 million (2014: HK\$750 million), mainly attributable to reduction in investments in time deposits with longer tenors, as compared to 2014.

Net cash used in financing was HK\$1,587 million (2014: HK\$1,114 million). This principally reflected the repayment of HK\$850 million bank loans and HK\$732 million medium term notes during the year. The Group paid dividends of HK\$1,330 million (2014: HK\$1,255 million), being the 2014 second interim dividend of HK100 cents per share and the 2015 first interim dividend of HK25 cents per share.

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\$414 million (2014: HK\$591 million).

SHARE REPURCHASE

As part of Hysan's capital management strategy, the Group repurchased 6.75 million of its own shares during 2015, which should further enhance shareholders' value, at an aggregate consideration of HK\$215 million (2014: nil). The average purchase price per share was HK\$31.78.

Treasury Policy

MARKET HIGHLIGHTS

2015 was characterised by the divergent economic performances of the major countries. On one hand, with steady economic growth in the U.S., the Fed decided to increase the federal funds rate in December. On the other hand, other economies like the Euro zone and Japan are experiencing economic slowdown and even sliding into recession. Central banks in these countries, hoping to boost growth, decided to provide further liquidity and even introduced negative interest rates.

China is also facing economic slowdown with GDP growth in 2015 below 7%. This slowdown had significant spill-over effects on the rest of the world, in particular on the equity and commodity markets. It also had major impacts on the retail markets in Hong Kong as tourist numbers from the PRC and their spending continued to fall. Investors are expecting China to adopt measures to further provide liquidity to the market to spur growth in 2016.

CAPITAL STRUCTURE MANAGEMENT

Despite the interest rate tightening in the U.S., the banking system of Hong Kong continued to benefit from abundant liquidity, with 3-month Hibor remaining low in the range of 0.37% to 0.42% throughout the year. In regard to the Hong Kong bank loans market, the credit margin for companies with credit rating of investment grade saw a modest decline.

With ample cash and bank deposits on hand, equivalent to HK\$2,804 million at year-end of 2015 (2014: HK\$3,640 million), the Group did not arrange any new financing in the year. On the contrary, the Group repaid HK\$850 million bank loans and HK\$732 million of medium term notes during the year upon their maturities. As a result, the outstanding gross debt¹ of the Group was HK\$4,875 million (2014: HK\$6,457 million) at year-end of 2015, a decrease of HK\$1,582 million compared with 2014. All the outstanding borrowings are on an unsecured basis.

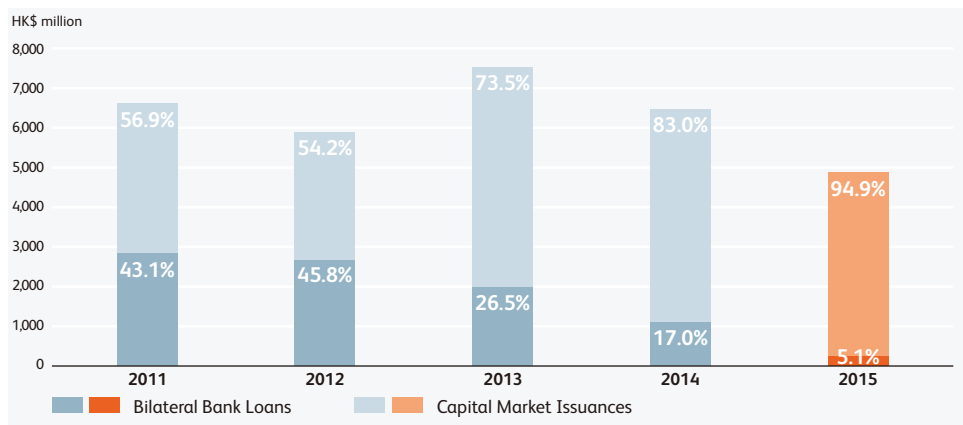
The Group always strives to lower borrowing margin, to diversify funding sources and to maintain a suitable maturity profile relative to the overall use of funds. Because of the repayment of bank loans in 2015, debts sourced from capital markets increased to 94.9% (2014: 83.0%) at year-end of 2015. The 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 2015, seven local and overseas banks provided bilateral banking facilities to the Group as funding alternatives.

¹ The gross debt represents the contractual principal payment obligations at 31 December 2015. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. As disclosed in the consolidated statement of financial position as at 31 December 2015, the book value of the outstanding debt of the Group was HK\$4,859 million (31 December 2014: HK\$6,447 million).

Management's Discussion and Analysis

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

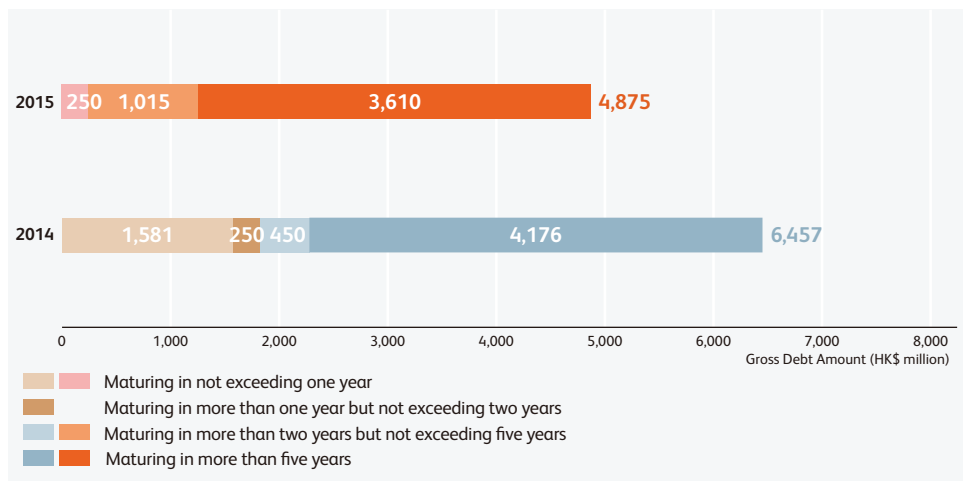
Sources of Financing at Year-end



The Group also strives to maintain an appropriate maturity profile. As at 31 December 2015, the average maturity of the debt portfolio was about 6.3 years (2014: 5.6 years), of which about HK\$250 million or 5.1 % of the outstanding gross debt will be due in less than one year. Given that the Group had cash and bank deposits of HK\$2,804 million, the Group is able to meet the debt repayment in 2016 without much refinancing pressure.

The graph below shows the debt maturity profile of the Group at 2015 and 2014 year-end.

Debt Maturity Profile at 2015 and 2014 Year-end

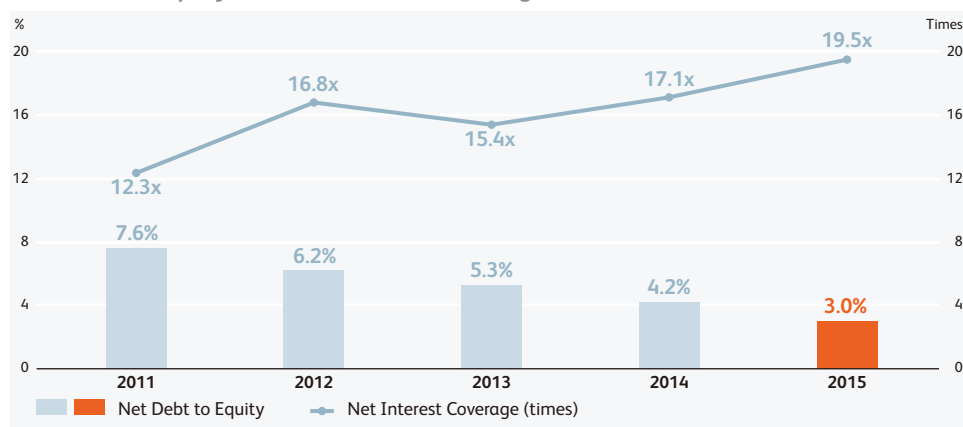


As part of Hysan's capital management strategy, the Group completed repurchases of 6.75 million shares through the Hong Kong Stock Exchange in 2015, which would further enhance shareholders' value. Despite the share repurchase, the Group's gearing ratio, as measured by Net Debt to Equity ratio¹, dropped from 4.2% at year-end of 2014 to 3.0% at year-end of 2015 as cash inflow from business further strengthened.

The Group's Net Interest Coverage² also improved to 19.5 times for 2015 (2014: 17.1 times) due to continuous increase in revenue across our portfolio and lower debt level. The low gearing and strong ability to meet interest payments reflected the Group's strong ability to raise further debt if there is any need.

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

Net Debt to Equity and Net Interest Coverage at 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 2015, the Group had cash and bank deposits totalling about HK\$2,804 million (2014: HK\$3,640 million). The decrease of deposits was mainly due to 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 invested HK\$1,350 million (2014: HK\$1,205 million) in debt securities. In 2014, the Group also invested HK\$80 million in 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\$750 million at year-end 2015 (2014: HK\$1,200 million), essentially allow the Group to obtain additional liquidity as the need arises.

¹ Net Debt to Equity is defined as borrowings less time deposits, cash and bank balances divided by shareholders' funds

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

Management's Discussion and Analysis

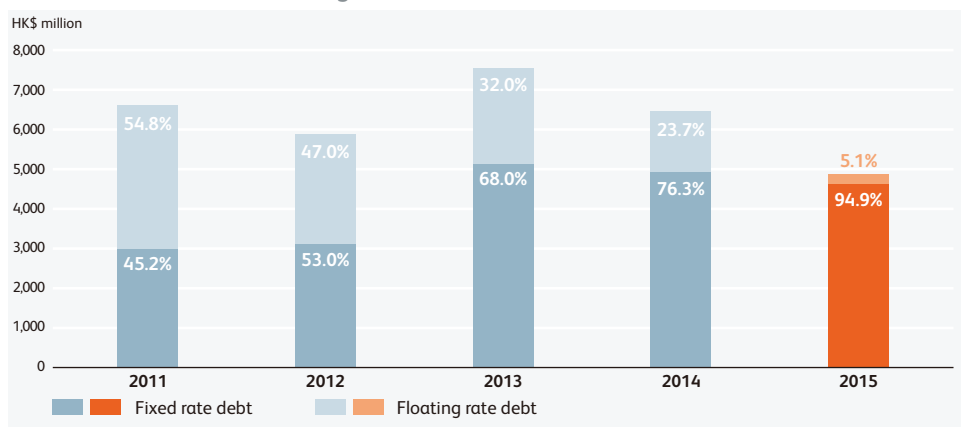
INTEREST RATE MANAGEMENT

Appropriate hedging strategies, if necessary, are adopted to manage exposure to projected movements in the interest rate. As a result of repayment of floating rate debts that generally carried lower effective interest cost compared with fixed rate debts, the average cost of finance increased to 3.5% in 2015 compared to 3.2% in 2014. The fixed rate debt ratio also increased to 94.9% at year-end of 2015 from 76.3% at year-end of 2014.

As the U.S. has entered an interest rate normalisation cycle, the Group believes that interest rates will rise in coming few years. We expect the higher proportion of fixed rate debts will reduce the overall interest rate exposures.

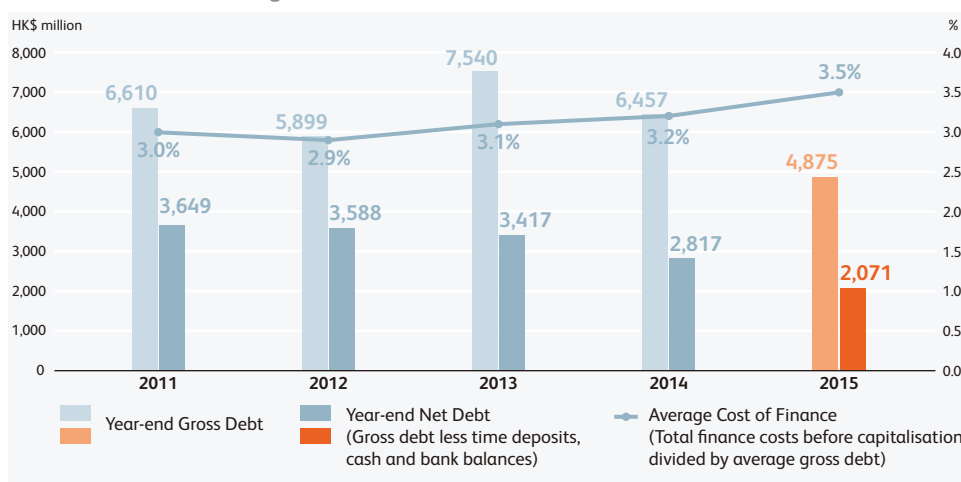
The diagram below shows the fixed rate debt and floating rate debt portions in the past five years.

Fixed Rate Debt and Floating Rate Debt Portions



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

Debt Levels and Average Costs of Finance



FOREIGN EXCHANGE MANAGEMENT

The Group aims to have minimal mismatches in currency and does not speculate in currency movements for debt management. On the funding side, with the exception US\$300 million fixed rate notes, which have been hedged by an appropriate hedging instrument, all of the Group's borrowings were denominated in Hong Kong dollars. For the US\$300 million fixed rate notes issued in January 2013, hedge was entered to effectively convert the borrowing into Hong Kong dollars.

On the investment side, the Group's outstanding foreign currency balances in cash, time deposits and debt securities amounted to US\$160 million and RMB135 million, of which US\$93 million and RMB135 million were hedged by foreign exchange forward contracts. As at 31 December 2015, all RMB investments open positions have been hedged as the Group expected greater volatility of the currency following its depreciation in August 2015 after the refinement of its rate fixing mechanism.

Other foreign exchange exposure mainly relates to investments in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent of HK\$3,683 million (2014: HK\$4,154 million) or 4.7% (2014: 5.3%) of total assets.

USE OF DERIVATIVES

As at 31 December 2015, outstanding derivatives were mainly related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used 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 basically reflects the credit quality of the counterparty.



Internal Controls and Risk Management Report

Responsibility

Our Board of Directors (the “Board”) has the overall responsibility to ensure that sound and effective internal controls are maintained, while management is responsible to design and implement an internal controls system to manage risks. A sound and effective system of internal controls is designed to identify and manage the risk of failure to achieve business objectives.

Our Risk Management Framework

The Board is responsible for the Group’s internal controls system 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. The Audit Committee, acting on behalf of the Board, oversees the following process:

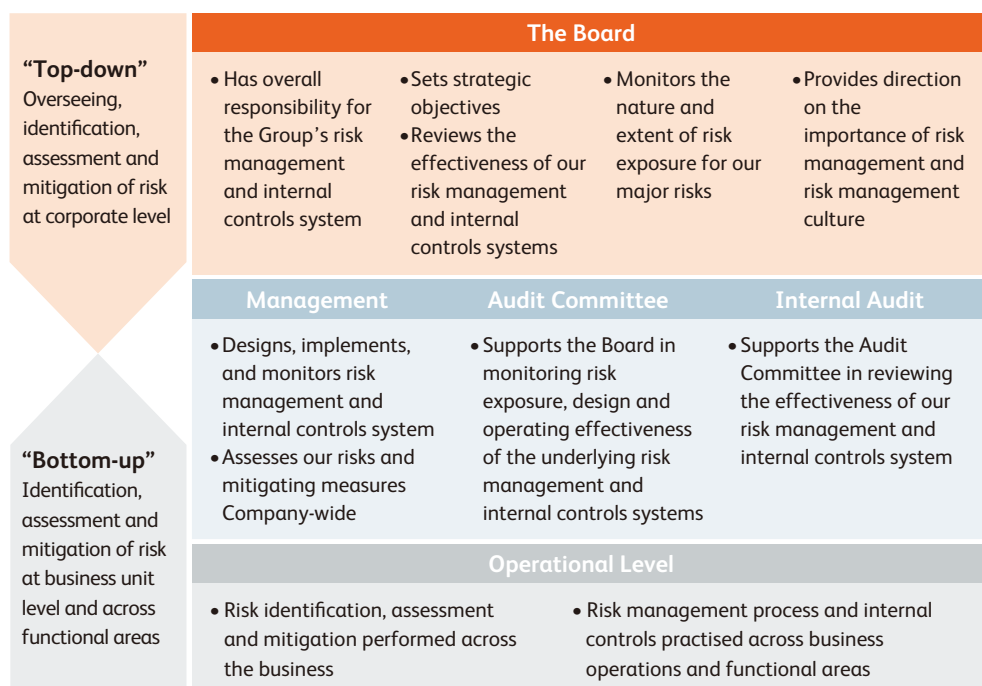
- (i) regular reviews of the principal business risks, and control measures to mitigate, reduce or transfer such risks; the strengths and weaknesses of the overall internal controls system and action plans to address the weaknesses or to improve the assessment process;
- (ii) regular reviews of the business process and operations reported by the Internal Audit Department, including action plans to address the identified control weaknesses and status update and monitor in implementing its recommendations; and
- (iii) regular reports by the external auditors of any control issues identified in the course of their work and the discussion with the external auditors of the scope of their respective review and findings.

The Audit Committee will then report to the Board after due review of the effectiveness of the Group’s system of internal controls.

The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the system.

(Please also see “Audit Committee Report” on page 130 regarding the Committee’s detailed review work, including the forms of “assurance” received from management, external auditor, and internal auditor).

Hysan Risk Management Framework



2015 Review of Internal Controls Effectiveness

In respect of the year ended 31 December 2015, the Board considered the internal controls system effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified.

During the review, the Board also considered the resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget were adequate.

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

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

Since 2012, we have put in place a phased improvement plan and progressed to further enhance our internal controls and risk management system. The initial phase of the plan focused on adopting a more risk-based (instead of process-based) approach to 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.

Internal Controls and Risk Management Report

- **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 690 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 sound 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 seek to have risk management features embedded within our operations (leasing, property management, and projects) 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 major risks. Discussion sessions with all department heads led by the Chief Executive Officer have been held, with a view to further enhancing the “participatory” aspect of the overall risk assessment process.

- **Control Activities; Information and Communicating** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on top-level reviews, segregation of duties; and physical controls. Over the past few years, we have been formalising and documenting the control processes in 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 enables 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, Chief Financial Officer, 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.

Management conducts an internal control self-assessment annually. All departments/ units heads have to complete relevant control self-assessment questionnaires and confirm to the management that appropriate internal control policies and procedures have been established and properly complied with.

- **Monitoring Activities** – the Board and Audit Committee oversee the process, assisted by our Internal Audit Department. Management has enhanced its update reports to Audit Committee on movements on major risks and appropriate mitigating measures. There are 3 Audit Committee meetings annually, with one meeting substantially devoted to internal controls and risk management systems.

Further Strengthening of Our Underlying Systems

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

Risk Assessment – enhanced monitoring of “emerging risks”	
<ul style="list-style-type: none"> Further strengthened the monitoring of material risks and “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. CEO also led further discussions with all department heads. <p>Examples include political / socio risks, economic risks, etc.</p>	<p>In the context of a fast-changing global and local environment, the monitoring of “emerging risks” will be a focus.</p>
Control Activities – policies and procedures	
<ul style="list-style-type: none"> Identified and implemented new policy to address the changing regulatory environment. For instance, company policy relating to the new competition law is in place. Seminars and workshops have been held across the departments to educate and raise awareness of the staff. This ensures that a more holistic approach is taken. It also signifies the importance we place on the business practices, which become more important in light of fast-changing regulatory requirements and heightened stakeholder expectations. 	<p>Continual review and refinement of policies and procedures in light of the changing external and internal environment.</p>
Control Activities – corporate disclosure policy	
<ul style="list-style-type: none"> Reviewed and refined the corporate disclosure policy to guide its stakeholder communications and the determination of inside information in order to ensure consistent and timely disclosure. 	<p>Continual review and refinement of internal controls and procedures for the handling and dissemination of inside information.</p>
Monitoring – enhanced “management assurance” to the Audit Committee and the Board in their respective reviews	
<ul style="list-style-type: none"> Enhanced management update reports to the Audit Committee and the Board on major risks the Group were facing, with special reports on selected topics, e.g. risk to retail business. To further strengthen management’s “assurance” to the 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 the Audit Committee and the Board. 	<p>Facilitation and enhancement of the work of the Audit Committee and the Board in monitoring our risk exposure.</p>

Way Forward

Achieving a “live” risk management system on a day-to-day basis by our operating units is a continuous voyage. We are committed to continually improving our risk management framework and capabilities of the Group and shall continue on this path, with enhanced 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 our major risks. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

Risk	Risk change during 2015	Description of risk change
Impact of macro-economic developments on:		
1. Office	▼	The office rental market rebounds during the year with a significant drop in overall office market vacancy. There is a strong demand of office spaces in the office market from mainland China financial institutions during the year due to their expansion plans.
2. Retail	▲	The retail market suffers from the fall in number of tourists and the strength of the Hong Kong dollar, which led to a negative growth in the Hong Kong retail sales. As a result, retail tenants are more reluctant to expand their retail enterprises, including shop numbers or the footprints.
3. Residential	◀ ▶	New supply remains tight in the residential segment. Although the number of expatriates is falling, there are more local movers which help to sustain the vacancy of our property at a low level. > For more analysis and mitigating measures, see "The Marketplace" and "Review of Operations"
4. Projects	◀ ▶	Asset enhancement works at Lee Garden One office lobby have commenced. Excavation and other foundation works for Lee Garden Three have commenced. Both projects are on schedule for their completion in 2016 and late 2017 respectively. > For more analysis and mitigating measures, see "Review of Operations"
5. Marketing	▲	The fall in number of tourists together with the weak retail market lead landlords to invest and inject more resources to marketing. The increased contest between landlords may affect the effectiveness of our marketing programs. > For more analysis and mitigating measures, see "Review of Operations"
6. Human Resources	◀ ▶	Service industry in Hong Kong continues to experience widespread labour shortage. Employers are facing increased competition for skilled personnel, especially the experienced front-line staff, to support the Group's growth strategy. > For more analysis and mitigating measures, see "Responsible Business" section – "Workplace Quality"

Note:

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

▼ where "inherent risks" decreased

◀ ▶ where "inherent risks" remain broadly the same

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Business of Life

As a “Business of Life”, Hysan continues to provide sustainable and outstanding returns for our shareholders, while also creating visible and positive changes to our stakeholders and the communities we serve.

Awards and Recognitions

We are a constituent member of some of the top international sustainability indices, including FTSE4Good Index, Hang Seng Corporate Sustainability Index (with an “AA” rating), MSCI Global Sustainability Index (with an “AA” rating and named among the “top 5 industry leaders” in the sub-category of “opportunities in green building”) and STOXX® Global ESG Leaders Indices.

In 2015, we won Best Practice Management’s awards in Corporate Social Enterprise and in Green Development. We were also recognised by the World Green Organisation as a winner of its first Sustainable Business Award. On the community front, we were again awarded the 10 Years Plus Caring Company logo by the Hong Kong Council of Social Service, and became a finalist in the same organisation’s Outstanding Partnership Award through our Exploration for Hope programme.

Corporate Responsibility Policy

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

Policy Implementation

We strive to integrate our contribution to society into our core business operations and partnerships, and to provide expertise, manpower, venues and financial support to community projects.

Environment

Environmental Policy

Hysan's Environmental Policy focuses on measuring and reporting our carbon reduction efforts, promoting waste reduction at source, enhancing green purchasing and improving stakeholder engagement. Hysan will:

- Ensure compliance with all applicable environmental and related legislations 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 work/living environments are healthy
- Provide regular environmental training to employees and continue to raise their awareness on the issues

Highlights of 2015

- Benchmarking exercise: Lee Garden One became the first commercial building in Hong Kong to obtain an Existing Building Provisional Platinum certification from BEAM Plus for its offices
- Stakeholder engagement: including our support for a range of government-led environmental charters; organisation of environmental workshops for staff and tenants; provision and promotion of green facilities like waste separation bins and bicycle racks for tenants
- Energy Accounting System: installation of energy accounting systems at Hysan Place, Lee Garden One and Lee Garden Two

Energy Efficiency

ENERGY SAVINGS AND REDUCTION OF GREENHOUSE GAS EMISSIONS ACHIEVEMENTS: 2005 BASELINE AND FROM 2014 TO 2015

Issue		2005	2014	2015
GHG Emissions for Scope 1 & 2 ^{(a) (b)}	Total (tonnes CO ₂ e)	48,421	38,515	39,120
Purchased Electricity	Total (MWh)	52,598	49,353	49,502

(a) 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

(b) The emission associated with the electricity purchased based on emission factors provided by Hongkong Electric in 2015

Using 2005 as a baseline, we have made a reduction of more than 19% by the end of 2015. The electricity purchased was also reduced by around 6% as compared to 2005. Our 2015 GHG emissions rose slightly by 1.6% and electricity purchased increased by 0.3% when compared to 2014. These were due to more air-conditioning use, partly attributable to climatic factors, and partly to improved office occupancy. It should also be noted that the revision of the emission factor as provided by Hongkong Electric may have adversely impacted our emissions data.

OTHER ENERGY SAVINGS INITIATIVES

To enhance the monitoring of Hysan’s electrical and mechanical services, we commenced the first phase of our energy accounting system in Hysan Place, Lee Garden One and Lee Garden Two, while the second phase for four other buildings will be implemented in 2016. This system measures and analyses energy consumption within each building, thereby providing a more comprehensive picture of energy usage.

We completed the installation of a heat pump in Hysan Place, which uses waste heat from a cooling system to generate hot water for the building’s dish-washing facilities. Another ongoing energy saving project is to identify more locations within the portfolio to install T5 fluorescent tubes and LED lights.



Environmental Quality

GREEN BUILDING CERTIFICATIONS

Improving the environmental performance of the existing building stock is very important, as new construction only replaces or adds a few percent per year to the world's and Hong Kong's existing stock of buildings. We are, therefore, proud that our Lee Garden One has become the first commercial building in Hong Kong to obtain BEAM Plus (Existing Buildings) provisional certification at the highest Platinum level for its office section.

We are also pursuing three different green building standards for our Lee Garden Three, which is under redevelopment, including U.S. Green Building Council's LEED, Hong Kong based BEAM Plus, and the China Green Building Label.

AIR QUALITY

All our buildings maintained their "Excellent Class" or "Good Class" standards in the Hong Kong Government's Indoor Air Quality Certification Scheme.

With regards to our promotion of the use of electric vehicles, we added more electric vehicle charging bays in Lee Garden One's, Lee Garden Two's and Leighton Centre's car parks in 2015 in addition to the Tesla Motors Superchargers installed in 2014.

URBAN MICROCLIMATE AND BIODIVERSITY

Lee Garden One's green roof for its retail podium was completed in 2015, with the aim of reducing the building's heat island effect and helping to improve the area's microclimate. The roof also enhances our portfolio's biodiversity by allowing more living organisms to grow in the urban landscape. We are exploring more locations within our portfolio for similar planting projects.



Waste Management, Recycling and Water Consumption

While we continued to collect food waste for off-site recycling from Hysan Place’s food court, and provide food waste collection service to other restaurants in the mall, we are looking for ways to launch such recycling on-site. In the meantime, we plan to acquire a food waste composter for Bamboo Grove to test how best to manage food recycling.

Our other recycling efforts continued to gain traction, and in 2015, Hysan was awarded another full set of “Class of Excellence” Wastewi\$e labels for all our portfolio buildings, under the Government’s Hong Kong Awards for Environmental Excellence Scheme. Lee Garden One was also honoured as one of the “Top 3 organisations which achieved cumulatively the most number of goals in Wastewi\$e Certificate in 2014.”

LEE GARDEN THREE PROJECT’S RECYCLING

The demolition of Lee Garden Three project’s original basement was completed in 2015. Close to 80 % of the demolition waste, including around 3,600 tonnes of concrete, and 450 tonnes of metal, were recycled, which was significantly more than the original 60 % recycling target.

This complemented the more than 60 % of waste recycled from the superstructure demolition in 2014.

WASTE MANAGEMENT ACHIEVEMENTS (EXCEPT CONSTRUCTION WASTE) 2005 BASELINE, AND FROM 2014 TO 2015

Issue	2005	2014	2015
Paper recycled (kg) ^(a)	741,502	936,873	975,329
Aluminium cans recycled (kg) ^(a)	1,098	2,382	2,708
Plastic bottles recycled (kg) ^(a)	1,529	2,704	3,042
Old clothing donation (kg)	960	3,500	3,895
Toner/Cartridge recycled (pcs)	206	309	216
Computer and equipment recycled (pcs)	100	77	82
Food waste recycled (kg)	–	33,231	29,871
Glass bottle recycled (kg) ^(b)	–	–	4,215

^(a) Data record period from September 2014 - August 2015

^(b) Data record period from October 2015 - December 2015

We began glass bottles recycling towards the end of 2015 and achieved commendable results, while improvements in other areas of recycling were also observed in general. The decline in food waste recycled could well be due to the success of the year before when we heavily promoted the cut down on food waste.

WATER MANAGEMENT ACHIEVEMENTS 2005 BASELINE, AND FROM 2014 TO 2015

Issue	2005	2014	2015
Potable water used for properties and landscaping (m ³)	62,665	78,706	73,231
Potable water used for cooling (m ³)	–	167,748	181,572
Wastewater reused for flushing (m ³)	–	16,775	18,157
Wastewater discharged from properties and landscaping (m ³)	56,399	70,836	65,908

We reduced our potable water used for properties and landscaping by 7.0% as compared to 2014. This was due to the installation of more water saving devices, as well as more rainfall which reduced our water consumption for plant watering. However, the use of extra air-conditioning due to higher occupancy and climatic reasons meant that the water used for our air-conditioning system increased by 8.2% as compared to the year before.

Green Procurement

While we are still on target towards using materials extracted or manufactured locally for 10% of the total materials by value in our Lee Garden Three project, we are actively making use of more green products or services in our everyday operations. These range from using Forest Stewardship Council (FSC) certified office printing paper and name cards throughout our offices, to the use of green cleaning products in our major buildings.

Green Partnerships with Stakeholders

GOVERNMENT INITIATIVES

Hysan has joined the following government environmental initiatives to promote green causes:

- Environment Bureau's Charter on External Lighting (All commercial buildings in our portfolio except Lee Theatre Plaza to strive to reduce light nuisance and energy wastage)
- Environment Bureau's Energy Saving Charter (All buildings in our portfolio except Lee Theatre Plaza to control indoor common area temperature)
- Environmental Protection Department's Carbon Reduction Charter (to report GHG emissions data regularly)
- Environmental Protection Department's Glass Bottle Recycling Programme "Clink, Drink then Recycle" (Lee Garden One, Lee Garden Two, Lee Theatre Plaza and Hysan Place to recycle glass bottles)
- Environmental Protection Department's Waste Check Charter (Shopping malls of Lee Garden One and Hysan Place to promote waste reduction through recycling)

VISITORS AND TENANTS

While our farming programme at Hysan Place's Urban Farm continued to bring in new tenant members to enjoy organic farming on the building's rooftop, we took the green message to a new audience. Young shopping mall visitors joined our "Green Wonders" programme to learn about Hysan Place's green features. An Open Day and a raw food lunch event continued to showcase the green theme. We further hosted Redress' EcoChic Design Award Five Year Anniversary Exhibition to promote the reduction of apparel production wastage. For more details, please refer to the "Community Contributions" section.

We actively engaged our food and beverage tenants to participate in food waste collection and reduction activities, and we also joined Greener Action's Lai See Packets recycling programme to donate used gift packets for reuse during 2015's Chinese New Year. We also organised an environmental workshop for one of our office tenants to further promote sustainability messages.



During the year, Hysan provided ten sets of waste separation bins to those office tenants who expressed interest in separating waste for recycling.

Finally, we further promoted the use of our bicycle racks which are available for rental in Hysan Place to all office tenants throughout our portfolio. This is part of our initiative to promote “cycling to work”, which can help reduce vehicular usage and provide opportunities for exercise.

STAFF ENGAGEMENT

Hysan’s Go Green Committee has been successful in setting up environmental issues-related activities for colleagues. In 2015, it organised a number of green procurement-related briefings for Technical Services staff, with a focus on sustainable flooring materials.

It also conducted two upcycling workshops on eco-enzyme production and glass painting, which were well attended. The Committee spearheaded a second-hand clothing collection programme together with the Corporate Communications Department. Towards the end of the year, it also provided two Urban Farm and Sky Wetland visit sessions to further enhance staff interest in sustainability matters. In addition to completing its “Do you know that?” intranet programme on environmental news, the Committee plans to produce quarterly environmental newsletters in 2016. As the Committee is now taking on a range of programmes, it has expanded from an original core of six members to eleven.

GREEN ORGANISATIONS

Hysan supports a range of green organisations through staff participation and sponsorships. We also maintain our dialogue with other green groups in order to partner with them in the future. Among the projects we supported in 2015 were:

- Hong Kong Green Building Council’s World GBC Congress in Hong Kong
- World Wide Fund for Nature’s Earth Hour
- Business Environment Council’s BEC EnviroSeries Conference
- Green Sense’s No Air Con Night
- Greeners Action’s Lai See Packet Recycling



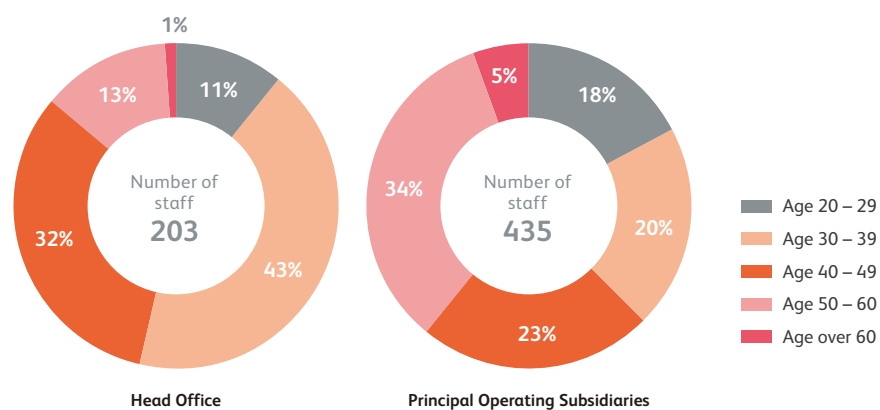
Workplace Quality

Staff Composition

As at 31 December 2015, we employed a total of 638 staff, including our Head Office team and principal operating subsidiaries' colleagues. All our staff members are located in Hong Kong.

199 of our staff members, including 40 out of the 75 Head Office Managers or above, are females.

Age Group of Staff



Code of Ethics

Our Code of Ethics highlights three main guiding principles for Hysan:

- Respect for people
- Ethics and business integrity
- Meeting our responsibilities

The Code applies to Directors, officers and employees of the Group, and is clearly communicated to all, including new staff members. It covers a range of topics, including data privacy, protection of copyright, anti-bribery and anti-fraud, 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.



For details of the Code of Ethics

Human Resources Policies

Our Employment and Staff Policy 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 also has a key focus on anti-discrimination. In 2015, we did not identify any material non-compliance or breach of legislation related to equal opportunities.

As we are based in Hong Kong and have our core operations in the city, we believe we do not operate in an environment that carries high risks for child labour or forced labour. We did not identify any breach in the said areas in 2015.

We respect the right of association, and ensure our employees enjoy the freedom to join trade unions. We did not identify any material breach of any right to exercise freedom of association and freedom to join trade unions in our core operations in 2015.

While Hysan does not have a collective bargaining policy nor is a party to a collective bargaining agreement, our management places a strong emphasis on maintaining a clear and constructive dialogue on company issues. This commitment includes written policies on compensation, work hours, staff benefits, staff training, health and safety, as well as grievance mechanisms, including a “whistle-blowing” system as mentioned in the “Code of Ethics” section. Other channels of communications are highlighted in the “Employee Engagement” section.

Training and Development

Among the significant training programmes for Head Office and Principal Operating Subsidiaries colleagues were:

- Finance workshops for non-financial staff (e.g. financial statement analysis, understanding finance policies and procedures)
- Language training for marketing, office and retail staff
- English business writing workshops
- Project management workshops
- Seminars on the latest ordinance changes (e.g. competition law, data protection awareness)
- A structured training curriculum for Principal Operating Subsidiaries colleagues (including grooming workshops for frontline staff and change management seminars for supervisors)

Workplace Quality

For 2015, Hysan provided an average of 14.4 hours of training per Head Office staff, and 20.5 hours of training per Principal Operating Subsidiaries employee.

Our emphasis on training was reflected in our apprentice Tsang Chiu Yin winning one of Hong Kong's "Most Improved Trainees Award" from the Government's Youth Employment and Training Programme.

Attracting and Retaining Talent

Our employee turnover figures have further improved, with 11.3% for our Head Office staff, and 17.0% for the Principal Operating Subsidiaries. These figures were lower than the 20.1% Hong Kong property sector turnover rate (sourced from a Towers Watson survey).

We strongly believe in recognising staff members' work through their performances and contribution. A performance appraisal system thus forms the core of our staff reward system. This system has allowed us to bring in and retain passionate professionals to take the Group to the next level.

Employee Engagement

We are committed to providing a unique and satisfying experience ("U.S.E.") to our stakeholders. One key element of our employee engagement effort in 2015 was to further reinforce this mindset among our staff. A Cultural Transformation Committee was set up and a total of 15 change management workshops were conducted to promote the U.S.E. culture and provided opportunities for managers and staff members to exchange views. A U.S.E. award recognition programme was also launched to recognise top U.S.E. behaviours among staff members. A total of 16 U.S.E. awards and eight Outstanding U.S.E. awards were presented, and all success stories were shared on the staff intranet.

Our Company Day also took on a new "town hall meeting" format. Within an informal setting, senior management members took a range of questions from staff members and provided insightful answers about their work in 2015 and their views for the year ahead. This complemented earlier sessions conducted after annual and interim results' announcements.



Health and Safety

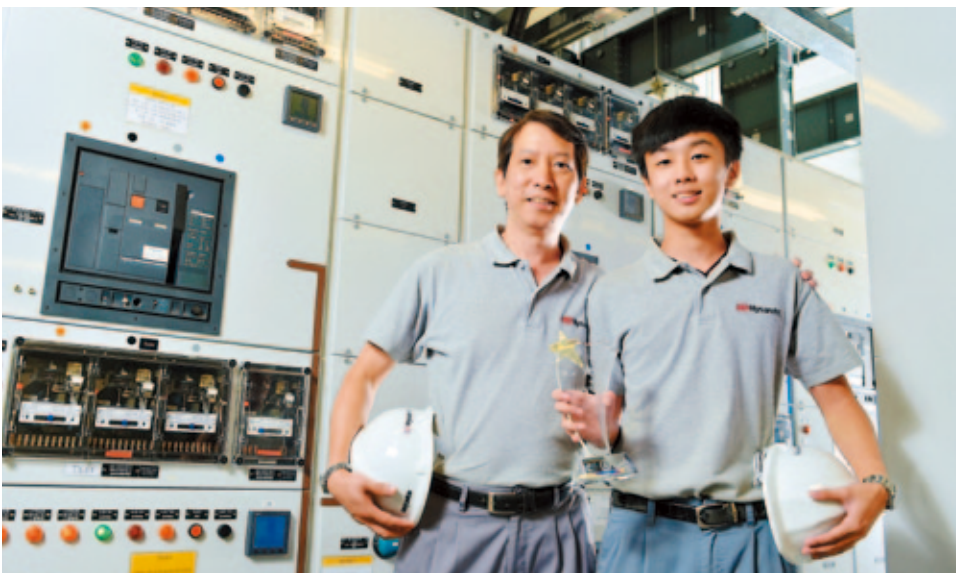
Health and Safety Policy

Hysan is committed to providing and maintaining a safe and healthy environment within its portfolio for all staff, tenants and members of the general public. Hysan 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 building management team colleagues work on the frontline and therefore encounter the majority of our health and safety issues. Our Safety Committee, as chaired by our General Manager of Property Services, oversees the implementation of the Health and Safety Policy by our frontline colleagues and reports back to senior management. A detailed Safety Management Plan is developed from the Policy to provide clear safety procedures. This Plan received a comprehensive review and update in 2015.



Health and Safety

Another round of third-party safety audits took place in 2015 for all buildings within Hysan's portfolio. No significant irregularities were found.

We further promoted safety training for our staff members, and in 2015 clocked more than 4,900 training hours, significantly more than the 1,900 hours recorded in 2014. We are also pleased to report that our Safety Committee secretary Edmond Cheng won the Silver Award (managerial level) at the "Seventh Hong Kong Outstanding Employees In Occupational Safety and Health Award".

There were 21 work injury cases at Hysan in 2015, the majority of which did not incur more than five sick leave days. There were 1222 lost days due to work injury, including 730 days brought forward to 2015 from 2013 and 2014 (two cases each of 365 days), as well as 272 days from two particular 2015 cases.

We maintained our Employee Assistance Programme of counseling services, which is operated by a non-governmental organisation on our behalf. This service provides help to resolve work or personal issues faced by employees.

Health and Safety: Our Partners

Hysan actively encourages our business partners to aim for high standards in health and safety. In 2015, our safety consultant for the Lee Garden Three redevelopment project conducted two rounds of safety audits. The objectives of the audits were to review the contractor's safety management system of the various phases of the project, in particular those in relation to plant and equipment, subcontractor control and the implementation of safe working procedures. The consultancy also made recommendations for further enhancements to the system to promote the highest standards of safety. Both audits' results were satisfactory. There was one minor work-related injury at the Lee Garden Three site in 2015.



Community Contributions

Hysan's longstanding involvement in community work has again been recognised by the Hong Kong Council of Social Services with a 10 Years Plus Caring Company label. To ensure the effectiveness of its community support, the Group is focusing its promotional work in three main areas: environmental issues, healthy living, as well as local arts and culture development. Beyond these, we also provide venue support for other worthy causes, and our volunteer team continues to provide help to those in need.

Environmental Issues and Healthy Living Promotions

Hysan Place played host to two new green education activities in 2015. "Green Wonders" targeted four to eight year old youngsters. More than 700 of them were treated to tours of the building's environmental features, with the Urban Farm and the Sky Wetland being the two main stops. Separately, the Urban Farm held its first ever Open Day in October, attracting more than 600 visitors, with many treated to a "Farm to Table" lunch, whereby uncooked and unprocessed gourmet "raw food" was served to highlight the need to eat healthily.

In addition, 19 organisations, ranging from overseas educational institutions to local government departments as well as green groups, visited Hysan's Urban Farm in 2015. Urban farmers representing 36 companies also tended their crops on Hysan Place's rooftop.

The health theme was represented by the "Living – Lee Gardens" programme in October which attracted close to 10,000 visitors to either run or cycle at our specially-designed installations. The programme followed our annual "Hysan Healthy Hike and Run", in which a record-breaking 1,500 entries participated from all over the world. Among the entrants were more than three dozen Hysan colleagues, and eight of them also formed two teams to compete in Oxfam's 100km Trailwalker event.



Community Contributions

Arts and Culture Development Promotions

Our support for local arts and culture took on various forms in 2015. In May, Hysan Place hosted Redress' EcoChic Design Award Five Year Anniversary Exhibition, which promoted quality apparel design as well as sustainable fashion. Food Angel's Paint Can Feed exhibition showcased talented youngsters' artwork on food cans to highlight hunger and poverty issues. Arts with the Disabled Association also presented a successful mini-concert and a book launch at Hysan Place in November.

The highest profile 2015 artistic performance event was the Standard Chartered Hong Kong X Lee Gardens The Colour of Music Night Parade. Directed by Hong Kong Youth Arts Foundation, the glamorous event included works from the U.K.'s Lantern Company as well as top Hong Kong artistic talents. Thousands lined the Causeway Bay streets to enjoy the parade of huge glittering puppets and performances by local youngsters.



Other Venue Support

Below is a list of other community activities which took place at Hysan’s venues in 2015:

Hysan Place	Jan Society for Community Organisation “Our Treasure” Photo Exhibition	Helping Hand Cookie Campaign Launching Ceremony and Charity Sale	May Leisure and Cultural Services Department Saxophone Performance	Aug Radio Television Hong Kong The History of Hong Kong Exhibition
	Oct Hong Kong Breast Cancer Foundation Breast Health Education Exhibition	Plan International “Because I am a Girl” Campaign Event	Nov Hong Kong Youth Arts Foundation “The Colour of Music” Art Workshop and Music Performances	
Lee Theatre Plaza	Feb St. James’ Settlement Valentines Flower Charity Sale	Helping Hand Helping Hand Cookie Charity Sale	July World Vision Child Sponsorship Programme	
	Nov Haven of Hope Christian Service Cookie Charity Sale	Preserve Planet Earth Committee under Rotary Club District 3450 Sustainable Seafood Educational Event		
Other Community Engagements	Aug Society for Community Organisation Underprivileged Children’s Visit to Hysan Place’s “Wooderful Life” Event	Aug – Dec Wanchai District Council and HK Sharing Book Donation and Exchange Programme	Sep Redress Keep Caring Clothing Drive	



Community Contributions

Exploration for Hope

Our summer ethnic minority youngsters study-and-career programme again served more than 100 school children in 2015. “Exploration for Hope” remained Hong Kong’s only ethnic minority youth social enterprise competition. The winner of this year’s competition is now testing its own project, which organises festive events for minority groups, in a real life setting with the help of our partner, Hong Kong Christian Service. We would like to thank Hong Kong Christian Service and our other partner, the Hong Kong University of Science and Technology Business School, for their strong support throughout this programme’s development. “Exploration for Hope” was a finalist in the Hong Kong Council of Social Service’s Outstanding Partnership Award.

Our Volunteer Team

Hysan’s colleagues clocked 1,336 hours of volunteer service in 2015. Their friends and family members added another 323 hours to the tally. The team organised 13 events during the year, including tutorial classes for underprivileged children, backstage work assisting a drama group formed by disabled actors, and visiting an elderly dementia centre.



The organisations Hysan partnered included:

- Changing Young Lives Foundation
- Helping Hand
- Hong Chi Association
- Hong Kong Movie Star Sports Association Charities Ltd.
- The Hong Kong Society for the Protection of Children
- Jockey Club Centre for Positive Ageing
- The Nonsensemakers
- Oxfam Hong Kong
- SAHK
- St. James' Settlement
- Wofoo Social Enterprises

Hysan was again given the Gold Award for Volunteer Service under the Steering Committee on Promotion of Volunteer Service of the Social Welfare Department. Among our staff, one family collected a Silver Award while another took Bronze. Three more individuals received Bronze Awards, and four Hysan staff members were recognised as long-term contributors.



The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide

A. ENVIRONMENTAL	Reference in “Responsible Business” Section
A1 Emissions	
<ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes 	<ul style="list-style-type: none"> “Environment – Environmental Policy” “Environment – Energy Efficiency” “Environment – Waste Management, Recycling and Water Consumption” Not aware of any material non-compliance
<ul style="list-style-type: none"> KPI A1.1 Types of emissions and respective emissions data 	<ul style="list-style-type: none"> “Environment – Energy Efficiency” “Environment – Waste Management, Recycling and Water Consumption”
<ul style="list-style-type: none"> KPI A1.2 Greenhouse gas emissions in total and intensity 	<ul style="list-style-type: none"> “Environment – Energy Efficiency”
<ul style="list-style-type: none"> KPI A1.3 Total hazardous waste produced and intensity 	<ul style="list-style-type: none"> We believe our business does not generate a material amount of hazardous waste.
<ul style="list-style-type: none"> KPI A1.4 Total non-hazardous waste produced and intensity 	
<ul style="list-style-type: none"> KPI A1.5 Description of measures to mitigate emissions and results achieved 	<ul style="list-style-type: none"> “Environment – Energy Efficiency” “Environment – Waste Management, Recycling and Water Consumption”
<ul style="list-style-type: none"> KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved 	<ul style="list-style-type: none"> “Environment – Waste Management, Recycling and Water Consumption”
A2 Use of resources	
<ul style="list-style-type: none"> Policies on efficient use of resources like energy, water and other raw materials 	<ul style="list-style-type: none"> “Environment – Environmental Policy”
<ul style="list-style-type: none"> KPI A2.1 Direct and/or indirect energy consumption by type in total and intensity 	<ul style="list-style-type: none"> “Environment – Energy Efficiency”
<ul style="list-style-type: none"> KPI A2.2 Water consumption in total and intensity 	<ul style="list-style-type: none"> “Environment – Waste Management, Recycling and Water Consumption”
<ul style="list-style-type: none"> KPI A2.3 Description of energy use efficiency initiatives and results achieved 	<ul style="list-style-type: none"> “Environment – Energy Efficiency”
<ul style="list-style-type: none"> KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved 	<ul style="list-style-type: none"> “Environment – Waste Management, Recycling and Water Consumption”
<ul style="list-style-type: none"> KPI A2.5 Total packaging material used for finished products 	<ul style="list-style-type: none"> Not applicable
A3 The environment and natural resources	
<ul style="list-style-type: none"> Policies on minimising the issuer’s significant impact on the environment and natural resources 	<ul style="list-style-type: none"> “Environment – Environmental Policy”
<ul style="list-style-type: none"> KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them 	<ul style="list-style-type: none"> “Environment – Energy Efficiency” “Environment – Waste Management, Recycling and Water Consumption”

B. SOCIAL

Reference in “Responsible Business” Section

Employment and Labour Practices**B1 Employment**

- | | |
|---|--|
| <ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare | <ul style="list-style-type: none"> “Workplace Quality – Human Resources Policies” Not aware of any material non-compliance |
| <ul style="list-style-type: none"> KPI B1.1 Total workforce by gender, employment type, age group and geographical region | <ul style="list-style-type: none"> “Workplace Quality – Staff Composition” |
| <ul style="list-style-type: none"> KPI B1.2 Employee turnover rate by gender, age group and geographical region | <ul style="list-style-type: none"> “Workplace Quality – Staff Composition” |

B2 Health and safety

- | | |
|---|--|
| <ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards | <ul style="list-style-type: none"> “Health and Safety – Health and Safety Policy” Not aware of any material non-compliance |
| <ul style="list-style-type: none"> KPI B2.1 Number and rate of work-related fatalities | <ul style="list-style-type: none"> No fatality |
| <ul style="list-style-type: none"> KPI B2.2 Lost days due to work injury | <ul style="list-style-type: none"> “Health and Safety – Health and Safety in Action” |
| <ul style="list-style-type: none"> KPI B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored | <ul style="list-style-type: none"> “Health and Safety – Health and Safety in Action” |

B3 Development and training

- | | |
|--|--|
| <ul style="list-style-type: none"> Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities | <ul style="list-style-type: none"> “Workplace Quality – Training and Development” For 2015, the training ranged from financial workshops to seminars on latest ordinance changes |
| <ul style="list-style-type: none"> KPI B3.1 The percentage of employees trained by gender and employee category | <ul style="list-style-type: none"> “Workplace Quality – Training and Development” |
| <ul style="list-style-type: none"> KPI B3.2 Average training hours completed per employee by gender and employee category | <ul style="list-style-type: none"> “Workplace Quality – Training and Development” |

B4 Labour standards

- | | |
|---|---|
| <ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour | <ul style="list-style-type: none"> “Workplace Quality – Human Resources Policies” 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. |
| <ul style="list-style-type: none"> KPI B4.1 Description of measures to review employment practices to avoid child and forced labour | <ul style="list-style-type: none"> Not applicable |
| <ul style="list-style-type: none"> KPI B4.2 Description of steps taken to eliminate such practices when discovered | <ul style="list-style-type: none"> Not applicable |

Operating Practices**B5 Supply chain management**

- | | |
|---|--|
| <ul style="list-style-type: none"> Policies on managing environmental and social risks of the supply chain | <ul style="list-style-type: none"> “Health and Safety – Health and Safety Policy”; “Health and Safety – Health and Safety: Our Partners” “Environment – Environmental Policy”; “Environment – Highlights of 2015” (covered stakeholder engagement) |
|---|--|

The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide

B. SOCIAL		Reference in “Responsible Business” Section
<ul style="list-style-type: none"> KPI B5.1 Number of suppliers by geographical region 		<ul style="list-style-type: none"> “Environment – Green Procurement” (With regards to the development of Lee Garden Three, we plan to use materials extracted and manufactured locally for around 10% of total materials value.)
<ul style="list-style-type: none"> KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored 		<ul style="list-style-type: none"> “Health and Safety – Health and Safety: Our Partners” “Environment – Green Procurement”
B6 Product responsibility		
<ul style="list-style-type: none"> Information on policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress 		<ul style="list-style-type: none"> “Health and Safety – Health and Safety Policy” “Workplace Quality – Code of Ethics”, which covers data privacy Not aware of any material non-compliance
<ul style="list-style-type: none"> KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons 		<ul style="list-style-type: none"> Not applicable
<ul style="list-style-type: none"> KPI B6.2 Number of products and service related complaints received and how they are dealt with 		<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> KPI B6.3 Description of practices relating to observing and protecting intellectual property rights 		<ul style="list-style-type: none"> “Workplace Quality – Code of Ethics”, which covers protection of copyrights
<ul style="list-style-type: none"> KPI B6.4 Description of quality assurance process and recall procedures 		<ul style="list-style-type: none"> “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.
<ul style="list-style-type: none"> KPI B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored 		<ul style="list-style-type: none"> “Workplace Quality – Code of Ethics”
B7 Anti-corruption		
<ul style="list-style-type: none"> Information on policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering 		<ul style="list-style-type: none"> “Workplace Quality – Code of Ethics”, which covers anti-bribery Not aware of any material non-compliance
<ul style="list-style-type: none"> KPI B7.1 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 		<ul style="list-style-type: none"> No such cases
<ul style="list-style-type: none"> KPI B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored 		<ul style="list-style-type: none"> “Workplace Quality – Code of Ethics”, which covers our whistle-blowing
Community		
B8 Community Investment		
<ul style="list-style-type: none"> Policies on community engagement to understand the community’s needs where the issuer operates and to ensure its activities takes into consideration of communities’ interests 		<ul style="list-style-type: none"> “Corporate Responsibility Policy”
<ul style="list-style-type: none"> KPI B8.1 Focus areas of contribution 		<ul style="list-style-type: none"> “Corporate Responsibility Policy” “Community Contributions”
<ul style="list-style-type: none"> KPI B8.2 Resources contributed 		<ul style="list-style-type: none"> “Community Contributions”

“Comply or explain” provisions Recommended disclosures

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 2015 to 31st December 2015.

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 was prepared in accordance with the Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") issued by the Hong Kong Stock Exchange.

Assurance Methodology

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 the reporting data, or in the development of the Report. 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 presented 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 with a number of examples shown in the Responsible Business Section. Overall, the material sustainability issues of Hysan's commitments, progress and achievement were included in the Responsible Business Section of its Annual Report.

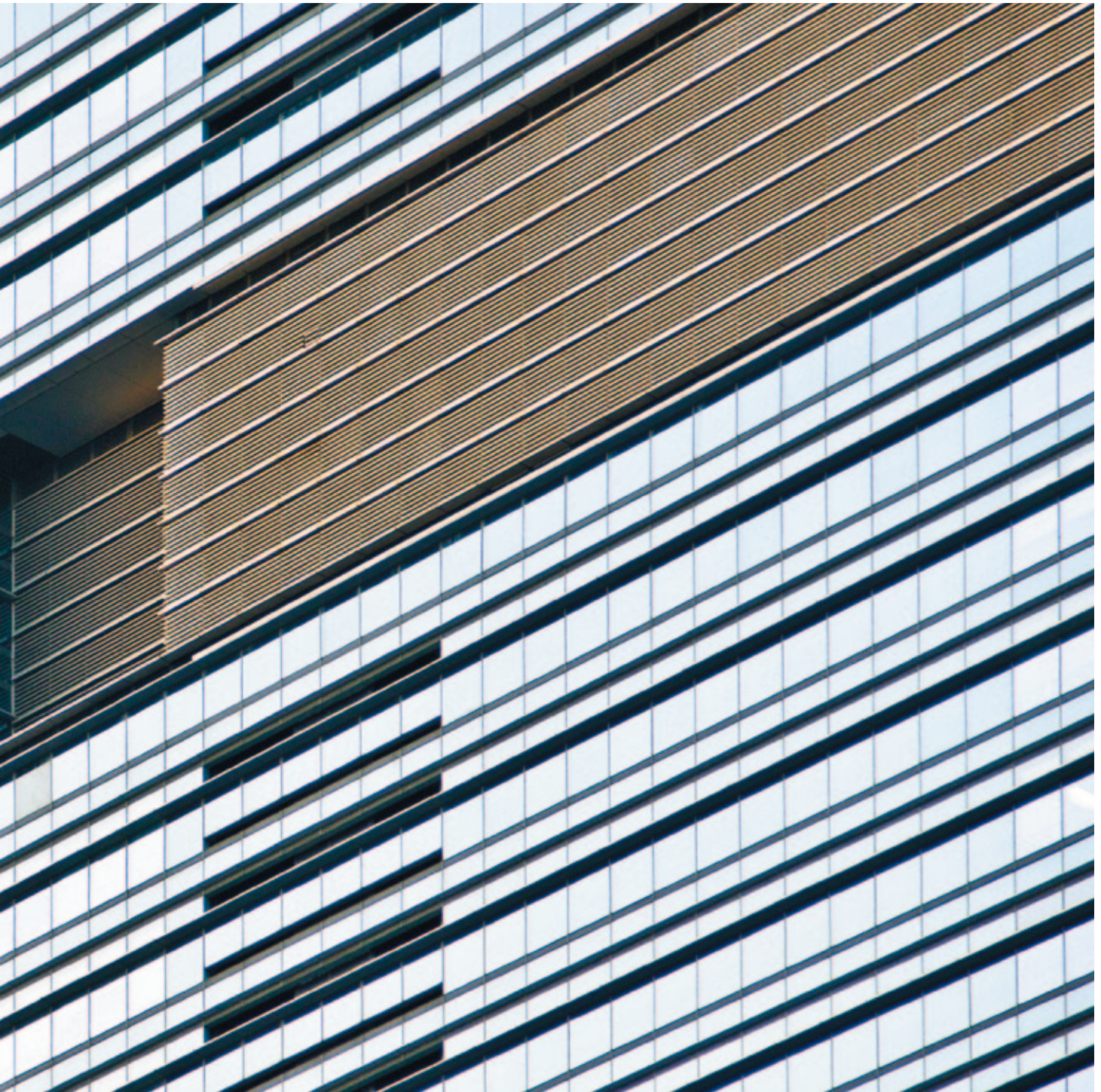
Signed on behalf of Hong Kong Quality Assurance Agency

Jorine Tam
Assistant Director, Strategic Business
March 2016

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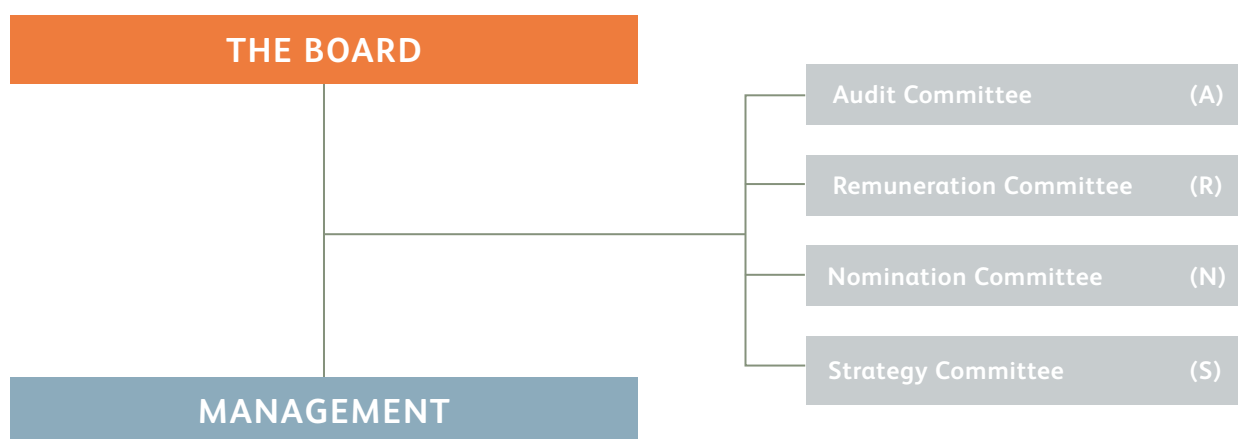
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Corporate Governance



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.



Chairman (chairing N and S)
Irene Yun Lien LEE

Ms. Lee is an independent non-executive director of Cathay Pacific Airways Limited, CLP Holdings Limited, HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank 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 62.



**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 57.



**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, Texon International Group Limited and Link Asset Management Limited (Link) (as manager of Link Real Estate Investment Trust). He was also appointed as the chairman of the board of Link effective from 1 April 2016. He has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers from 1988 until his retirement in June 2007. 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 60.



**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 66.



**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, China Aircraft Leasing Group Holdings Limited, and Guolian Securities Co., Ltd., 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 official 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 66.

Board of Directors



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, CNOOC Limited and 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 and member of its Currency Board Sub-committee and Investment Sub-committee, Vice-Chairman of Our Hong Kong Foundation and a member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company. 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 an Independent Non-Executive Director in December 2014. He is aged 71.



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 61.



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 59.



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 58.



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 62.



Non-Executive Director (R)
Michael Tze Hau LEE

Mr. Lee is currently a director of Oxer Limited, a private investment company. He is also an independent non-executive director of Chen Hsong Holdings Limited, Trinity Limited; and a Steward of The Hong Kong Jockey Club. He was previously an independent non-executive director of Hong Kong Exchanges and Clearing Limited and an independent non-executive director and chairman of OTC Clearing Hong Kong Limited. Mr. Lee was also 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 54.

Senior Management are Executive Directors of the Company.

Our Team Members

Chief Financial Officer

Roger Shu Yan HAO

BBA (Hons), CPA, ACA, ACCA

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

Director, Projects

Sunny Wing Chung CHAN

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

Mr. Chan is responsible for the Group's development and project management function in regard to major property investments as well as significant refurbishment projects. He joined the Group in 2008. Mr. Chan accumulated extensive experience in developing, designing and managing high-quality and sustainable building projects while holding senior positions in property development corporations.

Director, Retail

Kitty Man Wai CHOY

BEcon, MSc, MBA

Ms. Choy is responsible for the Group's retail portfolio. She joined the Group in 2000 and prior to joining Hysan, Ms. Choy held a supervisory position at a major property development company.

General Manager, Property Services

Lawrence Wai Leung LAU

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

Mr. Lau is responsible for managing the operations of Property Management and Technical Services Department and drives the environmental initiatives for the Group. He joined the Group in 2010. Mr. Lau accumulated extensive experience in facilities and project management while holding senior positions in premier property and international hotel management companies.

Director, Office

Jessica Mo Ching YIP

BSc (Surveying), MBA, MRICS, MHKIS, RPS

Ms. Yip is responsible for managing the office portfolio of the Group. Prior to joining the Group in 2012, Ms. Yip fulfilled various roles in international consultancies, occupiers and developers. She had extensive experience in the real estate industry.

Corporate Governance Report

Meeting and Exceeding Compliance Requirements

Hysan is committed to maintaining high standards of corporate governance and transparency throughout our business activities. Hysan has continued to comply with requirements of the Code Provisions contained in the Corporate Governance Code (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 only exception being 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 the review of key terms of those new compensation and benefits plans of the Group with a 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. Nevertheless, the Board will continue to review this arrangement in light of the evolving needs of the Group.

The following are the major areas in which Hysan’s system of corporate governance practices exceeds the Corporate Governance Code.

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	The Board has established formal Corporate Governance Guidelines* since 2004.
✓	The Board has established formal mandates and responsibilities*, 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 the expected time commitment of the Non-Executive Director and other matters. The Board has a detailed list of Matters Reserved for Board Decisions* that are retained for the decision of the full Board. The list of Matters Reserved for Board Decisions 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. Since 2014, the board evaluation process has been strengthened and enriched through an evaluation questionnaire. Directors’ written feedback was analysed and discussed at the May Board meeting. Our Corporate Governance Guidelines have been refined in the light of this to show the Board’s commitment.
✓	The Group has a written Code of Ethics* applicable to all staff and Directors. The Group has “whistle-blowing” procedures to encourage employees to raise concerns about possible breaches of the Group’s Code of Ethics. Monitoring of the “whistle blowing” mechanism is performed by an external independent third party service 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 inside information. This ensures consistent and timely disclosure and fulfilment of the Group’s continuous disclosure obligations.

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	The Group has established an Auditor Services Policy* to set parameters for the engagement of the auditors. It also identifies areas of conflict, and prohibits the engagement of auditors in case of conflict to ensure independence.
✓	The Group has established a fraud handling policy and procedure to control and aid in the detection and prevention of fraud against the Group. This promotes consistent organisational behavior by providing guidelines and assigning responsibility for the controls and investigations.
✓	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 has been adopted since 2014 Annual Report, to provide a more holistic view of the Group's financial as well as non-financial performance.
✓	The Group serves more than 20 clear business days' notice for Annual General Meeting ("AGM").
✓	Since 2004, the Group has operated a new form of AGM that goes beyond discharging statutory business by including a detailed business review. All voting at AGMs has been conducted by poll since 2004.
✓	The Group publishes the terms of reference and membership of all its corporate governance related Board Committees on the websites of the Group and the Stock Exchange.
✓	The Group announces the financial results within 2.5 months after the end of financial year and publishes the Annual Report on the Group's website within 3 months after the end of financial year. The Group sends the Annual Report to shareholders within 10 days after publication. The AGM notice, Annual Report, and the financial statements are dispatched to the shareholders more than 30 days prior to the AGM (statutory requirement: 21 days).
✓	The Group continually enhances its communications with shareholders. It has initiated and invited major nominee companies to proactively forward communication materials to the ultimate beneficial shareholders at the Group's expense. To further increase efficiency of communication, protecting the environment and saving costs for the Company, arrangements have been made since December 2015 to ascertain the shareholders' preference as to the means of receiving corporate communications. The aim is to continually enhancing the use of the Group's corporate website as a means of shareholder communications.

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

Our Governance Framework

Hysan operates with a clear and effective governance structure.

THE BOARD Leadership; Strategy Planning; Risk Management			
Audit Committee <ul style="list-style-type: none"> Reviews internal controls and risk management systems Monitors internal and external auditors Oversees financial reporting process 	Remuneration Committee <ul style="list-style-type: none"> Sets remuneration policy for Executive Directors Determines Executive Directors' remuneration and incentives 	Nomination Committee <ul style="list-style-type: none"> Recommends Board appointments Reviews Board structure and composition Assesses independence of Independent Non-Executive Director Succession planning for directors 	Strategy Committee <ul style="list-style-type: none"> Oversees the Group's strategy activities Aligns corporate responsibility initiatives with the corporate strategy
Further information			
Audit Committee Report – pages 130 to 133 Internal Controls and Risk Management Report – pages 54 to 59	Directors' Remuneration and Interests Report – pages 121 to 129	Nomination Committee – page 109	Strategy Committee – page 107

Hysan's governance framework serves as a guide for the Board and management in the performance and fulfilment of their respective obligations to Hysan and its stakeholders. The key components of Hysan's governance framework, including the guidelines, policies, and procedures (as listed below), ensures (i) the existence of a capable and qualified Board with diverse backgrounds and skills; (ii) the establishment of appropriate roles for the Board and various committees; and (iii) a collaborative and constructive relationship between the Board and management.

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

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

The Board reviews these guidelines, policies, and procedures periodically, typically on an annual basis. The Board also regularly assesses and enhances its governance framework, practices and principles in light of regulatory regimes, international best practices, as well as Company needs.



What the Board has done throughout 2015: driving continuous improvement

Throughout the year, 6 Board meetings were held, including a strategy meeting with in-depth presentation and discussion of the Group’s strategy and planning. The Board leads the Company and provides long-term strategic guidance, managing its risks and delivering its objectives in regard to the following themes. The Board is also supported by the work of various Board committees. 2015 was an active year for the Board.

1 LEADERSHIP

- **Board effectiveness:** continued to adopt a formal board evaluation process. The Board thoroughly considered the responses to the evaluation questionnaire. (see section on “Board Evaluation”)

2 STRATEGIC PLANNING

- **core business:** received and discussed regular updates for the Group’s core leasing portfolios to meet short-term objectives.
- **strategic plan:** received and discussed updates on longer-term directional strategy for further growth.
- **re-development and asset enhancement projects:** received and discussed regular updates.
- **talent management:** Board committees received, evaluated and reported back to the Board – these actions are important for the long-term success of the Group.
- **curate tenant mix and area branding:** strengthened Lee Gardens area branding and marketing and shopping experience.

FORMAL BOARD MANDATE: BOARD ROLES

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

3 RISK MANAGEMENT

- **financial control:** assessed effectiveness of financial controls, and other internal controls. (see sections on “Internal Controls and Risk Management Report” and “Audit Committee Report”)
- **risk control:** Audit Committee reviewed and monitored management’s risk management process.
- **regulatory environment control:** legal and regulatory update is a regular agenda item for each Board meeting.

4 RELATIONS WITH SHAREHOLDERS

- **reporting:** investor relations reporting (describing investor and analyst opinions) is a regular agenda item for each board meeting.
- **enhance communication:** enhanced shareholder communications by further exploiting the electronic channels.

Board Calendar 2015

The overall calendar of meetings of the Board and its Committees for 2015 is shown below:

	Further report	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board	Page 94			✓		✓			✓		✓		✓✓ (Note 1)
Audit Committee	Page 130			✓					✓				✓
Remuneration Committee	Page 121			✓									
Nomination Committee	Page 109												✓
AGM						✓							

Note:

- 1 In December 2015, a Board meeting was held to discuss 2016 budget and a separate Strategy Meeting (attended by full Board members) was held to discuss business plan, as well as longer-term directional strategy for growth.

2015 was an active and effective year. The work the Board for 2015 are:

Month	Special matters considered by the Board
March	<p>Review of reports from:</p> <ul style="list-style-type: none"> • Remuneration Committee • Audit Committee; and review of internal controls and risk management effectiveness <p>Review and approval of 2014 annual results, including:</p> <ul style="list-style-type: none"> • Preliminary announcement • Declaration of 2014 2nd interim dividend • Other key reports <ul style="list-style-type: none"> • Corporate Governance Report • Internal Controls and Risk Management Report • Audit Committee Report • Directors' Remuneration and Interests Report • Directors' Report <p>Approval of proposals to be submitted to the AGM</p> <p>Annual review of corporate governance matters</p>
May	<p>Analysis of feedback and discussions of:</p> <ul style="list-style-type: none"> • Board and Board Committees' evaluation questionnaires
August	<p>Review of reports from:</p> <ul style="list-style-type: none"> • Audit Committee; and review of internal controls and risk management effectiveness <p>Review and approval of 2015 interim results, including</p> <ul style="list-style-type: none"> • Interim results announcement • Interim report • Declaration of 2015 1st interim dividend
October	Appointment of new Company Secretary to fill a casual vacancy

Corporate Governance Report

Month	Special items considered by the Board
December	<p>Review of reports from:</p> <ul style="list-style-type: none"> • Nomination Committee; and review of Board size and composition, as well as “independence” of Directors • Audit Committee; and deep-dive discussion of internal controls and risk management matters <p>Review and discussions of 2016 budget</p> <p>Review of corporate governance matters – annual review of Matters Reserved for the Board Decisions (relating to the 2016 budget and business plan)</p>
December (Note: A separate Strategy Meeting was held)	<p>Review and discussions of :</p> <ul style="list-style-type: none"> • Group’s strategic activities • Update on the longer-term directional strategy

Month	Regular matters considered by the Board
March, May, August and December	<p>Review and discussions of reports on:</p> <ul style="list-style-type: none"> • Operating results and regular updates for the Group’s core leasing business (Office, Retail and Residential segments) • Current development and asset enhancement projects’ update (including the redevelopment of Lee Garden Three) <p>Review and discussions of: Financial forecasts</p> <p>Update on:</p> <ul style="list-style-type: none"> • Analysts’ feedback • Legal and regulatory issues <p>Review and approval of: Minutes of previous meeting</p>

Meeting attendance by Directors in 2015

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

- Attended
- Attended by alternate
- ☎ Attended by tele-conference
- ✦ Attended the meetings (or part of meetings) as invitee
- Excused from the meeting as the agenda was to consider matter relating to her resignation and appointment of new Company Secretary
- ▲ Already resigned from the Board

Directors	Meetings Held/Attended				
	Board (Total: 6) (Note 1)	Audit Committee (Total: 3)	Remuneration Committee (Total: 1)	Nomination Committee (Total: 1)	Annual General Meeting (Annually)
Executive Directors					
Irene Yun Lien LEE	● ● ● ● ● ●	✦ ✦ ✦	✦ (Note 3)	●	●
Siu Chuen LAU	● ● ● ● ● ●	✦ ✦ ✦	✦ (Note 3)	✦	●
Wendy Wen Yee YUNG (Note 2)	● ● ● ■ ▲	✦ ✦ ▲	N/A	N/A	●
Independent Non-Executive Directors					
Nicholas Charles ALLEN	● ● ● ☎ ● ●	● ● ●	N/A	●	●
Frederick Peter CHURCHOUSE	● ● ● ☎ ● ●	☎ ● ●	N/A	N/A	●
Philip Yan Hok FAN	● ● ● ☎ ● ●	● ● ●	●	●	●
Lawrence Juen-Yee LAU	☎ ● ● ● ● ●	N/A	N/A	N/A	●
Joseph Chung Yin POON	● ● ● ● ● ●	N/A	●	●	●
Non-Executive Directors					
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:

- In December 2015, a Board meeting was held to discuss 2016 budget and a separate Strategy Meeting (attended by full Board members) was held to discuss business plan, as well as longer-term directional strategy for growth.
- Wendy Wen Yee YUNG resigned as Executive Director and Company Secretary with effect from 24 October 2015.
- Excused from the session to discuss the Executive Directors' own compensation package.

Board Leadership

FORMAL BOARD MANDATE

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



Day-to-day management of the Group is delegated to the Executive Directors, subject to formal delegated authority limits and certain matters that have been reserved for the Board approval. 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; the declaration of dividends; internal controls; Board membership; Corporate Governance matters; and major prosecution, defense or settlement of litigation.

Corporate Governance Report

Where applicable, “materiality” thresholds for the key matters are set at appropriate levels to ensure proper control while allowing for smooth day-to-day operations to be carried out by management. These thresholds are subject to review regularly, and at least once a year.

(These documents are available on the Company’s website: www.hysan.com.hk)

REFRESHING THE BOARD – BOARD SIZE, COMPOSITION, AND APPOINTMENTS

There are currently 11 Directors on the Board: the Chairman, Deputy Chairman and Chief Executive Officer and 9 Non-Executive Directors (including 5 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. Siu Chuen LAU, as Deputy Chairman and Chief Executive Officer, deputises and supports the Chairman in her Board leadership role, he also oversees the overall operations and performance of the Group.

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 both compliant and appropriately refreshed and that it always has the necessary diversity of skills and attributes required to oversee and govern in the ever-changing operating environment. Our Non-Executive Directors (including 5 Independent Non-Executive Directors) are of diverse backgrounds in the areas of economics, finance, general management, professional practices, and the property industry. The Board last reviewed its size and composition in December 2015.

Further description of the backgrounds of the Non-Executive Directors is set out in the section “Board Effectiveness – Balance, Diversity and Skills” 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 Company’s Articles of Association, every Director will be subject to retirement by rotation at least once every 3 years. Retiring Directors are eligible for re-election at the AGM at which he retires. There is no cumulative voting in Director elections. The election of each candidate is done through a separate resolution.

At the AGM to be held on 13 May 2016, Nicholas Charles ALLEN, Frederick Peter CHURCHOUSE, Anthony Hsien Pin LEE and Chien LEE will retire at the forthcoming AGM.

Nicholas Charles ALLEN has informed the Board that he will not offer himself for re-election and accordingly will retire as Director after the conclusion of the forthcoming AGM. Save for Nicholas Charles ALLEN, the other retiring Directors, 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.

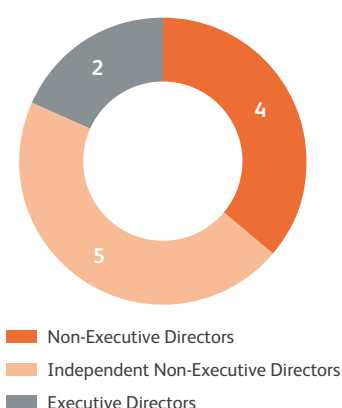
Board Effectiveness

BALANCE, DIVERSITY AND SKILLS

We continue to recognise that a balance of experiences, competencies, expertise, diversity and skills on the Board is the key foundation for introducing different perspectives into Board discussions and for better anticipating the risks and opportunities in building a long-term sustainable business. Our Board ensures the continued effective overseeing of, and informed decision making with respect to, issues affecting Hysan.

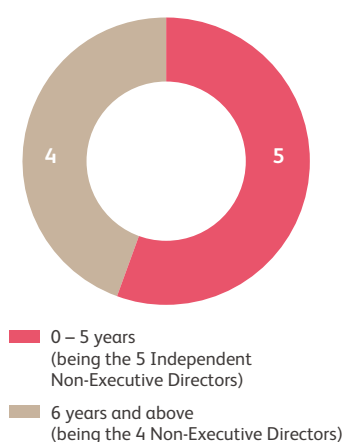
Balance of Non-Executive Directors and Executive Directors

31 December 2015



Length of Tenure of Non-Executive Directors

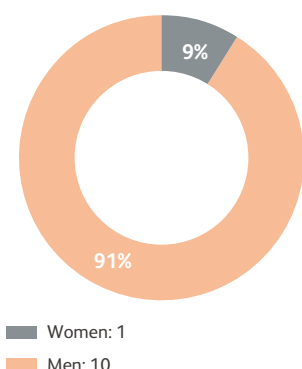
31 December 2015



The Board believes that diversity is vital for Board effectiveness. This philosophy extends from the Board level to the key operational management throughout the Group. The Company has taken, and continues to take steps to promote diversity, including gender diversity, at operational management levels. The Company respects a working environment which is free of discrimination and has policies against discrimination with regard to gender while promoting diversity in recruitment and promotion.

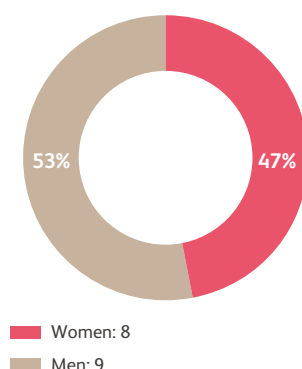
Board Diversity by Gender

31 December 2015



Gender Diversity of Key Operational Management*

31 December 2015



* Key operational management is defined as the 17 heads of departments / units of the Group, but does not include Executive Directors, who also maintain a management / supervisory role for operations.

Corporate Governance Report

During 2015, there were 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
1. General Management Broad business experience through a senior level position in another major company.	Philip Yan Hok FAN Joseph Chung Yin POON
2. Property Industry Experience as a senior executive in another major company in property investment, development or facilities management; or related industry.	Frederick Peter CHURCHOUSE
3. Financial Services and Investment Experience in the financial services industry or experience in overseeing financial transactions and investment management.	Anthony Hsien Pin LEE Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON
4. Marketing Experience as a senior executive in a major retail, customer products, services or distribution company.	Hans Michael JEBSEN
5. Macro-environment affecting the Group Expertise in the economic, political or social environment affecting the Group and its operations, with a focus in Hong Kong and China.	Lawrence Juen-Yee LAU
6. "Audit Committee" Accounting Expertise Expertise based on the definition of "Audit Committee accounting expertise" under the Listing Rules.	Nicholas Charles ALLEN Joseph Chung Yin POON
7. Risk Management An understanding of the Board's role in overseeing 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; and role at another public company as chief executive officer or chief financial officer.	Nicholas Charles ALLEN Philip Yan Hok FAN Lawrence Juen-Yee LAU Chien LEE Michael Tze Hau LEE Joseph Chung Yin POON
8. Human Resources / Compensation An understanding of the principles and practices relating to Human Resources and / or actual "hands-on" experience in managing or overseeing Human Resources in another major company, including experience in: compensation plan design and administration; leadership development / talent management; succession planning; and compensation decision-making, including risk-related aspects of compensation.	Philip Yan Hok FAN Joseph Chung Yin POON

(Directors' full biographies, including relationships among members of the Board, are set out in pages 86 to 89 and are also available on the Company's website: www.hysan.com.hk)



INDEPENDENCE

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

“Connected transactions” with persons and entities regarded as connected with the Group under the Listing Rules are subject to the approval of the full Board, as provided under the **List of Matters Reserved for Board Decisions**. In addition, “exempted transactions” that are exempt from the Listing Rules’ disclosure 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 in our **Corporate Governance Guidelines**. It considers “independence” to be a matter of judgment and conscience. A Director is considered to be independent only where he or she is free from any business or other relationship that might interfere with the exercise of his or her independent judgment.

The Nomination Committee carried out a detailed review of director independence. It concluded that each of the 5 Independent Non-Executive Directors was independent as at that time. Independent Non-Executive Directors are identified in our Annual and Interim Reports and other communications with shareholders. The Board will continually monitor and review whether there are relationships or circumstances that are likely to affect (or could appear to affect) independence.



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

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

Appointment of 5 independent Directors with a diverse background

We have 5 Independent Non-Executive Directors drawn from a diverse background, spanning economics, financial services and investment, general management, professional (accounting), and property industry.

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.

Corporate Governance Report

Independence Status

Name	Management	Independent	Not Independent	December 2015 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

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 provides taxation services principally as tax representative of the Company and certain subsidiaries, which are routine services 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.

BOARD 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.

Since 2014, the board evaluation process was strengthened and enriched through an evaluation questionnaire for the full Board as well as Board Committees. Directors were asked to assess the effectiveness of the Board by providing a mixture of quantitative and narrative responses. Our **Corporate Governance Guidelines** were refined in March 2014 to show the Board's commitment. The outcomes of the evaluation were thoroughly analysed and discussed at the Board meeting held in May 2015.

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

Out of a total of 29 questions in the questionnaire, all responses received had a high score at or above 4 ("Agree"), according to a scale of 1 ("Strongly Disagree") to 5 ("Strongly Agree").

Items that received the highest score (with an average of over 70% indicated a scoring of "Strongly Agree") were: (i) satisfaction with integrity of financial statements and accounting policies/practices; (ii) clarity in providing for the roles of the Board as well as individual director responsibilities; and (iii) provision of appropriate level of involvement in reviewing strategic aims and plans. The outcomes signified that the Directors were highly satisfied with the effectiveness of the Board in addressing and discharging its responsibilities.

Valuable feedbacks received include the need to continually review the Board's size, balance of knowledge, experience, and suggestions to obtain expertise in potential new areas of business. On internal controls and risk management aspects, as Hong Kong's business and social environment is becoming more challenging and volatile, a more robust process is encouraged to identify the principal risks and uncertainties and to evaluate the way in which these are controlled, mitigated, monitored and managed. These feedbacks, well received by management, are being incorporated in the continuous 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 held 2 discussion sessions during 2015 without the presence of Executive Directors or Board members relating to the founding Lee family.

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 it 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 the Group's direction and long-term plans, as well as the various opportunities and risks associated therewith and that are facing the Group 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.

Summary of key features at Hysan Board during 2015

- The Board held 6 meetings. Hysan's Directors have a strong commitment to the Company, which was reflected in the high attendance record at the Board and its Committee meetings.
- All Directors are entitled to seek independent professional advice regarding their duties at the Company's expense.
- Directors' and Officers' liability insurance has been arranged. The terms and extent covering 2015 was reviewed and renewed.
- Declarations of interest are recorded and records are accessible by each director.
- 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.
- Non-Executive Directors are 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.
- Since 2012, the Board moved to electronic Board papers via iPad – an initiative to reduce the use of printed paper across our business and to enhance effective and timely communication. This electronic platform allows the Directors to access information and meeting records relevant to the execution of their duties readily.
- To supplement the formal Board meetings and 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 Independent Non-Executive Directors and Non-Executive Directors also held 2 separate discussion sessions during 2015 without the presence of Executive Directors or Board members relating to the founding Lee family.

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 operational highlights.

The interaction of Non-Executive Directors with non-Director members of the management team has been 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 measures facilitate the build-up of constructive relations and dialogue between the Board and the management team, as well as offering 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 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 fulfil its obligations.

Since 2012, the Board 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. This measure also clearly demonstrates the Board’s willingness to embrace new technology and further enhance the effectiveness of communications.



Corporate Governance Report

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 major risks it faces), and an overview of the additional responsibilities of Non-Executive Directors.

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 further strengthened the Directors' continuous professional development plan during the year, ranging from local infrastructure development to overview of global economy. The following is a summary of professional development participated by Directors during the year. In addition to the activities organised by us, Directors also participated in other forms of training organised by third parties with appropriate emphasis on the roles, functions and duties of the Directors.

Directors' continuous professional development in 2015

Directors	Attending trainings organised by Hysan	Attending expert briefings /seminars / conferences organised by third parties relating to the business or directors' duties	Perusing legal and regulatory updates prepared by Hysan quarterly
Executive Directors			
Irene Yun Lien LEE	✓	✓	✓
Siu Chuen LAU	✓	✓	✓
Wendy Wen Yee YUNG (resigned effective 24 October 2015)	✓	✓	✓
Independent Non-Executive Directors			
Nicholas Charles ALLEN	✓	✓	✓
Frederick Peter CHURCHOUSE	✓	✓	✓
Philip Yan Hok FAN	✓	✓	✓
Lawrence Juen-Yee LAU	✓	✓	✓
Joseph Chung Yin POON	✓	✓	✓
Non-Executive Directors			
Hans Michael JEBSEN	✓	✓	✓
Anthony Hsien Pin LEE	✓	✓	✓
Chien LEE	✓	✓	✓
Michael Tze Hau LEE	✓	✓	✓

Board Process and Administration Procedures

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

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 2015

In order to provide effective overseeing 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 Board meeting has been scheduled since 2014 and for discussion of strategic 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 Frederick Peter CHURCHOUSE (Independent Non-Executive Director), Philip Yan Hok FAN (Independent Non-Executive Director) and Anthony Hsien Pin LEE (Non-Executive Director). There is a 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 is 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 held 3 meetings during the year. At the invitation of the Audit Committee, such meetings are also attended by the Board Chairman and members of management (including the Chief Executive Officer and the Chief Financial Officer).

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

Roles and Authority

Hysan believes a clear appreciation of the separate roles of management, the external auditors and Audit Committee members is crucial to the effective functioning of an audit committee. Management of Hysan is responsible for selecting appropriate accounting policies and the preparation of the financial statements. Formal statements of Directors' Responsibility for the Financial Statements are contained in "Financial Statements, Valuation and Other Information" of 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. The "whistle-blowing" procedures allow employees to raise concerns, in confidence or anonymously, about possible breaches of the Group's Code of Ethics. The Audit Committee ensures that these arrangements allow proportionate and independent investigation of possible breaches and related matters and there is appropriate follow up action.

Activities and Report in 2015 and to date

Full details of the activities of the Audit Committee are also set out in the "Audit Committee Report" on pages 130 to 133. 3 meetings were held during the year. Attendance at Audit Committee meetings is set out in the table on page 97. In addition to reviewing and approving annual and interim financial statements, the Committee held a separate meeting that substantially focused on internal controls and risk management.

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 a 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 2015 and to date

Full details of the activities of the Remuneration Committee are set out in the "Directors' Remuneration and Interests Report" on pages 121 to 129. A meeting was held during the year. Attendance at the Remuneration Committee meeting is set out in the table on page 97.



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 were 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, with 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 the Listing Rules requirements. The terms of reference of the Nomination Committee clearly set out that the Chairman of the Board shall not chair the Nomination Committee when it is dealing with the matter of succession of the chairmanship.

A meeting was held during the year to (i) review the structure, size, and composition of the Board; and (ii) assess the independence of Independent Non-Executive Directors. Attendance at the Nomination Committee meeting is set out in the table on page 97.

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, the reporting of 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.

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

Information via Internet

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 and 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.

We recognise that not all shareholders and stakeholders have ready access to the internet. For those who do not, hard copies of the Hysan website information are available free of charge upon request to the Company Secretary.



Corporate Governance Report

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 plan, and of 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 webcasts. 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 in our AGMs, in addition to the statutory part of the meeting. Topics covered at the last AGM included the business environment in 2014, a review of business activities, and the Company’s outlook for 2015. The Company values the contributions of its shareholders during the question and answer session following the statutory part of the meeting.

Corporate Disclosure Policy

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



SHAREHOLDER RIGHTS

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 communications materials by nominee companies to beneficial shareholders. Since 2005, we have initiated and invited major

nominee companies to proactively forward communication materials to shareholders at our expense. To further increase efficiency of communication, protecting the environment and saving costs for the Company, arrangements have been made since December 2015 to ascertain the shareholders' preference as to the means of receiving corporate communications. The aim is to continually enhancing the use of the Group's 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. The AGM notice, Annual Report, and financial statements are dispatched to shareholders more than 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, shareholders holding not less than 5% of the total voting rights of shareholders of the Company ("5% Shareholder") may convene a general meeting by written request signed by a 5% Shareholder stating the objectives of the meeting, and deposit the signed request at the Company's registered office (49/F, Lee Garden One, 33 Hysan Avenue, Hong Kong. Attention: The Company Secretary). Any 5% Shareholder may also request 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 request for the circulation of resolutions to be moved at AGM; and circulation of statements regarding resolutions proposed at general meetings. The specified 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 Ordinance also provides for disinterested shareholder approval (excluding those shareholders related to the relevant directors) for certain transactions with directors as well as their connected entities, and ratification of director misconduct.

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

No changes have been made to the Company's Articles of Association during the year.

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2015, which were approved by the Board of Directors (the "Board") on 8 March 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2015 to be property investment, management, and development. Details of the Group's principal subsidiaries and associates as at 31 December 2015 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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated income statement on page 137.

The first interim dividend of HK25 cents per share, amounting to approximately HK\$266 million, was paid to shareholders during the year.

The Board declared a second interim dividend of HK107 cents per share to the shareholders on the register of members on 23 March 2016, absorbing approximately HK\$1,122 million. The dividends declared and paid for ordinary shares in respect of the full year 2015 will absorb approximately HK\$1,388 million, the balance of the profit will be retained.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and material attributable factors of the development and likely future developments of the Group's business, are provided throughout this Annual Report, particularly in the following separate sections:

- (a) Review of the Company's business – "Management's Discussion and Analysis";
- (b) The Company's risk management framework, the principal risks the Company is facing and the controls in place – "Internal Controls and Risk Management Report";
- (c) Future development in the Company's business – "Key Facts" and "Chairman's Statement";
- (d) Analysis using financial key performance indicators – "Management's Discussion and Analysis";
- (e) Discussion on the Company's environmental policies and performance – "Responsible Business";
- (f) Discussion on the Company's compliance with the relevant laws and regulations – "Corporate Governance Report", "Independent Auditors' Report" and "The Stock Exchange of Hong Kong Limited's Environmental, Social and Governance Reporting Guide"; and
- (g) An account of the Company's key relationships with its employees, customers and suppliers and others – "Responsible Business" and "Directors' Report".

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 140 and 141 and note 30 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 2015 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 2015 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 29 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 Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

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

- (a) "Corporate Governance Report" (pages 91 to 111) – 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 121 to 129) – it gives detailed information on Directors' remuneration and interests (including information on Directors' compensation, service contracts, Directors' interests in shares, contracts and competing business);
- (c) "Audit Committee Report" (pages 130 and 133) – 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 54 to 59) – it sets out the Company's framework on internal controls and risks assessment (including control environment, control activities and work done during the year); and
- (e) "Responsible Business" section (pages 60 to 83) – 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. There are 9 other Non-Executive Directors.

Wendy Wen Yee YUNG resigned as Executive Director and Company Secretary, effective 24 October 2015.

Trevor Chi-Hsin YANG was appointed alternate Director to Hans Michael JEBSEN in place of Kam Wing LI, effective 29 April 2015.

Irene Yun Lien LEE served as alternate Director to Anthony Hsien Pin LEE throughout the year.

Save as otherwise mentioned, other Directors whose names and biographies appear on pages 86 to 89 have been Directors of the Company throughout the year.

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 at each AGM. A retiring Director is eligible for re-election.

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

THE BOARD continued

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 December 2015. (see "Corporate Governance Report")

The directors of subsidiary undertakings included in the annual consolidated financial statements of the Company (other than those listed above) during the year and until the date of this Annual Report were:

- Almighty Power Limited
- Bemascot Limited
- Bongrow Profit Limited
- Capcept Limited
- Carol Planet Limited
- Chater Inc.
- Comet Bright Limited
- Delightful Investment Limited
- Eastern Sky Limited
- Eunice Cheuk Yee LEUNG (appointed effective 1 March 2016)
- Fairweather (Nominees) Limited
- Fairwind Nominees Limited
- Hans Helmuth HENNIG
- Hing Nin HO (resigned effective 1 March 2016)
- Justinian (Nominees) Limited
- Kitty Man Wai CHOY
- Kommand Limited (resigned effective 10 December 2015 and liquidated on 11 December 2015)
- Mourant International Limited
- Nathan Inc.
- New Rise Limited
- Oakwise Limited
- Ocore Limited
- Olivier Jean Claude Erich ELZER
- Plenty Treasure Limited
- Po Wah HUEN
- Roger Shu Yan HAO
- Rose Wai Mun LEE
- Tai On LO
- Wellington Inc.
- Yama Limited

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 121 to 129.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2015, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company, were as follows:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	% of the 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)	40.97
Lee Hysan Company Limited	Interests of controlled corporations	433,130,735 (Note b)	40.97
Silchester International Investors LLP	Investment manager	95,187,000	9.00

Notes:

- (a) The percentage was compiled based on the total number of shares of the Company in issue as at 31 December 2015 (i.e. 1,057,177,692 ordinary shares).
- (b) These interests represented 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 which is required to be kept under section 336 of the SFO as at 31 December 2015.

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 35 to the financial statements.

Some of these transactions also constituted "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 Garden Two, 28 Yun Ping Road, Hong Kong ("Lee Garden Two")**

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

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
(i) Jepsen 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	2015: HK\$29,115,636 2016: HK\$29,342,964 2017: HK\$29,342,964 2018: HK\$19,561,976 (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	2015: HK\$26,756,100 2016: HK\$24,023,216 (Note j)
(iii) Treasure Matrix Limited (Notes f & g)	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)	2015: HK\$7,379,816 2016: HK\$7,866,000 2017: HK\$7,866,000 2018: HK\$7,866,000 2019: HK\$1,881,919 (on pro-rata basis) (Notes h to 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 40.97% interest). Details of the lease are set out below:

Connected person	Date of agreement	Terms	Premises	Annual consideration (Note a)
Atlas Corporate Management Limited	21 August 2014	3 years commencing from 1 November 2014	Whole of 21st Floor	2015: HK\$3,007,068 2016: HK\$3,025,344 2017: HK\$2,521,120 (on pro-rata basis) (Note j)

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

Connected person	Date of agreement	Terms	Premises	Consideration received during the year
Barrowgate Limited (Note g)	28 March 2013	3 years commencing from 1 April 2013	Whole premises of Lee Garden Two	HK\$22,295,236 (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 Garden Two:

Connected person	Date of agreement	Terms	Premises	Consideration received during the year
Barrowgate Limited (Note g)	28 March 2013	3 years commencing from 1 April 2013	Whole premises of Lee Garden Two	HK\$3,144,847 (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) Jebson and Company Limited ("Jebson 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. Hans Michael JEBSEN, Non-Executive Director of the Company, is a controlling shareholder of Jebson and Company.
- (c) The term of the agreements mentioned under I(a)(i) and I(a)(iii) 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 Jebson 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 Garden Two had been 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) Treasure Matrix Limited ("Treasure Matrix") is a non wholly-owned subsidiary of the Company.
- (g) 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 Hans Michael JEBSEN, Non-Executive Director of the Company.
- (h) Annual consideration for 2015 included actual turnover rent received for the year under review.
- (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 Garden Two were revised with effect from 1 January 2015 and further revised on 1 January 2016. Office monthly operating charges for One Hysan Avenue were revised with effect from 1 January 2015 and further revised on 1 January 2016.
- (k) These represent the actual consideration received for the year ended 31 December 2015, 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 (Revised) "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 its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 116 to 118 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 Group;
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 interests of the Company's shareholders 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, 31.81% of the aggregate amount of purchases were attributable to the Group's 5 largest suppliers with the largest supplier accounting for 14.67% 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 close associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's 5 largest suppliers.

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

The Company was authorised at its AGM held on 15 May 2015 to repurchase its own ordinary shares not exceeding 10% of the total number of its issued shares as at the date of passing the resolution. During the year, the Company repurchased its ordinary shares on the Stock Exchange when they were significantly trading at a discount in order to enhance shareholder value.

During the year, the Company repurchased an aggregate of 6,750,000 ordinary shares for a total consideration of HK\$214,516,600 on the Stock Exchange. The repurchased shares were cancelled during the year. Details of the shares repurchased are as follows:

Month of repurchase in 2015	Number of shares repurchased	Consideration per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
August	1,820,000	31.70	30.30	56,945,500
September	1,255,000	31.85	30.70	39,256,500
November	221,000	32.50	31.80	7,164,850
December	3,454,000	32.70	31.45	111,149,750
	<u>6,750,000</u>			<u>214,516,600</u>

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

ISSUANCE OF SECURITIES

In October 2015, Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, established the US\$1.5 billion Medium Term Note Programme ("MTN Programme"), which was listed on the Stock Exchange. Notes issued under the MTN Programme are unconditionally and irrevocably guaranteed by the Company. No notes have been issued under the MTN Programme for the year under review.

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 2016 AGM.

By Order of the Board
Irene Yun Lien LEE
Chairman

Hong Kong, 8 March 2016

Directors' Remuneration and Interests Report

COMPENSATION REVIEW

Remuneration Committee

The Board recognises the significance of having in place a transparent and objective process for determining Executive Director compensation. The Remuneration Committee (first established in 1987) reviews and determines the remuneration of Executive Directors as well as recommends fees payable to Non-Executive Directors for shareholders' approval. 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 comprises of 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 the 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 the shareholders' interests.

The following principles have 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, emphasising 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 significant personal shareholdings 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 the year 2015 and option movements during the year are set out in notes 12 and 36 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 shareholders' approval) set by the Board and should be proportional to their contribution towards the interests of the Company.
- Remuneration practice should be consistent with the recognised best practice standards for Non-Executive Director 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\$2,380,000 for the year 2015.

2015 Review

The Committee met in March 2015 with all members present to (i) approve the 2015 annual fixed base salary and determine the 2014 performance-based bonus of the Executive Directors; (ii) review the fees for Non-Executive Directors and Board Committee members; and (iii) approve a new share option scheme of the Group.

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 2016 Review

The Committee met in March 2016 to (i) approve the 2016 Executive Director compensation packages and the 2015 performance-based bonus; and (ii) review the fees for Non-Executive Directors and Board Committee members. All members attended the meeting.

COMPENSATION REVIEW *continued*

Director Fee Levels

Director fees are subject to shareholders' approval at general meetings. Taking into consideration the level of responsibility, experience, abilities required of the Directors, level of care and amount of time needed to be spent, and fees offered for similar positions in companies requiring the same talent, it is proposed for shareholder consideration and approval revising Director fees for Non-Executive Directors and Board Committee members. The current fee scale for Non-Executive Directors and Board Committee members and the proposed fees are set out below. Executive Directors will not receive any director fee.

	Current per annum HK\$	Proposed Fee Per annum HK\$
Board of Directors		
Non-Executive Director	200,000 (<i>Note 1</i>)	225,000
Audit Committee		
Chairman	120,000 (<i>Note 2</i>)	135,000
Member	60,000 (<i>Note 1</i>)	70,000
Remuneration Committee		
Chairman	60,000 (<i>Note 2</i>)	no change
Member	40,000 (<i>Note 1</i>)	no change
Strategy Committee		
Chairman	30,000	no change
Member	20,000	30,000
Other Committees		
Chairman	30,000	no change
Member	20,000	no change

Notes:

1. Approved by shareholders in 2011 AGM.
2. Approved by shareholders in 2014 AGM.

Long-term incentives: Share Option Schemes

The Company can grant options under the executive share option schemes as adopted from time to time. The purpose of the schemes was to strengthen the link between individual staff and shareholders' interests. The power of grant to Executive Directors is vested in the Remuneration Committee and endorsed by all Independent Non-Executive Directors as required under the Listing Rules. The Chairman or the Chief Executive Officer may make grants to management staff below Executive Director level.

Key terms of the share option schemes 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 expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme. No further option will be granted under the 2005 Scheme.

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, 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).

COMPENSATION REVIEW continued

Long-term incentives: Share Option Schemes continued

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

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 shareholders' 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.

The 2015 Share Option Scheme (the "New Scheme")

The Company adopted the New Scheme (together with the 2005 Scheme are referred to as the "Schemes") at its AGM held on 15 May 2015, which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

Under the New Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any 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 New Scheme and any other share option schemes of the Company shall not in aggregate exceed such number of shares as required under the Listing Rules, currently being 10 % of the shares in issue as at 15 May 2015, the date of the AGM approving the New Scheme (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10 % limit under the New 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 New Scheme and any other share option schemes 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 New 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 10,638,966 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 options, with full payment for exercise price to be made on exercise of the relevant options.

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.

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

During the year, a total of 1,066,500 shares options were granted under the 2005 Scheme, and no share option was granted under the New Scheme.

As at the date of this Annual Report:

- (i) 3,965,670 options granted (including 2,016,658 fully-vested shares options) under the 2005 Scheme are remained outstanding, representing approximately 0.38 % of the total number of issued shares of the Company; and
- (ii) 106,389,669 shares are issuable under the New Scheme representing approximately 10 % of the total number of issued shares of the Company.

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 1.1.2015	Changes during the year			Balance as at 31.12.2015
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	–	–	261,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	300,000	–	–	300,000
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	10.3.2015 – 9.3.2024	302,000	–	–	–	302,000
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	300,000	–	–	300,000
Wendy Wen Yee YUNG (Note d)	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	10.3.2015 – 9.3.2024	95,000	–	(31,000) (Note e)	(64,000)	–
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	49,500	–	(49,500)	–

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

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2015	Changes during the year			Balance as at 31.12.2015
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Eligible employees (Note f)	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	–	–	17,000
	31.3.2009	13.30	31.3.2010 – 30.3.2019	134,000	–	–	–	134,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	154,334	–	(2,000) (Note g)	–	152,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	181,001	–	(9,000) (Note h)	–	172,001
	30.3.2012	31.61	30.3.2013 – 29.3.2022	262,335	–	(12,000) (Note i)	–	250,335
	28.3.2013	39.20	28.3.2014 – 27.3.2023	298,000	–	–	(10,000)	288,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	411,000	–	(2,000) (Note j)	(13,000)	396,000
	31.3.2015	34.00 (Note k)	31.3.2016 – 30.3.2025	–	417,000	–	(13,000)	404,000
				3,435,704	1,066,500	(56,000)	(472,200)	3,974,004

Notes:

- 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.
- The options lapsed during the year upon resignation of a Director and certain eligible employees.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 11 March 2015) was HK\$36.15.
- Wendy Wen Yee YUNG resigned as Executive Director and Company Secretary of the Company with effect from 24 October 2015.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.60.
- Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.65.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.13.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.50.
- The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.55.
- The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2015) was HK\$33.65.

Apart from the above, the Company did not grant any share option under the Schemes to any other persons which are required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the Schemes are set out in note 36 to the financial statements.

COMPENSATION REVIEW continued

Long-term incentives: Share Option Schemes 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	31.3.2015	12.3.2015
Closing share price at the date of grant	HK\$34.000	HK\$34.800
Exercise price	HK\$34.000	HK\$36.270
Risk free rate (<i>Note a</i>)	1.096 %	1.241 %
Expected life of option (<i>Note b</i>)	5 years	5 years
Expected volatility (<i>Note c</i>)	29.947 %	29.810 %
Expected dividend per annum (<i>Note d</i>)	HK\$0.976	HK\$0.976
Estimated fair values per share option	HK\$7.304	HK\$7.061

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 approximate 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.

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 2015, 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 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	0.240
Siu Chuen LAU	80,666	–	330,115 (Note d)	–	410,781	0.039
Irene Yun Lien LEE	130,000	–	–	–	130,000	0.012
Chien LEE	800,000	–	–	–	800,000	0.076

Notes:

- This percentage was compiled based on the total number of shares of the Company in issue (i.e. 1,057,177,692 ordinary shares) as at 31 December 2015.
- 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 Schemes" above). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Aggregate long positions in shares of associated corporations

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

Name	Number of ordinary shares held			% of the total no. of issued shares
	Corporate interests	Other interests	Total	
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 2015 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, Trevor Chi-Hsin YANG, 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
Irene Yun Lien LEE
Chairman

Hong Kong, 8 March 2016

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), Philip Yan Hok FAN (Independent Non-Executive Director) and Anthony Hsien Pin LEE (Non-Executive Director).

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

The Committee held 3 meetings during the year, on 6 March, 3 August and 1 December 2015. The meetings in March 2015 and August 2015 were held to consider the financial statements for the 2014 annual report and 2015 interim report respectively. An additional meeting was held in December to review the Group's internal controls and risk management systems, report on major risks which the Group was facing and miscellaneous issues not relating to the approval of financial statements and results announcements. The Committee last met on 7 March 2016 to consider the financial statements for the year ended 31 December 2015.

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

Details on the meeting held in March 2015 were set out in the 2014 Annual Report. Significant matters, as reviewed and discussed in the other meetings, include the following:

FINANCIAL REPORTING

In the process of financial reporting, management is responsible for the preparation of 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 2015 : The Committee reviewed and recommended to the Board for approval of the unaudited financial statements for the first 6 months of 2015, 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 the Group's financial statements. These included valuation of investment properties as at 30 June 2015, and valuation of investment in an associate with principal assets in Shanghai, China as at 30 June 2015. In particular, there were discussions on the cap rate model adopted by the independent professional valuer, Knight Frank Petty Limited, for the Group's property portfolio, and impact of various factors on the cap rate.

The Group's independent professional valuer was also present at the meeting to answer the Committee's questions.

For valuation of investment properties, the Committee also noted that the 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 the external auditors had obtained management accounts of the relevant associate for the 6 months ended 30 June 2015 and valuation reports for the investment properties held by such associate. The Committee noted that the external auditor had performed additional procedures which concluded 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 for approval of the financial statements for the first 6 months ended 30 June 2015.

- March 2016 : The Committee reviewed and discussed with the management and external auditor the financial statements for the year ended 31 December 2015, prior to public announcement and filing. The Committee received reports from and met with the external auditor and internal auditor and discussed the general scope of their respective work and findings.

Judgmental issues considered: The Committee had discussions with management on significant judgments affecting the Group's financial statements. These included valuation of investment properties as at 31 December 2015, and valuation of investment in an associate with principal assets in Shanghai, China as at 31 December 2015.

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 the 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 2015, 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 the external auditors had performed additional procedures which concluded 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 2015, together with the Independent Auditor's Report.

RELATIONSHIP WITH EXTERNAL AUDITOR

- August 2015 : The Committee reviewed and considered the terms of engagement of the external auditor in respect of: 2015 final results (including 2015 annual audit, the related results announcement, and annual review of continuing connected transactions); and annual update of the Group's MTN programme.
- December 2015 : The Committee reviewed the audit progress report of the external auditor.
- March 2016 : Annual Assessment: The Committee assessed and is satisfied as to the auditor's qualification, expertise and services and independence. In particular, it is satisfied that the auditor's independence and objectivity has 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 2015, external auditor received a total fee of HK\$3,217,000 (audit services: HK\$2,345,000 and non-audit services: HK\$872,000). "Non-audit services" referred to agreed-upon-procedure reports or statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters. Specifically, these included 2015 review of interim financial statements, issue of assurance report 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 2016 audit service plan of the external auditor, and the terms of its engagement in respect of the 2016 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 2016.

REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

- August and December 2015 : The Committee received from, and discussed with, management (i) an update report on major risks the Group was facing; (ii) (for December meeting) a report on selected major risk the Group was facing, being risk to retail business; and (iii) a report on process and practices of property services and property development to continuously improve our efficiency and effectiveness in provision of property services.

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

At the December 2015 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 2016 : The Committee reviewed 2015 annual internal controls based on:
 - regular reports by management of major risks, and special reports on selected major risk items
 - regular reports of the 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 the 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 December 2015, March 2016 : The Committee reviewed the management responses to audit reports issued during the year; and progress made in implementing improvement actions.
- December 2015 : The Committee considered and approved the scope of work to be undertaken by the Internal Audit function in 2016.

EVALUATION

The Board and Committee evaluation process which took place during the year concluded that the Committee was effective in fulfilling its roles in 2015. (For details, please refer to Corporate Governance Report – “Board Evaluation” (page 103)).

Members of the Audit Committee

Nicholas Charles ALLEN (*Chairman*)

Frederick Peter CHURCHOUSE

Philip Yan Hok FAN

Anthony Hsien Pin LEE

Hong Kong, 8 March 2016

5 Financial Statements, Valuation and Other Information

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Directors' Responsibility for the Financial Statements

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

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

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

Independent Auditor's Report

Deloitte.

德勤

TO THE MEMBERS OF HYSAN DEVELOPMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 137 to 199, which comprise the consolidated and Company's statements of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

8 March 2016

Consolidated Income Statement

For the year ended 31 December 2015

	Notes	2015 HK\$ million	2014 HK\$ million
Turnover	4	3,430	3,224
Property expenses		(414)	(404)
Gross profit		3,016	2,820
Investment income	6	54	68
Other gains and losses	7	–	(2)
Administrative expenses		(234)	(214)
Finance costs	8	(204)	(228)
Change in fair value of investment properties		695	2,940
Share of results of associates		246	252
Profit before taxation		3,573	5,636
Taxation	9	(438)	(386)
Profit for the year	10	3,135	5,250
Profit for the year attributable to:			
Owners of the Company		2,903	4,902
Non-controlling interests		232	348
		3,135	5,250
Earnings per share (expressed in HK cents)	15		
Basic		273.17	460.82
Diluted		273.12	460.69

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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 HK\$ million	2014 HK\$ million
Profit for the year		3,135	5,250
Other comprehensive (expense) income	11		
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Fair value change of equity investments		36	–
Gains on revaluation of properties held for own use		9	16
		45	16
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net adjustments to hedging reserve		(40)	51
Share of translation reserve of an associate		(240)	(16)
		(280)	35
Other comprehensive (expense) income for the year (net of tax)		(235)	51
Total comprehensive income for the year		2,900	5,301
Total comprehensive income attributable to:			
Owners of the Company		2,668	4,953
Non-controlling interests		232	348
		2,900	5,301

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 HK\$ million	2014 HK\$ million
Non-current assets			
Investment properties	16	69,810	68,735
Property, plant and equipment	17	705	710
Investments in associates	19	3,683	4,154
Term notes	21	935	720
Other financial assets	22	7	3
Other receivables	23	227	226
		75,367	74,548
Current assets			
Accounts and other receivables	23	201	255
Principal-protected investments	20	–	80
Term notes	21	415	485
Other financial assets	22	1	15
Time deposits	24	2,743	3,534
Cash and bank balances	24	61	106
		3,421	4,475
Current liabilities			
Accounts payable and accruals	25	470	481
Rental deposits from tenants		296	306
Amounts due to non-controlling interests	26	327	327
Borrowings	27	250	1,589
Other financial liabilities	22	–	2
Taxation payable		120	104
		1,463	2,809
Net current assets			
		1,958	1,666
Total assets less current liabilities			
		77,325	76,214
Non-current liabilities			
Borrowings	27	4,609	4,858
Other financial liabilities	22	71	30
Rental deposits from tenants		594	569
Deferred taxation	28	683	628
		5,957	6,085
Net assets			
		71,368	70,129
Capital and reserves			
Share capital	29	7,642	7,640
Reserves		60,530	59,400
Equity attributable to owners of the Company			
		68,172	67,040
Non-controlling interests			
		3,196	3,089
Total equity			
		71,368	70,129

The consolidated financial statements on pages 137 to 199 were approved and authorised for issue by the Board of Directors on 8 March 2016 and are signed on its behalf by:

Irene Y.L. LEE
Director

S. C. LAU
Director

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Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	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 2014	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 28)	–	–	–	–
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 29(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)	–	–	–	–
At 31 December 2014	7,640	–	27	–
Profit for the year	–	–	–	–
Net losses arising from hedging instruments	–	–	–	–
Reclassification adjustments for net losses included in profit or loss	–	–	–	–
Amortisation of forward element excluded from hedge designation	–	–	–	–
Fair value change of equity investments	–	–	–	–
Gain on revaluation of properties held for own use	–	–	–	–
Deferred taxation arising on revaluation of properties held for own use (note 28)	–	–	–	–
Share of translation reserve of an associate	–	–	–	–
Total comprehensive income (expenses) for the year	–	–	–	–
Issue of shares under share option schemes	2	–	(1)	–
Recognition of equity-settled share-based payments	–	–	8	–
Forfeiture of share options	–	–	(4)	–
Cancellation upon repurchase of own shares	–	–	–	–
Transfer to retained profits upon derecognition of equity investments	–	–	–	–
Dividends paid during the year (note 14)	–	–	–	–
At 31 December 2015	7,642	–	30	–

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)	(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
-	-	-	-	-	2,903	2,903	232	3,135
-	-	(39)	-	-	-	(39)	-	(39)
-	-	(3)	-	-	-	(3)	-	(3)
-	-	2	-	-	-	2	-	2
-	36	-	-	-	-	36	-	36
-	-	-	10	-	-	10	-	10
-	-	-	(1)	-	-	(1)	-	(1)
-	-	-	-	(240)	-	(240)	-	(240)
-	36	(40)	9	(240)	2,903	2,668	232	2,900
-	-	-	-	-	-	1	-	1
-	-	-	-	-	-	8	-	8
-	-	-	-	-	4	-	-	-
-	-	-	-	-	(215)	(215)	-	(215)
-	(32)	-	-	-	32	-	-	-
-	-	-	-	-	(1,330)	(1,330)	(125)	(1,455)
100	1	(66)	353	274	59,838	68,172	3,196	71,368

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Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK\$ million	2014 HK\$ million
Operating activities			
Profit before taxation		3,573	5,636
Adjustments for:			
Other gains and losses		–	2
Finance costs		204	228
Change in fair value of investment properties		(695)	(2,940)
Share of results of associates		(246)	(252)
Net interest income		(54)	(68)
Depreciation of property, plant and equipment		21	17
Share-based payment expenses		8	10
Operating cash flows before movements in working capital		2,811	2,633
Decrease in accounts and other receivables		69	32
Increase (decrease) in accounts payable and accruals		13	(28)
Increase in rental deposits from tenants		15	75
Cash generated from operations		2,908	2,712
Hong Kong profits tax paid		(382)	(323)
Hong Kong profits tax refund		14	6
Net cash from operating activities		2,540	2,395
Investing activities			
Interest received		86	71
Dividends received from an associate		477	263
Proceeds upon maturity of principal-protected investments		80	140
Proceeds upon maturity of term notes		491	574
Proceeds upon maturity of time deposits with original maturity over three months		5,358	5,483
Payments in respect of investment properties		(408)	(335)
Purchases of property, plant and equipment		(6)	(24)
Purchase of principal-protected investment		–	(64)
Purchases of term notes		(642)	(601)
Acquisition of an investment property through a subsidiary	31	–	(232)
Additions to time deposits with original maturity over three months		(4,514)	(5,045)
Net cash from investing activities		922	230
Financing activities			
Interest paid		(198)	(193)
Payment of other finance costs		(3)	(12)
Medium Term Note Programme expenses		(2)	(2)
Dividends paid		(1,330)	(1,255)
Dividends paid to non-controlling interests of a subsidiary		(125)	(114)
Repayment of bank loans		(850)	(900)
Repayment of floating rate notes		–	(200)
Repayment of fixed rate notes		(400)	–
Redemption of zero coupon notes		(332)	–
Consideration paid for repurchase of shares		(215)	–
Proceeds on exercise of share options		1	6
Net cash used in financing activities		(3,454)	(2,670)
Net increase (decrease) in cash and cash equivalents		8	(45)
Cash and cash equivalents at 1 January		576	621
Cash and cash equivalents at 31 December	24	584	576

Significant Accounting Policies

For the year ended 31 December 2015

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

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance (“CO”).

The provisions of the new CO (Cap.622) regarding preparation of accounts and directors’ reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements. The principal accounting policies adopted are as follows:

1. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of 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.

Significant Accounting Policies continued

For the year ended 31 December 2015

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 proposes.

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

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

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

5. PROPERTY, PLANT AND EQUIPMENT

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

Any revaluation increase arising on revaluation of land and buildings is recognised in other comprehensive income and accumulated in the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in 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.

5. PROPERTY, PLANT AND EQUIPMENT continued

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

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

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

6. IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of the reporting period, the Group 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.

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

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

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in other gains and losses as disclosed in note 7 of the Notes to the Financial Statements section. Fair value is determined in the manner described in note 4 of the Financial Risk Management section.

The Group 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.

(iii) Financial assets at FVTOCI

On date of initial application of HKFRS 9, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term or it is a derivative that is not designated and effective as a hedging instrument.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve.

The Group has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVTOCI since the application of HKFRS 9.

7. FINANCIAL INSTRUMENTS continued

Financial assets continued

(b) Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

(c) Derecognition of financial assets

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

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

On derecognition of a financial asset that is classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

7. FINANCIAL INSTRUMENTS continued

Financial liabilities and equity instruments

(a) Classification and measurement

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group 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 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, 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.

(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.

7. FINANCIAL INSTRUMENTS continued

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.

(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.

Significant Accounting Policies continued

For the year ended 31 December 2015

7. FINANCIAL INSTRUMENTS continued

Hedge accounting continued

(b) Cash flow hedges continued

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 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 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 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.

Significant Accounting Policies continued

For the year ended 31 December 2015

13. TAXATION continued

(b) Deferred tax continued

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 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 revises 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 CO 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 2015

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 has applied all of the Amendments to Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for the Group’s financial year beginning on 1 January 2015. The adoption of these Amendments to Standards had no material effect on the results and financial position of the Group for the current and/or prior accounting years.

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

HKFRS 9	Financial Instruments ³
HKFRS 15	Revenue from Contracts with Customers ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ 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.

⁴ Effective for annual periods beginning on or after a date to be determined.

Amendments to HKAS 1 Disclosure Initiative

The amendments to Hong Kong Accounting Standard (“HKAS”) 1 “Presentation of Financial Statements” give some guidance on how to apply the concept of materiality in practice.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKAS 1 will have a material impact on the amounts recognised or the presentation and disclosure in the Group’s consolidated financial statements.

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

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\$69,810 million (2014: HK\$68,735 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.

5. SEGMENT INFORMATION

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

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

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

Residential segment – leasing of luxury residential properties and related facilities

5. SEGMENT INFORMATION continued

Segment turnover and results

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
For the year ended 31 December 2015				
Turnover				
Gross rental income from investment properties	1,767	1,096	254	3,117
Management fee income	135	147	31	313
Segment revenue	1,902	1,243	285	3,430
Property expenses	(239)	(124)	(51)	(414)
Segment profit	1,663	1,119	234	3,016
Investment income				54
Administrative expenses				(234)
Finance costs				(204)
Change in fair value of investment properties				695
Share of results of associates				246
Profit before taxation				3,573
For the year ended 31 December 2014				
Turnover				
Gross rental income from investment properties	1,674	1,002	257	2,933
Management fee income	127	134	30	291
Segment revenue	1,801	1,136	287	3,224
Property expenses	(226)	(118)	(60)	(404)
Segment profit	1,575	1,018	227	2,820
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

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in the "Significant Accounting Policies" section. Segment profit represents the profit earned by each segment without allocation of investment income, other gains and losses, administrative expenses (including central administrative costs and directors' salaries), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the Chief Executive Officer of the Group for the purpose of resource allocation and performance assessment.

5. SEGMENT INFORMATION continued**Segment assets**

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

	Retail HK\$ million	Office HK\$ million	Residential HK\$ million	Consolidated HK\$ million
As at 31 December 2015				
Segment assets	34,340	23,111	7,730	65,181
Investment properties under redevelopment				4,637
Investments in associates				3,683
Other assets				5,287
Consolidated assets				78,788
As at 31 December 2014				
Segment assets	34,315	22,685	7,718	64,718
Investment properties under redevelopment				4,020
Investments in associates				4,154
Other assets				6,131
Consolidated assets				79,023

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\$3,683 million (2014: HK\$4,154 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
For the year ended 31 December 2015				
Additions to non-current assets	99	57	11	167
Additions to investment properties under redevelopment				213
				380
For the year ended 31 December 2014				
Additions to non-current assets	315	68	4	387
Additions to investment properties under redevelopment				166
				553

6. INVESTMENT INCOME

The following is an analysis of investment income:

	2015 HK\$ million	2014 HK\$ million
Financial assets measured at amortised cost	47	61
Reclassification of net gains from hedging reserve on financial instruments designated as cash flow hedges	9	14
Amortisation of forward element excluded from hedge designation	(2)	(7)
	54	68

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

	2015 HK\$ million	2014 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	(8)	(22)
Gains on adjustment for hedged items under fair value hedge	8	22
	–	(2)

8. FINANCE COSTS

	2015 HK\$ million	2014 HK\$ million
Finance costs comprise:		
Interest on bank loans	9	20
Interest on floating rate notes	–	2
Interest on fixed rate notes	188	195
Imputed interest on zero coupon notes	1	17
Total interest expenses	198	234
Other finance costs	8	8
	206	242
Net interest receipts on interest rate swaps	(8)	(25)
Net exchange (gains) losses on borrowings	(2)	46
Reclassification of net losses (gains) from hedging reserve on financial instruments designated as cash flow hedges	6	(37)
Medium Term Note Programme expenses	2	2
	204	228

Notes to the Financial Statements continued

For the year ended 31 December 2015

9. TAXATION

	2015 HK\$ million	2014 HK\$ million
Current tax		
Hong Kong profits tax		
– current year	382	323
– underprovision (overprovision) in prior years	2	(3)
	384	320
Deferred tax (<i>note 28</i>)	54	66
	438	386

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:

	2015 HK\$ million	2014 HK\$ million
Profit before taxation	3,573	5,636
Tax at Hong Kong profits tax rate of 16.5%	590	930
Tax effect of share of results of associates	(41)	(42)
Tax effect of expenses not deductible for tax purposes	100	31
Tax effect of income not taxable for tax purposes	(217)	(551)
Tax effect of estimated tax losses not recognised	10	21
Reversal of previously recognised taxable temporary differences	(3)	–
Utilisation of estimated tax losses previously not recognised	(3)	–
Underprovision (overprovision) in prior years	2	(3)
Taxation for the year	438	386

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 28).

10. PROFIT FOR THE YEAR

	2015 HK\$ million	2014 HK\$ million
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	3	3
Depreciation of property, plant and equipment	21	17
Gross rental income from investment properties including contingent rentals of HK\$71 million (2014: HK\$93 million)	(3,117)	(2,933)
Less:		
– Direct operating expenses arising from properties that generated rental income	403	399
– Direct operating expenses arising from properties that did not generate rental income	11	5
	(2,703)	(2,529)
Staff costs, comprising:		
– Directors' emoluments (<i>note 12</i>)	38	35
– Share-based payments	3	4
– Other staff costs	239	224
	280	263
Share of income tax of an associate (included in share of results of associates)	104	106

11. OTHER COMPREHENSIVE INCOME

	2015 HK\$ million	2014 HK\$ million
Other comprehensive (expense) income comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Fair value change of equity investments	36	–
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	10	19
Deferred taxation arising on revaluation	(1)	(3)
	9	16
	45	16
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net (losses) gains arising during the year	(39)	95
Reclassification adjustments for net gains included in profit or loss	(3)	(51)
	(42)	44
Amortisation of forward element excluded from hedge designation	2	7
	(40)	51
Share of translation reserve of an associate	(240)	(16)
	(280)	35
Other comprehensive (expense) income for the year (net of tax)	(235)	51

Tax effect relating to other comprehensive income:

	Before-tax amount HK\$ million	2015 Tax expense HK\$ million	Net-of-tax amount HK\$ million	Before-tax amount HK\$ million	2014 Tax expense HK\$ million	Net-of-tax amount HK\$ million
Fair value change of equity investments	36	–	36	–	–	–
Gains on revaluation of properties held for own use	10	(1)	9	19	(3)	16
Net adjustments to hedging reserve	(40)	–	(40)	51	–	51
Share of translation reserve of an associate	(240)	–	(240)	(16)	–	(16)
	(234)	(1)	(235)	54	(3)	51

12. DIRECTORS' EMOLUMENTS

	2015 HK\$ million	2014 HK\$ million
Directors' fees	2	2
Other emoluments		
Basic salaries, housing and other allowances	13	13
Bonus (Notes d & f)	18	13
Share-based payments	5	6
Retirement benefits scheme contributions	–	1
	38	35

Notes to the Financial Statements continued

For the year ended 31 December 2015

12. DIRECTORS' EMOLUMENTS continued

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2015 and 2014, calculated with reference to their employment as Directors of the Company or for provision of other services to the Company and the Group, are set out below:

	Directors' fees HK\$'000 (Note e)	Basic salaries, housing and other allowances HK\$'000 (Note d)	Bonus HK\$'000 (Note d)	Share-based payments HK\$'000 (Note g)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
For the year ended 31 December 2015						
Executive Directors (Note a)						
Irene Yun Lien LEE	–	4,931	6,246	2,471	18	13,666
Siu Chuen LAU	–	5,340	6,500	2,372	18	14,230
Wendy Wen Yee YUNG (Note h)	–	2,451	1,392	(342)	229	3,730
Non-Executive Directors (Note b)						
Hans Michael JEBSEN	200	–	–	–	–	200
Anthony Hsien Pin LEE	260	–	–	–	–	260
Chien LEE	240	–	–	–	–	240
Michael Tze Hau LEE	240	–	–	–	–	240
Independent Non-Executive Directors (Note c)						
Nicholas Charles ALLEN	360	–	–	–	–	360
Frederick Peter CHURCHOUSE	260	–	–	–	–	260
Philip Yan Hok FAN	360	–	–	–	–	360
Lawrence Juen-Yee LAU	200	–	–	–	–	200
Joseph Chung Yin POON	260	–	–	–	–	260
	2,380	12,722	14,138	4,501	265	34,006

	Directors' fees HK\$'000 (Note e)	Basic salaries, housing and other allowances HK\$'000 (Note f)	Bonus HK\$'000 (Note f)	Share-based payments HK\$'000 (Note g)	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
For the year ended 31 December 2014						
Executive Directors (Note a)						
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
Non-Executive Directors (Note b)						
Hans Michael JEBSEN	200	–	–	–	–	200
Anthony Hsien Pin LEE	260	–	–	–	–	260
Chien LEE	240	–	–	–	–	240
Michael Tze Hau LEE	240	–	–	–	–	240
Independent Non-Executive Directors (Note c)						
Nicholas Charles ALLEN	352	–	–	–	–	352
Frederick Peter CHURCHOUSE (Note i)	206	–	–	–	–	206
Philip Yan Hok FAN	356	–	–	–	–	356
Lawrence Juen-Yee LAU (Note j)	11	–	–	–	–	11
Joseph Chung Yin POON	260	–	–	–	–	260
	2,125	13,313	12,732	6,429	315	34,914

12. DIRECTORS' EMOLUMENTS *continued*

Notes:

- The Executive Directors' emoluments shown above were mainly for the services in connection with the management of the affairs of the Company and the Group.
- The Non-Executive Directors' emoluments shown above were mainly for the services as directors of the Company.
- The Independent Non-Executive Directors' emoluments shown above were mainly for the services as directors of the Company.
- Year 2015:

The Remuneration Committee met in March 2015 to approve the 2015 annual fixed base salary and determine the 2014 performance-based bonus of the Company's Executive Directors. Annual fixed base salary of all Executive Directors remained the same for 2015.

The stated bonus figures of HK\$14,138,000 reflected the 2014 performance-based bonus approved by the Committee and paid to Executive Directors in March 2015. For the year ended 31 December 2015, the bonus figures of HK\$18,353,000 represented the 2015 target bonus figures of HK\$12,700,000 pending finalised by the Committee after year-end in March 2016, and included adjustments for 2014 bonus accrued in 2014 (following finalisation of bonus by the Committee in March 2015).

- Directors' fees scales for Board and Board Committees were approved by shareholders at the AGM 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 AGM 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 2015 is set out below:

	Board HK\$'000	Audit Committee HK\$'000	Remuneration Committee HK\$'000	Strategy Committee HK\$'000	Nomination Committee HK\$'000	2015 Total HK\$'000	2014 Total HK\$'000
Executive Directors							
Irene Yun Lien LEE	-	-	-	-	-	-	-
Siu Chuen LAU	-	-	-	-	-	-	-
Wendy Wen Yee YUNG	-	-	-	-	-	-	-
Non-Executive Directors							
Hans Michael JEBSEN	200	-	-	-	-	200	200
Anthony Hsien Pin LEE	200	60	-	-	-	260	260
Chien LEE	200	-	-	20	20	240	240
Michael Tze Hau LEE	200	-	40	-	-	240	240
Independent Non-Executive Directors							
Nicholas Charles ALLEN	200	120	-	20	20	360	352
Frederick Peter CHURCHOUSE	200	60	-	-	-	260	206
Philip Yan Hok FAN	200	60	60	20	20	360	356
Lawrence Juen-Yee LAU	200	-	-	-	-	200	11
Joseph Chung Yin POON	200	-	40	-	20	260	260
	1,800	300	140	60	80	2,380	2,125

- 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 of HK\$12,732,000 reflected the 2013 performance-based bonus approved by the Committee and paid to Executive Directors in March 2014. For the year ended 31 December 2014, the bonus figures of HK\$13,417,000 reflected 2014 target bonus figures of HK\$8,485,000 pending finalised by the Committee after year-end in March 2015, and included adjustments for 2013 bonus accrued in 2013 (following finalisation of bonus by the Committee in March 2014).

- 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. Details of the share option scheme are set out in note 36 of the Notes to the Financial Statements section.
- Wendy Wen Yee YUNG resigned as Executive Director and Company Secretary effective 24 October 2015.
- Frederick Peter CHURCHOUSE was appointed a member of Audit Committee effective 25 November 2014.
- Lawrence Juen-Yee LAU was appointed Independent Non-Executive Director effective 12 December 2014.

Notes to the Financial Statements continued

For the year ended 31 December 2015

12. DIRECTORS' EMOLUMENTS continued

There was no arrangement under which a director waived or agreed to waive any remuneration during both years.

There was no payment to a director as inducement for director to join the Group or compensation for the loss of office as a director in connection with the management of the affairs of any member of the Group during both years.

Details of material interests of the Directors of the Company in transactions, arrangements or contracts entered into by subsidiaries of the Company are disclosed in the Directors' Report.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2014: 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 years ended 31 December 2015 and 2014 were as follows:

	2015 HK\$ million	2014 HK\$ million
Basic salaries, housing and other allowances	19	19
Bonus	15	15
Share-based payments (<i>Note</i>)	6	7
	40	41

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	
	2015	2014
HK\$3,500,001 to HK\$4,000,000	2	2
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$13,000,001 to HK\$13,500,000	–	1
HK\$13,500,001 to HK\$14,000,000	1	1
HK\$14,000,001 to HK\$14,500,000	1	–
	5	5

Senior management (for the purpose of the Listing Rules) during the year are Executive Directors. Their emoluments are within the following bands.

	Number of individuals	
	2015	2014
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$13,000,001 to HK\$13,500,000	–	1
HK\$13,500,001 to HK\$14,000,000	1	1
HK\$14,000,001 to HK\$14,500,000	1	–
	3	3

14. DIVIDENDS

(a) Dividends recognised as distribution during the year:

	2015 HK\$ million	2014 HK\$ million
2015 first interim dividend paid – HK25 cents per share	266	–
2014 first interim dividend paid – HK23 cents per share	–	245
2014 second interim dividend paid – HK100 cents per share	1,064	–
2013 second interim dividend paid – HK95 cents per share	–	1,010
	1,330	1,255

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

	2015 HK\$ million	2014 HK\$ million
Second interim dividend (in lieu of a final dividend) – HK107 cents per share (2014: HK100 cents per share)	1,122	1,064

The second interim dividend is not recognised as a liability as at 31 December 2015 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 2016.

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	
	2015 HK\$ million	2014 HK\$ million
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	2,903	4,902
	Number of shares	
	2015	2014
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,062,690,556	1,063,758,157
Effect of dilutive potential ordinary shares: Share options issued by the Company	216,828	298,254
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,062,907,384	1,064,056,411

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:

	2015		2014	
	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	2,903	273.17	4,902	460.82
Change in fair value of investment properties	(695)	(65.40)	(2,940)	(276.38)
Effect of non-controlling interests' shares	79	7.43	208	19.55
Share of change in fair value of investment properties (net of deferred taxation) of an associate	(4)	(0.37)	(7)	(0.65)
Underlying Profit	2,283	214.83	2,163	203.34
Recurring Underlying Profit	2,283	214.83	2,163	203.34

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

	2015 HK\$ million	2014 HK\$ million
Fair Value		
At 1 January	68,735	65,322
Additions	380	553
Transfer to property, plant and equipment	–	(80)
Change in fair value recognised in profit or loss – unrealised	695	2,940
At 31 December	69,810	68,735

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 2015 and 2014 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, 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 redevelopment proposal 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 and investment properties under redevelopment.

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	Residential HK\$ million	Investment properties under redevelopment HK\$ million	Total HK\$ million
At 1 January 2014	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
At 31 December 2014	34,313	22,684	7,718	4,020	68,735
Additions	99	57	11	213	380
Change in fair value recognised in profit or loss – unrealised	(78)	369	–	404	695
At 31 December 2015	34,334	23,110	7,729	4,637	69,810

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	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
	2015	2014				
Retail	34,334	34,313	Income capitalisation approach	(i) Capitalisation rate	5.00 % – 5.25 % (2014: 5.00 % – 5.25 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$145 per square foot (2014: HK\$141 per square foot)	The higher the market rent, the higher the fair value.
Office	23,110	22,684	Income capitalisation approach	(i) Capitalisation rate	4.25 % – 5.00 % (2014: 4.25 % – 5.00 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$48 per square foot (2014: HK\$47 per square foot)	The higher the market rent, the higher the fair value.
Residential	7,729	7,718	Income capitalisation approach	(i) Capitalisation rate	3.75 % (2014: 3.75 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$35 per square foot (2014: HK\$35 per square foot)	The higher the market rent, the higher the fair value.
Investment properties under redevelopment	4,637	4,020	Residual method	(i) Capitalisation rate	4.25 % – 5.00 % (2014: 4.25 % – 5.00 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$80 per square foot (2014: HK\$100 per square foot)	The higher the market rent, the higher the fair value.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK\$ million (Note)	Furniture, fixtures and equipment HK\$ million	Computers HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
COST OR VALUATION					
At 1 January 2014	567	94	43	2	706
Additions	–	20	4	–	24
Disposals	–	(4)	–	–	(4)
Transfer from investment properties	80	–	–	–	80
Surplus on revaluation	15	–	–	–	15
At 31 December 2014	662	110	47	2	821
Additions	–	4	2	–	6
Disposals	–	(1)	–	–	(1)
Surplus on revaluation	4	–	–	–	4
At 31 December 2015	666	113	49	2	830
Comprising:					
At cost	–	113	49	2	164
At valuation 2015	666	–	–	–	666
	666	113	49	2	830
ACCUMULATED DEPRECIATION					
At 1 January 2014	–	69	33	–	102
Provided for the year	4	9	3	1	17
Eliminated on disposals	–	(4)	–	–	(4)
Eliminated on revaluation	(4)	–	–	–	(4)
At 31 December 2014	–	74	36	1	111
Provided for the year	6	11	4	–	21
Eliminated on disposals	–	(1)	–	–	(1)
Eliminated on revaluation	(6)	–	–	–	(6)
At 31 December 2015	–	84	40	1	125
CARRYING AMOUNTS					
At 31 December 2015	666	29	9	1	705
At 31 December 2014	662	36	11	1	710

17. PROPERTY, PLANT AND EQUIPMENT *continued*

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

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

Note:

Fair value measurements and valuation processes

The fair value of the Group's leasehold land and buildings in Hong Kong at 31 December 2015 and 2014 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.

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	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
	2015 HK\$ million	2014				
Leasehold land and buildings in Hong Kong	666	662	Income capitalisation approach	(i) Capitalisation rate	4.25 % – 5.25 % (2014: 4.25 % – 5.25 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK\$57 per square foot (2014: HK\$57 per square foot)	The higher the market rent, the higher the fair value.

The gains of HK\$10 million (2014: HK\$19 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\$255 million (2014: HK\$261 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK\$30 million (2014: HK\$29 million) and accumulated depreciation of HK\$25 million (2014: HK\$23 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 (2014: HK\$2 million).

18. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the principal subsidiaries of the Company at 31 December 2015 and 2014:

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
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 fixed rate notes issued by Hysan (MTN) Limited (“Hysan MTN”) as disclosed in note 27 of the Notes to the Financial Statements section, none of the subsidiaries had issued any debt securities at the end of the reporting period.

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

18. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *continued***Barrowgate Limited**

	2015 HK\$ million	2014 HK\$ million
Current assets	258	188
Non-current assets	10,236	10,007
Current liabilities	(1,067)	(1,063)
Non-current liabilities	(199)	(215)
Equity attributable to owners of the Company	6,032	5,828
Non-controlling interests	3,196	3,089
Turnover	611	567
Profit and total comprehensive income for the year	671	1,004
Profit and total comprehensive income attributable to owner of the Company	439	656
Profit and total comprehensive income attributable to the non-controlling interests	232	348
Dividends paid to non-controlling interests	125	114
Net cash inflows from operating activities	438	419
Net cash outflows from investing activities	(13)	(28)
Cash outflows from financing activities	(360)	(330)
Net cash inflows	65	61

19. INVESTMENTS IN ASSOCIATES

	2015 HK\$ million	2014 HK\$ million
Cost of unlisted investments	2	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,681	4,152
	3,683	4,154

Details of the Group's associates at 31 December 2015 and 2014 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 [#]	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 [#]	23.7% *	Property management
Wingrove Investment Pte Ltd [^]	Private company limited by shares	Singapore	Ordinary share of S\$1,000,000	25.0% *	Inactive

* Indirectly held

[#] Fully paid-up registered capital

[^] The company is under liquidation as at 31 December 2015 and 2014. 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

	2015 HK\$ million	2014 HK\$ million
Current assets	2,300	3,171
Non-current assets	17,604	18,639
Current liabilities	(1,229)	(957)
Non-current liabilities	(3,794)	(4,048)
Turnover	1,627	1,595
Profit for the year	1,001	1,022
Other comprehensive income for the year	(972)	(63)
Total comprehensive income for the year	29	959
Group's share of results of associates for the year	246	252
Group's share of other comprehensive income of associates for the year	(240)	(16)

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:

	2015 HK\$ million	2014 HK\$ million
Net assets of the associate	14,881	16,805
Non-controlling interests of the associate	(871)	(1,005)
Net assets of the associate after deducting non-controlling interests of the associate	14,010	15,800
Proportion of the Group's ownership interest in the associate	26.3%	26.3%
Group's share of net assets of the associate	3,686	4,157
Others	(3)	(3)
Carrying amount of the Group's interest in the associate	3,683	4,154

20. PRINCIPAL-PROTECTED INVESTMENTS

The carrying amounts of principal-protected investments based on the maturity dates of respective contracts are analysed as follows:

	2015 HK\$ million	2014 HK\$ million
Within 1 year	–	80

As at 31 December 2014, the Group entered into certain contract of structured investments with certain financial institution. 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.

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20. PRINCIPAL-PROTECTED INVESTMENTS continued

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

	2015		2014	
	Notional amount HK\$ million	Fair value HK\$ million	Notional amount HK\$ million	Fair value HK\$ million
Within 1 year	–	–	80	80

21. TERM NOTES

	2015 HK\$ million	2014 HK\$ million
Term notes, at amortised cost, comprise:		
– Debt securities listed in Hong Kong	729	213
– Debt securities listed in overseas	313	197
– Unlisted debt securities	308	795
Total	1,350	1,205
Analysed for reporting purposes as:		
Current assets	415	485
Non-current assets	935	720
	1,350	1,205

As at 31 December 2015, the effective yield of the debt securities ranged from 1.36% to 3.27% (2014: 1.20% to 3.27%) per annum, payable quarterly, semi-annually or annually, and the securities will mature from February 2016 to August 2018 (2014: from January 2015 to October 2017). 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	
	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million
Other financial assets				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	1	7	6	1
Fair value hedges				
– Interest rate swaps	–	8	–	–
	1	15	6	1
Financial assets measured at FVTPL:				
Club debentures	–	–	1	2
Total	1	15	7	3
Other financial liabilities				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	–	1	–	–
– Cross currency swaps	–	–	71	30
– Interest rate swaps	–	1	–	–
Total	–	2	71	30

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:

Hedging instruments

	Average exchange rate*	Foreign currency	2015			Average exchange rate*	Foreign currency	2014		
			Notional amount million	HK\$ million	Fair value HK\$ million			Notional amount million	HK\$ million	Fair value HK\$ million
Forward foreign exchange contracts										
<i>Sell US dollars ("USD")</i> (Note a)										
Within 1 year	7.7609	USD	48	369	1	7.7520	USD	10	77	–
More than 1 year but not exceeding 5 years	7.7657	USD	45	353	2	7.7612	USD	56	434	–
	7.7633	USD	93	722	3	7.7598	USD	66	511	–
<i>Sell Renminbi ("RMB")</i> (Note b)										
Within 1 year	1.1660	RMB	83	97	–	1.2484	RMB	610	762	6
More than 1 year but not exceeding 5 years	1.2185	RMB	55	67	4	1.2185	RMB	55	67	1
	1.1869	RMB	138	164	4	1.2459	RMB	665	829	7
Cross currency swaps										
<i>Hedging interest and principal of USD fixed rate notes</i> (Note c)										
More than 5 years	7.7519	USD	300	2,326	(71)	7.7519	USD	300	2,326	(30)
Total				3,212	(64)				3,666	(23)

* 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\$722 million (2014: HK\$511 million) forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes denominated in USD at their respective maturity dates.
- The Group used HK\$164 million (2014: HK\$829 million) 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.
- The Group used HK\$2,326 million (2014: HK\$2,326 million) cross currency swap to convert USD interest and principal of US\$300 million (2014: US\$300 million) fixed rate notes into HKD.

22. OTHER FINANCIAL ASSETS/LIABILITIES continued**(a) Cash flow hedges** continued**(i) Foreign currency risk** continued**Hedged items**

	Assets		Carrying amount of the hedged item		Liabilities		Cash flow hedge reserves	
	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million
USD term notes	721	511	–	–	–	–	2	–
RMB term notes & time deposits	163	830	–	–	–	–	2	6
USD fixed rate notes	–	–	2,314	2,314	–	–	(70)	(31)

The hedging ineffectiveness for the years ended 31 December 2015 and 2014 was insignificant.

	Change in the value of the hedging instrument recognised in other comprehensive income		Amount reclassified from the cash flow hedge reserve to profit or loss		Line item affected in profit or loss because of the reclassification
	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million	
Forward foreign exchange contracts	5	12	(9)	(14)	Investment income
Cross currency swaps	(44)	84	5	(47)	Finance costs

The forward element of forward contracts has been excluded from the cash flow hedge. During the year, the Group amortised HK\$2 million (2014: HK\$7 million) 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:

Hedging instruments

	Average interest rate*	2015		Average interest rate*	2014	
		Notional amount HK\$ million	Fair value HK\$ million		Notional amount HK\$ million	Fair value HK\$ million
Interest rate swaps						
Hedging interest of HKD bank loans (Note)						
Within 1 year	–	–	–	3.65%	200	(1)

* 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.

Note:

As at 31 December 2014, the Group used HK\$200 million interest rate swaps to manage its exposure to interest rate changes of the quarterly interest payments of HKD bank loans. The HKD bank loans were repaid and the swap matured in February 2015.

22. OTHER FINANCIAL ASSETS/LIABILITIES *continued*

(a) Cash flow hedges *continued*

(ii) Interest rate risk *continued*

Hedged items

	Carrying amount of the hedged item Liabilities		Cash flow hedge reserves	
	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million
HKD bank loans	–	200	–	(1)

The hedging ineffectiveness for the years ended 31 December 2015 and 2014 was insignificant.

	Change in the value of the hedging instruments recognised in other comprehensive income		Amount reclassified from the cash flow hedge reserve to profit or loss		Line item affected in profit or loss because of the reclassification
	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million	
Interest rate swaps	–	(1)	1	10	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:

Hedging instruments

	Average interest rate*	2015		Average interest rate*	2014	
		Notional amount HK\$ million	Fair value HK\$ million		Notional amount HK\$ million	Fair value HK\$ million
Interest rate swaps (Note)						
Within 1 year	–	–	–	4.34%	624	8

* 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:

As at 31 December 2014, the Group designated 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 fixed rate notes. The HK\$300 million fixed rate notes and the interest rate swap matured in August 2015.

The Group also designated a fixed-to-floating interest rate swap with notional amount of HK\$324 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.

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22. OTHER FINANCIAL ASSETS/LIABILITIES continued

(b) Fair value hedges continued

Hedged items

	Carrying amount of the hedged item Liabilities		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	
	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million
HKD fixed rate notes	–	306	–	7
Zero coupon notes	–	332	–	1

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 Group represented investments in unlisted club debentures. The Group's investments in unlisted club debentures have been classified as financial assets measured at FVTPL.

23. ACCOUNTS AND OTHER RECEIVABLES

	2015 HK\$ million	2014 HK\$ million
Accounts receivable	8	3
Interest receivable	59	93
Prepayments in respect of investment properties	121	71
Other receivables and prepayments	240	314
Total	428	481
Analysed for reporting purposes as:		
Current assets	201	255
Non-current assets	227	226
	428	481

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\$8 million (2014: HK\$3 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. TIME DEPOSITS/CASH AND BANK BALANCES

	2015 HK\$ million	2014 HK\$ million
Time deposits	2,743	3,534
Cash and bank balances	61	106
Cash and deposits with banks shown in the consolidated statement of financial position	2,804	3,640
Less: Time deposits with original maturity over three months	(2,220)	(3,064)
Cash and cash equivalents shown in the consolidated statement of cash flows	584	576

Time deposits, cash and bank balances include bank deposits carrying effective interest rates ranging from 0.20% to 4.25% (2014: 0.10% to 4.65%) per annum.

25. ACCOUNTS PAYABLE AND ACCRUALS

	2015 HK\$ million	2014 HK\$ million
Accounts payable	222	173
Interest payable	73	83
Other payables	175	225
	470	481

At the end of the reporting period, accounts payable of the Group with carrying amount of HK\$176 million (2014: HK\$173 million) were aged less than 90 days.

26. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

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

27. BORROWINGS

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

	Current		Non-current	
	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million
Unsecured bank loans	250	850	–	250
Fixed rate notes	–	407	4,609	4,608
Zero coupon notes	–	332	–	–
	250	1,589	4,609	4,858

In the current year, the average cost of finance of the Group's total borrowings calculated based on their contracted interest rates was 3.6% (2014: 3.5%). 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 cost of finance to 3.5% (2014: 3.2%). As at 31 December 2015, the floating rate debt ratio relative to gross total debt after considering the hedges was 5.1% (2014: 23.7%).

(a) Unsecured bank loans

The unsecured bank loans of HK\$250 million (2014: HK\$1,100 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:

	2015 HK\$ million	2014 HK\$ million
Within 1 year	250	850
More than 1 year, but not exceeding 2 years	–	250
	250	1,100

All the Group's unsecured bank loans are variable-rate borrowings with effective interest rates (which were also equal to contracted interest rates) at 1.03% (2014: ranging from 0.68% to 1.15%) 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 2015 and 2014, 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.

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27. BORROWINGS continued

(b) Fixed rate notes

	2015 HK\$ million	2014 HK\$ million
Fixed rate notes – principal amount	4,609	5,008
Add: Net losses attributable to hedged risks	–	7
	4,609	5,015

Details of the Group's fixed rate notes as at 31 December 2015 and 2014 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, a wholly-owned subsidiary of the Company. 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 2015 and 2014, 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.

As at 31 December 2014, the net cumulative losses of HK\$7 million represented the change in fair value attributable to the hedged interest rate risk of the HK\$300 million fixed rate notes under fair value hedge.

27. BORROWINGS *continued*

(c) Zero coupon notes

	2015 HK\$ million	2014 HK\$ million
Zero coupon notes	–	331
Add: Loss attributable to hedged risk	–	1
	–	332

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. 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 repayable at par in February 2020.

Hysan MTN 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.

As at 31 December 2014, the cumulative losses of HK\$1 million represented changes in fair value attributable to the hedged interest rate risk of the zero coupon notes under fair value hedge.

28. 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
At 1 January 2014	518	65	(24)	559
Charge to profit or loss (<i>note 9</i>)	42	–	24	66
Charge to other comprehensive income	–	3	–	3
At 31 December 2014	560	68	–	628
Charge to profit or loss (<i>note 9</i>)	54	–	–	54
Charge to other comprehensive income	–	1	–	1
At 31 December 2015	614	69	–	683

At the end of the reporting period, the Group has unused estimated tax losses of HK\$718 million (2014: HK\$674 million), of which HK\$232 million (2014: HK\$273 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\$718 million (2014: HK\$674 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

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29. SHARE CAPITAL

	Number of shares	Share capital HK\$ million
Authorised:		
At 1 January 2014		
Ordinary shares of HK\$5 each	1,450,000,000	7,250
At 31 December 2014 and 2015 (Note a)	–	–
Ordinary shares, issued and fully paid:		
At 1 January 2014	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
At 31 December 2014	1,063,871,692	7,640
Issue of shares under share option scheme	56,000	2
Cancellation upon repurchase of own shares (Note c)	(6,750,000)	–
At 31 December 2015	1,057,177,692	7,642

Notes:

(a) Abolition of par value under the new CO

The new CO 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.

(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 CO (Cap.32). These shares rank pari passu in all respects with other shares in issue. Details of options outstanding and movements during the prior year are set out in note 36 of the Notes to the Financial Statements section.

(c) Cancellation upon repurchase of own shares

The Company was authorised at its AGM held on 15 May 2015 to repurchase its own ordinary shares not exceeding 10% of the total number of its issued shares as at the date of passing the resolution. During the year, the Company repurchased its ordinary shares on the Stock Exchange when they were trading at a significant discount in order to enhance shareholder value.

During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase in 2015	Number of shares repurchased	Consideration per share		Aggregate consideration paid HK\$ million
		Highest HK\$	Lowest HK\$	
August	1,820,000	31.70	30.30	57
September	1,255,000	31.85	30.70	40
November	221,000	32.50	31.80	7
December	3,454,000	32.70	31.45	111
	6,750,000			215

The above ordinary shares were cancelled upon repurchase during the year. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2015 HK\$ million	2014 HK\$ million
Non-current assets		
Property, plant and equipment	6	11
Investments in subsidiaries	1,441	1,422
Other financial assets	1	2
Amounts due from subsidiaries	3,785	3,514
	5,233	4,949
Current assets		
Other receivables	5	2
Amounts due from subsidiaries	9,265	9,194
Tax recoverables	–	2
Cash and bank balances	2	1
	9,272	9,199
Current liabilities		
Other payables and accruals	55	43
Amounts due to subsidiaries	1,397	1,051
	1,452	1,094
Net current assets	7,820	8,105
Total assets less current liabilities	13,053	13,054
Non-current liability		
Deferred taxation	–	1
Net assets	13,053	13,053
Capital and reserves		
Share capital (note 29)	7,642	7,640
Reserves	5,411	5,413
Total equity	13,053	13,053

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 8 March 2016 and are signed on its behalf by:

Irene Y.L. LEE
Director

S. C. LAU
Director

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *continued***Movement in the Company's reserve**

	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 2014	2,038	20	276	100	5,365	7,799
Transfer upon abolition of par value under the new CO (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)
At 31 December 2014	–	27	–	100	5,286	5,413
Issue of shares under share option schemes	–	(1)	–	–	–	(1)
Recognition of equity-settled share-based payments	–	8	–	–	–	8
Forfeiture of share option	–	(4)	–	–	4	–
Cancellation upon repurchase of own shares	–	–	–	–	(215)	(215)
Profit for the year	–	–	–	–	1,536	1,536
Dividends paid during the year (note 14)	–	–	–	–	(1,330)	(1,330)
At 31 December 2015	–	30	–	100	5,281	5,411

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 CO (i.e. 3 March 2014).

The Company's reserves available for distribution to its owners as at 31 December 2015 amounted to HK\$5,381 million (2014: HK\$5,386 million), being its general reserve and retained profits at that date.

31. 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 were of the opinion that the subsidiary acquired did not constitute a business as defined in HKFRS 3, therefore, the acquisition had 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.

32. 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\$7 million (2014: HK\$9 million).

33. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments in respect of its investment properties and property, plant and equipment:

	2015 HK\$ million	2014 HK\$ million
Contracted but not provided for	396	561

34. LEASE COMMITMENTS

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

	2015 HK\$ million	2014 HK\$ million
Within one year	2,721	2,664
In the second to fifth year inclusive	5,024	4,891
Over five years	812	1,309
	8,557	8,864

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 as lessee had no commitment under non-cancellable operating lease.

35. 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		Amount due to non-controlling interests	
	2015 HK\$ million	2014 HK\$ million	2015 HK\$ million	2014 HK\$ million
Related company controlled by a shareholder (Note a)	3	3	–	–
Related companies controlled by Directors (Note b (i) & (ii))	33	39	94	94
Non-controlling shareholder of a subsidiary (Note c (i) & (ii))	30	31	233	233
Director (Note d)	1	–	–	–

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 40.97% (2014: 40.71%) 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.
- (d) The transaction represents the gross rental income received from a director.

35. RELATED PARTY TRANSACTIONS AND BALANCES continued

(b) Compensation of key management personnel

The remuneration of key management personnel of the Group (being Directors) are disclosed in note 12 of the Notes to the Financial Statements section.

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.

36. 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 AGM held on 10 May 2005, which has a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme.

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).

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.

The 2015 Share Option Scheme (the “New Scheme”)

The Company adopted the New Scheme (together with the 2005 Scheme are referred to as the “Schemes”) at its AGM held on 15 May 2015, which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

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

Under the New Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any 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.

36. SHARE-BASED PAYMENT TRANSACTIONS continued

(a) Equity-settled share option scheme continued

The 2015 Share Option Scheme (the “New Scheme”) continued

The maximum number of shares in respect of which options may be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue as at 15 May 2015, the date of the AGM approving the New Scheme (being 106,389,669 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 New Scheme and any other share option schemes 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 New 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 10,638,966 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 options, with full payment for exercise price to be made on exercise of the relevant options.

As at 31 December 2015, no share option was granted under the New Scheme.

(b) Grant and vesting structures

Under the Company’s current policy, grants will be made on a periodic basis. For the Schemes, the exercise period is 10 years and 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.

36. SHARE-BASED PAYMENT TRANSACTIONS *continued***(c) Movement of share options under the 2005 Scheme**

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 1.1.2015	Changes during the year			Balance as at 31.12.2015 (Note b)	
					Granted	Exercised	Cancelled/lapsed (Note b)		
Executive Directors									
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	–	–	261,000	
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000	
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000	
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	300,000	–	–	300,000	
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	10.3.2015 – 9.3.2024	302,000	–	–	–	302,000	
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	300,000	–	–	300,000	
Wendy Wen Yee YUNG (Note d)	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	10.3.2015 – 9.3.2024	95,000	–	(31,000) (Note e)	(64,000)	–	
	12.3.2015	36.27 (Note c)	12.3.2016 – 11.3.2025	–	49,500	–	(49,500)	–	
Eligible employees (Note f)									
	31.3.2008	21.96	31.3.2009 – 30.3.2018	17,000	–	–	–	17,000	
	31.3.2009	13.30	31.3.2010 – 30.3.2019	134,000	–	–	–	134,000	
	31.3.2010	22.45	31.3.2011 – 30.3.2020	154,334	–	(2,000) (Note g)	–	152,334	
	31.3.2011	32.00	31.3.2012 – 30.3.2021	181,001	–	(9,000) (Note h)	–	172,001	
	30.3.2012	31.61	30.3.2013 – 29.3.2022	262,335	–	(12,000) (Note i)	–	250,335	
	28.3.2013	39.20	28.3.2014 – 27.3.2023	298,000	–	–	(10,000)	288,000	
	31.3.2014	33.75	31.3.2015 – 30.3.2024	411,000	–	(2,000) (Note j)	(13,000)	396,000	
	31.3.2015	34.00 (Note k)	31.3.2016 – 30.3.2025	–	417,000	–	(13,000)	404,000	
					3,435,704	1,066,500	(56,000)	(472,200)	3,974,004

Exercisable at the end of the year

2,021,658

36. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options under the 2005 Scheme continued

Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, “exercise period” begins with the 1st anniversary of the grant date.
- (b) The options lapsed during the year upon resignations of a director and certain eligible employees.
- (c) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 11 March 2015) was HK\$36.15.
- (d) Wendy Wen Yee YUNG resigned as Executive Director and Company Secretary effective 24 October 2015.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.60.
- (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\$35.65.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$36.13.
- (i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$35.50.
- (j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$34.55.
- (k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2015) was HK\$33.65.

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.

Notes to the Financial Statements continued

For the year ended 31 December 2015

36. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options under the 2005 Scheme 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 1.1.2014	Changes during the year			Balance as at 31.12.2014
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Executive Directors								
Irene Yun Lien LEE	14.5.2012	33.50	14.5.2013 – 13.5.2022	261,000	–	–	–	261,000
	7.3.2013	39.92	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
Eligible employees (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
				2,632,704	1,187,000	(238,649)	(145,351)	3,435,704

Exercisable at the end of the year

1,392,884

36. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options under the 2005 Scheme continued

Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. 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.

36. 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\$8 million (2014: HK\$10 million) in relation to share options granted by the Company, of which HK\$5 million (2014: 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	31.3.2015	12.3.2015	31.3.2014	10.3.2014
Closing share price at the date of grant	HK\$34.000	HK\$34.800	HK\$33.750	HK\$32.200
Exercise price	HK\$34.000	HK\$36.270	HK\$33.750	HK\$32.840
Risk free rate (<i>Note a</i>)	1.096%	1.241%	1.529%	1.328%
Expected life of option (<i>Note b</i>)	5 years	5 years	5 years	5 years
Expected volatility (<i>Note c</i>)	29.947%	29.810%	33.517%	33.509%
Expected dividend per annum (<i>Note d</i>)	HK\$0.976	HK\$0.976	HK\$0.866	HK\$0.866
Estimated fair values per share option	HK\$7.304	HK\$7.061	HK\$8.422	HK\$7.712

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 2015

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. 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 is primarily attributable to rents receivable from tenants, principal-protected investments, derivative financial instruments, term notes, time deposits and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

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 only deals 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	2015		2014	
	Number of counterparty	Exposure HK\$ million	Number of counterparty	Exposure HK\$ million
Credit rating of AA- or above or note issuing banks	5	16 to 611	6	17 to 728
Credit rating BBB- to A+	22	15 to 472	21	13 to 485

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 has 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 closely monitors 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 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 is 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
As at 31 December 2015						
Non-derivative financial liabilities						
Accounts payable and accruals	(470)	(470)	(470)	–	–	–
Rental deposits from tenants	(890)	(890)	(296)	(293)	(284)	(17)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans (<i>Note</i>)	(250)	(251)	(251)	–	–	–
Fixed rate notes (<i>Note</i>)	(4,609)	(5,833)	(175)	(175)	(1,501)	(3,982)
	(6,546)	(7,771)	(1,519)	(468)	(1,785)	(3,999)

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 (<i>Note</i>)	(1,100)	(1,112)	(861)	(251)	–	–
Fixed rate notes (<i>Note</i>)	(5,015)	(6,426)	(592)	(175)	(957)	(4,702)
Zero coupon notes (<i>Note</i>)	(332)	(333)	(333)	–	–	–
	(8,130)	(9,554)	(2,900)	(663)	(1,267)	(4,724)

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.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(b) Liquidity risk *continued*

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
As at 31 December 2015						
Derivative settled gross						
Forward foreign exchange contracts	7					
Outflow		(884)	(466)	(169)	(249)	–
Inflow		886	466	171	249	–
Cross currency swaps						
Outflow	(71)	(2,942)	(85)	(85)	(255)	(2,517)
Inflow		2,935	81	81	244	2,529
As at 31 December 2014						
Derivative settled net						
Interest rate swaps	7	15	15	–	–	–
Derivative settled gross						
Forward foreign exchange contracts	7					
Outflow		(1,341)	(839)	(369)	(133)	–
Inflow		1,340	839	369	132	–
Cross currency swaps						
Outflow	(30)	(3,027)	(85)	(85)	(255)	(2,602)
Inflow		3,019	81	82	244	2,612

(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 2015, about 5.1% (2014: 23.7%) 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.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(c) Interest rate risk *continued*

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”) (2014: +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 (2014: +125 and -125 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.

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	bps increase HK\$ million	bps decrease HK\$ million	bps increase HK\$ million	bps decrease HK\$ million
As at 31 December 2015	26	(7)	4	(1)
As at 31 December 2014	23	(12)	2	–

(d) Currency risk

The Group aims to minimise its currency risk and does not speculate in currency movements for debt management. To cover foreign exchange exposures arising from debts, the Group’s foreign currency denominated monetary liabilities must be hedged back to HKD unless the liabilities are naturally hedged by the underlying asset in the same foreign currency. In managing the Group’s monetary assets, the Group limits the aggregate net foreign currency exposures to a certain threshold. Exposures exceeding that threshold will be hedged back to HKD. 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. The Group’s fixed rate notes are hedged by cross currency swaps. During the year ended 31 December 2015, forward contracts were entered to hedge all of the RMB exposure in view of depreciation of RMB against HKD.

	2015			2014		
	RMB million	US\$ million	Total equivalent to HK\$ million	RMB million	US\$ million	Total equivalent to HK\$ million
Assets						
Cash	–	1	3	–	1	5
Time deposits	80	15	213	565	6	753
Term notes	55	144	1,181	235	87	966
	135	160	1,397	800	94	1,724
Liabilities						
Fixed rate notes	–	300	2,314	–	300	2,314

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

(d) Currency risk *continued*

At the end of the reporting period, all of the Group'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 has 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. Change of 1,000 percentage in points ("pips") (2014: 500 pips) and 500 pips (2014: 500) were applied to the HKD:RMB and HKD:USD spot and forward rates respectively at the end of the reporting period. A greater change is adopted in view of a greater change of the RMB exchange rate occurred in 2015.

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.

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	pips increase HK\$ million	pips decrease HK\$ million	pips increase HK\$ million	pips decrease HK\$ million
As at 31 December 2015				
– USD	3	(3)	2	(2)
As at 31 December 2014				
– RMB	7	(7)	–	–
– USD	1	(1)	2	(2)

2. CATEGORIES OF FINANCIAL INSTRUMENTS

	2015 HK\$ million	2014 HK\$ million
Financial assets		
Fair value through profit or loss ("FVTPL")		
– financial assets measured at FVTPL	1	82
Derivative instruments under hedge accounting	7	16
Amortised cost (including cash and cash equivalents)	4,222	4,944
	4,230	5,042
Financial liabilities		
Derivative instruments under hedge accounting	71	32
Amortised cost	5,656	7,255
	5,727	7,287

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.

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

	Gross amounts of recognised financial assets HK\$ million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK\$ million	Net amounts of financial assets presented in the consolidated statement of financial position HK\$ million
As at 31 December 2015			
Derivatives under hedge accounting	7	–	7
As at 31 December 2014			
Derivatives under hedge accounting	16	–	16

(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	Financial liabilities not set off in the consolidated statement of financial position HK\$ million	Net amount HK\$ million
As at 31 December 2015			
Counterparty C	1	–	1
Counterparty D	2	–	2
Counterparty F	4	–	4
Total	7	–	7
As at 31 December 2014			
Counterparty A	8	(8)	–
Counterparty B	1	–	1
Counterparty D	2	(1)	1
Counterparty F	5	–	5
Total	16	(9)	7

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

	Gross amounts of recognised financial liabilities HK\$ million	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK\$ million	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$ million
As at 31 December 2015			
Derivatives under hedge accounting	(71)	–	(71)
As at 31 December 2014			
Derivatives under hedge accounting	(32)	–	(32)

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	Financial assets not set off in the consolidated statement of financial position HK\$ million	Net amount HK\$ million
As at 31 December 2015			
Counterparty A	(71)	–	(71)
As at 31 December 2014			
Counterparty A	(30)	8	(22)
Counterparty D	(1)	1	–
Counterparty E	(1)	–	(1)
Total	(32)	9	(23)

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\$4,609 million (2014: HK\$5,015 million) fixed rate notes as stated in note 27 of the Notes to the Financial Statements section with fair value of HK\$4,785 million (2014: HK\$5,110 million).

The fair value of HK\$2,367 million (2014: HK\$2,317 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\$2,418 million (2014: HK\$2,793 million) of the fixed rate notes is categorised into Level 2 of the fair value hierarchy, in which the fair value was measured using discounted cash flow methodology based on observable yield curves of the respective currency taking into account the credit margin of the Group as appropriate.

4. FAIR VALUE MEASUREMENT *continued*

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

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

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

	2015			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
Financial assets				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	7	–	7
Financial assets at FVTPL				
Unlisted club debentures	–	1	–	1
Total	–	8	–	8
Financial liabilities				
Derivatives under hedge accounting				
Cross currency swaps	–	71	–	71
2014				
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Financial assets				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	8	–	8
Interest rate swaps	–	8	–	8
Financial assets at FVTPL				
Principal-protected investments	–	80	–	80
Unlisted club debentures	–	2	–	2
Total	–	98	–	98
Financial liabilities				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	1	–	1
Cross currency swaps	–	30	–	30
Interest rate swaps	–	1	–	1
Total	–	32	–	32

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:

	2015 HK\$ million	2014 HK\$ million
Unsecured bank loans	250	1,100
Fixed rate notes	4,609	5,015
Zero coupon notes	–	332
Borrowings	4,859	6,447
Less: Time deposits	(2,743)	(3,534)
Cash and bank balances	(61)	(106)
Net debt	2,055	2,807
Equity attributable to owners of the Company	68,172	67,040
Net debt to equity	3.0%	4.2%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Five-Year Financial Summary

For the year ended 31 December

	2015 HK\$ million	2014 HK\$ million	2013 HK\$ million	2012 HK\$ million	2011 HK\$ million
Results					
Turnover	3,430	3,224	3,063	2,486	1,922
Property expenses	(414)	(404)	(405)	(423)	(262)
Gross profit	3,016	2,820	2,658	2,063	1,660
Investment income	54	68	76	55	90
Other gains and losses	–	(2)	1	18	(34)
Administrative expenses	(234)	(214)	(208)	(187)	(173)
Finance costs	(204)	(228)	(242)	(156)	(122)
Change in fair value of investment properties	695	2,940	4,575	8,533	7,532
Share of results of associates	246	252	309	334	254
Profit before taxation	3,573	5,636	7,169	10,660	9,207
Taxation	(438)	(386)	(372)	(289)	(217)
Profit for the year	3,135	5,250	6,797	10,371	8,990
Non-controlling interests	(232)	(348)	(639)	(416)	(445)
Profit attributable to owners of the Company	2,903	4,902	6,158	9,955	8,545
Underlying profit for the year	2,283	2,163	2,043	1,622	1,310
Recurring underlying profit for the year	2,283	2,163	2,043	1,622	1,310
Dividends					
Dividends paid	1,330	1,255	1,064	859	791
Dividends proposed	1,122	1,064	1,010	829	678
Dividends per share (HK cents)	132.00	123.00	117.00	95.00	79.00
Earnings per share (HK\$), based on:					
Profit for the year					
– basic	2.73	4.61	5.79	9.38	8.08
– diluted	2.73	4.61	5.79	9.38	8.08
Underlying profit for the year – basic	2.15	2.03	1.92	1.53	1.24
Recurring underlying profit for the year – basic	2.15	2.03	1.92	1.53	1.24
Performance indicators					
Net debt to equity	3.0%	4.2%	5.3%	6.2%	7.6%
Net interest coverage (times)	19.5x	17.1x	15.4x	16.8x	12.3x
Net asset value per share (HK\$)	64.48	63.02	59.54	54.68	46.00
Net debt per share (HK\$)	1.94	2.64	3.18	3.41	3.49
Year end share price (HK\$)	31.75	34.65	33.40	37.25	25.50

At 31 December

	2015 HK\$ million	2014 HK\$ million	2013 HK\$ million	2012 HK\$ million	2011 HK\$ million
Assets and liabilities					
Investment properties	69,810	68,735	65,322	60,022	49,969
Interests in associates	3,683	4,154	4,181	3,759	3,423
Equity investments	–	–	–	1	989
Tax recoverable	–	–	–	2	–
Time deposits, cash and bank balances	2,804	3,640	4,123	2,311	2,961
Other assets	2,491	2,494	2,468	2,328	2,026
Total assets	78,788	79,023	76,094	68,423	59,368
Borrowings	(4,859)	(6,447)	(7,504)	(5,941)	(6,663)
Taxation	(803)	(732)	(660)	(511)	(433)
Other liabilities	(1,758)	(1,715)	(1,749)	(1,524)	(1,528)
Total liabilities	(7,420)	(8,894)	(9,913)	(7,976)	(8,624)
Net assets	71,368	70,129	66,181	60,447	50,744
Non-controlling interests	(3,196)	(3,089)	(2,855)	(2,324)	(1,991)
Shareholders' funds	68,172	67,040	63,326	58,123	48,753

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 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 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 2015

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 2015 was in the approximate sum of Hong Kong Dollars Sixty Nine Billion Eight Hundred and Ten Million Only (i.e. HK\$69,810 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 redevelopment proposal provided by the Company 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, 17 February 2016

Schedule of Principal Properties

At 31 December 2015

INVESTMENT PROPERTIES

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
1. Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29, Sec. L of I.L. 457, Sec. MM of I.L. 29, the R.P. of Sec. L of I.L. 29, and the R.P. of I.L. 457	Commercial	Long lease	100 %
2. Bamboo Grove 74-86 Kennedy Road Mid-Levels Hong Kong	I.L. 8624	Residential	Medium term lease	100 %
3. Lee Garden Two 28 Yun Ping Road Causeway Bay Hong Kong	Sec. G of I.L. 29, Sec. A, O, F and H of I.L. 457, the R.P. of Sec. C, D, E and G of I.L. 457, Subsec. 1 of Sec. C, D, E and G of I.L. 457, Subsec. 2 of Sec. E of I.L. 457 and Subsec. 1, 2, 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36 %
4. Leighton Centre 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100 %
5. Lee Theatre Plaza 99 Percival Street Causeway Bay Hong Kong	I.L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100 %
6. Lee Garden Three 4-14 Hoi Ping Road 10 Hysan Avenue and 1-11 Sunning 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 %
7. One Hysan Avenue 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100 %
8. Lee Garden Five 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

Schedule of Principal Properties continued

At 31 December 2015

INVESTMENT PROPERTIES continued

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
9. Lee Garden Six 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100%
10. Hysan Place 500 Hennessy Road Causeway Bay Hong Kong	Sec. FF of I.L. 29 and the R.P. of Marine Lot 365	Commercial	Long lease	100%

* Lateral support, demolition of existing basement, excavation and foundation works would be completed in February 2016. The 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 in late 2017.

Shareholding Analysis

SHARE CAPITAL

At 31 December 2015

	HK\$	Number of Ordinary Shares
Issued and fully paid-up capital	7,642,373,633.27	1,057,177,692

There was one class of ordinary shares with equal voting rights.

DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2015, 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	2,315	70.17	3,894,253	0.37
5,001 – 50,000	836	25.34	13,125,019	1.24
50,001 – 100,000	81	2.46	6,162,664	0.58
100,001 – 500,000	55	1.67	11,038,393	1.04
500,001 – 1,000,000	3	0.09	1,874,206	0.18
Above 1,000,000	9	0.27	1,021,083,157	96.59
Total	3,299	100.00	1,057,177,692	100.00

TYPES OF SHAREHOLDERS

(At 31 December 2015, as per register of members of the Company)

Type of shareholders	Number of ordinary shares held	% of the total no. of issued shares (Note)
Atlas Corporate Management Limited	39,809,001	3.77
Lee Hysan Estate Company, Limited	393,321,734	37.20
Other corporate shareholders	587,230,367	55.55
Individual shareholders	36,816,590	3.48
Total	1,057,177,692	100.00

LOCATION OF SHAREHOLDERS

(At 31 December 2015, 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	1,054,579,313	99.76
United States and Canada	2,249,924	0.21
United Kingdom	122,178	0.01
Others	226,277	0.02
Total	1,057,177,692	100.00

Note:

The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2015 (i.e. 1,057,177,692 ordinary shares).

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	8 March 2016
Ex-dividend date for second interim dividend	21 March 2016
Closure of register of members and record date for second interim dividend	23 March 2016
Dispatch of second interim dividend warrants	(on or about) 6 April 2016
Closure of register of members for AGM	12 to 13 May 2016
AGM	13 May 2016
2016 interim results to be announced	2 August 2016*

* subject to change

DIVIDEND

The Board declares the payment of a second interim dividend of HK107 cents per share. The second interim dividend will be payable in cash to shareholders on the register of members as at Wednesday, 23 March 2016.

The register of members will be closed on Wednesday, 23 March 2016, 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 Tuesday, 22 March 2016.

Dividend warrants will be dispatched to shareholders on or about Wednesday, 6 April 2016.

The register of members will also be closed from Thursday, 12 May 2016 to Friday, 13 May 2016, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the AGM to be held on 13 May 2016, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, 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, 11 May 2016.

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
Hong Kong
Telephone: (852) 2980 1768
Facsimile: (852) 2861 1465

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

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

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

INVESTOR RELATIONS

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

Investor Relations
Hysan Development Company Limited
49/F. (Reception: 50/F.), Lee Garden One
33 Hysan Avenue
Hong Kong
Telephone: (852) 2895 5777
Facsimile: (852) 2577 5153

Corporate Information

BOARD OF DIRECTORS

Irene Yun Lien LEE (*Chairman*)

Siu Chuen LAU

(*Deputy Chairman and Chief Executive Officer*)

Nicholas Charles ALLEN**

Frederick Peter CHURCHOUSE**

Philip Yan Hok FAN**

Lawrence Juen-Yee LAU**

Joseph Chung Yin POON**

Hans Michael JEBSEN B.B.S.*

(*Trevor Chi-Hsin YANG as his alternate*)

Anthony Hsien Pin LEE*

(*Irene Yun Lien LEE as his alternate*)

Chien LEE*

Michael Tze Hau LEE*

AUDIT COMMITTEE

Nicholas Charles ALLEN** (*Chairman*)

Frederick Peter CHURCHOUSE**

Philip Yan Hok FAN**

Anthony Hsien Pin LEE*

REMUNERATION COMMITTEE

Philip Yan Hok FAN** (*Chairman*)

Joseph Chung Yin POON**

Michael Tze Hau LEE*

NOMINATION COMMITTEE

Irene Yun Lien LEE (*Chairman*)

Nicholas Charles ALLEN**

Philip Yan Hok FAN**

Joseph Chung Yin POON**

Chien LEE*

* Non-Executive Director

** Independent Non-Executive Director

STRATEGY COMMITTEE

Irene Yun Lien LEE (*Chairman*)

Siu Chuen LAU

Nicholas Charles ALLEN**

Philip Yan Hok FAN**

Chien LEE*

COMPANY SECRETARY

Maggie Ka Ki CHEUNG

REGISTERED OFFICE

49/F. (Reception: 50/F)

Lee Garden One

33 Hysan Avenue

Hong Kong

OUR WEBSITE

Press releases and other information of the Group can be found at our internet website: www.hysan.com.hk.

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

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

Hysan Development Company Limited
49/F Lee Garden One, 33 Hysan Avenue, Hong Kong
T 852 2895 5777 F 852 2577 5153
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