



Hysan Development Company Limited
Interim Report 2019

 **Hysan** 希慎

stock code 00014

VISION

To be the PREMIER property company in its market of choice.

MISSION

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

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Highlights

- **Turnover and Recurring Underlying Profit increased year-on-year by 9.1% and 8.9% respectively, taking into account full-period operation of new development Lee Garden Three**
- **Occupancies of Retail and Office portfolios were 96% and 97% respectively**
- **Volatile market conditions with ongoing economic and socio-political challenges**

RESULTS

| | Notes | Six months ended 30 June | | Change |
|-------------------------------------|-------|--|---|--------|
| | | 2019 HK\$ million | 2018 HK\$ million | |
| Turnover | 1 | 2,086 | 1,912 | +9.1% |
| Recurring Underlying Profit | 2 | 1,394 | 1,280 | +8.9% |
| Underlying Profit | 3 | 1,394 | 1,280 | +8.9% |
| Reported Profit | 4 | 2,783 | 3,013 | -7.6% |
| | | HK cents | HK cents | |
| Basic Earnings per Share, based on: | | | | |
| Recurring Underlying Profit | 2 | 133 | 122 | +8.9% |
| Underlying Profit | 3 | 133 | 122 | +8.9% |
| Reported Profit | 4 | 266 | 288 | -7.6% |
| First Interim Dividend per Share | | 27 | 27 | — |
| | | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million | |
| Shareholders' Funds | 5 | 76,021 | 74,431 | +2.1% |
| | | HK\$ | HK\$ | |
| Net Asset Value per Share | 6 | 72.64 | 71.12 | +2.1% |

Notes:

1. **Turnover** comprises gross rental income from leasing of investment properties located in Hong Kong and management fee income from the provision of property management services for the period.
2. **Recurring Underlying Profit** is a performance indicator of the Group's core property investment business and is arrived at by excluding from Underlying Profit items that are non-recurring in nature.
3. **Underlying Profit** is arrived at by excluding principally the unrealised fair value changes on investment properties from Reported Profit.
4. **Reported Profit** is the profit attributable to owners of the Company. It is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance.
5. **Shareholders' Funds** are the equity attributable to owners of the Company.
6. **Net Asset Value per Share** represents Shareholders' Funds divided by the number of issued shares at period/year-end.

Chairman's Statement

Hysan achieved a 9.1% increase in its first half 2019 turnover and an 8.9% improvement in its Recurring Underlying Profit, taking into account full-period operation of new development Lee Garden Three. Our office and retail rental reversions and occupancies were robust, while residential portfolio's results saw satisfactory improvement. Our estimated retail tenant sales growth of around 4% fared better than Hong Kong's general retail sales which declined 2.6%, against a backdrop of headwinds from economic and socio-political factors, as well as weaker domestic demand.

We are pleased to declare the first interim dividend of HK27 cents per share. The dividend will be paid in cash.

Mutual Empowerment

Hysan is a dual-engine business. The Group's office portfolio accounted for more than 40% of the turnover, while the retail portfolio contributed around 50%.

In recent years, Hysan has implemented measures to tackle the structural changes in the retail and office sectors. Our expanded and diverse retail offerings concentrated in a vibrant community is unique in Hong Kong. Discerning local and multinational companies increasingly choose to work in an environment which offers facilities that can cater to their staff and their families' needs and well-being during the week and weekends. Our ability to attract and expand our office tenant demographics in turn enables us to broaden our retail offerings. This dynamic relationship between the two sectors creates a positive, self-sustaining cycle, and is a special feature of our dual-engine empowerment business model. This model has and will continue to power our business.

The introduction of global financial institutions in Lee Garden Three has pivoted our office portfolio towards a higher concentration of banking and finance tenants, accounting for about 25% of total office lettable space.

Co-working/flex spaces have become part of the modern office ecosystem. They fill a useful and necessary gap for corporate tenants who increasingly require flexibility as well as an attractive work environment for their younger staff. In addition, flex spaces are popular with start-ups who then move into permanent spaces, often in the same area, once they are established. Our portfolio of flex tenants bring a more transient and diverse community of consumers who in turn drive a more dynamic approach to retail.

We have introduced a wide range of food and beverage establishments with drinking elements, more lifestyle retail geared towards home decor, high-end appliances, beauty and pampering, wellness and health. We have strengthened our children's offering beyond fashion. Our office tenants with young families are interested in children's lifestyle items such as "to dream for" children's furniture and more choices in family-friendly restaurants. We have launched a private children's club which offers a rich calendar of activities set in an indoor playground and connects to a generous outdoor space.

Community Creation

Hysan's portfolio is situated in one of Hong Kong's most unique areas. Lee Gardens is a tree-lined oasis which integrates low-rise heritage buildings with impressive award-winning high-rises.

Our diverse neighbourhood, especially the low-rise area, offers unique accents. For instance, a world renowned camera brand flagship store commissioned a full-building-height mural, further adding to our area's creative and playful character. Those who visit this area of contrast and diversity can enjoy many exclusive experiences, ranging from a "new economy" recycling fashion house, and a private library, to a traditional knitting wool specialist and a renowned Shanghainese crab outlet. Every corner of the streets of Lee Gardens area has a new discovery for modern travellers and curious locals.

We continue to upgrade our loyalty club facilities while introducing exciting new shopping and dining experiences, together with popular street events, in-mall family entertainment and many tenant or third-party partnership activities. These all help to bring a distinct Lee Gardens character to this special part of Causeway Bay.

Placemaking breathes life into our office and retail spaces that were not fully utilised in the past. A lobby area at Hysan Place has now been turned into a hotspot which provides regular arts and cultural events. Another part of the same lobby now houses a trendy food and drinks outlet that complements the artistic hub. We also utilise unused spaces throughout our portfolio to strategically showcase new concepts or to host activities such as children's events.

Our physical connectivity is further integrated in a virtual way by our area-wide video-speed Wi-Fi. The enhanced infrastructure powers our new retail model, transforming the shopping experience with initiatives like personalised customer relationship management, e-coupons and big data analytics. Beyond this, we aspire to turn Lee Gardens into a world class "smart community", where the "smart mobility", "smart living" and "smart environment" concepts will be propelled by innovative business technology.

Thinking Long Term

Hysan is committed to the life cycle of working, living, shopping and socialising, which can be enjoyed by all generations. We have deep roots in the area and we will continue to think and plan for the long term.

In late 2018, a Sustainability Committee was formalised and a refreshed Sustainability Policy was established. The Group will continue to integrate our sustainable initiatives in environmental, social and governance policy into our core business operations and partnerships.

Outlook

Hong Kong's economy is expected to face increasing uncertainties in the second half of 2019. A global economic slowdown and the Sino-U.S. trade disputes are likely to affect Hong Kong. Internally, the recent social conflicts are expected to further impact Hong Kong's economy, especially in terms of investment demand and tourism.

While the volatile market conditions and uncertainties may create pressure for Hysan in the short term, the Group believes its proactive and dynamic curation of the commercial tenant mix, its focus on asset enhancement and strength in property management, an integrated and connected portfolio set in one of Hong Kong's most unique communities, together with a healthy balance sheet, will continue to power the Group and realise its longer term goals.

Lee Irene Yun-Lien

Chairman

Hong Kong, 13 August 2019

Management's Discussion and Analysis

Review of Results

The Group's turnover for the 2019 interim period was HK\$2,086 million, up 9.1% from the same period in 2018 (2018: HK\$1,912 million). As at 30 June 2019, our retail portfolio's occupancy was 96%, while the office portfolio was 97%. The residential portfolio's occupancy was 91%.

Recurring Underlying Profit, our key leasing business performance indicator, and Underlying Profit, were both HK\$1,394 million for the 2019 interim period (both up 8.9% from HK\$1,280 million in 2018), reflecting positive rental reversion from our portfolio, and the benefit from full operation of new development Lee Garden Three in the first half of 2019. Basic earnings per share based on Recurring Underlying Profit was HK133 cents (2018: HK122 cents), up 8.9%.

Our Reported Profit for the 2019 interim period was HK\$2,783 million (2018: HK\$3,013 million). This reflected a fair value gain of HK\$1,453 million (2018: HK\$1,790 million) on the Group's investment properties' valuation.

Shareholders' Funds increased by 2.1% to HK\$76,021 million (31 December 2018: HK\$74,431 million), broadly reflecting the valuation gain from the investment properties.

Our financial position remains strong, with net interest coverage of 19.1 times (2018: 17.9 times) and net debt to equity ratio of 4.9% (31 December 2018: 4.7%).

Review of Operations

Retail Portfolio

The Group's retail portfolio turnover increased by 4.1% to HK\$1,001 million (2018: HK\$962 million). The contribution from turnover rent was HK\$49 million (2018: HK\$54 million). The overall rental reversion in renewals, rent review and new lettings was positive. The portfolio's occupancy was 96%, as at 30 June 2019 (31 December 2018: 98%).

The retail portfolio recorded an increase of around 5% in foot traffic, as compared to the same period in 2018. The estimated overall tenant sales within the portfolio also recorded an improvement of around 4% as compared to the first half of 2018. This outperformed Hong Kong's retail sales decline for the same period.

The table below shows the tenants who joined or relocated/expanded in our retail portfolio in the first half of 2019:

| | Opened in 1H 2019 | Relocated in 1H 2019 | Renovated in 1H 2019 |
|-------------------|---|------------------------------------|--------------------------------------|
| Hysan Place | b+ab BAI FUNG BENTO HEYTEA n.o.t. x ehonia | Area 0264 DEMK DIDIER DUBOT | sen-ryo |
| Lee Garden One | Wallen Jewellery AMOREPACIFIC | – | Brunello Cucinelli |
| Lee Garden Two | Oookie Cookie | nicholas & bears Pacific Coffee | Van Cleef & Arpels sandro maje |
| Lee Garden Three | MONOYONO umbra Busybee FENDI Cucine | – | – |
| Lee Theatre Plaza | Verdant TeaHouse | – | U-BANQUET • The Starview |
| Leighton Centre | – | – | adidas |
| 25 Lan Fong Road | – | – | GENTLE MONSTER |

Office Portfolio

The Group's office portfolio turnover increased by 13.3% to HK\$929 million (2018: HK\$820 million), including turnover rent of HK\$3 million (2018: nil). The performance reflected overall positive rental reversion on renewals, rent review, new lettings, as well as contributions from Lee Garden Three. The office portfolio's occupancy was 97% as at 30 June 2019 (31 December 2018: 97%).

Lee Garden Three, opened officially in November 2018, brought in a number of Banking and Finance tenants. This particular sector now accounts for about 25% of area occupied within Hysan's office portfolio. Co-working/flex spaces, which previously took up about 4% of the office space, now account for about 10% of the portfolio's area and attract many millennial users. These new groups of tenants seek quality lifestyle offerings, fresh retail experiences, health and wellness offerings, as well as dining and drinking options at different price points. Such preferences influence our continuous reshaping of the retail tenant mix. The uniqueness and quality of the retail offerings correlate strongly with our ability to attract discerning office tenants. The two components of our commercial portfolio, therefore, are providing positive impetus to help each other grow symbiotically and creating a self-sustaining cycle.

Hysan/Lee Gardens experiences that are particularly attractive to office tenants include the retail loyalty programmes, major marketing and branding events, the Hysan Place Urban Farm farming project, and performances in the recently unveiled Urban Sky cultural area. Other attractions include a number of on-going street events arranged by Lee Gardens Association, the local area association of which Hysan is a founding member and major sponsor. Hysan aims to provide more bespoke activities specifically for office tenants in the months and years to come. The aim is to develop a close-knit office community where tenants' staff can take pride in working within Lee Gardens.

Residential Portfolio

The residential portfolio comprises mainly the Bamboo Grove units on Kennedy Road. This saw a strong increase of 20.0% in turnover to HK\$156 million (2018: HK\$130 million). The occupancy of this sector also grew to 91% as at 30 June 2019 (31 December 2018: 88%). Bamboo Grove now benefits from the availability of a range of renovated flats, which have been well received by potential tenants. There is now also more flexibility in regard to lease terms and landlord provisions. Customer satisfaction means the overall image and reputation of Bamboo Grove have been much enhanced. Looking ahead, more lobby and lift modernisations are underway throughout 2019.

The rental reversion was overall positive in renewals, rent review and new lettings.

Tai Po Luxury Residential Project

Major statutory submissions for our low-density residential development project in Tai Po have been approved. Site formation and foundation construction are on track. The detailed design of core disciplines has also been completed and major tenders have been issued. Various interior design and visual mock-ups construction are in good progress.

Technology for Our Retail Model

We would like to use this opportunity to explain more about our retail model, which now uses advanced technology to develop an integrated shopping experience that combines product, membership, marketing and transaction services. This model consists of six digital transformation initiatives:

- **Building a smart community:** video-speed Wi-Fi across Lee Gardens area, advanced e-directory, and e-gift certificate system
- **Using retail technology and big data:** new mobile app to be launched towards the end of the year with advanced technology for queries, navigation and parking
- **Personalised customer relationship management:** the soon-to-be-launched mobile app also allows loyalty club members to use points for rewards in more productive ways
- **Enhancing co-marketing and other collaboration with tenants and third parties:** partnering with merchants to blend their physical store or experience with online offerings
- **Integrating online and offline communications:** integrating eight modes of communication to present different content with a unified corporate image
- **Promote “retail-tainment”:** soon to partner with Openrice on its first experience zone and integrate certain Openrice functions into our forthcoming mobile app; partnering with Alipay to host joint marketing campaigns

Loyalty Clubs and Marketing Events

Our loyalty programmes are renowned for enhancing the spending and staying power of our retail portfolio’s shoppers and visitors. Both Lee Gardens Plus, which provides popular offers, and Club Avenue for VIPs, experienced significant growth in the number of members. Both new and existing members will benefit from our forthcoming app, which will offer members a fully optimised experience through our data analytics tools that more accurately predict their shopping patterns. This will ensure that members receive information tailored to their shopping preferences.

The first half of 2019 already saw up to 20 successful marketing and branding events in Lee Gardens, which offered unique and diversified customer experiences to our shoppers. Hysan Place hosted a number of events that were “first in Hong Kong”, including Moët Hennessy Diageo’s World Class Cocktail Week, the promotion of Prudential’s PRURide Six Day cycling event, and La Mer’s world’s largest Crème de la Mer jar. Other events with international brands attracted celebrity participation, including McCafe’s 20th Anniversary pop-up store, SEKKISEI MYV ACTIRISE Festival, and Rick Owens’ footwear crossover with Birkenstock’s launch party. In addition, Hysan promoted brands through a range of interactive events, such as Nike’s Woman Week highlighting health and wellness, and Acqua di Parma’s artistic pop up store that showcased its fragrance and skin care products.

Community Activities

Hysan plays a major role in the Causeway Bay community and takes pride in the creation of high-profile community events to entertain locals and visitors alike. The Cathay Pacific/HSBC Hong Kong Sevens FanWalk continued to bring quality sports-related family entertainment to the area. The Lee Gardens Eggssentially Art, hosted in cooperation with the area's Lee Gardens Association, satisfied the taste buds of thousands while the Chinese New Year Blossom Fair, in partnership with the Japan National Tourism Organisation, also presented a wide range of delicious food and drinks to the public. Marvel Studios' "Avengers: Endgame" was the talk-of-the-town event at Hysan Place and Lee Theatre Plaza, while Go Green 2.0 promoted reduction in the use of plastic and attracted celebrities and the public to support a worthwhile green cause.

Financial Review

Operating Costs

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

Property expenses increased by 6.3% to HK\$238 million (2018: HK\$224 million), mainly due to full-period operation of new development Lee Garden Three in 2019, and investment in marketing activities to respond to the challenging retail environment. The property expenses to turnover ratio slightly improved from 11.7% in 2018 to 11.4% in 2019.

Administrative expenses increased by 13.9% to HK\$123 million (2018: HK\$108 million) in the first half of 2019. This reflected filling of previously unfilled headcounts, and an increase in technology expenses.

Finance Costs

Finance costs increased to HK\$127 million, compared to HK\$107 million in the first half of 2018, mainly due to additional bonds being issued during the period and an increase in the interest rate of our floating rate debts. The Group's average cost of finance for the interim period was 3.6%, a slight increase from 3.5% reported in the first half of 2018, while it was on par with 3.6% reported in the full-year 2018.

Revaluation of Investment Properties

As at 30 June 2019, the investment properties of the Group were revalued at HK\$79,568 million (31 December 2018: HK\$77,442 million) by an independent professional valuer. During the first half of 2019, a fair value gain on investment properties (after considering capital expenditure spent on the Group's investment properties) of HK\$1,453 million (2018: HK\$1,790 million) was recognised in the condensed consolidated statement of profit or loss. This gain continued to reflect several factors: improved lettings in the retail sector, the continued positive outlook for office rental and enhanced asset value due to a number of upgrade works. The capitalisation rates of each portfolio remained unchanged when compared to those adopted at the end of 2018.

Investment in Associates and a Joint Venture

The Group's investment in associates mainly represents interests in Shanghai Grand Gateway, a retail, office and residential complex, in Shanghai, China. The shared results increased by 5.8% to HK\$145 million (2018: HK\$137 million). As at 30 June 2019, properties at Shanghai Grand Gateway were revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain of the associate (net of the deferred taxation) amounted to HK\$45 million (2018: HK\$33 million).

The Group's investment in a joint venture represents interests in the Tai Po residential project.

Other Investments

The Group places surplus funds as time deposits in banks with strong credit ratings, and invests in investment grade debt securities.

Excluding recognition of imputed interest income on an interest-free loan to a joint venture for a residential site development in Tai Po of HK\$15 million (2018: HK\$14 million), like-for-like interest income increased by 84.2% to HK\$35 million (2018: HK\$19 million).

The Group also invested in a real estate fund covering certain properties in Hong Kong and other major cities in Asia, with a view to expanding our reach in collaboration with professional property managers and to generate a new source of income and capital.

Capital Expenditure

The Group is committed to enhancing the asset value of its investment property portfolio through selective enhancement and redevelopment. Total cash outlay of such capital expenditure amounted to HK\$663 million during the interim period (2018: HK\$943 million).

Treasury Policy

Market Highlights

The global economic environment was full of uncertainties during the first half of 2019. Sino-U.S. trade disputes and the expected slowdown in the global economy are impacting market sentiment. The U.S. Federal Reserve has revised expectations regarding its interest rate policy and has become more reliant on economic and market data. The market generally expects the U.S. Federal Reserve to cut its federal funds rate again in the remaining second half of 2019 to boost the U.S. economy. Despite expectations of a drop in the federal funds rate, the Hong Kong dollar (HKD) HIBOR rate rose during the first half of 2019, narrowing the differential with the U.S. dollar LIBOR rate. The 3-month HKD HIBOR increased from 2.3% at the end of 2018 to around 2.5% at the end of June 2019.

Hong Kong's economy and financial conditions are closely linked with global market uncertainties. A weaker Hong Kong retail sales performance was recorded in the first six months of 2019 despite the number of visitor arrivals increasing by nearly 14% in the same period. Hong Kong's GDP also showed some signs of slowing down from 1.3% in Q4 2018 to 0.6% and 0.5% in Q1 and Q2 2019 respectively.

Uncertainties caused by both global and local political issues and financial markets may worsen our operating environment and dampen business expansion potential. It is therefore important for the Group to maintain our prudent financial management policy.

Capital Structure Management

The Group's total Gross Debt¹ level as at 30 June 2019 increased to HK\$7,576 million (31 December 2018: HK\$6,326 million). The Group's average debt maturity was at 5.1 years as at 30 June 2019 (31 December 2018: 3.9 years).

The following shows the debt maturity profile of the Group at 2019 interim period-end and 2018 year-end:

| | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million |
|---|--|--|
| Maturing in not exceeding 1 year | – | 300 |
| Maturing in more than 1 year but not exceeding 2 years | 565 | 565 |
| Maturing in more than 2 years but not exceeding 3 years | 1,381 | 250 |
| Maturing in more than 3 years but not exceeding 4 years | 2,526 | 1,331 |
| Maturing in more than 4 years but not exceeding 5 years | 904 | 3,230 |
| Maturing in more than 5 years | 2,200 | 650 |
| | 7,576 | 6,326 |

As at 30 June 2019, bank loans accounted for approximately 20.5% of the Group's total gross debt, with the remaining 79.5% from capital market financing (31 December 2018: 24.5%:75.5%). All of the Group's debts are unsecured and on a committed basis.

Gearing Ratio and Net Interest Coverage

The Group's gearing ratio, as measured by Net Debt to Equity² increased slightly from 4.7% at year-end of 2018 to 4.9% at interim period-end of 2019, mainly due to the increase in borrowings as mentioned.

The Group's Net Interest Coverage³ increased to 19.1 times for the first half of 2019 due to improved operating results (2018: 17.9 times).

¹ The Gross Debt represents the contractual principal payment obligations as at 30 June 2019. 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 Group's condensed consolidated statement of financial position as at 30 June 2019, the book value of the outstanding debt of the Group was HK\$7,556 million (31 December 2018: HK\$6,322 million).

² Net Debt to Equity is defined as borrowings less time deposits, cash and cash equivalents divided by shareholders' funds.

³ Net Interest Coverage is defined as gross profit less administrative expense before depreciation divided by net interest expenses.

Credit Ratings

As at 30 June 2019, the Group's credit ratings were maintained at A3 from Moody's, A- from Fitch and BBB+ from Standard and Poor's.

Liquidity Management

As at 30 June 2019, the Group has cash and bank deposits totalling about HK\$3,836 million (31 December 2018: HK\$2,817 million). In order to preserve liquidity and enhance interest yields, the Group invested HK\$172 million (31 December 2018: HK\$227 million) in debt securities.

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, amounting to HK\$950 million at 2019 interim period-end (31 December 2018: HK\$950 million), will expire in 2021 and 2022.

Interest Rate Management

Interest expenses represent one of the key cost drivers of the Group's business. Therefore, the Group monitors its interest rate exposure closely and adopts an appropriate hedging strategy in light of market conditions. The fixed rate debt ratio increased slightly to 79.5% at interim period-end 2019 from 75.5% at year-end 2018. We believe we are in a good position to manage our finance costs given our high fixed rate debt ratio.

Foreign Exchange Management

The Group aims to achieve minimal currency exposure and does not speculate in currency movements for asset and liability management. Except for US\$300 million fixed rate notes issued in 2013, which have been hedged by an appropriate hedging instrument, all of the Group's borrowings were denominated in Hong Kong dollar.

On the investment side, as at 30 June 2019, the Group's outstanding foreign currency balances in cash, time deposits, debt securities and a real estate fund amounted to US\$77 million (31 December 2018: US\$88 million), of which US\$4 million (31 December 2018: US\$28 million) was hedged by foreign exchange forward contracts.

Other foreign exchange exposure mainly relates to investments in the Shanghai associate. These unhedged foreign exchange exposures amounted to the equivalent of HK\$3,678 million (31 December 2018: HK\$3,715 million) or 4.1% (31 December 2018: 4.3%) of the Group's total assets.



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**TO THE BOARD OF DIRECTORS OF
HYSAN DEVELOPMENT COMPANY LIMITED**

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 45, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants
Hong Kong

13 August 2019

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019 (unaudited)

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------|----------------------|
| | | 2019 HK\$ million | 2018 HK\$ million |
| Turnover | 3 | 2,086 | 1,912 |
| Property expenses | | (238) | (224) |
| Gross profit | | 1,848 | 1,688 |
| Investment income | 5 | 50 | 33 |
| Other gains and losses | | 11 | (9) |
| Administrative expenses | | (123) | (108) |
| Finance costs | 6 | (127) | (107) |
| Change in fair value of investment properties | | 1,453 | 1,790 |
| Share of results of associates | | 145 | 137 |
| Profit before taxation | | 3,257 | 3,424 |
| Taxation | 7 | (265) | (241) |
| Profit for the period | 8 | 2,992 | 3,183 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 2,783 | 3,013 |
| Non-controlling interests | | 209 | 170 |
| | | 2,992 | 3,183 |
| Earnings per share (expressed in HK cents) | | | |
| Basic | 9 | 266 | 288 |
| Diluted | 9 | 266 | 288 |

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019 (unaudited)

| | Six months ended 30 June | |
|---|---------------------------------|--------------|
| | 2019 | 2018 |
| | HK\$ million | HK\$ million |
| Profit for the period | 2,992 | 3,183 |
| Other comprehensive income (expenses) | | |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | |
| Revaluation of properties held for own use: | | |
| Gains on revaluation of properties held for own use | 18 | 32 |
| Deferred taxation arising on revaluation | (3) | (5) |
| | 15 | 27 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Derivatives designated as cash flow hedges: | | |
| Net gains arising during the period | 23 | 10 |
| Reclassification adjustments for net gains (losses) included in profit or loss | 6 | (7) |
| | 29 | 3 |
| Share of translation reserve of an associate | (17) | (36) |
| | 12 | (33) |
| Other comprehensive income (expenses) for the period (net of tax) | 27 | (6) |
| Total comprehensive income for the period | 3,019 | 3,177 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | 2,810 | 3,007 |
| Non-controlling interests | 209 | 170 |
| | 3,019 | 3,177 |

Condensed Consolidated Statement of Financial Position

As at 30 June 2019 (unaudited)

| | Notes | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million (audited) |
|--|-------|--|---|
| Non-current assets | | | |
| Investment properties | 11 | 79,568 | 77,442 |
| Property, plant and equipment | | 765 | 747 |
| Investments in associates | | 3,668 | 3,708 |
| Loans to associates | | 14 | 11 |
| Investment in a joint venture | | 144 | 145 |
| Loans to a joint venture | | 1,075 | 1,062 |
| Fund investment | | 308 | 294 |
| Term notes | | 141 | – |
| Other financial assets | | 1 | 1 |
| Other receivables | 12 | 333 | 386 |
| | | 86,017 | 83,796 |
| Current assets | | | |
| Accounts and other receivables | 12 | 232 | 203 |
| Term notes | | 31 | 227 |
| Time deposits | | 2,445 | 748 |
| Cash and cash equivalents | | 1,391 | 2,069 |
| | | 4,099 | 3,247 |
| Current liabilities | | | |
| Accounts payable and accruals | 13 | 782 | 873 |
| Deposits from tenants | | 310 | 331 |
| Amounts due to non-controlling interests | | 223 | 223 |
| Borrowings | 14 | – | 300 |
| Taxation payable | | 245 | 108 |
| | | 1,560 | 1,835 |
| Net current assets | | 2,539 | 1,412 |
| Total assets less current liabilities | | 88,556 | 85,208 |

Condensed Consolidated Statement of Financial Position *continued*

As at 30 June 2019 (unaudited)

| | Notes | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million (audited) |
|---|-------|--|---|
| Non-current liabilities | | | |
| Borrowings | 14 | 7,556 | 6,022 |
| Other financial liabilities | | 3 | 26 |
| Deposits from tenants | | 737 | 669 |
| Deferred taxation | | 886 | 854 |
| | | 9,182 | 7,571 |
| Net assets | | 79,374 | 77,637 |
| Capital and reserves | | | |
| Share capital | | 7,720 | 7,718 |
| Reserves | | 68,301 | 66,713 |
| Equity attributable to owners of the Company | | 76,021 | 74,431 |
| Non-controlling interests | | 3,353 | 3,206 |
| Total equity | | 79,374 | 77,637 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 (unaudited)

| | Attributable to owners of the Company | | |
|--|---------------------------------------|--|------------------------------------|
| | Share capital HK\$ million | Share options reserve HK\$ million | General reserve HK\$ million |
| As at 1 January 2019 (audited) | 7,718 | 19 | 96 |
| Profit for the period | – | – | – |
| Net gains arising from hedging instruments | – | – | – |
| Reclassification adjustments for net gains included in profit or loss | – | – | – |
| Gain on revaluation of properties held for own use (Note a) | – | – | – |
| Deferred taxation arising on revaluation of properties held for own use | – | – | – |
| Share of translation reserve of an associate | – | – | – |
| Total comprehensive income (expenses) for the period | – | – | – |
| Issue of shares under share option schemes | 2 | – | – |
| Recognition of equity-settled share-based payments | – | 2 | – |
| Dividends paid during the period (note 10) | – | – | – |
| As at 30 June 2019 (unaudited) | 7,720 | 21 | 96 |
| As at 1 January 2018 (audited) | 7,692 | 21 | 96 |
| Profit for the period | – | – | – |
| Net gains arising from hedging instruments | – | – | – |
| Reclassification adjustments for net losses included in profit or loss | – | – | – |
| Gain on revaluation of properties held for own use (Note a) | – | – | – |
| Deferred taxation arising on revaluation of properties held for own use | – | – | – |
| Share of translation reserve of an associate | – | – | – |
| Total comprehensive income (expenses) for the period | – | – | – |
| Issue of shares under share option schemes | 15 | (3) | – |
| Recognition of equity-settled share-based payments | – | 2 | – |
| Dividends paid during the period (note 10) | – | – | – |
| As at 30 June 2018 (unaudited) | 7,707 | 20 | 96 |

Note:

- (a) The Group's leasehold land and buildings classified as property, plant and equipment were revalued as at 30 June 2019 and 2018 by Knight Frank Petty Limited, an independent qualified professional valuer, on market value basis. The valuation was derived from the basis of capitalisation of net income with due allowance for the reversionary income potential. The gain of HK\$18 million (2018: HK\$32 million) arising on revaluation have been recognised and accumulated in properties revaluation reserve.

Attributable to owners of the Company

| 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 |
|---|------------------------------------|--|--|-------------------------------------|-----------------------|--|-----------------------|
| 1 | (48) | 456 | 106 | 66,083 | 74,431 | 3,206 | 77,637 |
| – | – | – | – | 2,783 | 2,783 | 209 | 2,992 |
| – | 23 | – | – | – | 23 | – | 23 |
| – | 6 | – | – | – | 6 | – | 6 |
| – | – | 18 | – | – | 18 | – | 18 |
| – | – | (3) | – | – | (3) | – | (3) |
| – | – | – | (17) | – | (17) | – | (17) |
| – | 29 | 15 | (17) | 2,783 | 2,810 | 209 | 3,019 |
| – | – | – | – | – | 2 | – | 2 |
| – | – | – | – | – | 2 | – | 2 |
| – | – | – | – | (1,224) | (1,224) | (62) | (1,286) |
| 1 | (19) | 471 | 89 | 67,642 | 76,021 | 3,353 | 79,374 |
| 1 | (43) | 409 | 278 | 61,493 | 69,947 | 3,048 | 72,995 |
| – | – | – | – | 3,013 | 3,013 | 170 | 3,183 |
| – | 10 | – | – | – | 10 | – | 10 |
| – | (7) | – | – | – | (7) | – | (7) |
| – | – | 32 | – | – | 32 | – | 32 |
| – | – | (5) | – | – | (5) | – | (5) |
| – | – | – | (36) | – | (36) | – | (36) |
| – | 3 | 27 | (36) | 3,013 | 3,007 | 170 | 3,177 |
| – | – | – | – | – | 12 | – | 12 |
| – | – | – | – | – | 2 | – | 2 |
| – | – | – | – | (1,161) | (1,161) | (64) | (1,225) |
| 1 | (40) | 436 | 242 | 63,345 | 71,807 | 3,154 | 74,961 |

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019 (unaudited)

| | Six months ended 30 June | |
|--|------------------------------------|----------------------|
| | 2019 HK\$ million | 2018 HK\$ million |
| Net cash from operating activities | 1,595 | 1,496 |
| Investing activities | | |
| Payments in respect of investment properties | (663) | (943) |
| Purchases of property, plant and equipment | (10) | (12) |
| Interest received | 28 | 23 |
| Proceeds upon maturity of term notes | 196 | 326 |
| Purchase of term notes | (141) | – |
| Proceeds upon maturity of time deposits with original maturity over three months | 994 | 860 |
| Additions to time deposits with original maturity over three months | (2,691) | (305) |
| Payments in respect of fund investment | (2) | (141) |
| Advances to associates | (3) | (1) |
| Dividends received from an associate | 166 | 184 |
| Advances to a joint venture | – | (34) |
| Net cash used in investing activities | (2,126) | (43) |
| Financing activities | | |
| Payment for finance costs | (113) | (89) |
| Dividends paid | (1,224) | (1,161) |
| Dividends paid to non-controlling interests of a subsidiary | (62) | (64) |
| Repayments to non-controlling interests of a subsidiary | – | (104) |
| Issuance of fixed rate notes | 1,550 | – |
| Repayment of fixed rate notes | (300) | (150) |
| Proceeds on exercise of share options | 2 | 12 |
| Net cash used in financing activities | (147) | (1,556) |
| Net decrease in cash and cash equivalents | (678) | (103) |
| Cash and cash equivalents as at 1 January | 2,069 | 2,034 |
| Cash and cash equivalents as at 30 June | 1,391 | 1,931 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019 (unaudited)

1. Basis of preparation

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

- The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.
- The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Principal Accounting Policies

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computations followed in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the application of all the new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for the Group's financial year beginning on 1 January 2019 as disclosed below.

Except as described below, the adoption of these new and amendments to HKFRSs had no material effect on the results and financial position of the Group and/or disclosures set out in these unaudited condensed consolidated financial statements for the current and/or prior accounting periods.

2. Principal Accounting Policies *continued*

Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases”, and the related interpretations. However, assessments of whether a contract, which existed prior to 1 January 2019, contains a lease in accordance with HKAS 17 and Hong Kong (IFRIC) – Interpretation 4 “Determining whether an Arrangement contains a lease” have been maintained. No reassessment of the related lease contracts has been made.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. The Group, as a lessor, is thus not required to make any adjustment on transition for leases but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. However, the application of HKFRS 16 resulted the changes in accounting policies as described below:

The Group as a lessor

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees. This application has had no material impact on the Group’s condensed consolidated statement of profit or loss for the six months ended 30 June 2019 and the condensed consolidated statement of financial position as at 1 January 2019 and 30 June 2019.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. This application has had no material impact on the Group’s condensed consolidated statement of financial position as at 1 January 2019. However, effective from 1 January 2019, lease payments received from lessees relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

3. Turnover

Turnover represents gross rental income from leasing of investment properties and management fee income from provision of property management services for the period.

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

For revenue from provision of property management services recognised over time in Hong Kong, the categories for disaggregation of revenue are consistent with the segment disclosure under note 4.

4. Segment Information

Based on the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker 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

Property development segment – development and sale of properties

4. Segment Information *continued*

Segment turnover and results

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

| | Retail HK\$ million | Office HK\$ million | Residential HK\$ million | Property Development HK\$ million | Consolidated HK\$ million |
|--|------------------------|------------------------|-----------------------------|---|------------------------------|
| For the six months ended 30 June 2019 (unaudited) | | | | | |
| Turnover | | | | | |
| Leasing of investment properties | 914 | 818 | 141 | - | 1,873 |
| Provision of property management services | 87 | 111 | 15 | - | 213 |
| Segment revenue | 1,001 | 929 | 156 | - | 2,086 |
| Property expenses | (125) | (84) | (29) | - | (238) |
| Segment profit | 876 | 845 | 127 | - | 1,848 |
| Investment income | | | | | 50 |
| Other gains and losses | | | | | 11 |
| Administrative expenses | | | | | (123) |
| Finance costs | | | | | (127) |
| Change in fair value of investment properties | | | | | 1,453 |
| Share of results of associates | | | | | 145 |
| Profit before taxation | | | | | 3,257 |

4. Segment Information *continued*

Segment turnover and results *continued*

| | Retail HK\$ million | Office HK\$ million | Residential HK\$ million | Property Development HK\$ million | Consolidated HK\$ million |
|--|------------------------|------------------------|-----------------------------|---|------------------------------|
| For the six months ended 30 June 2018 (unaudited) | | | | | |
| Turnover | | | | | |
| Leasing of investment properties | 884 | 724 | 115 | – | 1,723 |
| Provision of property management services | 78 | 96 | 15 | – | 189 |
| Segment revenue | 962 | 820 | 130 | – | 1,912 |
| Property expenses | (106) | (92) | (26) | – | (224) |
| Segment profit | 856 | 728 | 104 | – | 1,688 |
| Investment income | | | | | 33 |
| Other gains and losses | | | | | (9) |
| Administrative expenses | | | | | (108) |
| Finance costs | | | | | (107) |
| Change in fair value of investment properties | | | | | 1,790 |
| Share of results of associates | | | | | 137 |
| Profit before taxation | | | | | 3,424 |

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

Segment profit represents the profit earned by each segment without allocation of investment income, other gains and losses, administrative expenses (including central administration costs and directors' emoluments), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

4. Segment Information *continued*

Segment assets

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

| | Retail HK\$ million | Office HK\$ million | Residential HK\$ million | Property Development HK\$ million | Consolidated HK\$ million |
|--|------------------------|------------------------|-----------------------------|---|------------------------------|
| <i>As at 30 June 2019 (unaudited)</i> | | | | | |
| Segment assets | 35,864 | 35,210 | 8,509 | 1,219 | 80,802 |
| Investments in and loans to associates | | | | | 3,682 |
| Fund investment | | | | | 308 |
| Other assets | | | | | 5,324 |
| Consolidated assets | | | | | <u>90,116</u> |
| <i>As at 31 December 2018 (audited)</i> | | | | | |
| Segment assets | 35,112 | 34,160 | 8,185 | 1,207 | 78,664 |
| Investments in and loans to associates | | | | | 3,719 |
| Fund investment | | | | | 294 |
| Other assets | | | | | 4,366 |
| Consolidated assets | | | | | <u>87,043</u> |

4. Segment Information *continued*

Segment assets *continued*

Segment assets represented the investment properties and accounts receivable of each segment and investment in and loans to a joint venture under property development segment without allocation of property, plant and equipment, investments in and loans to associates, fund investment, term notes, other financial assets, other receivables, time deposits and cash and cash equivalents. This is the measure reported to the chief operating decision maker 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 liabilities are monitored on a group basis.

5. Investment Income

The following is an analysis of investment income:

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2019 HK\$ million | 2018 HK\$ million |
| Interest income | 32 | 20 |
| Imputed interest income on interest-free loan to a joint venture | 15 | 14 |
| Reclassification of net losses (gain) from hedging reserve on financial instruments designated as cash flow hedges | 3 | (1) |
| | 50 | 33 |

6. Finance Costs

| | Six months ended 30 June | |
|--|---------------------------------|--------------|
| | 2019 | 2018 |
| | HK\$ million | HK\$ million |
| Finance costs comprise: | | |
| Interest on unsecured bank loans | 20 | 14 |
| Interest on unsecured fixed rate notes | 100 | 87 |
| Total interest expenses | 120 | 101 |
| Other finance costs | 5 | 4 |
| | 125 | 105 |
| Net exchange (gains) losses on borrowings | (8) | 9 |
| Reclassification of net gain (losses) from hedging reserve on financial instruments designated as cash flow hedges | 9 | (8) |
| Medium Term Note Programme expenses | 1 | 1 |
| | 127 | 107 |

7. Taxation

| | Six months ended 30 June | |
|-----------------------------------|--------------------------|----------------------|
| | 2019 HK\$ million | 2018 HK\$ million |
| Current tax | | |
| Hong Kong Profits Tax | | |
| – current period | 241 | 222 |
| – underprovision in prior periods | 2 | 3 |
| | 243 | 225 |
| Deferred tax | 22 | 16 |
| | 265 | 241 |

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

8. Profit For The Period

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2019 HK\$ million | 2018 HK\$ million |
| Profit for the period has been arrived at after charging (crediting): | | |
| Depreciation of property, plant and equipment | 10 | 9 |
| Gross rental income from investment properties including contingent rentals of HK\$52 million (2018: HK\$54 million) | (1,873) | (1,723) |
| Staff costs (including directors' emoluments) | 138 | 127 |
| Share of income tax of associates (included in share of results of associates) | 57 | 60 |

9. Earnings Per Share

(a) Basic and diluted earnings per share

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

| | Earnings | |
|--|---------------------------------|---------------|
| | Six months ended 30 June | |
| | 2019 | 2018 |
| | HK\$ million | HK\$ million |
| Earnings for the purposes of basic and diluted earnings per share: | | |
| Profit for the period attributable to owners of the Company | 2,783 | 3,013 |
| | | |
| | Number of shares | |
| | Six months ended 30 June | |
| | 2019 | 2018 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 1,046,512,587 | 1,045,976,162 |
| Effect of dilutive potential ordinary shares: | | |
| Share options issued by the Company | 368,066 | 642,092 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | 1,046,880,653 | 1,046,618,254 |

In both periods, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares.

9. Earnings Per Share *continued*

(b) Adjusted basic and diluted earnings per share

For the purpose of assessing the performance of the Group's principal activities, the management is of the view that the profit for the period attributable to the owners of the Company should be adjusted in the calculation of basic and diluted earnings per share as follows:

For the six months ended 30 June 2019 (unaudited)

| | Profit HK\$ million | Basic earnings per share HK cents | Diluted earnings per share HK cents |
|---|------------------------|--|--|
| Profit for the period attributable to owners of the Company | 2,783 | 266 | 266 |
| Change in fair value of investment properties | (1,453) | (139) | (139) |
| Effect of non-controlling interests' shares | 135 | 13 | 13 |
| Share of change in fair value of investment properties (net of deferred taxation) of associates | (45) | (4) | (4) |
| Imputed interest income on interest-free loan to a joint venture | (15) | (2) | (2) |
| Other gains and losses | (11) | (1) | (1) |
| Underlying Profit | 1,394 | 133 | 133 |
| Recurring Underlying Profit | 1,394 | 133 | 133 |

9. Earnings Per Share *continued*

(b) Adjusted basic and diluted earnings per share *continued*

For the six months ended 30 June 2018 (unaudited)

| | Profit HK\$ million | Basic earnings per share HK cents | Diluted earnings per share HK cents |
|---|------------------------|--|--|
| Profit for the period attributable to owners of the Company | 3,013 | 288 | 288 |
| Change in fair value of investment properties | (1,790) | (172) | (172) |
| Effect of non-controlling interests' shares | 95 | 9 | 9 |
| Share of change in fair value of investment properties (net of deferred taxation) of associates | (33) | (3) | (3) |
| Imputed interest income on interest-free loan to a joint venture | (14) | (1) | (1) |
| Other gains and losses | 9 | 1 | 1 |
| Underlying Profit | 1,280 | 122 | 122 |
| Recurring Underlying Profit | 1,280 | 122 | 122 |

Notes:

- (i) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature. As there were no such adjustments in both the six months ended 30 June 2019 and 30 June 2018, the Recurring Underlying Profit is the same as the Underlying Profit.
- (ii) The denominators used in calculating the adjusted basic and diluted earnings per share are the same as those detailed above for basic and diluted earnings per share.

10. Dividends

(a) Dividends recognised as distribution during the period:

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2019 HK\$ million | 2018 HK\$ million |
| 2018 second interim dividend paid – HK117 cents per share | 1,224 | – |
| 2017 second interim dividend paid – HK111 cents per share | – | 1,161 |
| | 1,224 | 1,161 |

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

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2019 HK\$ million | 2018 HK\$ million |
| First interim dividend declared – HK27 cents per share (2018: HK27 cents per share) | 283 | 283 |

The first interim dividend for 2019 is not recognised as a liability as at 30 June 2019 because it has been declared after the end of the reporting period. It will be payable in cash.

11. Investment Properties

| | Fair value HK\$ million |
|--|------------------------------------|
| As at 1 January 2019 | 77,442 |
| Additions | 673 |
| Change in fair value recognised in profit or loss – unrealised | 1,453 |
| As at 30 June 2019 | 79,568 |

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.

The fair value of the Group's investment properties as at 30 June 2019 and 31 December 2018 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.

12. Accounts And Other Receivables

| | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million |
|---|--|--|
| Accounts receivable | 15 | 15 |
| Interest receivable | 54 | 46 |
| Prepayments in respect of investment properties | 160 | 228 |
| Other receivables and prepayments | 336 | 300 |
| Total | 565 | 589 |
| Analysed for reporting purposes as: | | |
| Current assets | 232 | 203 |
| Non-current assets | 333 | 386 |
| | 565 | 589 |

Rents from leasing of investment properties are normally received in advance. As at 30 June 2019, accounts receivable of the Group with carrying amount of HK\$15 million (31 December 2018: HK\$15 million) mainly represented rental receipts in arrears, which were aged less than 90 days.

13. Accounts Payable And Accruals

| | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million |
|------------------|--|--|
| Accounts payable | 214 | 257 |
| Interest payable | 93 | 74 |
| Other payables | 475 | 542 |
| | 782 | 873 |

As at 30 June 2019, accounts payable of the Group with carrying amount of HK\$124 million (31 December 2018: HK\$175 million) were aged less than 90 days.

14. Borrowings

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

| | Current | | Non-Current | |
|----------------------------|--|--|--|--|
| | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million |
| Unsecured bank loans | - | - | 1,535 | 1,532 |
| Unsecured fixed rate notes | - | 300 | 6,021 | 4,490 |
| | - | 300 | 7,556 | 6,022 |

15. Commitments

As at 30 June 2019 and 31 December 2018, the Group had the following commitments in respect of its investment properties, property, plant and equipment and subscription to a fund investment as a limited partner:

| | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million |
|---|--|--|
| (a) Capital commitment: Contracted but not provided for investment properties and property, plant and equipment | 136 | 655 |
| (b) Other commitment: Subscription to a fund investment as a limited partner | 72 | 74 |

16. Contingent Liabilities

At the end of the reporting period, the Group had contingent liabilities as follows:

| | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million |
|---|--|--|
| Guarantees given to banks in respect of: | | |
| Banking facilities of a joint venture attributable to the Group | | |
| – Utilised | 1,063 | 999 |
| – Unutilised | 1,937 | 2,001 |
| | 3,000 | 3,000 |

The Group issued corporate financial guarantees to banks in respect of banking facilities granted to a joint venture in 2017. The fair value of the financial guarantee contracts at its initial recognition is insignificant.

Other than the financial guarantees as disclosed above, several funding undertakings have also been provided by the Group to the extent not having been financed by drawdown made under the relevant banking facilities of the joint venture in relation to the completion of the underlying project of the joint venture.

17. Related Party Transactions And Balances

(a) Transactions and balances with related parties

During the period, the Group has several transactions with related parties including imputed interest income on interest-free loan to a joint venture as disclosed in note 5. At the end of the reporting period, the Group has several balances with related parties including loans to a joint venture and loans to associates as disclosed in the condensed consolidated statement of financial position. The Group has also granted guarantees to banks for facilities granted to a joint venture as disclosed in note 16.

In addition, the Group has the following transactions with other related parties during the period and has the following balances with them at the end of the reporting period:

| | Gross rental income received from | | Amount due to | |
|---|--|--|--|--|
| | Six months ended 30 June 2019 HK\$ million | Six months ended 30 June 2018 HK\$ million | As at 30 June 2019 HK\$ million | As at 31 December 2018 HK\$ million |
| Related companies controlled by the Directors of the Company (Note a(i) & (ii)) | 21 | 21 | 64 | 64 |
| Non-controlling shareholder of a subsidiary (Note b(i) & (ii)) | 12 | 15 | 159 | 159 |

17. Related Party Transactions And Balances *continued*

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

Notes:

- (a) (i) The gross rental income received from related companies where the Directors of the Company have controlling interests over these related companies.
 - (ii) The balance of amount due to a related company represents outstanding loan advanced to Barrowgate Limited ("Barrowgate", a non-wholly owned subsidiary of the Company) by Jebsen Capital Limited ("Jebsen Capital"), as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. Jebsen Capital is a wholly-owned subsidiary of Jebsen and Company Limited, of which Jebsen Hans Michael, Non-Executive Director of the Company, is a director and a controlling shareholder. The amount is unsecured, interest-free and repayable on demand.
- (b) (i) The gross rental income received from Hang Seng Bank Limited ("Hang Seng"), the intermediate holding company of Imenson Limited ("Imenson") and The Hongkong and Shanghai Banking Corporation Limited, the holding company of Hang Seng. Imenson is a non-controlling shareholder with significant influence over Barrowgate.
 - (ii) The balance of amount due to 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.

17. Related Party Transactions And Balances *continued*

(b) Compensation of key management personnel

The remuneration of Directors and other members of senior management of the Group are as follows:

| | Six months ended 30 June | |
|--|---------------------------------|--------------|
| | 2019 | 2018 |
| | HK\$ million | HK\$ million |
| Directors' fees, salaries and other short-term employee benefits | 23 | 21 |
| Share-based payments | 2 | 2 |
| Retirement benefits scheme contributions | – | – |
| | 25 | 23 |

The remuneration of the Directors and senior management is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

18. Financial Risk Management And Fair Value Measurements

(a) Financial risk management

The Group's financial risk management objectives and policies are the same as those disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2018.

(b) Fair value measurements

(i) 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 of the Company consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the condensed consolidated financial statements approximate their fair values, except for the carrying amount of HK\$6,097 million (31 December 2018: HK\$4,790 million) unsecured fixed rate notes (including interest payable) with fair value of HK\$6,260 million (31 December 2018: HK\$4,824 million).

The fair value of HK\$2,404 million (31 December 2018: HK\$2,348 million) of the unsecured 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 period end.

The fair value of HK\$3,856 million (31 December 2018: HK\$2,476 million) of the unsecured 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.

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

(b) Fair value measurements *continued*

(ii) 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).

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

(b) Fair value measurements *continued*

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

| | As at 30 June 2019 | | | |
|---|-------------------------|-------------------------|-------------------------|-----------------------|
| | Level 1 HK\$ million | Level 2 HK\$ million | Level 3 HK\$ million | Total HK\$ million |
| Financial assets | | | | |
| <i>Financial assets at fair value through profit or loss</i> | | | | |
| Unlisted club debenture | - | 1 | - | 1 |
| Fund investment | - | - | 308 | 308 |
| Total | - | 1 | 308 | 309 |
| Financial liabilities | | | | |
| <i>Derivatives under hedge accounting</i> | | | | |
| Cross currency swap | - | 3 | - | 3 |

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

(b) Fair value measurements *continued*

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

| | As at 31 December 2018 | | | Total HK\$ million |
|--|-------------------------|-------------------------|-------------------------|-----------------------|
| | Level 1 HK\$ million | Level 2 HK\$ million | Level 3 HK\$ million | |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Unlisted club debenture | – | 1 | – | 1 |
| Fund investment | – | – | 294 | 294 |
| Total | – | 1 | 294 | 295 |
| Financial liabilities | | | | |
| Derivatives under hedge accounting | | | | |
| Cross currency swap | – | 26 | – | 26 |

(iii) Reconciliation of Level 3 fair value measurements of financial asset

| | Fund investment HK\$ million |
|------------------------------------|---|
| As at 1 January 2019 | 294 |
| Addition | 2 |
| Gains recognised in profit or loss | 12 |
| As at 30 June 2019 | 308 |

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

(b) Fair value measurements *continued*

(iii) Reconciliation of Level 3 fair value measurements of financial asset continued

There was no transfer between Levels 1, 2 and 3 during the six months ended 30 June 2019.

During the period, the unrealised fair value gains of approximately HK\$12 million (2018: HK\$11 million) relating to fund investment at fair value through profit or loss is included in 'other gains and losses'.

(iv) Valuation techniques and inputs used in fair value measurements

A forward foreign exchange contract and a cross currency swap 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.

Fund investment is measured with reference to the fair value of underlying assets and liabilities held under the fund as at the end of the reporting period.

(v) Valuation process of Level 3 fair value measurements of financial asset

At the end of the reporting period, the management of the Group obtains from the fund manager the valuation techniques and inputs for Level 3 fair value measurements in relation to the fund investment and its underlying assets and liabilities. Where there is a material change in the fair value of the fund investment, the causes of the fluctuations will be reported to the Directors of the Company.

Corporate Governance

Compliance with Corporate Governance Code

During the six months ended 30 June 2019, Hysan continued to comply fully with the requirements of the provisions contained in the Corporate Governance Code (the “Corporate Governance Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Further information of Hysan’s corporate governance practices are available at the Company’s website: www.hysan.com.hk/governance.

Compliance with the Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (“Model Code”) as its own code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

Highlights for the first half of 2019

Hysan embraces strong governance as the foundation for delivering its strategic objective of consistent and sustainable performance. For the first half of 2019:

- The Board has conducted review on the procedures for inside information disclosure and strengthened group-wide Corporate Disclosure Policy and Code of Securities Dealing. This is followed by corporate disclosure trainings program at different levels to raise awareness.
- The Audit and Risk Management Committee has reviewed and discussed with management and the external auditors the unaudited condensed consolidated financial statements for the six months ended 30 June 2019.
- The Audit and Risk Management Committee has held a meeting in February 2019 and an additional meeting in July 2019 focusing on risk management agendas. In the additional meeting in July 2019, the Committee discussed the Group’s risk appetite and cyber security assessment by an independent consultant. Management are invited to make presentations and answer questions from the Committee for relevant sessions at the meetings. This enhances the audit and risk management function by convening a total of 4 meetings each year.
- The Remuneration Committee has considered the recommendations from an independent global consultancy company and approved the compensation package for the Executive Director. It also reviewed remuneration for Non-Executive Directors, Board Committee members and senior management (see pages 85 to 88 of the Company’s 2018 Annual Report).

Our Board and Board Committees

Board

As at 30 June 2019, the Board composition was as follows:

Lee Irene Yun-Lien (Chairman)
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Wong Ching Ying Belinda**
Jebsen Hans Michael* (Yang Chi Hsin Trevor as his alternate)
Lee Anthony Hsien Pin* (Lee Irene Yun-Lien as his alternate)
Lee Chien*
Lee Tze Hau Michael*

* Non-Executive Director

** Independent Non-Executive Director

Board Committees

As at 30 June 2019, the composition of our Board Committees remained the same as those set out in our 2018 Annual Report and is also set out in the section “Corporate Information” of this Interim Report.

Risk Management and Internal Control

Details of Hysan’s risk management and internal control systems were set out in the “Risk Management and Internal Control Report” on pages 98 to 105 of Hysan’s 2018 Annual Report.

The Audit and Risk Management Committee has continued to review the Company’s risk management and internal control approaches, and the internal audit reports for the six months ended 30 June 2019 submitted by the Internal Audit Department.

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

Directors' Updated Biographical Details

Save for the changes in Directors' other major offices set out below, there is no change in the information of the Directors which is required to be disclosed under Rule 13.51B(1) of the Listing Rules since Hysan's 2018 Annual Report:

Lee Irene Yun-Lien retired as independent non-executive director of Cathay Pacific Airways Limited after the conclusion of the annual general meeting of the company held on 15 May 2019.

Lee Anthony Hsien Pin has been appointed as member of Board of Trustees of Princeton University with effect from 1 July 2019.

Lee Tze Hau Michael resigned as independent non-executive director of Trinity Limited with effect from 31 July 2019.

Wong Ching Ying Belinda has been appointed as chairman of Starbucks China with effect from 1 June 2019.

The biographical details of Directors are available at the Company's website: www.hysan.com.hk/about-us.

Directors' and Senior Management's Emoluments

The Group's remuneration policy aims to provide a fair market remuneration to attract, retain and motivate high quality talent, and align the Group's remuneration with shareholders' interests.

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

Non-Executive Directors

The fees payable to Non-Executive Directors will be reviewed annually based on a number of relevant factors, which include: Directors' level of responsibility, experience and abilities required of the Directors, level of care and amount of time required, as well as fees offered for comparable positions at peer companies.

The Remuneration Committee met in January 2019 to review and recommend for the Board and shareholders' approval, the revision of annual fees payable to Non-Executive Directors as below (which was approved at the Company's 2019 annual general meeting ("AGM") and took effect from 1 June 2019) (see pages 85 to 88 of the Company's 2018 Annual Report):

| | Fee per annum |
|--|----------------------|
| | HK\$ |
| <hr/> | |
| Board of Directors | |
| Non-Executive Director | 280,000 |
| Audit and Risk Management Committee | |
| Chairman | 180,000 |
| Member | 108,000 |
| Remuneration Committee | |
| Chairman | 75,000 |
| Member | 45,000 |
| Nomination Committee | |
| Chairman | 50,000 |
| Member | 30,000 |

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

Executive Director(s) and senior management

The remuneration payable to Executive Director(s) and senior management will also be reviewed annually, which comprise the following components:

| Components | Determining Factors |
|--|---|
| Fixed compensation – base salary and allowances | <ul style="list-style-type: none">• Market trend – pay increase in general and property industry• Market benchmark – relevant role and job scope• Company's performance• Individual performance and contribution achieved against annual financial and operational targets (Turnover, Expense Ratio, EPS, Portfolio Year End Occupancy, key strategic initiatives achievement, etc.) |
| Variable compensation – performance bonus | <ul style="list-style-type: none">• Company's performance• Individual performance and contribution achieved against annual financial and operational targets (Turnover, Expense Ratio, EPS, Portfolio Year End Occupancy, key strategic initiatives achievement, etc.)• Actual pay out ranges from 0–200% of the target bonus (which is set as a % of annual base salary) |
| Variable compensation – share options | <ul style="list-style-type: none">• Company's performance• Individual performance and potential, and the long-term contribution to Company• Grant level is based on a prescribed grant multiple of annual base salary |

The Remuneration Committee met in January 2019 to approve the remuneration of Lee Irene Yun-Lien, and concluded her 2019 annual fixed base salary amounting to HK\$8,000,000, and 2018 performance-based bonus amounting to HK\$14,616,000 (see pages 85 to 88 and 145 to 146 of the Company's 2018 Annual Report). The variable components of pay, both short- and long-term, continue to form a significant proportion of total earnings.

Share options were also granted to the Executive Director(s) on 22 February 2019 pursuant to the Company's 2015 share option scheme adopted on 15 May 2015 (the "New Scheme"), details of which are set out in the section "Long-term Incentives: Share Option Schemes" below.

Directors' Interests in Shares

As at 30 June 2019, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, 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 | | |
| Jebsen Hans Michael | 60,984 | – | 2,473,316 (Note b) | – | 2,534,300 | 0.242 |
| Lee Chien | 800,000 | – | – | – | 800,000 | 0.076 |
| Lee Irene Yun-Lien | 304,000 | – | – | – | 304,000 | 0.029 |

Notes:

- (a) This percentage was compiled based on the total number of issued shares of the Company (i.e. 1,046,550,891 ordinary shares) as at 30 June 2019.
- (b) Such shares were held through a corporation in which Jebsen Hans Michael was a member entitled to exercise no less than one-third of the voting power at general meeting.

Executive Director(s) of the Company have been granted share options under the Company's share option scheme adopted on 10 May 2005 (the "2005 Scheme") and the New Scheme (details are set out in the section "Long-term incentives: Share Option Schemes" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Directors' Interests in Shares *continued*

Aggregate long positions in shares of associated corporations

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

| Name | Number of ordinary shares held | | | % of the total no. of issued shares |
|---------------------|--------------------------------|-----------------|-------|-------------------------------------|
| | Corporate interests | Other interests | Total | |
| Jebsen Hans Michael | 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. Jebsen Hans Michael was deemed to be interested in the shares of Barrowgate by virtue of being a controlling shareholder of Jebsen and Company.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 30 June 2019 were recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Long-term incentives: Share Option Schemes

There are outstanding options under the 2005 Scheme. The 2005 Scheme expired on 9 May 2015 and the New Scheme was adopted by the Company on 15 May 2015. The purpose of both schemes was to strengthen the link between individual staff and shareholders' interests. The power of grant to Executive Director(s) is vested in the Remuneration Committee and endorsed by all Independent Non-Executive Directors as required under the Listing Rules. The Chairman may make grants to management staff below the Executive Director level.

The 2005 Scheme

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which had a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme.

The New Scheme

The Company adopted the New Scheme at its AGM held on 15 May 2015, which had a term of 10 years and will be expiring on 14 May 2025. Key terms of the New Scheme are substantially the same as those under the 2005 Scheme.

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Schemes *continued*

Movements of share options during the period

During the review period, share options exercisable into a total of 1,286,200 ordinary shares of the Company were granted under the New Scheme. The 2005 Scheme had expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

As at 30 June 2019:

- (i) share options exercisable into a total of 1,322,667 ordinary shares of the Company granted and fully-vested under the 2005 Scheme remained outstanding, representing approximately 0.13% of the total number of issued shares of the Company; and
- (ii) share options exercisable into a total of 3,218,067 ordinary shares of the Company granted (including fully-vested share options exercisable into 1,141,724 ordinary shares of the Company) under the New Scheme remained outstanding, representing approximately 0.31% of the total number of issued shares of the Company.

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

| Name | Date of grant | Exercise price HK\$ | Exercise period (Note a) | Balance as at 1.1.2019 | Changes during the period | | | Balance as at 30.06.2019 |
|---------------------------|---------------|------------------------|-----------------------------|------------------------------|---------------------------|-----------|----------------------------------|--------------------------------|
| | | | | | Granted | Exercised | Cancelled/ lapsed (Note b) | |
| 2005 Scheme | | | | | | | | |
| Executive Director | | | | | | | | |
| Lee Irene Yun-Lien | 14.5.2012 | 33.50 | 14.5.2013 – 13.5.2022 | 87,000 | – | – | – | 87,000 |
| | 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 | 12.3.2016 – 11.3.2025 | 300,000 | – | – | – | 300,000 |

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Schemes *continued*

Movements of share options during the period *continued*

| Name | Date of grant | Exercise price HK\$ | Exercise period (Note a) | Balance as at 1.1.2019 | Changes during the period | | | Balance as at 30.06.2019 |
|---------------------------------------|---------------|---------------------|-----------------------------|---------------------------|---------------------------|-----------|----------------------------------|-----------------------------|
| | | | | | Granted | Exercised | Cancelled/ lapsed (Note b) | |
| Eligible employees (Note c) | 31.3.2010 | 22.45 | 31.3.2011 – 30.3.2020 | 50,000 | – | – | – | 50,000 |
| | 31.3.2011 | 32.00 | 31.3.2012 – 30.3.2021 | 32,000 | – | – | – | 32,000 |
| | 30.3.2012 | 31.61 | 30.3.2013 – 29.3.2022 | 70,000 | – | – | – | 70,000 |
| | 28.3.2013 | 39.20 | 28.3.2014 – 27.3.2023 | 85,000 | – | – | – | 85,000 |
| | 31.3.2014 | 33.75 | 31.3.2015 – 30.3.2024 | 46,000 | – | – | – | 46,000 |
| | 31.3.2015 | 34.00 | 31.3.2016 – 30.3.2025 | 62,667 | – | – | – | 62,667 |
| | | | | 1,322,667 | – | – | – | 1,322,667 |

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Schemes *continued*

Movements of share options during the period *continued*

| Name | Date of grant | Exercise price HK\$ | Exercise period (Note a) | Balance as at 1.1.2019 | Changes during the period | | | Balance as at 30.06.2019 |
|---------------------------------------|---------------|---------------------|-----------------------------|------------------------|---------------------------|----------------------|----------------------------------|--------------------------|
| | | | | | Granted | Exercised | Cancelled/ lapsed (Note b) | |
| <u>New Scheme</u> | | | | | | | | |
| Executive Director | | | | | | | | |
| Lee Irene Yun-Lien | 9.3.2016 | 33.15 | 9.3.2017 – 8.3.2026 | 375,000 | – | – | – | 375,000 |
| | 23.2.2017 | 36.25 | 23.2.2018 – 22.2.2027 | 300,000 | – | – | – | 300,000 |
| | 1.3.2018 | 44.60 | 1.3.2019 – 29.2.2028 | 373,200 | – | – | – | 373,200 |
| | 22.2.2019 | 42.40 (Note d) | 22.2.2020 – 21.2.2029 | – | 494,200 | – | – | 494,200 |
| Eligible employees (Note c) | 31.3.2016 | 33.05 | 31.3.2017 – 30.3.2026 | 174,000 | – | (49,000) (Note e) | – | 125,000 |
| | 31.3.2017 | 35.33 | 31.3.2018 – 30.3.2027 | 248,667 | – | – | – | 248,667 |
| | 29.3.2018 | 41.50 | 29.3.2019 – 28.3.2028 | 513,000 | – | – | (3,000) | 510,000 |
| | 29.3.2019 | 42.05 (Note f) | 29.3.2020 – 28.3.2029 | – | 792,000 | – | – | 792,000 |
| | | | | 1,983,867 | 1,286,200 | (49,000) | (3,000) | 3,218,067 |

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Schemes *continued*

Movements of share options during the period *continued*

Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and will 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 period under review upon resignation(s) of eligible employee(s).
- (c) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- (d) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 21 February 2019) was HK\$41.75.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$41.31.
- (f) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2019) was HK\$41.90.

Save as disclosed above, the Company did not grant any share option under the 2005 Scheme and the New Scheme to any other persons during the review period that is required to be disclosed under Rule 17.07 of the Listing Rules.

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Schemes *continued*

Value of share options

The value of the share options granted during the review period is to be expensed through the Group's statement of profit or loss over the three-year vesting period of the options.

The fair values of share options granted by the Company were determined by using the 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 management's best estimate. The value of an option varies with different variables based on a number of subjective assumptions. Any change in the variables may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

| Date of grant | 29.3.2019 | 22.2.2019 |
|--|------------------|------------------|
| Closing share price at the date of grant | HK\$42.050 | HK\$42.400 |
| Exercise price | HK\$42.050 | HK\$42.400 |
| Risk free rate (Note a) | 1.406% | 1.552% |
| Expected life of option (Note b) | 5 years | 5 years |
| Expected volatility (Note c) | 17.689% | 17.710% |
| Expected dividend per annum (Note d) | HK\$1.342 | HK\$1.342 |
| Estimated fair values per share option | HK\$4.460 | HK\$4.750 |

Notes:

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

Substantial Shareholders' and Other Persons' Interests in Shares

As at 30 June 2019, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Aggregate long positions in shares and underlying shares of the Company

| Name | Capacity | Number of ordinary shares held | % of the total no. of issued shares (Note) |
|--|--------------------|--------------------------------|--|
| Lee Hysan Company Limited | Beneficial owner | 433,130,735 | 41.39 |
| Silchester International Investors LLP | Investment manager | 73,063,000 | 6.98 |
| First Eagle Investment Management, LLC | Investment manager | 52,460,214 | 5.01 |

Note:

The percentage was compiled based on the total number of issued shares of the Company as at 30 June 2019 (i.e. 1,046,550,891 ordinary shares).

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register that is required to be kept under Section 336 of the SFO as at 30 June 2019.

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

During the six months ended 30 June 2019, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Human Resources Practices

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 30 June 2019 was 508.

There has been no material change in respect of the human resources programmes, training and development as set out in the "2018 Sustainability Report".

Shareholder Information

FINANCIAL CALENDAR

| | |
|---|--------------------------------|
| Interim results announced | 13 August 2019 |
| Ex-dividend date for first interim dividend | 26 August 2019 |
| Closure of register of members and record date for first interim dividend | 28 August 2019 |
| Dispatch of first interim dividend warrants | (on or about) 6 September 2019 |

FIRST INTERIM DIVIDEND

The Board declares the payment of a first interim dividend of HK27 cents per share. The first interim dividend will be payable in cash to shareholders on the register of members as at Wednesday, 28 August 2019.

The register of members will be closed on Wednesday, 28 August 2019, for the purpose of determining shareholders' entitlement to the first interim dividend, on which date no transfer of shares will be registered. In order to qualify for the first interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Tuesday, 27 August 2019.

Dividend warrants will be dispatched to shareholders on or about Friday, 6 September 2019.

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrar, Tricor Standard Limited:

Tricor Standard Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980 1333
Facsimile: (852) 2861 1465

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

The Interim 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 Interim Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Interim Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Interim Report will promptly upon request be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Interim Report by notice in writing to the Company's 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

Lee Irene Yun-Lien (*Chairman*)
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Wong Ching Ying Belinda**
Jebsen Hans Michael B.B.S.*
(*Yang Chi Hsin Trevor as his alternate*)
Lee Anthony Hsien Pin*
(*Lee Irene Yun-Lien as his alternate*)
Lee Chien*
Lee Tze Hau Michael*

AUDIT AND RISK MANAGEMENT COMMITTEE

Poon Chung Yin Joseph** (*Chairman*)
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lee Anthony Hsien Pin*

REMUNERATION COMMITTEE

Fan Yan Hok Philip** (*Chairman*)
Poon Chung Yin Joseph**
Lee Tze Hau Michael*

NOMINATION COMMITTEE

Lee Irene Yun-Lien (*Chairman*)
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Lee Chien*

* Non-Executive Director

** Independent Non-Executive Director

COMPANY SECRETARY

Cheung Ka Ki Maggie

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 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
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