

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Operations Review

### Turnover

The Group's turnover was HK\$1,680 million in 2009, representing an increase of 2.6% from HK\$1,638 million in 2008. The Group maintained rental income growth in its commercial properties portfolio. There was, however, a small decline in income from the residential sector which typically has a two-year lease cycle. There was negative rental reversion on residential renewals and new lettings when compared with rental levels secured in the 2007 market boom.

### Profitability

Recurring Underlying Profit (the key measurement of the Group's core leasing business), which is calculated by excluding from Underlying Profit gains from disposal of long-term assets and prior years' tax provision, was HK\$1,110 million, up 4.1% from HK\$1,066 million in 2008. The increase principally reflected the improvement in gross profit generated from our core leasing activities.

Underlying Profit, which is calculated by excluding from Statutory Profit changes in fair value of investment properties and the related deferred tax, was HK\$1,113 million, decreased by 7.3% from HK\$1,201 million in 2008. This reflected smaller financial investment returns recorded during the year.

Statutory Profit, prepared in accordance with Hong Kong Financial Reporting Standards, was HK\$2,716 million (2008: HK\$1,594 million) mainly attributable to the higher revaluation of the Group's investment properties. At year end 2009, the independent external valuation of the Group's investment property portfolio was HK\$37,363 million (2008: HK\$35,850 million).

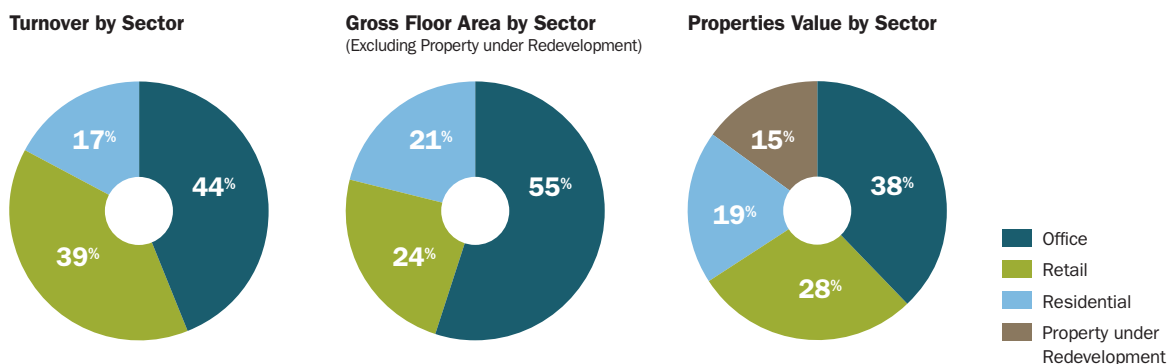
### Key Performance Indicators

While many factors contributed to the results of the Group's businesses, turnover growth and occupancy rate are the key drivers used by the Group's management for assessment of the performance of our core leasing business. In addition, the management uses property expenses and such expenses as a percentage on turnover to assess cost effectiveness. The nature of these performance indicators, the way they are measured and their significance to the Group are set out below.

KEY PERFORMANCE INDICATORS		
PERFORMANCE INDICATOR	HOW IT IS MEASURED	SIGNIFICANCE TO THE GROUP
Turnover Growth	– Rental revenue in 2009 compared to that in 2008	– Reflects the combined effect of changes in rental rate and occupancy rate
Occupancy Rate	– Percentage of total area leased to tenants over total lettable area of each sector	– Rental revenue and management fees are directly proportional to occupancy rate – Optimises revenue by balancing occupancy rate and rental level
Property Expenses	– Principally being direct costs associated with daily operations of the Group's property portfolio – 2009: HK\$235 million (2008: HK\$217 million)	– Measures the direct costs incurred in managing the Group's property portfolio
Property Expenses as a Percentage on Turnover	– Calculated by dividing property expenses by turnover – 2009: 14.0% (2008: 13.2%)	– An indication of the gross margin of our business

## Business Units Review

For management purposes, the leasing activity of the Group is organised into three sectors – office, retail and residential. Each sector has a different tenant base and requires different marketing strategies. The following discusses the performance, challenges and strategies of each sector for 2009.



## OFFICE SECTOR

Hysan's office sector recorded growth of 3.8% to HK\$747 million (2008: HK\$720 million<sup>1</sup>). While positive rental reversion continued to benefit our properties as a whole, negative rental reversion was also experienced in some transactions towards the end of the year.

Market conditions were particularly challenging during the first half of the year, which saw significant new supply of Grade "A" office space in decentralised areas coupled with a slow down in the general economy. These factors coincided with the renewal of a substantial majority of our expiring leases. While the rental levels appeared to be stabilising towards the end of the year, competition remains keen. Announced relocations to decentralised locations will also generate additional supply in Central.

We took effective actions to stabilise our occupancy. We fine-tuned the market positioning, sales channels, as well as transaction processes for our office buildings, seeking to maximise Causeway Bay's locational advantages. The sector's occupancy rate stood at 89% as at 2009 year end. On a committed basis, the occupancy rate was 91%, at the same level as at 30 June 2009 (31 December 2008: 98%).

Our premium office hub (comprising The Lee Gardens, Lee Gardens Two, Sunning Plaza and AIA Plaza) provides top quality facilities with good proximity to other business services and clients, as well as an unparalleled range of amenities. We achieved new lettings of around 100,000 square feet during the last quarter of 2009.

Over the years, we have also successfully built up a growing presence of semi-retail tenants in other parts of our portfolio. These tenants, including health and beauty operations, are businesses that require considerable personal interface with customers and value the locational advantages of Causeway Bay. This segment has proven to be more resilient during the recent economic downturn and has helped stabilise our overall portfolio.

We continued to invest to improve our assets. The renovated office lobby of AIA Plaza was well received by the market, and we shall proceed with that of Leighton Centre. We also enhanced our property services standards generally and at the same time provided better value for money from our service charges.

<sup>1</sup> Prior year figure has been reclassified to conform to current year presentation.

Hysan's offices combine quality facilities with proximity to other businesses as well as an excellent range of amenities.




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## RETAIL SECTOR

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Our retail sector revenue grew 3.5% over last year to HK\$648 million (2008: HK\$626 million<sup>1</sup>). Hong Kong again saw an increase in Mainland China visitors whose spending helped support the local retail market. The Group has long believed that landlords and retailers must work closely together as partners, responding to each other's needs to create solutions that are mutually beneficial. We further stepped up our marketing efforts to support our portfolio's retail tenants in capturing the attention and spending power of Mainland Chinese shoppers.

The occupancy rate of our portfolio continued to increase and was virtually fully-let at 99% at 2009 year end (31 December 2008: 97%; 30 June 2009: 98%).

Our retail leasing team has been working diligently to create an optimal tenant mix for our retail hubs. The Lee Gardens hub (principally comprising The Lee Gardens, Lee Gardens Two, AIA Plaza and Sunning Plaza) provides "elegant and luxury" premium retail spaces for high-end brands, which now include a Cartier store in AIA Plaza, as well as other prestigious retailers that are popular with tourists and locals alike.

Moving forward, in order to maximize the potential of One Hysan Avenue and neighbouring Leighton Centre, a new fashion flagship store is to transform the former, while the latter will be revitalised.

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## RESIDENTIAL SECTOR

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Our residential sector revenue decreased 2.4% over last year to HK\$285 million (2008: HK\$292 million), mainly due to negative rental reversion upon the expiration of leases signed in 2007, but was partially offset by improving occupancy starting from the second quarter of 2009.

The reduction of demand in the first quarter of 2009, due to expatriate manpower reduction following the financial upheavals, was reversed from the second quarter onwards. Both the increased leasing activities and the reduction of supply for leasing due to more sales market activities contributed to improved market environment.

We successfully strengthened our residential occupancy rate, which rebounded to 92% at 2009 year end from 85% on 30 June 2009 (2008 year end: 90%). We improved marketing channels to expand our target customer reach, and also enhanced our transaction process to take advantage of the market momentum. In general, we have striven to provide better services to create the best expatriate-orientated living environment for our tenants.

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<sup>1</sup> Prior year figure has been reclassified to conform to current year presentation.

## Financial Review

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009				
	2009 HK\$ million	2008 HK\$ million	CHANGE HK\$ million	CHANGE %
Turnover	1,680	1,638	42	+2.6
Property expenses	(235)	(217)	(18)	+8.3
Investment income	38	63	(25)	-39.7
Other gains and losses	(3)	146	(149)	n/m
Administrative expenses	(133)	(134)	1	-0.7
Finance costs	(131)	(155)	24	-15.5
Change in fair value of investment properties	1,249	(212)	1,461	n/m
Share of results of associates	768	590	178	+30.2
Taxation	(396)	(1)	(395)	n/m
Minority interests	(121)	(124)	3	-2.4
<b>Statutory Profit</b>	<b>2,716</b>	<b>1,594</b>	<b>1,122</b>	<b>+70.4</b>
<b>Underlying Profit</b>	<b>1,113</b>	<b>1,201</b>	<b>(88)</b>	<b>-7.3</b>
<b>Recurring Underlying Profit</b>	<b>1,110</b>	<b>1,066</b>	<b>44</b>	<b>+4.1</b>

### Turnover

Turnover comprises rental income and management fee income derived from the Group's investment properties portfolio in Hong Kong and was analysed by sectors as follows:

	2009 HK\$ million	2008 HK\$ million	CHANGE HK\$ million	CHANGE %
Office sector	747	720 <sup>1</sup>	27	+3.8
Retail sector	648	626 <sup>1</sup>	22	+3.5
Residential sector	285	292	(7)	-2.4
	<b>1,680</b>	<b>1,638</b>	<b>42</b>	<b>+2.6</b>

The Group maintained rental income growth in its commercial properties portfolio, while it experienced a small decline in income from the residential sector. The residential sector typically has a two-year lease cycle and there was negative rental reversion on renewals and new lettings during the year when compared with rental levels secured in the 2007 market boom. Detailed analysis of each segment is covered in "Business Units Review" set out on pages 25 and 26.

### Property Expenses

Property expenses are the costs directly associated with the daily operations of our investment properties, being primarily related to utilities' costs, front-line staff wages, repairs and maintenance, government rents and rates, as well as agency fees and other revenue generation-related expenses.

The increase in property expenses by HK\$18 million or 8.3% to HK\$235 million (2008: HK\$217 million) was mainly attributable to higher repair and maintenance costs for building refurbishment to enhance the quality of our portfolio as well as higher agency fees for incentivised schemes for agents to attract quality tenants.

n/m – not meaningful

<sup>1</sup> Prior year figure has been reclassified to conform to current year presentation.

#### **Investment Income**

Investment income of HK\$38 million (2008: HK\$63 million) mainly comprised dividend and interest income. The decrease reflected a lower interest environment in 2009 and lower dividend income derived from the Group's equity investments.

#### **Other Gains and Losses**

There was a net loss of HK\$3 million (2008: net gain of HK\$146 million). The present small net loss arose from mark-to-market movements of financial instruments, which are required to be reflected under the current accounting standards, whereas the 2008 net gain was mainly due to the disposals of long-term securities investments.

#### **Administrative Expenses**

Administrative expenses were broadly the same, at HK\$133 million (2008: HK\$134 million).

#### **Finance Costs**

In a lower interest rate environment, the Group's finance costs were reduced to HK\$131 million (2008: HK\$155 million). The Group's average finance costs decreased to 3.1% from 4.4% in 2008. Further discussion of the Group's financial policy, including debt and interest rate management, are set out in the "Financial Policy" section.

#### **Change in Fair Value of Investment Properties**

At 31 December 2009, the Group's investment properties were valued at HK\$37,363 million (31 December 2008: HK\$35,850 million) by an independent professional valuer, Knight Frank Petty Limited. Excluding capital expenditures incurred for the Group's property portfolio, fair value gain on investment properties of HK\$1,249 million (2008: fair value loss of HK\$212 million) was recognised in the consolidated income statement during the year.

#### **Share of Results of Associates**

The Group's share of results of associates improved by 30.2% to HK\$768 million (2008: HK\$590 million). This increase was mainly attributable to positive rental growth and the favourable movement in fair value of the Shanghai Grand Gateway project, of which the Group owns 24.7%.

Excluding the change in fair value of investment properties and the gain on disposal of certain car parks held by the associate, the Group's share of operating results in the Shanghai Grand Gateway project increased by 18.2% to HK\$162 million (2008: HK\$137 million). All the residential units as well as retail and office properties were virtually fully let at year end 2009.

Under Hong Kong Accounting Standards 40 "Investment Property", properties at Shanghai Grand Gateway have been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, of the associate amounted to HK\$606 million (2008: HK\$412 million).

**Taxation**

Taxation for the year increased by HK\$395 million to HK\$396 million (2008: HK\$1 million) mainly due to the addition in deferred tax provision arising from the revaluation of investment properties.



Causeway Bay's unparalleled locational advantages, coupled with Hysan's renowned facilities and service, ensure our hub remains a choice destination for work and play, day or night.



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	2009 HK\$ million	2008 HK\$ million	CHANGE HK\$ million	CHANGE %
Investment properties	37,363	35,850	1,513	+4.2
Available-for-sale investments	1,002	1,022	(20)	-2.0
Interests in associates	2,886	2,340	546	+23.3
Held-to-maturity debt securities	-	700	(700)	n/a
Time deposits, cash and bank balances	1,984	1,015	969	+95.5
Other assets	613	609	4	+0.7
<b>Total assets</b>	<b>43,848</b>	<b>41,536</b>	<b>2,312</b>	<b>+5.6</b>
Borrowings	3,891	3,751	140	+3.7
Taxation				
– current	45	351	(306)	-87.2
– deferred	3,881	3,648	233	+6.4
Other liabilities	1,077	1,076	1	+0.1
<b>Total liabilities</b>	<b>8,894</b>	<b>8,826</b>	<b>68</b>	<b>+0.8</b>
<b>Net Assets</b>	<b>34,954</b>	<b>32,710</b>	<b>2,244</b>	<b>+6.9</b>
Shareholders' funds	33,668	31,469	2,199	+7.0
Minority interests	1,286	1,241	45	+3.6
<b>Total Equity</b>	<b>34,954</b>	<b>32,710</b>	<b>2,244</b>	<b>+6.9</b>
<b>Adjusted Shareholders' Funds</b>	<b>37,057</b>	<b>34,660</b>	<b>2,397</b>	<b>+6.9</b>

**Investment Properties**

The Group's investment properties were revalued at HK\$37,363 million (2008: HK\$35,850 million).

**Available-for-Sale Investments**

Available-for-sale investments principally comprised equity securities listed in Hong Kong. In 2009, the Group disposed of certain equity securities at a net gain of HK\$3 million. With regard to the remaining available-for-sale investments portfolio, the Group will continue to hold them as long-term investments. Total return for the year from the remaining securities portfolio including both dividend income and capital value growth, was 6.2%. Total fair value of our listed securities portfolio as at 31 December 2009 was HK\$997 million.

**Interests in Associates**

Interests in associates increased by HK\$546 million to HK\$2,886 million. This mainly represented the Group's share of operating results, change in fair values of investment properties as well as exchange gain on translation for the Shanghai Grand Gateway projects during the year.

**Held-to-Maturity Debt Securities, Time Deposits, Cash and Bank Balances**

At the end of 2008, the Group placed cash of HK\$700 million in short-term government bills and notes to preserve the Group's liquidity during the global financial markets turmoil. In 2009, with the stress on the banking industry slowly subsiding, funds were placed as time deposits and bank balances in banks with strong credit ratings. This led to the increase in the Group's time deposits, cash and bank balances from HK\$1,015 million at year end 2008 to HK\$1,984 million at year end 2009. Further discussion of the Group's liquidity management is set out in the "Financial Policy" section.

n/a – not applicable

### Borrowings

The carrying amount of the Group's borrowings was HK\$3,891 million at year end 2009 (2008: HK\$3,751 million). HK\$550 million five-year floating rate notes matured and HK\$70 million bank loan were repaid in the year. To maintain our prudent liquidity position and to enjoy the lower interest rate environment, a total of HK\$799 million was drawn down from both the Medium Term Notes Programme and banking facilities during the year. The Group entered into hedging transactions to hedge interest rate and foreign exchange exposures, which reduced the average finance cost of the Group's total borrowings.

### Taxation

Provision for current tax decreased to HK\$45 million at year end 2009 (2008: HK\$351 million), which was principally due to the settlement of a prior-year tax dispute. As disclosed in the annual reports published in previous years, the Group had been in dispute for a considerable period of time with the Hong Kong Inland Revenue Department (the "IRD") on interest deductions made in years of assessment dating back to 1995/1996. Taking into consideration professional advice and recent developments, the Group entered into a settlement with the IRD. Total claim amount of HK\$450 million, which was fully provided at 31 December 2008, was settled during the year by cash payment of HK\$268 million and tax reserve certificates of HK\$182 million already purchased in prior years.

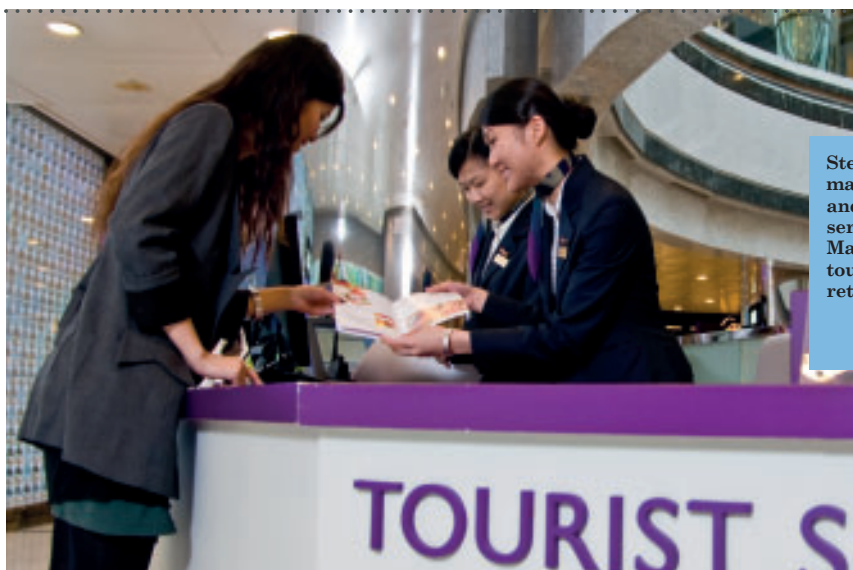
Provision for deferred tax increased by HK\$233 million to HK\$3,881 million at year end 2009 (2008: HK\$3,648 million) due to the additional provision for the revaluation gain on the Group's investment properties.

### Shareholders' Funds

Shareholders' funds increased by 7.0% from HK\$31,469 million at year end 2008 to HK\$33,668 million at year end 2009. This was mainly attributable to the increase in valuation of the Group's investment properties and the profits generated from the Group's core leasing activities. Adjusted shareholders' funds also rose by 6.9% to HK\$37,057 million at year end 2009 (2008: HK\$34,660 million).

### Minority Interests

The increase of HK\$45 million in minority interests to HK\$1,286 million (2008: HK\$1,241 million) was attributable to profit contribution as well as revaluation surplus from Lee Gardens Two.



Stepped-up marketing efforts and customer services entice Mainland Chinese tourists to our retail portfolio.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 HK\$ million	2008 HK\$ million	CHANGE HK\$ million	CHANGE %
<b>Operating activities</b>				
Cash generated from operations	1,349	1,362	(13)	-1.0
Net tax paid	(469)	(183)	(286)	+156.3
	880	1,179	(299)	-25.4
<b>Investing activities</b>				
Payments in respect of investment properties	(242)	(345)	103	-29.9
Disposals of available-for-sale investments	44	272	(228)	-83.8
(Placement) proceeds upon maturity of principal-protected deposits	(72)	78	(150)	n/m
Interest and dividends received	35	60	(25)	-41.7
Receipts from overseas projects	221	6	215	n/m
Purchase of property, plant and equipment	(8)	(5)	(3)	+60.0
Increase in time deposits with original maturity over three months	(1,551)	-	(1,551)	n/a
	(1,573)	66	(1,639)	n/m
<b>Financing activities</b>				
Dividends paid	(642)	(641)	(1)	+0.2
Finance costs	(127)	(140)	13	-9.3
New borrowings	799	765	34	+4.4
Repayment of borrowings	(620)	-	(620)	n/a
Proceeds on exercise of share options	1	2	(1)	-50.0
	(589)	(14)	(575)	n/m
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,282)</b>	<b>1,231</b>	<b>(2,513)</b>	<b>n/m</b>

**Operating Activities**

Cash flows from operating activities decreased by HK\$299 million as compared with last year, mainly due to the settlement of the prior-year tax dispute by cash payment of HK\$268 million in the current year.

**Investing Activities**

The Group placed cash as time deposits in banks with strong credit ratings. A majority of these time deposits had original maturity periods for over three months but not exceeding one year. These investments were counted as the Group's investing activities in the consolidated statement of cash flows. As a result, the cash used in investing activities increased considerably by HK\$1,639 million as compared with last year.

**Financing Activities**

Cash used in financing activities increased by HK\$575 million as compared with last year, mainly due to the repayment of a HK\$70 million bank loan and HK\$550 million five-year floating rate notes maturing during the year. There were no other material changes in use of cash for the Group's financing activities.

n/a – not applicable  
n/m – not meaningful



Strong teamwork across-the-board is a core contributor to the Group's customer focus and continuous success.

## Beyond Financial Statements

### Contingent Liabilities

The Group has underwritten cash calls by its associates to finance working capital requirements. Based on currently available information, management does not anticipate any major call for cash contributions in the foreseeable future.

### Capital Expenditure and Management

The Group is committed to enhancing the asset value of its investment property portfolio through selective refurbishment, repositioning and redevelopment. The Group also has in place a portfolio-wide whole-life cycle maintenance programme as part of its ongoing strategy to pro-actively implement preventive maintenance activities.

Total cash outlay of capital expenditure (excluding purchase of plant and equipment) during the review year was HK\$242 million. The graph on the right illustrates capital expenditure patterns during the last five years.

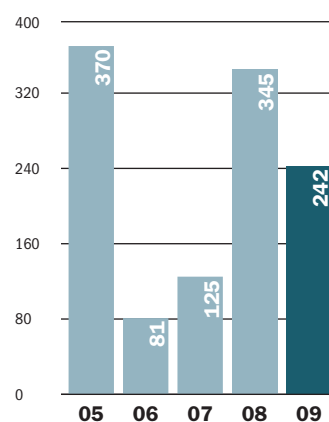
The Group has an internal control system for scrutinising capital expenditures. Detailed analysis of expected risks and returns is submitted to business unit heads, Executive Directors or the Board for consideration and approval, depending on strategic importance, cost/benefit and the size of the projects. The criteria for assessment of financial feasibility are generally based on net present value, pay back period and internal rate of return from projected cash flow.

At year end, the Group had HK\$2,250 million undrawn committed bank facilities. These facilities, together with the Medium Term Notes Programme, available-for-sale investments and positive cash flows from local and overseas operations, provide adequate financial resources to fund the level of planned capital expenditure, including the Hennessy Centre redevelopment project.

### Hennessy Centre Redevelopment

The Hennessy Centre (at 500 Hennessy Road) redevelopment project remains on schedule to be completed at the end of 2011. Substructure and the tower foundation works have been completed. Lifts and major building services sub-contracts have been awarded. Basement construction has commenced and is expected to be completed by June 2010. The 36-storey mixed-use office and retail building, with four additional levels of basement, will have a gross floor area of approximately 710,000 square feet. This future northern gateway to Hysan's community in Causeway Bay is the first Hong Kong building pre-certified at the highest Platinum level for the United States Green Building Council's Leadership in Energy and Environmental Design (LEED) standard. The project is also pre-certified for the top Platinum level in Hong Kong's Building Environmental Assessment Method (BEAM).

**Capital Expenditure**  
HK\$ million



## Financial Policy

### Market Highlight

The world economy was at a crossroads in 2009. The unprecedented uncertainty continued to undermine the financial markets at the beginning of the year. In the second half of 2009, the global economy improved mainly due to massive fiscal stimulus programmes and the relaxed monetary policies of various governments which helped to stabilise the global financial and credit markets. Under such market condition, the Group will continue to focus on liquidity and interest rate risk management in 2010.

### Objectives

We adhere to a policy of financial prudence. Our objectives are to:

- maintain a strong financial position by actively managing debt level and cash flow
- secure diversified funding sources from both banks and capital markets
- minimise refinancing and liquidity risks by attaining healthy debt repayment capacity, diversified maturity profile, and availability of banking facilities with minimum collateral on debt
- manage the exposures arising from adverse market movements in interest rates and foreign exchange through appropriate hedging strategies
- monitor counter-party risks by imposing proper counter-party limits and reduce financial investment risks by holding quality marketable securities

KEY PERFORMANCE INDICATORS		
PERFORMANCE INDICATOR	HOW IT IS MEASURED	SIGNIFICANCE TO THE GROUP
Average Finance Costs	<ul style="list-style-type: none"> <li>– Interest expenses divided by average gross debt for the year</li> <li>– 2009: 3.1% (2008: 4.4%)</li> </ul>	<ul style="list-style-type: none"> <li>– Our treasury aims to manage and optimise finance costs</li> <li>– HIBOR was generally lower in 2009 compared with 2008</li> </ul>
Bank Facilities: Capital Market Issuance	<ul style="list-style-type: none"> <li>– The proportion of the borrowings from banks and from capital market relative to the gross debt</li> <li>– 2009: 37.2% : 62.8% (2008: 24.9% : 75.1%)</li> </ul>	<ul style="list-style-type: none"> <li>– As a measure of diversification of funding sources</li> <li>– More bank loans were drawn to replenish matured borrowings in the year to achieve a more balanced ratio</li> </ul>
Average Debt Maturity	<ul style="list-style-type: none"> <li>– The weighted average of remaining maturity period of the Group's gross debt</li> <li>– 2009: 3.4 years (2008: 3.9 years)</li> </ul>	<ul style="list-style-type: none"> <li>– An indicator of the pressure for refinancing or repaying the existing borrowings in the near term</li> <li>– The average maturity was slightly shortened</li> </ul>
Floating Rate Debt (% on Total Debt)	<ul style="list-style-type: none"> <li>– Debt effectively in floating interest rate divided by gross debt</li> <li>– 2009: 64.9% (2008: 59.5%)</li> </ul>	<ul style="list-style-type: none"> <li>– A measure to calculate the percentage of borrowings subject to fluctuation in market interest rates</li> <li>– A higher ratio allowed the Group to benefit from the low interest rate environment</li> </ul>

KEY PERFORMANCE INDICATORS		
PERFORMANCE INDICATOR	HOW IT IS MEASURED	SIGNIFICANCE TO THE GROUP
Net Interest Coverage	<ul style="list-style-type: none"> <li>– Gross profit less administrative expenses before depreciation divided by net interest expenses</li> <li>– 2009: 11.7 times (2008: 10.2 times)</li> </ul>	<ul style="list-style-type: none"> <li>– It represents the Group's financial strength from operating activities to meet its interest payment obligations</li> <li>– Improved ratio reflects our stable profit against lower interest expenses</li> </ul>
Net Debt to Equity	<ul style="list-style-type: none"> <li>– Borrowings less short-term investments, time deposits, cash and bank balances divided by adjusted shareholders' funds</li> <li>– 2009: 5.1% (2008: 5.9%)</li> </ul>	<ul style="list-style-type: none"> <li>– A benchmark as to the healthy debt level as well as an indicator of the Group's ability to raise further debt</li> <li>– The ratio remains low and the Group's ability to raise further debt remains strong</li> </ul>

CREDIT RATINGS		
Moody's	– 2009: Baa1 (2008: Baa1)	– Investment-grade ratings unchanged
Standard and Poor's	– 2009: BBB (2008: BBB)	

Hysan's Treasury policy manual lays down the acceptable range of operational parameters and gives guidance on the above areas in order to achieve the objective of financial prudence.

Treasury has an overall objective of optimisation of borrowing costs and management of associated risks: that is to minimise the finance costs subject to the constraints of the operational parameters. The cost of financing was 3.1% for 2009.

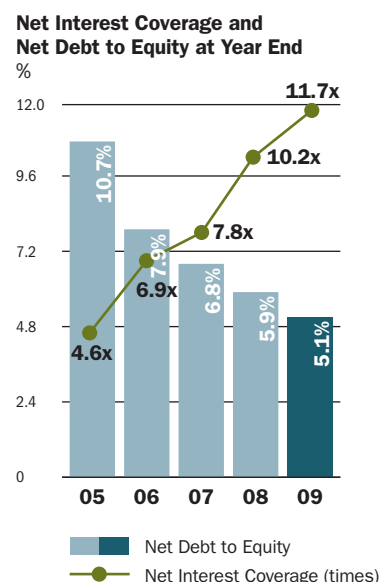
### Debt Management

Credit markets in Hong Kong remained tight for the first quarter of 2009. Liquidity improved afterwards when the financial markets stabilised and credit spreads normalised as banks started to lend to selected companies with strong credits. At the same time, capital markets also became more active as the risk appetite of investors returned.

As we had completed the majority refinancing of debts in 2008, we experienced little pressure to refinance during the year. To maintain our prudent liquidity position, we concluded a new bilateral bank loan of US\$25.6 million and issued HK\$200 million of notes from the Medium Term Notes Programme during the year.

The graph on the right shows the strong financial strength of the Group in meeting the interest payment obligations and to raise further debts if necessary.

The Group always strives to lower the borrowing margin, to diversify the funding sources and to maintain a suitable maturity profile relative to the overall use of funds. As at 31 December 2009, the outstanding gross debt of the Group was HK\$3,889 million, an increase of HK\$191 million compared to 2008. All the outstanding borrowings are on an unsecured basis.



In order to diversify the funding sources, the Group has established long-term relationships with a number of local and overseas banks. Nine local and overseas banks have provided bilateral banking facilities to the Group and such bank borrowings accounted for about 37.2% of the Group's outstanding gross debt. Notes issued from the Medium Term Notes Programme serve as an important source of funding for the Group. The Programme allows the Group to access a broad investor base in both the local and international debt capital markets. These markets are more flexible with respect to the longer-tenor debts. As at the end of 2009, about 62.8% of the Group's outstanding gross debts were sourced from the debt capital markets through the Programme.

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

The Group also strives to maintain an appropriate maturity profile. The average maturity of the debt portfolio was about 3.4 years. As at 31 December 2009, about HK\$1,050 million or 27.0% of the outstanding debts will be due in less than two years. There will not be significant refinancing pressure on the Group in the near term, especially taking into account the level of cash and the undrawn committed facilities available to the Group. Hysan will continue to monitor the financial market closely to identify the appropriate time to secure borrowings to pre-finance maturing debts.

The debt maturity profile of the Group at 2008 and 2009 year end is shown in the graph on the right.

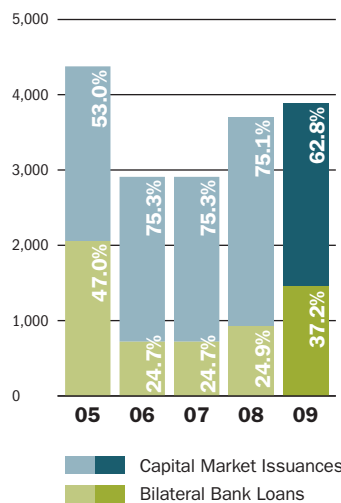
**Liquidity Management**

The Group always places great emphasis on liquidity management. Benefiting from the strong recurring cash flows from its business, the Group was in a favourable position to withstand the liquidity crunch in early 2009. In the first half of 2009, when counterparty risk mounted as the banking industry experienced stress, the Group increased its holding of short-term government bills and notes issued by the Hong Kong Monetary Authority and US Treasury to preserve both liquidity and security.

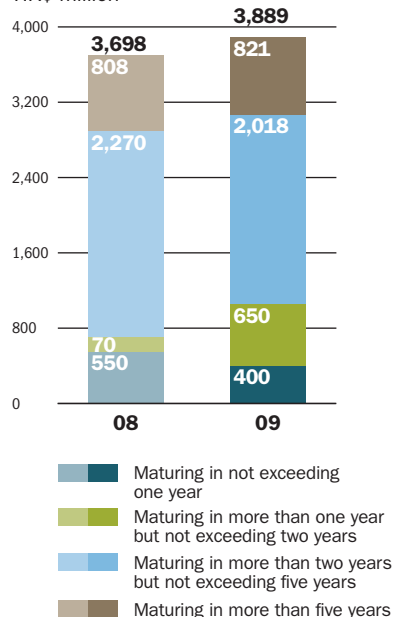
As at 31 December 2009, the Group had funds placed as cash and bank deposits totalling HK\$1,984 million (2008: HK\$1,015 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. Additional liquidity reserve is maintained in the form of highly liquid securities listed on The Stock Exchange of Hong Kong Limited. The market value of these securities amounted to HK\$997 million at the end of 2009 (2008: HK\$982 million).

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, which amounted to HK\$2,250 million at 31 December 2009, essentially allow the Group to obtain additional liquidity as the needs arise.

**Sources of Financing at Year End**  
HK\$ million



**Debt Maturing Profile at 2008 and 2009 Year End**  
HK\$ million





To offer optimal services, our colleagues collaborate to provide solutions.

### Interest Rate Management

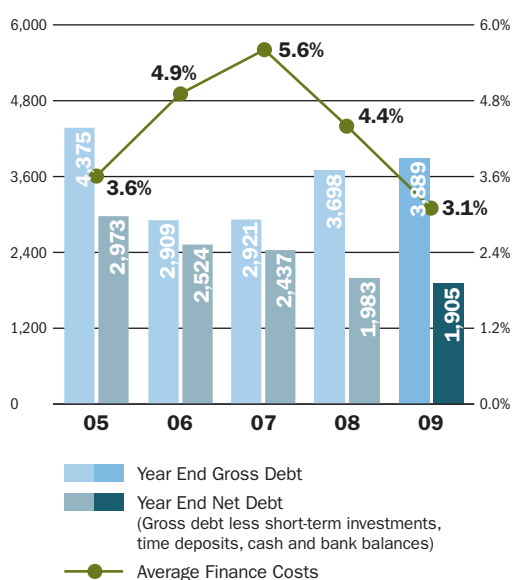
Interest expenses account for a significant proportion of the Group's total expenses and warrant close monitoring. Appropriate hedging strategies are adopted to manage exposure to projected movements in interest rate.

In tandem with the low Fed Fund target rate and ample liquidity in the interbank market of Hong Kong, the 3-month Hong Kong Inter-bank Offered Rate ("HIBOR") hovered at a historical low level in 2009. As at 31 December 2009, 3-month HIBOR was fixed at 0.14%. The benefit of a low interest rate, however, was partly offset by the widened credit spreads in the credit market.

As at 31 December 2009, about 64.9% of the Group's debts were at floating rates that can reap the full benefit of the lower interest rate environment. As a result, the Group's average cost of financing lowered from 4.4% in 2008 to 3.1% in 2009.

The diagram on the right shows the Group's debt levels and average finance costs in the past five years.

**Debt Levels and Average Finance Costs**  
HK\$ million



**Foreign Exchange Management**

The Group aims to have minimal mismatches in currency and does not speculate in currency movements. With the exception of the US\$182 million 10-year notes and the US\$51 million bank loans, which have been hedged by appropriate hedging instruments, all of the Group's other borrowings were denominated in Hong Kong dollars. On the investment side, US\$31 million of deposits were denominated in US dollars and the investments have also been fully hedged against foreign exchange exposure. Other foreign exchange exposure mainly relates to investments in the overseas project in Shanghai. These foreign exchange exposures amounted to the equivalent of HK\$2,886 million or 6.6% of the total assets.

**Use of Derivatives**

As at 31 December 2009, all outstanding derivatives were related to the hedging of interest rate and foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used mainly to manage volatilities or adjust the appropriate risk profile of the Group's treasury assets and liabilities.

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