



Hysan Development Company Limited

Interim Report 2018

 **Hysan** 希慎

stock code 00014

VISION

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

MISSION

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

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Highlights

- **The opening of Lee Garden Three affirms Hysan's commitment to lifestyle and community**
- **Recovery in retail market and steady office sector boosted 2018 first half performance**
- **Turnover and Recurring Underlying Profit increased year-on-year by 6.8% and 4.3% respectively**
- **Increased Reported Profit reflected changes in fair value of investment properties**
- **Occupancies of Retail and Office portfolios were 96% and 95% respectively**

RESULTS

	Notes	Six months ended 30 June		Change
		2018 HK\$ million	2017 HK\$ million	
Turnover	1	1,912	1,791	+6.8%
Recurring Underlying Profit	2	1,280	1,227	+4.3%
Underlying Profit	3	1,280	1,227	+4.3%
Reported Profit	4	3,013	746	+303.9%
		HK cents	HK cents	
Basic earnings per share, based on:				
Recurring Underlying Profit	2	122.37	117.37	+4.3%
Underlying Profit	3	122.37	117.37	+4.3%
Reported Profit	4	288.06	71.36	+303.7%
First Interim Dividend per share		27.00	26.00	+3.8%
		At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million	
Shareholders' Funds	5	71,807	69,953	+2.7%
		HK\$	HK\$	
Net Asset Value per share	6	68.64	66.89	+2.6%

Notes:

1. **Turnover** comprises rental income and management fee income derived from the Group's investment property portfolio in Hong Kong.
2. **Recurring Underlying Profit** is a performance indicator of the Group's core property investment business and is arrived at by excluding from Underlying Profit items that are non-recurring in nature.
3. **Underlying Profit** is arrived at by excluding from Reported Profit unrealised fair value changes on investment properties. As a property investor, the Group's results are principally derived from the rental revenues on its investment properties. The inclusion of the unrealised fair value changes on investment properties in the condensed consolidated statement of profit or loss causes an increase in fluctuation in earnings and poses limitations on the use of the unadjusted earning figures, financial ratios, trends and comparison against prior period(s). Accordingly, unrealised fair value changes on investment properties are excluded in arriving at the Underlying Profit. Refer to the note of "Earnings Per Share" in the notes to the condensed consolidated financial statements for detail reconciliation.
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** is the equity attributable to owners of the Company.
6. **Net Asset Value per share** represents Shareholders' Funds divided by the number of issued shares at interim period end/year-end.

Chairman's Statement

Hong Kong's economy grew by 4.7% in the first quarter of 2018, largely driven by strong consumer spending. This mainly reflected the public's optimism on the back of a robust labour market as well as a bullish residential property market. Visitor arrivals figures during the first half of 2018 also saw a good recovery, with year-on-year improvement of 10.1%, spearheaded by a 13.4% growth in Mainland visitors' numbers.

With this backdrop, Hong Kong retail sales data showed strong growth of 13.4% during the first half of 2018 as compared to the same period in 2017. For individual categories, jewellery and watches maintained their position as growth leaders. Many other mid-priced to affordable items, including clothing and footwear, consumer durable goods, as well as medicine and cosmetics, also showed signs of recovery.

The changes we launched during the slower times, together with the pick up in market sentiment, have resulted in a satisfactory first half. A fast-changing landscape, driven by economic factors and uncertainties over the past few years saw the retail market, in particular, contract and reposition. We seized the opportunity to re-position our portfolio to adapt to customer behavioural changes which were led by a combination of generational preferences, demographic re-mixes and technological advancements. Our directional changes are paying off. We have seen improved footfall and tenant sales outpacing Hong Kong's general retail sales growth (details of which will be explained in the Management's Discussion and Analysis section).

Retail

- **Our natural advantages**

Our concentrated portfolio at Hong Kong Island's commercial heartland has long provided our portfolio with unmatched competitive advantages. Richly endowed with buildings with cutting-edge facilities housing Grade A commercial tenants, to heritage structures tenanted by traditional, generations-old, family-run businesses, Lee Gardens attracts healthy footfall all year round. Locals and visitors alike enjoy this community of contrasts and diversity, set in a vibrant neighbourhood, which provides shopping, dining, working and social experiences that cannot be replicated elsewhere in this city.

The composition of our portfolio's visitors is balanced between one-third tourists, one-third long-time locals, and one-third "New Hong Kong residents", defined as those who have settled in the city due to work or family commitments over the past decade or so. This demographic mix works to our advantage as we do not rely solely on the taste and spending power of one group. Partly through conscious curation and partly through organic growth, our portfolio provides all manner of quality products and services catering to the needs of multi generations of these different groups, 24 hours a day, 7 days a week.

- **Growing a community, curating its content**

As a landlord and a space manager, we strive to provide unique, fresh, dynamic and sophisticated physical content overlaid with entertainment that cannot be replicated in the online world. Our venues offer opportunities to touch, feel and try on products, which then provide exciting content for the youngsters to communicate and share with friends, online of course, before choices are made. Among other items of enjoyment that cannot be created virtually are good food and drinks. Our brand new Lee Garden Three is host to the first Starbucks Reserve flagship store in Hong Kong. An immersive experience offering specialist teas, coffee-inspired alcoholic beverages, unique handcrafted coffee and delicious food, Starbucks Reserve is set in a glass box overlooking a lush, green canopy of trees on Hysan Avenue. It has already become a must visit lifestyle destination.

We continue to add exciting culinary originals to our portfolio. Lee Garden Three will soon welcome a modern Chinese restaurant offering unique cooking techniques and twists on spices and presentation from Maximal Concepts. In addition, our new building will launch a Belgian café from El Grande Concepts and we welcome back our Seasons restaurant, re-emerging as a fresh, seasonal, casual Italian restaurant. Within the retail portion of our new commercial building are trend-setting furnishing and lifestyle shops as well as top fashion brand I.T's exciting new flagships.

Curating the area's content can take many forms. We presented another successful edition of the Cathay Pacific/HSBC Rugby Sevens Carnival in March and April this year. Building from last year's experience, we harnessed the best elements and expanded the event into three weekends, instead of one, while including the popular Lee Gardens Egglette Festival as part of the Rugby Carnival. We also hosted the Wolfpack Ninjas over two weekends. The obstacle courses created by American sports celebrities attracted hundreds of young athletes, with many more family members visiting the area to cheer them on. The entire Carnival was well supported by our energetic marketing team. Credit card partnerships with HSBC and popular dining and shopping promotions proved to be crowd pleasers.

The lead we are taking in growing the Lee Gardens Association is bearing fruit. The neighbourhood association played a major part in the Rugby Carnival and its related visual arts promotions, enlisting artists to decorate the area with inspiring rugby-themed artwork. In the summer, the Association partnered with Hong Kong Ballet to produce an outdoor spectacle based on the troupe's ALICE (in wonderland) performance. The Association is also strengthening its role as a link between the various Association members. It is introducing exciting concepts to neighbourhood owners, and has produced videos and social media stories to highlight the area as a community and a unique destination.

- **Building retail brand and image**

Lee Garden Three is the catalyst to reinforce and expand our commitment to modern living. The building achieved provisional Platinum rating under BEAM Plus new buildings offering generous outdoor areas, including a running track and green features. Retail and office tenants are chosen to complement the rest of our Lee Gardens portfolio, with an emphasis on lifestyle content.

To further enhance brand equity both for local customers and Mainland Chinese tourists, we implemented a comprehensive media campaign to drive awareness of Lee Gardens. The campaign secured endorsements from Mainland social media's key opinion leaders as well as from celebrities. We have also been active in bringing our messages to tourists via various digital platforms such as WeChat, Weibo, Baidu and Ctrip, among others. In addition, an in-production drama by Hong Kong's top television network TVB is being filmed primarily within the Lee Gardens portfolio. In the fourth quarter of 2018, we will be launching tourist booklets in coordination with our tenants, Hong Kong Tourism Board and leading hotels.

- **Proactive tenant partnerships**

With a focus on a more customer-centric approach, we are making significant efforts to enhance our relationship building and partnering with our valued tenants. We hold regular meetings with our tenants to understand their needs and to propose ways to create win-win situations. Such initiatives include promotions for Rugby Sevens collaborations, Valentine's Day and Mother's Day offers, a Go Green campaign, as well as highly sought after events such as the launch of Starbucks' flagship store, Louis Vuitton launch events, a Nike yoga day, and high jewellery partnership events with major brands like Cartier, BVLGARI and Piaget. Other partnership activities included those with rue Madame, Brunello Cucinelli and ST. JOHN. We have also been successful in growing both our loyalty programmes: Club Avenue for VIPs and Lee Gardens Plus for general shoppers. New club facilities and special members-only events are among the initiatives aimed at further building the reputation of these loyalty programmes. More higher spending members means higher take up of tenants' offers, which in turn drives our tenants' sales performance and importantly, creates a sustainable and loyal clientele for our brands and Lee Gardens.

- **Driving digital transformation**

We were an early adopter of mobile apps, but the relentless advance of technology in retailing means we must continue to evolve at pace to serve our customers and live up to their expectations. In the first half of 2018, we made final preparations for a number of new IT initiatives, including the improvement of data collection from all touchpoints and the integration of a customer relationship management system to better understand consumer needs. While these will help drive our strategic initiatives more effectively, we have implemented a range of measures to safeguard and secure the data we collect, as part of our commitment to protecting data privacy. We are in the final stages of rolling out an area-wide high-speed Wi-Fi system. We also aim to enhance the customer shopping experience by creating a paperless e-coupon system. All these offerings are scheduled to launch in the second half of 2018. Looking ahead, better big data analytics, the adoption of the IoT ("Internet of Things") and wider use of artificial intelligence are among the significant areas we are exploring for our retailing future.

Office

We identified co-working spaces will play a significant part in the global as well as Hong Kong's office scene in the foreseeable future. We are committed to providing a tech-friendly environment where sharing and collaboration are the norm. One of the best-known names in the co-working industry, Spaces, has chosen Lee Garden Three as its flagship. We look forward to Spaces' top quality experiences, which go hand in hand with their attractive design and work ambience. Other comprehensive offerings in this area include community-minded co-work space, theDesk, as well as more traditional business centres like Regus and Compass. These will provide ideal solutions to enhance corporate flexibility and efficiency, as well as networking and social interaction, which in turn will drive potential partnership and relationship building.

Lee Garden Three also welcomes an exciting range of multinational corporations, including renowned international banking institutions. These tenants require the highest standards in both building hardware and software. The building's green and wellness facilities with easy access to the lower floor retail podium which has an original mix of food and beverages and lifestyle shops plus generous car parking facilities, have proven to be the right formula to attract strong interest from retail and office tenants.

The high demand for non-Central core Grade A office space continues, while Central remains the most expensive office address in the world. Causeway Bay's advantage of being only a couple of MTR stops away from Central ensures it remains a top choice for major international corporations, especially those that value good work-life integration for their staff members. Our reputation for creating a quality office community is enhanced by our focus on lifestyle offerings within the portfolio, as well as the events and activities which regularly take place both in our malls and our neighbourhood.

Nurturing a Successful Ecosystem

We made good use of the slower times to make directional changes throughout our portfolio. We will continue to grow a progressive and inclusive retail and office ecosystem that responds to the needs and demands of modern-day users. All our initiatives are supported by a sustainability-minded and community-friendly environment, which will welcome locals and visitors for generations to come.

Results

The Group's turnover for the 2018 interim period was HK\$1,912 million, up 6.8% from the same period in 2017 (2017: HK\$1,791 million). As at 30 June 2018, our retail portfolio occupancy was 96%, while the office portfolio was 95%. These figures already include occupation in the new Lee Garden Three. The residential portfolio's occupancy was 79%.

Recurring Underlying Profit for 2018 interim period, our key leasing business performance indicator, and Underlying Profit, were both HK\$1,280 million (both up 4.3% from HK\$1,227 million in 2017). These performances primarily reflected gradual occupation of the newly completed Lee Garden Three and growth in gross profit of our portfolio. Basic earnings per share based on Recurring Underlying Profit was HK122.37 cents (2017: HK117.37 cents), up 4.3%.

Our Reported Profit for 2018 interim period was HK\$3,013 million (2017: HK\$746 million). This reflected a fair value gain of HK\$1,790 million (2017: fair value loss of HK\$775 million) on the Group's investment properties' valuation. As at 30 June 2018, the independent professional valuation of the Group's investment property portfolio was HK\$75,436 million (31 December 2017: HK\$72,470 million). This reflected the convergence of a number of factors: the recovery of the retail sector, a continued positive outlook on office rentals, and enhanced asset value after a number of upgrade works. The capitalisation rates of each portfolio remained unchanged when compared to those adopted at the end of 2017.

Shareholders' Funds increased by 2.7% to HK\$71,807 million (31 December 2017: HK\$69,953 million), principally reflecting the valuation gain from the investment property.

Our financial position remains strong, with net interest coverage of 17.9 times (2017: 19.3 times) and net debt to equity ratio of 5.6% (31 December 2017: 5.0%).

Dividends

The Board of Directors ("the Board") has declared a first interim dividend of HK27 cents per share (2017: HK26 cents). The dividend will be payable in cash.

Outlook

The global economic outlook for the rest of 2018 remains healthy, despite concerns over changes in international trade policies, potential geopolitical upheavals and the prospect of interest rate increases. Hong Kong's economic growth is expected to remain steady.

Hysan continues to curate and grow our portfolio and is committed to building our neighbourhood and community. The Group is focused on the next generation of customers and we have initiated changes both in terms of satisfying their retail needs as well as working environment requirements. The past few years of retail downturn has given Hysan the opportunity to reinvent and reimagine our proposition and to emerge stronger than ever.

Last but not least, our commemoration of nearly a century in Causeway Bay is in full swing. We look forward to celebrating our 95th birthday with our Lee Gardens Community.

Lee Irene Yun-Lien

Chairman

Hong Kong, 7 August 2018

Management's Discussion and Analysis

Review of Operations

The Group's turnover in the first half of 2018 was HK\$1,912 million, representing an increase of 6.8% year-on-year (2017: HK\$1,791 million).

Hysan is committed to providing a steady growth of return for our shareholders. The vast majority of our properties are located in Hong Kong's Causeway Bay, more specifically in the Lee Gardens area. It is an inclusive community with local and international flavours that showcases contrast and diversity. The area's sophisticated retail landscape and forward-thinking office setup have also been developed with a strong sustainability mind-set. The Group will continue its push to innovate and curate unique content for the neighbourhood, which aims to be the heartbeat of Hong Kong.

Retail Portfolio

The Group's retail portfolio turnover was down slightly by 2.3% to HK\$962 million (2017: HK\$985 million), including turnover rent of HK\$54 million, a significant improvement from HK\$25 million in 2017. The overall rental reversion in renewals, rent review and new lettings was largely neutral. The portfolio's occupancy, including the new Lee Garden Three's retail portion, was 96%, as at 30 June 2018 (31 December 2017: 97%, excluding Lee Garden Three).

Foot traffic in Hysan's retail portfolio saw an increase of around 10% in the first six months of 2018, as compared to the same period in 2017. This included a healthy increase in the number of Mainland Chinese visitors. The footfall improvement also reflected a general improvement in the estimated overall tenant sales within the portfolio in the first six months of the year. Estimated tenant sales increased by over 25% when compared to the same period last year. This compared favourably with Hong Kong's overall retail sales of 13.4% year-on-year growth.

Lee Garden Three, the brand new building completed in late December 2017, underwent a soft opening for its retail portion in April 2018. Newly-joined tenants included a flagship Starbucks restaurant, which received good reviews for its food and drinks offerings, and has been attracting a steady and enthusiastic crowd ever since its opening. Lifestyle stores such as HOMELESS, Tavolo Kids Living, BoConcept, KitchenAid and Stressless all moved in, as well as M Plus, the hair stylist. A grand opening for the building is scheduled for the second half of 2018.

Other newly-joined tenants included popular restaurants 10 Shanghai and Ta-ke at Lee Garden Two. Sake Diamond, Velveteen and BabyNes are all new tenants at Lee Gardens, while n.o.t. Specialty Coffee has already carved a name for itself with quality coffee at Lee Garden One. At Hysan Place, the 5th floor welcomed a number of new or expanded tenants such as Converse, VANS and côte&ciel to enhance the offerings aimed at younger generations.

Cathay Pacific/HSBC Rugby Sevens Festival at Lee Gardens was the talk of the town in the weeks leading up to Hong Kong's premier international sporting event in the spring. More than 50,000 people attended the event over three weekends of street fun and games. The pre-event promotion of Rugby-and-food-themed artwork generated considerable attention on social media and one Instagram feed received around 10,000 likes just after it was published! The Lee Gardens Egglette Festival, the Rugby Fanwalk and Wolfpack Ninja's obstacle course provided family fun for thousands of participants and further showcased Hysan's ability to organise major street events. Similar to last year, these street activities were complemented by successful shopping and dining promotions, which were greatly appreciated by shops/restaurants and visitors alike.

Both the spring Leisure and summer Shopaholic campaigns form an integral part of Hysan's and Lee Gardens' retail promotions to attract more footfall and spending. Such initiatives complement a range of other offers provided during Chinese New Year, Valentine's Day and Mother's Day. Hysan partnered with HSBC, Hang Seng Bank and China Merchants Bank to launch a number of banks- and credit cards-related promotional programmes, with several of them focusing on dining experiences.

Other initiatives included a special breakfast gathering for owners of the supercar Lamborghini, a Nike's Yoga Day, Absolutely Fabulous Children's Theatre's monthly Aesop Fable performances, and the Hong Kong Ballet's "ALICE (in wonderland)" street ballet spectacular. The aim of all these programmes is to provide unique experiences, attract more attention to the Lee Gardens area and create an abundance of shopping opportunities.

Both our loyalty programmes, Club Avenue for VIPs and Lee Gardens Plus for general shoppers, saw a substantial percentage growth in the number of members in the first half of 2018, as compared to the same period in 2017. For Club Avenue, sales attributable to members saw double-digit percentage growth as compared to 2017. We will continue to provide attractive promotional offers to encourage the further growth of these two highly successful programmes.

We are also heartened by our social media results. We improved both our Facebook and WeChat followers by double-digit percentages as compared to the same period last year. We are pushing ahead with our digital enhancement in the coming months through an area-wide high-speed Wi-Fi system, as well as offering more attractive e-coupons within our Lee Gardens app in an effort to provide a comprehensive paperless shopping experience. A brand-new Lee Gardens app for services and promotions will also be coming on line in the near future.

Hysan is encouraged by the achievements of Lee Gardens Association, the neighbourhood business association it helped found two years ago. Not only is it a main organiser of successful street events in the area, it has also forged strong links between association members, through its newly launched social media programmes and other activities. In addition, the Association has been introducing a number of creative business concepts to the low-rise neighbourhood's property owners with the aim of curating the area into a destination for locals and visitors alike.

Office Portfolio

The Group's office portfolio turnover increased by 22.0% to HK\$820 million (2017: HK\$672 million). The performance reflected contributions from Lee Garden Three, as well as overall positive rental reversion on renewals, rent review, and new lettings.

The office portfolio occupancy was 95%, as at 30 June 2018, including occupancy of the new Lee Garden Three (31 December 2017: 96%, excluding Lee Garden Three).

The decentralisation trend for multinational and local corporations continued well into the first half of 2018. Causeway Bay is only two MTR stops away from Admiralty (and three from Central). It is therefore regarded as a highly convenient location with a plethora of shopping, food and beverage outlets, as well as health and wellness offerings to complement the ease-of-travel factor. New tenants have moved in or are in the process of moving into Lee Garden Three. These include a major international financial institution, which is ready to house a portion of its Hong Kong operations in the building, as well as Spaces, the full service co-working venue provider. Lee Gardens is now home to a range of co-working spaces and business centres, like theDesk, Regus and Compass, ready to service the younger working crowds who need flexibility in their office arrangements. Banking and Finance have now overtaken Professional and Consulting as the sector that occupies the largest area, while Insurance and Semi-Retail are the next active sectors in terms of space occupied. The four sectors together take up around 50% of our lettable floor area. Only Banking and Finance occupied slightly more than 20% of the total lettable area, while all other sectors have remained below the 20% level, reflecting a diverse tenant mix.

Residential Portfolio

Hysan's residential portfolio, comprising mainly the units in Kennedy Road's Bamboo Grove, saw a 3.0% decrease in turnover to HK\$130 million (2017: HK\$134 million). The sector's occupancy improved to 79% (31 December 2017: 75%). There are still a number of units being renovated to improve the overall quality of the units on offer, which has created a near-term effect of comparatively low occupancy. The renovated units have proven to be marketable and popular.

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

Tai Po Luxury Residential Project

A number of statutory submissions are ongoing for this New Territories residential project. The General Building Plan was approved in July 2018. Site formation work and foundation are now scheduled to begin in the second half of this year.

Financial Review

Operating Costs

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

Property expenses increased by 19.1% to HK\$224 million (2017: HK\$188 million), mainly due to new Lee Garden Three becoming operational in December 2017. Excluding the impact of Lee Garden Three, the property expenses for the remaining properties are at par with the corresponding period in 2017. The property expenses to turnover ratio slightly increased to 11.7% in 2018 from 10.5% in 2017.

Administrative expenses increased slightly by 1.9% to HK\$108 million (2017: HK\$106 million) in the first half of 2018 which reflected our cost control efforts.

Finance Costs

Finance costs increased to HK\$107 million, compared to HK\$75 million in first half of 2017, mainly due to the interest capitalisation of HK\$28 million in the last period during Lee Garden Three's construction period. If the capitalised interest expenses and related borrowing costs were included in the last period, the Group's finance costs in 2017 would have been HK\$103 million. The finance costs of 2018 would then have only been increased slightly by HK\$4 million or 3.9%, reflecting the increasing trend in interest rates of our floating rate debts.

The Group's average cost of finance for the interim period was 3.5%, a slight increase from 3.4% reported for the first half of 2017 and full-year 2017, due to the increase in interest rate from floating rate debts.

Revaluation of Investment Properties

As at 30 June 2018, the investment properties of the Group were revalued at HK\$75,436 million (31 December 2017: HK\$72,470 million) by an independent professional valuer. During the first half of 2018, a fair value gain on investment properties (after considering capital expenditure spent on the Group's investment properties) of HK\$1,790 million (2017: a fair value loss of HK\$775 million) was recognised in the condensed consolidated statement of profit or loss. This figure continued to reflect the net effect of several factors: a recovery of the retail sector, the continued positive outlook on office rental and enhanced asset value after a number of upgrade works.

Investment in Associates and a Joint Venture

The Group's investment in associates represents interests in Shanghai Grand Gateway in Shanghai, China, and two restaurants at Lee Garden Two. The shared results increased by 29% to HK\$137 million (2017: HK\$106 million). As at 30 June 2018, properties at Shanghai Grand Gateway had been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, of the associate amounted to HK\$33 million (2017: HK\$1 million). The two restaurants were opened in early 2018 and have made satisfactory progress.

The Group's investment in a joint venture represents interests in a Tai Po residential project. The increase in carrying value represents costs incurred by the project.

Other Investments

In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in investment grade debt securities and in a property fund. This helped to preserve the Group's liquidity and to enhance interest yields.

Investment income, comprising mainly interest income, amounted to HK\$33 million (2017: HK\$38 million) in the first half of 2018. The decrease was mainly due to the HK\$329 million term note matured and not reinvested, and a decrease in cash balance.

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\$943 million during the interim period (2017: HK\$687 million), including the payment of construction costs of Lee Garden Three.

Treasury Policy

Market Highlights

The global economic conditions were considered healthy at the beginning of this year. The Federal Reserve raised the federal funds rate by 50 basis points, i.e. 25 basis points each in March and June 2018 respectively, in view of strong employment figures and rising inflation. The Federal Reserve expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity. Under the currency board system, Hong Kong's interest rates went up in line with the federal fund rates. Hong Kong Dollar Hibor rates rose sharply during the second quarter of 2018 while the differential with the U.S. Libor rates narrowed.

Hong Kong's economy is fundamentally in good shape. The robust performance of Hong Kong's retail sales since early this year has been driven by a rise in inbound tourist arrivals and domestic household spending. It is expected that the completion this year of the two mega infrastructure projects, namely the Hong Kong-Zhuhai-Macau Bridge and the Express Rail Link, may further benefit the economy.

Over the past several months, uncertainties have grown in the financial markets due to the possible worsening of global trade tensions, further tightening of the U.S. monetary policy and the rising U.S. dollar. Financial conditions in Hong Kong may be adversely affected by these trends. It is therefore important for the Group to continue our policy of prudent financial management.

Capital Structure Management

The Group's total gross debt¹ level as at 30 June 2018 decreased to HK\$6,026 million (31 December 2017: HK\$6,176 million). The Group's average debt maturity was at 3.9 years as at 30 June 2018 (31 December 2017: 4.3 years). The following shows the debt maturity profile of the Group at 2018 interim period-end and 2017 year-end:

	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million
Maturing in not exceeding one year	300	150
Maturing in more than one year but not exceeding two years	500	800
Maturing in more than two years but not exceeding five years	4,472	2,146
Maturing in more than five years	754	3,080
	6,026	6,176

As at 30 June 2018, bank loans accounted for approximately 25.7% of the Group's total gross debt, with the remaining 74.3% from capital market financing (31 December 2017: 25.1%: 74.9%). All of the Group's debts are unsecured and on a committed basis.

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. As at 30 June 2018, the fixed rate debt was approximately 74.3% of the total gross debt (31 December 2017: 74.9%).

Liquidity Management

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 2018 interim period-end (31 December 2017: HK\$950 million), essentially allow the Group to obtain additional liquidity as the need arises, and will expire in 2021 and 2022.

¹ The gross debt represents the contractual principal payment obligations at 30 June 2018. 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 condensed consolidated statement of financial position as at 30 June 2018, the book value of the outstanding debt of the Group was HK\$6,029 million (31 December 2017: HK\$6,185 million).

Foreign Exchange Management

The Group aims to have minimal mismatches in currency and does not speculate in currency movements for debt management. On the funding side, with the exception of the US\$300 million fixed rate notes, which have been hedged back to Hong Kong dollars, all of the Group's borrowings were denominated in Hong Kong dollars.

On the investment side, the Group closely monitors its foreign currency exposure to ensure it falls within the internal limits. The Group only has unhedged foreign currency exposures in USD arising from cash, time deposits, and debt securities, which amounted to US\$78 million (31 December 2017: US\$128 million).

Other foreign exchange exposure mainly relates to investments in the Shanghai associates. These unhedged foreign exchange exposures amounted to the equivalent of HK\$3,699 million (31 December 2017: HK\$3,779 million) or 4.4% (31 December 2017: 4.6%) of the Group's total assets.

Financial Ratios

Net interest coverage (defined as gross profit less administrative expenses before depreciation divided by net interest expenses) remains strong at 17.9 times for the first half of 2018 (2017: 19.3 times).

Net debt to equity (defined as borrowings less time deposits, cash and cash equivalents divided by shareholders' funds) increased slightly to 5.6% as at 30 June 2018 (31 December 2017: 5.0%) reflecting cash used for continuous investment in asset enhancement.

Credit Ratings

As at 30 June 2018, the Group's credit ratings were maintained at A3 from Moody's and BBB+ from Standard and Poor's.



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 16 to 51, which comprise the condensed consolidated statement of financial position as of 30 June 2018 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

7 August 2018

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018 (unaudited)

	Notes	Six months ended 30 June	
		2018 HK\$ million	2017 HK\$ million
Turnover	3	1,912	1,791
Property expenses		(224)	(188)
Gross profit		1,688	1,603
Investment income	5	33	38
Other gains and losses		(9)	–
Administrative expenses		(108)	(106)
Finance costs	6	(107)	(75)
Change in fair value of investment properties		1,790	(775)
Share of results of associates		137	106
Profit before taxation		3,424	791
Taxation	7	(241)	(243)
Profit for the period	8	3,183	548
Profit (loss) for the period attributable to:			
Owners of the Company		3,013	746
Non-controlling interests		170	(198)
		3,183	548
Earnings per share (expressed in HK cents)			
Basic	9	288.06	71.36
Diluted	9	287.88	71.34

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018 (unaudited)

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
Profit for the period	3,183	548
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	32	26
Deferred taxation arising on revaluation	(5)	(4)
	27	22
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Derivatives designated as cash flow hedges:		
Net gains (losses) arising during the period	10	(60)
Reclassification adjustments for net losses included in profit or loss	(7)	(10)
	3	(70)
Share of translation reserve of an associate	(36)	108
	(33)	38
Other comprehensive (expenses) income for the period (net of tax)	(6)	60
Total comprehensive income for the period	3,177	608
Total comprehensive income (expenses) attributable to:		
Owners of the Company	3,007	806
Non-controlling interests	170	(198)
	3,177	608

Condensed Consolidated Statement of Financial Position

At 30 June 2018 (unaudited)

	Notes	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million (audited)
Non-current assets			
Investment properties	11	75,436	72,470
Property, plant and equipment		839	751
Investments in associates		3,696	3,779
Loans to associates		11	10
Investment in a joint venture		147	147
Loans to a joint venture		1,026	982
Fund investment		151	21
Term notes		31	228
Other financial assets		1	2
Other receivables	12	284	332
		81,622	78,722
Current assets			
Accounts and other receivables	12	137	226
Term notes		377	509
Other financial assets		–	1
Time deposits		73	628
Cash and cash equivalents		1,931	2,034
		2,518	3,398
Current liabilities			
Accounts payable and accruals	13	855	736
Other financial liabilities		1	1
Rental deposits from tenants		369	389
Amounts due to non-controlling interests		223	327
Borrowings	14	300	150
Taxation payable		282	158
		2,030	1,761

Condensed Consolidated Statement of Financial Position *continued*

At 30 June 2018 (unaudited)

	Notes	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million (audited)
Net current assets		488	1,637
Total assets less current liabilities		82,110	80,359
Non-current liabilities			
Borrowings	14	5,729	6,035
Other financial liabilities		18	30
Rental deposits from tenants		594	506
Deferred taxation		808	787
		7,149	7,358
Net assets		74,961	73,001
Capital and reserves			
Share capital		7,707	7,692
Reserves		64,100	62,261
Equity attributable to owners of the Company		71,807	69,953
Non-controlling interests		3,154	3,048
Total equity		74,961	73,001

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 (unaudited)

	Attributable to owners of the Company		
	Share capital HK\$ million	Share options reserve HK\$ million	General reserve HK\$ million
At 31 December 2017 (audited)	7,692	21	96
Opening adjustment on HKFRS 9 (note 2)	–	–	–
At 1 January 2018 (restated)	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)	–	–	–
At 30 June 2018 (unaudited)	7,707	20	96
At 1 January 2017 (audited)	7,673	24	100
Profit for the period	–	–	–
Net losses arising from hedging instruments	–	–	–
Reclassification adjustments for net losses included in profit or loss	–	–	–
Gain on revaluation of properties held for own use (Note a)	–	–	–
Deferred taxation arising on revaluation of properties held for own use	–	–	–
Share of translation reserve of an associate	–	–	–
Total comprehensive (expenses) income for the period	–	–	–
Issue of shares under share option schemes	5	(1)	–
Recognition of equity-settled share-based payments	–	2	–
Forfeiture of share options	–	(3)	–
Dividends paid during the period (note 10)	–	–	–
At 30 June 2017 (unaudited)	7,678	22	100

Note:

- (a) The Group's leasehold land and buildings classified as property, plant and equipment were revalued at 30 June 2018 and 2017 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\$32 million (2017: HK\$26 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	(43)	409	278	61,499	69,953	3,048	73,001
-	-	-	-	(6)	(6)	-	(6)
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
1	12	371	38	59,271	67,490	3,195	70,685
-	-	-	-	746	746	(198)	548
-	(60)	-	-	-	(60)	-	(60)
-	(10)	-	-	-	(10)	-	(10)
-	-	26	-	-	26	-	26
-	-	(4)	-	-	(4)	-	(4)
-	-	-	108	-	108	-	108
-	(70)	22	108	746	806	(198)	608
-	-	-	-	-	4	-	4
-	-	-	-	-	2	-	2
-	-	-	-	3	-	-	-
-	-	-	-	(1,139)	(1,139)	(62)	(1,201)
1	(58)	393	146	58,881	67,163	2,935	70,098

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018 (unaudited)

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
Net cash from operating activities	1,496	1,428
Investing activities		
Payments in respect of investment properties	(943)	(687)
Interest received	23	21
Proceeds upon maturity of term notes	326	260
Proceeds upon maturity of time deposits with original maturity over three months	860	2,598
Payments in respect of fund investment	(141)	–
Purchases of property, plant and equipment	(12)	(8)
Advances to associates	(1)	–
Dividends received from an associate	184	–
Repayment from a joint venture	–	998
Advances to a joint venture	(34)	(26)
Additions to time deposits with original maturity over three months	(305)	(2,626)
Net cash (used in) from investing activities	(43)	530
Financing activities		
Payment for finance costs	(89)	(106)
Dividends paid	(1,161)	(1,139)
Dividends paid to non-controlling interests of a subsidiary	(64)	(62)
Repayments to non-controlling interests of a subsidiary	(104)	–
New bank loans	–	1,410
Repayment of bank loans	–	(1,340)
Repayment of fixed rate note	(150)	–
Proceeds on exercise of share options	12	4
Net cash used in financing activities	(1,556)	(1,233)
Net (decrease) increase in cash and cash equivalents	(103)	725
Cash and cash equivalents at 1 January	2,034	1,367
Cash and cash equivalents at 30 June	1,931	2,092

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018 (unaudited)

1. Basis Of Preparation

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The financial information relating to the year ended 31 December 2017 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 2017 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 2018 are the same as those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, 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 2018 as disclosed 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*

Changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers”

In the current period, the Group has applied HKFRS 15 for the first time retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations with no material effect on timing and amount of revenues recognised in these condensed consolidated financial statements.

The Group recognises revenue from the following major sources:

- Leasing of investment properties
- Provision of property management services

Revenue from leasing of investment properties will continue to be accounted for in accordance with Hong Kong Accounting Standard 17 “Leases”, whereas revenue from the provision of property management services recognised over time will be accounted for under HKFRS 15.

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods and services (or a bundle of goods or services) that are distinct or a series of distinct goods or services that are substantially the same.

2. Principal Accounting Policies *continued*

Changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers” *continued*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Impact and changes in accounting policies of application on HKFRS 9 “Financial Instruments”

Except for the 2010 versions of HKFRS 9 and the new requirements for hedge accounting issued in 2013 that were early adopted by the Group in previous years, the Group has applied the remaining sections of HKFRS 9 and the related consequential amendments to other HKFRSs in the current period, whereas the introduction of new requirements for expected credit losses (“ECL”) for financial assets is relevant to the Group.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the requirements for ECL retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

2. Principal Accounting Policies *continued*

Impact and changes in accounting policies of application on HKFRS 9 “Financial Instruments” *continued*

Changes in accounting policies

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on both quantitative and qualitative information combined with current conditions and forward-looking analysis. The Group evaluates the financial instruments on a collective basis, taking into account the instrument type, maturity date, and other relevant information with reference to the default rates of the counter parties of the instruments.

For financial assets at amortised cost, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Measurement and recognition of ECL

The measurement of ECL is a function of probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the discount rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17.

2. Principal Accounting Policies *continued*

Impact and changes in accounting policies of application on HKFRS 9 “Financial Instruments” *continued*

Changes in accounting policies *continued*

Measurement and recognition of ECL *continued*

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected loss is the present value of the expected payment to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Interest income is calculated based on the gross carrying amount of the financial assets unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of account receivables and term notes where the corresponding adjustment is recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Summary of financial impact arising from initial application of ECL model under HKFRS 9

As at 1 January 2018, the Directors of the Company reviewed and assessed the Group’s existing financial assets at amortised cost for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with HKFRS 9.

Loss allowance for financial assets at amortised cost is measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition. At the date of initial application on 1 January 2018, the additional credit loss allowance of approximately HK\$6 million has been recognised against retained profits. The additional loss allowance is charged against the respective financial assets.

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.

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

In second half of the financial year 2017, the Group's management began to monitor and review the operation of the Group's joint venture separately from other segments of the Group on a regular basis. Therefore, a separate operating and reportable segment is disclosed as property development. The figures for the six months ended 30 June 2017 have been re-presented accordingly for comparative purpose.

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 2018 (unaudited)					
Turnover					
Leasing of investment properties	884	724	115	–	1,723
Provision of property management service	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

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 2017 (unaudited)					
Turnover					
Leasing of investment properties	912	598	120	–	1,630
Provision of property management service	73	74	14	–	161
Segment revenue	985	672	134	–	1,791
Property expenses	(103)	(62)	(23)	–	(188)
Segment profit	882	610	111	–	1,603
Investment income					38
Administrative expenses					(106)
Finance costs					(75)
Change in fair value of investment properties					(775)
Share of results of an associate					106
Profit before taxation					791

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 2018 (unaudited)</i>					
Segment assets	34,441	32,937	8,072	1,172	76,622
Investments in and loans to associates					3,707
Fund investment					151
Other assets					3,660
Consolidated assets					84,140
<i>As at 31 December 2017 (audited)</i>					
Segment assets	33,195	31,325	7,961	1,129	73,610
Investments in and loans to associates					3,789
Fund investment					21
Other assets					4,700
Consolidated assets					82,120

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, 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	
	2018 HK\$ million	2017 HK\$ million
Interest income on financial assets measured at amortised cost	20	30
Reclassification of net losses from hedging reserve on financial instruments designated as cash flow hedges	(1)	(5)
Imputed interest income on interest-free loan to a joint venture	14	13
	33	38

6. Finance Costs

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
Finance costs comprise:		
Interest on unsecured bank loans	14	11
Interest on unsecured fixed rate notes	87	87
Total interest expenses	101	98
Other finance costs	4	3
Less: amounts capitalised (Note)	–	(28)
	105	73
Net exchange losses on borrowings	9	16
Reclassification of net gains from hedging reserve on financial instruments designated as cash flow hedges	(8)	(15)
Medium Term Note Programme expenses	1	1
	107	75

Note:

During the six months ended 30 June 2017, interest expenses have been capitalised to investment properties under redevelopment at an average interest rate of 3.42% per annum.

7. Taxation

	Six months ended 30 June	
	2018	2017
	HK\$ million	HK\$ million
Current tax		
Hong Kong Profits Tax		
– current period	222	216
– underprovision in prior periods	3	–
	225	216
Deferred tax	16	27
	241	243

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	
	2018	2017
	HK\$ million	HK\$ million
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	9	12
Gross rental income from investment properties including contingent rentals of HK\$54 million (2017: HK\$25 million)	(1,723)	(1,630)
Staff costs (including directors' emoluments)	127	120
Share of income tax of associates (included in share of results of associates)	60	46

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	
	2018	2017
	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	3,013	746
	<hr/>	
	Number of shares	
	Six months ended 30 June	
	2018	2017
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,045,976,162	1,045,374,861
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	642,092	282,061
	<hr/>	
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,046,618,254	1,045,656,922

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 (i.e. leasing of investment properties), the management is of the view that the profit for the period attributable to the owners of the Company should be adjusted in the calculation of basic and diluted earnings per share as follows:

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	288.06	287.88
Change in fair value of investment properties	(1,790)	(171.14)	(171.03)
Effect of non-controlling interests' shares	95	9.08	9.08
Share of change in fair value of investment properties (net of deferred taxation) of associates	(33)	(3.15)	(3.15)
Imputed interest income on interest-free loan to a joint venture	(14)	(1.34)	(1.34)
Other gains and losses	9	0.86	0.86
Underlying Profit	1,280	122.37	122.30
Recurring Underlying Profit	1,280	122.37	122.30

9. Earnings Per Share *continued*

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

For the six months ended 30 June 2017 (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	746	71.36	71.34
Change in fair value of investment properties	775	74.13	74.12
Effect of non-controlling interests' shares	(280)	(26.78)	(26.78)
Share of change in fair value of investment properties (net of deferred taxation) of associates	(1)	(0.10)	(0.10)
Imputed interest income on interest-free loan to a joint venture	(13)	(1.24)	(1.24)
Underlying Profit	1,227	117.37	117.34
Recurring Underlying Profit	1,227	117.37	117.34

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 2018 and 30 June 2017, 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	
	2018 HK\$ million	2017 HK\$ million
2017 second interim dividend paid – HK111 cents per share	1,161	–
2016 second interim dividend paid – HK109 cents per share	–	1,139
	1,161	1,139

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

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
First interim dividend declared – HK27 cents per share (2017: HK26 cents per share)	283	272

The first interim dividend for 2018 is not recognised as a liability as at 30 June 2018 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
At 1 January 2018	72,470
Additions	1,229
Transfer to property, plant and equipment	(53)
Change in fair value recognised in profit or loss – unrealised	1,790
At 30 June 2018	75,436

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 at 30 June 2018 and 31 December 2017 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

	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million
Accounts receivable	15	11
Interest receivable	42	44
Prepayments in respect of investment properties	122	283
Other receivables and prepayments	242	220
Total	421	558
Analysed for reporting purposes as:		
Current assets	137	226
Non-current assets	284	332
	421	558

Rents from leasing of investment properties are normally received in advance. At 30 June 2018, accounts receivable of the Group with carrying amount of HK\$15 million (31 December 2017: HK\$11 million) mainly represented rental receipts in arrears, which were aged less than 90 days.

13. Accounts Payable And Accruals

	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million
Accounts payable	204	215
Interest payable	87	74
Other payables	564	447
	855	736

As at 30 June 2018, accounts payable of the Group with carrying amount of HK\$118 million (31 December 2017: HK\$157 million) were aged less than 90 days.

14. Borrowings

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

	Current		Non-Current	
	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million
Unsecured bank loans	–	–	1,534	1,550
Unsecured fixed rate notes	300	150	4,195	4,485
	300	150	5,729	6,035

15. Commitments

As at 30 June 2018 and 31 December 2017, the Group had the following commitments in respect of its investment properties, property, plant and equipment and subscription to a fund investment as limited partner:

	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million
(a) Capital commitment: Contracted but not provided for investment properties and property, plant and equipment	146	1,233
(b) Other commitment: Subscription to a fund investment as limited partner	222	369

16. Contingent Liability

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

	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million
Guarantees given to banks in respect of:		
Banking facilities of a joint venture attributable to the Group		
– Utilised	999	999
– Unutilised	2,001	2,001
	3,000	3,000

During the year ended 31 December 2017, the Group issued corporate financial guarantees to banks in respect of banking facilities granted to a joint venture. At the end of the reporting period, the Group did not recognise any liabilities in respect of such corporate financial guarantees as the Directors of the Company consider that 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 been also 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 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 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 2018 HK\$ million	Six months ended 30 June 2017 HK\$ million	At 30 June 2018 HK\$ million	At 31 December 2017 HK\$ million
Related company controlled by a shareholder (Note a)	-	2	-	-
Related company controlled by the Directors of the Company (Note b(i) & (ii))	21	20	64	94
Non-controlling shareholder of a subsidiary (Note c(i) & (ii))	15	14	159	233

17. Related Party Transactions And Balances *continued*

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

Notes:

- (a) The sum of transactions represents the aggregate gross rental income received from Atlas Corporate Management Limited, a wholly-owned subsidiary of Lee Hysan Estate Company, Limited (“LHE”). As at 30 June 2017, LHE held 41.43% beneficial interest and had significant influence over the Company.
- (b)
 - (i) The sum of transactions represents the aggregate gross rental income received from related companies where the Directors of the Company have controlling interests over these related companies.
 - (ii) The balance represents outstanding loan advanced to a non wholly-owned subsidiary of the Group, Barrowgate Limited (“Barrowgate”) by Jebesen Capital Limited (formerly known as Mightyhall Limited), a wholly-owned subsidiary of Jebesen and Company Limited, of which Jebesen Hans Michael, Non-Executive Director of the Company, is a director and a controlling shareholder, as shareholders’ loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.
- (c)
 - (i) The transaction represents the gross rental income received from Hang Seng Bank Limited (“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 represents outstanding loan advanced to Barrowgate by Imenson, as shareholders’ loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.
- (d) During the six months ended 30 June 2017, the Group acquired investment property through acquisition of a subsidiary from a wholly-owned subsidiary of LHE at a consideration of HK\$75 million.

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	
	2018 HK\$ million	2017 HK\$ million
Directors' fees, salaries and other short-term employee benefits	21	17
Share-based payments	2	2
Retirement benefits scheme contributions	–	–
	23	19

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 2017.

(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\$4,495 million (31 December 2017: HK\$4,635 million) fixed rate notes as stated in note 14 with fair value of HK\$4,483 million (31 December 2017: HK\$4,737 million).

The fair value of HK\$2,338 million (31 December 2017: HK\$2,391 million) of the fixed rate notes is categorised into Level 1 of the fair value hierarchy, in which the fair value was derived from quoted prices in an active market translated at the spot foreign exchange rate of the respective currency at period end.

The fair value of HK\$2,145 million (31 December 2017: HK\$2,346 million) of the fixed rate notes is categorised into Level 2 of the fair value hierarchy, in which the fair value was measured using discounted cash flow methodology based on observable yield curves of the respective currency taking into account the credit margin of the Group as appropriate.

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*

	At 30 June 2018			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
Financial assets				
<i>Financial assets at fair value through profit or loss</i>				
Unlisted club debenture	-	1	-	1
Fund investment	-	-	151	151
Total	-	1	151	152
Financial liabilities				
<i>Derivatives under hedge accounting</i>				
Forward foreign exchange contracts	-	1	-	1
Cross currency swaps	-	18	-	18
Total	-	19	-	19

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*

	At 31 December 2017			
	Level 1	Level 2	Level 3	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Financial assets				
<i>Derivatives under hedge accounting</i>				
Forward foreign exchange contracts	–	2	–	2
<i>Financial assets at fair value through profit or loss</i>				
Unlisted club debenture	–	1	–	1
Fund investment	–	21	–	21
Total	–	24	–	24
Financial liabilities				
<i>Derivatives under hedge accounting</i>				
Forward foreign exchange contracts	–	1	–	1
Cross currency swaps	–	30	–	30
Total	–	31	–	31

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

	Fund investment HK\$ million
At 1 January 2018	–
Transfers into Level 3	162
Losses recognised in profit or loss	(11)
At 30 June 2018	151

In current period, fund investment at fair value through profit or loss was transferred from Level 2 to Level 3. Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs of the underlying assets and liabilities of the fund investment.

The unrealised fair value losses of approximately 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

Forward foreign exchange contracts 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.

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

(b) Fair value measurements *continued*

(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 2018, 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 on 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 2018.

Highlights for the first half of 2018

Hysan embraces strong governance as the foundation for delivering its strategic objective of consistent and sustainable performance. For the first half of 2018:

- Hysan has adopted 10% limit for share issuance and set a discount of not more than 10% on the share issue price thereon under the general mandate to issue additional shares which was approved by the shareholders in May 2018 at the Company’s annual general meeting (“AGM”).
- Audit Committee has reviewed and discussed with management and the external auditors the unaudited condensed consolidated financial statements for the six months ended 30 June 2018.
- Audit Committee has considered risk registers and compliance enhancement program in monitoring our risk exposures and alignment with the new regulatory development.
- Remuneration Committee has approved the compensation package for the Executive Director, and reviewed remuneration for Non-Executive Directors, Board Committee members and senior management.

Our Board and Board Committees

Board

As at 30 June 2018, 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**
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 2018, the composition of our Board Committees remained the same as those set out in our 2017 Annual Report and is also set out in the section "Corporate Information" below.

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 50 to 57 of Hysan's 2017 Annual Report.

The Audit 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 2018 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 2017 Annual Report:

	Appointment (effective)	Cessation (effective)
Lee Irene Yun-Lien		
• Hong Kong Monetary Authority – member of the Exchange Fund Advisory Committee	1 May 2018	–
• CLP Holdings Limited* – independent non-executive director	–	4 May 2018
Lau Lawrence Juen-Yee		
• Semiconductor Manufacturing International Corporation* – independent non-executive director	22 June 2018	–
* Currently listed on the Stock Exchange		

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

Directors' Emoluments

The Remuneration Committee met in February 2018 to (1) approve the 2018 annual fixed base salary and the annual special fee of the Company's Executive Director; (2) determine the 2017 performance-based bonus of the Company's Executive Director; and (3) review and recommend for the Board and shareholders' approval, the revision of annual fee payable to Non-Executive Directors to HK\$250,000 (which was approved at the 2018 AGM and took effect from 1 June 2018).

Share options were also granted to the Executive Director(s) on 1 March 2018 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 2018, 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. 1,046,199,225 ordinary shares) as at 30 June 2018.
- (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 headed "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% 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 2018 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

The Company has 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. 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, a total of 956,200 share options were granted under the New Scheme. The 2005 Scheme expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

As at 30 June 2018:

- (i) 1,500,667 share options granted and fully-vested under the 2005 Scheme remained outstanding, representing approximately 0.14% of the total number of issued shares of the Company; and
- (ii) 2,264,200 share options granted (including 597,994 fully-vested share options) under the New Scheme remained outstanding, representing approximately 0.22% 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 1.1.2018	Changes during the period			Balance as at 30.06.2018
					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 1.1.2018	Changes during the period			Balance as at 30.06.2018
					Granted	Exercised	Cancelled/ lapsed (Note b)	
Eligible employees (Note c)	31.3.2009	13.30	31.3.2010 – 30.3.2019	59,000	–	–	–	59,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	70,334	–	(20,334) (Note d)	–	50,000
	31.3.2011	32.00	31.3.2012 – 30.3.2021	54,000	–	(22,000) (Note e)	–	32,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	105,334	–	(21,334) (Note f)	–	84,000
	28.3.2013	39.20	28.3.2014 – 27.3.2023	153,000	–	(28,000) (Note g)	(13,000)	112,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	154,000	–	(102,000) (Note h)	–	52,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	204,667	–	(66,333) (Note i)	(3,667)	134,667
				<u>1,777,335</u>	–	<u>(260,001)</u>	<u>(16,667)</u>	<u>1,500,667</u>

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 1.1.2018	Changes during the period			Balance as at 30.06.2018
					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 (Note j)	1.3.2019 – 29.2.2028	–	373,200	–	–	373,200
Eligible employees (Note c)	31.3.2016	33.05	31.3.2017 – 30.3.2026	377,668	–	(85,333) (Note k)	(15,335)	277,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	409,000	–	(29,000) (Note l)	(21,000)	359,000
	29.3.2018	41.50 (Note m)	29.3.2019 – 28.3.2028	–	583,000	–	(3,000)	580,000
				1,461,668	956,200	(114,333)	(39,335)	2,264,200

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 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 resignations of certain eligible employees.
- (c) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
- (d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$45.36.
- (e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$44.55.
- (f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$44.13.
- (g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$45.02.
- (h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$44.04.
- (i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.29.
- (j) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 February 2018) was HK\$45.35.
- (k) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.89.
- (l) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$43.69.

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Schemes *continued*

Movements of share options during the period *continued*

Notes: *continued*

- (m) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2018) was HK\$40.75.

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.

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 the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables may materially affect the estimation of the fair value of an option.

Directors' Interests in Shares *continued*

Long-term incentives: Share Option Schemes *continued*

Value of share options *continued*

The inputs into the Model were as follows:

Date of grant	29.3.2018	1.3.2018
Closing share price at the date of grant	HK\$41.500	HK\$43.700
Exercise price	HK\$41.500	HK\$44.600
Risk free rate (Note a)	1.802%	1.741%
Expected life of option (Note b)	5 years	5 years
Expected volatility (Note c)	17.923%	17.534%
Expected dividend per annum (Note d)	HK\$1.288	HK\$1.288
Estimated fair values per share option	HK\$4.900	HK\$4.760

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 2018, 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 a)
Lee Hysan Estate Company, Limited	Beneficial owner	433,130,735 (Note b)	41.40
Lee Hysan Company Limited	Interests of a controlled corporation	433,130,735 (Note b)	41.40
Silchester International Investors LLP	Investment manager	83,489,000	7.98
First Eagle Investment Management, LLC	Investment manager	52,460,214	5.01

Notes:

- (a) The percentage was compiled based on the total number of issued shares of the Company as at 30 June 2018 (i.e. 1,046,199,225 ordinary shares).
- (b) These interests represented the same block of shares of the Company. Lee Hysan Estate Company, Limited ("LHE") was a wholly-owned subsidiary of Lee Hysan Company Limited who was therefore deemed to be interested in the 433,130,735 shares in which LHE was interested.

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 2018.

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

During the six months ended 30 June 2018, 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 2018 was 492.

There has been no material change in respect of the human resources programmes, training and development as set out in the "2017 Corporate Responsibility Report".

Shareholder Information

FINANCIAL CALENDAR

Interim results announced	7 August 2018
Ex-dividend date for first interim dividend	20 August 2018
Closure of register of members and record date for first interim dividend	22 August 2018
Dispatch of first interim dividend warrants	(on or about) 31 August 2018

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, 22 August 2018.

The register of members will be closed on Wednesday, 22 August 2018, 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, 21 August 2018.

Dividend warrants will be dispatched to shareholders on or about Friday, 31 August 2018.

SHAREHOLDER SERVICES

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

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980 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**
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 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

STRATEGY COMMITTEE

Lee Irene Yun-Lien (*Chairman*)
Fan Yan Hok Philip**
Poon Chung Yin Joseph**
Jebsen Hans Michael B.B.S.*
Lee Chien*

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
Ticker Symbol for ADR Code: HYSNY
CUSIP reference number: 449162304

AUDITOR

Deloitte Touche Tohmatsu

Hysan Development Company Limited
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