Hysan 希慎

Hysan Development Company Limited
希慎興業有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code：00014)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

- **Turnover up 2.7% year-on-year; Recurring Underlying Profit up 1.3%**
- **Strong occupancy across our commercial portfolio (Retail: 99%; Office: 96%) against challenging global and local economic conditions**
- **Steady performance expected for full year, despite uncertain economic climate: majority of 2016 expiring commercial leases already committed**
- **Reported profit decline reflecting fair value loss on investment properties valuation**

RESULTS

		Six months ended 30 June		
		2016	2015	
	Notes	**HK$ million**	HK$ million	Change
Turnover	*1*	**1,760**	1,714	+2.7%
Recurring Underlying Profit	*2*	**1,178**	1,163	+1.3%
Underlying Profit	*3*	**1,178**	1,163	+1.3%
Reported Profit	*4*	**899**	2,289	-60.7%
		HK cents	HK cents	
Earnings per share, based on:				
Recurring Underlying Profit	*2*	**112.41**	109.32	+2.8%
Underlying Profit	*3*	**112.41**	109.32	+2.8%
Reported Profit	*4*	**85.78**	215.15	-60.1%
First interim dividend per share		**26.00**	25.00	+4.0%

		At 30 June 2016	At 31 December 2015	
		HK$ million	HK$ million	
Shareholders' Funds	*5*	**67,587**	68,172	-0.9%
		HK$	HK$	
Net Asset Value per Share	*6*	**64.65**	64.48	+0.3%

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 (such as gains or losses on disposal of long-term assets).*
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 consolidated income statement 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.*
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 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

Overview

The first half of 2016 proved to be a challenging one globally, with socio-political volatility exerting further pressure on the already fragile economic and financial conditions in many parts of the world. The choice of the United Kingdom electorate to vote for "Brexit" from the European Union in June's referendum was only the latest addition to a range of factors that have continued to generate economic uncertainties.

Not surprisingly, Hong Kong has been adversely affected by the strong headwinds from abroad. Exports have continued to contract. External negative influences together with local market consolidations are among the probable reasons for the slowdown in the otherwise reliable consumer spending.

Weaker domestic demand, compounded by the well-documented decline in the number of in-bound tourists from Mainland China, significantly impacted Hong Kong's retail sales. A large single-digit percentage decrease in retail sales, as compared to similar periods in 2015, was regularly recorded throughout the first six months of 2016. Significantly, the falls were no longer limited to the luxury goods category. Most of the other retail segments, including day-to-day consumables, also registered declines. The most striking was the decline in demand for festival-related goods during the Chinese New Year period, when most families would normally spend freely on food and drink to celebrate.

At Hysan, we had long anticipated the normalisation of retail growth after a nearly decade-long rise fuelled by tourist spending. By not having to rely on any one type of customer or focus on one price point, our diversification strategy has served us well. However, a general retail downturn did not, and will not, spare any price category. What we can do, and have been putting into practice, is to extract the most value out of the three distinct retail hubs. We have been carefully curating and fine tuning our retail portfolio. Among the products which consumers are willing to buy in this weaker spending climate are sports and lifestyle items. We therefore continued to add them to our tenant mix, thus catering to the increasing desire of consumers to balance their stressful urban lives with health and wellness activities. We have also focused our strategy on quality food and beverage outlets. Over the next six months, we will open a number of reasonably priced but interesting restaurants within our properties to further enhance the Lee Gardens experience.

We continue to make changes to our retail tenant mix to satisfy our mall customers. Among the key demographic groups are the Millennials. Not only are the Millennials the main spenders in the decades to come, they also tend to influence their parents' buying patterns and formats, thus impacting both the present and the future patterns of consumption.

It is well known that Millennials prefer digital solutions in most things they do, and as such, they can be smart and frugal shoppers having extensively and conveniently researched their desired items online. They also like to share ideas through social media, and approval by peers often determines whether one keeps or returns a piece of merchandise. Significantly, many recent reports have pointed to the fact that Millennials are still big supporters of brick-and-mortar stores, as they can feel and touch the showcased products, especially in large flagship stores. However, even if physical stores and shopping malls are here to stay, mall operators like Hysan need to ensure that our venues are set to cater to the Millennials' evolving mindsets. Such retail destinations need to have significant "pull" and "retain" elements to attract these younger consumers.

While shopping will continue to be the nucleus attraction in a retail venue, we need to provide interesting happenings to support this core activity. In recent years we have been bringing events and activities to our malls, and these have been praised for their originality and popularity. However, as online purchasing grows and matures, such activities themselves in isolation are unlikely to create enough pull factors to encourage Millennials to come and shop. Cross-channel experience, in our opinion, will soon be just as important, if not more so, when it comes to shopping, and shopping malls can still play a big part in this. Online and offline shopping activities must merge seamlessly and they must benefit each other to provide a better and faster service. Hysan has been testing a number of online-plus-offline sales models, which have proven popular amongst our VIP members, and we will continue to invest in suitable technology to stay ahead of these inevitable retail developments.

In our other main business sector, the Hong Kong office leasing market remained strong with tight supply and robust demand, especially in the core commercial districts, leading to continued low vacancy rates. This market is still driven by the financial industry with many Mainland Chinese enterprises occupying prime office space in Central and nearby areas. Tenants from other industries, therefore, have been seeking quality offices in other core areas, with Causeway Bay remaining a top choice. This is due to its convenient location, well-connected transportation options, and its renowned lifestyle offerings of shops and entertainment venues.

Hysan has long maintained a diverse office portfolio with no industry category taking up more than 20 per cent of the total lettable space. Although insurance, banking and other financial entities have a strong presence within our buildings, technology companies and professional/consulting firms also see the advantages, including cost effectiveness, of having their operations based in Lee Gardens. We will continue to diversify our tenant base and ensure our office premises remain top-of-mind choices.

Our Lee Garden Three development project continues to progress well and remains on schedule to be completed in late 2017. We have been exploring leasing options with a number of multinational corporations and local businesses both for the office and the retail floors, and we are confident we can achieve a quality tenant mix for this building. Our recently completed Lee Garden One lobby renovations have added retail floor space while also improved the connections between the office and retail podiums.

Hysan has been a part of the Causeway Bay community for almost 100 years and we are dedicated to building a sustainable community here. Improving our Lee Gardens precinct's pedestrian safety and walkability experience, as well as the environmental quality are among our short to medium term targets. Hysan will further explore the provision of two tunnels to link our existing and soon-to-be-completed car parks, subject to further discussion with the government. These tunnels are designed to help reduce street-level vehicular traffic, which in turn will improve on-grade pedestrian safety and reduce pollution. Furthermore, we have submitted applications to build two footbridges linking our buildings, in our bid to improve all-weather connectivity in the area. The pedestrian-friendly measures should tally with the government's policy on walkability, which has been a core focus in Kowloon East's development plans. In addition to hardware improvements, we have also set up a Lee Gardens Association with neighbouring businesses as members. The aim is to have coordinated area-wide events and activities, and to provide a forum for members to give input to and support future developments.

Results
The Group's turnover for the 2016 interim period was HK$1,760 million, up 2.7% from the same period in 2015 (2015: HK$1,714 million). As at 30 June 2016, our retail portfolio occupancy was 99%, while the office portfolio was 96%, and residential portfolio was at 89%.

Recurring Underlying Profit, our key leasing business performance indicator, and Underlying Profit, were both HK$1,178 million (both up 1.3% from HK$1,163 million in 2015). These performances primarily reflected the continued improvement in gross profit generated from our retail and office leasing activities. Basic earnings per share based on Recurring Underlying Profit was HK112.41 cents (2015: HK109.32 cents), up 2.8%.

Our Reported Profit for 2016 was HK$899 million (2015: HK$2,289 million), down 60.7% after taking into consideration capital expenditures during the period. Fair value loss of HK$280 million (2015: fair value gain of HK$1,160 million) on the Group's investment properties valuation was recorded this interim period. As at 30 June 2016, the independent professional valuation of the Group's investment property portfolio increased by 0.3% to HK$70,008 million (31 December 2015: HK$69,810 million), reflecting the net effect of a positive office rental outlook, a challenging retail rental outlook, as well as enhancement works made during the period. The Shareholders' Funds movement during the interim period, from HK$68,172 million as at 31 December 2015 to HK$67,587 million as at 30 June 2016, principally reflected the valuation change of the investment properties.

Dividends
The Board of Directors has declared a first interim dividend of HK26 cents per share (2015: HK25 cents). The dividend will be payable in cash.

Outlook
Economic volatility abroad and weaker Hong Kong fundamentals have made the first half of 2016 a challenging period. We anticipate continued volatility affected by global political and economic instability which will adversely impact local consumer sentiment for the foreseeable future.

We believe Hysan's quality office and retail offerings, backed by our commitment to provide short, medium and long term solutions for our stakeholders, will stand us in good stead while the economic climate remains uncertain. As the majority of our commercial leases expiring in 2016 have been committed, we expect a steady performance for the rest of the year.

Irene Yun Lien LEE
Chairman

Hong Kong, 2 August 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Review of Operations
The Group's turnover for the first half of 2016 was HK$1,760 million, representing a growth of 2.7% year-on-year (2015: HK$1,714 million).

Retail Portfolio
The Group's retail portfolio turnover grew 3.8% to HK$986 million (2015: HK$950 million), including turnover rent of HK$28 million (2015: HK$50 million). Positive rental reversions were recorded in rental renewals, reviews and new lettings across the portfolio, with an average rental increase of around 10%. Around 75% of retail leases expiring in 2016 have already been committed.

The portfolio was 99% occupied as at 30 June 2016 (31 December 2015: fully let). The vacancies were due mainly to the refinement of tenant mix in Hysan Place.

To meet the anticipated challenges in the retail market, Hysan has strived to provide a unique and satisfying experience to our stakeholders. Our well-balanced portfolio's diversity has been complemented by fresh, creative and technology-driven shopping experiences, as well as by the deep sense of community we have created at Lee Gardens. We believe our strategy to exceed expectations has served us well during this period of sales normalisation in Hong Kong.

As a result, the total foot traffic of Hysan's retail portfolio increased by around 5% in the first six months of 2016, as compared to the same period in 2015. This was achieved during a period of decline in overseas visitor arrivals. There was also a healthy year-on-year growth of around 15% during the May 1 holiday period, traditionally a popular time for mainland tourists to visit Hong Kong. With more than 20 flagships in addition to other stores covering a range of products and price points, including a number of health and leisure brand names, Hysan's retail portfolio remained a popular destination for locals and overseas visitors alike.

The estimated overall tenant sales within Hysan's retail portfolio, however, saw a double-digit percentage decrease. This was heavily impacted by the estimated sales decline of certain electronic goods within our portfolio. Otherwise, the decline was milder and was comparable to the decrease in Hong Kong's overall retail sales during the period.

Hysan Place, which continued to attract a trendy younger crowd, saw around 5% foot traffic growth in the first half of 2016, as compared to the same period in 2015. The shopping mall has gradually transformed into a more all-round retail venue, with the addition of more wellness and sports shops, including increased offerings for men. With 30 outlets, the mall is now becoming a popular food and beverage destination for shoppers and office workers in the neighbourhood. The opening of restaurants like Law Mark Kee and Ming Bistro in the past year has broadened the mall's appeal at reasonable prices, while the second half of 2016 will see the inclusion and expansion of eateries offering pan-Asian delicacies.

The general slowdown in tourist arrivals did not adversely impact our premium Lee Gardens hub in terms of foot traffic. Benefiting from a loyal local customer base that enjoys Hysan Avenue's more relaxed shopping experience, the number of visitors to Lee Garden One remained stable. Lee Garden Two saw an increase of around 10% in foot traffic as compared to the first half of 2015. This growth could be attributed to our strong offerings of children's products, for which Lee Garden Two is renowned. Our Kidz Connect activities have also been well supported, attracting young families to shop and play at the mall. Seasons, the Michelin-starred restaurant, continued to provide fresh dining ideas to appeal to food lovers, as well as being a good venue for business meetings and retail promotions.

Lee Theatre hub, which focuses on urban lifestyle products, saw around 15% growth in foot traffic during the first half of the year, as compared to the first half of 2015. The popularity of the lower floor flagship stores in the Lee Theatre Plaza, as well as the sports-themed street front shops of Leighton Centre offering good quality low-to-mid-price products, underpinned this performance. With the introduction of novel and trendy dining concepts, the restaurants on the higher floors of Lee Theatre Plaza also remained top-of-mind choices for those seeking appetizing and new experiences.

Our street-level pop-up stores, strategically located between Lee Gardens hub and Hysan Place at 25 Lan Fong Road, were part of a new trial and continued to perform well. Since the beginning of 2016, we have seen brands such as Nike, Columbia and Gentle Monster showcasing their creativity and diversity through new or limited edition items not found in their existing shops. These pop-up stores also offer freshness and surprises, luring shoppers to return time and again. Many of the imaginative ideas generated here are complementary to our own creative promotional thinking.

Based on our earlier success in building an online-to-offline project, we further developed a number of variations in regard to the products to be sold, as well as the delivery/pick up methods. In early 2016, we partnered with a few tenants to make available online certain special services and products for our VIP Club Avenue members. We also worked with another tenant to invite VIPs to order limited-edition beverages online, to be collected at physical venues.

We believe there is much more to our retail hubs than simply shopping. The most recent event in the summer of 2016, which features basketball star figurines exhibition as well as a 3-point shooting competition and other sports workshops, perfectly captures the essence of our malls as gathering places for the community.

In the first half of 2016, we also helped form the Lee Gardens Association. This neighbourhood organisation aims to further cultivate a sense of community through events and activities that involve the area's businesses as well as the general public. The first of a series of Association-sponsored history tours took place in June and was well received.

Office Portfolio

Hysan's office portfolio turnover grew by 2.8% in the first six months of 2016 to HK$635 million (2015: HK$618 million). There were positive rental reversions on renewals, reviews and new lettings, with an average rental increase of around 25%. Close to 75% of office leases expiring in 2016 have already been committed.

The office portfolio occupancy was 96% as at 30 June 2016 (31 December 2015: 99%). Among the available spaces were a number of smaller units in non-Grade A buildings, while much of the space vacated by Manulife in Lee Garden One at the beginning of the year was filled by mid-year.

The banking and financial sectors continued to ramp up demand in Central and Admiralty. As the preferred alternative to these more traditional core office areas, Hysan's Causeway Bay portfolio offers up-to-date facilities, convenient transportation links, and is situated in a vibrant work/life environment with exceptional retail and entertainment offerings. Located in the geographical centre of Hong Kong Island's commercial north shore, the portfolio has long been considered an ideal place for financial, insurance and technology companies to attract and retain quality employees. Cost effectiveness is another factor that works in favour of the Hysan portfolio. In the first half of 2016, Vistra, SCOR and GAM were among the international financial and professional services companies taking up space in Lee Garden One.

Our tenant mix remained well balanced, with the top four industries being banking and finance; high-end retailers; insurance; and professional and consulting services. These sectors took up 53.1% of our office lettable floor area. No category occupied more than 20% of the total lettable area.

Residential Portfolio

Hysan's residential portfolio, comprising mainly the 345 units in Bamboo Grove on Kennedy Road, recorded a 4.8% turnover decrease to HK$139 million (2015: HK$146 million). A number of flats in Bamboo Grove remained vacant in the first half of 2016 as renovation work was carried out in one of the blocks. The portfolio's occupancy was 89% at 30 June 2016 (31 December 2015: 89%).

The rental reversion on renewals, review and new lettings remained positive, with an average rental increase of around 5%. The demand for quality executive rental units remained healthy.

Lee Garden Three Project

The basement structure for this forthcoming commercial building was completed in June 2016, and the above-ground construction is making good progress. The entire project is expected to be completed in the fourth quarter of 2017. Hysan is exploring with the government the provision of two tunnels linking Lee Garden Three's car park with two existing car parks, in its bid to reduce street-level car traffic. The Group has also submitted a footbridge construction application linking Lee Garden Three with a neighbouring building. This will be a part of Hysan's plan to help improve walkability in the area.

Lee Garden One Asset Enhancement Project
The final phase of the Lee Garden One ground floor lobby and higher floors retail space enhancement project was successfully completed in the middle of 2016 as scheduled. The new shop space will be handed over to the incoming tenants from August 2016 onwards. Valentino will have an expanded presence in Lee Garden One, while two new food and beverage outlets will add further affordable international fare and flair to the building.

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

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

Property expenses increased by 9.6% to HK$205 million (2015: HK$187 million), mainly due to higher fees to external leasing agents. The property expenses to turnover ratio slightly increased from 10.9% to 11.6% as compared to the same period in 2015.

Administrative expenses were broadly the same, at HK$116 million (2015: HK$117 million).

Finance Costs
Finance costs, after capitalisation of HK$2 million (2015: nil) interest expenses and related borrowing costs referable to construction costs of Lee Garden Three, recorded a decrease of 12.4% to HK$92 million (2015: HK$105 million). If the capitalised interest expenses and related borrowing costs were included, the Group's finance costs in 2016 would have been HK$94 million, a decrease of 10.5% from HK$105 million in the first half of 2015.

The decrease was attributable to the lower average debt level in 2016 as compared to the same period in 2015 after debt repayments of HK$1,832 million during the year of 2015 and the first half of 2016. A HK$500 million bank loan was drawn down in the first half of 2016 but the related finance costs were capitalised as part of the construction costs of Lee Garden Three.

HK$1,732 million of the above mentioned debt repayments were on a floating rate basis, which generally carried lower finance costs compared with fixed rate debts. As a result, the Group's average cost of finance for the interim period was 3.8%, higher than 3.4% and 3.5% reported for the first half of 2015 and full-year 2015 respectively.

Revaluation of Investment Properties
As at 30 June 2016, the investment properties of the Group were revalued at HK$70,008 million (31 December 2015: HK$69,810 million) by an independent professional valuer. During the first half of 2016, a fair value loss on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK$280 million (2015: fair value gain of HK$1,160 million) was recognised in the condensed consolidated income statement. This reflected the net effect of a positive office rental outlook, a challenging retail rental outlook, as well as enhancement works made during the interim period.

Investments in Associates
The Group's share of results of associates decreased by 11.9% to HK$118 million (2015: HK$134 million). This decline was mainly due to a smaller revaluation gain of the Shanghai Grand Gateway Project, of which the Group owns 24.7% and Renminbi devaluation during the first half of 2016.

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

Investment income, comprising mainly interest income, amounted to HK$25 million (2015: HK$34 million) in the first half of 2016. This principally reflected a lower average investment amount after repayment of matured debts and use of cash for share repurchase.

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$333 million during the interim period (2015: HK$164 million).

Share Repurchase

As part of Hysan's capital management strategy, the Group repurchased 11.73 million of its own shares during the first half of 2016, which should further enhance shareholder value, at an aggregate consideration of HK$365 million (2015: nil). The average purchase price per share was HK$31.01.

Treasury Policy

Capital Structure Management

The Group's total gross debt[1] level as at 30 June 2016 increased to HK$5,125 million (31 December 2015: HK$4,875 million), after loan repayment of HK$250 million and new drawdown of HK$500 million during the interim period. The Group's average debt maturity was at 5.8 years as at 30 June 2016 (31 December 2015: 6.3 years). The following shows the debt maturity profile of the Group at 2016 interim period-end and 2015 year-end.

	At 30 June 2016 HK$ million	At 31 December 2015 HK$ million
Maturing in not exceeding one year	-	250
Maturing in more than one year but not exceeding two years	150	-
Maturing in more than two years but not exceeding five years	1,365	1,015
Maturing in more than five years	3,610	3,610
	5,125	4,875

As at 30 June 2016, bank loans accounted for approximately 9.8% of the Group's total gross debt, with the remaining 90.2% from capital market financing (31 December 2015: 5.1%: 94.9%). All of the Group's debts are unsecured and on a committed basis.

Interest Rate Management

Interest expenses represent a key cost driver 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 2016, the fixed rate debt ratio was approximately 90.2% of the total gross debt (31 December 2015: 94.9%).

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 by appropriate hedging instruments, all of the Group's borrowings were denominated in Hong Kong dollars.

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[1] The gross debt represents the contractual principal payment obligations as at 30 June 2016. However, in accordance with the Group's accounting policies, the debt is measured at amortised cost, using the effective interest method. As disclosed in the condensed consolidated statement of financial position as at 30 June 2016, the book value of the outstanding debt of the Group was HK$5,113 million (31 December 2015: HK$4,859 million).

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$29 million.

Other foreign exchange exposure mainly relates to investments in the Shanghai associates. These unhedged foreign exchange exposures amounted to the equivalent of HK$3,727 million (31 December 2015: HK$3,683 million) or 4.7% (31 December 2015: 4.7%) 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) increased to 21.6 times for the first half of 2016 (2015: 20.3 times), mainly due to continuous increase in revenue across our portfolio and a lower debt level.

Net debt to equity (defined as borrowings less time deposits, cash and bank balances divided by shareholders' funds) increased to 3.4% as at 30 June 2016 (31 December 2015: 3.0%) as Shareholders' Funds were reduced by the investment properties valuation change during the interim period.

Credit Ratings
As at 30 June 2016 the Group's ratings were maintained at A3 from Moody's and BBB+ from Standard and Poor's.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016 (unaudited)

	Notes	**Six months ended 30 June** **2016** **HK$ million**	2015 HK$ million
Turnover	4	**1,760**	1,714
Property expenses		**(205)**	(187)
Gross profit		**1,555**	1,527
Investment income		**25**	34
Administrative expenses		**(116)**	(117)
Finance costs		**(92)**	(105)
Change in fair value of investment properties		**(280)**	1,160
Share of results of associates		**118**	134
Profit before taxation		**1,210**	2,633
Taxation	6	**(229)**	(223)
Profit for the period	7	**981**	2,410
Profit for the period attributable to:			
Owners of the Company		**899**	2,289
Non-controlling interests		**82**	121
		981	2,410
Earnings per share (expressed in HK cents)			
Basic	8	**85.78**	215.15
Diluted	8	**85.78**	215.12

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016 (unaudited)

	Six months ended 30 June	
	2016	2015
	HK$ million	HK$ million
Profit for the period	**981**	2,410
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	**13**	6
Deferred taxation arising on revaluation	**(2)**	(1)
	11	5
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net gains (losses) arising during the period	**64**	(40)
Reclassification adjustments for net (gains) losses included in profit or loss	**(3)**	5
	61	(35)
Amortisation of forward element excluded from hedge designation	**-**	(6)
	61	(41)
Share of translation reserve of an associate	**(74)**	(4)
	(13)	(45)
Other comprehensive expenses for the period (net of tax)	**(2)**	(40)
Total comprehensive income for the period	**979**	2,370
Total comprehensive income attributable to:		
Owners of the Company	**897**	2,249
Non-controlling interests	**82**	121
	979	2,370

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 (unaudited)

	Notes	**At 30 June 2016 HK$ million**	At 31 December 2015 HK$ million (audited)
Non-current assets			
Investment properties		**70,008**	69,810
Property, plant and equipment		**711**	705
Investments in associates		**3,727**	3,683
Term notes		**836**	935
Other financial assets		**3**	7
Other receivables	10	**97**	227
		75,382	75,367
Current assets			
Accounts and other receivables	10	**224**	201
Term notes		**254**	415
Other financial assets		**4**	1
Time deposits		**2,746**	2,743
Cash and bank balances		**41**	61
		3,269	3,421
Current liabilities			
Accounts payable and accruals	11	**525**	470
Rental deposits from tenants		**290**	296
Amounts due to non-controlling interests		**327**	327
Borrowings		**-**	250
Taxation payable		**233**	120
		1,375	1,463
Net current assets		**1,894**	1,958
Total assets less current liabilities		**77,276**	77,325
Non-current liabilities			
Borrowings		**5,113**	4,609
Other financial liabilities		**6**	71
Rental deposits from tenants		**640**	594
Deferred taxation		**714**	683
		6,473	5,957
Net assets		**70,803**	71,368
Capital and reserves			
Share capital		**7,643**	7,642
Reserves		**59,944**	60,530
Equity attributable to owners of the Company		**67,587**	68,172
Non-controlling interests		**3,216**	3,196
Total equity		**70,803**	71,368

Notes:

1. **Independent Review**

The interim results for the six months ended 30 June 2016 are unaudited, but have been reviewed 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 Hong Kong Institute of Certified Public Accountants (the "HKICPA"), by Deloitte Touche Tohmatsu, whose report on review of condensed consolidated financial statements is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Group's Audit Committee.

2. **Basis of Preparation**

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016 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 HKICPA.

The financial information relating to the year ended 31 December 2015 that is included in this result announcement 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 2015 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.

3. **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.

In the current period, the Group has applied all of the Amendments to Standards issued by the HKICPA that are relevant to its operations and effective for the Group's financial year beginning on 1 January 2016. The adoption of these Amendments to Standards 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.

The accounting policies and methods of computations followed in the preparation of the unaudited condensed consolidated financial statements are the same as those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015.

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[3]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2018, except for the 2010 version of HKFRS 9 and the new requirements for hedge accounting issued in 2013, which the Group has early adopted.
4 Effective for annual periods beginning on or after 1 January 2019.
5 Effective for annual periods beginning on or after a date to be determined.

Hong Kong Financial Reporting Standard ("HKFRS") 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. It distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Subject to limited exceptions for short-term leases and low value assets, distinctions of operating and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees. However, the standard does not significantly change the accounting of lessors. As the Group acts as lessor under its operating leases, the Directors of the Company do not anticipate that the application of HKFRS 16 will have a material impact on the Group's consolidated financial statements.

The Directors of the Company anticipate that the application of these new Standards and Amendments to Standards will have no material impact on the results and financial position of the Group.

4. Turnover

Turnover represents gross rental income from investment properties and management fee income 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.

5. **Segment Information**

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

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

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

Residential segment – leasing of luxury residential properties and related facilities

Segment turnover and results

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

	Retail HK$ million	Office HK$ million	Residential HK$ million	Consolidated HK$ million
For the six months ended 30 June 2016 (unaudited)				
Turnover				
Gross rental income from investment properties	**916**	**560**	**124**	**1,600**
Management fee income	**70**	**75**	**15**	**160**
Segment revenue	**986**	**635**	**139**	**1,760**
Property expenses	**(102)**	**(78)**	**(25)**	**(205)**
Segment profit	**884**	**557**	**114**	**1,555**
Investment income				**25**
Administrative expenses				**(116)**
Finance costs				**(92)**
Change in fair value of investment properties				**(280)**
Share of results of associates				**118**
Profit before taxation				**1,210**

	Retail HK$ million	Office HK$ million	Residential HK$ million	Consolidated HK$ million
For the six months ended 30 June 2015 (unaudited)				
Turnover				
Gross rental income from investment properties	882	545	130	1,557
Management fee income	68	73	16	157
Segment revenue	950	618	146	1,714
Property expenses	(111)	(53)	(23)	(187)
Segment profit	839	565	123	1,527
Investment income				34
Administrative expenses				(117)
Finance costs				(105)
Change in fair value of investment properties				1,160
Share of results of associates				134
Profit before taxation				2,633

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, administrative expenses (including central administration costs and directors' salaries), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the Chief Executive Officer of the Group for the purposes of resource allocation and performance assessment.

Segment assets

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

	Retail HK$ million	Office HK$ million	Residential HK$ million	Consolidated HK$ million
As at 30 June 2016 (unaudited)				
Segment assets	**34,007**	**23,562**	**7,793**	**65,362**
Investment properties under redevelopment				**4,654**
Investments in associates				**3,727**
Other assets				**4,908**
Consolidated assets				**78,651**
As at 31 December 2015 (audited)				
Segment assets	34,236	23,111	7,834	65,181
Investment properties under redevelopment				4,637
Investments in associates				3,683
Other assets				5,287
Consolidated assets				78,788

No segment liabilities analysis is presented as the Group's liabilities are monitored on a group basis.

6. Taxation

	Six months ended 30 June	
	2016 **HK$ million**	2015 HK$ million
Current tax		
Hong Kong profits tax (for current period)	**200**	197
Deferred tax	**29**	26
	229	223

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

7. Profit For The Period

	Six months ended 30 June	
	2016	2015
	HK$ million	HK$ million
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**9**	9
Gross rental income from investment properties including contingent rental of HK$28 million (2015: HK$50 million)	**(1,600)**	(1,557)
Less:		
- Direct operating expenses arising from properties that generated rental income	**198**	183
- Direct operating expenses arising from properties that did not generate rental income	**7**	4
	(1,395)	(1,370)
Net interest income	**(25)**	(34)
Staff costs, comprising:		
- Directors' emoluments	**16**	21
- Other staff costs	**129**	130
	145	151
Share of income tax of an associate (included in share of results of associates)	**52**	57

8. 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	
	2016	2015
	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	**899**	2,289

	Number of shares Six months ended 30 June	
	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,047,978,938**	1,063,884,548
Effect of dilutive potential ordinary shares: Share options issued by the Company	**66,139**	156,570
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,048,045,077**	1,064,041,118

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.

(b) Adjusted basic earnings per share

For the purpose of assessing the performance of the Group's principal activities (i.e. leasing of investment properties), the management is of the view that the profit for the period attributable to the owners of the Company should be adjusted in the calculation of basic earnings per share as follows:

	Six months ended 30 June			
	2016		2015	
	Profit	**Basic earnings per share**	Profit	Basic earnings per share
	HK$ million	**HK cents**	HK$ million	HK cents
Profit for the period attributable to owners of the Company	**899**	**85.78**	2,289	215.15
Change in fair value of investment properties	**280**		(1,160)	
Effect of non-controlling interests' shares	**1**		44	
Share of change in fair value of investment properties (net of deferred taxation) of an associate	**(2)**		(10)	
Underlying Profit	**1,178**	**112.41**	1,163	109.32
Recurring Underlying Profit	**1,178**	**112.41**	1,163	109.32

Notes:

(1) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature (such as gains or losses on disposal of long-term assets). As there were no such adjustments in both the six months ended 30 June 2016 and 30 June 2015, the Recurring Underlying Profit is the same as the Underlying Profit.

(2) The denominators used in calculating the adjusted earnings per share are the same as those detailed above for basic earnings per share.

9. Dividends

(a) Dividends recognised as distribution during the period:

	Six months ended 30 June	
	2016	2015
	HK$ million	HK$ million
2015 second interim dividend paid – HK107 cents per share	**1,122**	-
2014 second interim dividend paid – HK100 cents per share	**-**	1,064
	1,122	1,064

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

	Six months ended 30 June	
	2016	2015
	HK$ million	HK$ million
First interim dividend declared – HK26 cents per share (2015: HK25 cents per share)	**272**	266

The first interim dividend is not recognised as a liability as at 30 June 2016 and 30 June 2015 because it has been declared after the end of the reporting period.

The declared 2016 first interim dividend will be payable in cash.

10. Accounts and Other Receivables

	At 30 June 2016 HK$ million	At 31 December 2015 HK$ million
Accounts receivable	**8**	8
Interest receivable	**52**	59
Prepayments in respect of investment properties	**42**	121
Other receivables and prepayments	**219**	240
	321	428
Analysis for reporting purposes as:		
Current assets	**224**	201
Non-current assets	**97**	227
	321	428

Rents from leasing of investment properties are normally received in advance. At 30 June 2016, accounts receivable of the Group with carrying amount of HK$8 million (31 December 2015: HK$8 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

11. Accounts Payable and Accruals

	At 30 June 2016 HK$ million	At 31 December 2015 HK$ million
Accounts payable	**145**	146
Interest payable	**86**	73
Other payables	**294**	251
	525	470

As at 30 June 2016, accounts payable of the Group with carrying amount of HK$84 million (31 December 2015: HK$99 million) were aged less than 90 days.

ADDITIONAL INFORMATION

Corporate Governance

The Board and management of the Company are committed to maintaining high standards of corporate governance. The Board had adopted a Statement of Corporate Governance Policy which gives guidance on how corporate governance principles are applied to the Company. In addition to complying with applicable statutory requirements, we aim to continually review and enhance our corporate governance practices in the light of local and international best practices.

The Company meets the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The Board reviews its corporate governance practices continuously to cope with the evolving needs of the Group. Further information on the Company's corporate governance practices is available on our website at www.hysan.com.hk.

Compliance of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules 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 review period.

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

The Company was authorised at its Annual General Meetings to repurchase its own ordinary shares not exceeding 10% of the total number of its issued shares as at the dates of passing the resolutions. During the review period, the Company repurchased its ordinary shares on the Stock Exchange when they were trading at a significant discount to the Company's net asset value in order to enhance shareholder value.

During the review period, the Company repurchased an aggregate of 11.73 million ordinary shares for a total consideration of HK$363.8 million (excluding relevant trading costs directly attributable to share repurchase) on the Stock Exchange. The repurchased shares were cancelled during the review period.

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

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 2016 was 659 (31 December 2015: 688). The Group's human resources practices are aligned with our corporate objectives so as to maximise shareholder value and achieve growth.

There has been no material change in respect of the human resources programs, training and development as set out in the Responsible Business section of the Annual Report 2015.

Closure of Register of Members

The first interim dividend will be paid to shareholders whose names appear on the register of members on Wednesday, 17 August 2016 and the payment date will be on or about Friday, 26 August 2016. The register of members will be closed on Wednesday, 17 August 2016, on which date no transfer of shares will be registered. The ex-dividend date will be Monday, 15 August 2016. 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, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 16 August 2016.

By Order of the Board
Irene Yun Lien LEE
Chairman

Hong Kong, 2 August 2016

*Following the conclusion of the Board meeting of the Company held on 2 August 2016, the Board comprises: Irene Yun Lien LEE (Chairman), Frederick Peter CHURCHOUSE**, Philip Yan Hok FAN**, Lawrence Juen-Yee LAU**, Joseph Chung Yin POON**, Hans Michael JEBSEN* (Trevor Chi-Hsin YANG as his alternate), Siu Chuen LAU*, Anthony Hsien Pin LEE* (Irene Yun Lien LEE as his alternate), Chien LEE* and Michael Tze Hau LEE*.*

* *Non-Executive Directors*
** *Independent Non-Executive Directors*

This interim results announcement is published on the website of the Company (www.hysan.com.hk) and the designated issuer website of the Stock Exchange (www.hkexnews.hk). The Interim Report 2016 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites around end of August 2016.