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Financial Performance

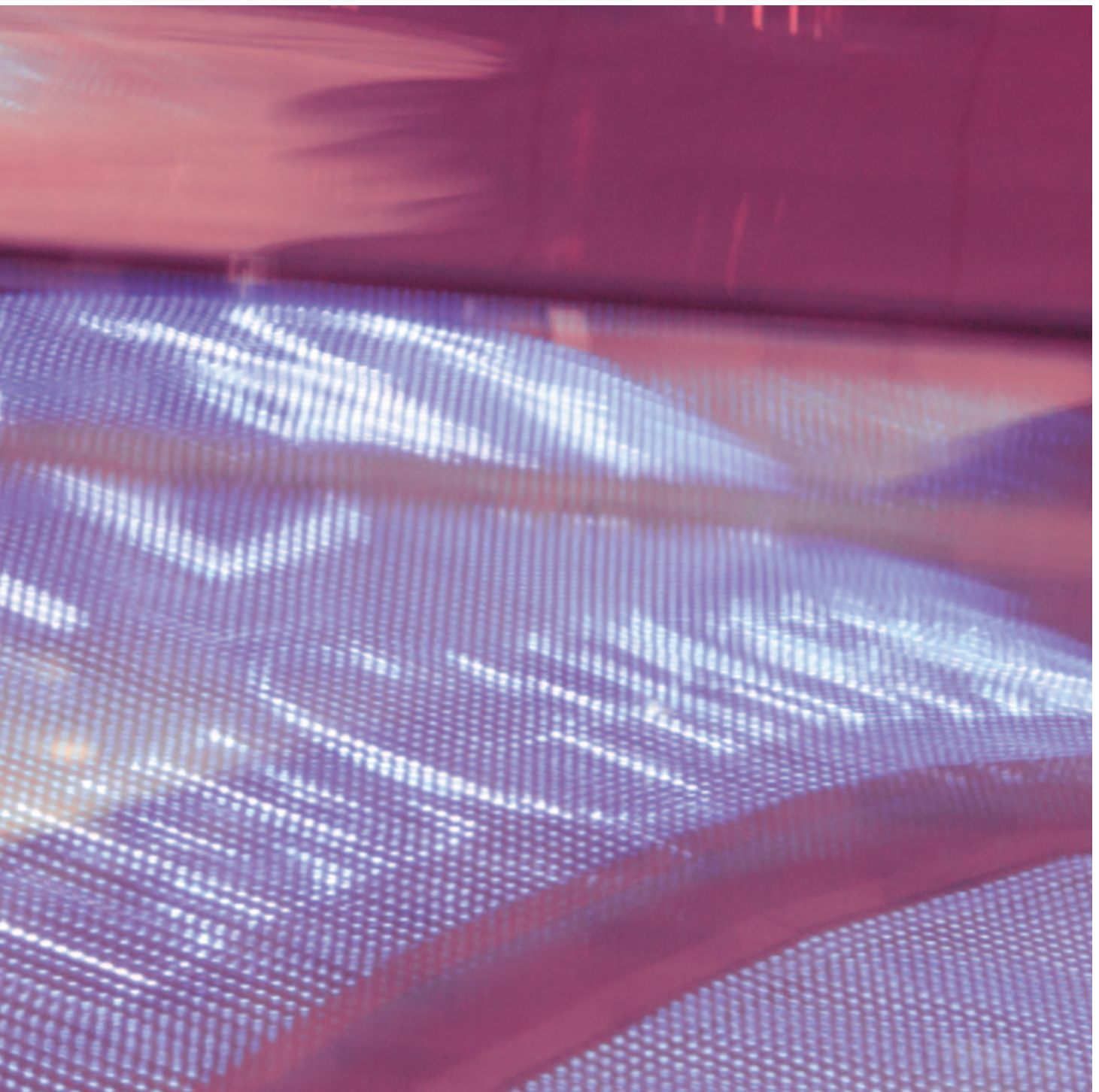
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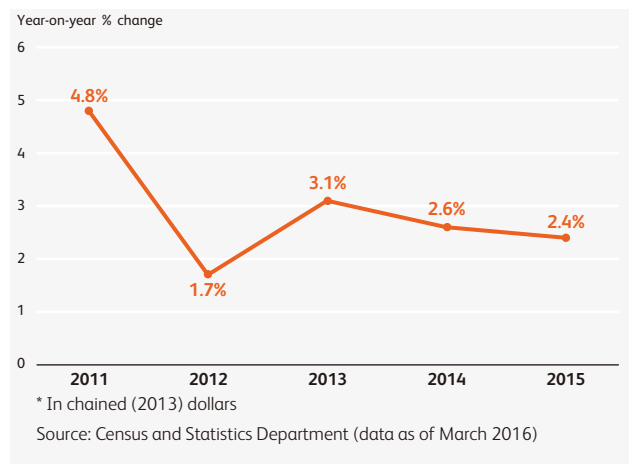


The Marketplace

Hong Kong economy

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

Real Gross Domestic Product*



Retail

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

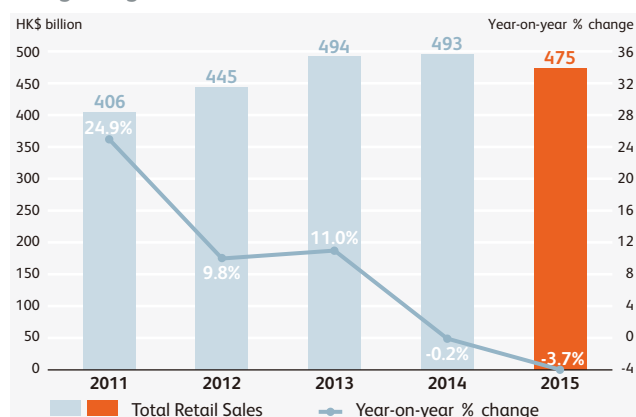
A 3 % decline in the number of Mainland China visitors during the year was one of the core reasons for the decline in retail sales. In addition, the price corrections in the residential property and stock market that occurred since third quarter of the year also affected local spending sentiment.

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

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

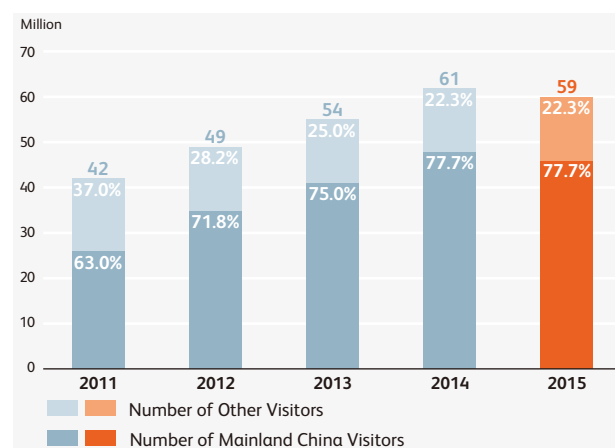
Source: Census and Statistics Department (data as of March 2016)

Hong Kong Total Retail Sales



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

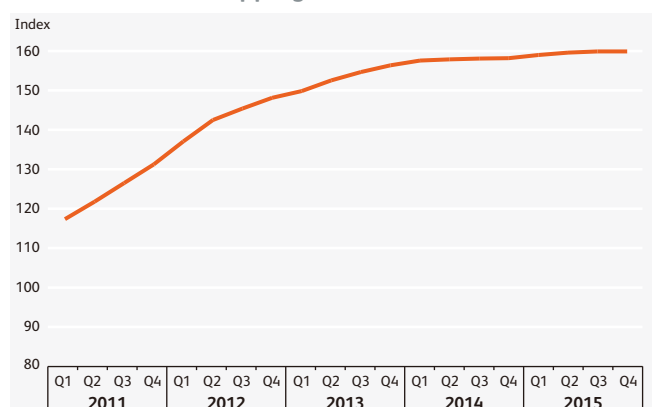
Total Number of Visitors



Source: Hong Kong Tourism Board (data as of March 2016)

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

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



Source: Jones Lang LaSalle (data as of March 2016)

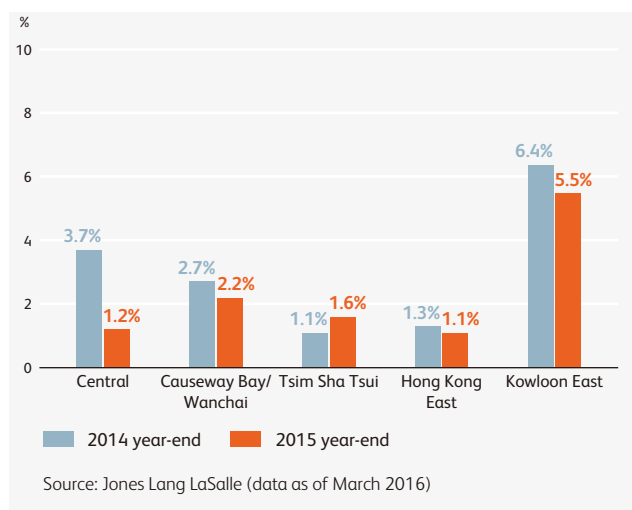
Office

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

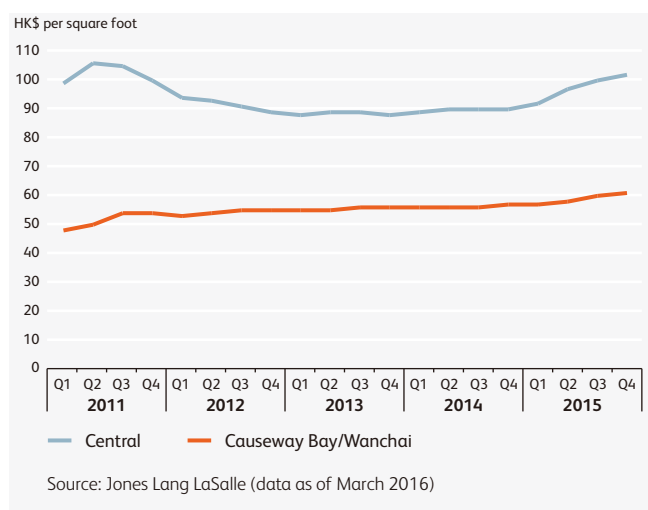
According to Jones Lang LaSalle, although new Grade “A” office supply totaled 1.8 million square feet in 2015, which reached a similar level to the average supply of the last 10 years (1.9 million square feet), the average net take-up of 2.9 million square feet in 2015 was far higher than the average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

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

Grade “A” Office Vacancy Rate in 2014 and 2015



Grade “A” Office Rental Value



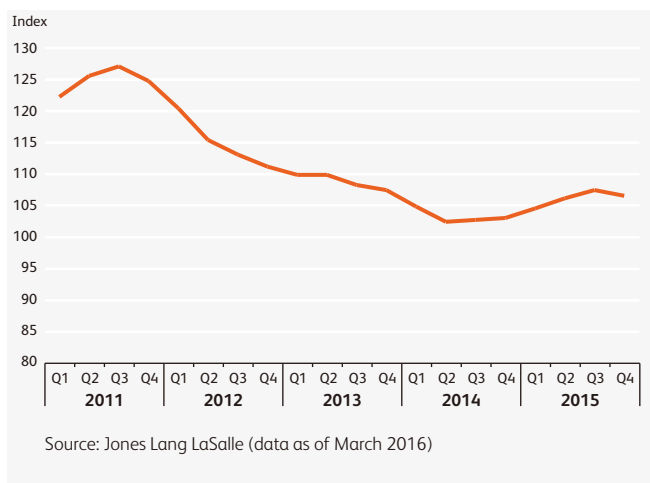
Luxury Residential

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

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

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

Luxury Residential Rental Index (2009 Q4=100)



Management's Discussion and Analysis

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

Strategy

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

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

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

Review of Results

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

The turnover of each sector is shown as below:

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

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

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

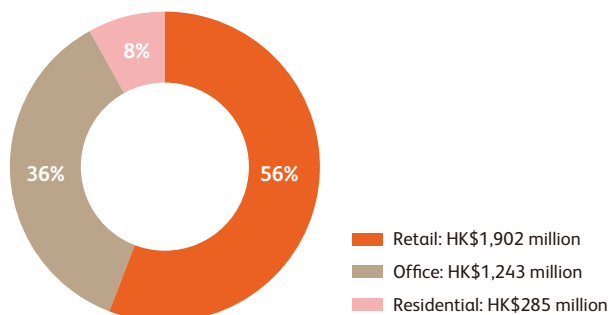
	2015 HK\$ million	2014 HK\$ million	Change %
Recurring Underlying Profit and Underlying Profit	2,283	2,163	+5.5
Fair value change on investment properties located in			
– Hong Kong	616	2,732	-77.5
– Shanghai*	4	7	-42.9
Reported Profit	2,903	4,902	-40.8

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

Review of Operations

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

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



KEY PERFORMANCE INDICATORS

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

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

*Source of underlying data: Internal company data

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

RETAIL PORTFOLIO

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

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

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

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

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

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

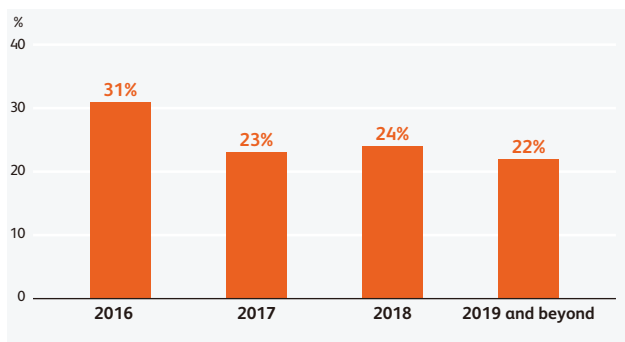


Lee Gardens hub, with its premium positioning, saw a drop in estimated tenant sales. These figures were impacted by the slowdown in tourist spending, the depressed consumer sentiment due to local stock market volatility, as well as the life cycle and distribution strategies of certain brands. This hub's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

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

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

Retail Lease Expiry Profile (As at 31 December 2015)



OFFICE PORTFOLIO

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

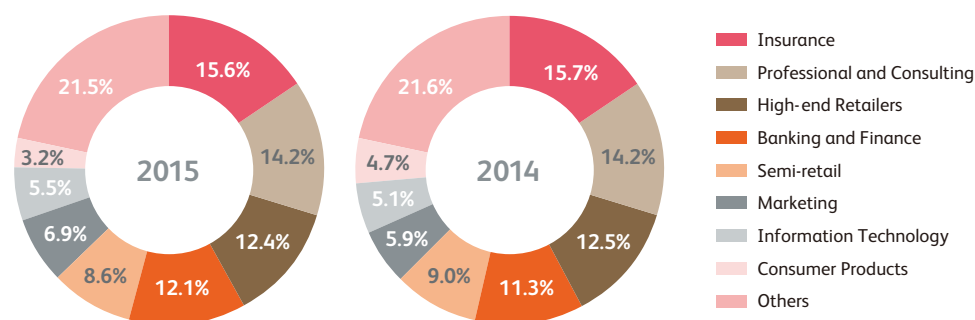
The Group's office portfolio turnover grew by 9.4 % to HK\$1,243 million (2014: HK\$1,136 million). This reflected positive rental reversion on renewals, reviews and new lettings, with an average rental increase of around 30 %.

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

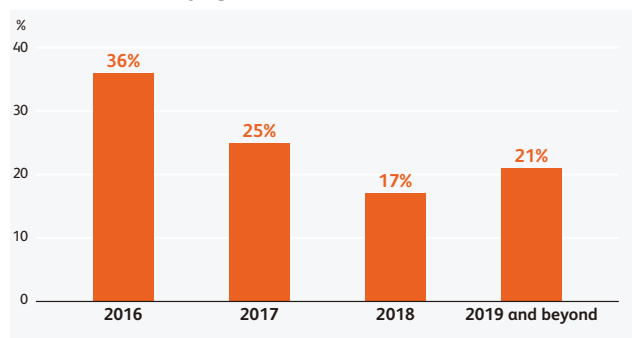
Office space vacancy remained tight throughout Hong Kong in 2015, even though leasing activities experienced some moderation towards the end of the year. One factor influencing generally strong demand was the establishment or expansion of local and mainland securities and financial companies riding on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

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

Office Tenant Profile by Area Occupied as at Year-end



Office Lease Expiry Profile (As at 31 December 2015)



RESIDENTIAL PORTFOLIO

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

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

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

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

LEE GARDEN THREE PROJECT

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

LEE GARDEN ONE ENHANCEMENT PROJECT

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

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



Management's Discussion and Analysis

Financial Review

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

OPERATING COSTS

The Group's operating costs are generally classified as property expenses (direct costs and front-line staff wages and benefits) and administrative expenses (indirect costs largely representing payroll related costs of management and head office staff).

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

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

FINANCE COSTS

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

Further discussion of the Group's treasury policy, including debt and interest rate management, is set out in the "Treasury Policy" section.



REVALUATION OF INVESTMENT PROPERTIES

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

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

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

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

* Properties under redevelopment is valued at site value plus construction costs expended up to date.

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK\$695 million (2014: HK\$2,940 million) was recognised in the Group's consolidated income statement for the year.

INVESTMENTS IN ASSOCIATES

The Group's share of results of associates decreased by 2.4% to HK\$246 million (2014: HK\$252 million), due to a smaller revaluation gain of the Shanghai Grand Gateway project, of which the Group owns 24.7%, as compared to last year. As at 31 December 2015, properties at Shanghai Grand Gateway had been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, of the associate amounted to HK\$4 million (2014: HK\$7 million).

OTHER INVESTMENTS

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

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

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

Management's Discussion and Analysis

CASH FLOW

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

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

* n/m – not meaningful

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

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

CAPITAL EXPENDITURE AND MANAGEMENT

The Group is committed to enhancing the asset value of its investment property portfolio through selective asset enhancement and redevelopment. The Group has also in place a portfolio-wide whole-life cycle maintenance programme as part of its ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK\$414 million (2014: HK\$591 million).

SHARE REPURCHASE

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

Treasury Policy

MARKET HIGHLIGHTS

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

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

CAPITAL STRUCTURE MANAGEMENT

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

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

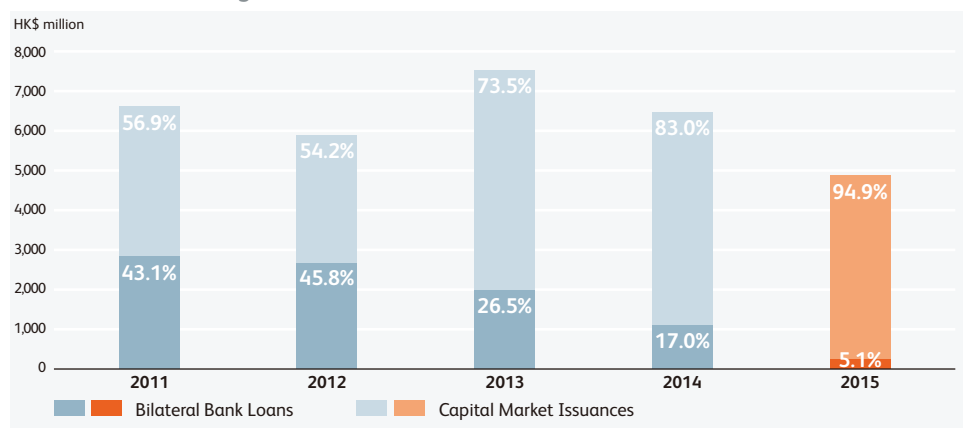
The Group always strives to lower borrowing margin, to diversify funding sources and to maintain a suitable maturity profile relative to the overall use of funds. Because of the repayment of bank loans in 2015, debts sourced from capital markets increased to 94.9% (2014: 83.0%) at year-end of 2015. The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

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

Management's Discussion and Analysis

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

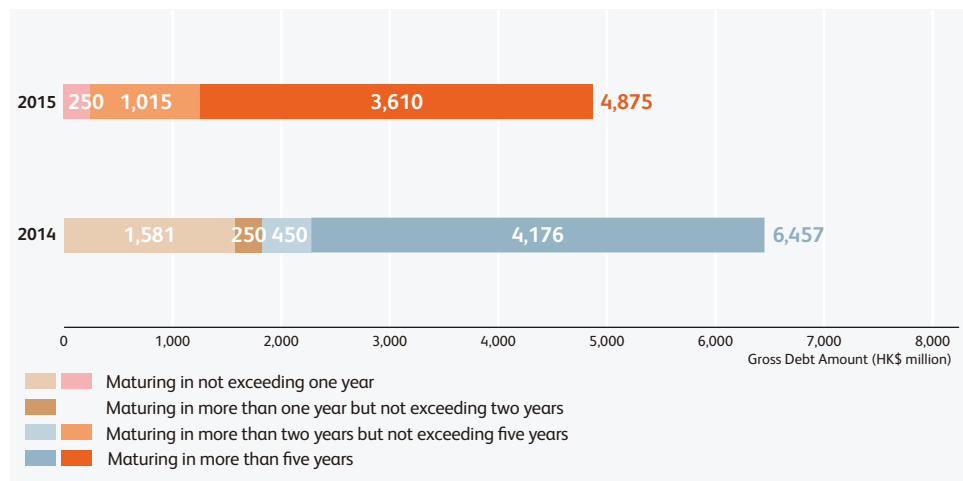
Sources of Financing at Year-end



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

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

Debt Maturity Profile at 2015 and 2014 Year-end

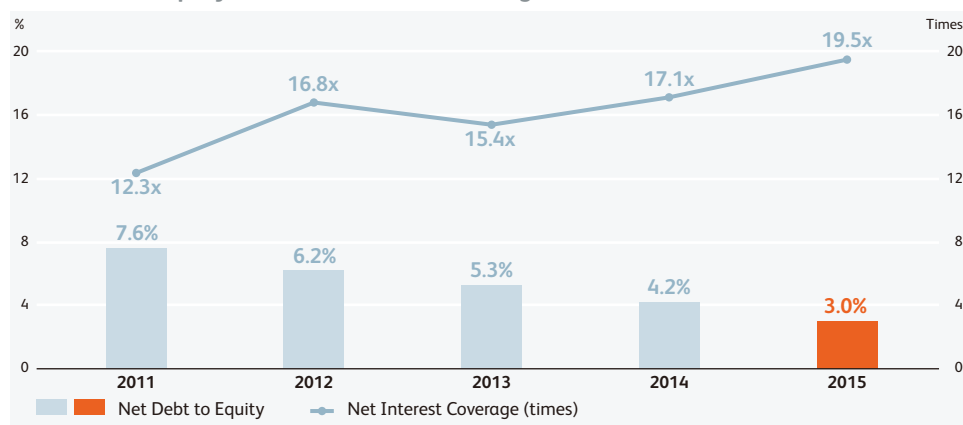


As part of Hysan's capital management strategy, the Group completed repurchases of 6.75 million shares through the Hong Kong Stock Exchange in 2015, which would further enhance shareholders' value. Despite the share repurchase, the Group's gearing ratio, as measured by Net Debt to Equity ratio¹, dropped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

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

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

Net Debt to Equity and Net Interest Coverage at Year-end



LIQUIDITY MANAGEMENT

Recurring cash flows from our business continued to remain steady and strong. Accordingly, the Group maintained investment-grade credit ratings of A3 as rated by Moody's and BBB+ as rated by Standard and Poor's.

As at 31 December 2015, the Group had cash and bank deposits totalling about HK\$2,804 million (2014: HK\$3,640 million). The decrease of deposits was mainly due to debt repayment. All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. In order to preserve liquidity and enhance interest yields, the Group invested HK\$1,350 million (2014: HK\$1,205 million) in debt securities. In 2014, the Group also invested HK\$80 million in principal-protected investments.

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, which amounted to HK\$750 million at year-end 2015 (2014: HK\$1,200 million), essentially allow the Group to obtain additional liquidity as the need arises.

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

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

Management's Discussion and Analysis

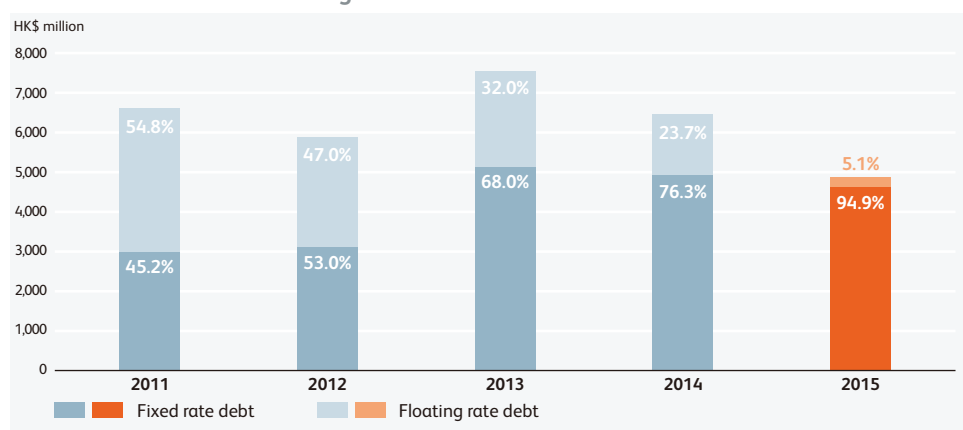
INTEREST RATE MANAGEMENT

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

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

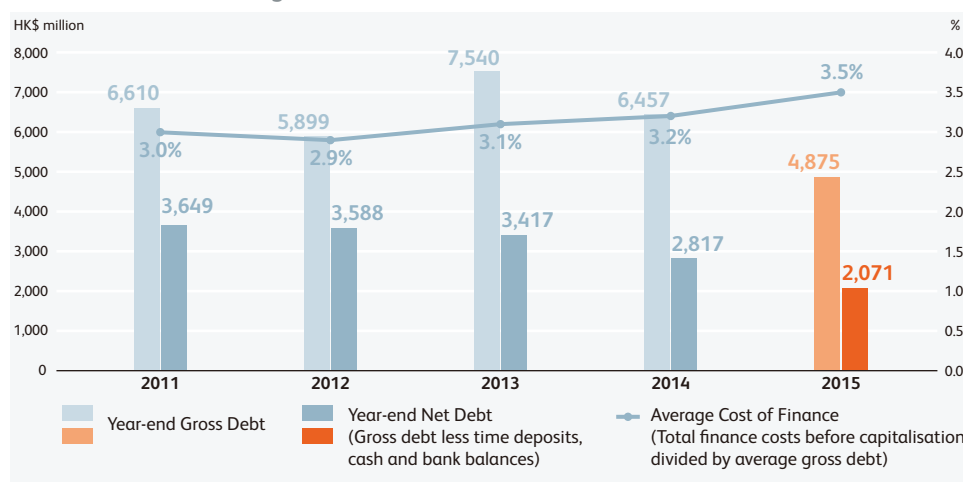
The diagram below shows the fixed rate debt and floating rate debt portions in the past five years.

Fixed Rate Debt and Floating Rate Debt Portions



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

Debt Levels and Average Costs of Finance



FOREIGN EXCHANGE MANAGEMENT

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

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

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

USE OF DERIVATIVES

As at 31 December 2015, outstanding derivatives were mainly related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used to manage volatilities or adjust the appropriate risk profile of the Group's treasury assets and liabilities.

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



Internal Controls and Risk Management Report

Responsibility

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

Our Risk Management Framework

The Board is responsible for the Group’s internal controls system and for reviewing its effectiveness. The Audit Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. The Audit Committee, acting on behalf of the Board, oversees the following process:

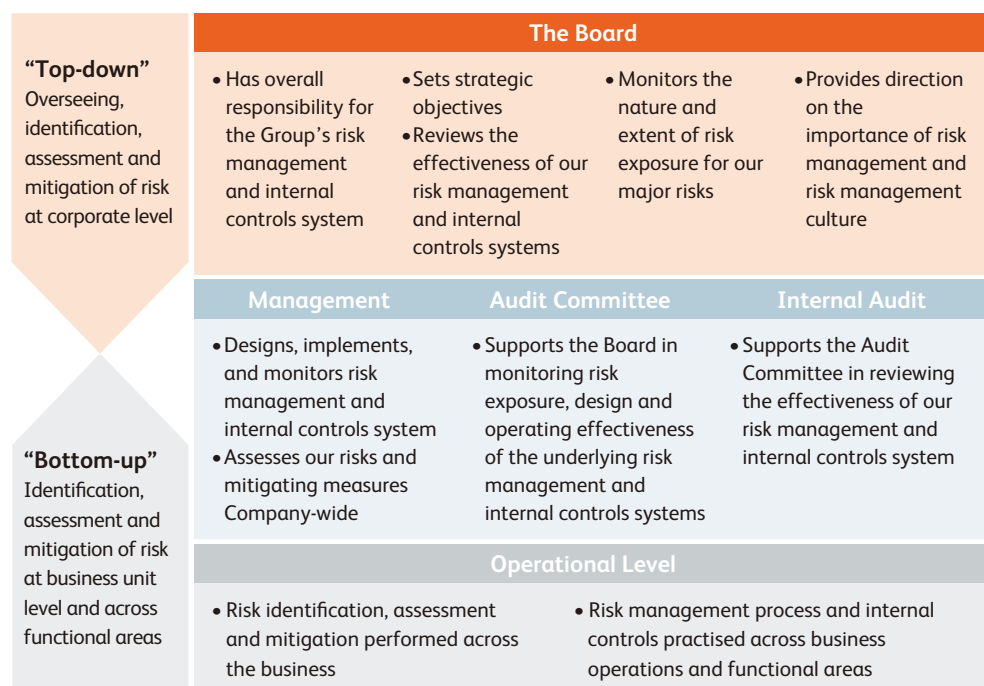
- (i) regular reviews of the principal business risks, and control measures to mitigate, reduce or transfer such risks; the strengths and weaknesses of the overall internal controls system and action plans to address the weaknesses or to improve the assessment process;
- (ii) regular reviews of the business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

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

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

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

Hysan Risk Management Framework



2015 Review of Internal Controls Effectiveness

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

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

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

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

Since 2012, we have put in place a phased improvement plan and progressed to further enhance our internal controls and risk management system. The initial phase of the plan focused on adopting a more risk-based (instead of process-based) approach to risk identification and assessment. This approach enriches our ability to analyse risks and respond to opportunities as we pursue our strategic objectives. Management reporting to the Audit Committee has also been enhanced, including the presentation of special reports on selected risk topics.

In the current phase, we aim to further integrate internal controls and risk management into our business processes, including in annual budgeting and planning. The COSO framework has been revised, effective December 2013. Instead of treating this as a framework-update exercise, a holistic approach has been adopted, taking into consideration the Company's circumstances, including its ongoing internal controls and risk management improvement plan as well as other strategic initiatives. (e.g. corporate social responsibility strategy and reporting). All these further our ultimate objective to make our risk management system a "live" one that is practised on a day-to-day basis by operating units.

Internal Controls and Risk Management Report

- **Control Environment** – this is very important as it sets the tone for internal controls in a company. Hysan is a tightly-knit organisation with around 690 staff members. The actions of management and its demonstrated commitment to effective governance and control are therefore very transparent to all.

We have a strong tradition of good corporate governance and a corporate culture based on sound business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). Our “whistle-blowing” system is monitored by an independent third party service provider with direct reporting to the Audit Committee Chairman. We aim to build risk awareness and control responsibility into our culture and regard them as the foundation of our internal controls system.

- **Risk Assessment** – we continue to drive improvements to our risk management process and the quality of risk information generated, while at the same time maintaining a simple and practical approach. Instead of setting up a separate risk management department, we seek to have risk management features embedded within our operations (leasing, property management, and projects) as well as functional areas (including finance, human resources, IT, and legal). We aim to have a “live” risk management system that is practised on a day-to-day basis by our operating units.

On an annual basis, department heads review and update their risk registers, providing assurances that controls are both embedded and effective within the business.

Management also forms a risk management committee (headed by the Chief Executive Officer) which sets the relevant policies and monitors potential weaknesses and action items regularly. It is also responsible for identifying and assessing risks of a more macro and strategic nature, including emerging risks.

This “top-down” approach is complemented by the “bottom-up” aspects and the involvement of operating unit heads in identifying operational risks. These together determine the Group’s major risks. Discussion sessions with all department heads led by the Chief Executive Officer have been held, with a view to further enhancing the “participatory” aspect of the overall risk assessment process.

- **Control Activities; Information and Communicating** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on top-level reviews, segregation of duties; and physical controls. Over the past few years, we have been formalising and documenting the control processes in policies and procedures. Written policies and procedures with defined limits of delegated authority are in place, which facilitate effective segregation of duties and controls. A greater use of automation (information processing) is also being implemented.

The annual budgeting and planning process is one of our key control activities, which has been refined to take into consideration risk factors. All operating units prepare their respective operating plans pursuant to corporate objectives for consideration. In this process, they are required to identify material risks that may impact the achievement of their business objectives. Action items to mitigate the identified risks are developed for implementation as well as for finalising the budget and business objectives. An annual budget with financial targets, as approved by the Board, provides the foundation for the allocation of resources. Variance analyses are regularly performed, and reported to management and the Board. These help identify deficiencies and enables timely remedial actions to be taken.

Capital expenditures monitoring is also significant given the capital-intensive nature of our property business. Depending on strategic importance, cost / benefit and the size of the projects, detailed analysis of expected risks and returns is submitted to operating unit heads, Chief Financial Officer, Executive Directors or the Board for consideration and approval. The criteria for assessment of financial feasibility are generally based on net present value, payback period and internal rate of return from projected cash flow.

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

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

Further Strengthening of Our Underlying Systems

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

Risk Assessment – enhanced monitoring of “emerging risks”	
<ul style="list-style-type: none"> Further strengthened the monitoring of material risks and “emerging risks” (i.e. risks that are new or evolving, which have potentially significant impact even though the likelihood of their happening may not be certain). Management’s risk management committee takes a key role in identifying and tracking these risks. CEO also led further discussions with all department heads. <p>Examples include political / socio risks, economic risks, etc.</p>	<p>In the context of a fast-changing global and local environment, the monitoring of “emerging risks” will be a focus.</p>
Control Activities – policies and procedures	
<ul style="list-style-type: none"> Identified and implemented new policy to address the changing regulatory environment. For instance, company policy relating to the new competition law is in place. Seminars and workshops have been held across the departments to educate and raise awareness of the staff. This ensures that a more holistic approach is taken. It also signifies the importance we place on the business practices, which become more important in light of fast-changing regulatory requirements and heightened stakeholder expectations. 	<p>Continual review and refinement of policies and procedures in light of the changing external and internal environment.</p>
Control Activities – corporate disclosure policy	
<ul style="list-style-type: none"> Reviewed and refined the corporate disclosure policy to guide its stakeholder communications and the determination of inside information in order to ensure consistent and timely disclosure. 	<p>Continual review and refinement of internal controls and procedures for the handling and dissemination of inside information.</p>
Monitoring – enhanced “management assurance” to the Audit Committee and the Board in their respective reviews	
<ul style="list-style-type: none"> Enhanced management update reports to the Audit Committee and the Board on major risks the Group were facing, with special reports on selected topics, e.g. risk to retail business. To further strengthen management’s “assurance” to the Audit Committee and the Board, control self-assessment questionnaires were rolled out across all departments. Department heads were required to certify their departmental controls effectiveness including identifying any control issues. This in turn backs up management’s certification to the Audit Committee and the Board. 	<p>Facilitation and enhancement of the work of the Audit Committee and the Board in monitoring our risk exposure.</p>

Way Forward

Achieving a “live” risk management system on a day-to-day basis by our operating units is a continuous voyage. We are committed to continually improving our risk management framework and capabilities of the Group and shall continue on this path, with enhanced integration of internal controls and risk management into our business processes.

Our Risk Profile

Our approach for managing risk is underpinned by our understanding of our current risk exposures, and how our risks are changing over time. The following illustrates the nature of our major risks. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

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

Note:

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

▼ where "inherent risks" decreased

◀ ▶ where "inherent risks" remain broadly the same