Hysan 希慎

NEWS RELEASE

To: Business/Property Editor

Date: 28 February 2018
For immediate release

HYSAN DEVELOPMENT COMPANY LIMITED
2017 ANNUAL RESULTS

HIGHLIGHTS

- **Turnover increased by 0.4%; against a slight decline in Recurring Underlying Profit of 0.8%**
- **Reported Profit increase reflecting changes in fair value of investment properties**
- **Retail portfolio occupancy at 97%; Office portfolio occupancy at 96%**
- **Completion of Lee Garden Three further building our commitment to lifestyle and community**

RESULTS

		Year ended 31 December		
		2017	2016	
	Notes	**HK$ million**	HK$ million	Change
Turnover	*1*	**3,548**	3,535	+0.4%
Recurring Underlying Profit	*2*	**2,349**	2,369	-0.8%
Underlying Profit	*3*	**2,491**	2,369	+5.1%
Reported Profit	*4*	**3,636**	1,218	n/m
		HK cents	HK cents	
Earnings per share, based on:				
Recurring Underlying Profit	*2*	**224.68**	226.29	-0.7%
Underlying Profit	*3*	**238.26**	226.29	+5.3%
Reported Profit	*4*	**347.78**	116.35	n/m
Full-year dividends per share		**137.00**	135.00	+1.5%

		At 31 December		
		2017	2016	
		HK$ million	HK$ million	
Shareholders' Funds	*5*	**69,953**	67,490	+3.6%
		HK$	HK$	
Net Asset Value per Share	*6*	**66.89**	64.56	+3.6%

n/m: not meaningful

Notes:

1. ***Turnover*** *comprises rental income and management fee income derived from the Group's investment property portfolio in Hong Kong.*
2. ***Recurring Underlying Profit*** *is a performance indicator of the Group's core property investment business and is arrived at by excluding from Underlying Profit items that are non-recurring in nature.*
3. ***Underlying Profit*** *is arrived at by excluding from Reported Profit unrealised fair value changes on investment properties. As a property investor, the Group's results are principally derived from the rental revenues on its investment properties. The inclusion of the unrealised fair value changes on investment properties in the consolidated statement of profit or loss causes an increase in fluctuation in earnings and poses limitations on the use of the unadjusted earning figures, financial ratios, trends and comparison against prior period(s). Accordingly, unrealised fair value changes on investment properties are excluded in arriving at the Underlying Profit.*
4. ***Reported Profit*** *is the profit attributable to owners of the Company. It is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance.*
5. ***Shareholders' Funds*** *is the equity attributable to owners of the Company.*
6. ***Net Asset Value per Share*** *represents Shareholders' Funds divided by the number of issued shares at year-end.*

HYSAN DEVELOPMENT 2017 TURNOVER UP 0.4% TO HK$3,548 MILLION

Results

Hysan Development Company Limited (Stock Code: 00014) today (28 February 2018) announced the Group's **turnover** was HK$3,548 million in 2017, representing a year-on-year increase of 0.4% from HK$3,535 million in 2016.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was down slightly to HK$2,349 million (2016: HK$2,369 million). This primarily reflected the small growth in turnover in light of the market conditions, as well as increase in expenses for Lee Garden Three after its completion.

Underlying Profit, which excludes unrealised changes in fair value of investment properties, was HK$2,491 million, increased by 5.1% from HK$2,369 million in 2016. This principally reflected a one-off compensation of HK$142 million (2016: nil) (net of taxation and non-controlling interests' shares) from a retail tenant during the year. Basic earnings per share based on Underlying Profit correspondingly rose to HK238.26 cents (2016: HK226.29 cents), up 5.3%.

The Group's **Reported Profit** for 2017 was HK$3,636 million (2016: HK$1,218 million). This reflected a fair value gain of HK$853 million (2016: fair value loss of HK$1,187 million) on the Group's investment properties' valuation. As at year-end 2017, the external valuation of the Group's investment property portfolio increased by 4.1% to HK$72,470 million (2016: HK$69,633 million). This reflected a combination of factors: a generally positive office rental outlook; a number of asset enhancement works completed, as well as a higher valuation for the completed Lee Garden Three and an improving retail outlook. The capitalization rates used in valuing each portfolio remained unchanged from those used as at 31 December 2016.

Shareholders' Funds increased by 3.6% to HK$69,953 million (2016: HK$67,490 million).

Dividends

A second interim dividend of HK111 cents per share (2016: HK109 cents) was announced. The dividend will be payable in cash. Together with the first interim dividend of HK26 cents per share (2016: HK26 cents), there is an aggregate distribution of HK137 cents per share (2016: HK135 cents). Please see the table for all the relevant dates:

Closure of register of members	Thursday, 15 March 2018
Ex-dividend date	Tuesday, 13 March 2018
Latest time to lodge transfer documents	4pm on Wednesday, 14 March 2018
Record date for second interim	Thursday, 15 March 2018
Second interim dividend payment date	On or about Thursday, 29 March 2018

Financial Management

Hysan adhered to a policy of financial prudence and maintained a strong financial position.

Low Gearing

- Total Gross Debt: HK$6,176 million (31 Dec 2016: HK$6,305 million)
- Net Debt to Equity: 5.0% (31 Dec 2016: 5.4%)

Stable Debt Profile

- Fixed Rate Debt: 74.9% of the total gross debt (31 Dec 2016: 73.4% of the total gross debt)
- Average Debt Maturity: 4.3 years (31 Dec 2016: 4.3 years)
- Capital Market Issuance: 74.9% (31 Dec 2016: 73.4%)
- Average Cost of Finance: 3.4% (2016: 3.8%)

Strong Credit Rating

- Net Interest Coverage:17.1 times (2016: 20.5 times)
- Moody's: A3; Standard and Poor's: BBB+

COMMENTS BY MS. IRENE YUN LIEN LEE, CHAIRMAN

Overview

"The global economy experienced reasonable growth in 2017, due to a combination of monetary policy accommodation, fiscal policy stimulation and an overall improvement in trade."

"The Hong Kong economy also shrugged off the gloom of 2016. Good labour market conditions, strong asset prices and stock market all helped to create a wealth effect which drove an improvement in domestic spending. In addition, the statistics for visitor arrivals were also encouraging, including an increase of 3.9% in inbound Mainland Chinese tourists in 2017, as compared to 2016."

"As a result of positive macro conditions, Hong Kong's retail sales saw a slight uptick in growth after several years of decline. Jewellery and watches were the strongest performers, and almost all mid-priced to affordable item categories registered healthy growth."

"Although the economic recovery appears fairly robust, structural changes cannot be ignored. Here we provide updates on the challenges we are facing. More importantly, we highlight the actions we took in 2017 to address these issues, as well as our plans to respond to these changes in the near to medium term."

Retail

"Among the most significant retail structural changes is the "generational shift". The Millennials and Generation Z'ers have different needs to the older generations, and these needs are driving changes in the where, what, how and when products and services are delivered. There is also a clear "demographic change" in Hong Kong whereby Mainland Chinese tourists, as well as "New Hong Kong" residents are revealing themselves as mature and sophisticated spenders who demand quality products and services. We need to cater simultaneously to the needs of tourists, newer residents who came to settle in Hong Kong over the past 10 to 20 years, and the "old" Hong Kong."

"Technological advancements clearly represent another facet of structural change within the retail industry. The relentless growth of e-commerce, the ever-increasing dominance of mobile technology, the prevalence of social media in our everyday lives: these factors place serious demands on retailers to make swift and drastic changes. As the landlord and venue provider for a wide range of retailers, we have to constantly enhance our retail environment to cater to these changes. Our tenant collaboration programmes, as noted below on Hysan's progress in 2017, highlight the importance we place on our partnerships with tenants."

"Generational and demographic changes, as well as the extensive use of technology are causing many shoppers to look further into what they really want when they shop. Brands and retailers, as well as online operators, are making their moves to address these issues. Hysan, as a landlord mall operator, needs to re-invent and re-imagine both strategically and operationally. Giving shoppers special attention is now just as important as providing for the straightforward sale of goods. To provide that "extra special" touch, retailers and mall operators now try to make the shopping experience socially pleasant and interesting by offering personalised and unique services to delight and surprise, while making use of technology to enhance these special offerings. All shopping malls in Hong Kong are now seeking to entice shoppers with this experiential approach. Hysan has started the journey into new retail and we will continuously adapt our offerings."

“The luxury sector has been challenging. Despite the fact that consumer sentiment for purchasing certain luxury goods, such as jewellery and watches, has rebounded to a level close to that seen earlier in the decade, consumer behaviour and taste for the high-end subsectors have changed in the past few years. The definition of luxury stretches beyond buying exclusive or expensive goods. It now encompasses health and well-being as well as children-centric offerings, all within a highly demanding enhanced environment.”

Office

“Office leasing faces its own set of significant challenges, much of which is related, again, to generational change. The younger and incoming members of the workforce now subscribe to a more fluid and mobile work style, instead of being tied down to a desk, or even an office. They prefer to work in a social setting, not just with colleagues, but in an environment where they can exchange ideas and contacts with people from other fields and disciplines.”

“Co-working space is a major disruptor and is a growing trend. Several internationally-renowned co-working brands have obtained footholds in Hong Kong, while other more regional and local names are making an impact by adopting unique ways to attract short or longer-term office space users. Hysan has embraced the collaborative work model with an increase of our office portfolio’s exposure to over 5%.”

“Looking at office leasing through a more traditional lens, Hong Kong’s Central district is still the favourite destination of Mainland Chinese financial institutions, with a number of professional firms servicing these clients also taking up Central spaces with record or near-record high rents. Non-Central core areas are generally still supported by the spill-over effect, with some multinational companies opting to relocate to these popular districts, such as Causeway Bay, that are just two or three MTR stops away from Central. Outside Central, we note that while the value for money differential between Causeway Bay and other office areas on the Island and on Kowloon side still exists, the competition from these areas remains strong.”

Hysan’s Progress in 2017

“Hysan continued to launch new initiatives to address challenges in our retail and office portfolios.”

“A new addition to our already well-balanced Causeway Bay commercial portfolio is Lee Garden Three. The building is positioned as our area’s lifestyle extension. The commercial building received its first new office tenant in December 2017. A number of other multinational enterprises, from a diverse business background, are putting the final touches to their interior works and will soon be operating in the office portion of the building. Spaces, a well-known community-based co-working brand, has chosen Lee Gardens as it flagship base in Hong Kong. It highlights our commitment to participate in the future growth of the co-working sector. In addition, the retail podium will see the launch of a range of exciting food and beverage outlets, as well as lifestyle shops complementing existing ones in the Lee Gardens area.”

“For our retail portfolio in general, while retaining top name tenants, we have also enhanced the trade mix by introducing a significant number of popular lifestyle brands. These complement our more established food and beverage venues.”

"We have focused our marketing efforts in new tenant collaboration programmes. Some examples include a partnership with the revamped Louis Vuitton shop, a much-talked-about eslite summer programme, and a colourful I.T. showcase. All of these have attracted considerable media attention, extensive footfall and healthy spending. Our popular sales incentive programmes have also achieved good sales figures. Our loyalty clubs, including both the VIP Club Avenue and the general shoppers' Lee Gardens Plus, recorded significant percentage growth of year-on-year membership numbers, and importantly, also achieved healthy sales growth."

"As for our office portfolio, we continued to provide tenancy for office users from different business sectors and different types of users. We are creating an inclusive office community that fits the needs and demands of modern-day users. We have a diverse portfolio of office tenants which includes sales, banking, finance, insurance, technology, health and wellness, as well as high-end brands."

"Further, we have offered offices at Leighton Centre to three up-and-coming NGOs from different backgrounds: design and elderly services, performing arts and technological development. The initiative represents Hysan's continuing commitment to foster innovation and serve our community."

Looking Ahead

"Lee Gardens' retail portfolio has long been associated with brands that sell the finer things in life. While we will continue to support brands that offer classic luxury, our commitment to promote lifestyle through food and beverage, as well as health and wellness in an environment with a strong sense of community, will define the new retail where emerging consumers demand quality expressed through sustainability, honesty and individuality."

"We expect our office portfolio to be relatively stable. We will maintain our focus on growing a sustainable, community-based working environment, where a balanced lifestyle for tenants' workers is valued. We will also provide a more technology-friendly environment, with more opportunities for collaboration and experience sharing. Looking ahead, we will explore more aspects of the sharing economy, including an enhanced co-working community, as well as co-living arrangements."

"For our two main business sectors, we need to bring new initiatives to the market with speed. We are keen to foster innovation within the commercial real estate sector and to implement disruptive technology while still leveraging our prime strengths to drive long-term growth. Going forward, we will be more digitalised and more data driven, but we will also ensure that technology is adopted at the consumer level to help customers interact with the brand."

"Finally, as we illustrated in our last annual report, Hysan always strives to innovate and curate relevant content for the Lee Gardens community. Throughout 2017, we have continued to introduce small-scale but significant improvements, such as supporting Lee Gardens Association's Egglette and Ice-Cream festivals, as well as providing the setting for Cathay Pacific/HSBC's Rugby Sevens Fan Walk. The year-end recreation of Lee Gardens Hotel's Yum Sing Bar also proved to be a nostalgia-filled success. We will continue to explore short and longer-term ways to enhance the Lee Gardens area in which a broad leafy avenue, quirky side streets, state-of-the-art high-rise buildings, heritage low-rise, eclectic businesses, as well as workers and visitors fuse together to form a unique community."

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For enquiries, please contact:

Mark Tung
General Manager, Corporate Communications
Hysan Development Company Limited
Tel: (852) 28955777
Email: mark.tung@hysan.com.hk