



# Hysan Development 2016 Annual Results Analyst Briefing

22. 2. 2017



# Disclaimer

This document has been prepared for general information purposes only, and is not, and should not be construed as an offer to sell, or a solicitation of an offer to buy any securities.

Information and estimates contained and opinions expressed herein have been complied in good faith by Hysan Development Company Limited. No representation or warranty (whether expressed or implied) is made as to their accuracy, completeness or correctness. All information, estimates and opinions are provided without any legal liability, specifically, they are not intended to create, and should not be construed as creating, any legal relationship (whether contractual or otherwise) with you nor should they be regarded as providing you with any advice or recommendation, and are subject to changes without notice.

None of Hysan Development Company Limited or any of its subsidiaries or affiliates, or any of its or their directors, officers or any other persons, accepts any responsibility or liability whatsoever from any actions or claims arising from any use or interpretation of the information, estimates or opinions contained herein. You may not distribute, reproduce, modify or otherwise use the content of the document for any use (including public or commercial use) without the consent of Hysan Development Company Limited.

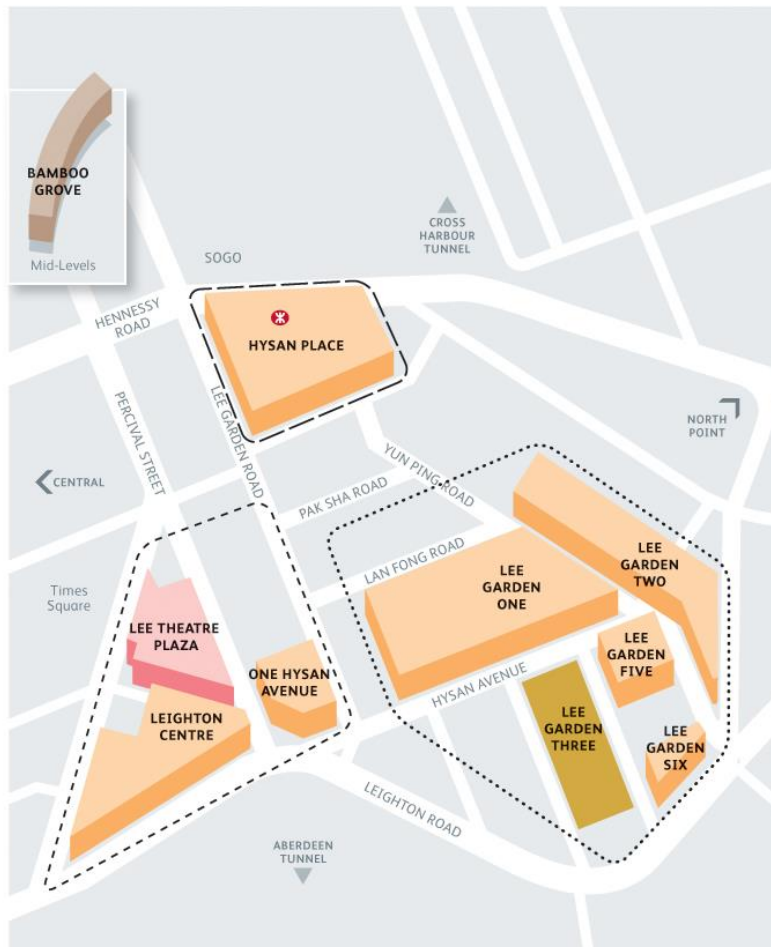
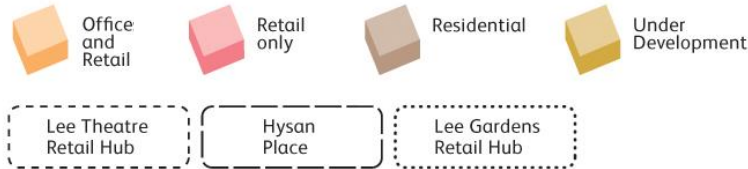


# Agenda

- 1. Hysan Portfolio**
- 2. 2016 Highlights**
- 3. 2016 Annual Results Highlights**
- 4. 2016 Performance By Portfolio**
- 5. Indicative Cap Rates**
- 6. Hysan Business Update**
- 7. Financial Position**
- 8. 2017 Outlook**



## One of the largest commercial landlords in Causeway Bay



**The Hysan Portfolio – 4.1 million sq.ft. (GFA) of high-quality retail, office and residential space (excluding Lee Garden Three, which are currently under development)**

### Retail

- **Hysan Place:** trendy gathering place for younger crowds
- **Lee Gardens hub:** elegant and luxury premium spaces
- **Lee Theatre hub:** urban fashion and sporty lifestyles
- Retail comprises **48%\*** of total properties value

### Office

- Core location with premium facilities and work-life balance
- Office comprises **34%\*** of total properties value

\* As of 31 December 2016



# 2016 Highlights

- Turnover up 3.1% from 2015; Recurring Underlying Profit up 3.8%
- Reported Profit decline reflecting fair value change on investment properties valuation
- Strong occupancy in our commercial portfolio (Retail: 99%; Office 96%)
- With sound financials and a strong balance sheet, Hysan is well positioned for the uncertain times ahead
- Full-year dividends of HK135 cents per share, up 2.3%



# 2016 Highlights - The Bigger Picture

- 2016 saw further global political and economic instability
- Hong Kong's economy was buffeted by headwinds from abroad
- Retail sales hurt by further drop in tourist arrivals, but showed signs of improvement towards the end of the year
- Office leasing market still saw tight supply and robust demand



# 2016 Highlights - Where We Are

- The new normal: weak retail sales and changes in tourists spending pattern
- Hysan continues to position itself dynamically to capture opportunities which come from the structural changes



# 2016 Highlights - Where We Are (con't)

- Sound Financials
  - Strong Balance Sheet
  - Turnover and Recurring Underlying Profit saw growth
  - Occupancy for commercial portfolio strong
- Sound Assets
  - No distressed assets
  - Well planned property enhancement cycles
  - Lee Garden Three to complete ahead of schedule



# 2016 Highlights - Where We Are (con't)

- Explore Investment Opportunities
  - Develop for sale projects: successful bid for residential sites at Tai Po with HKR International
  - Seek further high quality projects aligned to Hysan's portfolio strategy in HK and beyond, while maintaining Lee Gardens as core focus



# 2016 Highlights - Where We Are (con't)

- Strong Team
  - Provide the knowledge, skills and relationships
  - Continue to lead Hysan team as Executive Chairman
  - Addition of COO Ricky LUI with extensive experience in the property industry in Hong Kong, Mainland China and overseas



# 2016 Highlights - Our Challenges

- Retail Portfolio Structural Changes
  - Millennials preferring all things digital
  - Refocus on health, wellness and lifestyle themes leads to changes in offerings
- Mainland Visitors Spending Changes
  - Travel and tax policy changes
  - Desire to shop overseas and buying power fuelled by foreign exchange considerations
  - China's slower economic growth



# 2016 Highlights - Our Challenges (con't)

- Industry Competition
  - Competition shifts focus to local customers
  - Landlords working hard to retain tenants
- Increase in Occupancy Costs
  - Some retail tenants feel the pressure
  - Consolidation of number of shops may lead to more vacancies



# 2016 Highlights - Our Challenges (con't)

- Office Portfolio Structural Changes
  - More upcoming Grade A supply on HK Island
  - Trend to use more open plan or co-work space
  - More tech leading to fewer headcount and lower space demand



# 2016 Highlights - Our Recipe to Curate a Community and Destination

- Lee Gardens as a Community
  - A distinct part of Causeway Bay
  - Those who live, work and play here form an emotional attachment, often for generations
- A Front-of-Mind Destination for Locals and Visitors
  - Refresh our hardware (real estate) and software (customer service, technology, marketing and events)
  - Enrichment of trade and tenant mix
  - Involvement and commitment to our neighbourhood



# 2016 Highlights - Our Recipe to Curate a Community and Destination (con't)

- Stakeholders contribute to and benefit from multi-dimensional curation
- All help shape Lee Gardens as a destination for today and the long-term





# 2016 Highlights - Our Recipe to Curate a Community and Destination (con't)

- Mainland Chinese professionals who work and live in Hong Kong
  - Working, shopping and dining habits increasingly indifferentiable from longer-term local residents from all over the world
  - Through their daily interaction with other stakeholders in our portfolio, they have become part of our multinational Lee Gardens community



# 2016 Highlights - Our Recipe to Curate a Community and Destination (con't)

- Lee Garden Three
  - Anticipated completion date in late 2017
  - Strong green and wellness credentials
  - Promote multi-dimensional interaction involving the landlord, tenants, workers and the community



# 2016 Annual Results Highlights

	2016 HK\$'M	2015 HK\$'M	%
<b>Turnover</b>	3,535	3,430	+3.1%
<b>Recurring Underlying Profit</b>	2,369	2,283	+3.8%
<b>Underlying Profit</b>	2,369	2,283	+3.8%
- Fair value (loss) or gain on investment properties located in			
• Hong Kong (net of effect of non-controlling interests' shares)	(1,157)	616	n/m
• Shanghai*	6	4	+50.0%
<b>Reported Profit</b>	1,218	2,903	-58.0%
	2016 HK\$'M	2015 HK\$'M	%
<b>Shareholders' Funds</b>	67,490	68,172	-1.0%

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

n/m: not meaningful

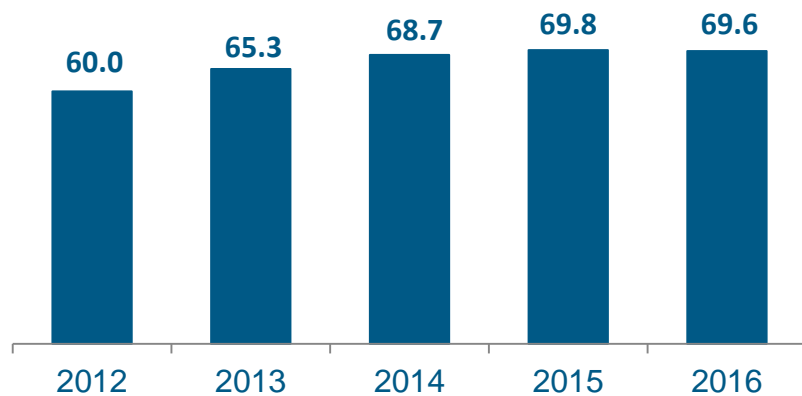


# 2016 Annual Results Highlights (con't)

## Recurring rental income from high quality investment properties

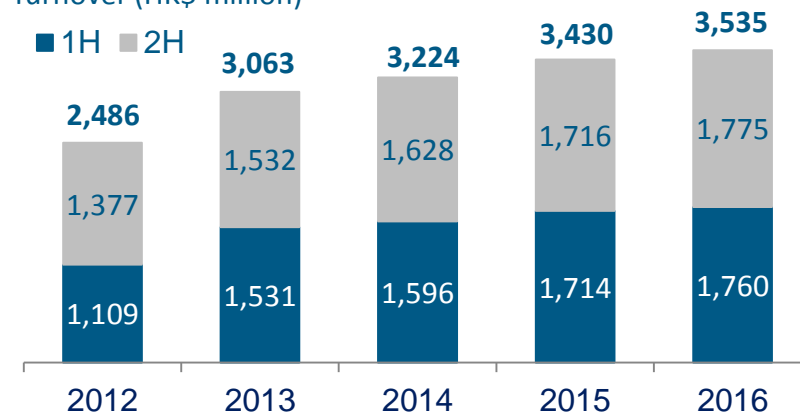
### Sizeable portfolio of high quality investment properties

Book value of investment properties (HK\$'billion)



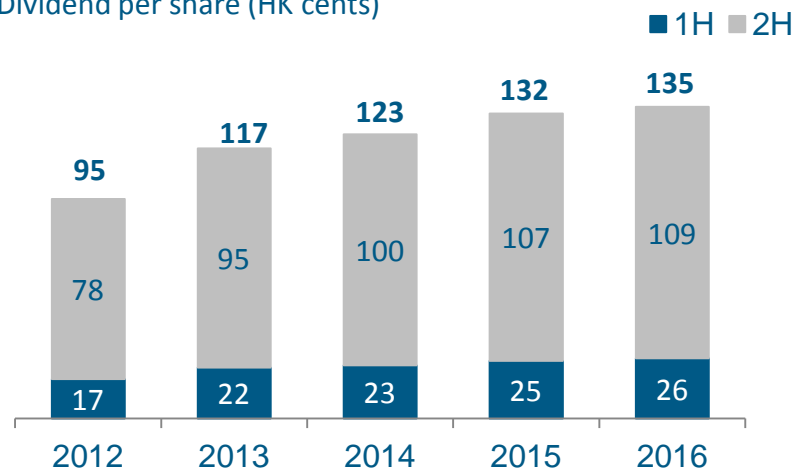
### Steady turnover growth

Turnover (HK\$'million)



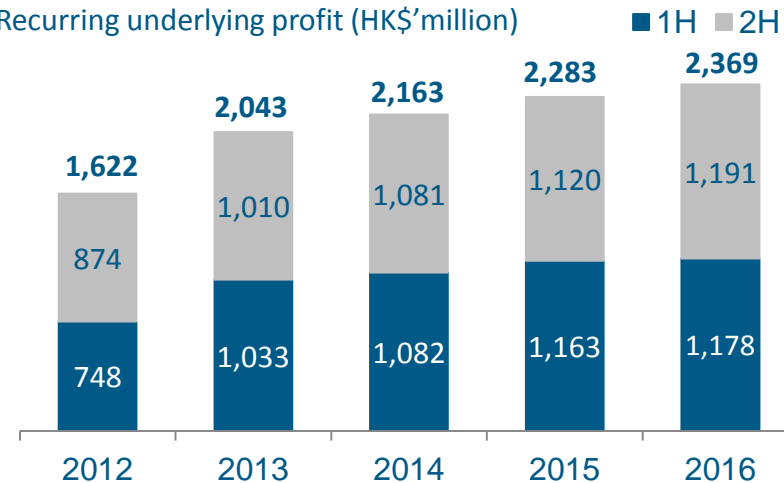
### Stable return to shareholders

Dividend per share (HK cents)



### Sustained growth in recurring underlying profit

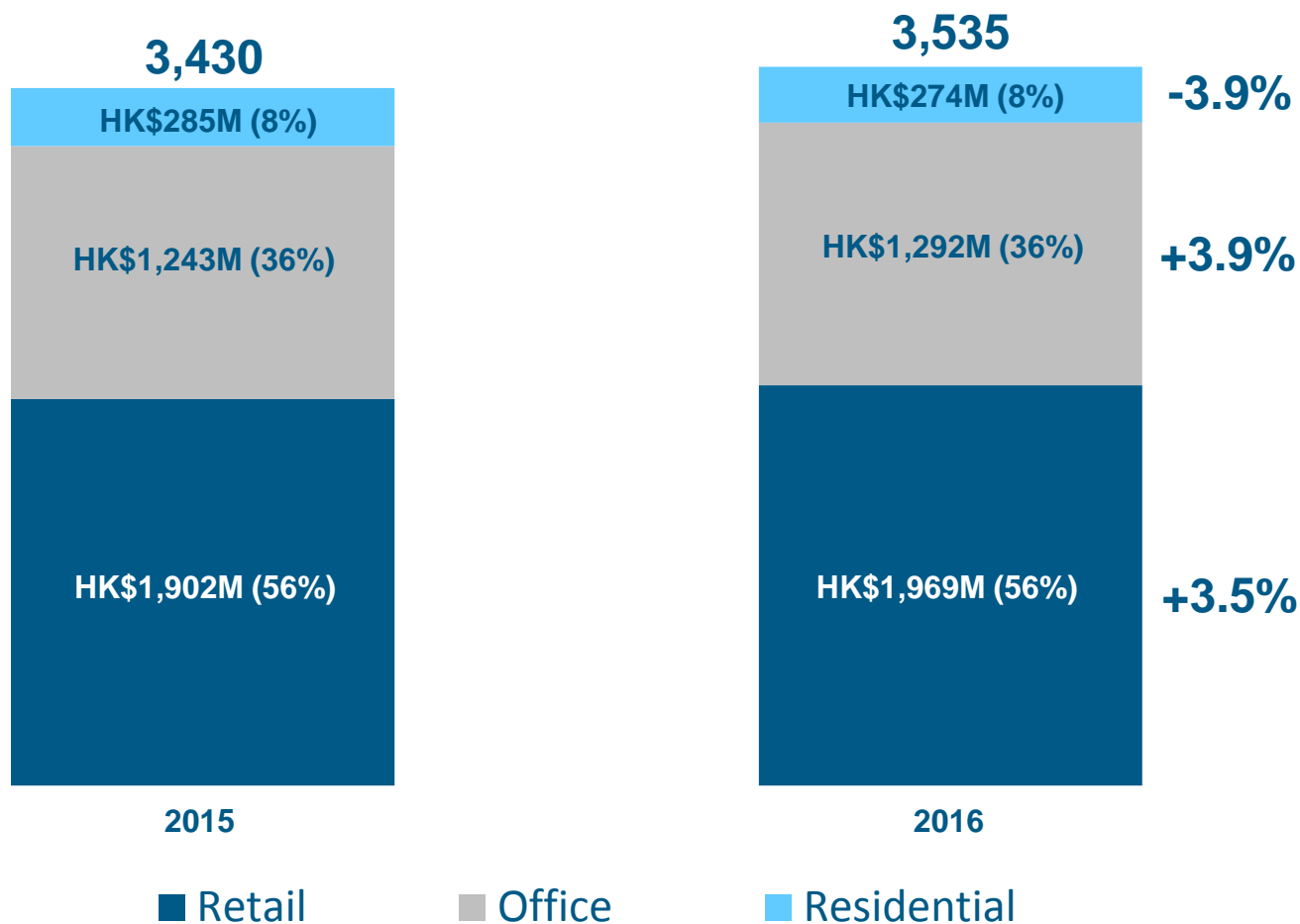
Recurring underlying profit (HK\$'million)





# 2016 Performance: By Portfolio

## Turnover (HK\$'M)





# 2016 Performance: Retail Portfolio

## Market overview: Hong Kong Retail Sales

- 2016 full year: overall decline of 8.1% when compared to 2015 full year
- Reflected fall in nearly all major categories, except food, alcoholic drinks and tobacco

Type of retail outlet	Jan-Dec 2016 (YoY)
Jewellery, watches and clocks, and valuable gifts	-17.2%
Other consumer durable goods (include electronic goods and computers)	-26.6%
Food, alcoholic drinks and tobacco (other than supermarkets)	+1.7%
Clothing, footwear and allied products	-4.6%

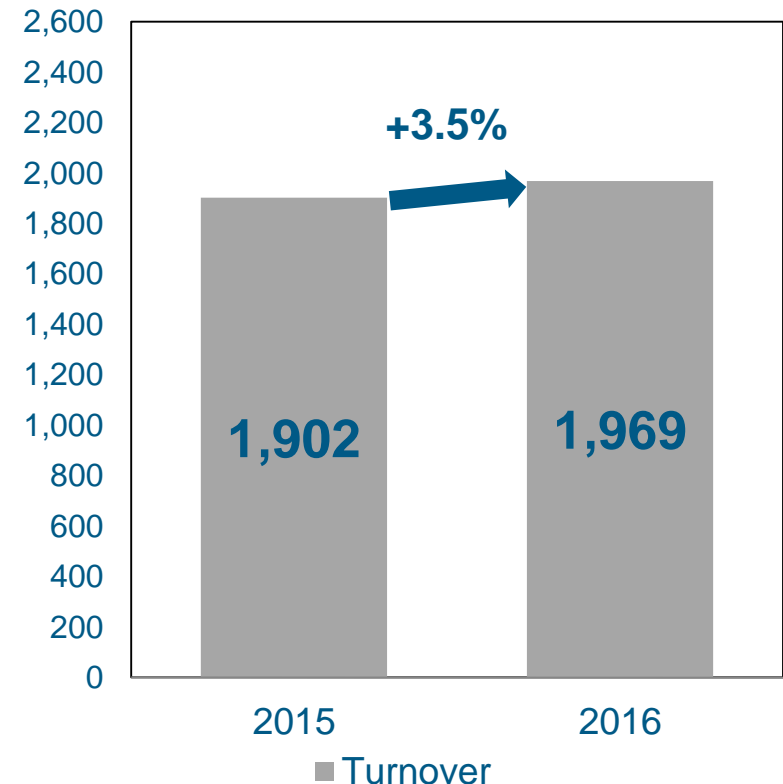


# 2016 Performance: Retail Portfolio (con't)

- Retail portfolio turnover increased by 3.5% to HK\$1,969 million (2015: HK\$1,902 million)
  - Turnover rent of HK\$46 million (2015: HK\$71 million)
- Occupancy: 99% as at 31 Dec 2016 (31 Dec 2015: fully-let)

## Retail Portfolio Turnover

HK\$'M





# 2016 Performance: Retail Portfolio (con't)

- Positive rental reversion in renewals, reviews and new lettings across the portfolio, with an average increase of around 5% in rental levels





# 2016 Performance: Retail Portfolio (con't)

- Creative retail experiences including new food and beverage outlets and innovative in-mall marketing activities
- Total foot traffic rose around 5%, achieved against a fall in visitors' arrivals
- Estimated overall tenant sales saw double-digit percentage decrease, heavily impacted by the estimated sales decline of certain electronic goods within our portfolio
- Otherwise, the decline was milder and was less severe than the decrease in Hong Kong's overall retail sales during the year



# 2016 Performance: Retail Portfolio (con't)

- Hysan Place
  - Around 5% foot traffic growth in 2016
  - Added trendy stores and wellness / sport shops to tenant mix
  - Popular in-mall events
  - New food and beverage outlets





# 2016 Performance: Retail Portfolio (con't)

- Lee Gardens hub
  - Lee Garden One foot traffic remained stable, while Lee Garden Two saw around 5% increase
  - Fashion brands and new food and beverage offerings added to the hub's attraction





# 2016 Performance: Retail Portfolio (con't)

- Lee Theatre hub
  - Around 5% increase in foot traffic
  - Lee Theatre Plaza flagship stores and Leighton Centre “sports-themed street” remained popular





# 2016 Performance: Retail Portfolio (con't)

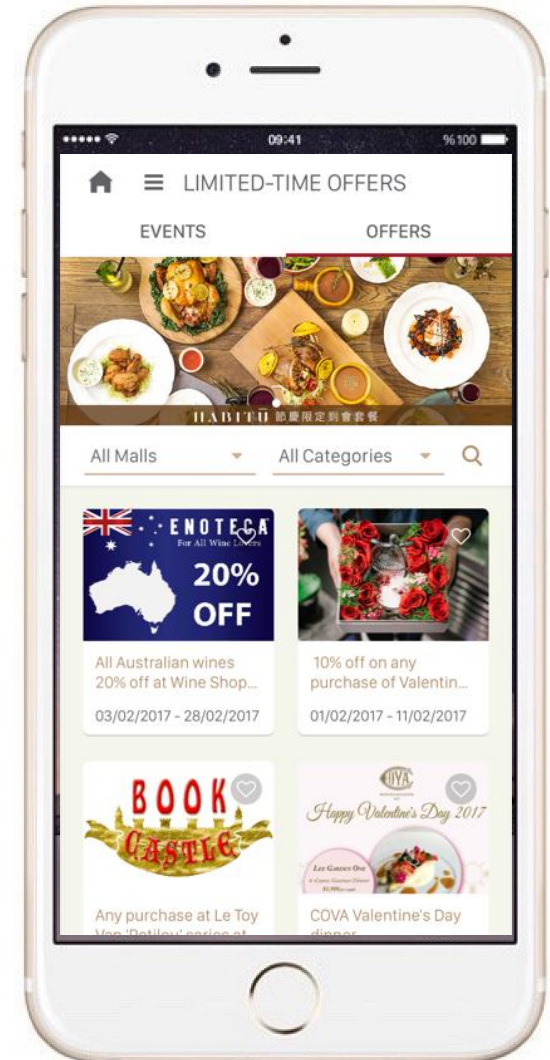
- The hubs have special characters, but retail portfolio should be considered in a more holistic manner
- Working to improve the connections among the different hubs





# 2016 Performance: Retail Portfolio (con't)

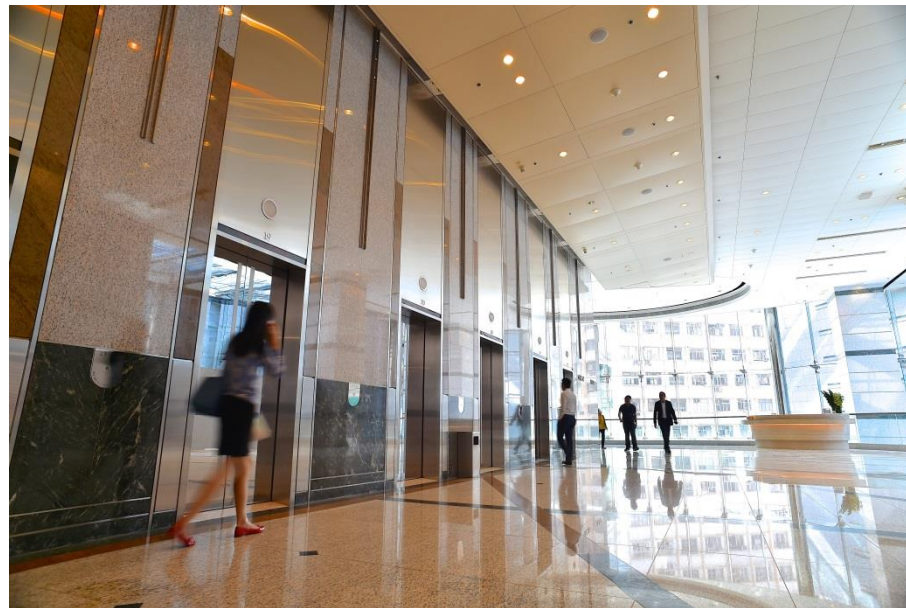
- New Lee Gardens Plus tenant membership programme
- The offer-and-reward programme now app-based for today's tech-savvy users
- Improved upon our loyalty programme, Club Avenue with an extra tier, as well as better staff training





# 2016 Performance: Office Portfolio

- Hysan's office space accounts for more than 50% of its overall portfolio's gross floor area
- Contributes 36% of its turnover



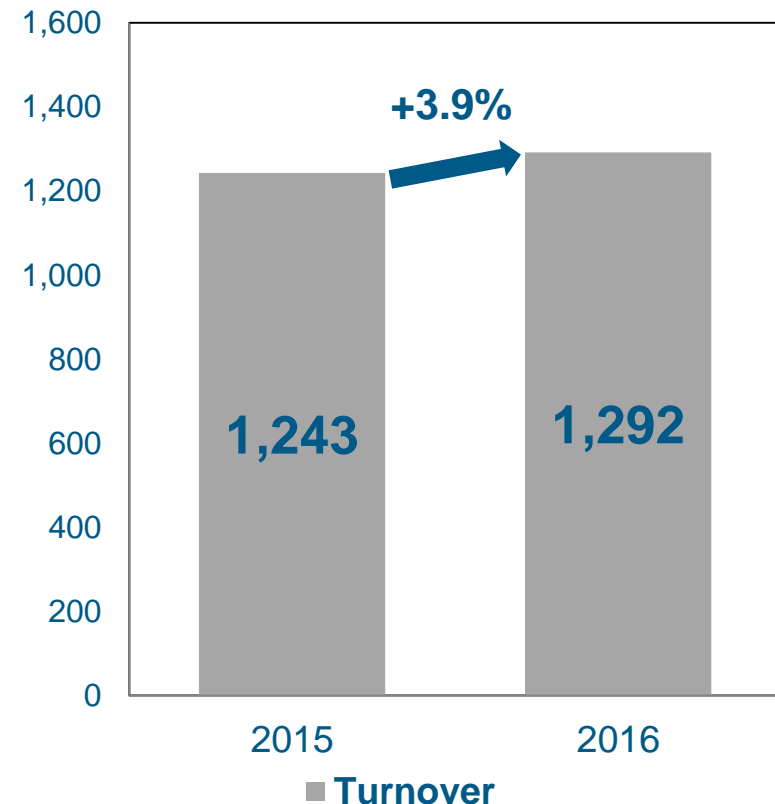


# 2016 Performance: Office Portfolio (con't)

- Office portfolio turnover increased by 3.9% to HK\$1,292 million (2015: HK\$1,243 million)
- Occupancy: 96% as at 31 Dec 2016 (31 Dec 2015: 99%)
- Positive rental reversion in renewals, reviews and new lettings across the portfolio, with an average increase of around 25% in rental levels

## Office Portfolio Turnover

HK\$'M





# 2016 Performance: Office Portfolio (con't)

- Mainland Chinese banking and financial sectors ramp up demand in Central and Admiralty
- Companies in other industries needing quality space with good facilities and transportation turn to Causeway Bay and Lee Gardens
- Newly joined tenants included: Uber, AXA and Southwest Securities





# 2016 Performance: Office Portfolio (con't)

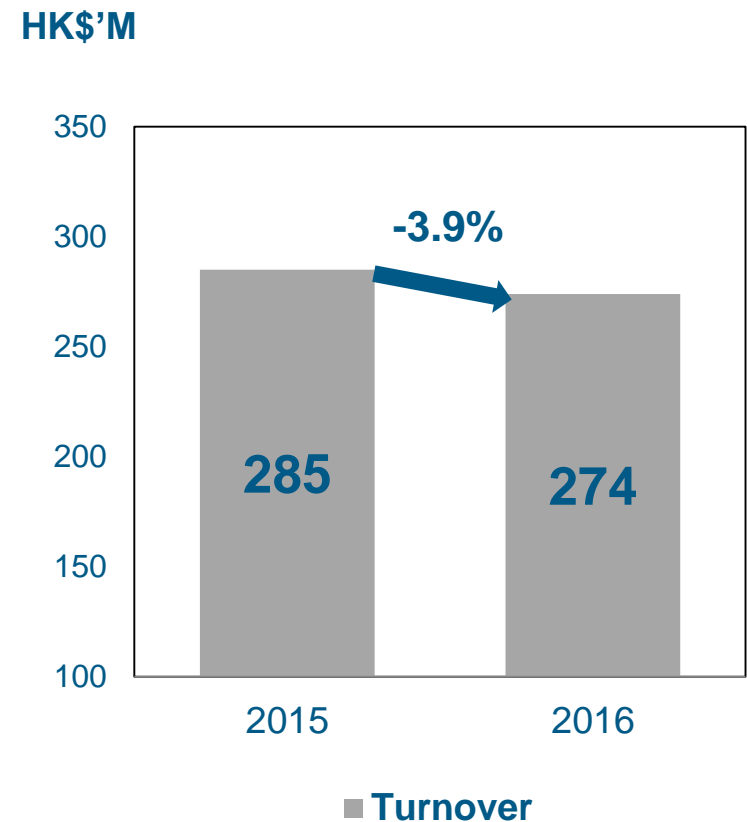
- Balanced tenant mix:
  - Professional and Consulting
  - Insurance
  - High-end Retailers
  - Banking and Finance
  - Represented 52.2% of our office lettable floor area
- No single category took up more than 20% of total lettable area



# 2016 Performance: Residential Portfolio

- Residential portfolio turnover decreased by 3.9% to HK\$274 million (2015: HK\$285 million)
- Positive rental reversion with an average rental increase of around 5%
- Occupancy: 82% as at 31 Dec 2016 (31 Dec 2015: 89%)
- Vacancy largely due to large scale upgrade and renovations

## Residential Portfolio Turnover





# Indicative Cap Rates

- No change in Cap rate from 31 Dec 2015

	31 Dec 2016	31 Dec 2015
<b>Retail</b>		
➤ Lee Garden One	5.00%	5.00%
➤ Lee Garden Two	5.25%	5.25%
<b>Office</b>		
➤ Lee Garden One	4.25%	4.25%
➤ Lee Garden Two	4.75%	4.75%
<b>Residential</b>		
➤ Bamboo Grove	3.75%	3.75%
<b>Property under development</b>		
➤ Lee Garden Three	4.25% - 5.00%	4.25% - 5.00%



# Hysan Business Update: Lee Garden Three

- Above-ground construction was up to 22/F as of mid-February 2017
- Project expected to be completed around Q4 2017





# Hysan Business Update: Asset Enhancement Project

- Final phase of Lee Garden One ground floor lobby and higher floors' retail space enhancement project successfully completed in middle of 2016 as scheduled
- Valentino opening expanded store in January 2017
- Two new food and beverage outlets also added





# Strong Financial Position

## Low Gearing

- Total Gross Debt: HK\$6,305 million  
(31 Dec 2015: HK\$4,875 million)
- Net Debt to Equity: 5.4% (31 Dec 2015: 3.0%)

## Strong Credit Rating

- Net Interest Coverage: 23.5 times  
(2015: 19.5 times)
- Moody's: A3; Standard and Poor's: BBB+

## Stable Debt Profile

- Fixed Rate Debt: 73.4% of the total gross debt  
(31 Dec 2015: 94.9% of the total gross debt)
- Average Debt Maturity: 4.3 years  
(31 Dec 2015: 6.3 years)
- Capital Market Issuance: 73.4%  
(31 Dec 2015: 94.9%)
- Average Cost of Finance: 3.8% (2015: 3.5%)



# 2017 Outlook

- Political and economic volatility in the global environment remain;  
local consumer sentiment still weak
- Clear strategy to curate Lee Gardens as a community





**Thank you**