

Hysan Development 2018 Annual Results Press Conference



21 February, 2019

 **Hysan** 希慎

Remarks by

Ms. Irene Yun Lien LEE
Chairman

2018 Annual Results Highlights

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Hysan Development's roots can be traced back to the purchase of East Point Hill, now better known as Lee Gardens, by the founding Lee family in 1923. The ensuing 95 years have seen the transformation of the area from genteel parklands to a vibrant lifestyle destination.



2018 Annual Results Highlights

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- “Hysan 95”, www.hysan95.com, is an online celebration of the past, present and future of Causeway Bay and its Lee Gardens with a focus on the people who have brought the area to life.
- In 2018, we celebrated Hysan’s long-term link with Lee Gardens, and our determination to grow our home base into Hong Kong’s best district to work, live and play – to create a community for the ages.



2018 Annual Results Highlights

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- Turnover and Recurring Underlying Profit increased by 9.6% and 8.0% respectively year-on-year
- Increased Reported Profit reflected changes in fair value of investment properties
- Occupancies of Retail and Office portfolios were 98% and 97% respectively



Overview

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HK Economy & Retail Sales in 2018

- Economic growth slowed moderately in 2H 2018 impacted by global macro issues
- Residential property market and stock market less bullish in 2H 2018
- Retail sales saw robust growth in 1H 2018, but also slowed down in 2H 2018

Hysan

- Estimated retail sales growth outperformed Hong Kong's retail sales growth
- Office rental reversion was robust and occupancy improved
- However, market challenges persist, from macro issues to structural changes in tenants' and customers' demands



MACRO

Generational Shift

Demographic Shift

China-US Trade War

Interest Rate Hike

RMB Depreciation

Still Ample Liquidity

Technology Driving
Change at Increasing Pace

RETAIL

Fast and determined pivot to
experiential offers with
strong digital journey

New Hong Kong

New Classic

OFFICE

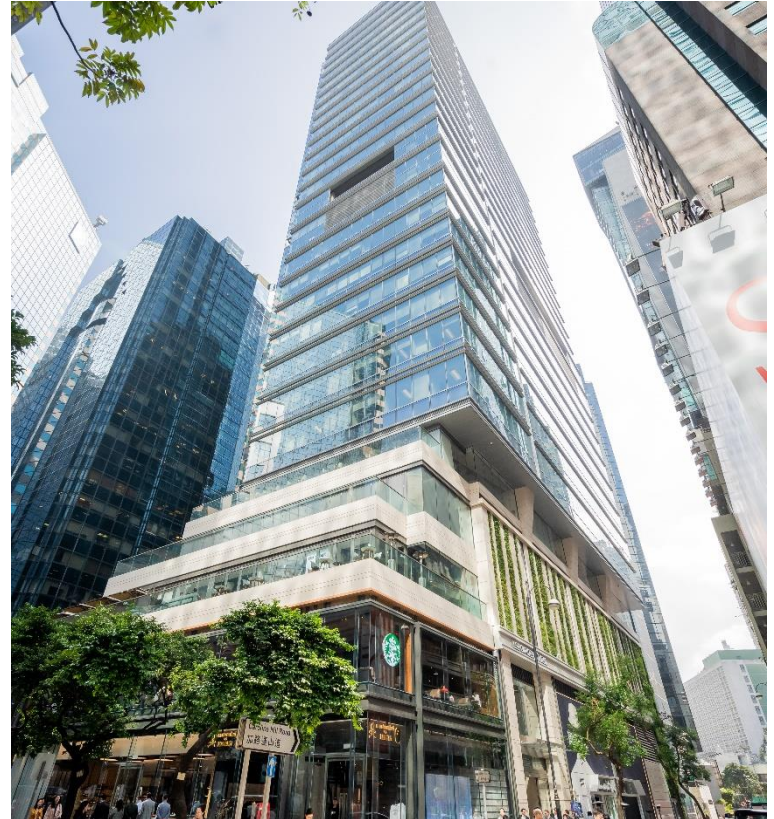
Fast and determined pivot to
“Flex”

Office ↔ Retail
Need to power and empower

Lee Garden Three Opening

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- Officially opened in November 2018
- Focus on health and wellness lifestyle
 - Retail: including unique food and beverage destinations and children's products
 - Office: financial industry tenants and co-working venue



Energising Other Parts of the Portfolio

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- Throughout our entire portfolio, new types of office tenants, financial (close to 25% of office GFA) and co-work (now close to 10% of office GFA) have created a new consumer demographic; many are becoming loyal customers of the portfolio's offerings
- In turn influenced our retail tenant recruitment strategy and mix
- Mutual empowerment between office and retail tenants
- Analyse and curate portfolio holistically through the mutual influences of elements like footfall, spending power and staying power



Other Retail and Marketing Initiatives

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- Loyalty Clubs

- Lee Gardens Plus for general shoppers and Club Avenue for VIPs help enhance spending and staying powers of those visiting the portfolio
- Strive to improve in terms of breadth and depth of what we offer
 - Lee Gardens Plus is a platform for a wider audience
 - Club Avenue: Continue to enhance offerings and services



Other Retail and Marketing Initiatives

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- Tenant partnership enhancement
 - Regular town-hall meetings with retail tenants
 - Special tenant-centric but mutually-beneficial events that can be leveraged to bring more business and attention



Community Contributions

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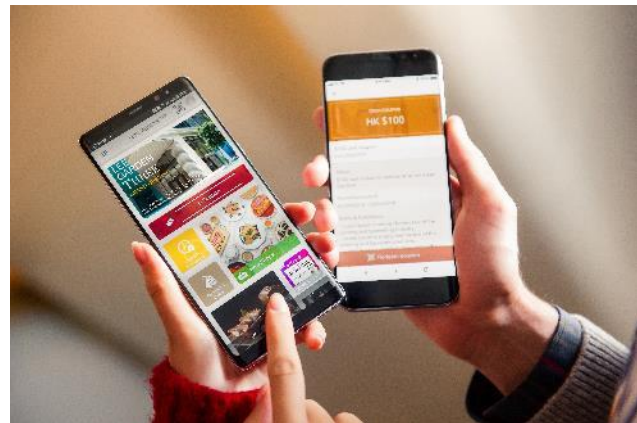
- Lee Gardens area always had an eclectic mix of different characteristics. It is also the real Hong Kong.
- Hysan injects even more elements into the community to stimulate stakeholder interactions



Digital Transformation

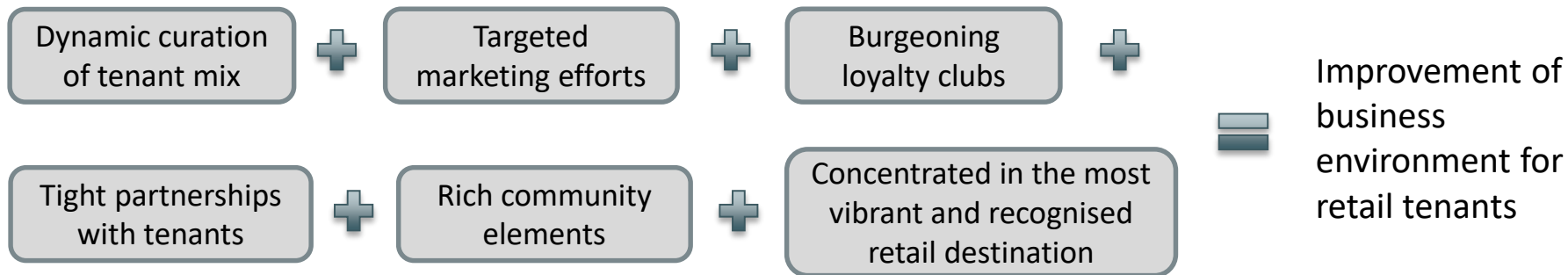
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- All elements of the portfolio woven together with our ever-strengthening digital offerings
 - Area-wide high-speed Wi-Fi
 - Easy-to-use and environmentally friendly e-coupons
 - Forthcoming improved loyalty apps
- Plays an important part in connecting our community to drive business
 - Virtual
 - Physical
 - Visual



Hysan's Success Formula

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- The success of our retail tenants is reflected in satisfactory positive rental reversions in most cases, which in turn has given us the opportunity to take proactive steps to continue to innovate and reposition our portfolio for longer term gains



Outlook

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- Uncertain property and equity markets will be further affected by anticipated headwinds from macro issues in 2019
- Hysan has measures to weather uncertainties and tackle structural changes
- Also has comprehensive plan to curate Lee Gardens community with support of stakeholders
- Look forward to another successful year



Presentation by

Mr. Roger HAO
Chief Financial Officer

2018 Annual Results Highlights

	2018 HK\$'M	2017 HK\$'M	%
Turnover	3,890	3,548	9.6%
Recurring Underlying Profit	2,536	2,349	8.0%
- One-off early surrender compensation income	—	142	n/m
Underlying Profit	2,536	2,491	1.8%
- Fair value gain on investment properties located in			
· Hong Kong	3,388	1,106	206.3%
· Shanghai*	96	11	n/m
- Imputed interest income on the interest-free loan to a joint venture	29	28	3.6%
- Other gains and losses	(16)	—	n/m
Reported Profit	6,033	3,636	65.9%
Shareholders' Funds	74,431	69,953	6.4%

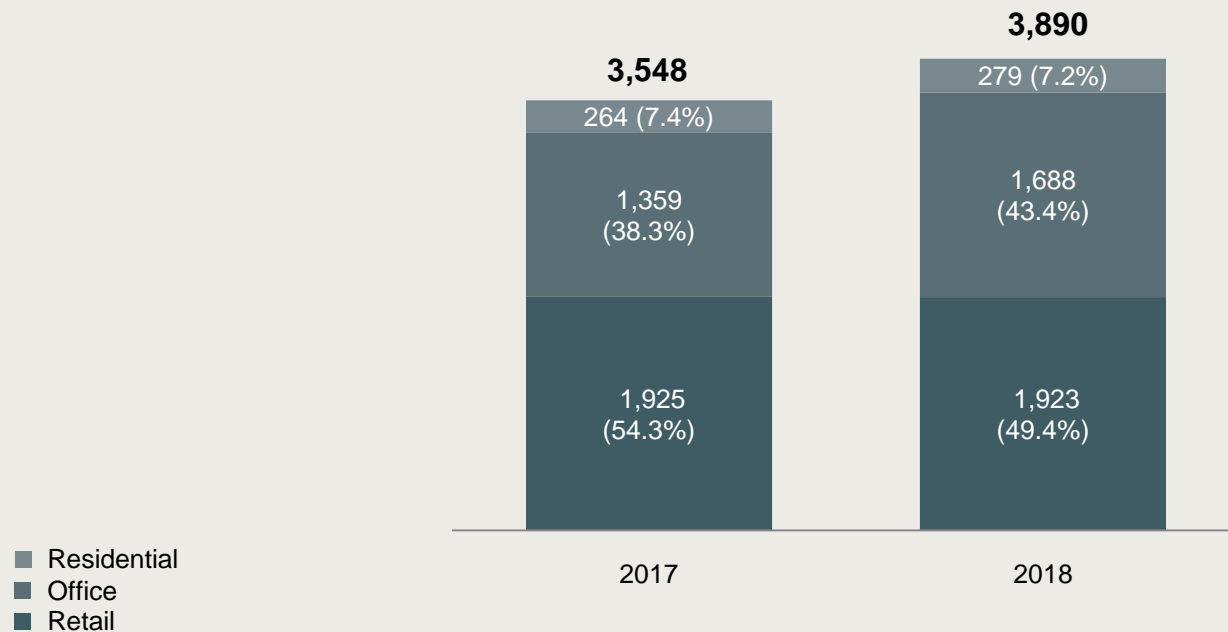
* The investment properties are held by an associate of the Group.

n/m: not meaningful

2018 Performance: By Portfolio

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Turnover (HK\$'M)



Low Gearing

- Total Gross Debt: HK\$6,326 million (31 Dec 2017: HK\$6,176 million)
- Net Debt to Equity: 4.7% (31 Dec 2017: 5.0%)

Stable Debt Profile

- Fixed Rate Debt: 75.5% of the total gross debt (31 Dec 2017: 74.9% of the total gross debt)
- Average Debt Maturity: 3.9 years (31 Dec 2017: 4.3 years)
- Capital Market Issuance: 75.5% (31 Dec 2017: 74.9%)
- Average Cost of Finance: 3.6% (2017: 3.4%)

Strong Credit Rating

- Net Interest Coverage: 18.1 times (2017: 17.1 times)
- Moody's: A3;
Standard and Poor's: BBB+;
Fitch: A-



Green Financing

- Established Hysan's Green Finance Framework for sustainable building development and enhancements
- Issued first green bond of HK\$300 million at 3.33% due 2026 in Jan 2019

Presentation by

Mr. Ricky LUI

Chief Operating Officer

Market overview: Hong Kong Retail Sales

- 2018: overall increase of 8.8% when compared to the same period of 2017
- Encouraging retail sales improvement which slowed down in 2H 2018

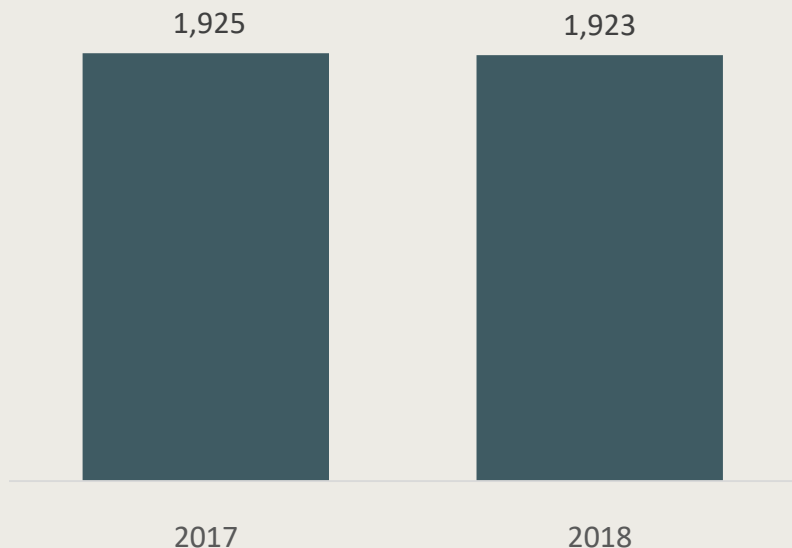
Type of retail outlet	Jan-Dec 2018 (YoY)
Jewellery, watches and clocks, and valuable gifts	+13.7%
Medicines and cosmetics	+14.3%
Food, alcoholic drinks and tobacco (other than supermarkets)	+4.7%
Clothing, footwear and allied products	+6.7%

2018 Performance: Retail Portfolio

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- Retail portfolio turnover was HK\$1,923 million, on par with 2017
- Good contribution from turnover rent of HK\$81 million
- Occupancy: 98% as at 31 Dec 2018
- Overall, neutral rental reversion in renewals, rent review and new lettings, reflecting satisfactory positive reversions for the majority mixed with the impact from targeted trade mix enhancement

Retail Portfolio Turnover (HK\$'M)



2018 Performance: Retail Portfolio

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- Hysan's estimated Retail Sales Growth was around 16%, outperformed the overall Hong Kong Retail Sales Growth of 8.8%
- Total foot traffic increased by around 11%



2018 Performance: Retail Portfolio

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Trade Mix Enhancement

Our commitment to meet and exceed our ever-changing customer need and expectation

Lee Garden Three

Modern lifestyle, extension of our retail offerings

- **Home furnishing and appliances:** BoConcept, KitchenAid, HOMELESS, Sub-Zero & Wolf, Fendi Cucine, Tavolo Kids Living, Paidi, Stressless, at.home
- **Fashion and accessories:** WTAPS, mastermind vs BATHING APE®, Undeafated
- **Food and beverage:** A Happy Pancake, Belgos, John Anthony, Starbucks Flagship Store, NOC Coffee Co., Next Door Café & Bar, Reserva Ibérica Tapas Bar & Café, Sweet Fashion House, Zentro East
- **Personal care and beauty:** M Plus Salon



2018 Performance: Retail Portfolio

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Other exciting new tenants in our portfolio

- **Luxury:** CHAUMET, Dunhill, The Spa by Valmont, AMOREPACIFIC
- **Food and beverage:** 10 Shanghai, Ta-ke, Haidilao, HEYTEA, Sake Diamond, n.o.t. Specialty Coffee, Futago, Chali
- **Lifestyle offer:** NIKE, Converse, VANS, Champion, côte&ciel, Visionaire, MO&Co., apm Monaco, Alluressories, PORTSPURE, G-Shock Casio, The Overlander, MOUSSY
- **Kids:** Maggie & Rose, BabyNes Nutrition System Boutique, NANOS
- **Renovation and relocation:** BVLGARI, Van Cleef & Arpels, Gentle Monster, Roger Vivier, Towngas Cooking Centre, adidas, Jack Wills, PANDORA, Diamanti Per Tutti, Pacific Coffee



- Neighbourhood business association Hysan helped found in 2016
- Hysan's ever-improving tenant mix in the area prompted more creative business concepts to be introduced by the Association to local property owners



- New businesses joining the area in 2018/early 2019 included:
 - Leica
 - Carhartt
 - Pun's Food
 - Within 17-19 Yun Ping Road
 - ❖ a nice place to
 - ❖ Easyoga
 - ❖ Good Harpternoon by the Euphonious
 - ❖ Leisure Corner
 - ❖ Moon of Silence
 - ❖ Museum CONTEXT

2018 Performance: Retail Portfolio

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Marketing

Number of events and activities: 100+

Collaborated events:

• Tenant collaborations:

- | | | |
|-------------------|----------------------|-----------------|
| ○ Louis Vuitton | ○ Brunello Cucinelli | ○ rue Madame |
| ○ BVLGARI | ○ Cartier | ○ ST. JOHN |
| ○ KitchenAid | ○ Piaget | ○ TORY BURCH |
| ○ Sub-Zero & Wolf | ○ Roger Vivier | ○ CHANEL BEAUTÉ |

• Third party collaborations:

- The Singleton of Glen Ord Sensorium
- Nike Yoga Day
- Rugby Sevens
- Lamborghini Weekend Drive
- Partnerships with HSBC, Hang Seng Bank and China Merchants Bank on bank and credit-cards-related promotions
- Go Green campaign with dozens of restaurants
- GreenFest



- Dior
- Lancôme
- eslite
- Starbucks flagship opening
- Maxims

Marketing

Shoppers promotion

- Our signature Leeisure and Shopaholic shoppers' promotion has generated double digit percentage growth on sales
- For Tourists
 - Reinforced collaboration with HK Tourism Board
 - Pre-trip communication and on trip incentive to engage them
 - Spending of tourist shows a double digit percentage growth



2018 Performance: Retail Portfolio

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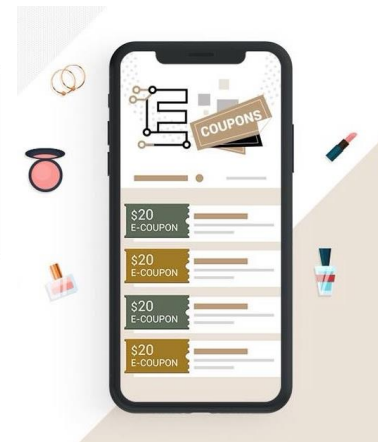
Marketing

- **Customer Relationship Management (CRM)**

- Both sales & members of Club Avenue saw double digit percentage growth
- Purple card to capture high-quality tourists who visit Hong Kong several times a year
- Lee Gardens Plus for general shopper membership more than doubled

- **Business Tech application**

- A virtual community high speed area Wi-Fi + I.O.T
- Loyalty apps re-engineering + e-coupon + digital signage
Enhancing customer experience & adherences
- I.O.T + Data Analytics + AI
Better understanding of customers, will drive our productivity



2018 Performance: Retail Portfolio

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Community events

- Lee Gardens EGGssentially Art! Rugby Edition
- HK Ballet's "ALICE (in wonderland)" street ballet performance
- Night Parade with Standard Chartered Bank and Hong Kong Youth Arts Foundation
- X'mas "Love is Nearby" concert and street fair with Supper Moment

More children's entertainment

- Absolutely Fabulous Children's Theatre monthly performances
- Hong Kong International Young Readers Festival
- Gruffalo by KidsFest
- Royal Kids Etiquette classes

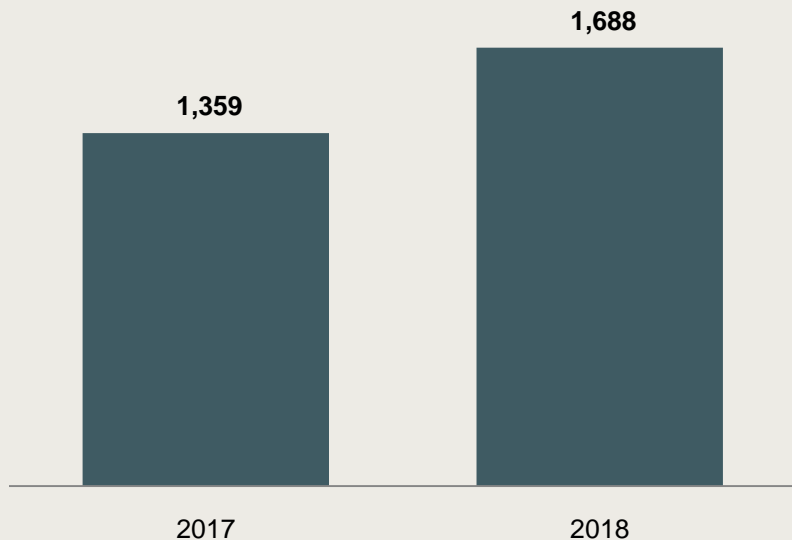


2018 Performance: Office Portfolio

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- Office portfolio turnover increased by 24.2% to HK\$1,688 million
- Occupancy: 97% as at 31 Dec 2018
- Positive rental reversion in renewals, rent review and new lettings across the portfolio

Office Portfolio Turnover (HK\$'M)

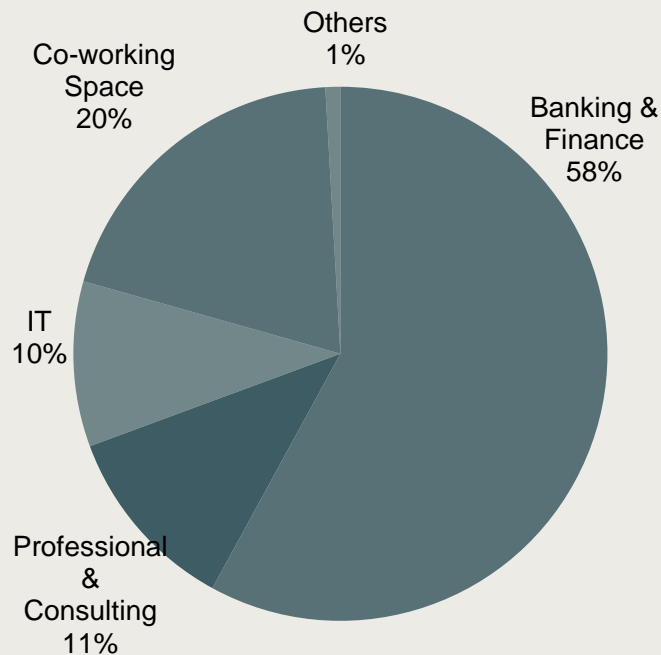


2018 Performance: Office Portfolio

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- Official opening of Lee Garden Three in 2018
- Our first commercial building with a focus on attracting tenants from the financial industry (58% of Lee Garden Three's space)
- Cutting-edge co-working space – Our attractive community and high quality office portfolio is naturally pursued by the co-working space operators

Lee Garden Three

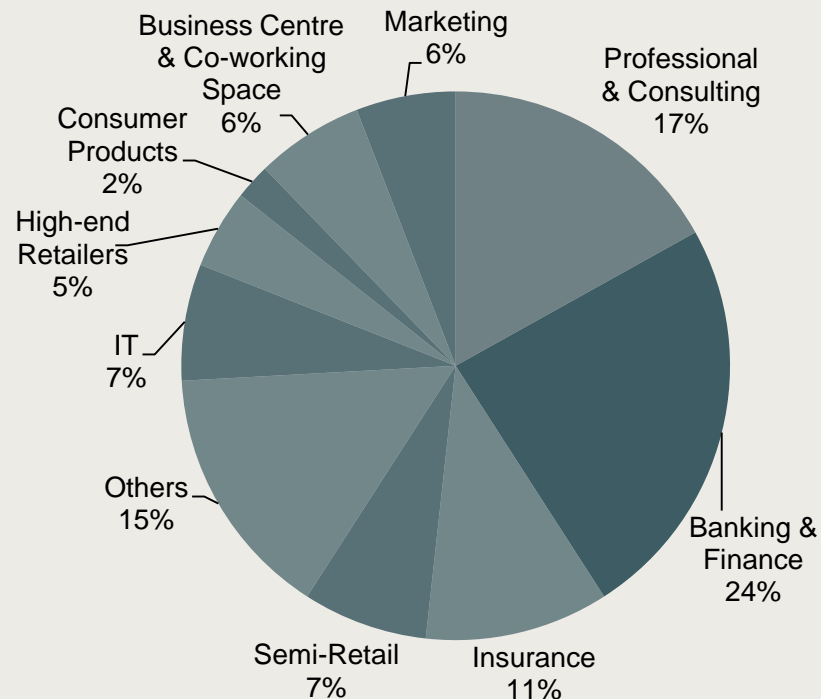


2018 Performance: Office Portfolio

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- Still a very balanced tenant mix showing the portfolio's diversity:
 - Banking and Finance (24% of portfolio's space)
 - Professional and Consulting
 - Insurance
 - Semi-Retail
- Co-working is a strong up-and-coming category

Overall

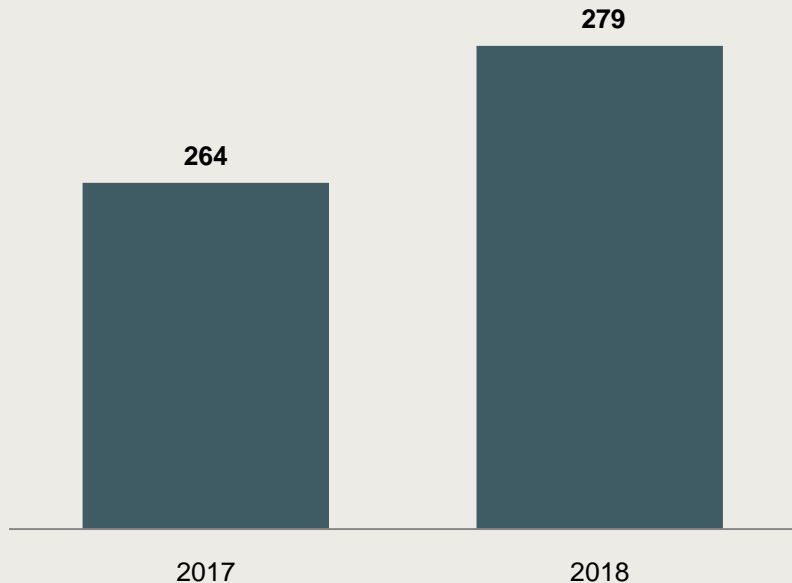


2018 Performance: Residential Portfolio

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- Residential portfolio turnover increased by 5.7% to HK\$279 million
- Positive rental reversion on renewals, rent review and new lettings
- Occupancy: 88% as at 31 Dec 2018
- Still a number of units being renovated to improve overall quality of offerings

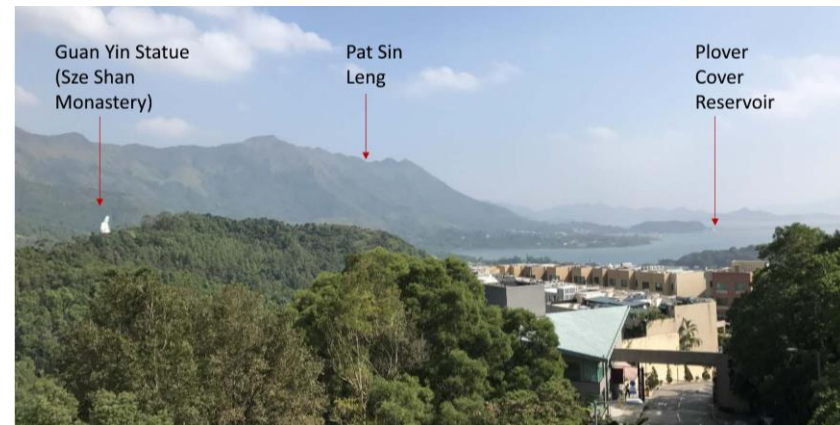
Residential Portfolio Turnover (HK\$'M)



Tai Po Luxury Residential Project

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- Making good progress
- Various statutory submissions are ongoing
- Site work has commenced in 2018



Thank you