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2016 was a challenging year for Hysan. We faced expected and unexpected social, political and economic upheavals in Hong Kong and globally. These challenges were exacerbated by a number of structural shifts in our different business sectors. In this edition of our Annual Report, we detail our latest results and achievements, as well as our current and anticipated challenges. We explain our approach in curating our core portfolio at Lee Gardens as a thriving community and a top-of-mind destination for our tenants and customers, both local and overseas.

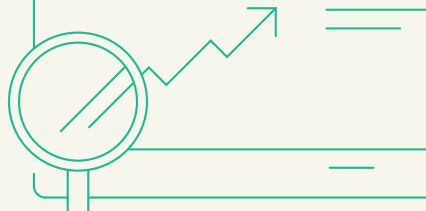
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## Sound Financials

Turnover  
(2016):  
HK\$3,535m  
(+3.1 % YoY)

Recurring  
Underlying  
Profit (2016):  
HK\$2,369m  
(+3.8 % YoY)

Occupancy  
(31/12/16):  
Retail: 99 %  
Office: 96 %  
Residential: 82 %



## Investment Opportunities Beyond Our Core Area

Develop for sale project: successful bid for two Tai Po residential sites partnering HKR International

Remain well-positioned to seek further high quality projects aligned to Hysan's portfolio strategy in Hong Kong and beyond

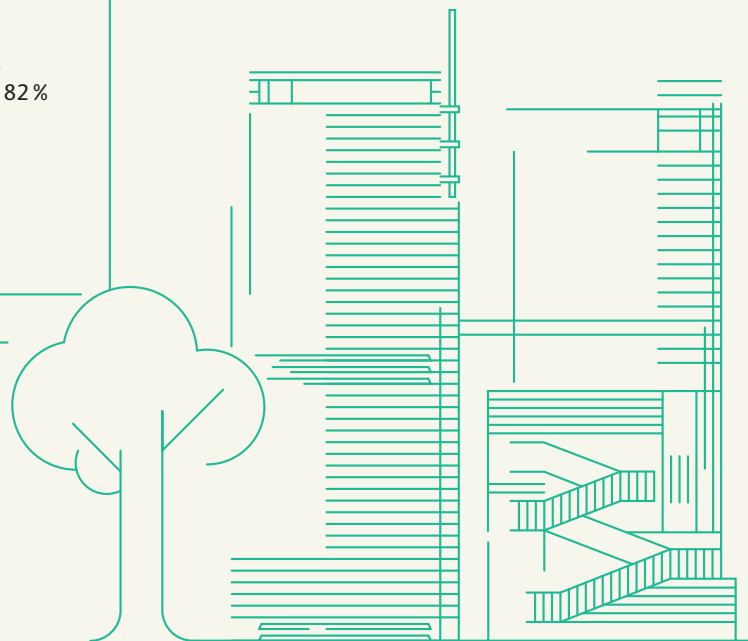
## Solid Assets

Develop attractive buildings and enhance connectivity in our area

Promote green environment

Provide professional and responsible property management

Maintain well-planned property enhancement cycles



# Where We Are

*We have sound financials and a strong team focused on realising the full potential of our portfolio in the heart of commercial Hong Kong. We also seek out and capture investment opportunities beyond our core.*



LEE GARDENS

Lee Theatre

Hysan Place

Lee Gardens

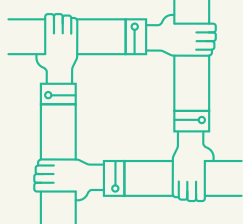
Discover More @  
LEE GARDENS

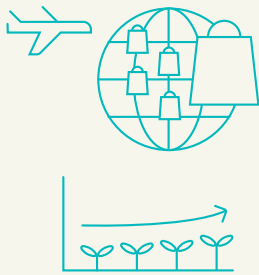


## Our Team

- Continuously deepening and broadening executive team to provide knowledge, experience, skills and relationships

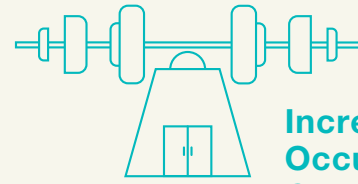
- Include team members with strong property experience in Hong Kong, Mainland China and overseas





## Mainland Visitors' Spending Pattern Changes

- Travel and tax policy developments
- Desire to visit and shop beyond Hong Kong
- Buying power fueled by foreign exchange considerations
- Slower economic growth



## Increase in Occupancy Costs

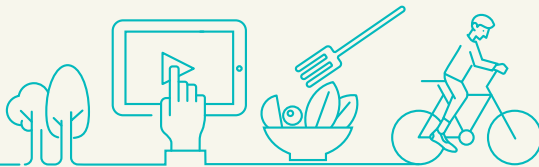
- Retail tenants feeling the pressure on rent
- Consolidation of number of shops may lead to higher vacancy rates

## Our Competitors

- Competition shifting focus onto local customers
- Landlords working hard to retain tenants

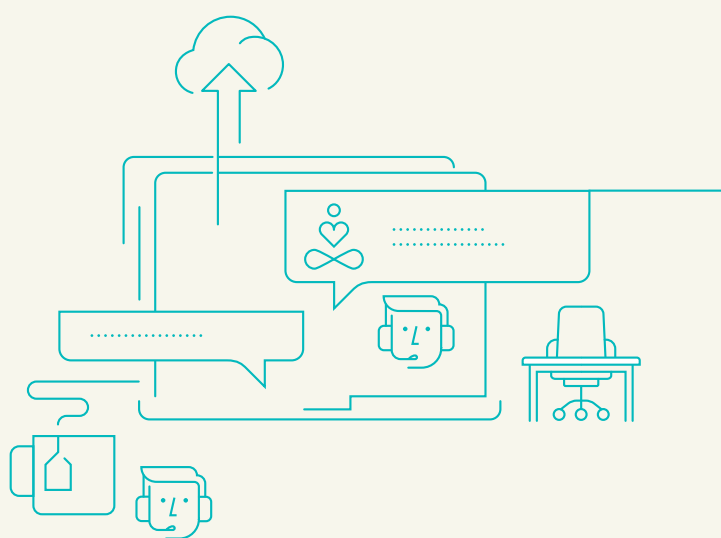
## Retail Portfolio Structural Changes

- Millennials preferring everything digital
- Our customers and tenants' focus on health, wellness and lifestyle changing retail offerings



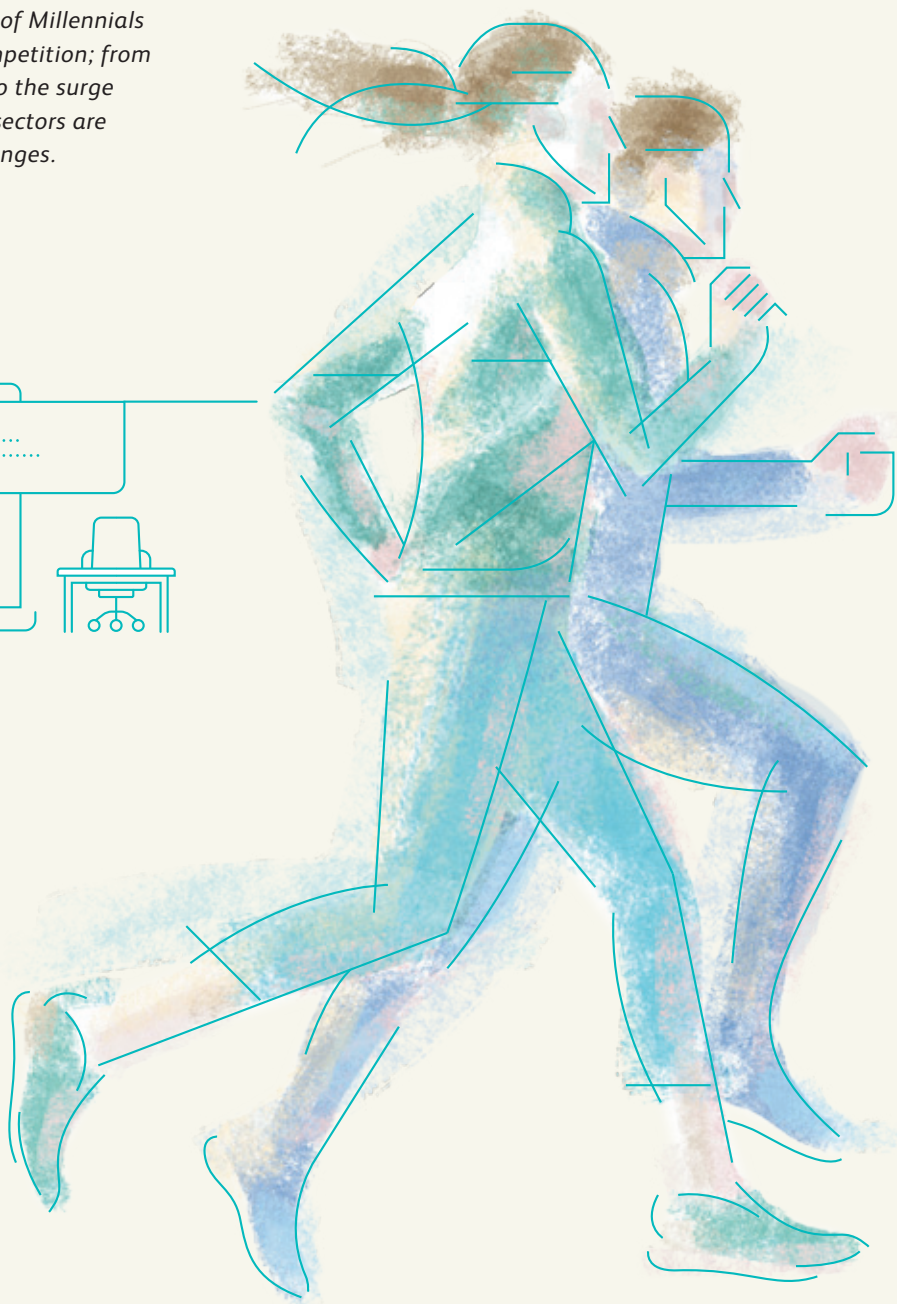
# Trends Impacting Us

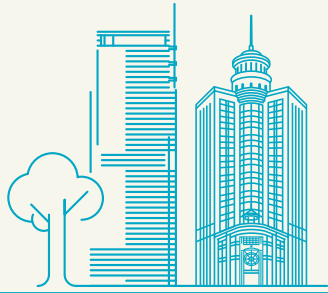
*From the changing shopping habits of Millennials and Mainland Chinese, to rising competition; from anticipated office supply increase, to the surge of technology: our retail and office sectors are witnessing significant structural changes.*



## Office Portfolio Structural Changes

- More upcoming Grade A supply on Hong Kong Island
- Trend to use more open plan, activity-based or co-work space
- Technology and changing work habit leading to lower demand for space





## Multi-dimensional Curation

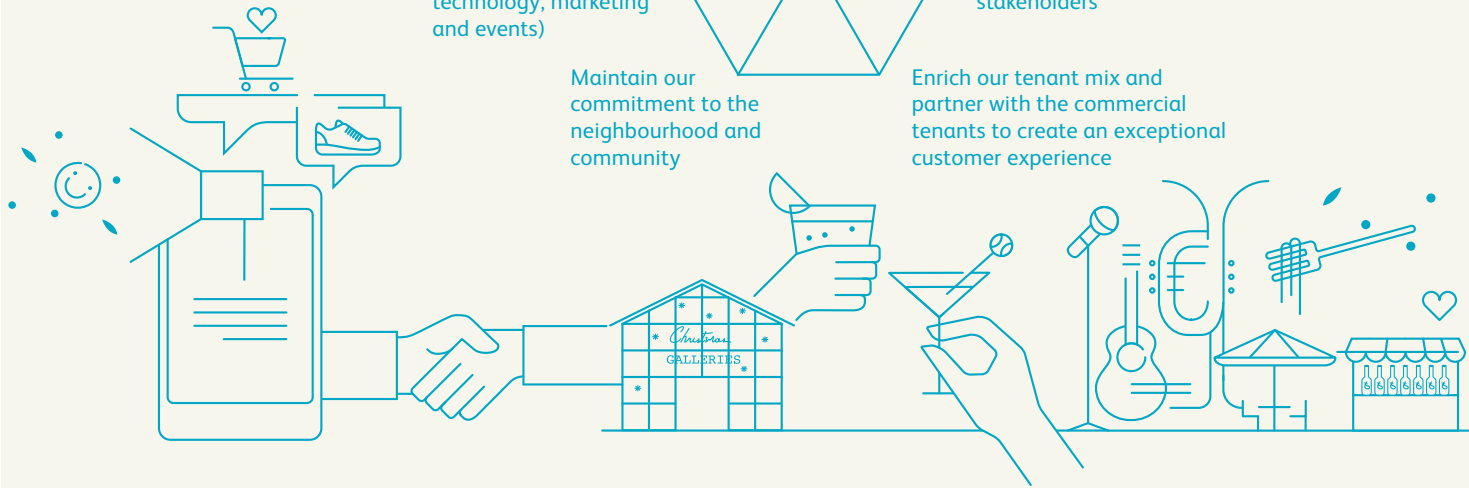
Refresh our hardware  
(real estate)

Enhance our software  
(customer service,  
technology, marketing  
and events)

Encourage interaction and  
collaboration amongst all  
stakeholders

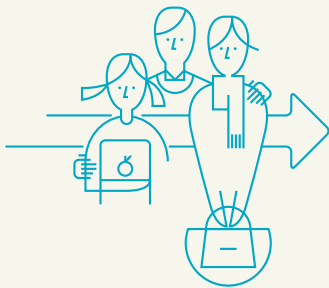
Maintain our  
commitment to the  
neighbourhood and  
community

Enrich our tenant mix and  
partner with the commercial  
tenants to create an exceptional  
customer experience



# Our Recipe for Curating a Community and Destination

*Lee Gardens has long been a unique community with spacious and green streets, eclectic shops, and where heritage low-rise mix seamlessly with state-of-the-art skyscrapers. Those who live, work, eat and shop here form an emotional attachment to the area. To ensure it remains a front-of-mind destination, we strive to innovate and curate relevant content for the community.*

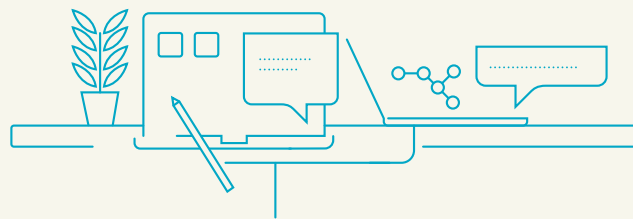
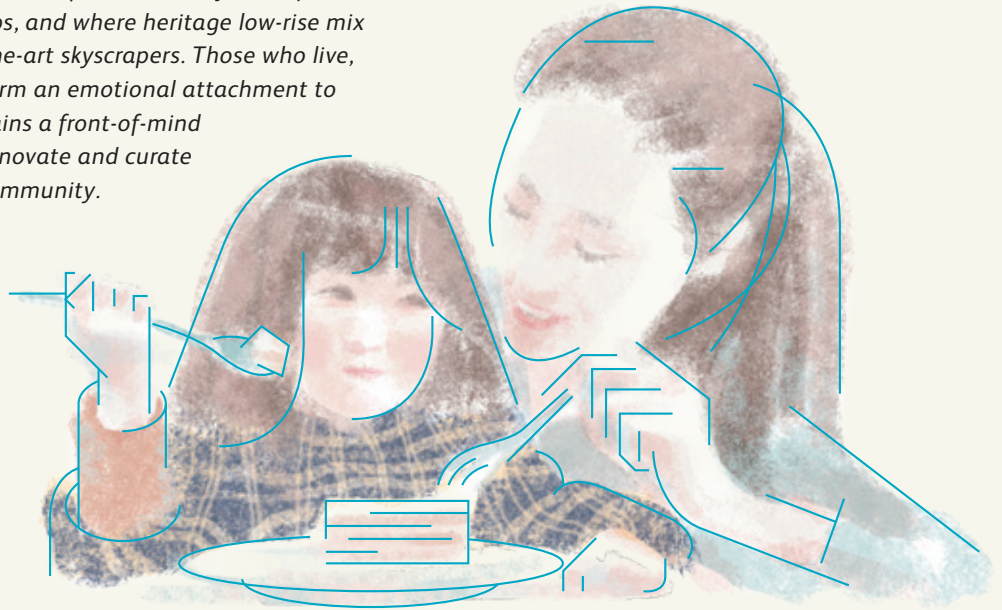


## Extend Welcome to Newer Residents

Increasing group of Mainland Chinese professionals and families who work and live in Hong Kong

Lifestyle increasingly indistinguishable from longer-term residents from all over the world

They are part of the multinational Lee Gardens community



## Lee Garden Three Credentials

Anticipated completion date in late 2017

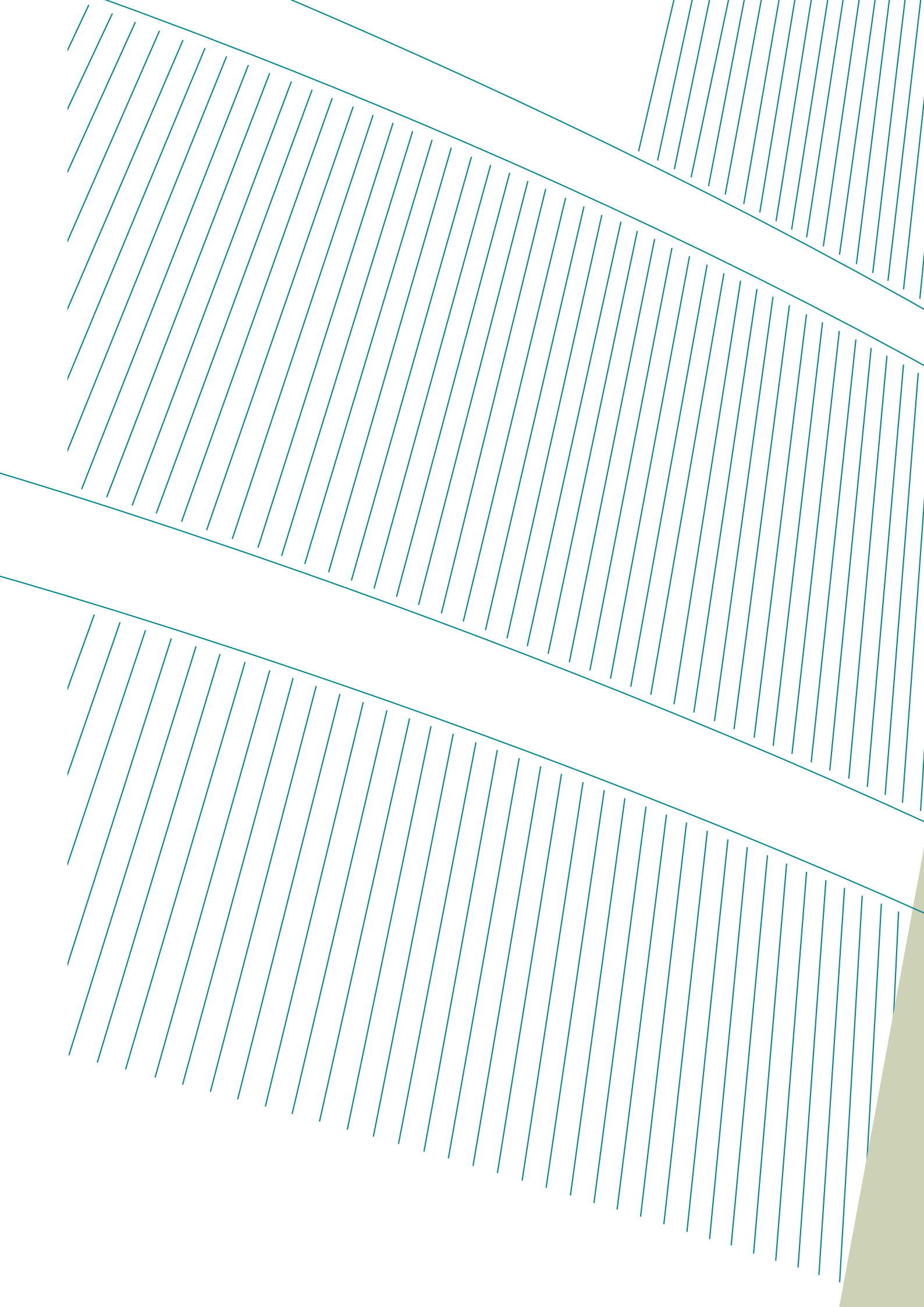
Aim for the highest BEAM Plus environmental standard

Provide indoor jogging track to promote health and wellness

Present innovative lifestyle offerings

Promote multi-dimensional interaction involving the landlord, tenants, workers and the community



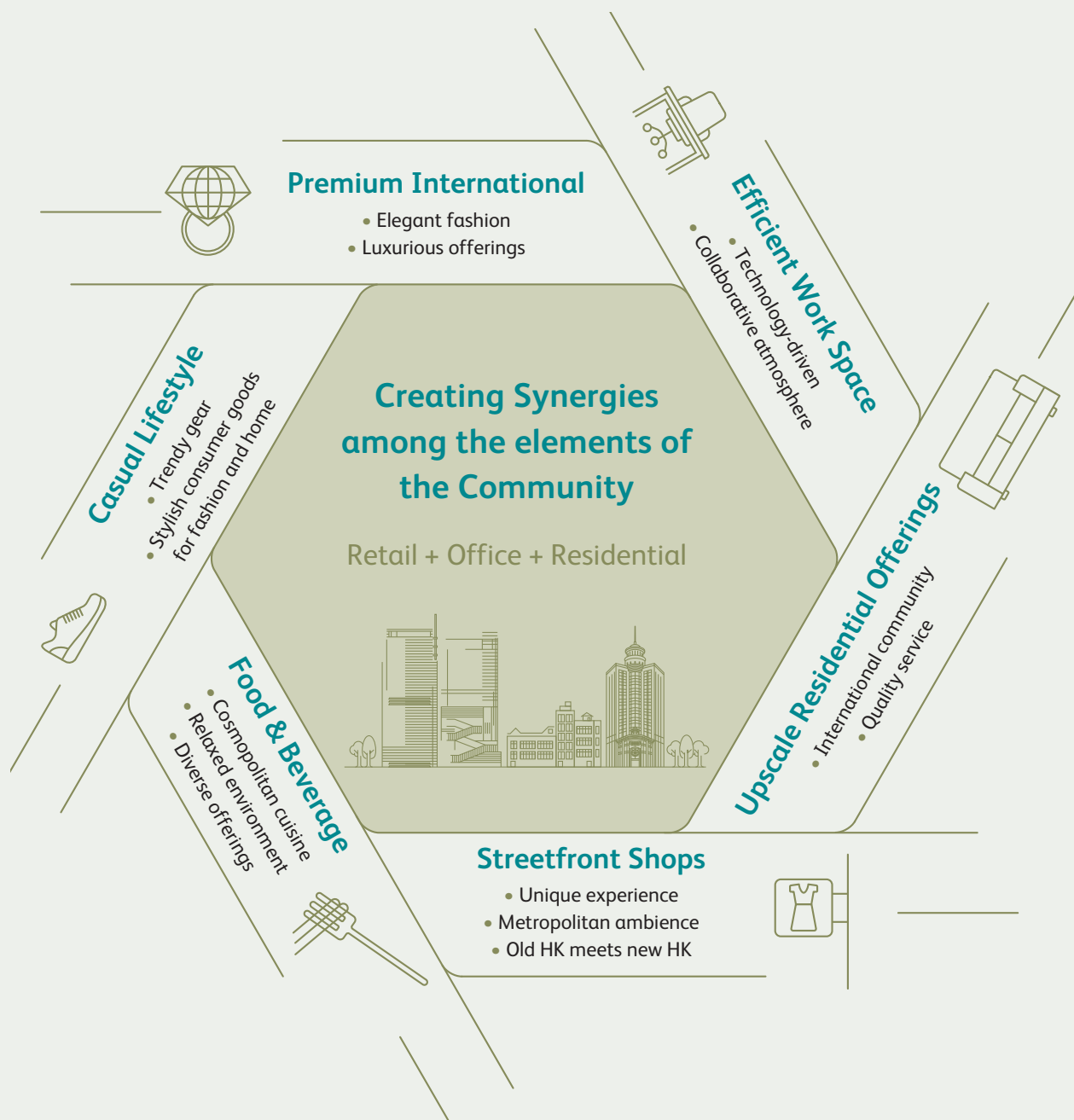


# 1 Overview

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# Key Facts

## Our Portfolio



Hysan's investment portfolio is set predominantly in Lee Gardens, a unique part of Hong Kong's renowned commercial heart in Causeway Bay. Our ownership concentration makes us stand out, as it magnifies our ability to create synergies from different tenants within our remarkable community.

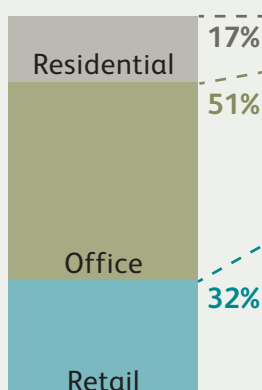
Within our approximately 4.1 million square feet of retail, office and residential tenant space, excluding properties under redevelopment, we strive to become close partners with our tenants. By understanding and connecting our tenants' and our customers' needs, we create a sustainable community.

A key feature of Hysan's portfolio, which comprises principally retail and office segments, is its balanced and diversified nature.

## Overall

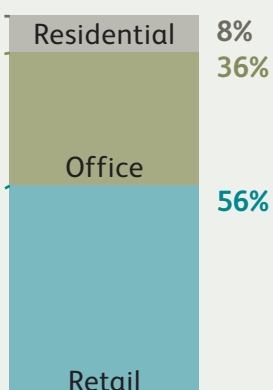
### Investment Properties (by Gross Floor Area excluding properties under redevelopment)

Total Gross Floor Area  
4.1 million sq. ft. (approx.)



### Investment Properties (by Turnover Contribution)

Turnover  
HK\$3,535 million



## How We Do Things

### VISION

To be the PREMIER property company which is superior to its peers in its market of choice.

### MISSION

Provide our stakeholders with sustainable and outstanding returns from a property portfolio which is strategically planned and managed by passionate, responsible and forward-looking professionals.

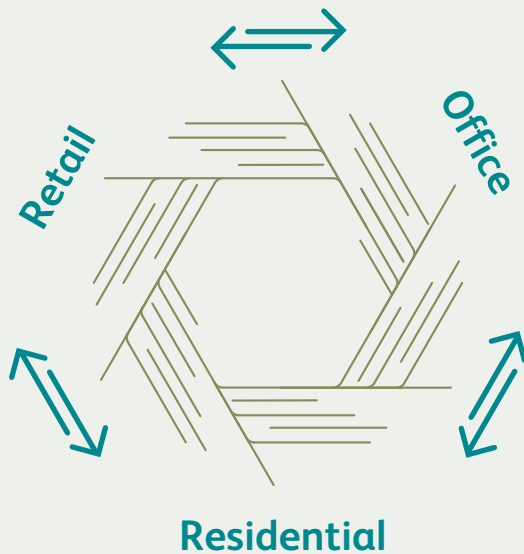
### VALUES

Leadership  
Excellence  
Empowerment  
Good Citizenship  
Accountability  
Respect  
Driving / Driven  
Entrepreneurship  
Networking  
Sustainability

## Value Creation

**Financial Achievements:**

- Steady and progressive total return
- Strong Balance Sheet

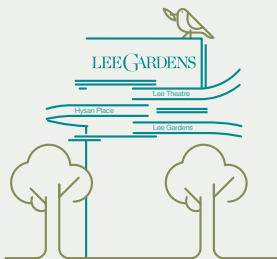


Smooth interaction among our business units optimises the full potential of the portfolio

**Supported by Strong Underlying Non-Financial Achievements:**

**Environment**

Minimise our impact on the environment, and achieve higher efficiency at the same time



**Employees**

Create working environment for talent to thrive



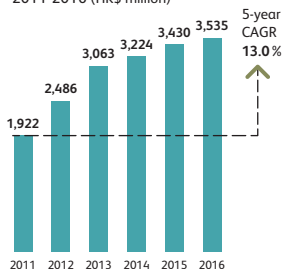
Continue strong focus in Causeway Bay and concurrently seek opportunities beyond our core portfolio

## Increase Yields

through active management  
including tenant mix improvement

### Turnover

2011-2016 (HK\$ million)



## Asset Enhancement

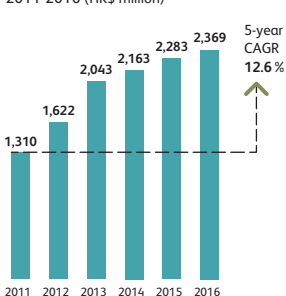
balance longer-term projects  
with those that produce more  
immediate returns

## Financial Achievements

increase earnings

### Recurring Underlying Profit

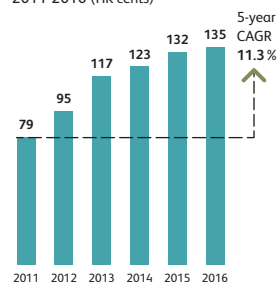
2011-2016 (HK\$ million)



## Dividends per Share

provide steady growth

2011-2016 (HK cents)



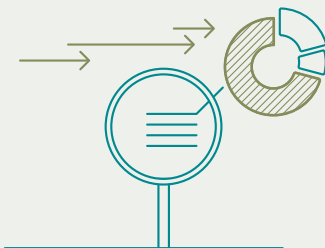
## Community

Make positive  
contributions to  
communities where  
we operate



## Governance

Strong governance is the  
heart of long-term  
sustainable performance



## Our Assets

### Lee Theatre Plaza

99 Percival Street, Causeway Bay  
Completed 1994 /  
Renovation of lower zone 2013

Approx. Gross Floor Area 314,000 ft<sup>2</sup>\*  
Number of Floors 26

**One of Hong Kong's best-loved shopping and dining complexes**



### Bamboo Grove

74–86 Kennedy Road, Mid-Levels  
Completed 1985 / Renovated 2002

Approx. Gross Floor Area 691,000 ft<sup>2</sup>  
Number of Units 345 Parking Spaces 436

**Quality international living in Mid-Levels**

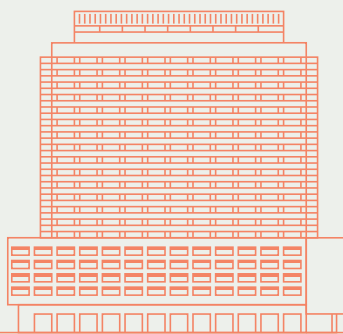


### Leighton Centre

77 Leighton Road, Causeway Bay  
Completed 1977 / Renovated 2011

Approx. Gross Floor Area 430,000 ft<sup>2</sup>  
Number of Floors 28 Parking Spaces 321

**Popular office amongst sports and lifestyle shops**

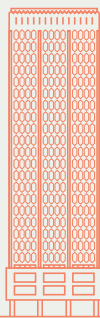


### One Hysan Avenue

1 Hysan Avenue, Causeway Bay  
Completed 1976 / Renovated 2011

Approx. Gross Floor Area 169,000 ft<sup>2</sup>  
Number of Floors 26

**Efficient office and retail building in prime site**

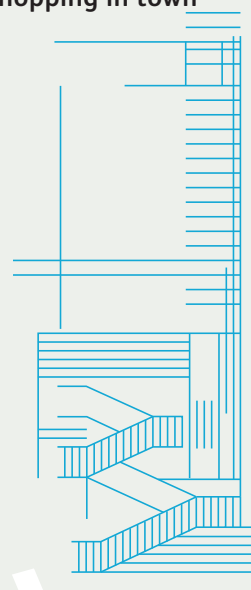


### Hysan Place

500 Hennessy Road, Causeway Bay  
Completed 2012

Approx. Gross Floor Area 716,000 ft<sup>2</sup>  
Number of Floors 40 Parking Spaces 66

**Greenest commercial building and trendiest shopping in town**



Retail and Office



Retail only



Residential



Under Development

\* The approximate Gross Floor Areas of Lee Garden One, Lee Garden Two and Lee Theatre Plaza are revised upon the completion of renovation projects.



## Lee Garden One

33 Hysan Avenue, Causeway Bay  
Completed 1997

Approx. Gross Floor Area **903,000 ft<sup>2</sup>\***  
Number of Floors **53** Parking Spaces **200**

**Home to international corporations and premium brands**

## Lee Garden Two

28 Yun Ping Road, Causeway Bay  
Completed 1992 /  
Renovation of retail podium 2003

Approx. Gross Floor Area **620,000 ft<sup>2</sup>\***  
Number of Floors **34** Parking Spaces **167**

**Spacious offices plus renowned children's concept floor**

## Lee Garden Five

18 Hysan Avenue, Causeway Bay  
Completed 1989 / Renovated 2009

Approx. Gross Floor Area **132,000 ft<sup>2</sup>**  
Number of Floors **25**

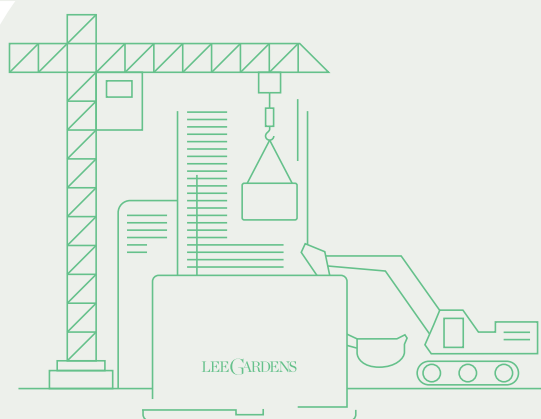
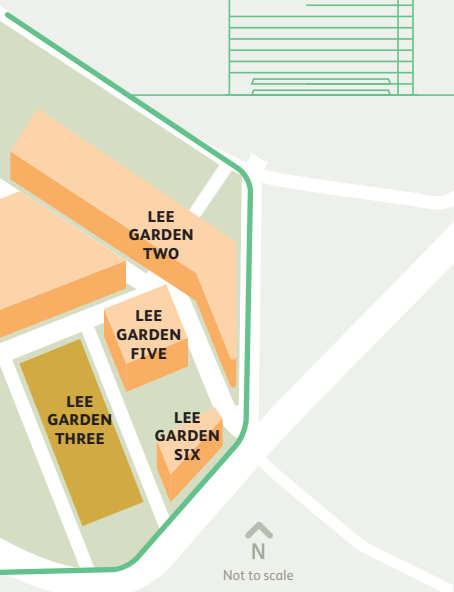
**A 25-level office and retail complex**

## Lee Garden Six

111 Leighton Road, Causeway Bay  
Completed 1988 / Renovated 2004

Approx. Gross Floor Area **80,000 ft<sup>2</sup>**  
Number of Floors **24**

**Convenient office location with retail shops**



## Lee Garden Three

Causeway Bay  
To be completed in late 2017

Approx. Gross Floor Area **467,000 ft<sup>2</sup>**  
Number of Floors **32** Parking Spaces **200+**

**Soon-to-be among the city's best known commercial addresses**

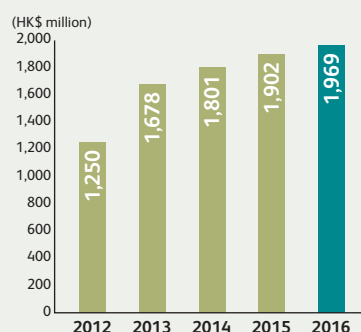
# 2016 Performance at a Glance

## Financial Performance

Turnover **HK\$3,535m**  
**▲ 3.1%**

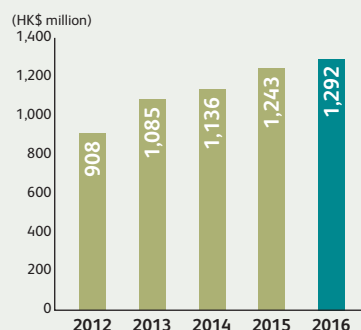
### Retail Sector

**HK\$1,969m ▲ 3.5%**



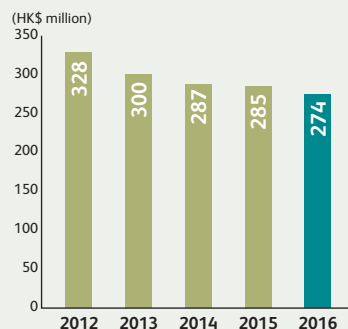
### Office Sector

**HK\$1,292m ▲ 3.9%**

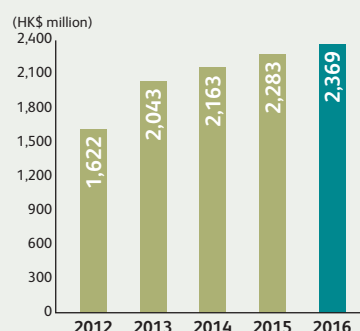


### Residential Sector

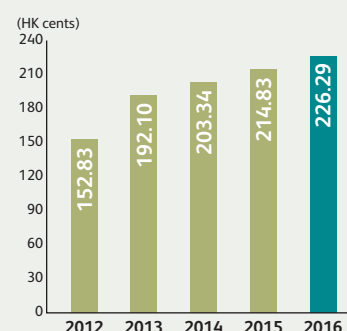
**HK\$274m ▼ 3.9%**



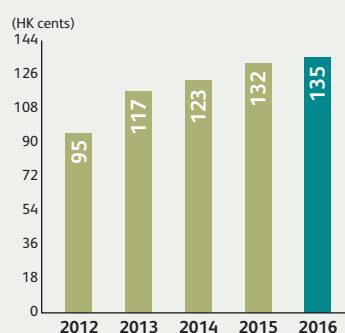
Recurring Underlying Profit **HK\$2,369m**  
**▲ 3.8%**



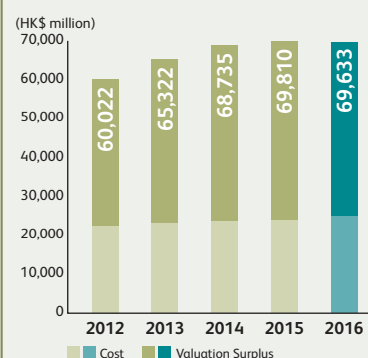
Recurring Underlying Earnings per Share **HK226.29cents**  
**▲ 5.3%**



Dividends per Share **HK135cents**  
**▲ 2.3%**

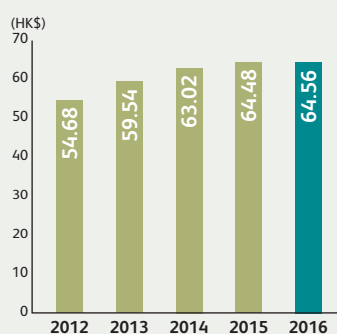


Property Value **HK\$69,633m**  
**▼ 0.3%**



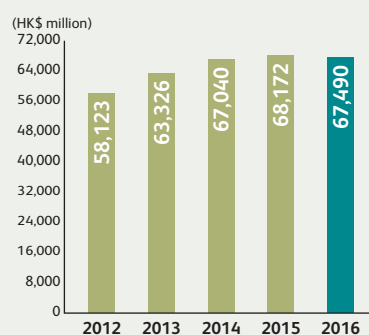
### Net Asset Value per Share

HK\$64.56  
▲ 0.1%



### Shareholders' Funds

HK\$67,490m  
✓ 0.1%



## Financial Prudence

Net Interest Coverage (Note 1)

**23.5 times**  
(2015: 19.5 times)

Net Debt to Equity (Note 2)

**5.4%**  
(31 Dec 2015: 3.0 %)

Average Cost of Finance

**3.8%**  
(2015: 3.5 %)

Average Debt Maturity

**4.3 years**  
(31 Dec 2015: 6.3 years)

Fixed Rate Debt

**73.4%**  
(31 Dec 2015: 94.9 %)

Capital Market Issuances

**73.4%**  
(31 Dec 2015: 94.9 %)

Credit Ratings

Moody's: **A3**  
Standard and Poor's: **BBB+**

#### Notes:

- 1 Net Interest Coverage is defined as gross profit less administrative expenses before depreciation divided by net interest expenses
- 2 Net Debt to Equity is defined as borrowings less time deposits, cash and bank balances divided by shareholders' funds

# 2016 Performance at a Glance

## Non-Financial Performance

### Environment

“AA”

- MSCI Global Sustainability Indexes: “AA” Rating and “Top 5 Industry Leaders” in the sub-category of “opportunities in green building”

“AA”

- Hang Seng Corporate Sustainability Index: “AA” Rating

- Lee Garden One Offices is a finalist in Hong Kong Green Building Council and Professional Green Building Council’s Hong Kong Green Building Award 2016
- A “Top 80” rated stock in the Hong Kong Quality Assurance Agency (HKQAA) Sustainability Rating and Research 2016



2016 Constituent  
MSCI Global  
Sustainability Indexes



Hang Seng Corporate  
Sustainability Index  
Series Member 2016-2017

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## Social

- Constituent member of FTSE4Good index
- Founding member of Lee Gardens Association, an area organisation to promote Lee Gardens area to locals and visitors
- Gold Award for Volunteer Service (Organisation) (in 2016) under the Steering Committee on Promotion of Volunteer Service of Social Welfare Department



LeeGardens  
Association



## Governance

- Gold Award (Non-Hang Seng Index Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2016
- Citation for Environmental, Social and Governance Disclosure in The Hong Kong Management Association's 2016 HKMA Best Annual Reports Awards



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會



# Chairman's Statement

Lee Gardens should be a front-of-mind destination, both for locals and visitors. We strive to innovate and curate content for our physical space and venues.



## The Bigger Picture

The anticipated continuation of global political and economic instability in 2016, unfortunately, did materialise. The United States presidential election in November only added further uncertainty to a year of geopolitical tensions and market volatility.

Hong Kong's economy was buffeted by external headwinds throughout the year. The export performance remained weak while tourism, another pillar of Hong Kong's economy also continued to lose momentum, with Mainland Chinese visitors showing a significant decline. Local consumer sentiment, supported by a low interest rate environment and stable employment conditions, began to show signs of improvement towards the end of the year. Retail sales performance, affected by the further drop in tourist arrivals, also saw some easing in its year-on-year rate of decline in the last months of 2016. While luxury goods still attracted fewer buyers, some mid-priced to affordable items experienced improved sales.

The uncertain global economic climate and the continuing strength of the Dollar have affected sentiment and confidence. Local retail sales, coupled with changes in Mainland tourist spending pattern, have been weak for a number of quarters. This is our new normal. We have and will continue to position ourselves dynamically to capture the opportunities which come from these structural changes.

## Where we are

We start off with sound financials. We have a strong balance sheet. Both our top line Turnover and our bottom line Recurring Underlying Profit saw growth against the weak economic backdrop in 2016. Occupancy levels for our main commercial portfolio continued to be strong. We will have more details on these figures in our "Business Performance" section.

Our assets are sound. We are not distracted by any distressed assets. We have well-planned property enhancement cycles, balancing longer term projects with those that produce immediate returns. Among the projects, Lee Garden Three's development work is expected to complete ahead of schedule. Lee Garden One's refurbishment was completed in 2016, with Valentino opening its flagship store in January 2017.

We have been exploring investment opportunities beyond our core Causeway Bay area. These include develop for sale projects. Such projects can become a new engine of growth for Hysan. In late 2016, we launched a successful bid for two residential sites at Tai Po's upscale Lo Fai Road. We are pleased to be partnering HKR International on this project, as the company has a recognised track record for developing quality low density residential projects. We remain well-positioned to seek further high quality projects aligned to Hysan's portfolio strategy, both in Hong Kong and beyond, while maintaining the Lee Gardens portfolio as our core focus.

Complementing our quality portfolio, we understand the need to have a strong team to provide the necessary knowledge, skills and relationships. Taking into account the macro environment with its uncertainties and opportunities, I will continue to lead the Hysan team as Executive Chairman. We are also ensuring our talent bench continues to improve in depth and breadth. Mr. Ricky LUI recently joined Hysan as our Chief Operating Officer. Ricky has more than 25 years of experience as a senior executive in the property industry. His extensive operating experience in the field, with a strong focus on Mainland China and Hong Kong, as well as deep knowledge of a number of overseas markets, will provide further expertise to help us forge ahead.

## Our Challenges

All these positive factors contributed to our robust performance in 2016. We are, however, very much aware that we are facing a number of challenges throughout our business. Let us, therefore, start with the structural shift in the retail sector.

We spoke in our interim report about Millennials preferring everything digital. Their online and mobile way of life is only likely to evolve further away from the traditional shopping mindset. There has also been a refocusing on life's priorities, with health, wellness and lifestyle themes being particularly popular. This change in lifestyle pattern is also influencing our food and beverage offerings. Lighter and healthier eating and drinking choices, offered in stylish and relaxed informal venues, are becoming increasingly popular. Among the changes in shopping habits are the well-documented trends now shown by Mainland Chinese tourists. Although Hysan's portfolio does not rely heavily on their patronage, Mainlanders still form a significant group when it comes to spending. A range of factors has changed their spending pattern in Hong Kong. These include China's travel and tax policy changes, an increasing desire for Chinese tourists to visit and shop overseas, buying power fuelled by foreign exchange considerations, as well as China's slower economic growth and its well-known anti-corruption drive.

Hysan also faces more direct competition from other local landlords and their shopping malls. These retail property owners are shifting their focus towards targeting more local customers instead of visitors. At the same time, they are also working actively to attract and retain their tenants. We had a head start in creating a well-balanced retail portfolio and a sought after loyalty programme. Our competitors are now rapidly catching up.

We are also mindful that some of our retail tenants may be feeling extra pressure as their occupancy costs increase. Their wish to consolidate could lead to downward pressure on rents and this consolidation in the number of shops, inevitably, will lead to higher vacancy rates.

Our office portfolio is experiencing its own share of structural changes. Grade A office building supply on Hong Kong Island is set to increase in the next few years. On the demand side, we see an increasing trend for open plan and activity-based work spaces. In many cases, companies make use of co-work space either as temporary or more permanent space solutions. In addition, with office and personal mobile technology playing an increasingly important part in promoting efficiency and mobility, the need for fewer headcount, hence lower demand for space, is creating further uncertainty for our office leasing business.

Our business units' ability to succeed must be buttressed by effective support functions. Among the most important are the provision of efficient IT system and automated processes to drive efficiency and productivity. Using our customer relationship management system and intensifying our technology to promote social media will help our frontline property management, our leasing team and our marketing team to better service our loyalty programme, and to target and market to our existing and new customers.

### Our Recipe to Curate a Community and Destination

Our strong financial position underpinning our sound and diversified property portfolio should place us in a strong position. However, the challenges and structural changes we face, both in the retail and office sectors, are real and will be addressed.

Lee Gardens is a community. This is a unique and key differentiation. The district has long been appreciated by locals as a distinct part of Causeway Bay, and indeed, of Hong Kong, where the avenue and streets are spacious and green, forming a calming sanctuary from the buzz of busy, fast moving Causeway Bay. Heritage low rise buildings blend into state-of-the-art high rise buildings. Those who live, work, eat and shop in Lee Gardens form an emotional attachment to the community. They have felt and will continue to feel at home at Lee Gardens for generations to come.

Lee Gardens should be a front-of-mind destination, both for locals and visitors. We strive to innovate and curate content for our physical space and venues. These include refreshing our hardware (real estate), as well as our software (customer service, technology, marketing and events). These are further influenced by constantly enriching our portfolio's trade and tenant mix, together with our involvement and commitment to our neighbourhood and our community.

The above factors are interrelated. Hysan, our tenants, the wider members of the Lee Gardens community, regular and casual consumers and office visitors alike are all our stakeholders, and they all contribute to and benefit from our multi-dimensional curation. By encouraging interaction and collaboration amongst all parties, Hysan ensures that these stakeholders will help shape Lee Gardens as a retail, office and residential venue not just for today, but as a sustainable destination for the long term.

One good example of the interaction involves newer members of the community. Although fewer tourists from across the border are visiting Hong Kong, there is a growing population of Mainland Chinese professionals and their families who work and live in Hong Kong. Their working, shopping and dining habits are increasingly indistinguishable from longer-term Hong Kong residents, both ethnic Chinese and those from other parts of the world. Through their daily interaction with other stakeholders in our portfolio, they have become part of our multinational Lee Gardens community.

Lee Garden Three is our new building with an anticipated completion date in late 2017. Following in the footsteps of our renowned green commercial building Hysan Place, the new structure will aim for the highest BEAM Plus environmental standard. The partial green roof will help reduce the building's heat island effect and improve the area's microclimate. A garden with flora to attract butterflies will also be established to enhance the building's biodiversity. Further green walls will adorn the building's exterior. An indoor jogging track will be installed to promote health and wellness among the office users. With these features, we hope to further contribute both to the community's environment, as well as to the well-being of those who work and shop there. A high quality office and retail building is expected to attract renowned multinational companies as tenants. Again, we are focused on promoting multi-dimensional interaction involving the landlord, tenants, workers and the community.

### Business Performance

The Group's 2016 turnover was HK\$3,535 million, up 3.1% from HK\$3,430 million in 2015. At year-end 2016, our retail portfolio occupancy was 99%. Occupancy of our office portfolio was 96%, and the residential portfolio was 82%.

Recurring Underlying Profit, our key core leasing business performance indicator, and Underlying Profit were both HK\$2,369 million (both up 3.8% from HK\$2,283 million in 2015). These results

primarily reflected the continued improvement in gross profit generated from our retail and office leasing activities. Basic earnings per share based on Recurring Underlying Profit was HK226.29 cents (2015: HK214.83 cents), up 5.3%.

The Group's Reported Profit for 2016 was HK\$1,218 million (2015: HK\$2,903 million), down 58.0%. This reflected fair value loss of HK\$1,187 million (2015: fair value gain of HK\$695 million) on the Group's investment properties valuation. As at year-end 2016, the external valuation of the Group's investment property portfolio decreased by 0.3% to HK\$69,633 million (2015: HK\$69,810 million). This reflected the net effect of several factors in play: a worsening retail rental outlook; a sustained positive office rental outlook; a number of asset enhancement works completed, as well as the construction costs incurred for the Lee Garden Three project during the year. The capitalisation rates of each portfolio remained unchanged from those used as at 31 December 2015.

Shareholders' Funds decreased by 1.0% to HK\$67,490 million (2015: HK\$68,172 million), principally reflecting the valuation change of the investment properties.

Our financial position remained strong, with net interest coverage of 23.5 times (2015: 19.5 times) and net debt to equity ratio of 5.4% (2015: 3.0%).

## Capital Management

The Board of Directors is pleased to declare a second interim dividend of HK109 cents per share (2015: HK107 cents). Together with the first interim dividend of HK26 cents per share (2015: HK25 cents), the total distribution is HK135 cents per share (2015: HK132 cents), representing a year-on-year increase of 2.3%. The dividend will be payable in cash.

As part of our dynamic capital management, Hysan continued to repurchase its own shares from the market. 12.59 million (2015: 6.75 million) shares were repurchased during the year.

## Outlook

Political and economic volatility in the global environment remain. The anticipated U.S. interest rate hike and the Chinese economic slowdown are among a number of factors that will keep local consumer sentiment relatively weak in 2017.

We have laid out our strategy to curate Lee Gardens as a community. We believe this is unique and will differentiate us from our competitors. Hysan is well-positioned for the challenges ahead.

## Appreciation

I would like to take this opportunity to thank our management team and our colleagues for all the effort they have made throughout a difficult 2016. I would also like to thank our directors for their support and guidance. My personal thanks go to Mr. Siu Chuen LAU, who stepped down from the roles of Deputy Chairman and Chief Executive Officer during the year. Siu Chuen's work as Hysan's CEO built a strong platform from which we shall continue to develop Lee Gardens into one of Hong Kong's most dynamic retail and office districts.

**Irene Yun Lien LEE**

*Chairman*

Hong Kong, 22 February 2017