

The gloom lifted from both the global and Hong Kong economies in 2017, but significant structural change to Hysan's retail and office sectors remained. In this Annual Report, we highlight our effort to address these challenges, and more importantly, how we plan ahead and provide stewardship to our unique home base, Lee Gardens, where you will hear not just the heartbeat of Causeway Bay, but the heartbeat of Hong Kong.



Structural Change

Retail

- / Generational shift: Millennials and Generation Z'ers drive changes in where, what, how and when products and services are delivered
- / Demographic changes: need to cater to the needs of tourists, "New Hong Kong" and "Old Hong Kong" residents
- / Technological advancements: challenges from e-commerce, the prevalence of social media and reliance on mobile technology
- / Mall operators and retailers: need to partner and provide unique and personalised shopping experience
- / Luxury sector changes: definition of luxury now encompasses health and well-being as well as children-centric offerings



Office

- / Younger and incoming office workers: prefer to be more mobile and work in more social settings
- / Co-working space: a major disruptor and growing trend, with brands using unique ways to attract space users
- / Traditional office leasing: multinationals opting to relocate to non-Central core areas to avoid record high rents in Central
- / Causeway Bay as office destination: convenient and cost effective, but sees competition from other office areas on the Island and Kowloon



Hysan's Progress in 2017

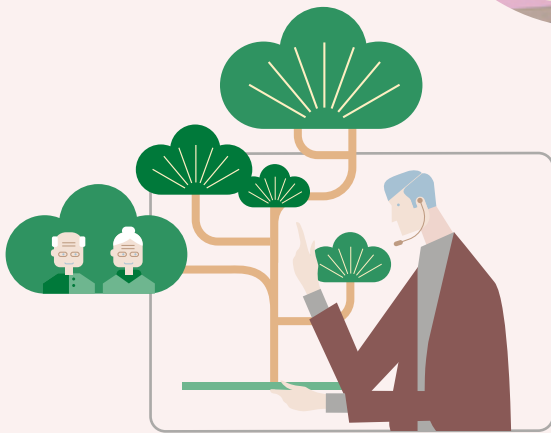
Continued to create an inclusive
retail and office ecosystem that
reflects the needs and demands of
modern-day users within a
community-friendly environment

Dynamic curation of our retail
portfolio with an exciting mix of
top name tenants and emerging
brands. Lee Garden Three is our
lifestyle extension which further
confirms our commitment to
lifestyle and food and beverage





Strong tenant collaboration programmes attracted attention, footfall and spending; sales incentive programmes achieved good sales



Offered offices at Leighton Centre to up-and-coming NGOs, representing Hysan's commitment to foster innovation and serve the community

LEE GARDEN TWO

Loyalty programmes made significant year-on-year percentage growth on membership numbers and healthy sales growth



LEE GARDENS

Lee Garden Three

Completed in 2017, and first office
tenant moved in in December

Building is positioned as our area's
lifestyle extension and office floors
welcome tenants from a diverse
business background



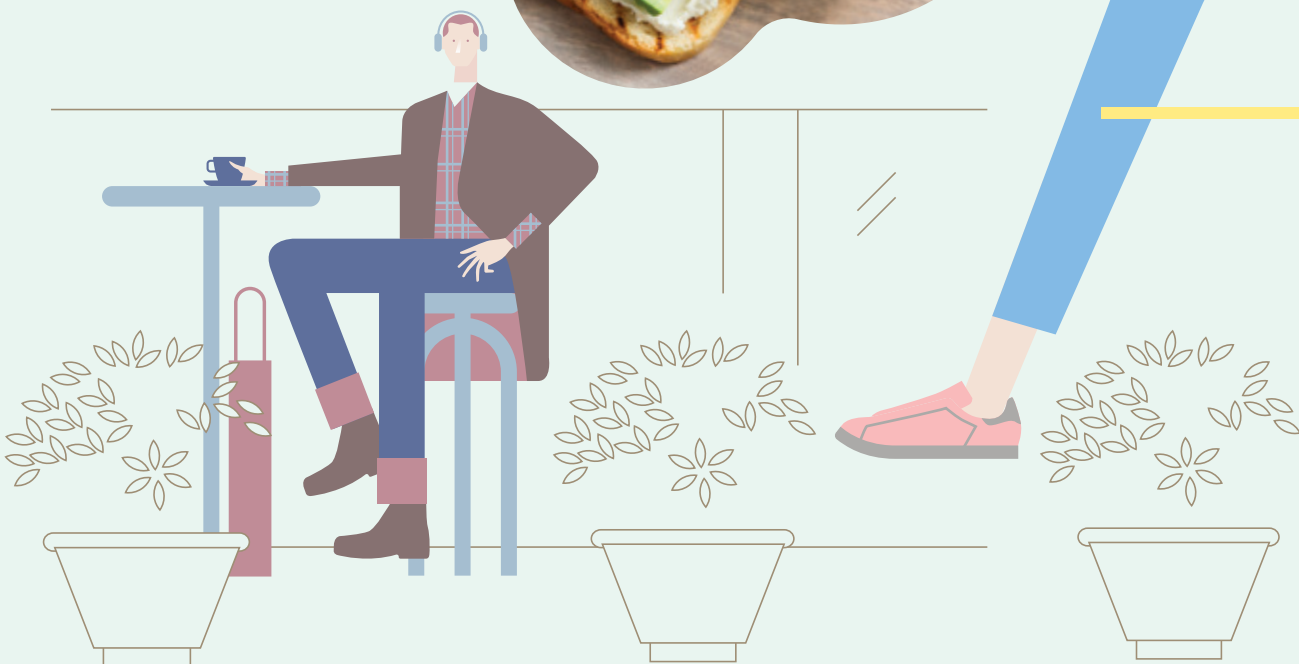
Wellness theme with
jogging track, green roof
and butterfly garden



Well-known community-based
co-working brand is a major tenant



Retail podium includes iconic
food and beverage and lifestyle
offerings



Looking Ahead

Promote lifestyle through food and beverage, as well as health and wellness in an environment with a strong sense of community

♥ like

Help define new retail where emerging consumers demand and define quality through uniqueness, sustainability, honesty and individuality

Provide more tech-enabled environment, with more collaboration and experience sharing

Explore more aspects of the sharing economy, including an enhanced co-working community, as well as co-living arrangements



tea time



Free
WiFi
Zone

LEE GARDENS



find your workspace



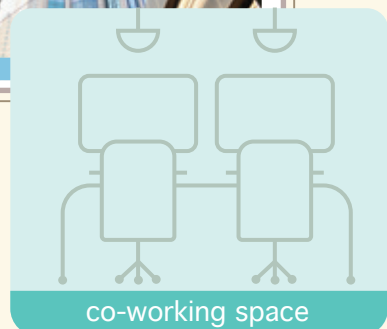
Lee Garden Three



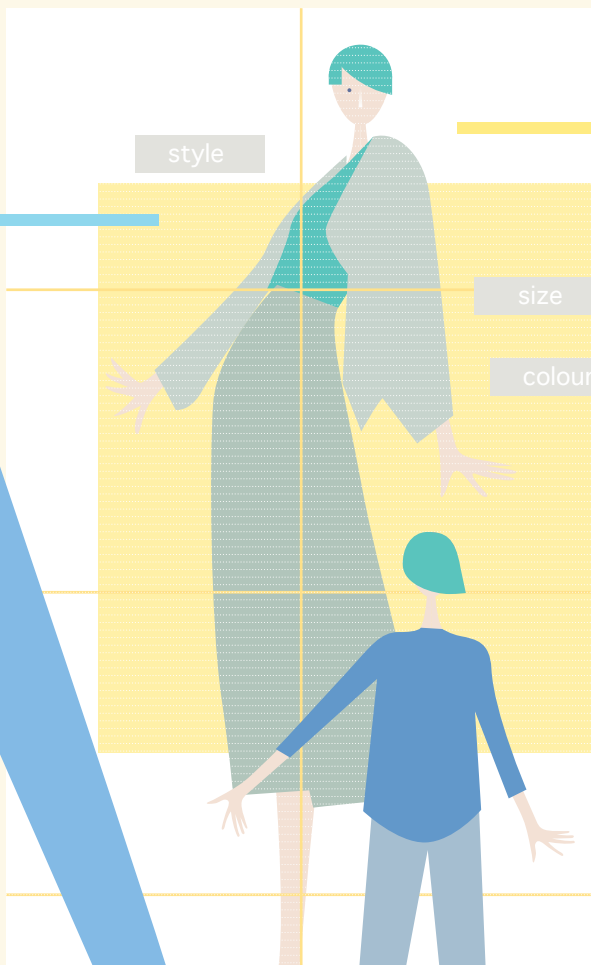
be our partner



meeting space



co-working space



Grow sustainable community –
based working environment, where
work-life balance is valued



Strive to innovate and
curate relevant content for
the Lee Gardens community

Continue to support
brands that offer
classic luxury



Overview

- 12 Hysan's Lee Gardens
- 13 Key Facts
 - 13 Our Portfolio,
How We Do Things
 - 14 Value Creation
 - 16 Our Assets
- 18 2017 Performance at a Glance
- 22 From the heartbeat of Causeway Bay...
... to the heartbeat of Hong Kong
- 24 Chairman's Statement

1



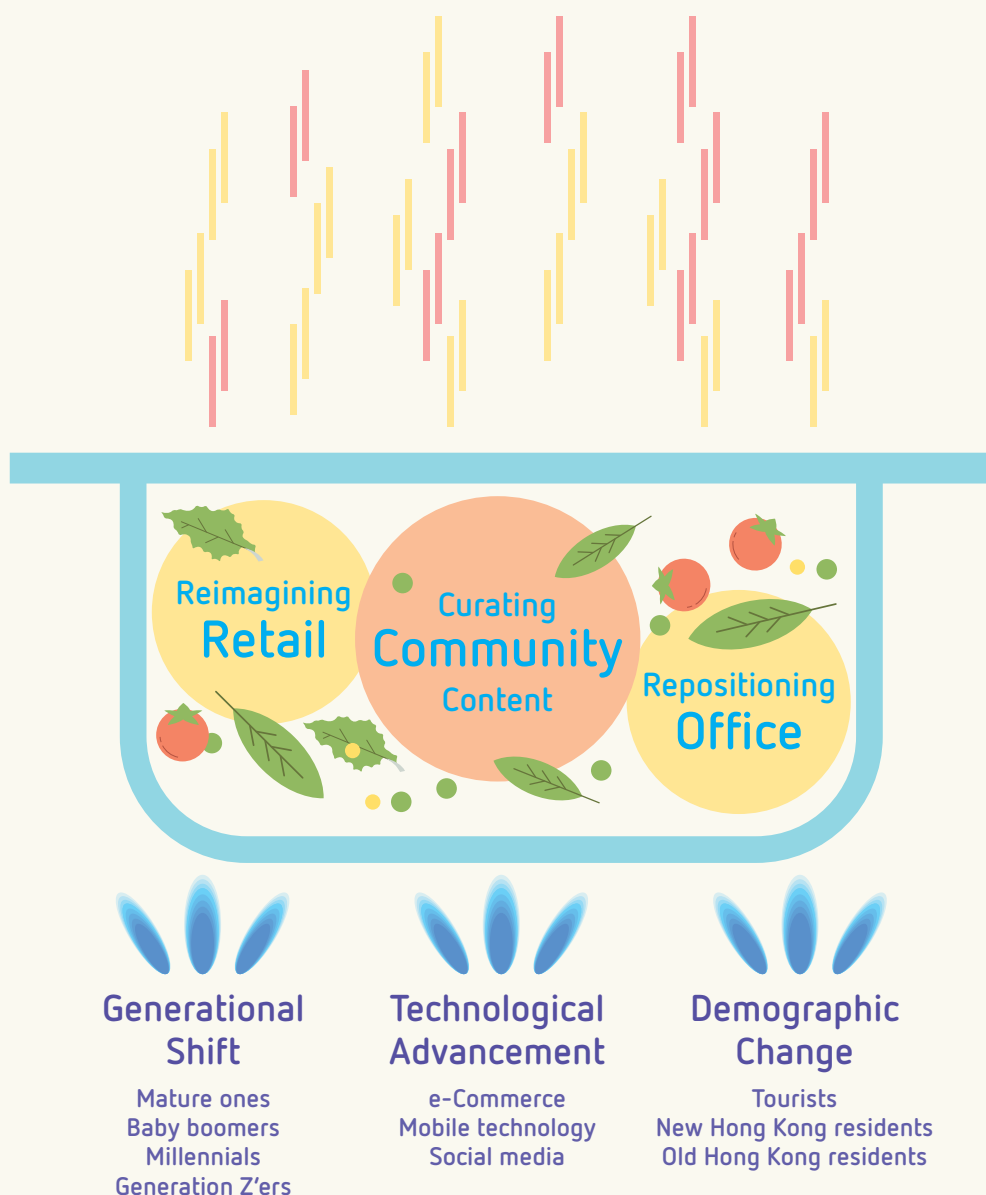


Hysan's Lee Gardens

The heartbeat of Causeway Bay



Hysan's Lee Gardens is a community of contrast and diversity. Here classic labels and lifestyle brands shape the retail landscape, merging seamlessly with a work-life balanced and tech-friendly office environment. The district and its business setting, however, are facing structural challenges in the forms of generational shift, demographic changes and relentless technological advancements. The Group is addressing these challenges through repositioning and reimagining its retail strategy and operation to provide the special touch, as well as embracing the collaborative work model for its office portfolio. Adding to these is the push to innovate and curate unique content for the Lee Gardens neighbourhood and community.



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.

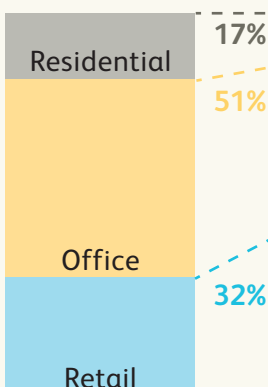
Within our approximately 4.5 million square feet of retail, office and residential tenant space, including the recently completed Lee Garden Three, we strive to become close partners with our tenants. By understanding and connecting our tenants' and our customers' needs, we create a sustainable community.

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

Overall

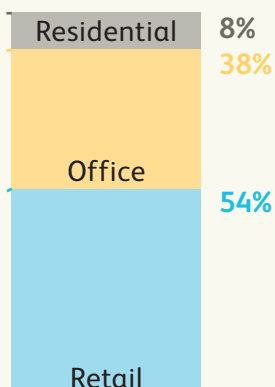
Investment Properties
(by Gross Floor Area excluding Lee Garden Three)

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



Investment Properties
(by Turnover Contribution)

Turnover
HK\$3,548 million



How We Do Things

VISION

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

MISSION

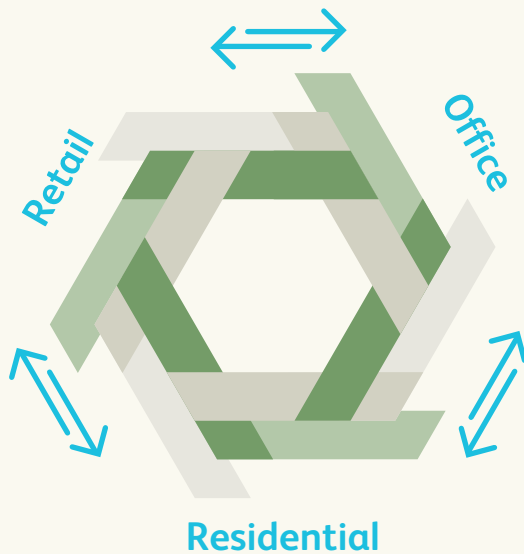
Provide our stakeholders with sustainable and outstanding returns from a property portfolio which is strategically planned and managed by passionate, responsible and forward-looking professionals.

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

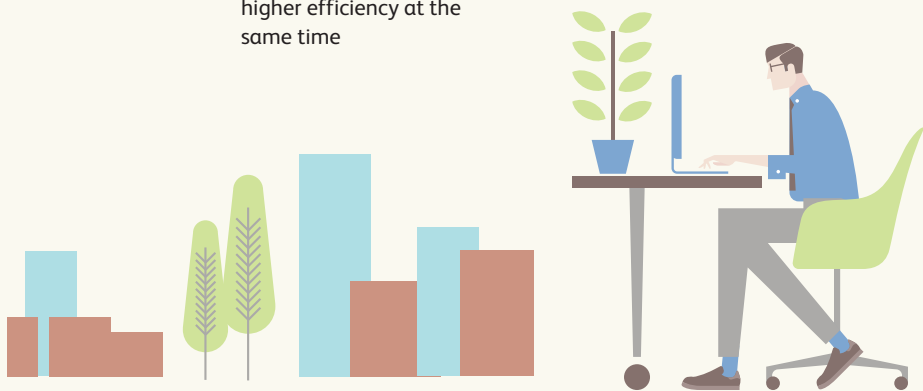


Interaction among our business units drives synergies, cross-sell opportunities to optimise the full potential of the portfolio

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



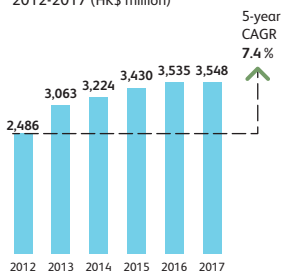
Continue strong focus in Causeway Bay and concurrently seek opportunities beyond our core portfolio

Increase Yields

through active management
including tenant mix improvement

Turnover

2012-2017 (HK\$ million)



Asset Enhancement

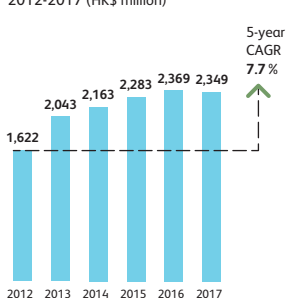
balance longer-term projects
with those that produce more
immediate returns

Financial Achievements

increase earnings

Recurring Underlying Profit

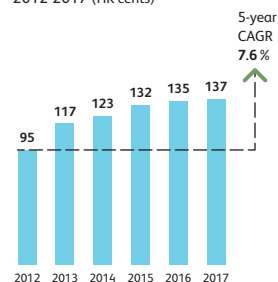
2012-2017 (HK\$ million)



Dividends per Share

provide steady growth

2012-2017 (HK cents)

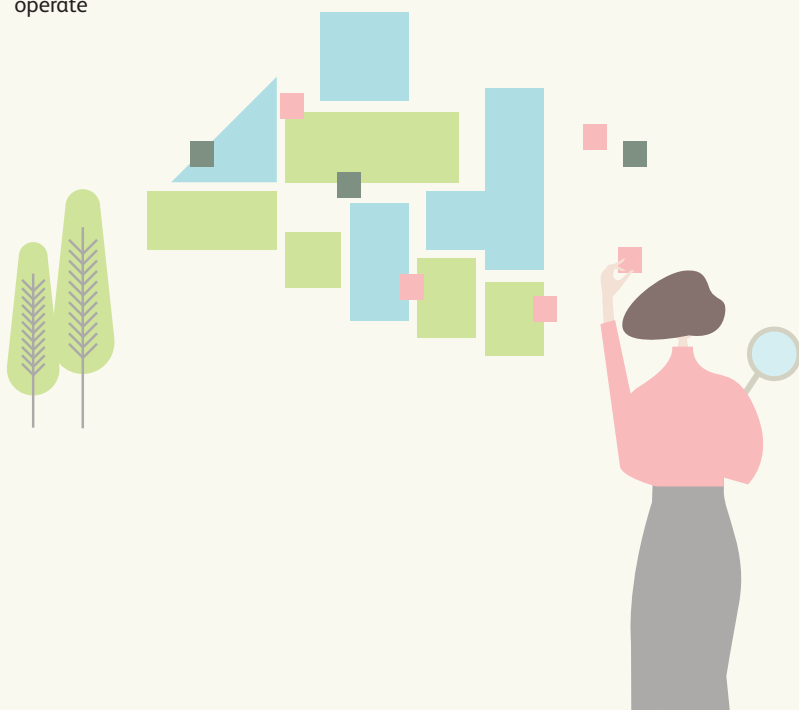


Community

Make positive contributions
to communities where we
operate

Governance

Strong governance is the
heart of long-term
sustainable performance



Our Assets

Bamboo Grove

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

Approx. Gross Floor Area **691,000** ft²
Number of Units **345** Parking Spaces **436**

Quality international living in Mid-Levels

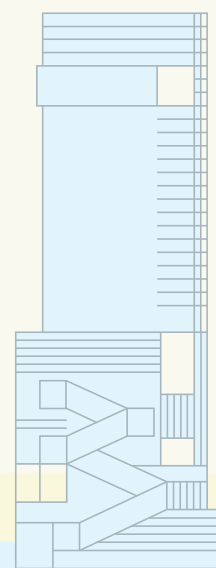


Hysan Place

500 Hennessy Road, Causeway Bay
Completed 2012

Approx. Gross Floor Area **716,000** ft²
Number of Floors **40** Parking Spaces **66**

Greenest commercial building and trendiest shopping centre in town



Lee Theatre Plaza

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

Approx. Gross Floor Area **314,000** ft²
Number of Floors **26**

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

Leighton Centre

77 Leighton Road, Causeway Bay
Completed 1977 / Renovated 2011

Approx. Gross Floor Area **430,000** ft²
Number of Floors **28** Parking Spaces **321**

Popular office complex amongst sports and lifestyle shops

One Hysan Avenue

1 Hysan Avenue, Causeway Bay
Completed 1976 / Renovated 2011

Approx. Gross Floor Area **169,000** ft²
Number of Floors **26**

Efficient office and retail building in prime site



Retail and Office



Retail only



Residential

Lee Garden One

33 Hysan Avenue, Causeway Bay
Completed 1997

Approx. Gross Floor Area **903,000** ft²
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** ft²
Number of Floors **34** Parking Spaces **167**

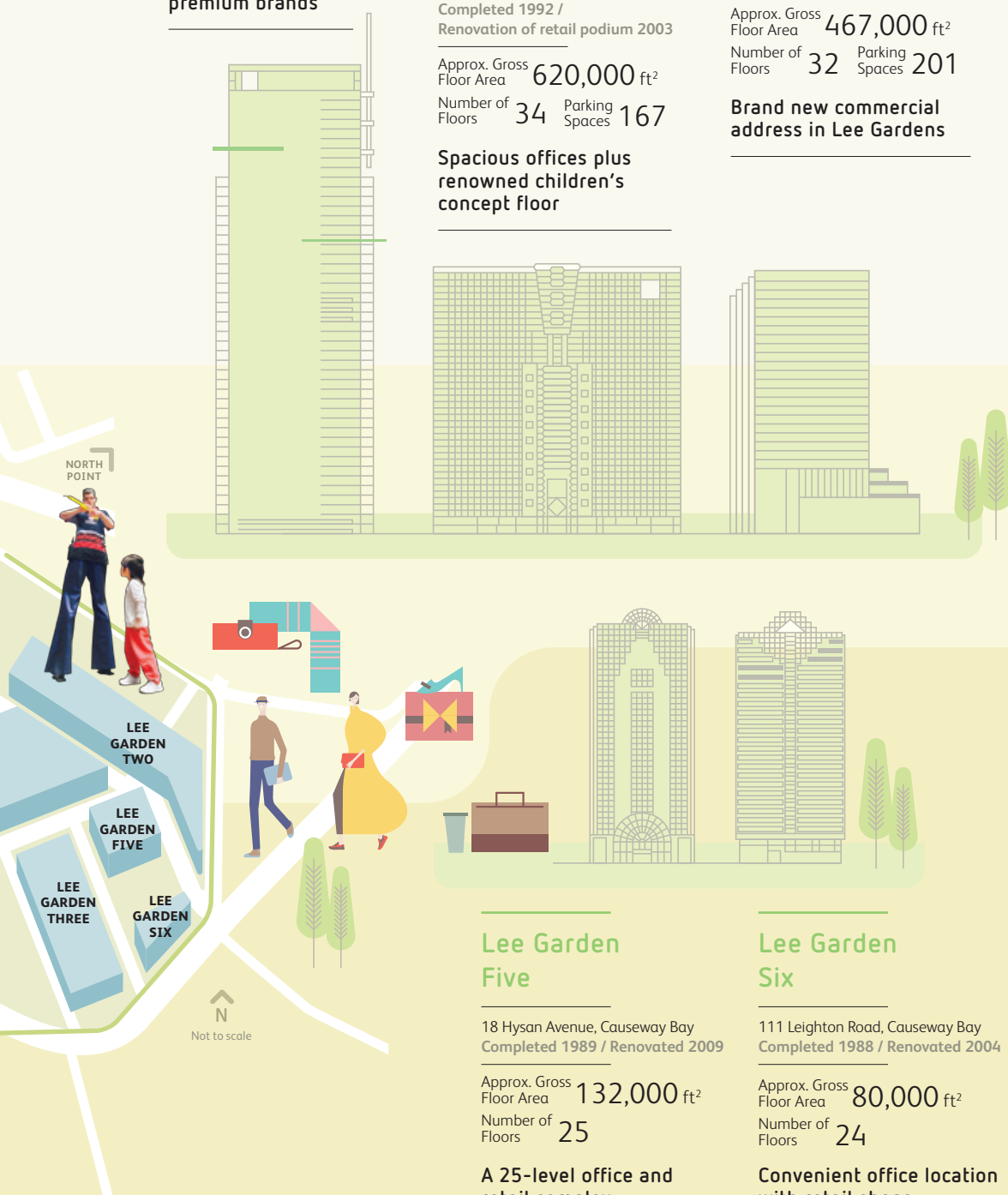
Spacious offices plus renowned children's concept floor

Lee Garden Three

1 Sunning Road, Causeway Bay
Completed 2017

Approx. Gross Floor Area **467,000** ft²
Number of Floors **32** Parking Spaces **201**

Brand new commercial address in Lee Gardens



Lee Garden Five

18 Hysan Avenue, Causeway Bay
Completed 1989 / Renovated 2009

Approx. Gross Floor Area **132,000** ft²
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** ft²
Number of Floors **24**

Convenient office location with retail shops

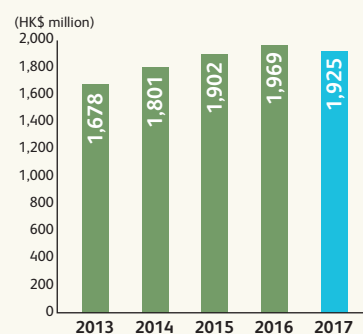
2017 Performance at a Glance

Financial Performance

Turnover **HK\$3,548m**
▲ **0.4%**

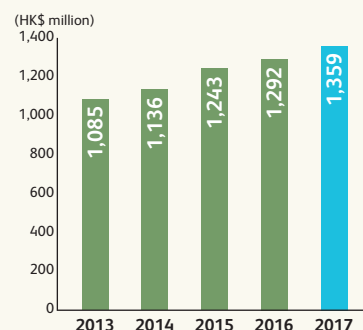
Retail Sector

HK\$1,925m ▼ **2.2%**



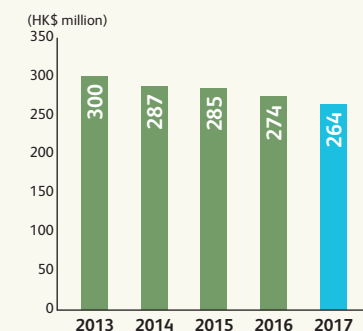
Office Sector

HK\$1,359m ▲ **5.2%**

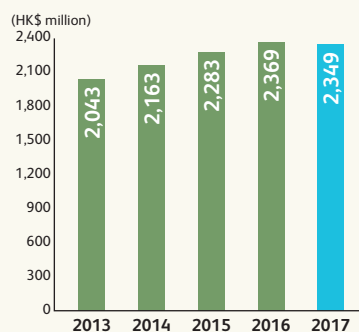


Residential Sector

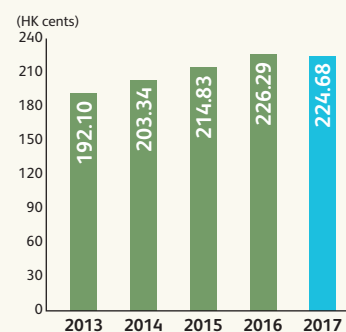
HK\$264m ▼ **3.6%**



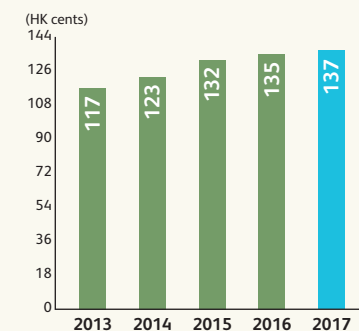
Recurring Underlying Profit **HK\$2,349m**
▼ **0.8%**



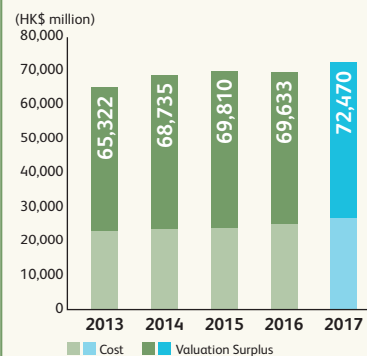
Recurring Underlying Earnings per Share **HK224.68cents**
▼ **0.7%**



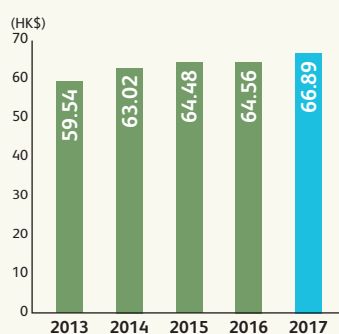
Dividends per Share **HK137cents**
▲ **1.5%**



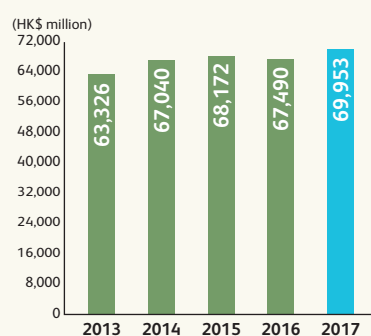
Property Value **HK\$72,470m**
▲ **4.1%**



Net Asset Value per Share **HK\$66.89**
 **3.6%**



Shareholders' Funds **HK\$69,953m**
 **3.6%**



Financial Prudence

Net Interest Coverage (Note 1)

17.1 times
 (2016: 20.5 times)

Net Debt to Equity (Note 2)

5.0%
 (31 Dec 2016: 5.4 %)

Average Finance Cost

3.4%
 (2016: 3.8 %)

Average Debt Maturity

4.3 years
 (31 Dec 2016: 4.3 years)

Fixed Rate Debt

74.9%
 (31 Dec 2016: 73.4 %)

Capital Market Issuances

74.9%
 (31 Dec 2016: 73.4 %)

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



2017 Performance at a Glance

Non-Financial Performance



Environment

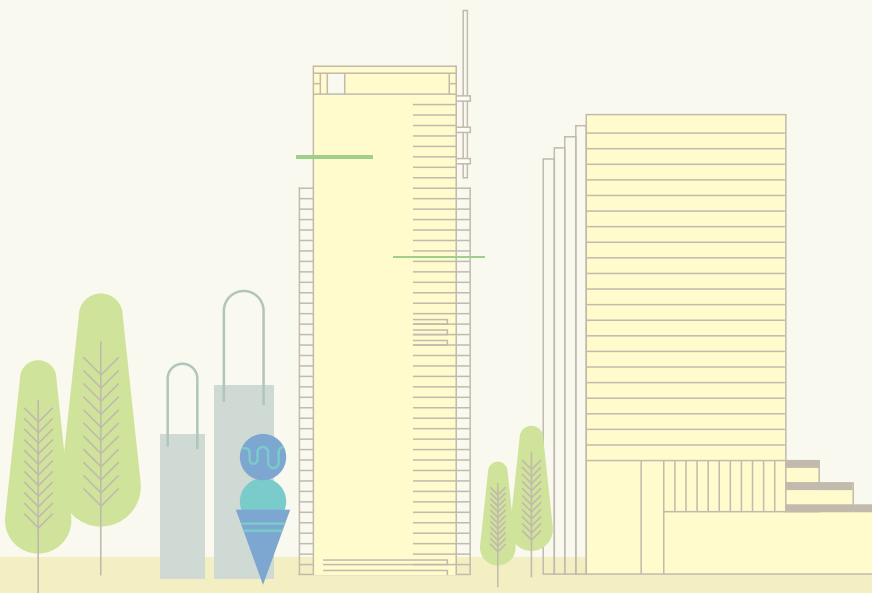
“AA”

- MSCI Global Sustainability Indexes: “AA” Rating

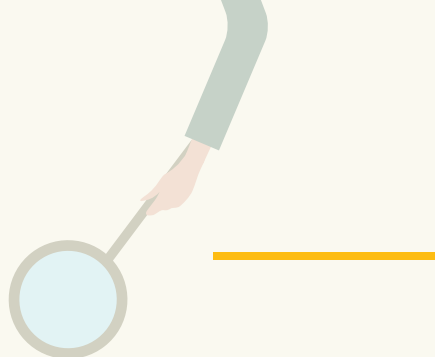
“AA”

- Hang Seng Corporate Sustainability Index: “AA” Rating

- Lee Garden Three achieved United States Green Building Council’s LEED (Core and Shell) Gold pre-certification
- Lee Garden One Offices achieved Final Platinum rating under Hong Kong Green Building Council’s BEAM Plus Existing Buildings; Lee Garden Three and Hysan Place were given Provisional Platinum rating under BEAM Plus New Buildings and Existing Buildings respectively



The inclusion of Hysan Development Company Limited in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of Hysan Development Company Limited by MSCI or any of its affiliates. The MSCI indexes are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

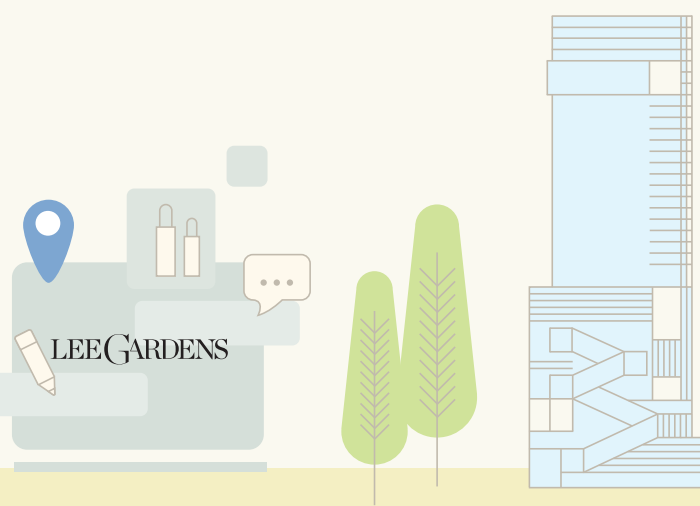


Social

- Constituent member of FTSE4Good index
- MSCI Global Sustainability Indexes: "Top 5 Industry Leaders" in the sub-category of "human capital development"
- Silver Award for Volunteer Service (Organisation) (in 2017) under the Steering Committee on Promotion of Volunteer Service of Social Welfare Department

Governance

- Gold Award (Non-Hang Seng Index Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2017
- Winner (Category 2: Main Board Companies, Hang Seng Composite Index Constituent Companies) in The Chamber of Hong Kong Listed Companies' Hong Kong Corporate Governance Excellence Awards 2017
- Bronze Award (General Category) in The Hong Kong Management Association's 2017 HKMA Best Annual Reports Awards



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



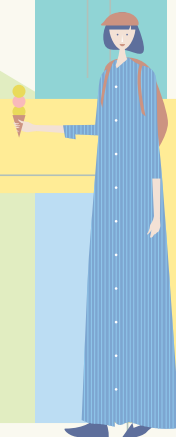
From the heartbeat of
Causeway Bay...



... to the heartbeat of Hong Kong



Navigating through the structural challenges, we are determined to give Lee Gardens added dimensions. The future direction of consumption will redefine the *how*, *when* and *what*. The *why* will demand qualities which embrace sustainability and individuality. This will be the era of “new retail” when both brands and landlords need to re-examine how to best reach their audience in a world where the online and offline have accelerated their collaboration. The office community will be a hotbed for cooperation and experience sharing. We strive to turn Lee Gardens into the heartbeat of Hong Kong.



Chairman's Statement

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.



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. In this report, 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 in the section 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.

Chairman's Statement

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 its 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.

Business Performance

The Group saw a slight turnover increase of 0.4 % to HK\$3,548 million, from HK\$3,535 million in 2016. At year-end 2017, our retail portfolio occupancy was 97 %. Occupancy of our office portfolio was 96 %, and the residential portfolio was 75 %. The retail and office occupancy percentages did not include Lee Garden Three which was completed in Mid-December 2017.

Recurring Underlying Profit, our key core leasing business performance indicator, experienced a slight decline of 0.8 % to HK\$2,349 million (2016: HK\$2,369 million). This reflected the small growth in turnover in light of the market conditions, as well as the increase in expenses for Lee Garden Three after its completion. Basic earnings per share based on Recurring Underlying Profit were HK224.68 cents (2016: HK226.29 cents), down 0.7 %.

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 capitalisation 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), principally reflecting the valuation change of the investment properties.

Our financial position remained strong, with net interest coverage of 17.1 times (2016: 20.5 times) and net debt to equity ratio of 5.0 % (2016: 5.4 %).

Capital Management

The Board of Directors (the “Board”) is pleased to declare a second interim dividend of HK111 cents per share (2016: HK109 cents). Together with the first interim dividend of HK26 cents per share (2016: HK26 cents), the total distribution is HK137 cents per share (2016: HK135 cents), representing a year-on-year increase of 1.5%. The dividend will be payable in cash.

Appreciation and Outlook

Although 2017 saw Hong Kong’s economy emerging from a difficult period, Hysan still had to navigate through significant changes within our fields of operation. Our management team and colleagues deserve full credit for developing and delivering many successful projects. I would like to take this opportunity to thank them for their hard work, and I would also like to thank our directors for their support and guidance.

The trend of global economic expansion is likely to continue in 2018, despite some geopolitical uncertainties, a potential further U.S. rate hikes, and the possibility of a slowdown in the Chinese economy. Hong Kong’s economy is expected to continue to be buoyed by growth in consumer spending.

Hysan has implemented a range of measures to tackle the retail and office structural changes head on. Lee Garden Three’s completion is adding greater impetus to the changes in both sectors of our commercial portfolio. We also have a comprehensive plan to further curate the Lee Gardens community with the support of our neighbourhood stakeholders. We look forward to another fruitful year ahead.

Lee Irene Yun-Lien

Chairman

Hong Kong, 28 February 2018