
Hysan Development's roots can be traced back to the purchase of a hill along the north coast of Hong Kong Island by the founding Lee family in 1923. The ensuing 95 years have seen the transformation of Lee Gardens from genteel parklands to a vibrant lifestyle destination.

The theme of this report, Our Company, Our Community, is based on stories highlighted in our popular social media campaign, Hysan95. We celebrated our first 95 years with 95 stories which vividly showcased life in Causeway Bay. Lee Gardens is inextricably linked to Causeway Bay. We are determined to grow our home base into Hong Kong's destination of distinction.

www.hysan95.com



Scan QR code to read
the Hysan95 stories

Hysan in 2018

Lee Garden Three

- Officially opened in November 2018
- A catalyst to further enhance our commitment to lifestyle
- Brand new retail and food and beverage concepts add excitement to Lee Gardens
- Add strong office tenancies to Lee Gardens portfolio





Retail

- An enhanced tenant mix with the emphasis on lifestyle and children's offerings
- Strong tenant and third party partnerships through townhall meetings and glamorous events
- Unique experiences ranging from shopping mall activities to street festivals
- Key brand programmes supported by popular promotional campaigns
- Significant increase in loyalty programmes' membership and sales
- Roll out digital transformation with video-speed Wi-Fi, paperless e-coupons, interactive signage and e-directories

**Reinforce connection
between office and retail tenants**

Office

- Diverse portfolio offering a range of space sizes at different price points
- Rich offerings of year-round and after-hours lifestyle and social facilities
- Banking and finance tenants now claim more than 20% of our office portfolio's floor space
- Range of co-working operators to complement existing tenant space requirements and attract a dynamic flow of new office users



“Office buildings with cutting edge technology and green credentials accompanying colourful retail offerings; a tight community fabric; a convenient transport network: all these make Lee Gardens a perfect office destination, where work and life are truly in harmony with each other.”

Mark Tung

Director, Lee Gardens Association



“We help run Hysan Place’s Urban Farm. The office workers really enjoy doing this farm work. You can see it in their faces – at the beginning they are a little stressed, but when harvest time comes, their expressions reflect deep satisfaction.”

Jessica Lau

Program Manager, SEED





“For companies expecting rapid growth over the next few years, or international companies looking to instantly establish a footprint in Hong Kong, co-working is their perfect option. Causeway Bay and Lee Gardens’ vibrancy make the area a great place for co-working.”

Nancy Yip
Area Director, IWG





“People live all over Hong Kong and there are only a few areas where it just makes sense for people to meet up. Causeway Bay is one of them, and Lee Gardens is right in the middle of it all.”

James Robertson
Founder of El Grande Concepts



“It’s noisy and busy, fun and yummy, charming and diverse. Causeway Bay and Lee Gardens is a go-to destination for anything and everything. If you want something, you can pretty much find it here.”

Grace Lam
Fashion Director/Stylist/Creative Consultant





“It’s by far the most energetic spot on Hong Kong Island. It is, and always has been, a hotbed for youth culture, eclectic dining experiences and the best shopping finds. Causeway Bay is also where it all began for us – it’s where we met as teenagers. We got married in 2014.”

Paul and Jocelyn
Lovebirds of Causeway Bay

“My roots are in this neighbourhood. I have hairy crab customers who have come here for three generations.”

Sandy Ki
Owner, Old San Yang
Member of Lee Gardens Association



“The Sevens has been around for 43 years now and it has become ingrained in Hong Kong’s culture in a way that hasn’t happened elsewhere. Over the last few years we’ve focused on growing the event outside the stadium. We want to create a whole Hong Kong Sevens festival, and the carnival at Lee Gardens plays a big part.”

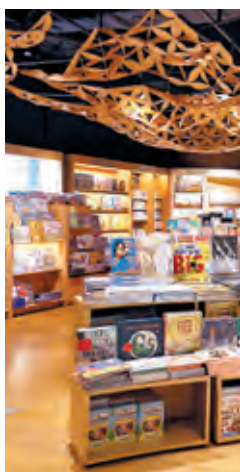
Sam Pinder
General Manager, Hong Kong Sevens

“The people who train here are really interesting. There are Lee Gardens area office workers, of course, but we also have a lot of local residents from here or Happy Valley. It’s a great mix of people, which helps create that feeling of being part of a family.”

Jimmy Leung
Martial artist and Founder,
THE FIGHTERS CLUB



P L



“The Arts in the Park Night Parade is a magical experience as all the puppets and costumes are illuminated. I remember the first time, tears streamed down my face as we walked, it was very emotional. We had squillions of people outside Lee Gardens and the surrounding areas all eager to share in our creativity.”

Lindsey McAlister
Founder, Hong Kong Youth Arts Foundation



AY



“People come here wanting to experience the atmosphere, or to initiate children into the world of reading. We want to offer respite for people, so that their mind and body can relax.”

Lynn Chang
Company Director, eslite



THE COMMUNITY

The area's people are its greatest assets. Hysan has an important role to play, too. We will continue to inject more elements into this community to stimulate stakeholders' interactions,





and to knit the new and
the old into a community
tapestry of rich contrast
and diversity.





1

Overview

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... with vibrant content
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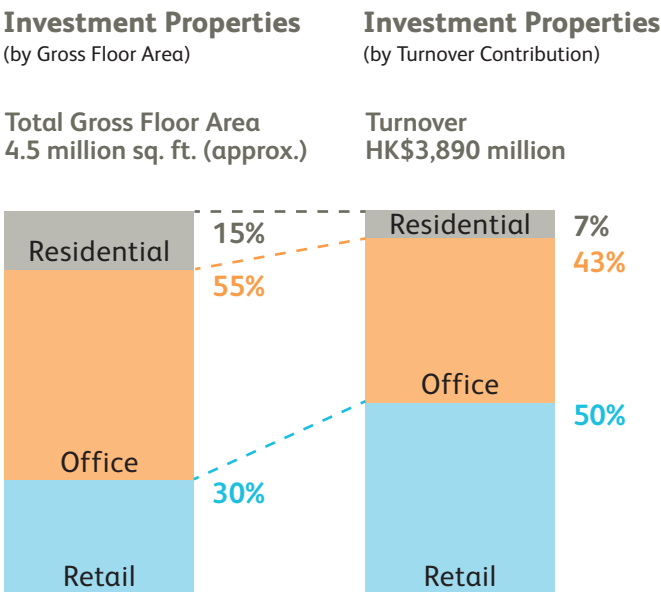
Key Facts

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 4.5 million square feet of retail, office and residential tenant space, including the recently opened 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.

Overall



How We Do Things

VISION

To be the PREMIER property company 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

L E E G A R D E N S
 E X M O C E R N E U
 A C P O C S I T T S
 D E O D O P V R W T
 E L W U E I E O A
 R L E C N C N P R I
 S E R I T T G R K N
 H N M T A / E I A
 I C E I B D N N B
 P E N Z I R E G I
 T E L I U L
 N I V R I
 S T E S T
 H Y N H Y
 I I
 P P

Value Creation

Financial Achievements:

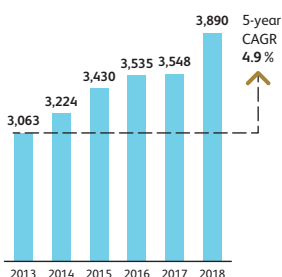
- Steady and progressive total return
- Strong Balance Sheet

Increase Yields

through active management including tenant mix improvement

Turnover

2013-2018 (HK\$ million)



Asset Enhancement

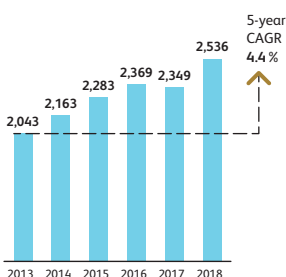
balance longer-term projects with those that produce more immediate returns

Financial Achievements

increase earnings

Recurring Underlying Profit

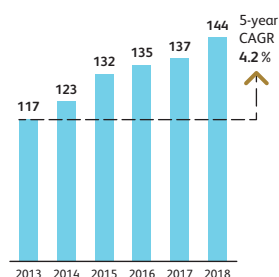
2013-2018 (HK\$ million)



Dividends per Share

provide steady growth

2013-2018 (HK cents)



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

Community

Make positive contributions to communities where we operate

Governance

Strong governance is the heart of long-term sustainable performance

Our Assets

Retail and Office

Retail only

Residential



BAMBOO GROVE

Mid-Levels



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

Lee Theatre Plaza

99 Percival Street, Causeway Bay
Completed 1994 / Lower zone renovated 2013

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



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

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

Lee Garden Two

28 Yun Ping Road, Causeway Bay
Completed 1992 / Retail podium renovated 2003

Approx. Gross Floor Area 621,000 ft² *
Number of Floors 34 Parking Spaces 167



Spacious offices and home to children's concept floors

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

Lee Garden Five

18 Hysan Avenue, Causeway Bay
Completed 1989 / Renovated 2009

Approx. Gross Floor Area 132,000 ft²
Number of Floors 25



An office and retail complex at one of Hong Kong's most prestigious commercial areas





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 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 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 Six

111 Leighton Road, Causeway Bay
Completed 1988 / Renovated 2004

Approx. Gross Floor Area **80,000** ft²
Number of Floors **24**



Convenient office and retail location



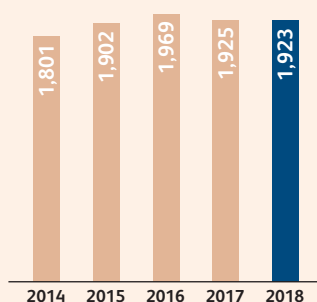
* The approximate Gross Floor Area of Lee Garden Two is revised upon the completion of asset enhancement works.

2018 Performance at a Glance

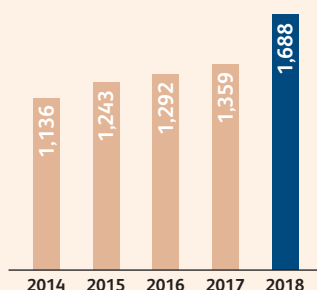
Financial Performance

Turnover **HK\$3,890m**
↑ **9.6%**

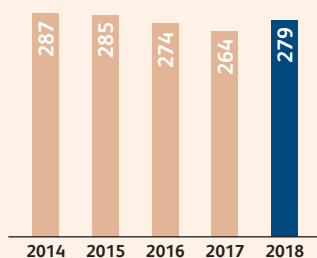
Retail Sector
HK\$1,923m —



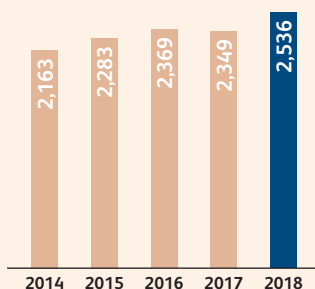
Office Sector
HK\$1,688m ↑ **24.2%**



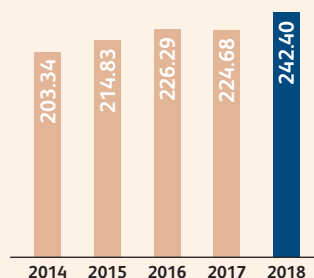
Residential Sector
HK\$279m ↑ **5.7%**



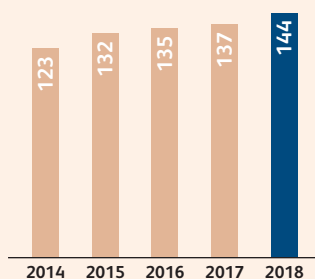
Recurring Underlying Profit **HK\$2,536m**
↑ **8.0%**



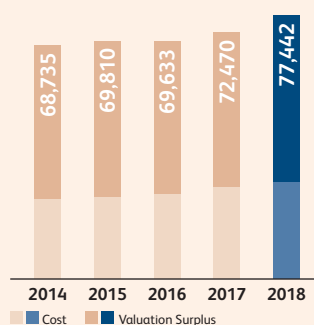
Recurring Underlying Earnings per Share **HK242.40cents**
↑ **7.9%**



Dividends per Share **HK144cents**
↑ **5.1%**

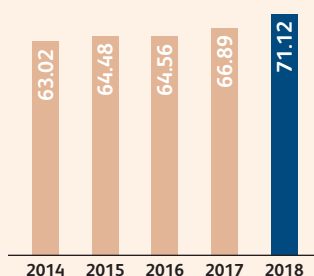


Property Value **HK\$77,442m**
↑ **6.9%**



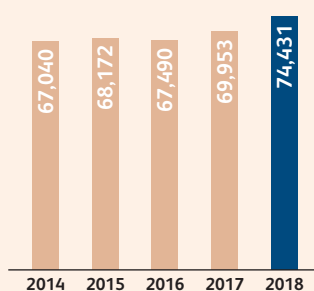
Net Asset
Value per
Share

HK\$71.12
↑6.3%



Shareholders'
Funds

HK\$74,431m
↑6.4%



FINANCIAL PRUDENCE

Net Interest Coverage ^(Note 1)

18.1 times

(2017: 17.1 times)

Net Debt to Equity ^(Note 2)

4.7%

(As at 31 Dec 2017: 5.0 %)

Average Finance Cost

3.6%

(2017: 3.4 %)

Average Debt Maturity

3.9 years

(As at 31 Dec 2017: 4.3 years)

Fixed Rate Debt

75.5%

(As at 31 Dec 2017: 74.9 %)

Capital Market Issuances

75.5%

(As at 31 Dec 2017: 74.9 %)

Credit Ratings

Moody's: A3

Standard and Poor's: BBB+

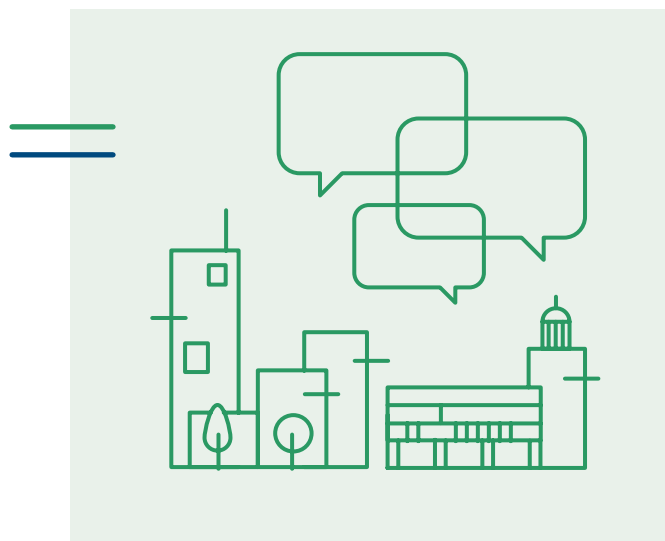
Fitch: A-

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 cash equivalents divided by shareholders' funds

2018 Performance at a Glance

Non-Financial Performance



© Photographed by Geoff Letchford

ENVIRONMENT

“AA”

- MSCI Global Sustainability Indexes: “AA” Rating

“AA”

- Hang Seng Corporate Sustainability Index: “AA” Rating
- Hysan Place attains Final Platinum rating under the BEAM Plus (Existing Buildings) certification scheme
- Lee Garden Three achieves China Green Building Label 2 Stars Rating
- Hysan develops its Green Finance Framework and places green bond



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.



Hang Seng Corporate Sustainability Index
Series Member 2018-2019



SOCIAL

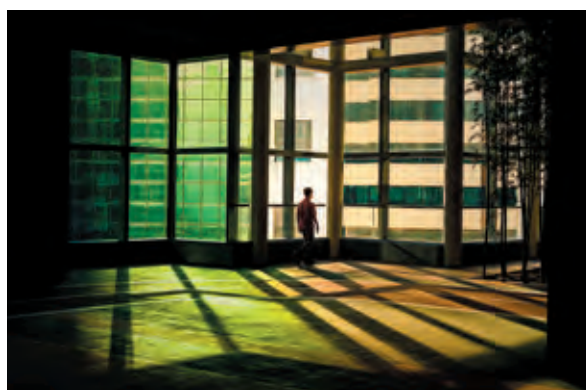
- 2018 Constituent member of FTSE4GOOD Index
- Silver Award for Volunteer Service (Organisation) (in 2018) under the Steering Committee on Promotion of Volunteer Service of Social Welfare Department



© Photographed by Geoff Letchford

GOVERNANCE

- Gold Award (Non-Hang Seng Index – Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2018
- Honourable Mention in The Hong Kong Management Association's 2018 HKMA Best Annual Reports Awards



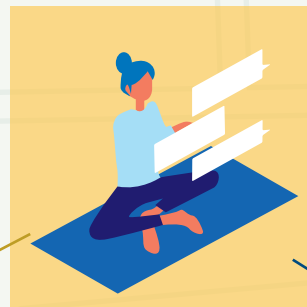
© Photographed by Geoff Letchford



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



Growing a community...



Multifaceted Retail

- Classic top-end brands alongside dynamically-curated trendy labels
- “New Classic” products and services for Millennials: lifestyle, health and wellness
- Wide choice of food and beverage
- Office tenants create new consumer demographics, which in turn influence our retail tenant mix

HYSAN PLACE

The composition of our retail portfolio’s visitors is balanced between approximately

1/3 tourists

1/3 long-time locals

1/3 “New Hong Kong residents”

(who have settled here over the past decade or so)

- Preferred retail destination for Multigenerational shoppers
- Popular loyalty programmes create customer “stickiness”

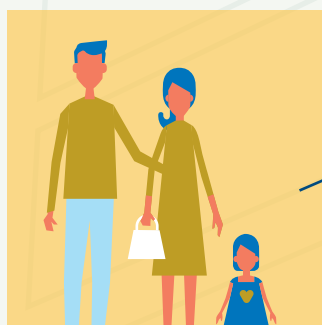
LEE THEATRE PLAZA

ONE HYSAN AVENUE

LEIGHTON CENTRE

Heritage and Modern

- Traditional businesses in surrounding areas mingle with trendy street shops
- Walk-up buildings revitalised in collaboration with local business association and neighbourhood owners



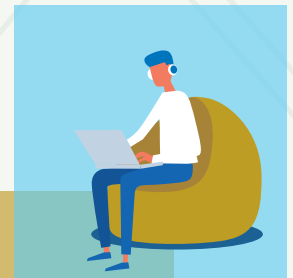
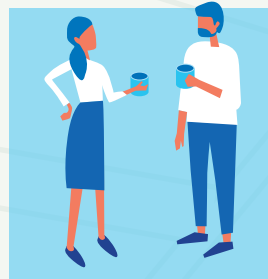
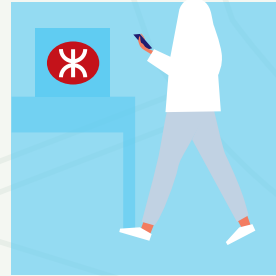
...with vibrant content

Easy Access

57,000+ people per hour
from MTR's Island Line

20+ bus routes stop
at Hysan Place

900+ parking spaces



Quality Office Space

- Over 2.5m sq. ft. of quality office; 20,000 + workers with spending power
- Banking and Finance the largest tenant sector
- Co-working and flex space a growing trend



Digital Transformation

- Video-speed Wi-Fi
- Paperless e-coupons
- Enhanced digital signage and interactive directories
- Better use of IoT and analytics

LEE
GARDEN
ONE

LEE
GARDEN
TWO

LEE
GARDEN
FIVE

LEE
GARDEN
THREE

LEE
GARDEN
SIX

Chairman's Statement

*Lee Gardens is a
community where
people come
to work, live
and play,
now and for
generations to come.*





The local economy experienced healthy expansion in 2018 with a year-on-year growth of 3.0%. Labour market conditions remained tight, but the residential property market and stock market were less bullish during the second half of the year. Visitor arrivals figures, meanwhile, continued their upward trend, with 11.4% growth in 2018, as compared to the year before (Mainland China visitors increased by 14.8%).

Hong Kong's retail sales saw robust growth of 13.4% in the first half of 2018, while the second half growth of just 4.3% mirrored the slow-down in overall economic growth. Full year 2018 Hong Kong retail sales grew 8.8%. All categories rose when compared to 2017, with Jewellery and Watches, as well as Medicines and Cosmetics among the best performers.

2018 was a productive year for Hysan. Footfall in our portfolio saw improvement and our estimated tenant sales growth outperformed Hong Kong's general retail sales growth. Office rental reversion was robust and occupancy improved. Nevertheless, market challenges persist, from macroeconomic issues to structural changes in tenants' and consumers' demands.

The Lee Gardens portfolio has many natural advantages: we have a rich and dynamically-curated retail and commercial portfolio set in a unique neighbourhood, which combines the latest high-rise with Hong Kong heritage buildings, enhanced by strong physical, visual and virtual connectivity. These natural attributes, together with our public events, have enabled us to create a strong sense of community.

Hysan's Progress in 2018

The market challenges we faced in 2018 were not dissimilar to the year before. There were added factors including the macro issues of interest rate hikes, as well as Mainland China's economic slowdown and Renminbi (RMB) depreciation. These were compounded by the China-U.S. trade tensions.

Retail consumers demand experiential and digital offers. Demographic shifts saw "New Hong Kong residents" (those who have settled in Hong Kong in the past decade or so) become a strong and growing spending force. Moreover, generational changes have meant millennials and younger shoppers now seek "new classic" products and services that are personalised, sophisticated and aspirational. Health and wellness as well as lifestyle offerings are high on their agenda. For parents, quality children's items and experiences are highly coveted.

Unique, new and relevant retail offerings are key to attracting top quality office tenants. The demand for "flex" space by companies propelled an increased commitment to forge partnerships with some of the best-known co-working brands. We have constructed a balanced portfolio of co-work tenants to cater to different organisational requirements from multinational institutions to small startups. Lee Gardens portfolio is now home to co-working operators like Spaces, theDesk and Compass. They will soon be joined by another major operator, WeWork.

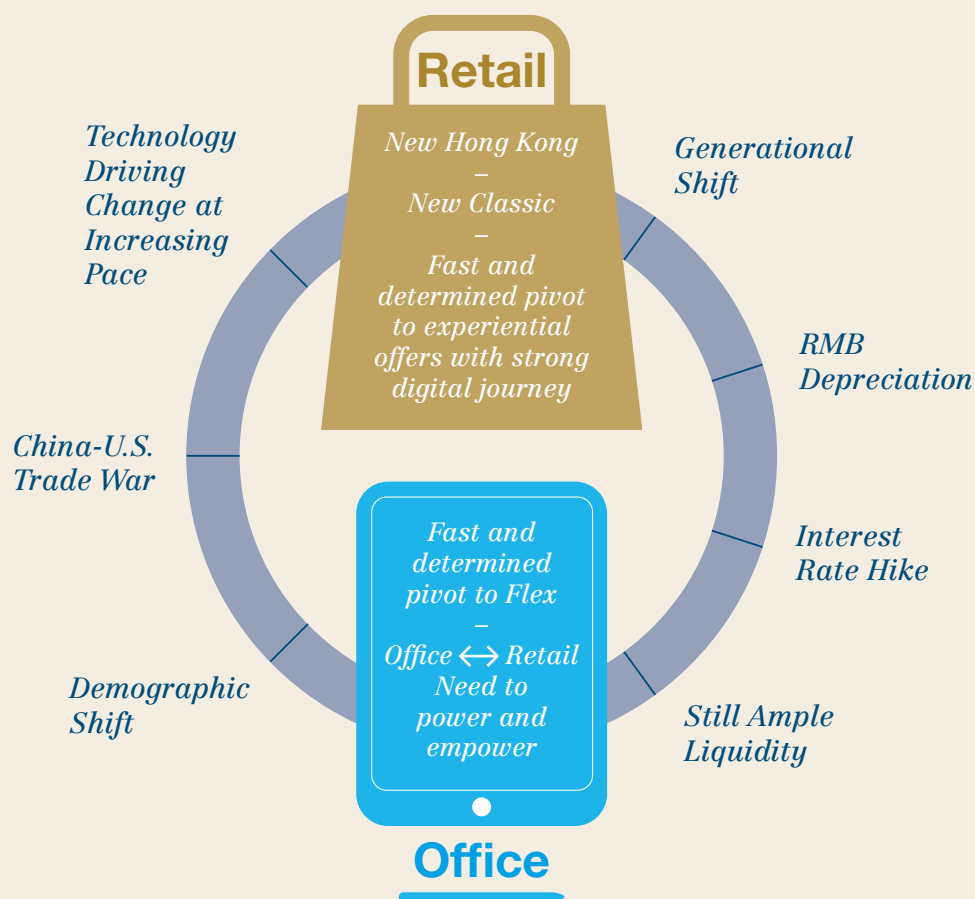
Apart from co-working, traditional Banking and Finance institutions have chosen Lee Gardens for its quality hardware as well as amenities, convenience and vibrant community, all of which are key to staff engagement. Lee Garden Three is now home to a number of top international financial institutions, including Goldman Sachs and Maybank.

Lee Garden Three, which officially opened in November 2018, is the perfect catalyst to extend our commitment to lifestyle. The building houses some very unique food and beverage destinations, along with a range of wellness and children's products that are priority items for this generation of consumers.

Our new office tenants in Lee Garden Three, together with a more fluid and diverse office user population from our co-work office tenants located throughout our portfolio, have created a new consumer demographic. This in turn has influenced our retail tenant recruitment strategy and mix. We analyse and curate our portfolio as a holistic offering that feeds on and influences footfall, spending power and the staying power of our consumers within the Lee Gardens neighbourhood. We have introduced new destination restaurants and more drinking elements, all of which have proven popular with our new office tenants. These newcomers are growing into loyal customers of our portfolio's offerings.

Our loyalty clubs, too, help enhance the spending and staying power of those who visit the portfolio. Lee Gardens Plus for general shoppers and Club Avenue for VIPs, are gaining considerable traction. Lee Gardens Plus saw its membership more than doubled over the year. Through multiple channels, including a powerful but simple to use app, we have created a platform to appeal to a wider audience. In the meantime, we have also enhanced our offerings and level of service to our VIPs through Club Avenue.

In regard to tenant partnership enhancement, the introduction of our regular town-hall meetings and our tenant engagement team have contributed significantly to further strengthen our relationships through tenant-centric win-win events and campaigns. During the year, we held a number of special exclusive events in partnership with tenants to attract high spenders. A close relationship also enabled the successful roll-out of Hysan's much anticipated paperless e-coupon project.



Hysan has implemented a range of measures to weather the uncertainties in the macro-environment, as well as to tackle the structural changes in the retail and office sectors.

The Lee Gardens area has always had an eclectic mix of different characteristics. In recent times, and especially in 2018, we have been knitting these elements together into a community tapestry of rich contrast and diversity. Cutting edge buildings stand alongside heritage low-rise; premium luxury brands rub shoulders with traditional businesses; multinational financial institutions share buildings with co-working spaces. We leverage and enhance our existing strength in children, health and wellness offerings. In addition, Hysan's role is to continuously inject new elements into this community to stimulate stakeholder interactions. The earthy scent of our Urban Farm harvest; the glittering giant puppets of the Night Parade; the stream of pop-up stores which surprise and delight shoppers; the heart-warming Hysan95 social media stories about Causeway Bay's past, present and the future: all these are woven together with our ever-strengthening digital offerings. Our area-wide high-speed Wi-Fi that beams from all our buildings across our entire portfolio; the easy-to-use and environmentally-friendly e-coupons and the forthcoming improved loyalty apps: these too are helping to enrich our community with the very latest technology.



**concentrated in the most vibrant and
recognised retail destination**



**Improvement of business environment
for retail tenants**

The combined power of our diverse office tenant mix, improved retail offerings, robust marketing efforts, burgeoning loyalty clubs, ever-tightening partnerships with tenants, and rich community elements, is contributing to the improvement of the business environment for our retail tenants. The success of our tenants is reflected in satisfactory positive rental reversions in most cases, which in turn has given us the opportunity to take proactive and bold steps to continue to innovate and reposition our portfolio.

The founder of our Group, Mr. Lee Hysan bought East Point Hill 95 years ago and renamed it Lee Gardens. From the very beginning his vision was to build a place of entertainment and relaxation, so that families from all walks of life could come to spend the whole day and enjoy the offerings. We have not really deviated from his far-sighted ideals. We would like Lee Gardens to remain a unique and sustainable destination, a community where people would choose to work, live and play, now and for generations to come.

Business Performance

The Group's 2018 turnover was HK\$3,890 million, up 9.6% from HK\$3,548 million in 2017. Occupancies of our retail and office portfolio were 98% and 97% respectively at year-end 2018. Meanwhile, the occupancy of our residential portfolio improved to 88%.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was up 8.0% to HK\$2,536 million (2017: HK\$2,349 million). Our Underlying Profit in 2018, was also HK\$2,536 million, up by 8% from 2017 on a normalised basis after excluding the one-off compensation received from a retail tenant in 2017. Basic earnings per share based on Recurring Underlying Profit and Underlying Profit correspondingly rose to HK242.40 cents (2017: HK224.68 cents and HK238.26 cents respectively), up 7.9% and 1.7% respectively.

The Group's Reported Profit for 2018 was HK\$6,033 million (2017: HK\$3,636 million). This mainly reflected a fair value gain of HK\$3,532 million (2017: HK\$853 million) on the Group's investment properties' valuation. As at year-end 2018, the valuation of the Group's investment property portfolio increased by 6.9% to HK\$77,442 million (2017: HK\$72,470 million). This reflected a combination of factors: a generally positive rental outlook for our core portfolio, and a number of asset enhancement works completed. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2017.

Shareholders' Funds increased by 6.4% to HK\$74,431 million (2017: HK\$69,953 million), principally reflecting the valuation change of the investment properties.

Our financial position remained strong, with net interest coverage of 18.1 times (2017: 17.1 times) and net debt to equity ratio of 4.7% (2017: 5.0%).

Dividends

The Board of Directors (the "Board") is pleased to declare a second interim dividend of HK117 cents per share (2017: HK111 cents). Together with the first interim dividend of HK27 cents per share (2017: HK26 cents), the total distribution is HK144 cents per share (2017: HK137 cents), representing a year-on-year increase of 5.1%. The dividend will be payable in cash.

Appreciation and Outlook

I would like to use this opportunity to welcome our new Independent Non-Executive Director Wong Ching Ying Belinda. Belinda is the Chief Executive Officer of Starbucks China and has extensive experience leading different organisations in the Asia Pacific region. I trust Belinda will bring her strong professional expertise to further strengthen the Board. I would like to thank the management team for all their hard work in 2018, and also to offer a big thank you to my fellow directors for their support and advice throughout the year.

Hong Kong's economic growth slowed considerably in the second half of 2018. Waning confidence in both the property and equity markets will be further affected by anticipated headwinds from macro issues in 2019. These include the structural slowdown in China and the trade war between China and the United States.

Hysan has implemented a range of measures to weather the uncertainties in the macro-environment, as well as to tackle the structural changes in the retail and office sectors. Lee Garden Three's completion has added greater impetus to the changes in both sectors of our commercial portfolio. We have a comprehensive plan to continue to curate the Lee Gardens community with the support of our neighbourhood stakeholders. We look forward to another successful year ahead.

Lee Irene Yun-Lien

Chairman

Hong Kong, 21 February 2019