

2019 was an exceptionally challenging year for Hong Kong and Hysan, both buffeted by global headwinds and domestic factors. Through the difficult times, Hysan delivered swift, positive solutions and support to manage the impact on our tenants and community. We believe our balanced dual-engine portfolio with the synergies generated by the two main segments, Office and Retail, helped Hysan remain resilient to the unexpected disruptions and impacts.

Looking ahead, we will maintain our close working relationships and foster new partnerships with existing and potential stakeholders to navigate through the turbulence. As a strong reputable property investor, developer and manager, we have the foundation to continue our growth.

## CONTENTS

### 1 OVERVIEW

Page 8

### 2 BUSINESS PERFORMANCE

Page 22

### 3 CORPORATE GOVERNANCE

Page 38

### 4 FINANCIAL STATEMENTS, VALUATION AND OTHER INFORMATION

Page 109

# Synergies from a Balanced Dual-Engine Portfolio



Broadened customer base supports dynamic growth of

## DIVERSE RETAIL OFFERINGS

Hysan's **balanced dual-engine business** has provided a stable platform for the company. The office portfolio accounted for around the same turnover as the retail portfolio in 2019.

The demand from an increasingly **discerning office clientele** continues to drive a more **diverse retail offering**. The combination of a **balanced portfolio** with **synergies generated** by the two main segments will continue to inspire and power our business.

**Beyond having an optimal tenant mix in buildings,**  
**Hysan's Lee Gardens is a vibrant community of people and activities ...**



OFFICE

Wide range of lifestyle experiences attracts

**DISCERNING OFFICE TENANTS**

# A Vibrant Community

The geographical advantage and historical nature of Lee Gardens create an ideal backdrop for our dual-engine model. Over the years, Hysan actively carried out asset enhancements, re-developments, neighbourhood curation and tenant mix changes, as well as community events and activities. Lee Gardens is now a premier destination for all ages and all walks of life.





# Community Highlights in 2019



Hysan unveiled Bizhouse, a concept that combines living and working in a regenerated low-rise building. We also started Hysan's Art Programme to promote local artists. We launched Urban Sky which transformed an under-used space into a popular performing venue.

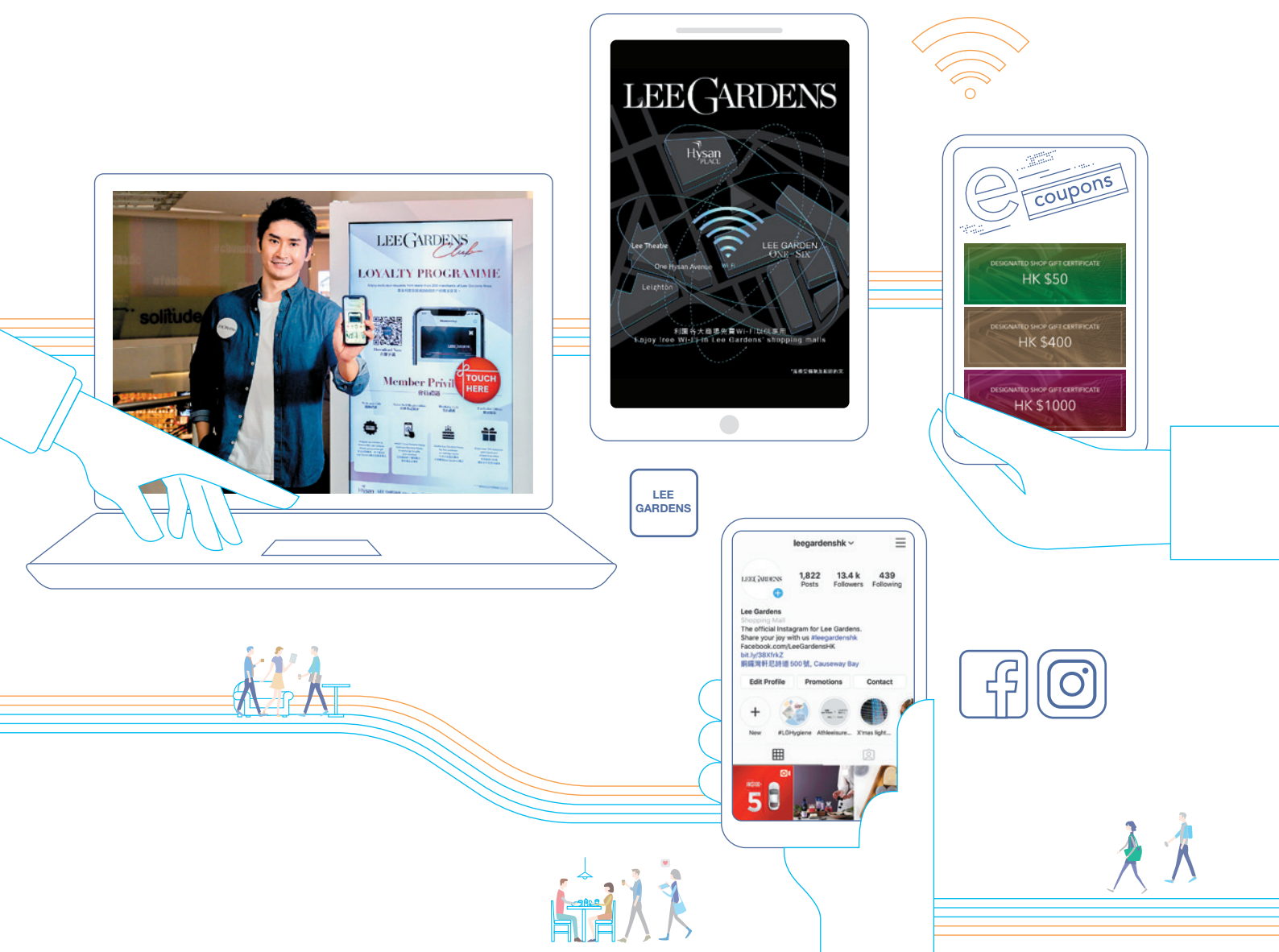
Strong promotions through general shoppers' campaigns and events continued to help our tenants attract more customers. Within the office portfolio, flex space has added diversity to our business platform, further sharpening our retail and service offerings.



# Business Technology Applications

We are gaining greater insights into our visitors' demographics and traffic patterns through our area-wide Wifi and IoT. We use data analytics and AI to inform our strategy in the world of digital economy. The growth in the number of our social media followers and our interaction with them help us better understand and predict their preferences.

Technology also enhances our daily operations directly. We are consolidating our two loyalty programmes into a single operating platform to improve efficiency and user-friendliness. In addition, we unveiled our Electronic Gift Coupon system in 2019.







# Strengthening Sustainability

Long term sustainable thinking comes naturally to us, a company with strong roots in Causeway Bay. Our Board has established a Sustainability Committee to oversee environmental, social and governance issues. We are in a good position to further integrate sustainability initiatives with clear targets into our strategic plans.



10	Key Facts
10	Our Portfolio
11	Value Creation
12	Our Assets
14	2019 Performance at a Glance
18	Chairman's Statement

# OVERVIEW 1







# 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 and drives synergies amongst our tenants and a vibrant community.

Within our approximately 4.5 million square feet of retail, office and residential tenant space, we strive to become partners with our tenants. By understanding and connecting our tenants' and our customers' needs, we create a sustainable ecosystem.



# VALUE CREATION

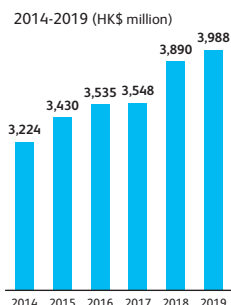
## Financial Achievements:

- Steady and progressive total return
- Strong Balance Sheet

### Active Management

including tenant mix improvement increases yields, while **Asset Enhancement** brings more immediate as well as longer term gains to generate value in the company

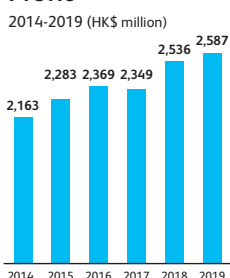
#### Turnover



### Financial Achievements

increase earnings

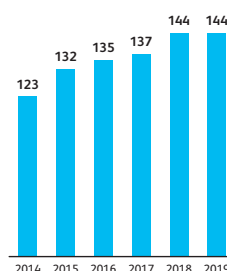
#### Recurring Underlying Profit



### Dividends per Share

provide steady growth

2014-2019 (HK cents)



## Supported by Strong Underlying Non-Financial Achievements:

### Environment

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



### Community

Make positive contributions to communities where we operate



### Employees

Create working environment for talent to thrive



### Governance

Strong governance is the heart of long-term sustainable performance



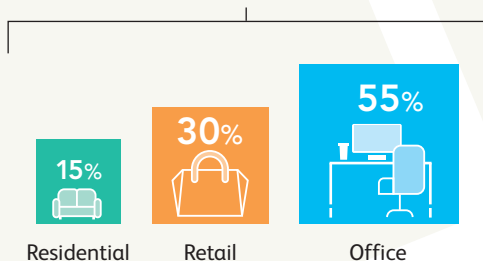


## KEY FACTS

## OUR ASSETS

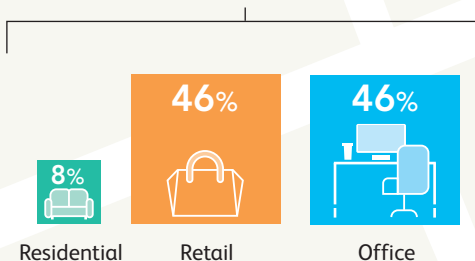
### Investment Properties by Gross Floor Area

Total Gross Floor Area **4.5** million sq. ft. (approx.)



### Investment Properties by Turnover Contribution

Turnover HK\$ **3,988** million



### Hysan Place

Completed 2012

Greenest commercial building and trendiest shopping centre in town

Approx. Gross Floor Area	Office	Retail
716,000 ft <sup>2</sup>	63%	37%
Number of Floors	Parking Spaces	
40	66	

### Lee Theatre Plaza

Completed 1994 / Lower zone renovated 2013

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

Approx. Gross Floor Area	Retail
314,000 ft <sup>2</sup>	100%
Number of Floors	26

### Leighton Centre

Completed 1977 / Renovated 2011

Popular office complex amongst sports and lifestyle shops

Approx. Gross Floor Area	Office	Retail
430,000 ft <sup>2</sup>	75%	25%
Number of Floors	Parking Spaces	
28	321	

## Lee Garden One

Completed 1997

Home to international corporations and premium brands

Approx. Gross  
Floor Area

903,000 ft<sup>2</sup>

Office

78%

Retail

22%

Number of Floors

53

Parking Spaces

200

## Bamboo Grove

Completed 1985 /  
Renovated 2019

Quality international living in Mid-Levels

Approx. Gross  
Floor Area

691,000 ft<sup>2</sup>

Number of  
Units

345

Parking  
Spaces

436

## Lee Garden Two

Completed 1992 /  
Retail podium renovated 2019

Spacious offices and home to children's concept floors

Approx. Gross  
Floor Area

621,000 ft<sup>2</sup>

Office

75%

Retail

25%

Number of Floors

34

Parking Spaces

167

## Lee Garden Three

Completed 2017

Newest commercial address in Lee Gardens

Approx. Gross  
Floor Area

467,000 ft<sup>2</sup>

Office

83%

Retail

17%

Number of Floors

32

Parking Spaces

201

## Lee Garden Five

Completed 1989 /  
Renovated 2009

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

Approx. Gross  
Floor Area

132,000 ft<sup>2</sup>

Office

88%

Retail

12%

Number of Floors

25

## One Hysan Avenue

Completed 1976 /  
Renovated 2011

Efficient office and retail building in prime site

Approx. Gross  
Floor Area

169,000 ft<sup>2</sup>

Office

77%

Retail

23%

Number of Floors

26

## Lee Garden Six

Completed 1988 /  
Renovated 2004

Convenient office and retail location

Approx. Gross  
Floor Area

80,000 ft<sup>2</sup>

Office

91%

Retail

9%

Number of Floors

24

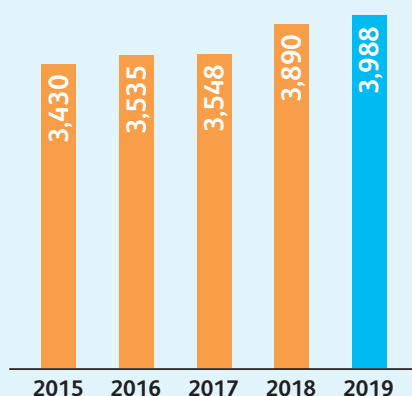
# 2019 Performance at a Glance

## FINANCIAL PERFORMANCE

### Turnover

HK\$3,988<sub>m</sub>

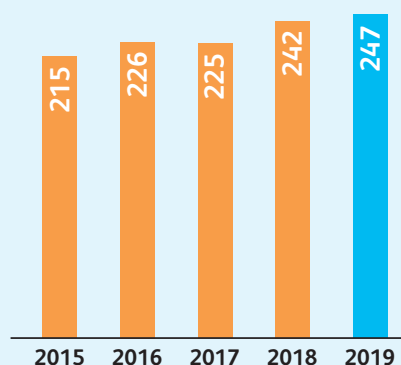
↑2.5%



### Recurring Underlying Earnings per Share

HK247<sub>cents</sub>

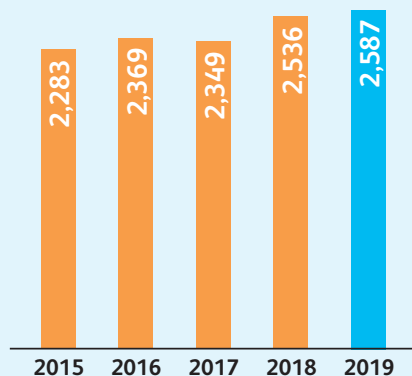
↑2.1%



### Recurring Underlying Profit

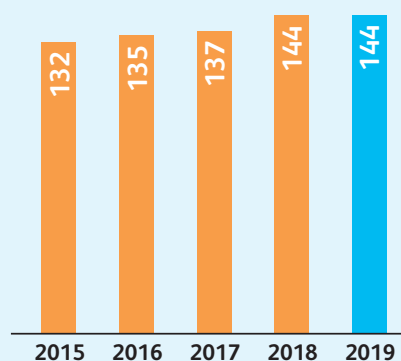
HK\$2,587<sub>m</sub>

↑2.0%



### Dividends per Share

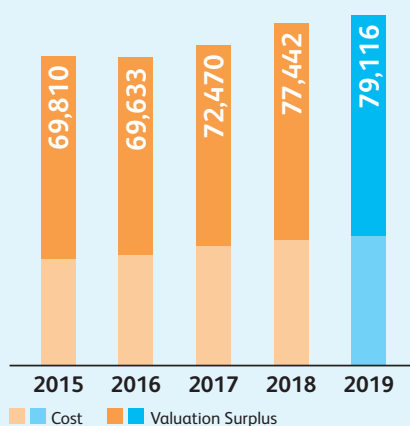
HK144<sub>cents</sub>





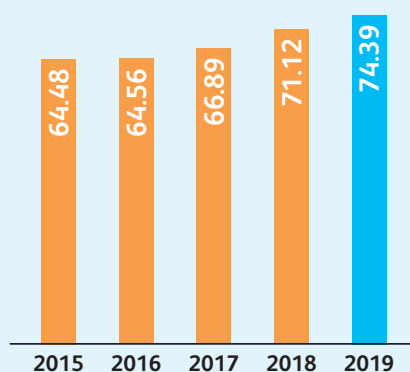
## Property Value

HK\$79,116m  
↑2.2%



## Net Asset Value per Share

HK\$74.39  
↑4.6%



## FINANCIAL PRUDENCE

### Net Interest Coverage <sup>(Note 1)</sup>

**17.0 times**  
(2018: 18.1 times)

### Net Debt to Equity <sup>(Note 2)</sup>

**4.1 %**  
(31 Dec 2018: 4.7 %)

### Effective Interest Rate

**3.4%**  
(2018: 3.4 %)

### Average Debt Maturity

**6.6 years**  
(31 Dec 2018: 3.9 years)

### Fixed Rate Debt

**84.0%**  
(31 Dec 2018: 75.5 %)

### Capital Market Issuances

**84.0%**  
(31 Dec 2018: 75.5 %)

### Credit Ratings

**Moody's: A3**

**Fitch: A-**

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

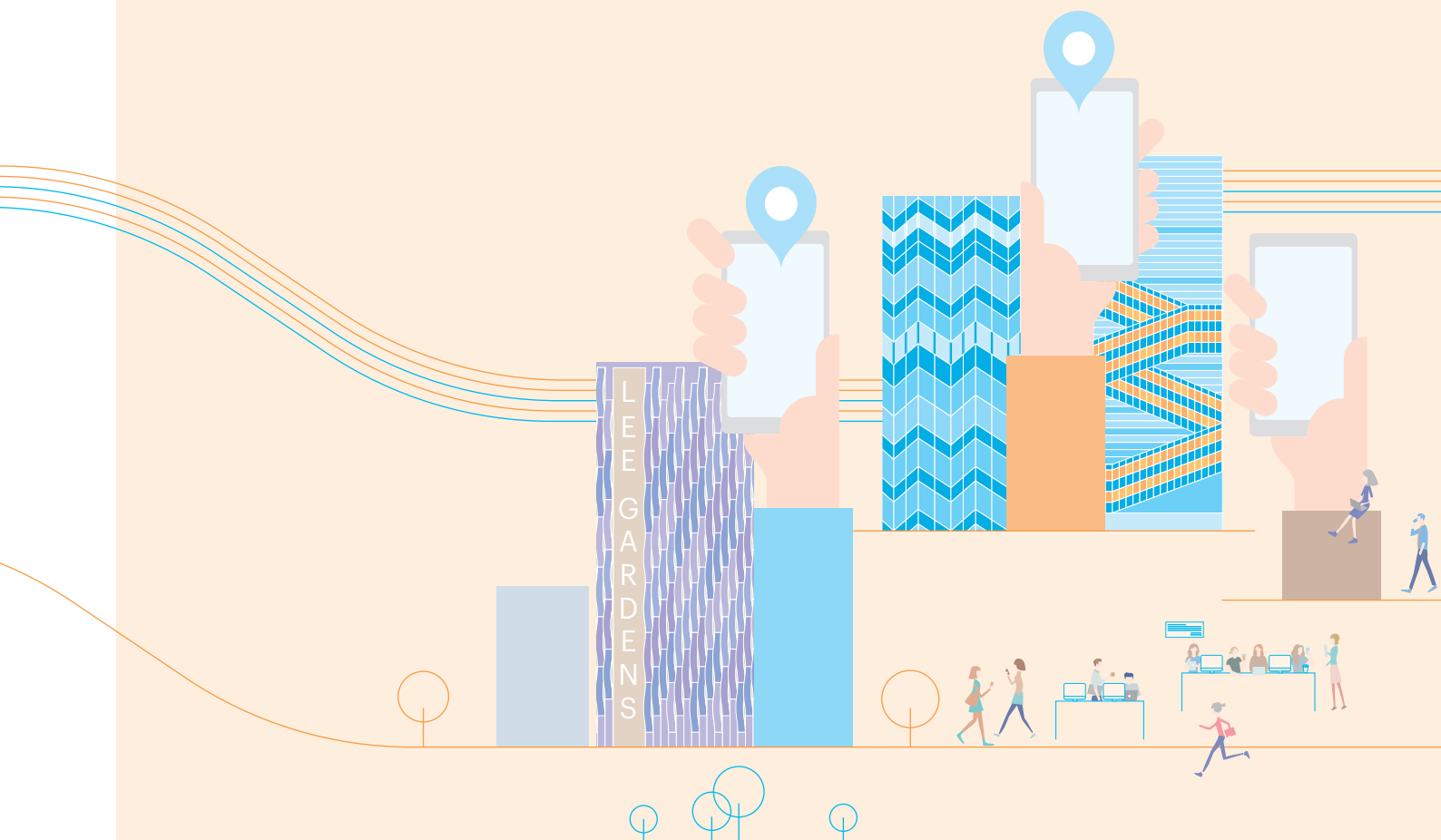
#### Notes:

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 cash equivalents divided by shareholders' funds

# 2019 Performance at a Glance

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE RECOGNITIONS

- “AA” Rating: Hang Seng Corporate Sustainability Index
- “A” Rating: MSCI ESG Ratings assessment
- Constituent member: FTSE4Good Index Series
- Gold level under the United States Green Building Council’s LEED (Core and Shell) and Final Platinum rating under BEAM Plus (New Buildings) for Lee Garden Three
- Silver Award for Volunteer Service (Organization) under the Steering Committee on Promotion of Volunteer Service of Hong Kong Social Welfare Department



- Silver Award (Traditional Annual Report in Real Estate Development/SVC: Various & Multi-Use) in MerComm, Inc.'s 2019 International ARC Awards
- Best Annual Report (Mid Cap) in the Hong Kong Investor Relations Association's Investors Relations Awards 2019
- Gold Award (Non-Hang Seng Index – Large Market Capitalization Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2019
- Honourable Mention in the Hong Kong Management Association's 2019 Best Annual Reports Awards



Hang Seng Corporate  
Sustainability Index  
Series Member 2019-2020



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



MSCI  
ESG RATINGS



CCC B BB BBB A AA AAA

The use by Hysan Development Company Limited of any MSCI ESG Research LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of Hysan Development Company Limited by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.



# Chairman's Statement



Hysan saw a 2.5 % increase in its 2019 turnover and a 2.0 % improvement in its Recurring Underlying Profit. A robust first half helped ease the impact of a negative second half. Rental reversions for our office, retail and residential portfolios remained healthy, while occupancies were satisfactory.

## Impact from Different Fronts

Global uncertainties together with continued U.S.-China tensions were among the external factors negatively affecting Hong Kong's general economic well-being in 2019. On the domestic front, social unrest throughout the second half of the year had an immediate adverse impact on the economy and parts of Hysan's business. The sharp drop in spending by a drastically reduced number of visitors to Hong Kong was further exacerbated by a fall in local consumption arising from intermittent closure of shops and restaurants brought on by the social unrest. The retail sector, particularly cosmetics and certain popular brands favoured by mainland visitors, as well as the catering sector, were much adversely affected by the turmoil. Hong Kong's retail sales saw a full year decline of 11 % as compared to 2018. Estimated sales of Hysan's retail tenants mirrored those of Hong Kong, sharply decreasing from July onwards.

## Managing the Crisis

Through these difficult times, Hysan's management team stepped up its efforts to provide a safe and secure environment for the Company's staff, tenants and shoppers. The team delivered swift, proactive solutions and support to manage the impact on our retail and office tenants. The relationship built over the years through Hysan's community-building efforts were clearly evident as all stakeholders worked together during the crisis.

## Synergies from a Balanced Portfolio

Hysan's balanced dual-engine business has provided a stable platform for the Company. The retail business, which by its nature is more volatile, is anchored by a more stable office portfolio. Hysan's office portfolio accounted for the same turnover, around 46 %, as the retail portfolio.

Many brands, and in particular premium brands, are likely to consider consolidation after years of expansion. Lee Gardens' ability to attract and retain brands is a testament to our area curation and strong partnerships with our tenants. Apart from our premium brands, Lee Gardens has a portfolio of retail, services and food and beverage outlets offering a range of price points for locals, tourists and different age groups. The diverse range of services, shops and restaurants form the backbone of our vibrant business community. The completion of Lee Garden Three saw local and multinational companies, including global financial institutions, recognize the area's rich offerings set in a vibrant neighbourhood, with the added convenience of Causeway Bay which is a major transport hub. The demand from an increasingly discerning office clientele will continue to drive a broader and more diverse retail offering. This positive and self-sustaining cycle of supply and demand will continue to inspire and power our business. The combination of a balanced portfolio with the synergies generated by the two main segments should help Hysan remain more resilient to unexpected disruptions and impacts.

## Flex Space in Lee Gardens

Flex space or co-work have added youth and cultural diversity to our business platform, further sharpening our retail and service offerings. Although the co-working industry is facing inevitable consolidation and only those with proven business models are expected to survive, we believe this type of business model will remain a major part of the office ecosystem. Causeway Bay, and more specifically Lee Gardens remains an ideal venue for corporate clients and entrepreneurs who require convenience and vibrancy in their work environment in addition to general operational flexibility.

### A Vibrant Community

Lee Gardens is located in the middle of Hong Kong Island's commercial foothills and houses an eclectic mix of low-rise and modern tower blocks. This geographical advantage and its historical nature complement the dual-engine model. The residents, shoppers, workers and businesses form the basis of a community that has grown significantly since Lee Hysan bought the hill, now Lee Gardens, close to a hundred years ago. Over the years, the Company actively carried out asset enhancements, re-developments, neighbourhood curation, and tenant mix changes, as well as community events and activities. Lee Gardens is now a premier destination for all ages and all walks of life, including locals, new Hong Kong migrants, as well as tourists.

At the end of 2019, Hysan unveiled Bizhouse, a concept that combines living and working in a regenerated low-rise building situated in a neighbourhood buzzing with character. Other changes, many in cooperation with nearby landlords and the Lee Gardens Association, have transformed the area's streets into a unique, dynamic and stylish community of old Hong Kong mixed with the latest trends that reflect the needs and interests of today.

Those who come to Lee Gardens to work, play and shop help bring the community to life. Most of our regulars are our long-standing loyalty club members. We are in the process of consolidating our two loyalty programmes into a single platform. This move will ensure that all operations, including a new mobile app, points systems for rewards, and club member communications, will be digital, hence more streamlined and user-friendly. We also look forward to unveiling new facilities for VIP-level club members in Q1 2020.

Throughout 2019, and especially in the second half of the year, we focused our efforts on supporting general shoppers' campaigns by launching strong promotions to help our tenants attract more customers. One of our target groups is children and their parents. A children's academy with a curriculum of life skills classes is in the pipeline. The aim of such an initiative is to form a long-term relationship and connection with youngsters and their families.



## Strengthening Sustainability

Hysan's roots in Causeway Bay can be traced back almost 100 years. Long-term sustainable thinking comes naturally to us. Our stakeholders' demand for sustainability in the community has grown significantly in recent years. Over the past decade, the Group has taken the lead in the construction and operation of green buildings. Our Board has decided to establish a Sustainability Committee to oversee environmental, social and governance issues, supported by the management's Sustainability Executive Committee and Task Force. We are in a good position to further integrate sustainability initiatives with clear and measurable targets into our medium- to long-term plans.

## Dividends

The Board of Directors is pleased to declare a second interim dividend of HK117 cents per share (2018: HK117 cents). Together with the first interim dividend of HK27 cents per share (2018: HK27 cents), the total distribution is HK144 cents per share (2018: HK144 cents). The dividend will be payable in cash.

## Appreciation and Outlook

2019 was an exceptionally challenging year and I would like to give my heartfelt thanks to the management team, as well as our front-line colleagues, for their hard work and dedication. I would also like to thank my fellow board members for their support and advice. My special thanks to Professor Lau Lawrence Juen-Yee, who is stepping down from the Board as an independent non-executive Director upon the conclusion of our annual general meeting in May 2020. I am grateful for his wise counsel and diligent work and for all his contribution to the Board.

Hong Kong's economic outlook in 2020 is clouded by the global headwinds and domestic factors, including the outbreak of COVID-19. Hysan will maintain close working relationships with our tenants and continue our engagement with the local community to navigate through the turbulent times. The Group will also continue to explore opportunities within our core area and beyond.

**Lee Irene Yun-Lien**

*Chairman*

Hong Kong, 20 February 2020