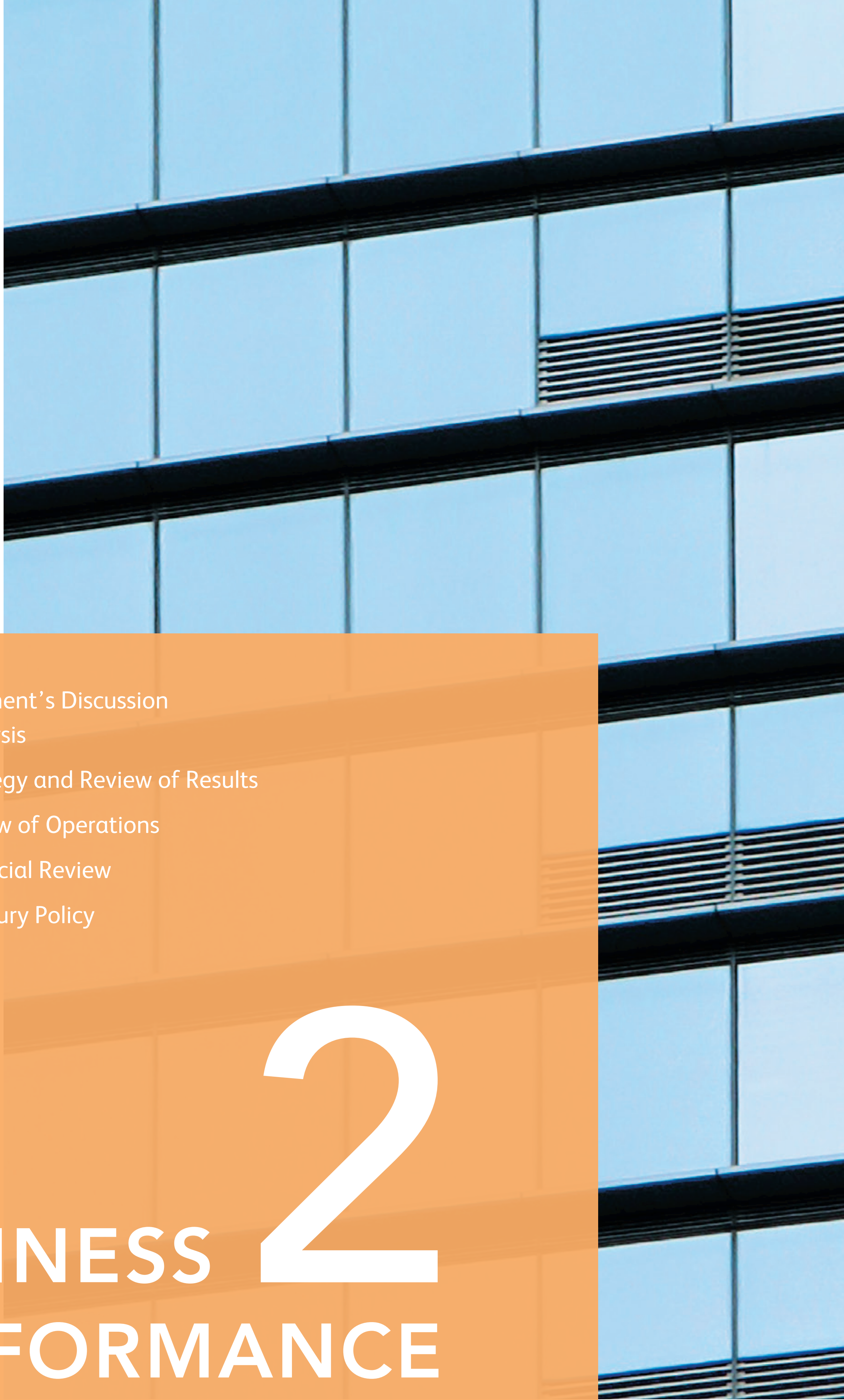

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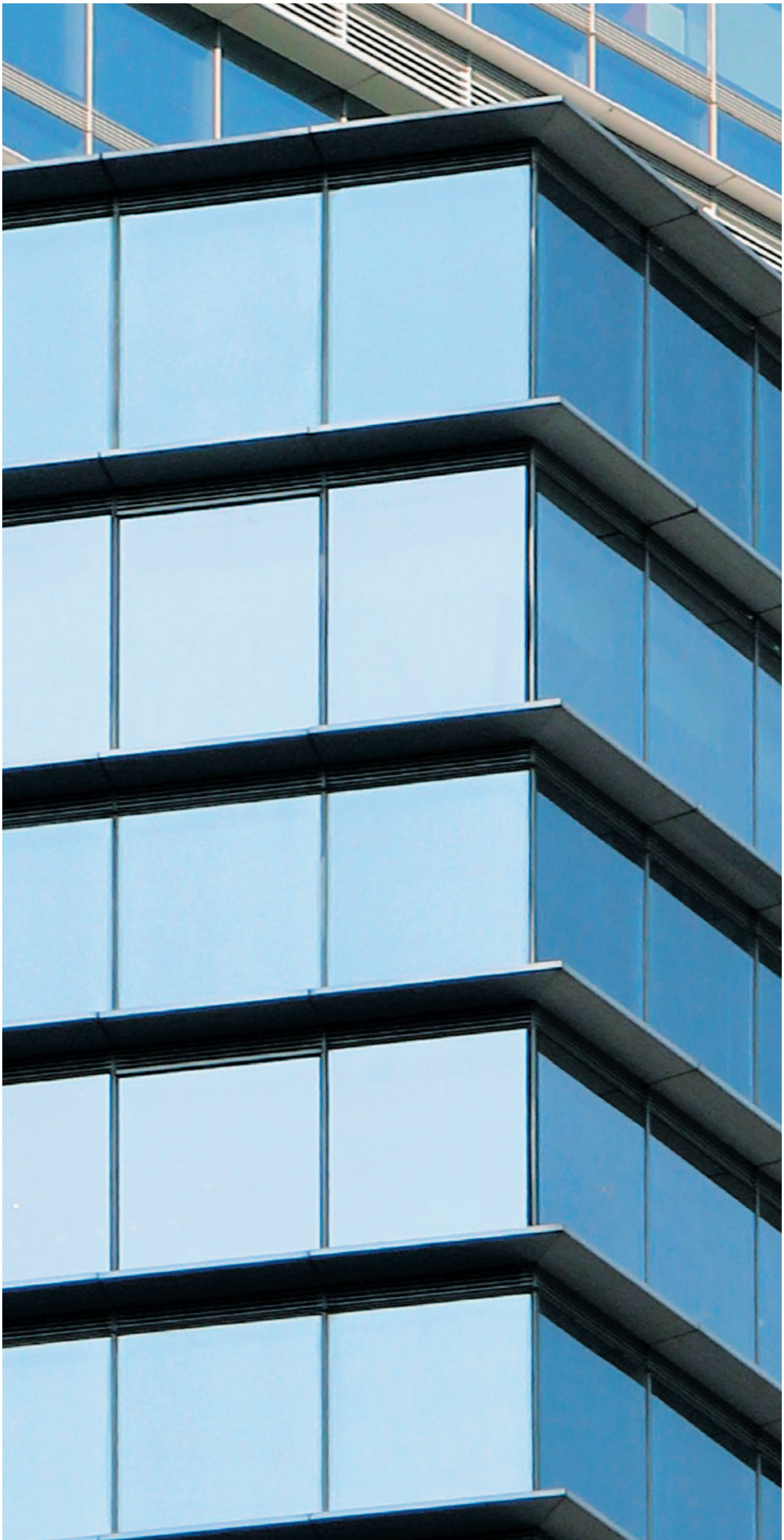
BUSINESS PERFORMANCE



Management's Discussion and Analysis

STRATEGY

Hysan's mission clearly states that the Group strives to provide its stakeholders with sustainable and outstanding returns from its property portfolio, which is located predominantly in Hong Kong's premier commercial district of Causeway Bay. The Lee Gardens area of Causeway Bay is Hysan's home base and will remain the Group's focus. Hysan is also active in seeking other investment opportunities beyond its core geographical area.

Hysan enhances its portfolio's value through asset improvement, repositioning and redevelopment. Due to the nature of its portfolio, Hysan also actively curates the content of the Lee Gardens community for the benefit of the tenants, customers and other stakeholders.

REVIEW OF RESULTS

	2019 HK$ million	2018 HK$ million	Change
Turnover	**3,988**	3,890	+2.5%
Recurring Underlying Profit	**2,587**	2,536	+2.0%
Underlying Profit	**2,587**	2,536	+2.0%
Reported Profit	**4,845**	6,033	-19.7%

The Group's turnover in 2019 was HK$3,988 million, an increase of 2.5% from HK$3,890 million in 2018. These results were mainly attributable to a good performance in the first half of the year partially offset by the impact of strong economic headwinds in the second half of the year.

Recurring Underlying Profit, our key leasing business performance indicator, and Underlying Profit, were both HK$2,587 million in 2019 (both up 2.0% from HK$2,536 million in 2018), reflecting positive rental reversion from our portfolio. Basic earnings per share based on Recurring Underlying Profit was HK247 cents (2018: HK242 cents), up 2.1%.

The Group's Reported Profit for 2019 was HK$4,845 million (2018: HK$6,033 million). This included a fair value gain on the Group's investment properties' valuation of HK$792 million (2018: HK$3,532 million) and the share of fair value gain of investment properties on our investment in associates of HK$1,528 million (2018: HK$96 million). These fair value gains reflected the rental outlook after taking into consideration (i) the completion of asset enhancement projects and (ii) economic outlook.

As at 31 December 2019, the valuation of the Group's investment property portfolio in Hong Kong increased by 2.2% to HK$79,116 million (2018: HK$77,442 million). The capitalization rates used in valuing each portfolio remained unchanged from those used as at 31 December 2018.

REVIEW OF OPERATIONS

Hysan's property portfolio is comprised of three sectors: retail, office and residential. The total floor area of the entire portfolio is approximately 4.5 million square feet. Around 55% of the Group's investment portfolio by gross floor area were office properties, while around 30% were retail properties as at 31 December 2019. These properties are located in Lee Gardens, Causeway Bay. Approximately 15% were residential properties, mainly represented by Bamboo Grove in Mid-Levels.

The turnover of each sector is shown as below:

				Contribution to Turnover	
	2019 HK$ million	2018 HK$ million	Change	**2019**	2018
Office sector	**1,833**	1,688	+8.6%	**46%**	43%
Retail sector	**1,836**	1,923	-4.5%	**46%**	50%
Residential sector	**319**	279	+14.3%	**8%**	7%
	3,988	3,890	+2.5%	**100%**	100%

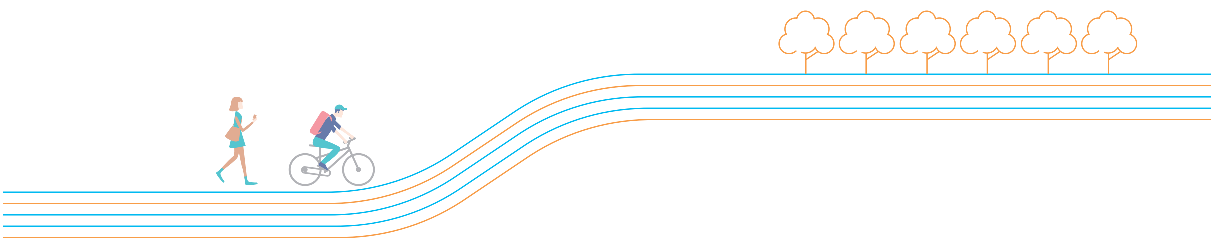
The office sector now contributes around the same amount to the overall portfolio turnover as the retail sector. Office contribution grew significantly in 2018 after the completion of Lee Garden Three, a predominantly office building. The office sector achieved healthy positive rental reversion in 2019.

Key Performance Indicators

The Group's turnover growth and occupancy rate are the key measurements used for assessment of our core leasing business performance. Cost effectiveness is assessed by the Group's management using the property expenses ratio (as a percentage of turnover).

		Business Performance		
Key Performance Indicators	Definition	Portfolio	**2019**	2018
Turnover Growth	Rental revenue in current year vs that in last year	Office Retail Residential	**+8.6%** **-4.5%** **+14.3%**	+24.2% -0.1% +5.7%
Occupancy Rate	Percentage of total lettable area leased / total lettable area of each portfolio at year end	Office Retail Residential	**98%** **96%** **87%**	97% 98% 88%
Property Expenses Ratio	Property expenses divided by turnover	N/A	**13.4%**	13.4%

Note: No changes have been made to the source data or calculation methods used when compared to 2018.

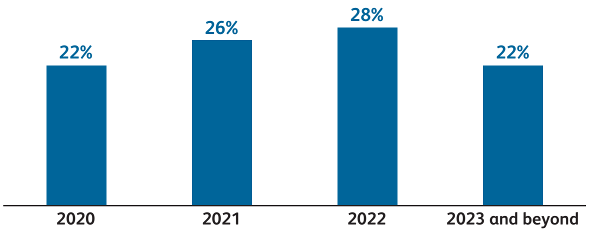


Office Portfolio

The Group's office portfolio turnover rose 8.6% to HK$1,833 million (2018: HK$1,688 million), including turnover rent of HK$7 million (2018: nil). The office portfolio's occupancy was 98% as at 31 December 2019 (31 December 2018: 97%).

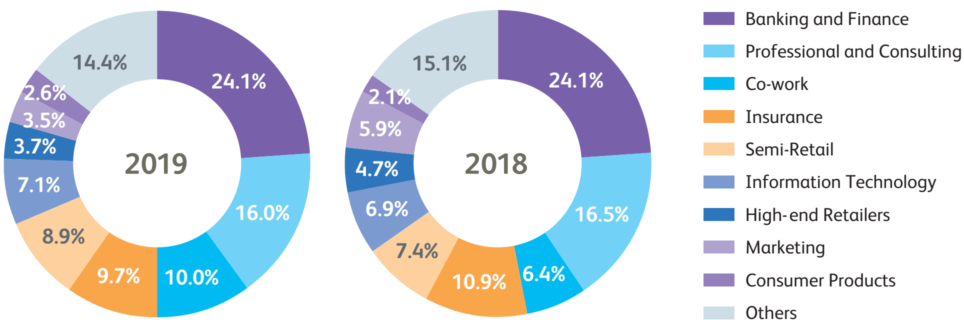
This performance reflected overall positive rental reversion on renewals, rent review, new lettings, and full-year contributions from Lee Garden Three.

Office Lease Expiry Profile by Area Occupied (As at 31 December 2019)



With the addition of Lee Garden Three, Banking and Finance has become the largest tenant sector, accounting for almost 25% of area occupied within the office portfolio. Although Professional and Consulting remained the second largest tenant sector in area used, Co-work/flex spaces overtook Insurance as the third largest sector during the year. Shared workspace as a flexible option, both for major corporations and also for entrepreneurial entities, is more necessary than ever during times of economic uncertainty and modern shared economy. We believe that we have allocated the right amount of space for this sector, attracting millennial users whose lifestyle needs will continue to help refine our retail tenant mix. Being familiar with the full range of facilities and services in the Lee Gardens community, these flex space users also rate our office space highly when they come to consider a larger and more permanent office space.

Office Tenant Profile by Area Occupied as at Year-end

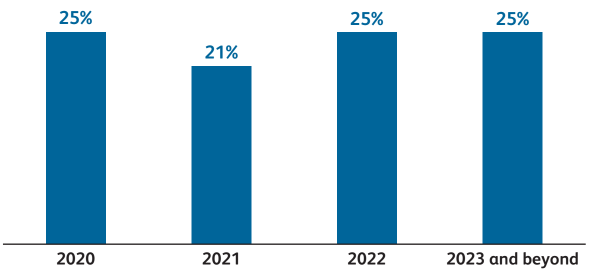


Retail Portfolio

The Group's retail portfolio turnover decreased by 4.5% to HK$1,836 million (2018: HK$1,923 million), including turnover rent contribution of HK$66 million (2018: HK$81 million). The portfolio's occupancy was 96%, as at 31 December 2019 (31 December 2018: 98%).

In the second half of 2019, shopping mall operations in Hong Kong were intermittently disrupted by various social events. The estimated drop in Hysan's overall tenant sales year-on-year was on par with the decline of Hong Kong's overall retail sales. Hysan's overall rental reversion in renewals, rent review and new lettings remained positive in 2019.

Retail Lease Expiry Profile by Area Occupied (As at 31 December 2019)



During the year, as a result of continual tenant mix curation, 35 new brands were added and 27 shops were refreshed with a new design. This reflected our efforts to tackle the structural changes in the retail sector.

Residential Portfolio

The residential portfolio comprises mainly units in Kennedy Road's Bamboo Grove. The sector saw an increase of 14.3% in turnover to HK$319 million (2018: HK$279 million). The occupancy of the sector was at 87% as at 31 December 2019 (31 December 2018: 88%). A range of Bamboo Grove units were renovated, including penthouses, which were all well received by the market. Lobby renovations were completed in 2019, further enhancing the buildings' desirability. Lift modernization works were also ongoing.

The rental reversion was overall positive in renewals, rent review and new lettings in this sector.

Tai Po Luxury Residential Project

The major design of Tai Po Residential Development including the architecture, structure, building services, and typical interior design has been completed. Landscape and clubhouse design are making good progress. Foundation and basement works are largely completed, and superstructure works have started recently. Construction work is expected to complete in 2021, subject to government approval.

Loyalty Clubs and Marketing Events

Our loyalty club, Lee Gardens Plus, has changed its name to Lee Gardens Club, in anticipation of an integration with our VIP club, Club Avenue, into a single operating platform in 2020. There will be points-earning features for members of all levels. In conjunction with the forthcoming integration, a new Lee Gardens Club app was launched in October 2019. We also unveiled the Electronic Gift Coupon (EGC) system, which essentially replaced old-fashioned paper coupons. More than 20,000 transactions were conducted using EGCs, providing a successful multiplier effect for our retail tenants.

More than 160 marketing events were conducted in collaboration with tenants in 2019, representing around a 25% growth from the year before. A number of these events were unique, being either the Hong Kong-leg of global events, or first-time-in-Hong Kong shows or pop-ups. The themes ranged from digital "retailtainment" to health and lifestyle and festive offerings.

Business Technology Applications

In addition to the Lee Gardens Club app and the EGC launch, our social media activities also gained traction, with double and triple digit percentage growth in our WeChat and Instagram followers respectively. This combination of customer relationship channels helped us learn more about our customers' individual preferences, hobbies and interests. Our area-wide Wifi and IoT also provided a picture of the demographics of our visitors, as well as the traffic patterns of their visits. We are devoting more resources and efforts to gain greater insight into these trends so that we can improve foresight and planning for our operations. In 2020, we plan to further use data analytics and AI, as well as other platforms, to strengthen our understanding of the world of digital economy. Our ultimate business technology aims are to improve operational efficiency, make data-driven decisions, and create value, with strong consideration given to data privacy.

Community Activities

Hysan continues to play a significant role in the development of the Causeway Bay community in general, and the Lee Gardens community in particular. Our model focuses on curating a community that is authentic, sustainable, engaging, and technologically-minded. Arts and culture, health and wellness, families and children, as well as living and working are among our major themes.

Although some of the higher profile area-wide events in 2019 had to be cancelled or postponed due to safety and traffic concerns caused by social conflicts, Hysan still supported Lee Gardens Association in hosting several major street events during the year, entertaining tens of thousands with games and performances. The brand new Urban Sky also became a popular venue for arts and culture events at Hysan Place. Hysan's Art Programme, curated by our management trainees who are mentored by our project and design teams, made its debut with artwork adorning Hysan Place and Lee Garden One. Towards the end of the year, Bizhouse at Pak Sha Road unveiled the concept of combined living and working in comfortable Causeway Bay spaces. For details about these and other community activities and projects supported by Hysan in 2019, please refer to our Sustainability Report.

FINANCIAL REVIEW

A review of the Group's results and operations is featured in the preceding sections. This section deals with other significant financial matters.

Operating Costs

The Group's operating costs are generally classified as property expenses (direct costs and front-line staff wages and benefits) and administrative expenses (indirect costs largely representing payroll related costs of management and head office staff).

The Group's operating costs to turnover ratio increased from 19.3% in 2018 to 20.2% in 2019, largely reflecting the full operation of Lee Garden Three during the year.

Finance Costs

Finance costs increased to HK$313 million, compared to HK$222 million in 2018, mainly due to additional borrowings during the year. The effective interest rate for the year was 3.4%, which is the same as 2018.

Further discussion of the Group's treasury policy, including debt and interest rate management, is set out in the "Treasury Policy" section.

Revaluation of Investment Properties

As at 31 December 2019, the Group's investment real estate portfolio was valued at HK$79,116 million, an increase of 2.2% from HK$77,442 million as at 31 December 2018. This valuation was carried out by Knight Frank, an independent professional valuer, on the basis of open market value. The capitalization rates used in valuing each portfolio remained unchanged from those used as at 31 December 2018.

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK$792 million (2018: HK$3,532 million) was recognized in the Group's consolidated statement of profit or loss for the year. This reflected the rental outlook after the completion of a number of asset enhancement works, but taking into account Hong Kong's economic uncertainties.

The following shows the property valuation of each portfolio at year-end.

	2019 HK$ million	2018 HK$ million	Change
Office	**35,498**	34,159	+3.9%
Retail	**35,059**	35,102	-0.1%
Residential	**8,559**	8,181	+4.6%
	79,116	77,442	+2.2%

Investments in Associates and a Joint Venture

The Group's investments in associates mainly represent its interest in Shanghai Grand Gateway, a retail, office and residential complex, in Shanghai, China. The share of results of associates increased significantly to HK$1,733 million (2018: HK$288 million), mainly due to the Group's share of the revaluation gain (net of deferred tax) amounting to HK$1,528 million (2018: HK$96 million). The properties at Shanghai Grand Gateway were revalued at fair value by an independent professional valuer for both the years ended 31 December 2018 and 2019.

The Group's investment in a joint venture represents interests in a Tai Po residential project. The increase in carrying value represents costs incurred by the project in 2019.

Bank Deposits and Other Investments

In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in investment grade debt securities.

Excluding recognition of imputed interest income on an interest-free loan to a joint venture company for a residential site development in Tai Po of HK$30 million (2018: HK$29 million), like-for-like interest income increased by 153.1% to HK$124 million (2018: HK$49 million). This increase mainly reflected higher bank deposit balances.

The Group also extended its investments beyond its core geographical area and businesses. As at 31 December 2019, these investments totalled HK$601 million (2018: HK$294 million) expanding our reach to other areas in Asia with a view to generating new sources of income and capital.

Cash Flow

Cash flow of the Group during the year is summarized below. Cash includes liquid cash and bank deposits with less than 3 months' tenor.

	2019 HK$ million	2018 HK$ million	Change
Cash generated from operations	**3,300**	3,224	+2.4%
Net advance to a joint venture company	**–**	(56)	n/m
Net borrowing	**6,287**	46	n/m
Bank deposits and other investments	**(5,065)**	211	n/m
Interest and taxation	**(316)**	(636)	-50.3%
Dividends paid and proceeds on exercise of options	**(1,630)**	(1,551)	+5.1%
Considerations for share repurchases	**(92)**	–	n/m
Capital expenditure	**(956)**	(1,203)	-20.5%
Net cash inflow	**1,528**	35	n/m

n/m: not meaningful

The Group's net cash generated from operations was HK$3,300 million (2018: HK$3,224 million), HK$76 million higher than that in 2018, reflecting the stable cash flow from our core leasing business.

Net advance to a joint venture company in 2018 amounted to HK$56 million was related to the residential site development in Tai Po.

Net borrowings amounted to HK$6,287 million, reflecting net borrowings of fixed rate notes and bank loans totalling of HK$6,290 million, as well as repayment to the non-controlling interest of a subsidiary during the year. In 2018, net borrowings were HK$46 million for the year.

Cash used in bank deposits and other investments was HK$5,065 million (2018: cash from bank deposits and other investments: HK$211 million), mainly attributable to additional deposits with a longer tenor.

The Group paid dividends of HK$1,507 million (2018: HK$1,444 million), being the 2018 second interim dividend of HK117 cents per share (2018: HK111 cents) and the 2019 first interim dividend of HK27 cents per share (2018: HK27 cents).

During the year, the Group repurchased 3 million of its own shares which would further enhance shareholders' value with an aggregate consideration of HK$92 million.

Capital Expenditure and Management

The Group is committed to enhancing the asset value of our investment property portfolio through selective asset enhancement and redevelopment. The Group has also established a portfolio-wide whole-life cycle maintenance programme as part of our ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK$956 million (2018: HK$1,203 million), including payment of the construction costs of Lee Garden Three.

TREASURY POLICY

Market Highlights

The global economy in 2019 was impacted by the U.S.-China trade tensions. The Hong Kong stock market followed global market trends and performed well in the first half of the year. However, as social conflicts became increasingly frequent from mid-June onwards, the Hong Kong stock market fell around 20% from its peak in April, reaching a trough in mid-August. The market remained volatile for the rest of the year.

In view of the relatively low inflation rate and in order to sustain the expansion of economic activity, the U.S. Federal Reserve cut the federal fund rate three times, amounting to a total of 75bps for the whole of 2019. The U.S. Federal Reserve believes that its policy is currently in a "good place" and likely to remain the same as long as current conditions persist. The "dot plot" shows little chance of a rate cut or increase in 2020.

The Hong Kong Dollar ("HKD") HIBOR rose sharply in the first half of 2019 and remained relatively high in the second half due to mega IPOs and the HKD HIBOR rising above United States Dollar ("USD") LIBOR. The 3-month HKD HIBOR decreased from 2.3% at the end of 2018 to around 1.5% at the end of February 2019, and then climbed to around 2.6% at the beginning of July, remaining high for the rest of the year. Despite the increase in the HKD HIBOR, the Hong Kong bank loans market continued to have ample liquidity. The credit margin of bank loans for companies with investment grade credit ratings slightly increased.

With uncertainties both in the macro and domestic environment, the Hong Kong economy declined notably in 2019. Private consumption and fixed investment in Hong Kong shrank from 2018 levels, while exports were also markedly down. With the continued uncertainty in the global financial markets and its impact on the economy, it is important for the Group to maintain our policy of prudent financial management.

Capital Structure Management

To ensure a healthy financial position and a suitable capital structure servicing its financing needs and sustainable growth, the Group always strives to diversify its funding sources, and to maintain an appropriate debt maturity profile relative to the overall use of funds. The Group also aims to maintain adequate liquidity, keep a low borrowing margin relative to market conditions, and adopt suitable hedging and forex management strategies.

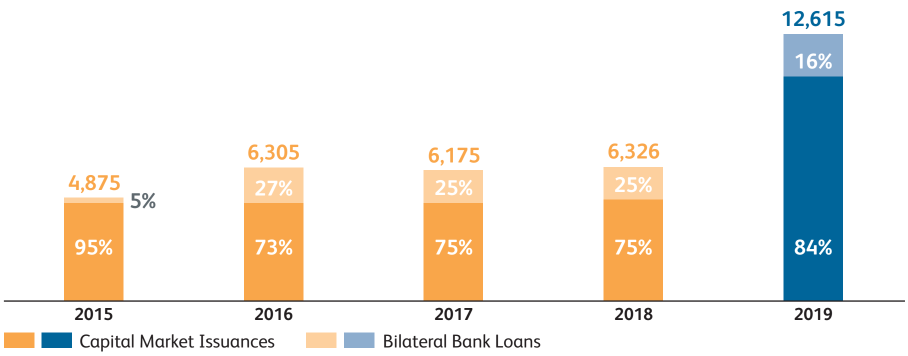
Funding Source

During the year, the Group issued new medium term notes of HK$2,200 million and US$500 million, and repaid HK$300 million maturing note. The Group also drew down US$60 million bank loan. The Group's outstanding gross debt[1] was HK$12,615 million (2018: HK$6,326 million) at year-end 2019. All the outstanding borrowings are on an unsecured basis.

As at 31 December 2019, the proportion of debts sourced from the capital market increased to 84% (2018: 75%). The Group continued to maintain long-term relationships with a number of local and overseas banks in order to diversify funding sources. At the end of 2019, thirteen local and overseas banks provided bilateral banking facilities to the Group as funding alternatives.

The following graph shows the percentages of total outstanding gross debts sourced from banks and the debt capital markets in the past five years.

Sources of Financing at Year-end (HK$ milion)



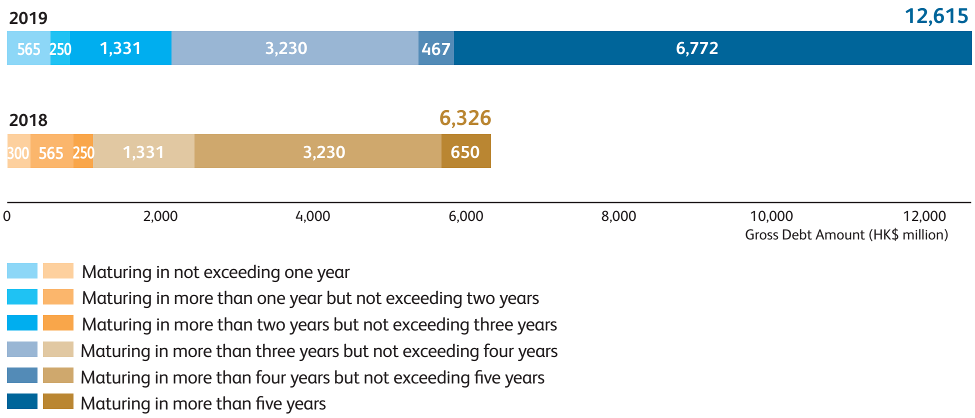
The Group strives to maintain an appropriate debt maturity profile to match with the nature of our assets and operations. As at 31 December 2019, the average maturity of debt portfolio was about 6.6 years (2018: 3.9 years), of which about HK$565 million or 4.5% of the outstanding gross debt will be due in 2020. Given our strong cash balance, debt repayment will not result in significant immediate refinancing pressure.

1. The gross debt represents the contractual principal payment obligations as at 31 December 2019. However, in accordance with the Group's accounting policies, the debt is measured at amortised costs, using the effective interest method. As disclosed in the consolidated statement of financial position as at 31 December 2019, the book value of the outstanding debt of the Group was HK$12,529 million (31 December 2018: HK$6,322 million).

Maturity Profile

The graph below shows the debt maturity profile of the Group as at 31 December 2019 and 2018.

Debt Maturity Profile at 2019 and 2018 Year-end

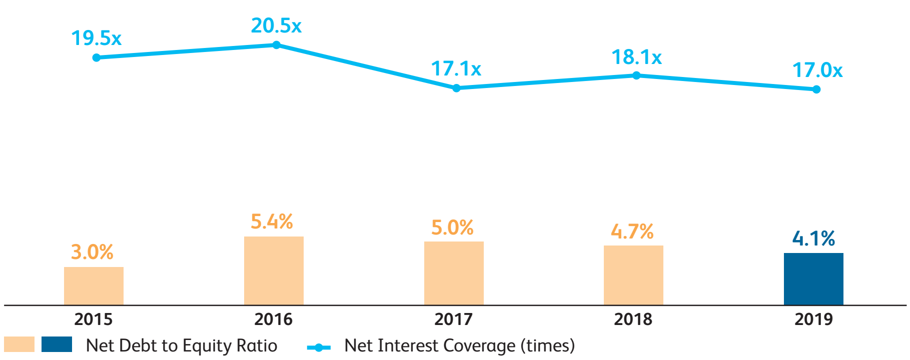


Gearing ratio and net interest coverage

The Group's gearing ratio, as measured by Net Debt to Equity ratio[1], decreased slightly from 4.7% at the end of 2018 to 4.1% at the end of 2019, because of the increase in equity attributable to owners of the Company from HK$74 billion at the end of 2018 to HK$78 billion at the end of 2019 driven by the increase in fair value of investment properties. The Group's Net Interest Coverage[2] decreased to 17.0 times for 2019 (2018: 18.1 times) due to the increase in the total debt level. The low gearing and strong ability to meet interest payments reflected the Group's resilience and capability to raise further debt for new investments and projects, if necessary.

The graph below shows the level of leverage and our ability to meet interest payment obligations over the past five years.

Net Debt to Equity Rato and Net Interest Coverage at Year-end



1. Net Debt to Equity ratio is defined as borrowings less time deposits, cash and cash equivalents divided by shareholders' funds.

2. Net Interest Coverage is defined as gross profit less administrative expense before depreciation divided by net interest expense.

Credit Rating

The Group aims at maintaining investment-grade credit ratings to ensure a stable and lower cost of financing, and to reflect our prudent financial management strategy. During the year, the Group maintained its credit ratings, reflecting the Group's strong financial position.

	2019	2018
Moody's	**A3**	A3
Fitch	**A-**	A-
Standard and Poor's	**BBB+**	BBB+

Liquidity Management

As at 31 December 2019, the Group had cash and bank deposits totalling about HK$9,332 million (2018: HK$2,817 million). In order to preserve liquidity and enhance interest yields, the Group invested HK$172 million (2018: HK$227 million) in debt securities.

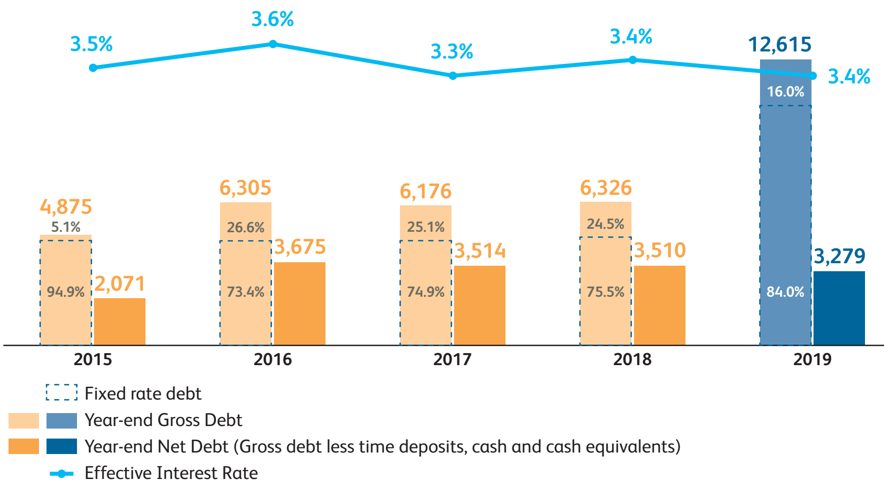
Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, amounted to HK$3,250 million at the end of 2019 (2018: HK$950 million), essentially allowing the Group to obtain additional liquidity as the need arises.

Interest Rate Management

The fixed rate debt ratio increased to 84% at the end 2019 from 75% at the end of 2018. As the interest rate movements become more uncertain, we believe the current fixed rate debt ratio will enable us to manage the impact from interest rate fluctuations.

The diagram below shows the fixed rate debt and floating rate debt portions in the past five years.

Debt Level and Effective Interest Rate



Foreign Exchange Management

The Group aims to achieve minimal currency exposure and does not speculate in currency movements for asset and liability management. All of the Group's borrowings were denominated in HKD with the exception of certain fixed rate notes and a bank loan denominated in USD.

For the US$300 million fixed rate notes issued in January 2013 and US$500 million fixed rate notes issued in September 2019, hedges were entered to effectively convert the borrowings into HKD. A USD bank loan had also been drawn down as a natural hedge against the Group's outstanding foreign currency balances in cash, time deposits, debt securities and other financial investments amounting to US$136 million (2018: US$88 million).

Other foreign exchange exposure mainly relates to investment in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent to HK$5,199 million (2018: HK$3,715 million) or 5.4% (2018: 4.3%) of total assets.

Use of Derivatives

As at 31 December 2019, outstanding derivatives were all related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used to manage volatilities or to adjust the appropriate risk profile of the Group's treasury assets and liabilities.

Counterparty Credit Risk

All the deposits are placed with banks with strong credit ratings and the counterparty risk is controlled via prescribed limits and is monitored on a regular basis.

Before entering into any hedging transaction, the Group will ensure that its counterparty possesses strong investment-grade ratings to control credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty, which basically reflects the credit quality of the counterparty.