Management's Discussion and Analysis

STRATEGY

In line with our clearly stated mission, Hysan strives to provide stakeholders with strong and sustainable returns from our property portfolio, which is predominantly located in Hong Kong's premier commercial district of Causeway Bay. We will continue to maintain a strategic focus on the Lee Gardens area of Causeway Bay, our primary base, while actively seeking other investment opportunities beyond our core geographical footprint.

Hysan enhances portfolio value through asset improvement, repositioning and redevelopment. Given the nature of our portfolio, the Group also actively curates the content of the Lee Gardens community for the benefit of tenants, customers and other stakeholders.

REVIEW OF RESULTS

The Group's turnover in 2020 was HK$3,710 million, down 7.0% from HK$3,988 million in 2019 with the impact of COVID-19 affecting all our three business sectors. Against this backdrop, as at 31 December 2020, the occupancy rates of our office portfolio and retail portfolio were 95% and 96% respectively. The residential portfolio's occupancy rate was 74%.

Both Recurring Underlying Profit (our key leasing business performance indicator) and Underlying Profit declined by 7.3% to HK$2,398 million (2019: HK$2,587 million).

The Group recorded a Reported Loss of HK$2,547 million in 2020 as compared with a Reported Profit of HK$4,845 million in 2019, mainly due to fair value changes of investment properties of the Group and its associates between two years. More details regarding the fair value change are presented in the section "Financial Review – Revaluation of Investment Properties" and "Financial Review – Investments in Associates and a Joint Venture".

Shareholders' fund was HK$73,680 million as at 31 December 2020 (2019 : HK$77,650 million). The reconciliation of Recurring Underlying Profit, Underlying Profit and Reported (Loss) Profit is as follows:

	2020 HK$ million	2019 HK$ million
Reported (loss) profit	**(2,547)**	4,845
Change in fair value of investment properties	**4,903**	(792)
Share of change in fair value of investment properties (net of deferred taxation) of associates	**12**	(1,528)
Effect of other non-controlling interests' shares	**(223)**	102
Imputed interest income on interest-free loan to a joint venture	**(30)**	(30)
Other gains and losses	**(5)**	(10)
Profit attributable to perpetual capital securities holders	**288**	–
Recurring Underlying Profit/Underlying Profit	**2,398**	2,587

Taking advantage of a low interest rate environment with ample market liquidity, the Group secured new funding from diversified sources including the issuance of perpetual securities and medium-term notes and drawdown of bank loans. The new funding strengthened our balance sheet and provides a solid foundation for the Group to pursue potential investment opportunities and strategic growth initiatives.

REVIEW OF OPERATIONS

Hysan's investment property portfolio comprises three sectors – office, retail and residential – covering a total floor area of approximately 4.5 million square feet. As at 31 December 2020, office properties made up around 55% of the Group's investment portfolio by gross floor area, with retail properties accounting for around 30%. These properties are located in Lee Gardens, Causeway Bay. Approximately 15% of the Group's portfolio consists of residential properties, which are mainly units in Bamboo Grove, Mid-Levels.

The turnover of each sector is shown as below:

Sector	**2020 HK$ million**	2019 HK$ million	Change
Office	**1,814**	1,833	-1.0%
Retail	**1,600**	1,836	-12.9%
Residential	**296**	319	-7.2%
	3,710	3,988	-7.0%

While COVID-19 took its toll and led to a turnover decrease of 12.9% of our retail sector, our office sector was relatively more resilient and reported a turnover decline of 1.0%. Turnover of the residential sector dropped by 7.2% mainly due to limited expatriate demands.

Key Performance Indicators

The Group's turnover growth and occupancy rate are the key measurements used for the 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	Sector	**2020**	2019
Turnover Growth	Rental revenue in current year vs that in last year	Office Retail Residential	**-1.0%** **-12.9%** **-7.2%**	+8.6% -4.5% +14.3%
Occupancy Rate	Percentage of total lettable area leased / total lettable area of each portfolio at year end	Office Retail Residential	**95%** **96%** **74%**	98% 96% 87%
Property Expenses Ratio	Property expenses divided by turnover	N/A	**13.2%**	13.4%

Note: No changes have been made to the source data or calculation methods used when compared to 2019.

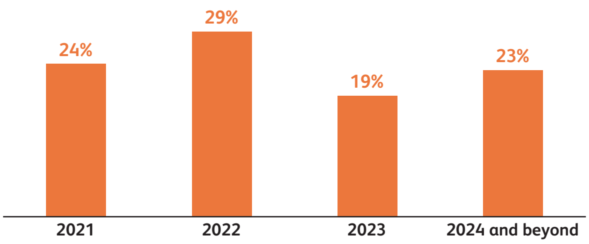
Office

Turnover of the Group's office portfolio experienced a decline of 1.0% to HK$1,814 million (2019: HK$1,833 million), including turnover rent of HK$7 million (2019: HK$7 million).

COVID-19 adversely affected Hong Kong's office rental market during the period under review, with negative net absorption standing at over 2.7 million square feet at the end of 2020. Amid the uncertainties brought about by COVID-19, demand on office space from "new economy" firms remained relatively resilient.

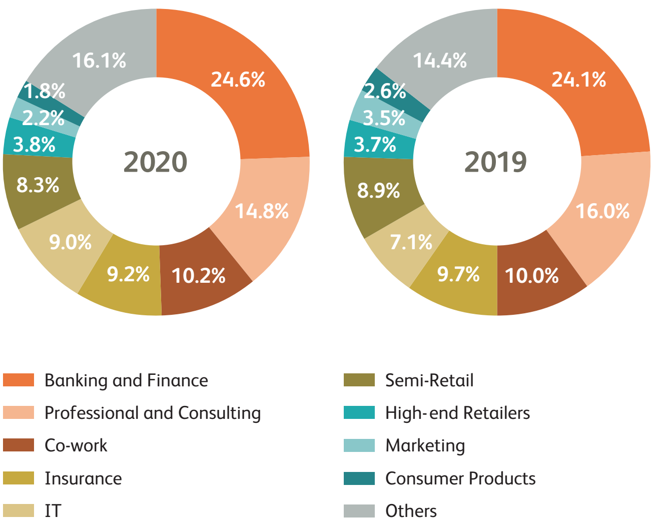
The overall rental reversion rate on renewals, rent review and new letting, while remaining positive, was narrowing as compared to that of 2019. The portfolio recorded an occupancy rate of 95% as at 31 December 2020 (31 December 2019: 98%).

Office Lease Expiry Profile by Area Occupied (As at 31 December 2020)



The office tenants profile remained stable with Banking and Finance, Professional and Consulting and Co-work accounting for approximately 50% of our occupied floor area while the IT sector's proportion of our office portfolio increased from 7% to 9% in 2020.

Office Tenant Profile by Area Occupied as at Year-end



"We continue to see a wide variety of companies in Hong Kong accelerating their hybrid workplace approach as a result of the pandemic. Two of IWG's locations are with Hysan in Lee Garden Three and Hysan Place at Causeway Bay, where we have seen a vast pick up on demand. IWG launched Signature at Hysan Place in August 2020 and its addition enabled us to continue supporting companies in rethinking their real estate strategies through flexible workspace.

Hysan is a forward thinking developer with great buildings and amenities. Our partnership has strengthened during 2020 by working together to add quality flexible workspace which is now an essential amenity to companies."

Paul MacAndrew

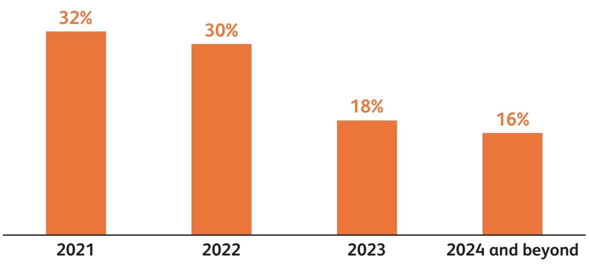
Country Manager, HK & Singapore
IWG plc

Retail

Turnover of the Group's retail portfolio decreased by 12.9% to HK$1,600 million (2019: HK$1,836 million), including turnover rent contribution of HK$44 million (2019: HK$66 million). The occupancy rate was 96% as at 31 December 2020 (31 December 2019: 96%).

Recurring waves of the COVID-19 pandemic caused significant disruption to Hong Kong's retail sector throughout 2020 with retailers that traditionally benefit from overseas and mainland visitors suffered the most. Multi-faceted support ranging from rental assistance to marketing initiatives was provided to our tenants. The overall rental reversion rate on renewals, rent review and new letting was negative in 2020.

Retail Lease Expiry Profile by Area Occupied (As at 31 December 2020)



"Hysan truly views tenants as their business partners. Upon the outbreak of COVID-19 in Hong Kong, we received a call from their leasing team to understand more about our difficulties. At that point, we did not realise the extent of the challenges F&B operators would have to face in 2020, with limitations on the opening hours and the number of customers within the restaurants. Throughout the year, Hysan worked closely with us to ensure a safe environment for our customers. Their enhanced cleaning and sanitizing measures at the mall clearly benefitted us in building customer confidence and traffic. Hysan also offered rental assistance to us and their marketing programmes like e-coupons further gave us a helping hand in securing more business.

The Hysan team demonstrated their professionalism right from the start at the handing over of the shop space and we saw this shine even further during the virus-hit year. We are more than happy to remain Hysan's partner in the foreseeable future."

Kent Wong

Chairman, Taste • Gourmet Group
(operating Nabe Urawa at Hysan Place)

Marketing Initiatives and Loyalty Programmes

In our marketing activities during 2020, we made effective use of digital technology in order to respond swiftly to changes in the retail model caused by COVID-19 as well as to meet new-generation customer expectations. Following the success of the "Power Up" campaign in the first half of the year, we launched further e-Shop and e-Gift initiatives. Together, these activities helped us to leverage our online marketing efforts in order to increase offline spending and expand sales channels for our retail tenants.

Throughout the year, we continued to collaborate closely with tenants and third parties to host popular themed promotional events and campaigns. In addition, the new Club Avenue lounge at Lee Garden One has become a favoured shopping-break destination among our VIPs for its blend of luxury and convenience.

"Throughout COVID, many people avoid going out and I have been one of them. Fortunately, I live only 10 minutes away from Lee Gardens which has ample anti-virus measures. They make me feel safe shopping around the portfolio. With the sales people from my favourite brands plus the Lee Gardens App tempting me with attractive offers, as well as great outdoor restaurants for lunch or tea with friends, there is no reason why I should not come to shop and relieve my boredom!

I recently joined an international brand's launch event at the Club Avenue Lounge and really appreciated the effort made to keep the guests safe. Members still enjoyed the latest shopping information via a mini show and had plenty of personal space during fitting to try on items. It was a smart way to cope with COVID and the thoughtful details ensure I will continue to frequent Lee Gardens as a shopping and leisure destination."

Nancy Chan
Member
Lee Gardens Club Avenue

Residential

The residential portfolio mainly comprises units in Bamboo Grove, an apartment complex on Kennedy Road in the Mid-Levels. The sector experienced a 7.2% drop in turnover to HK$296 million during the year (2019: HK$319 million). Occupancy stood at 74% as at 31 December 2020 (31 December 2019: 87%).

In 2020, Hong Kong's high-end residential rental market was negatively impacted by COVID-related travel restrictions and a sharp decline in incoming expatriate workers. Hysan's residential portfolio was similarly affected. During this challenging period, we enhanced our services and completed Bamboo Grove's lift modernization programme.

Overall rental reversion in this sector was flat with regard to renewals, rent review and new lettings.

Property Development – Tai Po Luxury Residential Project

Good progress was made on the construction of this project, with a targeted completion date by the end of 2021 or early 2022. A sales strategy is also being developed, based on a target sales launch by the end of 2021 or early 2022.

Applying Business Technology

In 2020, we adopted further innovations in business technology to enhance our services for shoppers and guests. These included improvements in our customer relationship management system, the roll-out of touchless parking, and optimization of e-coupon features. We also expect to launch an enhanced e-Shop this year.

Behind the scenes, we have enriched our big data lake in order to equip ourselves better for making data-driven decisions and also strengthened data security and privacy controls. In addition, workflow digitalization, robotic process automation and e-billing have further increased efficiency in our office operations and facilitated mobile office practices.

Sustainability and Community Activities

Health, wellness and safety remained the top priority throughout 2020 as COVID-19 continued to affect the community. Hysan responded quickly with infection-preventing hardware and other measures from the first months of the pandemic, which included stepping up our intensive cleaning and disinfection regime whenever cases were discovered on-site. We also maintained clear communication with tenants and customers and provided regular updates to our stakeholders. Throughout the year we remained vigilant, constantly upgrading our hygienic and preventive methods in order to avert new virus outbreaks.

Changes in venue and social distancing regulations made it difficult to host community activities during the year. Nevertheless, Hysan managed to launch the Xplore children's academy, which provides a range of inspiring offline and online classes while complying with social distancing rules and stringent precautionary measures. We also supported the disCONNECT exhibition and unveiled massive wall murals, both of which received great acclaim. Our GreenFest event, which promotes sustainability among the younger generation, achieved strong international exposure by moving to an online platform.

"2020 was a year of challenges, but our evolution from Information Technology to Business Technology has equipped us well to adapt to changes. In the past year, apart from enhancing the digital infrastructure, we launched a host of client-facing tech-based solutions which were well-received by the users. As a member of our tightly-knit Business Technology team, I look forward to helping Hysan become more efficient and productive, and improving the portfolio for everyone to better enjoy."

Dorothy Yeung
Senior Manager, Business Technology
Hysan Development

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 comprising payroll related costs of management and head office staff).

The Group's operating costs to turnover ratio was 20.4% (2019: 20.2%).

Finance Costs

Finance costs increased to HK$546 million, as compared with HK$313 million in 2019, as the Group secured new funding for potential investment opportunities and strengthened its balance sheet. The Group raised approximately HK$7 billion from new issuance via its MTN programme in 2020, taking advantage of ample market liquidity and a low interest rate environment. During 2020, finance costs related to such funding exercises amounted to HK$313 million (2019: HK$83 million). The effective interest rate for the year was 3.0%, as compared with 3.4% in 2019.

During the year, the Group also issued subordinated perpetual capital securities of US$850 million at 4.10% distribution rate and senior perpetual capital securities of US$500 million at 4.85% distribution rate. Proceeds from the issuances were treated as equity in the Consolidated Statement of Financial Position while the distributions were treated as equity distribution in the Consolidated Statement of Changes in Equity.

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

Revaluation of Investment Properties

As at 31 December 2020, the Group's investment real estate portfolio was valued at HK$74,993 million, a decrease of 5.2% from the HK$79,116 million recorded at the prior year-end. The valuation was carried out by Knight Frank Petty Limited, an independent professional valuer, on the basis of market value.

A fair value loss on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK$4,903 million (2019: fair value gain of HK$792 million) was recognized in the Group's consolidated statement of profit or loss for the year. The loss mainly reflects the expansion in capitalization rates in light of heightened market risk in a challenged retail sector, coupled with an office sector weakened by global economic uncertainty.

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

	2020 HK$ million	2019 HK$ million	Change
Office	**34,593**	35,498	-2.5%
Retail	**31,670**	35,059	-9.7%
Residential	**8,730**	8,559	+2.0%
	74,993	79,116	-5.2%

Investments in Associates and a Joint Venture

The Group's investments in associates are primarily represented by its interest in Grand Gateway Shanghai, a retail, office and residential complex in Shanghai, China. The share of results of associates decreased to HK$225 million (2019: HK$1,733 million), mainly due to the Group's share of the revaluation loss (net of deferred tax) amounting to HK$12 million (2019: revaluation gain of HK$1,528 million). The properties at Grand Gateway Shanghai were revalued at fair value by an independent professional valuer for both years ended 31 December 2019 and 2020.

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 2020.

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 imputed interest income recognized on an interest-free loan of HK$30 million (2019: HK$30 million) to a joint venture company for a residential site development in Tai Po, like-for-like interest income increased by 95.2% to HK$242 million (2019: HK$124 million), as the result of higher bank deposit balances during the year.

The Group also extended its investments beyond its core geographical and business focuses. As at 31 December 2020, these investments totalled HK$789 million (2019: HK$601 million), expanding our reach to Mainland China and other Asian regions with the aim of cultivating 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.

	2020 HK$ million	2019 HK$ million	Change
Cash generated from operations	**2,758**	3,300	-16.4%
Net advance to a joint venture company	**(18)**	–	n/m
Net borrowing	**6,458**	6,287	+2.7%
Issuance of perpetual capital securities, net of distribution and transaction costs	**10,314**	–	n/m
Bank deposits and other investments	**(5,110)**	(5,065)	+0.9%
Interest and taxation	**(980)**	(316)	n/m
Dividends paid	**(1,621)**	(1,630)	-0.6%
Considerations for share repurchases	**(96)**	(92)	+4.3%
Capital expenditure	**(913)**	(956)	-4.5%
Net cash inflow	**10,792**	1,528	n/m

n/m: not meaningful

The Group's cash generated from operations was HK$2,758 million (2019: HK$3,300 million), HK$542 million lower than that in 2019, reflecting lower Recurring Underlying Profit from our core leasing business.

A net advance to a joint venture company in 2020, related to the residential site development in Tai Po, amounted to HK$18 million.

Net borrowings amounted to HK$6,458 million, reflecting issuance of fixed rate notes and bank loans drawdown totalling HK$6,461 million. In 2019, total net borrowings were HK$6,287 million.

During the year, the Group through a wholly owned subsidiary of the Company (the "Issuer") issued US$850 million (equivalent to approximately HK$6,604 million) 4.10% subordinated perpetual capital securities, which are unconditionally and irrevocably guaranteed by the Company. Further, the Issuer issued US$500 million (equivalent to approximately HK$3,875 million) 4.85% senior perpetual capital securities, which are unconditionally and irrevocably guaranteed by the Company. The proceeds of the capital securities are for general corporate purposes and the capital securities are listed on Hong Kong Stock Exchange. In 2020, the issuance of perpetual capital securities netting of distribution and transaction costs amounted to HK$10,314 million.

Cash placed in bank deposits and other investments was HK$5,110 million (2019: HK$5,065 million), which was mainly attributable to additional deposits with a longer tenor.

The Group paid dividends of HK$1,502 million (2019: HK$1,507 million), via a 2019 second interim dividend of HK117 cents per share (2019: HK117 cents) and a 2020 first interim dividend of HK27 cents per share (2019: HK27 cents).

During the year, the Group repurchased 3.9 million of its own shares as part of the capital management programme for an aggregate consideration of approximately HK$96 million.

Capital Expenditure and Management

The Group is committed to enhancing the asset value of its 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 proactively implement preventive maintenance activities. Total capital expenditure during the year was HK$913 million (2019: HK$956 million).

TREASURY POLICY

Market Highlights

The U.S. Federal Reserve has kept the federal funds rate unchanged at 0 to 0.25 per cent since March 2020. The HKD HIBOR dropped steadily during the first eight months of 2020 before stabilizing for the remainder of the year, where it remained flat despite the effects of year-end impact and large-scale IPOs in the third and fourth quarters. The 3-month HIBOR rate closed at 0.35% at year-end, having dropped throughout the year. USD LIBOR dropped from 1.9% to 0.24% during 2020.

The path of economic recovery will depend largely on the course of the virus. Given the pandemic's impact on the economy and the continued uncertainty in global financial markets, it is important for the Group to maintain its policy of prudent financial and capital management.

Capital Structure Management

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

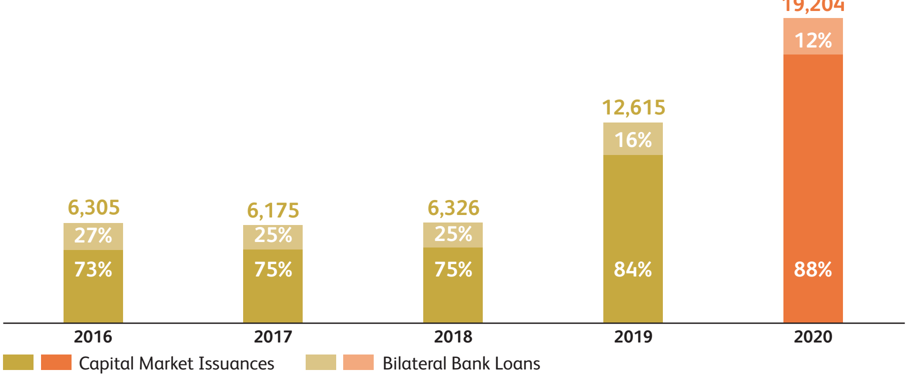
Funding Sources

During the year, the Group diversified its funding sources by issuing perpetual securities of US$1,350 million, new medium-term notes of HK$1,900 million and US$625 million, as well as drawing down HK$600 million bank loans. The Group repaid HK$565 million of maturing notes and HK$250 million of bank loans in 2020. The Group's outstanding gross debt was HK$19,204 million (2019: HK$12,615 million) at year-end 2020. All outstanding debts and securities are on an unsecured basis.

As at 31 December 2020, the proportion of debts sourced from capital markets increased to 88% (2019: 84%). The Group continued to maintain long-term relationships with a number of local and overseas banks in order to diversify its funding sources. At year-end 2020, nineteen 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 debt capital markets in the past five years.

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



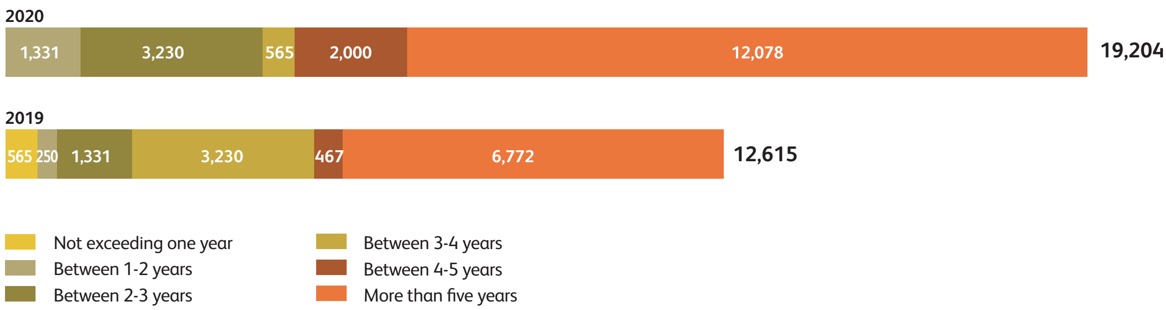
The Group strives to maintain an appropriate debt maturity profile to match the nature of our assets and operations. As at 31 December 2020, the average maturity of our debt portfolio was about 6.8 years (2019: 6.6 years), of which no debt will be due in 2021.

Maturity Profile

The graph below shows the debt maturity profile of the Group as at 31 December 2019 and 2020.

Debt Maturity Profile at 2019 and 2020 Year-end

Gross Debt Amount (HK$ million)

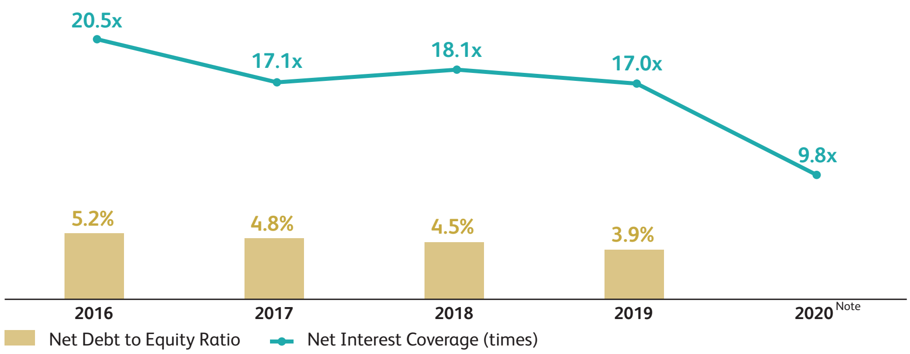


Gearing ratio and net interest coverage

The Group's gearing ratio, as measured by Net Debt to Equity ratio[1], was 3.9 % at year-end 2019. It is improved at year-end 2020 with a net cash position. The Group issued US$1,350 million of perpetual securities to strengthen our equity base and fortify our financial position in 2020. As a result, total cash and bank deposits now exceed total Gross Debts. The Group's Net Interest Coverage[2] decreased to 9.8 times for 2020 (2019: 17.0 times) due to the increase in the total debt level.

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



Note: Net cash position at year-end 2020

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 expenses before depreciation divided by net interest expenses.

Credit Rating

The Group seeks to maintain investment-grade credit ratings in order to ensure stable and lower costs of financing, reflecting our prudent financial and capital management strategy. During the year, the Group maintained its credit ratings, reflecting the Group's strong financial position.

	2020	2019
Moody's	**A3**	A3
Fitch	**A-**	A-

Liquidity Management

As at 31 December 2020, the Group had cash and bank deposits totalling approximately HK$24,935 million (2019: HK$9,332 million). In order to preserve liquidity and enhance interest yields, the Group invested HK$454 million (2019: HK$172 million) in debt securities.

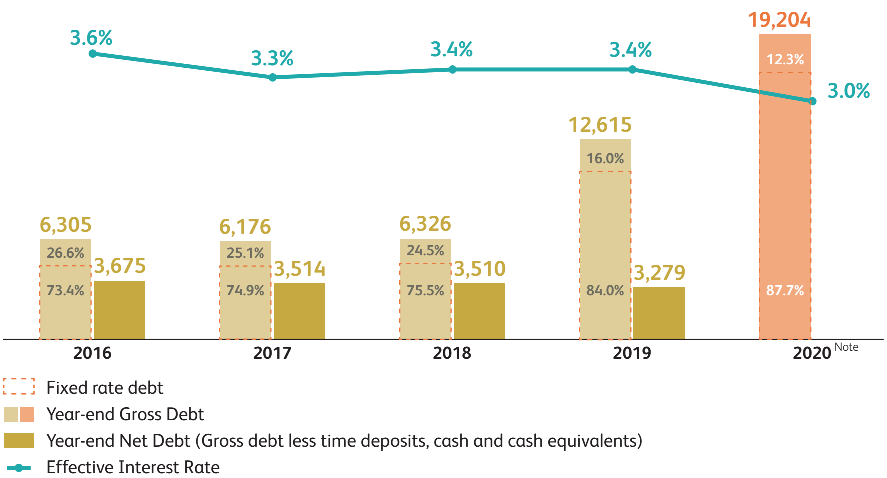
Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities amounted to HK$5,450 million as at the end of 2020 (2019: HK$3,250 million), allowing the Group to obtain additional liquidity as the need arises.

Interest Rate Management

The fixed rate debt ratio increased to 88% at the end 2020 from 84% at the end of 2019. As interest rate movements become more uncertain, we are confident that the current fixed rate debt ratio will enable the Group to manage the impact from interest rate fluctuations.

The diagram below shows the fixed rate and floating rate portions of the Group's debt over the past five years.

Debt Level and Effective Interest Rate



Note: Net cash position at year-end 2020

Foreign Exchange Management

The Group aims to achieve minimal currency exposure and does not speculate in currency movements for asset and liability management purposes. 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.

All USD fixed rate notes were hedged using cross-currency swaps that effectively convert the borrowings into HKD. A USD bank loan has 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, which amounted to US$203 million (2019: US$136 million).

Other foreign exchange exposure mainly relates to the Group's investment in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent of HK$5,585 million (2019: HK$5,199 million) or 5.1% (2019: 5.4%) of total assets.

Use of Derivatives

As at 31 December 2020, all of the Group's outstanding derivatives were related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are solely used to manage volatilities or to make appropriate adjustment to the risk profile of the Group's treasury assets and liabilities.

Counterparty Credit Risk

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

Before entering into any hedging transaction, the Group ensures that counterparties possess strong investment-grade ratings so as 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.