



Hysan 希慎

Hysan Development Company Limited 希慎興業有限公司

(Incorporated under Hong Kong Companies Ordinance, Cap. 32 with limited liability)

2001 FINAL RESULTS

- **Office portfolio achieved 98% occupancy despite challenging market conditions**
- **Strong balance sheet geared to complement strategic decisions**
- **Fundamentals strengthened: strategic progress across all business sectors**

CHAIRMAN'S STATEMENT

Strategic Focus

It is commonplace to think of property investment as an assets business. However, asset accumulation alone will no longer deliver the necessary returns to satisfy investors. We must look beyond the bricks and mortar, by actively anticipating and satisfying occupiers' ever changing needs for real estate accommodation and services. Occupiers today demand a broader as well as different range of services.

Our major refurbishment project for the luxury Bamboo Grove residential development goes beyond upgrading the building facilities as part of our selective building upgrading programme. A full range of enhanced and personalized services will also be introduced.

The goal of our retail sector is to ensure that our space is not only rented to its maximum capacity but that the mix of retailers meets the needs of today's customers. An important step in the delivery of this strategy is the introduction of a new "lifestyle" theme in the Lee Theatre Plaza area. This has further progressed our objective to strengthen our retail portfolio as a distinct

neighbourhood for shopping and entertainment in the retail hub of Causeway Bay.

We consolidated the minority interests in the Lee Theatre Plaza, one of our retail centres, hence further strengthening our asset base. We shall continue to take advantage of our critical mass and combine this with an innovative service-based culture.

We have a strong balance sheet geared to complement the Company's strategic decisions. Our Medium Term Note Programme established during the year and its first US\$200 million issuance received solid investment grade ratings.

Performance

Net profit for the year ended 31 December 2001 was HK\$600 million, 29.4% lower than in 2000. The major factor underlying this fall was the realization of gains on disposal of long-term investment in marketable securities of HK\$294 million recorded in year 2000.

The Group continues to have solid core leasing earnings at HK\$728 million.

Earnings per share were HK\$0.58, a decline of 29.3% (HK\$0.82 for the same period in 2000).

The Group's investment property portfolio, as valued externally by independent professional valuers, was HK\$26,639 million (2000: HK\$28,433 million). Largely due to the HK\$1,841 million net valuation deficit, shareholders' funds at the year end were HK\$21,267 million, compared to HK\$23,478 million in 2000. Net asset value per share (before final dividend) decreased by 9.5% to HK\$20.62.

Dividends

The Board recommends the payment of a final dividend of HK\$0.28 per share, which together with the interim dividend of HK\$0.10 per share, represents an aggregate distribution of HK\$0.38 per share, a decrease of 9.5% for the year. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative.

Shareholder Focus, Financial Prudence and Transparency

The Company values dialogue with our shareholders, and aims to continually improve on the quality of our reporting. The Annual Report aims to present a balanced and understandable assessment of the Group's position and prospects to our shareholders. Senior management also hold regular meetings with the investment community to discuss strategic and other issues.

It is our Company policy to adhere to financial prudence and corporate transparency. I am very pleased that our efforts in this area were recognized; our previous Annual Report won the Gold Award (Hang Seng Index company category) of the Year 2001 Best Corporate Governance Disclosure Award given by the Hong Kong Society of Accountants.

Hysan and the Community

With its long history in Hong Kong, Hysan has strong ties with the community. Hysan supports various charitable and civic institutions in Hong Kong, including environmental organizations, through donations, sponsorships and the provision of free venues. Members of our management and staff also serve on various government as well as industry organizations. We believe it is important for our business to support the community in which it operates and from which it generates its revenue. For us, this not only means Hong Kong but more specifically our hub in Causeway Bay.

Directors and Staff

Mr. H. C. Lee, our former Chairman, retired after the last Annual General Meeting in May 2001 after some twenty years with the Company. Under H. C.'s distinguished tenure the Company became one of the leaders in the Hong Kong property sector, laying the foundation for its continuing development. The Honourable Lee Quo-wei, who has served as our Deputy Chairman, also decided to step down as from the last Annual General Meeting. The Board is greatly indebted to them for their invaluable guidance and contribution to the success of Hysan.

We are very pleased to have Sir David Akers-Jones as our independent non-executive Deputy Chairman as from 8 May 2001. He also chairs our two corporate governance board committees.

This has been an active year during which solid progress was made. My thanks go to all of Hysan's staff, whose commitment and efforts have made this possible.

The Way Ahead

It has been a challenging year not only for most businesses, but for Hong Kong as a whole. At Hysan, we have chosen to demonstrate our commitment and belief in our vision by taking significant steps to strengthen our fundamentals. Recent positive economic indicators regarding the U.S. economy and China's accession to the World Trade Organization should add a positive tone to the market. We shall build on this year's efforts and believe that through these actions, our shareholders and customers will recognize that we are in a position to further grow our business by being the occupiers' partner of choice in the provision of real estate accommodation and services.

OPERATING REVIEW

Fundamentals Strengthened

In a year when the world's major economies receded, the overall Hong Kong economy also experienced a downturn particularly during the second half of the year. Generally, corporate expenditure were reduced in response to a lower level of activity. The rise in unemployment also affected consumer sentiment. Despite this challenging environment, our office portfolio achieved a 98% occupancy rate. We also made solid progress across all property sectors (office, retail and residential) in implementing steps to strengthen our fundamentals, following the strategic directions mapped out in the previous year.

- **Leadership position in Causeway Bay.** We consolidated the minority interests in the retail Lee Theatre Plaza complex, further consolidating our dominance in the prime office/retail area of Causeway Bay;
- **Continual review of the performance of individual buildings and improve their quality by selective refurbishment and re-development.** Our Bamboo Grove luxury residential development underwent a major renovation programme which includes both visible enhancements and equally important service upgrades;

- **Strengthening our retail sector located in the retail hub of Causeway Bay.** We further expanded our retail sector and advanced our objective to enhance our neighbourhood as a distinct hub for dining, shopping and recreation. A diversity of retail and leisure offers were introduced to our retail portfolio, complemented by a new "lifestyle" theme in the Lee Theatre Plaza area;
- **Financial prudence.** We continued to have a strong balance sheet and emphasize financial prudence. Our new Medium Term Note Programme and the US\$200 million Note issuance obtained solid investment grade ratings (Moody's: Baa1; Standard and Poor's: BBB+);
- **Operational efficiency and good customer service.** Our property management has been further enhanced with upgraded operational efficiency, focusing on good customer service. The Bamboo Grove project will be relaunched with a full range of enhanced and personalized property management services.

Activities in the year

Investment Properties

Office

The period in review witnessed a worsening of the general market environment. There was an increased secondary stock of office properties following company cost-cuttings. These included premises occupied by telecommunications and financial institutions. We continue to have a diversified but focused tenant base covering large multinationals and Hong Kong organizations, and achieved an occupancy rate of 98%.

Our strategy of continually anticipating the needs of our customers stood us in good stead and we enjoy an excellent relationship with our tenants. We interact closely with our tenants to ensure that we anticipate and meet their needs, and are encouraged by the response.

Retail

Retail markets are generally sensitive to the overall economic environment. Consumer confidence, in particular, was affected after the events on 11 September. Our portfolio, located in the retail hub of Causeway Bay, achieved a 97% occupancy rate. The proactive approach we adopted in managing our tenant mix resulted in the introduction of new complementary tenants to the portfolio, further strengthening the "lifestyle" theme in the Lee Theatre Plaza area.

In our retail portfolio, our objective is to create an attractive environment for dining, shopping and recreation. All these are to be achieved by the provision of a diversity of complementary retail and leisure offers that meet the needs of customers. The introduction of new-style food and beverage establishments in our neighbourhood during the year has further advanced this aim. We continued our marketing efforts, partnering with tenants to our mutual benefit. The annual Hysan Street Party held in November successfully rounded off a busy year for our team.

Residential

The major refurbishment programme for the Group's Bamboo Grove luxury residential complex in the Mid-levels commenced in 2001. The programme seeks to enhance the external facade, apartment interiors, as well as clubhouse and common facilities to provide a comfortable and family-friendly living environment. A full range of enhanced and personalized property management services will be introduced. Re-launch is scheduled to commence in the second quarter of 2002.

Development Properties

The Grand Gateway commercial and residential complex in Puxi, Shanghai, where we have a 17% interest, has established itself as one of the most popular shopping centers in the Puxi area. The retail podium is virtually fully-let. The average occupancy rate of the residential tower for year 2001 was 96%.

Pre-sales in our two joint-venture residential developments in Singapore, Sanctuary Green and the Gardens at Bishan (10% interest) are in progress. Pre-sale in the Amaryllis Ville project (25% interest) is expected to be launched shortly.

SUPPLEMENTAL INFORMATION

Corporate Governance

The Company is committed to a high standard of corporate governance. The Company had complied with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year. Further information on the Company's corporate governance practices is set out in the Annual Report.

The Accounts for the year have been reviewed by the Audit Committee of the Board.

Purchase, Sale or Redemption of the Company's Listed Shares

The Company periodically repurchases its ordinary shares when they are significantly undervalued, in order to enhance shareholder value. During the financial year, the Company repurchased an aggregate of 6,964,000 ordinary shares for a total consideration of HK\$64,319,631 on The Stock Exchange of Hong Kong Limited.

Save as disclosed above, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the year.

People

The Group aims to attract, retain and motivate high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2001 was 516. The Group's human resources practices are aligned with our corporate objective so as to maximize shareholder value and achieve growth. Details on our human resources policy, including performance measurement and reward, training and development are set out in the Annual Report.

Scrip Dividend Arrangement

A circular containing details of the scrip dividend and the form of election will be mailed to shareholders on or about Tuesday, 21 May 2002. The scrip dividend

alternative is conditional upon (1) the shareholders' approval of the 2001 final dividend at the Company's Annual General Meeting and (2) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto.

Closure of Register of Members

The share register will be closed from Friday, 10 May 2002 to Tuesday, 14 May 2002, both dates inclusive. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's Registrars not later than 4:00 p.m. on Thursday, 9 May 2002. The final dividend will be paid on or about Thursday, 13 June 2002.

By order of the Board
Peter T. C. Lee
Chairman and Managing Director

Hong Kong, 12 March 2002

HIGHLIGHTS

Consolidated Income Statement

| | <i>Notes</i> | Year ended 31 December | |
|--|--------------|-------------------------------|-----------------|
| | | 2001 | 2000 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | <i>1</i> | 1,355,450 | 1,480,246 |
| Property expenses | | (223,598) | (238,906) |
| Cost of property sales | | - | (50) |
| | | <hr/> | <hr/> |
| Gross profit | | 1,131,852 | 1,241,290 |
| Gain on disposal of investments in securities | | - | 293,842 |
| Impairment loss reversed in respect of investments in securities | | 6,225 | - |
| Other revenue | | 18,557 | 29,354 |
| Release of negative goodwill arising on acquisition of a subsidiary | | 60 | - |

| | | | |
|---|---|------------------|------------------|
| Administrative expenses | | (89,956) | (89,969) |
| | | <hr/> | <hr/> |
| Profit from operations | 2 | 1,066,738 | 1,474,517 |
| Finance costs | | (314,428) | (449,020) |
| Gain on disposal of an associate | | 33,531 | - |
| Impairment loss (arising) reversed in respect of interests in associates | | (4,880) | 3,419 |
| Share of results of associates | | (2,338) | 4,210 |
| | | <hr/> | <hr/> |
| Profit before taxation | | 778,623 | 1,033,126 |
| Taxation | 3 | (114,903) | (117,210) |
| | | <hr/> | <hr/> |
| Profit after taxation | | 663,720 | 915,916 |
| Minority interests | | (63,377) | (65,743) |
| | | <hr/> | <hr/> |
| Net profit for the year | | 600,343 | 850,173 |
| Retained profits at 1 January | | 3,436,247 | 3,110,025 |
| Transfer to capital redemption reserves | | (34,820) | (51,035) |
| Premium and expenses on shares repurchased | | (29,500) | (39,852) |
| | | <hr/> | <hr/> |
| Profits available for distribution | | 3,972,270 | 3,869,311 |
| | | <hr/> | <hr/> |
| Dividends | 4 | 391,598 | 433,064 |
| | | <hr/> | <hr/> |
| Earnings per share | 5 | | |
| Basic | | HK\$0.58 | HK\$0.82 |
| | | <hr/> | <hr/> |
| Diluted | | HK\$0.58 | HK\$0.82 |
| | | <hr/> | <hr/> |

Notes:

1. TURNOVER

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Turnover comprises: | | |
| Gross rental income from properties | 1,351,892 | 1,475,941 |
| Income from property sales | - | 400 |
| Management fee and security service income | 3,558 | 3,905 |
| | <hr/> | <hr/> |
| | 1,355,450 | 1,480,246 |
| | <hr/> <hr/> | <hr/> <hr/> |

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

2. PROFIT FROM OPERATIONS

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit from operations has been arrived at after charging (crediting) certain items including: | | |
| Depreciation | 6,029 | 5,624 |
| Dividends from | | |
| - listed investments | (8,612) | (7,040) |
| - unlisted investments | (5,796) | (4,790) |
| Interest income | (3,749) | (17,021) |
| | <hr/> | <hr/> |
| | <hr/> <hr/> | <hr/> <hr/> |

3. TAXATION

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| - for the year | 114,799 | 117,212 |
| - under(over)provision in prior years | 104 | (2) |
| | <hr/> | <hr/> |
| Taxation attributable to the Company and its subsidiaries | 114,903 | 117,210 |
| | <hr/> <hr/> | <hr/> <hr/> |

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit for the year.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is immaterial.

Deferred taxation has not been provided on the surplus arising on the valuation of investment properties, land and buildings and investments in securities because profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the surplus arising on valuation does not constitute a timing difference for taxation purposes.

4. DIVIDENDS

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Ordinary shares: | | |
| Interim dividend, paid - HK\$0.10 per share (2000: HK\$0.11) | | |
| | 102,833 | 113,686 |
| Final dividend, proposed - HK\$0.28 per share (2000: HK\$0.31) | | |
| | 288,765 | 319,378 |
| | <hr/> | <hr/> |
| | 391,598 | 433,064 |
| | <hr/> <hr/> | <hr/> <hr/> |

5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2001 | 2000 |
|---|------------------------|------------------------|
| Earnings for the purposes of basic and diluted earnings per share (net profit for the year) | <u>HK\$600,343,225</u> | <u>HK\$850,173,491</u> |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 1,030,485,146 | 1,032,763,163 |
| Effect of dilutive potential ordinary shares: Share options | <u>357,639</u> | <u>231,730</u> |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | <u>1,030,842,785</u> | <u>1,032,994,893</u> |

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the fair value per share.

Consolidated Balance Sheet

| | At 31 December | |
|---------------------------------------|---------------------------------------|---------------------------|
| | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-Current Assets | 28,523,841 | 30,866,949 |
| Current Assets | 98,751 | 81,990 |
| Current Liabilities | (2,562,558) | (1,231,712) |
| Net Current Liabilities | (2,463,807) | (1,149,722) |
| Total Assets Less Current Liabilities | 26,060,034 | 29,717,227 |
| Non-Current Liabilities | (3,831,017) | (4,899,740) |
| Minority Interests | 22,229,017 (962,092) | 24,817,487 (1,339,063) |
| | 21,266,925 | 23,478,424 |
| Capital and Reserves | | |
| Share Capital | 5,156,516 | 5,151,256 |
| Other Reserves | 12,529,737 | 14,890,921 |
| Accumulated Profits | 3,580,672 | 3,436,247 |
| | 21,266,925 | 23,478,424 |

Financial Review

Debt and maturity profile

The total debt outstanding at the end of 2001 amounted to HK\$5,628 million (excluding amount due to minority shareholders and advances from investees), an increase of HK\$522 million from the previous year end. Loan draw down from existing and new facilities during the year were mainly used to finance the minority interest acquisition in The Lee Theatre Plaza and the refurbishment expenditures at Bamboo Grove. Net debt (gross borrowings less cash, cash equivalent and marketable securities at year-end market value) amounted to HK\$4,544 million.

Net debt as a percentage of shareholder equity increased from 14.6% at December 2000 to 21.4% at year-end 2001 as a result of additional borrowings and reduced shareholder equity from lower property asset valuation.

During the year, the Group continued to maintain all of its debt in Hong Kong dollars and on an unsecured basis. Over 98% of the borrowings were on a committed basis.

The maturity profiles of the Group's gross debt at 31 December 2001 and 31 December 2000 are summarised as follows:

| | 2001 | 2000 |
|---------------------------|----------------------|----------------------|
| | <i>HK\$(Million)</i> | <i>HK\$(Million)</i> |
| Repayable within a period | | |
| - Not exceeding 1 year | 2,140 | 816 |
| - Between 1 to 2 years | 436 | 2,150 |
| - Between 2 to 5 years | 2,572 | 2,140 |
| - After 5 years | 480 | 0 |
| | <hr/> | <hr/> |
| | 5,628 | 5,106 |
| | <hr/> <hr/> | <hr/> <hr/> |

Sources of funds at 2001 year-end comprised of 43% from capital market issuances, 39% from bank bilateral loans and 18% from syndicated and club loans.

After the 10-year Notes issue in February 2002 and the repayment of the HK\$2 billion Floating Rate Notes in March 2002, about 36% of the debt will not mature for 5 to 10 years. Similarly, the sources of debt facilities from capital market issuances and bank bilateral loans will be changed to 35% and 47% respectively.

Notable new financing

In February 2002, the Group issued the inaugural US\$200 million 7% Notes under the established Medium Term Note Programme. The Notes have a tenor of 10 years and were priced at 200 basis points over the benchmark 10-year U.S. Treasury Notes with a yield of 7.02%. The Notes received a credit rating of Baa1 from Moody's Investors Service and BBB+ from Standard & Poor's Rating Agency. The issue was well received by a wide group of predominately new Asian and European investors, including assets managers, insurance companies, and private investors. The net proceeds will help refinance the HK\$2 billion Floating Rate Notes due in March 2002 as well as fund other Group needs.

Credit ratings

With respect to the Group's credit strength, Standard & Poor's Rating Agency maintained a stable outlook on its credit rating of BBB+. In January 2002, Moody's Investor Services assigned a Baa1 credit rating to the Company with a stable outlook. Both investment grade credit ratings reflect the Group's strong financial profile underpinned by sound financial management and stable operations with large recurring rental income cash flows.

Capital expenditures

To further strengthen the Group's dynamic and long-term presence in Causeway Bay, HK\$508 million were paid to acquire the 30% minority interest in The Lee Theatre Plaza in September 2001. Other capital expenditures incurred relate to additions and improvements to the Group's investment properties including the refurbishment program at Bamboo Grove. Regarding those Singapore development projects, where pre-sale is in progress, it is expected that such

proceeds are sufficient to fund the construction costs and future cash flow requirements would be minimal.

At year end, the Group had HK\$1,661 million in undrawn committed bank facilities. This availability, together with the Medium Term Note Programme in place, should be sufficient to cover the Group's refinancing and capital expenditure needs over the next few years.

As planned, the Group will fund its capital expenditures through debt while maintaining acceptable gearing and interest expense coverage ratios.

Financial risk and management

The Group's financial risk management strategies include broadening the Group's financing channels, expanding the investor base, extending the tenor of facilities, and achieving a well-balanced spread of facility maturities. The Group also uses interest rate swaps and other instruments to manage interest rate risks with an objective to minimize the impact of fluctuations on earnings while achieving a balance with cost effectiveness. Transactions are conducted for hedging purposes only and no speculative positions have been or will be undertaken. As of 31 December 2001, 88% of the Group's borrowings were at floating rates.

The Group's foreign exchange exposure is minimal. As of 31 December 2001, all debt outstanding are Hong Kong dollars denominated, and investment in overseas projects totalled the equivalent of HK\$703 million or 3.3% of the Group's shareholder equity.

Contingent Liabilities

As and when required, in the ordinary course of business, the Group will provide guarantees, counter indemnities or undertakings to cover the Group's obligations in respect of projects undertaken by the Group.

The Group has provided guarantees for banking facilities granted to associated companies and investee companies. At 31 December 2001, the Group's share of guarantees and counter guarantees amounted to approximately HK\$148 million (2000: HK\$153 million) and HK\$79 million (2000: HK\$84 million) respectively.

All the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited on or before 28 March 2002.

The Annual Report will be despatched to shareholders and made available on the Company's website at www.hysan.com.hk around the same time.

"Please also refer to the published version of this announcement in the South China Morning Post "