



Hysan Development Company Limited (希慎興業有限公司)

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

20 March 2001

2000 Results Announcement

CHAIRMAN'S STATEMENT

Overview

The general improvement in the overall leasing market that emerged during the first part of 2000 continued. This was particularly felt in the Grade "A" office sector in prime locations, where limited supply and a noticeably stronger occupier demand provided support for a significant rise in rentals during the review period.

During the first part of the year, we concentrated our efforts on improving our letting performance. The second half has seen further progress on this front, and in addition, we have spent more time and efforts on building and investing for the future.

Our strategy is to deliver attractive and sustainable results to shareholders by active management. The executive team has carried out an important exercise and completed a review of our strategic directions. The very active management of the business during Year 2000 and our directions moving forward are described under "Review of Operations and Results".

While we saw some slowing in the demand trend in the fourth quarter, demand remains healthy. New supply of Grade "A" office space in prime locations will also remain constrained over the year ahead. The fundamental drivers of our core market remain positive, providing a supportive background for our objective of delivering attractive shareholder value through active management. These will underpin future values particularly when rental reversions turn positive.

Performance

Net profit for the year ended 31 December 2000 was HK\$850 million compared with HK\$1,204 million in 1999, representing a decrease of 29.4% on the equivalent

period in 1999. This is after consideration has been taken of the HK\$482 million non-recurring gains from property sales in 1999. The Group's rental income decreased by 10.2%, mainly attributable to rent reviews and relettings secured at lower rents. Reduced interest expenses have, however, helped to alleviate the impact of such negative rental reversions.

Earnings per share were HK\$0.82, also a decline of 29.3% (HK\$1.16 for the same period in 1999).

The Group's investment property portfolio, as valued externally by independent professional valuers, increased by 13.0% to HK\$28,433 million (1999: HK\$25,173 million). The revaluation has resulted in a surplus as compared to book value of HK\$3,253 million, which was accordingly credited to reserves. Shareholders' funds at the year end were HK\$23,159 million, up 14.6% from HK\$20,217 million in 1999. Net asset value per share rose 15.3% in 2000, from HK\$19.50 to HK\$22.48. Improved values reflect the generally improved property investment markets in which the Group operates.

Dividends

The Board recommends the payment of a final dividend of HK\$0.31 per share, which together with the interim dividend of HK\$0.11 per share, represents an aggregate distribution of HK\$0.42 per share, an increase of 5% for the year. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative. Shareholders who elect for the scrip dividend will be allotted new ordinary shares of HK\$5 par value each, credited as fully paid, subject further to the Listing Committee of The Stock Exchange of Hong Kong Limited agreeing to grant the listing of and permission to deal in the new shares to be issued by way of scrip dividend. A circular containing details of the scrip dividend and the form of election will be mailed to shareholders on or about Thursday, 10 May and elections will be required to be made on or before Wednesday, 30 May.

The share register will be closed from Friday, 4 May to Tuesday, 8 May, both dates inclusive. Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) will be despatched to shareholders on or about Tuesday, 5 June.

The way ahead

We clearly have the critical mass and strong market position in our core business to

deliver attractive returns through active management. Our corporate strategy review exercise provides us with a framework against which targets can be set and progress monitored. We are not, understandably, immune to economic conditions outside our control. Careful risk management will thus be as important as ever. Our strategy therefore also embraces financial objectives, which are founded upon maintaining a strong and flexible balance sheet and an emphasis upon strong financial controls. Looking back on our solid foundation and looking forward with the considerable confidence we have in our future directions, I believe that we are well placed to achieve our aim of delivering an attractive return without undue risk.

REVIEW OF OPERATIONS AND RESULTS

Strategic focus

As we enter the new millennium, we live through a period of considerable change. Active management is therefore the key to serving the requirements of our tenants not only today, but in the future. Hysan Development's investment portfolio in Hong Kong comprises of high quality office, retail and residential properties with a total gross floor area of 4.67 million square feet. We have the critical mass and strong market position to further strengthen the leadership position of our portfolio in the prime office/retail Causeway Bay area.

Having met the main challenge of optimising occupancy for the first half of the year, we have focused on reviewing our strategic direction over the past six months. We shall achieve our aim to maximize shareholder value by active management, with the following directions dominating our actions:

- to continually review the performance of individual properties and improve the quality and value of the portfolio by selective refurbishment and re-development
- to further grow our retail sector located in the retail hub of Causeway Bay
- to continually focus on the current and future needs of our commercial and residential customers who occupy our space and use our services
- to utilize our relationships and financial strength as a competitive advantage in pursuing investment opportunities
- to keep risk and return in balance
- to upgrade overall operational efficiency including facilities management, emphasizing good customer service

The defining features that will differentiate us and underpin future performance have been emerging. We have completed the reorganization of our leasing units into specialist office, retail, and residential teams to work the portfolio more actively. These are further described in the section under "Activities in the Year" below.

Activities in the year

Investment Properties

Office

Our office portfolio continued to strengthen during the review period, witnessing a strong increase in rentals. Supported by noticeably strong demand, the occupancy of our office portfolio was approximately 97%, and vacancy is likely to remain at a very low level in the absence of substantial new supply over the year ahead.

After successfully meeting the challenge of maximizing occupancy, we focused our resources during the second half of the year on research, on occupier surveys, and on understanding the factors affecting the changing needs of our business customers. We shall continue to focus on what occupiers need, not only today but in the future so as to build mutually beneficial relationships with major occupiers.

Retail

Our core retail portfolio, located in the retail hub of Causeway Bay, offers a variety of shopping experiences ranging from the Lee Theatre Plaza retail and leisure complex, to high-end brands at the Lee Gardens, and specialist niches like the children's concept at Caroline Centre.

A combination of improved consumer sentiment and increased tourist arrivals has offered scope for an active year for our retail team. Building on an effectively fully-let position, we began implementing our new initiatives, and fostering even closer relationships with our tenants and retailers in general to our mutual benefit.

We have stepped up our marketing activities, implemented environmental improvement works, and generally adopted a more proactive approach in managing the composition of our tenants. All these factors will enhance our retail assets by providing a more appealing shopping and leisure experience.

In moving forward, we are actively developing further specialist niches for our

centres and strengthening the synergies between them.

Residential

The market for high-end residential premises, which the Group focuses on, has been healthy. The Group continually reviews its portfolio and implements steps to enhance its value. We are developing plans to carry out a major repair and refurbishment of the Group's Bamboo Grove residential apartments in the Mid-levels to further strengthen its position as a high quality family-friendly complex.

Development Properties

Singapore

The Group has minority interests in three residential projects in Singapore, where the market has shown recovery during the year under review. Construction for all three projects is in progress.

Pre-sales marketing for the Sanctuary Green (Phase I) and the Gardens at Bishan developments is progressing satisfactorily.

The Group has a 10% interest in these projects. The Group has a 25% interest in the Amaryllis Ville project and pre-sales are scheduled to commence in the near term.

Shanghai, The People's Republic of China

All units in Phase One of the Peace Garden residential project have been sold. Phase Two of the Project has been deferred, whilst we continue to monitor the market situation in Shanghai. The Group has a 45% interest in this project.

The Grand Gateway (Phase 1), in which the Group has a 17% interest, is establishing itself as one of the largest and most modern shopping malls in Puxi. The commercial/residential development is in a prime location in the southwest commercial center, above Shanghai's largest subway station (Xujiahui).

NEW BOARD APPOINTMENTS

The Group also announces that Mr. H. C. Lee, Chairman of the Board, will retire after some twenty years with the Company, following the Annual General Meeting on Tuesday, 8 May, 2001. Mr. Peter T. C. Lee, Managing Director, will also become Chairman of the Board. Mr. Peter T. C. Lee has served as Managing Director for over

two years, after first joining the Board in 1988.

The Honourable Lee Quo-Wei, Deputy Chairman, will also step down after the Annual General Meeting. The Board is greatly indebted to him for his invaluable guidance in attaining continuous growth.

The Board is pleased to announce that Sir David Akers-Jones, who has served as a non-executive Director since 1989, has been appointed non-executive Deputy Chairman as from the end of the AGM on 8 May.

SUPPLEMENTAL INFORMATION

Corporate governance

The Company is committed to high standard of corporate governance. The Company had complied with the Code of Best Practice as set out in the Listing Rules of the Stock Exchange of Hong Kong Limited throughout the review period.

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 10,207,000 ordinary shares at the total consideration of HK\$90,887,630 on The Stock Exchange of Hong Kong Limited.

In addition, on 1 June 2000, a wholly-owned subsidiary of the Company redeemed US\$117.98 million in nominal value of the 6.75% convertible bonds due 2000 ("2000 Bonds") in accordance with their terms of issue. Such bonds, guaranteed by the Company, were listed on the Luxembourg Stock Exchange. Such issuer also repurchased US\$320,000 in nominal value of the 2000 Bonds at an aggregate consideration of US\$319,200 during the year.

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

Employees

The Group aims to attract, retain and motivate high calibre individuals committed to

attaining our objectives. Total number of employees as at 31 December 2000 was 482. Our remuneration policy has been designed with the view to give employees incentives to perform while aligning any performance awards with returns to shareholders. In addition to cash incentives, the total remuneration packages includes staff housing loan, medical insurance and retirement benefits. The Company also operates an Executive Share Option Scheme. Individual performance is regularly appraised pursuant to our performance management programme. The Group recognises the importance of people development. It trains and develops its staff to help them perform in the most productive way to achieve our business objectives.

By Order of the Board

H. C. Lee

Chairman

Hong Kong, 20 March, 2001

HIGHLIGHTS

Consolidated income statement

	Year ended 31 December	
	2000	1999
	HK\$'000	HK\$'000
Turnover (Note 1)	1,480,246	2,295,717
Property expenses	(238,906)	(242,227)
Cost of property sales	(50)	(164,923)
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Gross profit	1,241,290	1,888,567
Gain on disposal of investments in securities	293,842	165,911
Other revenue	29,354	11,132
Administrative expenses	(89,969)	(70,680)
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Profit from operations	1,474,517	1,994,930
Finance costs	(449,020)	(526,819)
Impairment loss reversed (recognised) in respect of interests in associates	3,419	(98,418)
Share of results of associates	4,210	(4,284)
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Profit before taxation	1,033,126	1,365,409
Taxation (Note 2)	(117,210)	(86,795)
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Profit after taxation	915,916	1,278,614
Minority interests	(65,743)	(74,656)
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Net profit for the year	850,173	1,203,958
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Dividends (Note 3)	433,064	412,795
Earnings per share (Note 4)		
Basic	HK\$0.82	HK\$1.16
Diluted	HK\$0.82	HK\$1.16

Notes

1. TURNOVER AND CONTRIBUTION TO PROFIT FROM OPERATION

The Group operates mainly in Hong Kong. The turnover and contribution to the Group's profit from overseas operations are insignificant. The turnover and contribution to the Group's profit from operations of each principal activity are as follows:

	2000		1999	
	Consolidated <u>turnover</u>	Contribution to the Group's profit from <u>operations</u>	Consolidated <u>turnover</u>	Contribution to the Group's profit from <u>operations</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental income	1,475,941	1,149,768	1,643,810	1,333,518
Income from property sales	400	350	647,485	482,562
Management fee and security service income	3,905	1,707	4,422	2,666
Gain on disposal of investments in securities	-	293,842	-	165,911
Others	-	28,850	-	10,273
	<u>1,480,246</u>	<u>1,474,517</u>	<u>2,295,717</u>	<u>1,994,930</u>

This year, turnover comprises only the revenue from the Group's core business, property development and investment. Proceeds from disposals of investments in securities, interest and dividend income which were included as part of the turnover in previous years are now presented as gain on disposal of investments

in securities and other revenue respectively. Comparative figures have been restated to conform with the current year's presentation.

2. TAXATION

	2000 HK\$'000	1999 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
- for the year	117,212	87,485
- (over) underprovision in prior years	(2)	15,905
- tax rebate	-	(15,904)
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Taxation attributable to the Company and its subsidiaries	117,210	87,486
Share of (tax rebate) taxation attributable to Associates	-	(691)
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	<u>117,210</u>	<u>86,795</u>

Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profit for the year.

No provision for deferred taxation has been recognized 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.

3. DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Ordinary shares:		
Interim dividend, paid - 11 cents per share (1999: 10 cents)	113,686	103,624
Final dividend, proposed - 31 cents per share (1999: 30 cents)	319,378	309,170
Additional prior year's dividend paid on exercise of warrants subsequent to the year end	-	1
	<u>433,064</u>	<u>412,795</u>

4. EARNINGS PER SHARE

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

	2000 HK\$	1999 HK\$
Earnings for the purposes of basic and diluted earnings per share (net profit for the year)	<u>850,173,491</u>	<u>1,203,957,528</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,032,763,163	1,034,513,350
Effect of dilutive potential ordinary shares:		
Share options	<u>231,730</u>	<u>167,091</u>

Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,032,994,893	1,034,680,441
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The computation of diluted earnings per share does not assume:

- the conversion of the Group's outstanding convertible bonds since their exercise would not have any dilutive effect; and
- 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

	Year ended 31 December	
	2000	1999
	HK\$'000	HK\$'000
Non-Current Assets	30,866,949	27,807,803
Current Assets	81,990	929,843
Current Liabilities	(1,551,090)	(2,715,147)
Net Current Liabilities	(1,469,100)	(1,785,304)
Total Assets Less Current Liabilities	29,397,849	26,022,499
Non-Current Liabilities	(4,899,740)	(4,658,719)
	24,498,109	21,363,780
Capital and Reserves		
Share Capital	5,151,256	5,183,810
Other Reserves	14,571,543	11,923,487
Accumulated Profits	3,436,247	3,110,025
	23,159,046	20,217,322

Minority Interests	1,339,063	1,146,458
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	24,498,109	21,363,780
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The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 1999 or 2000 but is derived therefrom.

Debt and maturity profile

Total debt outstanding as at 31 December 2000 was HK\$5,106 million (excluding amount due to minority shareholders and advances from investees), which represented a reduction of HK\$907 million from the previous year end. The decrease was attributed to cash flow from rental income and proceeds from sale of marketable securities. Net debt (gross borrowings less cash, cash equivalent and marketable securities at year-end market value aggregating HK\$1,676 million) amounted to HK\$3,430 million.

All of the Group's outstanding debts are denominated in Hong Kong dollars, unsecured and on a committed basis.

The maturity profile of the Group's gross debt at 31 December 2000 was as follows:

	Year ended 31 December	
	2000	1999
	HK\$ Million	HK\$ Million
Repayable within a period		
- Not exceeding 1 year	816	1,953
- Between 1 to 2 years	2,150	1,510
- Between 2 to 5 years	2,140	2,550
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	5,106	6,013
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The Group sourced its debt facilities from diversified sources to maintain a balance between cost and risk. (Sources of funds at the end of 2000 comprised: capital market issuance: 47%, bank bilateral loans: 33%, syndicated and club loans: 20%).

The Group also has strong recurring cash flow and sufficient stand-by financing facilities to meet maturing borrowings and to facilitate a swift response to potentially attractive investment opportunities.

Interest cover and gearing

Principally as a result of debt reduction in 1998-2000 and improved investment property value, the Group's net debt as a percentage of shareholder equity on 31 December 2000 improved from 16.5% to 14.8% year-on-year. Net interest expenses coverage was a healthy 3.6 times (1999: 4.2 times).

Financial risk and management

The Group's financial risk management strategies include accessing diversified funding sources, extending the tenor of facilities, spreading out the maturity dates, as well as using interest rate swaps and other instruments to manage interest rate risks and to reduce exposure to volatility in interest rates. As of 31 December 2000, 46% of the Group's borrowings were at fixed interest rates.

The Group's foreign exchange exposure is minimal. All debt outstanding are Hong Kong dollars denominated, and investment in overseas projects total the equivalent of HK\$687 million or 3.0% of the Group's shareholder equity.

Credit rating

During 2000, the Group maintained its credit rating of BBB+ from Standard & Poor's Rating Agency. The agency recently changed the Group's outlook from negative to stable because of the improved Hong Kong property market and the Group's strong financial position.

Capital expenditures

The Group incurred capital expenditures totaling HK\$75 million in 2000, of which HK\$46 million was for developing The Grand Gateway project, HK\$27 million for completing construction payments for The Lee Gardens, and HK\$2 million for one of the Singapore residential property development projects.

Contingent Liabilities

The Group has provided guarantees for banking facilities granted to associated companies and investee companies. For 2000, the guarantees and counter guarantees were to cover the Group's obligations in respect of the three Singapore development projects. As of 31 December 2000, the Group's share of guarantees

and counter guarantees amounted to approximately HK\$153 million (1999: HK\$159 million) and HK\$84 million (1999: HK\$191 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 about 4 April 2001. The Annual Report will be despatched to shareholders on or about 4 April 2001 and made available on the Company's website at www.hysan.com.hk