



Hysan Development Company Limited

Interim Report 2000

CHAIRMAN'S STATEMENT

OVERVIEW

Conditions have generally improved in the overall leasing market during the first part of 2000. This is particularly evident in the Grade "A" office sector, hard-hit in 1999 by the local recession coinciding with a significant increase in supply. By the first half of this year, however, substantially all of such new space in prime locations has been let and the local economy has shown signs of recovery.

The average achieved rentals in our portfolio have shown a good recovery in general when compared with the levels secured in 1999, although the reversion pattern of our leases inevitably delays the full impact of this recovery on our revenue. The outlook for the Group's investment properties is continuing to improve alongside the further strengthening of local economic conditions.

RESULTS

Net profit for the six months ended 30 June 2000 was HK\$626.12 million compared with HK\$921.75 million (re-stated pursuant to the adoption of SSAP 24) in the first half of 1999, representing a decrease of 32.1% on the equivalent period in 1999 which period recorded non-recurring gains from property sales of HK\$455.79 million. The Group's net rental income decreased by 7.8%, mainly attributable to rent reviews and relettings secured at lower rents. The impact of such negative rental reversions was, however, largely offset by reduced interest expenses reflecting the Group's debt reduction efforts.

Earnings per share were 60.63 cents, also a decline of 32.1% (89.27 cents (as re-stated) for the same period in 1999).

INTERIM DIVIDEND

Your Directors have today declared an interim dividend of 11 cents per share (1999: 10 cents). The 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 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 11 October, 2000 and elections will be required to be made on or before 26 October, 2000.

The share register will be closed from 28 September, 2000 to 3 October, 2000, 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 1 November, 2000.

OPERATIONS

Investment Properties

There are positive developments in our office portfolio during the review period. The average achieved rents have increased considerably when compared with low levels secured in 1999. Although the earlier part of the year coincided with the move of the government and another major tenant to headquarter locations, the occupancy rate reached 91%. The level of activities has been robust, whether in terms of achieving fresh or renewed lettings. This should further support rent levels.

Our retail portfolio, located in the Hong Kong island retail hub of Causeway Bay, has enjoyed virtually full occupancy even during the difficult past year. Encouraging sales trends have been recorded during the review period, in the light of improved consumer sentiment and increased tourist arrivals. Demand for the Group's luxury residential portfolio has also been strong, which premises are now almost fully-let.

Development Properties

Singapore

The Group has minority interests in three residential development projects in Singapore, which market has shown signs of recovery during the first half of this year.

Pre-sales marketing for the first phase of the Sanctuary Green development, in which the Group has a 10% interest, is continuing satisfactorily. Superstructure work is scheduled to commence in the third quarter of this year. With piling works for both the Gardens at Bishan and Amaryllis Ville projects having been completed, they will be launched pending market conditions. The Group has a 10% and 25% interest in these projects respectively.

Shanghai, The People's Republic of China

The Group has a 44.725% interest in the Peace Garden project. Substantially all the units in the completed Phase One have been sold. The Group is closely monitoring the market situation in formulating future plans for Phase II.

Leasing for both the residential tower and retail podium of Phase One of the Grand Gateway is continuing satisfactorily. The Group has a 16.875% interest in this development.

OUTLOOK

There are encouraging signs of recovery in the overall leasing market during the first part of year 2000. Both the activity and rental trends have witnessed a healthy upturn, as supported by the further strengthening of demand. The absence of any significant new supply of Grade “A” office space in prime areas over the next two years is expected to underpin the continued recovery.

The Group remains in a strong financial position. Our focus will continue to be on maximizing the return on our investment property portfolio while selectively pursuing opportunities that lie ahead.

H. C. Lee

Chairman

Hong Kong, 5 September 2000

**CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED
30 JUNE 2000 – UNAUDITED:**

		Six Months Ended 30 June	
		2000	1999
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		1,382,721	2,007,360
Property expenses		(108,026)	(118,078)
Cost of sales of interest in securities		(297,328)	(404,066)
Cost of property sales		–	(165,025)
		<hr/>	<hr/>
Gross profit		977,367	1,320,191
Other revenue		234	186
Administrative expenses		(34,366)	(37,863)
		<hr/>	<hr/>
Profit from operations	2	943,235	1,282,514
Finance costs	3	(239,565)	(289,682)
Share of results of associates		111	(4,308)
		<hr/>	<hr/>
Profit before tax		703,781	988,524
Taxation	4	(42,427)	(26,989)
		<hr/>	<hr/>
Profit after tax		661,354	961,535
Minority interests		(35,232)	(39,783)
		<hr/>	<hr/>
Profits attributable to shareholders		626,122	921,752
Transfer to capital redemption reserve		(30,970)	–
Premium on shares repurchased		(21,554)	–
Interim dividend		(113,686)	(103,624)
		<hr/>	<hr/>
Retained profit		<u>459,912</u>	<u>818,128</u>
		<hr/>	<hr/>
Earnings per share (cents)	5		
Basic		60.63	89.27
Diluted		60.62	88.08

Notes:

1. Basis of preparation

The interim accounts have been prepared in accordance with the principal accounting policies set out in the 1999 annual report. Following the adoption of the accounting treatment specified by SSAP 24 (Accounting for investments in securities) in 1999, the first-half profit for 1999 has been increased by HK\$39,563,245. Comparative information have been restated to reflect this change in accounting policy.

2. Profit from operations

	Six Months Ended	
	30 June	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation	2,656	2,881
And after crediting:		
Rental income arising from operating leases less out-goings	665,835	721,920
Dividends from listed investments	4,044	1,350
Net realised and unrealised gain on trading securities	–	6,683
Gain on disposal of interests in other securities	293,842	130,474
Gain on property sales	–	455,785
	<u> </u>	<u> </u>

3. Finance costs

	Six Months Ended 30 June	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on		
– Bank loans, overdraft and other loans wholly repayable within five years	126,097	146,482
– Convertible bonds	25,829	37,733
– Floating rate notes	80,291	61,680
Amortization of convertible bonds and floating rate notes issue expenses	3,695	4,301
Bank charges	3,673	31,630
Exchange (gain) loss	(20)	7,856
	<u>239,565</u>	<u>289,682</u>

4. Taxation

	Six Months Ended 30 June	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax		
– For the year	42,427	43,566
– Tax rebate	–	(15,886)
Tax attributable to the company and its subsidiaries	42,427	27,680
Share of tax rebate attributable to associates	–	(691)
	<u>42,427</u>	<u>26,989</u>

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

5. Earnings per share

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

	Six Months Ended	
	30 June	
	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Earnings		
Earnings for the purposes of basic earnings per share	626,122,083	921,752,041
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds	–	31,460,653
Earnings for the purposes of diluted earnings per share	<u>626,122,083</u>	<u>953,212,694</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,032,693,024	1,032,595,852
Effect of dilutive potential ordinary shares:		
– Share options	129,231	198,231
– Convertible bonds	–	49,359,945
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,032,822,255</u>	<u>1,082,154,028</u>

6. Reserves

	Share premium account <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>
At 1 January 2000	1,258,363	1,654,177	69,140	3,110,025
Premium on issue of shares pursuant to scrip dividend scheme	10,184	–	–	–
Share issue expenses	(10)	–	–	–
Unrealised gain on interests in other securities	–	674,958	–	–
Recognition of unrealized gain on disposal of interests in other securities transferred to income statement	–	(293,922)	–	–
Share repurchased and cancelled:				
– Nominal value of shares repurchased	–	–	30,970	(30,970)
– Premium on shares repurchased	–	–	–	(21,554)
Net profit for the period	–	–	–	512,436
At 30 June 2000	<u>1,268,537</u>	<u>2,035,213</u>	<u>100,110</u>	<u>3,569,937</u>

ADDITIONAL INFORMATION

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in the Listing Rules of The Stock Exchange of Hong Kong Limited.

DIRECTORS' INTERESTS

As at 30 June 2000, the interests of the Directors and Alternate Directors in the ordinary shares of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:-

Name	Personal Interests	No. of shares held			Total
		Family Interests	Corporate Interests	Other Interests	
Hon Chiu LEE	3,211,705	-	-	-	3,211,705
LEE Quo-Wei	1,540,298	1,843,878	3,993 (Note 1)	1,376,314 (Note 2)	4,764,483
Peter Ting Chang LEE	2,000,000	-	3,802,500 (Note 3)	-	5,802,500
Fa-Kuang HU	-	-	255,012 (Note 4)	-	255,012
Hans Michael JEBSEN	60,000	-	2,432,914 (Note 3)	-	2,492,914
Per JORGENSEN	6,678	-	-	-	6,678
Chien LEE	970,000	-	3,802,500 (Note 3)	3,750,000 (Note 5)	8,522,500
Michael Tze Hau LEE	1,023,233	-	-	-	1,023,233
Deanna Ruth Tak Yung RUDGARD	1,871,600	-	-	-	1,871,600

Hysan Development Company Limited

Name	No. of shares held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Pauline Wah Ling YU WONG	304,000	–	–	–	304,000
Geoffrey Meou Tsen YEH	–	–	1,000 (Note 3)	–	1,000
V-Nee YEH (Alternate Director to Geoffrey Meou Tsen YEH)	40,919	–	80,000 (Note 3)	–	120,919

Notes:

1. The Honourable LEE Quo-Wei and Mrs. LEE were together entitled to control no less than one-third of the voting power at general meetings of a private company which beneficially held all those shares described above as his corporate interests.
2. 809,546 ordinary shares were held by a charitable foundation which was exempted from tax under Section 88 of the Inland Revenue Ordinance and of which The Honourable LEE Quo-Wei and Mrs. LEE were members of its Board of Trustees. 566,768 ordinary shares were held by two trusts of which Mrs. LEE was one of the two trustees. Neither The Honourable LEE Quo-Wei nor Mrs. LEE was a beneficiary of the shareholdings as referred to this note.
3. Such shares were held through corporations in which the respective Directors were members entitled to exercise one-third or more of the voting power at general meetings.
4. Such shares were held by another corporation which is wholly-owned by Mr. Fa-Kuang HU and he thus beneficially held all those shares.
5. Such shares were held through discretionary trusts of which Mr. Chien LEE was a beneficiary.

As at 30 June 2000, certain Directors had personal interests in options to subscribe for ordinary shares in the Company granted under the Company's Executive Share Option Scheme, details of which are set out below under "Executive Share Options".

Apart from the above, as at 30 June 2000, there were no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

EXECUTIVE SHARE OPTIONS

On 28 April 1995, an Executive Share Option Scheme (the “Scheme”) was approved by the shareholders under which the Directors of the Company may, at their discretion, offer any employee (including any Director) of the Company or of any of its wholly-owned subsidiary options to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Scheme.

The following Executive Share Options granted by the Company to Directors of the Company to subscribe for ordinary shares of the Company, were outstanding and not yet exercised:–

Name	Date of Grant	Exercise price per share (HK\$)	Exercise period	Number of options	Number of options	Number of options
				as at 1.1.2000	between 1.1.2000 and 30.6.2000	as at 30.6.2000
Hon Chiu LEE	3 May 1995	13.46	3 May 1997 to 2 May 2005	1,125,000	–	1,125,000
Pauline Wah Ling YU WONG	3 May 1995	13.46	3 May 1997 to 2 May 2005	900,000	–	900,000
Peter Ting Chang LEE	7 January 1999	9.22	7 January 2001 to 6 January 2009	1,350,000	–	1,350,000
Michael Chi Kung MOY	23 December 1999	7.54	23 December 2001 to 22 December 2009	1,200,000	–	1,200,000

SUBSTANTIAL SHAREHOLDER

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 30 June 2000, the Company has been notified of the following interests, being ten per cent (10%) or more of the Company's issued share capital:

	No. of shares
Lee Hysan Estate Company, Limited and certain of its subsidiaries	429,046,912

These interests are in addition to those disclosed above in respect of the Directors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2000, the Company repurchased on The Stock Exchange of Hong Kong Limited an aggregate of 6,194,000 shares at a total consideration of HK\$52,523,976.66.

A wholly-owned subsidiary of the Company redeemed on 1 June 2000 US\$117.98 million in nominal value of the 6.75% convertible bonds due 2000 (the "2000 Bonds") in accordance with its 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 first six months of this year.

Save as disclosed above, the Group had not repurchased, sold or redeemed any of the Company's listed securities during the review period.