Hysan 希慎

NEWS RELEASE

To: Business Editor

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For immediate release

HYSAN DEVELOPMENT COMPANY LIMITED – ANNUAL RESULTS 2002

Highlights

- Achieved strong occupancy: office 95%, retail 96%
- Strong balance sheet with maturity profile further strengthened
- Asset enhancement programme: re-launch of Bamboo Grove residential property well-received; works on Caroline Centre retail podium commenced

"Year 2002 remained a difficult year for the Hong Kong economy generally. We regard it of paramount importance that we keep a clear focus amidst the challenging environment. In addition to having achieved strong occupancy rates, we have further enhanced the asset value of our portfolio during the year.

Looking into 2003, global political and economic uncertainties may continue to impact the Hong Kong economy. Well-judged management decisions, implementation and risk management will thus be as important as ever. I am confident that we have, as demonstrated in the year under review, a clear focus, the financial as well as management capabilities to face these challenges."

Peter T. C. Lee, *Chairman and Managing Director*

Results

	Year ended 31 December		
	2002	2001	Change
	HK$'000	HK$'000	%
Operating Profit	**926,839**	1,066,738	(13.1)
Net Profit	**543,874**	600,343	(9.4)
Gross rental income	**1,229,599**	1,351,892	(9.0)
Gross rental income (excluding Bamboo Grove)*	**1,170,497**	1,231,024	(4.9)
	HK ¢	HK ¢	%
Earnings per share (basic)	**52.66**	58.26	(9.6)
Earnings per share (diluted)	**52.66**	58.24	(9.6)
Dividend per share	**36.5**	38	(3.9)
	HK$	HK$	%
Net asset value per share (before final dividend)	**18.45**	20.62	(10.5)

Note: in the light of continued impact of renovation*

The final dividend of HK cents 26.5 per share will be payable in cash with a scrip dividend alternative (conditional on listing approval by the Stock Exchange of Hong Kong Limited) on or around 13 June 2003, subject to approval at the Annual General Meeting to be held on 13 May 2003, to shareholders on the register of members as at 13 May 2003. The ex-dividend date will be 6 May 2003, and the share registers will be closed from 9 May to 13 May 2003, inclusive.

Performance

Net profit for the year ended 31 December 2002 was HK$543.9 million, 9.4% lower than in 2001 (HK$600.3 million). The fall in gross rental income (2002: HK$1,229.6 million; 2001: HK$1,351.9 million) was largely attributable to negative rental reversions and the continued impact of the upgrading renovation works at the Bamboo Grove residential property. If Bamboo Grove is excluded, the fall in gross rental income was 4.9%.

Earnings per share were HK52.66 cents, a decrease of 9.6% (HK58.26 cents for the same period in 2001).

A final dividend of HK26.5 cents per share was recommended, which together with the interim dividend of 10 cents per share, represents an aggregate distribution of HK36.5 cents per share, a decrease by 3.9% for the year.

The Group's investment property portfolio, as valued externally by independent professional valuers, was HK$24,841 million as at 31 December 2002 (2001: HK$26,639 million). Largely due to the net valuation deficit, shareholders funds at 2002 year-end were HK$19,087 million, compared to HK$21,267 million in 2001. Net asset value per share (before final dividend) decreased by 10.5% to HK$18.45.

Strategic Review

"With the Hong Kong economy continuing to be difficult, the property investment sector experienced another challenging year in 2002. In this context, I am pleased to report that the overall occupancy levels throughout the Group's commercial property portfolio remained strong during the review year (office: 95%, retail: 96%)," commented Mr. Lee.

The office leasing market continued to be soft in the light of the overall economic conditions, leading to weakening rentals. Better-quality buildings under single ownership, particularly in prime locations with no major new supply remain better market-performers. The Group's office portfolio achieved a 95% occupancy rate.

The retail leasing market had some support from increased tourist arrivals despite the fact that general economy and consumer confidence remained weak. Retail rentals in prime locations, like Causeway Bay, continue to be firm.

A 96% retail occupancy rate was achieved. Considerable progress was made in furtherance of the Group's objective to create an attractive environment for dining, shopping and recreation. During the year, a hub of specialty food and beverage outlets was successfully established, while continued efforts were made to fine-tune the tenant mix.

Capital improvement programme

"We regard it of paramount importance that we keep a clear focus amidst the challenging environment. Our goal is to continue to invest in areas which will enhance our asset value and underlying competitiveness. We constantly review and assess our portfolio within its particular market segment, and following up with appropriate enhancement programmes,"Mr. Lee stated.

The re-launch of the renovated Bamboo Grove in mid 2002 was well received by the market, capturing a good market share of new expatriate arrivals in Hong Kong. The Group will continue to focus on expatriate tenants, building on its strong tenant base drawn from senior executives from multi-national corporations engaged in a diversity of activities.

During 2002, enhancement works were also carried out for One Hysan Avenue. Improvement works had also commenced for Sunning Court and Leighton Centre.

Looking into 2003, works have commenced in March 2003 for a major re-positioning of the retail podium of Caroline Centre to capitalize its synergy with the high-end Lee Gardens shopping centre.

Strong Balance Sheet

The Group continued to have a strong balance sheet designed to complement the Company's strategic decisions. The Group's debt tenure was lengthened, with more diversified funding sources. During the past year, the Group refinanced HK$1.2 billion of bank and syndicated loans to take advantage of the current favourable banking environment in Hong Kong. A US$200 million ten-year medium term notes issuance was also made during the year.

The Group will continue to adhere to its policy of financial prudence. With substantial committed banking facilities in place and solid recurring rental cashflow, the Group is in a strong financial position to satisfy its capital commitments and ongoing working capital requirements.

Board Changes

"Dr. Victor K. K. Fung gave notice to the board that he would not stand for re-election at the forthcoming annual general meeting to be held in May. Dr. Fung has been serving on the board since 1998. The Board is greatly indebted to Dr. Fung for his invaluable guidance and contribution to the success of Hysan, " Mr. Lee remarked.

Outlook

"Looking into 2003, we are not immune from economic or financial pressure outside our control. Current global political and economic uncertainties may continue to adversely impact the Hong Kong economy. Well-judged management decisions, implementation and risk management will thus be as important as ever. I am confident that we have, as demonstrated in the year under review, a clear focus as well as the financial and management capabilities to face the challenge," Mr. Lee concluded.

Hysan Development is a leading property investment, management and development company in Hong Kong, with a major portfolio in high-quality office, retail and residential properties. It is the largest commercial landlord in the prime office/retail Causeway Bay district.

END

This press release and other corporate information can also be found at: www.hysan.com.hk or www.irasia.com/listco/hk/hysan/index.htm

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HIGHLIGHTS

Consolidated Income Statement

	Notes	Year ended 31 December 2002 HK$'000	2001 HK$'000
Turnover	*1*	**1,233,398**	1,355,450
Property expenses		**(235,841)**	(223,598)
Cost of property sales		**(50)**	-
Gross profit		**997,507**	1,131,852
Impairment loss (arising) reversed in respect of investments in securities		**(800)**	6,225
Other operating income		**15,908**	18,557
Release of negative goodwill arising on acquisition of additional interest in a subsidiary		**60**	60
Administrative expenses		**(85,836)**	(89,956)
Profit from operations	*2*	**926,839**	1,066,738
Finance costs		**(220,553)**	(314,428)
Gain on disposal of an associate		**-**	33,531
Impairment loss arising in respect of interests in associates		**(10,064)**	(4,880)
Share of results of associates		**143**	(2,338)
Profit before taxation		**696,365**	778,623
Taxation	*3*	**(97,903)**	(114,903)
Profit after taxation		**598,462**	663,720
Minority interests		**(54,588)**	(63,377)
Net profit for the year		**543,874**	600,343
Dividends	*4*	**377,529**	391,598
Earnings per share	*5*		
Basic		**HK52.66cents**	HK58.26 cents
Diluted		**HK52.66cents**	HK58.24 cents

Condensed Consolidated Balance Sheet

	At 31 December	
	2002	2001
	HK$'000	*HK$'000*
Non-Current Assets	**26,457,853**	28,523,841
Current Assets	**97,324**	98,751
Current Liabilities	**(1,282,220)**	(2,562,558)
Net Current Liabilities	**(1,184,896)**	(2,463,807)
Total Assets Less Current Liabilities	**25,272,957**	26,060,034
Non-Current Liabilities	**(5,309,593)**	(3,831,017)
	19,963,364	22,229,017
Minority Interests	**(876,388)**	(962,092)
	19,086,976	21,266,925
Capital and Reserves		
Share Capital	**5,173,084**	5,156,516
Other Reserves	**10,166,875**	12,529,737
Accumulated Profits	**3,747,017**	3,580,672
	19,086,976	21,266,925

Notes:

1. TURNOVER

	2002	2001
	HK$'000	*HK$'000*
Turnover comprises:		
Gross rental income from properties	**1,229,599**	1,351,892
Income from property sales	**1,550**	**-**
Management fee and security service income	**2,249**	3,558
	1,233,398	1,355,450

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

	2002	2001
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging (crediting):		
Staff costs	**115,331**	109,359
Depreciation	**4,793**	6,029
Auditors' remuneration	**1,629**	1,636
Rental income arising from operating leases less out-goings	**(996,702)**	(1,131,580)
Dividends from		
- listed investments	**(3,145)**	(8,612)
- unlisted investments	**(7,367)**	(5,796)
Interest income	**(4,842)**	(3,749)
Gain on property sales	**(1,500)**	-

3. TAXATION

	2002	2001
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
- for the year	**106,703**	114,799
- (over)underprovision in prior years	**(10,095)**	104
	96,608	114,903
Deferred taxation	**1,295**	-
Taxation attributable to the Company and its subsidiaries	**97,903**	114,903

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the year.

At the balance sheet date, the deferred taxation provided represents the tax effect of timing differences because of excess of tax allowances over depreciation.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

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

	2002	2001
	HK$'000	*HK$'000*
Ordinary shares:		
Interim dividend, paid - HK$0.10 per share (2001: HK$0.10)	**103,355**	102,833
Final dividend, proposed - HK$0.265 per share (2001: HK$0.28)	**274,174**	288,765
	377,529	391,598

5. EARNINGS PER SHARE

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

	2002	2001
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share (net profit for the year)	**543,874**	600,343
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,032,758**	1,030,485
Effect of dilutive potential ordinary shares: Share options	**-**	358
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,032,758**	1,030,843

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.

6. TRANSFER TO/(FROM) RESERVES

	2002	2001
	HK$'000	*HK$'000*
Share Premium		
Premium on issue of shares pursuant to scrip dividend scheme	**10,199**	30,847
Share issue expenses	**(10)**	(31)
Investment Property Revaluation Reserve		
Deficit on revaluation of investment properties	**(2,158,317)**	(1,972,248)
Deficit on revaluation of investment properties shared by minority shareholders	**86,600**	131,703
Realisation on disposal of investment properties transferred to income statement	**(1,492)**	-
Investment Revaluation Reserve		
Unrealised loss on investments in other securities	**(284,395)**	(566,708)
Asset Revaluation Reserve		
Deficit on revaluation of land and buildings	**(856)**	(2,823)
Capital Reserve		
Reversed on disposal of an associate	**-**	1,133
Translation Reserve		
Reversed on disposal of an associate	**-**	12,736
Capital Redemption Reserve		
Share repurchased and cancelled	**-**	34,820
Dividend Reserve		
Amount set aside for dividends	**377,529**	391,598
Dividends paid	**(392,120)**	(422,211)
Accumulated Profits		
Nominal value of share repurchased transferred to Capital Redemption Reserve	**-**	(34,820)
Premium on shares repurchased	**-**	(29,500)

Financial Review

Consolidated profit and loss account

Rental income

The Group's gross rental income of HK$1,229.6 million was 9.0% lower year-on-year mainly because of negative rental reversions and high vacancy at Bamboo Grove due to renovation for repositioning. Excluding the impact of Bamboo Grove, the rental fall was 4.9%.

Operating expenses

Property expenses increased by 5.5% to HK$235.8 million year-on-year largely due to the significant increase in utilities and insurance expenses which are largely out of the Group's control, and higher marketing expenses associated with active leasing activities, in particular for the repositioning of Bamboo Grove. The higher property expenses were partly offset by a 4.6% decrease in administration expenses to HK$85.8 million due to cost reduction.

Financial expenses

Further helping with cost reduction was a substantial 30.6% year-on-year decrease in net financial expenses to HK$215.7 million, despite relatively stable debt level, as the Group was able to take advantage of Hong Kong's prevailing low interest rates.

Profit attributable to shareholders

The Group's profit attributable to shareholders for the year ended 31 December 2002 decreased by 9.4% year-on-year to HK$543.9 million (recurring profit decreased by 4.1% as 2001's result included a gain on disposal of an associate of HK$33.5 million). Earnings per share were correspondingly 9.6% lower at HK52.66 cents.

Consolidated balance sheet

Assets

Total assets decreased by 7.2% to HK$26,555.2 million mainly due to the decrease in the valuation of investment properties as the Hong Kong property market continues to be weak.

Current liabilities

Current liabilities decreased by HK$1,280.3 million to HK$1,282.2 million mainly due to the HK$2 billion five-year floating rate notes being repaid in March 2002 and reclassification of long-term bank loans of HK$597.8 million due within one year.

Non-current liabilities

The increase in non-current liabilities of HK$1,478.6 million to HK$5,309.6 million reflected the refinancing of the HK$2 billion floating rate notes through the issue of the US$200 million 7% ten-year fixed rate notes under the Medium Term Note (MTN) Programme.

Shareholders funds

Shareholders funds decreased by 10.3% to HK$19,087.0 million principally due to the decrease in property valuation of HK$2,073.2 million, partially offset by profits retained during the year of HK$440.5 million from strong recurring income.

Key financial ratios

Net interest coverage

As of year-end 2002, the net interest coverage ratio (defined as profit from operations before depreciation less dividend and interest income divided by net interest expenses) was 4.7. This is the highest the ratio has been in the past five years principally because of modest debt outstanding and low interest rates.

Net gearing

The year-end 2002 net gearing (defined as gross debt less cash and cash equivalents and marketable securities at year end market value divided by shareholders funds) was 25.7%, which is close to its average for the past five years. The re-investment in the Group's property portfolio, as discussed in the next section, and the downward revaluation of assets are reflected in the gearing rise of the past two years.

Capital expenditure

Investment appraisal

The Group appraises the feasibility and priority of proposed capital expenditure projects based on their strategic importance as well as their ability to improve rental yield or reduce operating cost. Project financial feasibility is generally assessed by net present value and internal rate of return calculated from projected discounted cash flows.

Capital expenditure during 2002

The Group spent HK$399.3 million during the past year. Most of this was incurred for refurbishment of the Group's investment properties, including Bamboo Grove and One Hysan Avenue. In addition, HK$25.0 million were incurred on the China and Singapore projects and HK$9.4 million were spent for upgrades to the Group's computer system.

Capital expenditure funding

Capital expenditures were primarily financed by internally generated funds from operations. With substantial committed banking facilities in place and solid recurrent rental cash flow, the Group is in a strong liquidity position and has sufficient financial resources to satisfy its capital commitments and ongoing working capital requirements.

Contingent liabilities

The Group has provided guarantees for banking facilities granted to associated companies and investee companies. At 31 December 2002, the Group's share of guarantees and counter guarantees amounted to HK$156 million (2001: HK$148 million) and HK$84 million (2001: HK$79 million) respectively.

Financing

Total gross debt was relatively unchanged at HK$5.71 billion versus HK$5.63 billion at 2001 year-end, of which, all were unsecured and over 97% were on a committed basis.

Sources of financing

The Group maintains diversified sources of funding to minimize over-dependence on any one source as well as to reach new investors for the Group's debt instruments, particularly as the Group grows going forward. As of year-end 2002, the mix of funding sources comprised of 60.4% from bank bilateral loans, 34.3% from capital market issuances and 5.3% from syndicated and club loans.

Within the bank segment, the Group maintains bilateral funding relationship with over 15 banks.

Fund raising during 2002

The Group took a major step forward in the process of developing and maintaining access to the international capital markets by launching a MTN Programme, and subsequently issuing in early 2002

US$200 million ten-year inaugural notes on the European and Asian capital markets. The proceeds were used to help repay HK$2 billion five-year floating rate notes that matured later in the year. The new ten-year issuance was well received and established a benchmark for the Group going forward.

During the past year, the Group also refinanced HK$1.2 billion of bank and syndicated loans to take advantage of the current high-liquidity, low-cost banking environment in Hong Kong.

Maturity profile

To improve the tenor matching of assets and liabilities as well as to reduce refinancing risk, the Group during the year moved to a mix of short-term and intermediate-term maturities from a previous dependence on shorter-term instruments. The 2002 year-end maturity profile, as can be seen below, is significantly stronger with little short-term maturity pressure and balanced repayment schedule over the intermediate term.

The maturity profiles of the Group's gross debt at 31 December 2002 and 31 December 2001 are summarised as follows:

	2002 *HK$(Million)*	2001 *HK$(Million)*
Repayable within a period		
- Not exceeding 1 year	737	2,140
- Between 1 to 2 years	1,086	436
- Between 2 to 5 years	1,618	2,572
- After 5 years	2,266	480
	5,707	5,628

* Note: Subsequent to the balance sheet date, a HK$300 million loan originally maturing in 2004 has been prepaid and refinanced by a 7-year bank loan with maturity in 2010.

Credit ratings

The current credit ratings assigned by Moody's and Standard and Poor are Baa1 and BBB respectively. Both investment credit ratings continue to reflect the Group's strong financial position. It should be noted that the Group's rating is to some extent capped by Hong Kong's foreign currency long-term debt ratings of A3 from Moody's and A+ from Standard and Poor.

Financial risk management

The Group's normal business operation involves a number of financial risks and are mitigated and managed as described below.

Liquidity risk

The Group maintains sufficient liquidity at all times to fund its working capital. Liquidity requirements are met by strong recurring cash flows from the investment property portfolio and low-cost standby revolving bank facilities. At year-end 2002, the Group had HK$1,367 million undrawn committed facilities.

Funding risk

The Group maintains diversified sources of funding to reduce the risk of being unable to draw sufficiently from any one source. The diversification includes drawing from international capital markets as well as multiple banks. The latter include banks of various nationalities, including a significant number who have been working with the Group for many years. Standby revolving bank facilities are also maintained to reduce refinancing risk.

Currency risk

The Group aims to have minimal mismatches in currency and does not speculate in currency movements. Over 97% of the Group's assets by value and all rental income are in Hong Kong and denominated in Hong Kong dollars, the balance is in Singapore dollars and Reminbi corresponding to the Group's property projects in those two countries. At year-end 2002, all of the Group's debts were in Hong Kong dollars with the exception of the US$200 million ten-year notes, which in turn has been hedged by appropriate hedging instruments.

Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. At year-end 2002, 91% of the Group's gross debt were on a floating rate basis, but could change with changes to the interest rate trend going forward. The Group's weighted average cost of borrowing for the past year was 3.65% vis-à-vis 5.81% for 2001.

Credit risk

The Group manages its credit risk mostly on two fronts: rent receivable from tenants and counter-party financial obligations in currency and interest rate derivative contracts. For the former, credit checks are part of the normal leasing process and stringent procedures are in place to deal with delinquent rent (over one month overdue). As of year-end 2002, the amount of delinquent rent was HK$0.8 million or less than 1% of the Group's average monthly rental income. To mitigate counter-party risk, the Group enters into derivative contracts only with sound financial institutions with strong investment-grade credit ratings, limits exposure to each, and monitors each's rating regularly.