



IN A CLEAR DIRECTION

ANNUAL REPORT

2002

Mission

Hysan Development is committed to building and owning quality buildings, and being the occupier's partner of choice in the provision of real estate accommodation and services, thereby delivering attractive and sustainable returns to shareholders.

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Highlights 2002

Year 2002 remained a difficult one for the Hong Kong economy generally. We regard it of paramount importance that we keep a clear focus amidst the challenging environment and continue to invest in areas that will enhance our asset value and underlying competitiveness.

- 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 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 <i>(excluding Bamboo Grove)*</i>	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 renovations of Bamboo Grove residential property

Chairman's Statement



Mr. Peter T.C. Lee

We regard it of paramount importance that we keep a clear focus amidst the challenging environment. Our goal is to continue investing in areas which will enhance our asset value and underlying competitiveness. Our objective is asset management: we constantly ask ourselves how to put our properties to the highest and best use.

RESULTS

The property investment sector, like the rest of the Hong Kong economy, 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%).

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 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).

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.

Detailed commentary on our performance and assets valuation are set out in "Operating and Financial Review" on pages 4 to 10.

DIVIDENDS

The Board recommends the payment of a final dividend of HK26.5 cents per share, which together with the interim dividend of HK10 cents per share, represents an aggregate distribution of HK36.5 cents per share, a decrease of 3.9% for the year. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative. Details on the payment of final dividend, including the scrip dividend arrangements, are set out in "Shareholder Information" on the inside back cover.

A CHALLENGING YEAR

The past year remained a difficult one for the Hong Kong economy generally.

We regard it of paramount importance that we keep a clear focus amidst the challenging environment. Our goal is to continue investing in areas which will enhance our asset value and underlying competitiveness. As a property investment company, we look clearly beyond leasing as our key activity. Our objective is asset management: we constantly ask ourselves how to put our properties to the highest and best use. This involves developing a building, leasing, managing as well as servicing it; and most important of all, constantly reviewing and assessing it within its particular market segment, and following up with appropriate enhancement programmes including market repositioning and upgrades.

In addition to having achieved strong occupancy rates, we have further enhanced the asset value of our portfolio during the year. We completed the market repositioning of our Bamboo Grove residential property, which was well-received by the market. Upgrades have been completed for some of our other buildings.

We further improved our property service levels and our operating efficiency generally.

Our balance sheet remains strong with our maturity profile further strengthened.

Details of these initiatives and the progress we made in implementing our strategic principles, are further discussed in the "Operating and Financial Review" on pages 4 to 10.

CORPORATE GOVERNANCE AND FINANCIAL TRANSPARENCY

A commitment to good corporate governance and financial transparency has always been a clear element of our management philosophy. I am pleased that our efforts in this area are being recognized, with our board having been elected Directors of the Year by the Hong Kong Institute of Directors. General progress we made in these areas are set out in the "Corporate Governance Statement" in this report.

SOCIAL RESPONSIBILITY

Hysan is committed to playing its role as a responsible corporate citizen. Additional information on our policies in this area can be found in a separate section later in this report.

DIRECTORS AND STAFF

Our Company owes much to its supportive Board of Directors and I would like to extend my thanks to them for their wise counsel. Dr. Victor K. K. Fung, having served on the board since 1998, gave notice that he would not stand for re-election as at the forthcoming annual general meeting to be held in May. The Board is greatly indebted to Dr. Fung for his invaluable guidance and contribution to the success of Hysan.

It is important that any organization which is facing a challenging environment has a combination

of experience and skills.

The Company has been further strengthened by the appointment of Michael T.H. Lee as Chief Operating Officer as from June 2002. My thanks go to our staff for their hard work and all they have achieved over the very challenging year, while extending my welcome to new executives who bring different skills and thinking to the Group.

THE FUTURE

At the strategic level, our aim is to operate a property investment company of choice, capable of delivering attractive returns for investors.

Looking into 2003, works have commenced for a market repositioning of the retail podium of Caroline Centre. We are committed to further enhancing our portfolio value generally.

Of course, we are not immune from economic or financial pressure outside our control. Current global political and general 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 these challenges.

Peter T. C. Lee

Chairman and Managing Director
Hong Kong, 11 March 2003

Operating and Financial Review

We have had an active year, making further progress in implementing the strategic principles mapped out two years ago. Market conditions continued to be challenging, but our underlying strategic principles remained the same.

OPERATING REVIEW

In summing up the work of the past year, we have followed these general directions:

- Optimize occupancy levels across the portfolio (achieved: office: 95%; retail: 96%)
- Maximize tenant retention through the provision of superior customer-focused services and enhancement of our properties
- Diligently pursuing leasing opportunities by closely managing lease renewals and securing new leases
- Seek asset enhancements: completed market repositioning of Bamboo Grove and renovations of One Hysan Avenue. Improvement works for Leighton Centre and Sunning Court are in progress; with works having commenced for repositioning the retail podium of Caroline Centre in March 2003
- Aggressively pursuing revenue generation opportunities by stepping up carpark marketing and leasing
- Maximize operating efficiency: set clear benchmarks for property services; promoted energy efficiency. Also further enhanced credit control measures and kept rental arrears at a very low level. In progress in implementing an enterprise resource planning system to enhance administrative efficiency generally.



The case studies on pages 11 to 17 illustrate how we have put these directions in action.

INVESTMENT PROPERTIES

Office

■ Market Overview

The office 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.

■ Our Performance

In this context, Group achieved a high occupancy rate of 95% at year-end 2002. This reflects the effectiveness of measures that we have put in place to maximize tenant retention. We closely monitor lease renewals and pursue advance leasing negotiations with tenants.

In this way, we minimize vacancy levels and the associated disruption to a stable rental income stream.

Retail

■ Market Overview

While the general economy and consumer confidence remained weak, the retail sector had some support from increased tourist arrivals. Retail rentals in prime locations, like Causeway Bay, continue to be firm. Shopper's preference for an attractive shopping environment with a diversity of shopping as well as leisure activities became even more distinct. The trend for large-scale flagship stores also continued.

■ Our Performance

Our retail portfolio achieved a 96% occupancy rate at year-end 2002. We made further progress in furthering our objective to create in our retail portfolio an attractive environment



Mr. Michael T.H. Lee

for dining, shopping and recreation. During the year, a hub of specialty food and beverage outlets was successfully established. We also continued our efforts to refine the tenant mix in our portfolio generally.



Operating and Financial Review

The planned market repositioning of Caroline Centre in 2003 to capitalize its synergy with the high-end Lee Gardens shopping centre is another step to further grow our retail portfolio. Works commenced in March, 2003.

Residential

■ Market Overview

Leasing activities in the luxury residential market remained to be weak. Relocating activities were more active, with tenants taking advantage of the market environment to relocate to better-quality premises given the same budget. The general downward rental pressure was particularly felt in multi-owned developments with some individual owners having been more willing to offer incentives.

■ Our Performance

The re-launch of the repositioned

Bamboo Grove which commenced during the second half of 2002 was well received by the market, and we were particularly encouraged by the success in capturing a good market share of new expatriate arrivals in Hong Kong. We continue to focus on expatriate tenants, with a strong tenant base drawn from multi-national corporations engaged in a diversity of activities.

DEVELOPMENT PROPERTIES Shanghai

The retail podium of the Phase I joint-venture Grand Gateway development achieved high occupancy. This multi-level retail complex in Puxi offers a fascinating one-stop shopping and dining destination for people of all age groups.

Singapore

Sales of the three joint-venture residential developments were continuing, amidst generally slow market conditions in Singapore. The Group has 10% interest in Sanctuary

Green and the Gardens at Bishan, and 25% interest in Amaryllis Ville.

PROPERTY SERVICES

At Hysan, we see completion of a lease as just the beginning of a long-term partnership. We have always managed our properties ourselves in furtherance of this partnership objective.

We further enhanced our service levels during the year. A system of tenant service levels was piloted in selected buildings, which will be introduced to our portfolio generally during the first-half of 2003. Energy efficiency measures were also introduced to enhance operating effectiveness without compromising services.

CAPITAL IMPROVEMENT PROJECTS

As a continuous process to enhance long-term value, management undertake regular reviews of building performance and, based on



Implementation of Corporate Strategic Principles

Strategic principles identified	Progress to date
1. To upgrade overall operational efficiency including facilities management, emphasizing good customer service	<ul style="list-style-type: none"> ■ Introduce Comprehensive Tenants Service Levels to achieve total customer satisfaction ■ Introduce energy efficiency initiatives resulting in enhanced operating effectiveness without compromising service standards ■ Customer service generally enhanced with training and audit efforts stepped up
2. To further grow our retail sector located in the retail hub of Causeway Bay	<ul style="list-style-type: none"> ■ Occupancy rate of 96% for retail achieved ■ Proactive management of tenant-mix, including the creation of a food and beverage hub in our neighbourhood ■ Stepped-up marketing and promotions efforts to further strengthen partnership relations with tenants
3. To continually focus on the current and future needs of our commercial and residential customers who occupy our space and use our services	<ul style="list-style-type: none"> ■ Occupancy rate of 95% for office portfolio demonstrates our success in anticipating and meeting the needs of our customers ■ Introduce personalized resident service at Bamboo Grove which was well-received ■ Introduce a children's floor in Bamboo Grove Clubhouse offering one of the largest indoor play equipment in Hong Kong private residential clubhouses
4. To continually review the performance of individual properties and improve the quality and value of the portfolio by selective refurbishment and re-development	<ul style="list-style-type: none"> ■ Completed refurbishment and market repositioning of Bamboo Grove which was well-received by the market ■ Completed renovation of external facade for One Hysan Avenue: improvement works for Leighton Centre and Sunning Court in progress ■ Finalized plans for refurbishment and market repositioning of retail podium of Caroline Centre with works having commenced in March 2003
5. To utilize our relationships and financial strength as a competitive advantage in pursuing investment opportunities and to keep risk and return in balance	<ul style="list-style-type: none"> ■ Strong balance sheet with debt maturity profile lengthened and diversified funding sources ■ Prudent financial management principles and strong financial position geared to complement strategic decisions ■ Continue to strengthen corporate governance practices; recognition achieved with 2002 Directors of the Year Award by the Institute of Directors

experience and market knowledge, assess the future opportunities for our properties. Appropriate capital improvement projects, including refurbishment, renovation, upgrading of building facilities and market repositioning initiatives are recommended and implemented.

The year saw the completion and market repositioning of Bamboo Grove. We also finalized design plans for the renovations and market repositioning of the retail podium of Caroline Centre, with works scheduled to be carried out between March to October 2003.

In addition, we completed refurbishment of the building exterior for One Hysan Avenue. Improvement works had also commenced for Sunning Court which include re-tiling of external walls and renovating the main lobby; and for upgrading the building exterior and building facilities of Leighton Centre.



Operating and Financial Review

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 HK\$2.66 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.

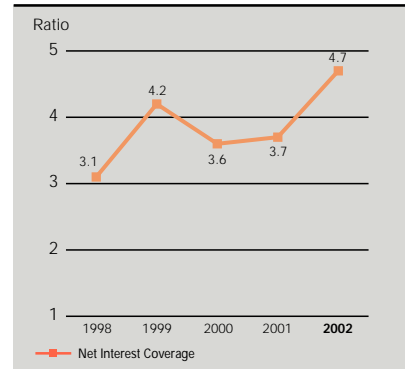
Non-current Liabilities

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

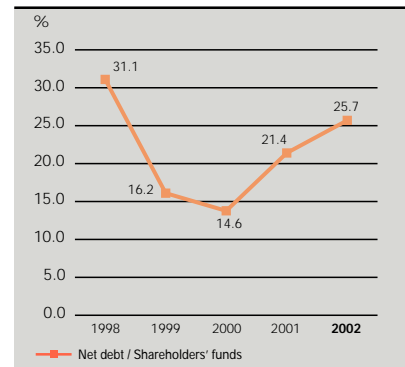
Shareholders' funds decreased by 10.3% to HK\$19,087 million principally due to the decrease in property valuation of HK\$2,073.2 million, partially offset by profits retained during the year of HK\$440.5 million from strong recurring income.

Net Interest Coverage at Year-end



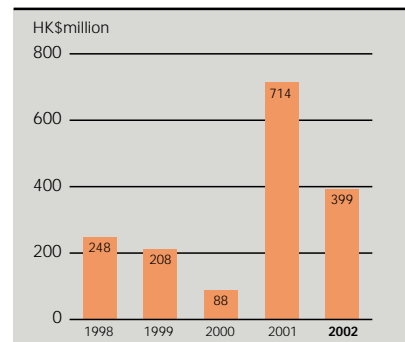
Note: Net interest coverage ratio (defined as profit from operations before depreciation less dividend and interest income, divided by net interest expenses)

Net Gearing at Year-end



Note: Net gearing (defined as gross debt less cash and cash equivalents and marketable securities at year-end market value, divided by shareholders' funds)

Capital Expenditure at Year-end



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 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

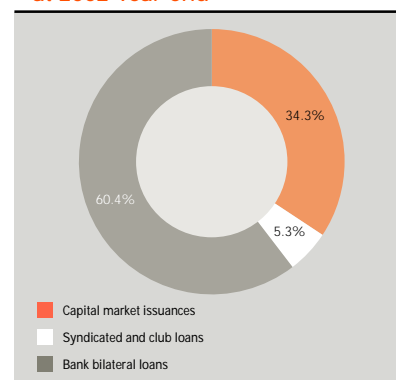
Total gross debt was relatively unchanged at HK\$5.71 billion versus HK\$5.63 billion at 2001 year-end, of which, all were unsecured and over 97% were on a committed basis.

Sources of Financing

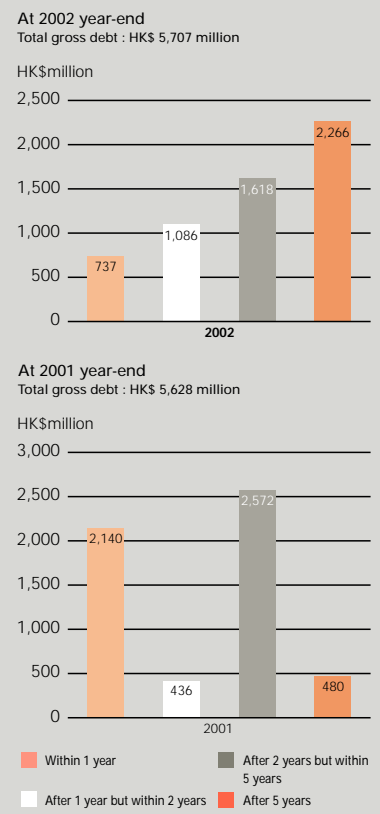
The Group maintains diversified sources of funding to minimize over-dependence on any one source as well as to reach new investors for the Group's debt instruments, particularly as the Group grows going forward.

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

Sources of Financing at 2002 Year-end



Maturity Profile



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.

Operating and Financial Review

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 is significantly stronger with little short-term maturity pressure and balanced repayment schedule over the intermediate term.

CREDIT RATINGS

The current credit ratings assigned by Moody's and Standard and Poor's 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's.

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 Renminbi 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.

Michael T. H. Lee

Chief Operating Officer and Director
Hong Kong, 11 March 2003

Case Studies

Hysan's objective is to deliver value by putting our properties to the highest and best use. We work with present and prospective tenants to deliver property that works for them, their employees and their customers.

The following case studies illustrate how we have been putting our principles into action over the past year.



Hysan aims to anticipate and meet the changing needs of our present and prospective tenants.

Bamboo Grove, our luxurious residential development, has always been a popular choice for expatriate families with young children. This is our clear focus when we embarked upon the recent refurbishment and market repositioning exercise.

We, therefore, dedicated a floor in the clubhouse for a "Children's World", which houses one of the largest "Tuff N Tumble" indoor play equipment in Hong Kong private residential clubhouses. Other purpose-built facilities include a music room, a dance hall and a special play area for toddlers. Even the washroom facilities are built to suit the needs of children. In addition, the 30,000 square feet traffic-free spacious outdoor podium is welcome by mothers and children alike.

The refurbishment and market repositioning of Bamboo Grove not only demonstrates Hysan's foresight to enhance asset value, but also our commitment to meet the changing needs of our tenants.

" Your enthusiasm and your ability to motivate your staff have resulted in making our occupants' living in Bamboo Grove as comfortable as humanly possible."

Geoffrey H. Moore
Supervisory General Service Officer
for a major corporate tenant

Delivering value through **Customer Focus** Bamboo Grove

Delivering value through Market Repositioning

Caroline Centre

Caroline Centre was built in 1992. Situated right next to The Lee Gardens to which it is connected by a footbridge, it has an established retail podium with a particularly successful children's concept.

Hysan is committed to achieving asset enhancement and income growth through a continuous programme of selective refurbishment and repositioning. Each property's position within its particular market segment is continually reviewed and assessed.



Appropriate capital improvements, including renovations and marketing repositioning initiatives will be implemented.

In Hong Kong, shopping destinations with a larger store layout and a diversity of shopping and leisure activities are becoming more distinct. The trend for flagship store also continued.

We took the view, as confirmed by market studies, that we could further enhance the value of the Caroline Centre retail podium by a market repositioning exercise. We therefore finalised a major programme to re-design the retail podium, to enhance shop front, internal finishes, as well as layout. These, coupled with our efforts to refine the tenant mix and introduce appropriate specialty themes, seek to capitalise the property's synergy with The Lee Gardens and enhance its asset value generally.

Refurbishment works for Caroline Centre have commenced in March 2003, to be completed by late October.



Delivering value through Creative Solutions

Retail leasing



Pret A Manger, a trendy boutique sandwich shop, which has been hugely successful in other international cities like London, Paris, Milan, New York, Tokyo and Singapore, has opened a major outlet in our property, AIA Plaza. To create an enjoyable seating environment with indoor comfort and unobstructed street views, our leasing team has provided useful suggestions on spatial planning, seating arrangement and shop ambience. The new shop has been almost an instant success, adding to the rich variety of eateries to satisfy the diverse tastes and lifestyles for all walks-of-life in our vibrant hub.

In our retail portfolio, our objective is to create an attractive environment for dining, shopping and recreation in our neighbourhood. Our leasing team therefore keeps a constant look-out and is keen on introducing new retail concepts and fresh tastes.

Pret A Manger, a trendy boutique

" We started to develop our business in Hong Kong over a year ago. And in a short space of time, we've recognised the importance of building strong relationship with the landlords. We really appreciate the hard work and commitment Hysan has shown us. The emphasis that you place on customer service is a credit to your company.

You should be very proud of the people who are now working for you, their support has been valuable in our endeavours to grow a successful business in the AIA Plaza."

Pret A Manger (Hong Kong) Limited

Delivering value through Partnership Approach

"Culinary Journey on Hysan Avenue"

Hysan's year-round marketing programme aims to enhance the attractiveness of our retail portfolio for our long-term growth as well as that of our tenants.

In the light of the many existing food and lifestyle outlets in our portfolio, a special promotional activity called "Culinary Journey on Hysan Avenue" was launched.



This seasonal event stretched over the summer months of July and August. Activities covered the whole range of culinary activities: including table and social etiquette, table-setting, cooking demonstrations, wine and caviar tasting, floral arrangements and ballroom dancing.

"The response to the joint-promotion of culinary classes at our restaurant last summer was encouraging and fruitful. The idea was avant-garde, interesting and practical, making use of tenant expertise to capture the attention and interest of our guests in western food, wine and table etiquette.

We look forward to exploring new promotional ideas with Hysan."

COVA Caffé-Ristorante

Delivering value through **Innovative Work Processes** Comprehensive Tenant Service Levels



their businesses and customers, and ensuring the most comfortable surroundings for residential tenants to build their homes.

A new service model, known as the Comprehensive Tenant Service Levels, was introduced with an aim to achieving total customer satisfaction. The service levels are sets of performance measurement standards aiming to deliver cohesive and tenant-focused services while improving service performance and enhancing operational efficiency.

The service levels cover services such as cleaning, maintenance and security as well as handling tenant requests and managing hand-over of properties to tenants. The new system provides clear and specific targets. Staff will know precisely the level of service standards expected by Hysan in better servicing our tenants.

Hysan is committed to managing our portfolio to the highest standards, providing commercial tenants with the best operating environment for

" We really appreciate that Hysan management staff have been responding promptly and enthusiastically to our every request and will enlist our feedback after completing their services. In fact, the efficient management service of Hysan has been one of our major determinants in substantiating our recent decision of tenancy renewal."

Yahoo! Holdings (Hong Kong) Ltd

A key component of our strategy is to develop strong relationships with tenants. We interact closely with our tenants to ensure that we anticipate and meet their needs.

Willis China (Hong Kong), an international insurance brokerage company, was considering a possible expansion in Hong Kong when its lease of our property expired in mid-2002. Hysan offered a solution to Willis so as to minimise any mismatch of timing by way of a special short-term lease. While the short-term lease was still subsisting, Willis finalised its plans for an expansion in Hong Kong with a 60% rise in space needs. Again, Hysan offered a solution to swap the unexpired short-term lease with a new lease for the desired expanded space in The Lee Gardens. In this way, the tenant's expansion needs are immediately satisfied.

Delivering value through
Flexible Solutions
Office leasing



" Hysan delivered a flexible solution to what is a mismatch of timing for corporate decisions for us. After scouting around all office premises in the territory, we finally decide Hysan is our preferred choice for office accommodation."

Willis China (Hong Kong)

Social Responsibility



For Hysan, being a socially responsible company means going beyond fulfilling regulatory and compliance requirements and investing in the environment, the community, and generally towards developing positive stakeholder relations.

SAFETY, HEALTH AND THE ENVIRONMENT (SHE) POLICY

Hysan is committed to practices that protect safety, health and the environment. We have formally adopted a safety, health and environmental (SHE) policy in 2003 with the Chief Operating Officer taking overall responsibility at Board level.

Under the policy, Hysan will:

- remain current with all relevant legislation and ensure compliance by our employees and contractors
- advise tenants on practices that may impact on safety, health and the environment and actively encourage them to be environmentally aware
- reduce energy consumption wherever possible without compromising service and

continually investigate energy efficiency initiatives

- monitor fresh air quality within our buildings and ensure that we provide an acceptably healthy environment
- actively market the need for energy efficiency and environmentally-friendly practices to our employees, contractors and tenants
- review the use of environmentally-friendly and recyclable materials and supplies in project works and operations wherever appropriate and remain aware of developments in recycling technology
- recycle consumables and waste wherever practical in our business operations
- provide regular safety, health and environmental training to our employees to remain current of regulations, technology and to continue to raise corporate and individual SHE awareness

Initiatives implemented during the review period under the SHE policy are set out below:

Energy Conservation

We adopt the Government's Code of Practice and Guidelines on Energy Efficiency for the operation and maintenance of air conditioning systems.

Following an in-depth review of individual building operating schedules, appropriate measures were implemented resulting in cost savings without compromising service standards.

Air Quality

Air quality tests were conducted by independent institutions with

generally satisfactory results.

We are in the process of implementing further enhancement measures.

Environmentally Focused Processes

As part of the campaign for the environment, we promote recycling of domestic waste in residential premises and provide a free paper recycling service to all commercial tenants.

Our procurement policy places a priority on the use of environmentally-friendly refrigerants in our air-conditioning system. Strict procedures are in place to ensure that all waste is properly handled in accordance with relevant environmental regulations and requirements.

We also adopt an enzyme flushing system in selected buildings and seek to minimize the use of chemicals used in seawater toilet sanitation.

COMMUNITY

We support various charitable institutions in Hong Kong through donations, sponsorship and the provision of free venues. Staff volunteers also organise charitable events for the less-privileged. Members of our management continue to serve on various government and industry organisations.

We consider it 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.

Human Resources

RIGOROUS WORKFORCE PLANNING

As at 31 December 2002, we have a total of 550 staff members. 128 are head office asset management teams and supporting units; 422 are building management, technical and security services staff. In the light of our corporate strategy, specific job functions, including property services with an emphasis on customer relations, were expanded. This is achieved by developing and re-deploying our staff as well as bringing in new people. Senior executives in town planning and property services also joined the Group.

Amidst the challenging business environment, our human resources strategy continues to focus on ensuring that we have the right number of employees with the right skills and attitude to serve our customers and to achieve our corporate objectives. This was achieved by strengthening performance management, developing our talent pool, and fostering staff commitment.

PERFORMANCE MEASUREMENT AND REWARD

We continued our efforts to strengthen our performance management system. As in past years, clear corporate and individual objectives were set. Communications of corporate objectives, including formal and informal briefings by top management, were stepped up; all towards ensuring alignment of corporate and individual objectives.

The appraisal system is further enhanced, emphasizing the need for ongoing and specific feedback.

Hysan has always rewarded our staff based on performance. We further tightened the link between individual performance and reward during the year.

TALENT DEVELOPMENT

We have been broadening our training and development activities across the Group to ensure that we maximise the potential of all our employees and help them achieve their own as well as the Group's business objectives:

- employee involvement – we actively involve our staff in developing our training programmes. Staff representatives are involved in designing the Company-wide customer service enhancement programme. Special cross-departmental task forces were formed in developing new service levels and concierge training. Staff are also involved in the delivery stage, through a “train-the-trainer” approach that we adopt.
- ongoing measurement – effective measurements after training sessions were emphasised. We conducted a series of audit programmes including telephone and client-handling skills audits, the results of which were satisfactory. These were followed up by appropriate feedback and improvement steps.
- Graduate trainee programme – our two-year graduate trainee programme is designed to develop our talent pool through



structured job rotations and project assignments. The programme is now in its fourth year, and the results are encouraging.

- A learning culture – in addition to organizing in-house training courses, the need for individual initiative to learn and develop is stressed and encouraged.

COMMUNICATION AND COMMITMENT

We understand that effective communication is crucial to foster staff commitment to the Group. This is particularly critical in the context of a challenging business environment.

We continue to develop our employee communication programme. This is currently achieved in a number of ways, through formal and informal presentations to employees, updates and publications of result announcements and other important corporate developments, regular newsletters, and gatherings involving senior management.

Principal Investment Properties



AIA Plaza
18 Hysan Avenue,
Causeway Bay

AIA Plaza is a 25-level office and retail complex and is within easy walking distance to the MTR Causeway Bay station. The building boasts a bright and spacious lobby, and an array of specialty food and beverage outlets.

Total Gross Floor Area: 139,119 sq.ft.
Number of Floors : 25
Year Completed /
Renovated : 1989



Hennessy Centre
500 Hennessy Road,
Causeway Bay

Located on a busy thoroughfare, Hennessy Centre is an office and retail complex. It is served by a multitude of public transport including the MTR and the bus and tram stops on its doorstep. Home to a popular Japanese Department store and three levels of Chinese restaurants, it is a popular destination for shopping and dining.

Total Gross Floor Area: 719,642 sq.ft.
Number of Floors : 45
Carparks : 263
Year Completed /
Renovated : 1981



Lee Theatre Plaza
99 Percival Street,
Causeway Bay

Like its predecessor the Lee Theatre, the Lee Theatre Plaza is a Hong Kong landmark and among the territory's first Ginza-style shopping, dining and entertainment complexes, within easy access to various kinds of transport and the MTR Causeway Bay station. The Plaza houses many of the world's favourite lifestyle brands and is a popular venue for shopping and one-stop entertainment, with cinema, fitness centres and some of the finest dining establishments in Causeway Bay.

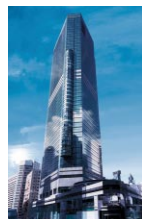
Total Gross Floor Area: 315,749 sq.ft.
Number of Floors : 24 (with two
basement floors)
Year Completed /
Renovated : 1995



Caroline Centre
28 Yun Ping Road,
Causeway Bay

This is a 34-level office and retail complex. A comprehensive refurbishment of the retail podium commenced in March 2003 and upon completion by October 2003, it will be repositioned to synergise with the neighbouring Lee Gardens shopping center.

Total Gross Floor Area: 626,882 sq.ft.
Number of Floors : 34
Carparks : 193
Year Completed /
Renovated : 1992 / renovations
of retail podium
to be completed
in 2003



The Lee Gardens
33 Hysan Avenue,
Causeway Bay

Located right at the hub of Causeway Bay's commercial and recreation area, this is the Company's flagship development which comprises an office tower and a high-end shopping centre. The development, adjacent to the MTR Causeway Bay station, enjoys spectacular views of the Harbour and Happy Valley and is home to many international corporations and luxury brands.

Total Gross Floor Area: 902,797 sq.ft.
Number of Floors : 53
Carparks : 200
Year Completed /
Renovated : 1997



Leighton Centre
77 Leighton Road,
Causeway Bay

The 28-level office and retail complex enjoys close proximity to all forms of public transport. Its central location in the Causeway Bay area makes it a well-sought after location for many professional practices. Upgrading work on building facilities are being carried out in 2003.

Total Gross Floor Area: 435,008 sq.ft.
Number of Floors : 28
Carparks : 332
Year Completed /
Renovated : 1977 / renovations
to be completed
in 2003



111 Leighton Road

111 Leighton Road,
Causeway Bay

111 Leighton Road is an office and retail complex located in a pleasant and tranquil area in the heart of Causeway Bay, an ideal office location for professional and designer firms.

Total Gross Floor Area: 79,905 sq.ft.
Number of Floors : 24
Year Completed /
Renovated : 1988



Sunning Plaza

10 Hysan Avenue,
Causeway Bay

Designed by the renowned architect I.M. Pei, Sunning Plaza greets tenants and visitors with a spacious entrance and lift lobby. The office and retail complex has 30 levels. Among its tenants are popular food and beverage outlets, which have established the Plaza a hub for relaxation and social recreation.

Total Gross Floor Area: 279,717sq.ft.
Number of Floors : 30
Carparks : 150
Year Completed /
Renovated : 1982



Bamboo Grove

74 - 86 Kennedy Road,
Mid-levels

A luxury residential complex in the Mid-Levels, Bamboo Grove underwent major refurbishment in 2002 to enhance both the value and quality of the complex. The complex commands panoramic views of the harbour and the greenery of the Peak, and is served by a multitude of public transport. In addition to superb property management services and full club house and sports facilities, tenants also enjoy a personalized Resident Services which help ensure a comfortable and hassle free lifestyle.

Total Gross Floor Area: 697,940 sq.ft.
Number of Units : 345
Carparks : 436
Year Completed /
Renovated : 1985 / 2002



One Hysan Avenue

1 Hysan Avenue,
Causeway Bay

Located at the junction of three busy streets in the heart of Causeway Bay, the office and retail complex enjoys a prime location and a diversity of retail facilities in the surrounding area.

In 2002, external facade refurbishment was completed.

Total Gross Floor Area: 169,019 sq.ft.
Number of Floors : 26
Year Completed /
Renovated : 1976 / 2002



Entertainment Building

30 Queen's Road Central

Enjoying a prime location in Hong Kong's Central financial and commercial district, the post-modern-design Entertainment Building has 34 levels, comprising 211,148 square feet of office and retail space. The building covers a variety of retail mix including hair & beauty salon, small cafes and hifi shop, etc.

Total Gross Floor Area: 211,148 sq.ft.
Number of Floors : 34
Year Completed /
Renovated : 1993



Sunning Court

8 Hoi Ping Road,
Causeway Bay

The 17-level Sunning Court is a unique residential tower in the dynamic Causeway Bay area. Located in a pleasant environment with streets lined with trees, and within easy reach of all forms of relaxation and entertainment activities in the district, the building provides maximum comforts for its tenants.

The building is undergoing external facade refurbishment to further enhance its value.

Total Gross Floor Area: 97,516 sq.ft.
Total number of units : 59
Carparks : available at
Sunning Plaza
Year Completed /
Renovated : 1981 / renovations
to be completed
in 2003

Report of the Valuer

TO THE BOARD OF DIRECTORS HYSAN DEVELOPMENT COMPANY LIMITED

Dear Sirs,

Annual revaluation of investment properties as at 31 December 2002

In accordance with your appointment of Knight Frank (Services) Limited to value the investment properties in Hong Kong owned by Hysan Development Company Limited and its subsidiaries, we are pleased to advise that the open market value of the properties as at 31st December 2002 was in the approximate sum of Hong Kong Dollars Twenty Four Billion Eight Hundred Forty One Million and Ten Thousand Only (i.e. HK\$24,841,010,000).

We valued the properties on an open market value basis by capitalizing the net income as provided to us with due allowance for outgoings and provisions for reversionary income potential. However, no allowance has been made in our valuation for any expenses or taxation which may be incurred in effecting a sale.

Yours faithfully,

KNIGHT FRANK (SERVICES) LIMITED

Hong Kong, 28 February 2003

Schedule of Principal Properties

as at 31 December 2002

Investment Properties

Address	Lot No.	Use	Category of the lease	Percentage held by the Group
1. The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29 and Sec. L of I.L. 457, Sec. MM of I.L. 29, the R.P. of Sec. L of I.L. 29, and the R.P. of I.L. 457	Commercial	Long lease	100%
2. Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong	Sec. FF of I.L. 29 and the R.P. of Marine Lot 365	Commercial	Long lease	100%
3. Bamboo Grove 74-86 Kennedy Road Hong Kong	I.L. 8624	Residential	Long lease	100%
4. Caroline Centre 2-38 Yun Ping Road Causeway Bay Hong Kong	Sec. A and O of I.L. 457 and Sec. G of I.L. 29, Sec. F and the R.P. of Sec. C, D, E, and G, Subsec. 1 of Sec. C, D, E and G and Subsec. 2 of Sec. E of I.L. 457, Sec. H of I.L. 457, Subsec. 1, 2 and 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36%
5. Leighton Centre 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100%
6. Lee Theatre Plaza 99 Percival Street Causeway Bay Hong Kong	I.L. 1452 and the R.P. of I.L. 472 and 476	Commercial	Long lease	100%
7. Sunning Plaza 10 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J, Subsec. 2 and the R.P. of Sec. J of I.L. 29	Commercial	Long lease	100%
8. Sunning Court 8 Hoiping Road Causeway Bay Hong Kong		Residential	Long lease	100%
9. Entertainment Building 30 Queen's Road Central Hong Kong	The R.P. of I.L. 16 and the extension thereto	Commercial	Long lease	100%
10. One Hysan Avenue 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100%
11. AIA Plaza 18 Hysan Avenue Causeway Bay Hong Kong	Sec. N of I.L. 457 and Sec. LL of I.L. 29	Commercial	Long lease	100%
12. 111 Leighton Road 111-117 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100%

Directors, Officers and Advisers

BOARD OF DIRECTORS



Peter Ting Chang LEE J.P. (I)
Chairman and Managing Director

Peter T. C. Lee first joined the Board in 1988, became Managing Director in 1999, and Chairman and Managing Director in 2001. A non-executive director of Cathay Pacific Airways Limited, Hang Seng Bank Limited, SCMP Group Limited, Maersk Hong Kong Limited, and a director of a number of other companies. A vice president of the Real Estate Developers Association of Hong Kong. Also a director of Lee Hysan Estate Company, Limited. Received a Bachelor of Science Degree in Civil Engineering from the University of Manchester, he also qualified as a Solicitor of the Supreme Court of England and Wales. He is aged 49.



Dr. Victor Kwok King FUNG (I)
Independent Non-Executive Director

Chairman of the Li & Fung Group, the Hong Kong Airport Authority and the Hong Kong University Council, a non-executive director of Bank of China (Hong Kong) Limited, AngloGold Limited, PCCW Limited, Kerry Properties Ltd., Orient Overseas (International) Ltd., DBS Kwong On Bank, Ltd., Sun Hung Kai Properties Limited, Dao Heng Bank Group Limited and its three operating subsidiaries, which are authorized institutions. He holds a Bachelor and a Master Degree in Electrical Engineering from the Massachusetts Institute of Technology, a Doctorate in Business Economics from Harvard University. Appointed a Director in 1998 and is aged 57.



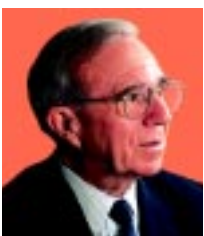
Hans Michael JEBSEN (I)
Non-Executive Director

Chairman of Jebsen and Company Limited as well as a director of other Jebsen Group companies worldwide. Appointed a Director in 1994 and is aged 46.



Per JORGENSEN (A)
Independent Non-Executive Director

A director of A.P. Moller, Denmark and a number of A.P. Moller-Maersk companies in Asia, Africa and Europe; also a non-executive Chairman of Lee Gardens International Holdings Limited. Appointed a Director in 1981 and is aged 67.



Sir David AKERS-JONES (A,E)
G.B.M., K.B.E., C.M.G., J.P.
*Independent Non-Executive
Deputy Chairman*

Chairman of Global Asset Management (HK) Limited. Vice chairman of CNT Group Limited and a non-executive director of various other companies. He is also a chairman and member of various voluntary organisations. Received his Master of Arts Degree at Oxford University. He was formerly the Chief Secretary of Hong Kong. Appointed a Director in 1989 and became the Deputy Chairman in 2001. He is aged 75.



Fa-kuang HU (E)
G.B.S., C.B.E., J.P.
Non-Executive Director

Chairman of Ryoden (Holdings) Limited and its subsidiary companies. Also a director of i-CABLE Communications Limited. Holds a Bachelor of Science Degree from Shanghai Jiao Tong University. Appointed a Director in 1979 and is aged 79.



Anthony Hsien Pin LEE (I)
Non-Executive Director

A director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. Received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong. Also a director of Lee Hysan Estate Company, Limited. Appointed a Director in 1994 and is aged 45.



Chien LEE (A)
Non-Executive Director

A director of Scottish and Eastern Investments Limited, Lee Gardens International Holdings Limited and a number of other companies. Non-executive director of Swire Pacific Limited. Also a director of Lee Hysan Estate Company, Limited. Received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University. Appointed a Director in 1988 and is aged 49.



Michael Chi Kung MOY
Chief Financial Officer and Director

Responsible for Group finance. Received a BSE in Aeronautical Engineering from Princeton University, a Master Degree in Aeronautical Engineering from the University of Washington, and MBA with Distinction from The Wharton School of the University of Pennsylvania. Before joining the Company in 1999, he was a management consultant with McKinsey & Company, and head of Asia for an international direct investment firm. He became Chief Financial Officer and Director in 1999 and is aged 46.



Pauline Wah Ling YU WONG
Director, Property

Responsible for the Group's property portfolio. Having obtained a Bachelor of Arts Degree from The University of Hong Kong, she qualified as a Fellow Member of the Chartered Institute of Housing. She joined the Company in 1981 and has over thirty years of experience in the property field. She was appointed a Director in 1991 and is aged 54.



Michael Tze Hau LEE (I)
Chief Operating Officer and Director

Michael T.H. Lee first joined the Board in 1990 and became Chief Operating Officer in 2002. A non-executive director of Tai Ping Carpets International Limited. A member of the Executive Committee of HK Society for Protection of Children and Vice Chairman of Helping Hand. He was formerly Managing Director of an investment management company with extensive experience in equity investments and management in the Asia Pacific region. Also a director of Lee Hysan Estate Company, Limited. Received his Bachelor of Arts Degree from Bowdoin College and a Master of Business Administration Degree from Boston University. He is aged 41.



Dr. Deanna Ruth Tak Yung RUDGARD
Non-Executive Director

Received a Master of Arts Degree, Bachelor of Medicine and of Surgery Degree from Oxford University. Also a director of Lee Hysan Estate Company, Limited. Appointed a Director in 1993 and is aged 63.



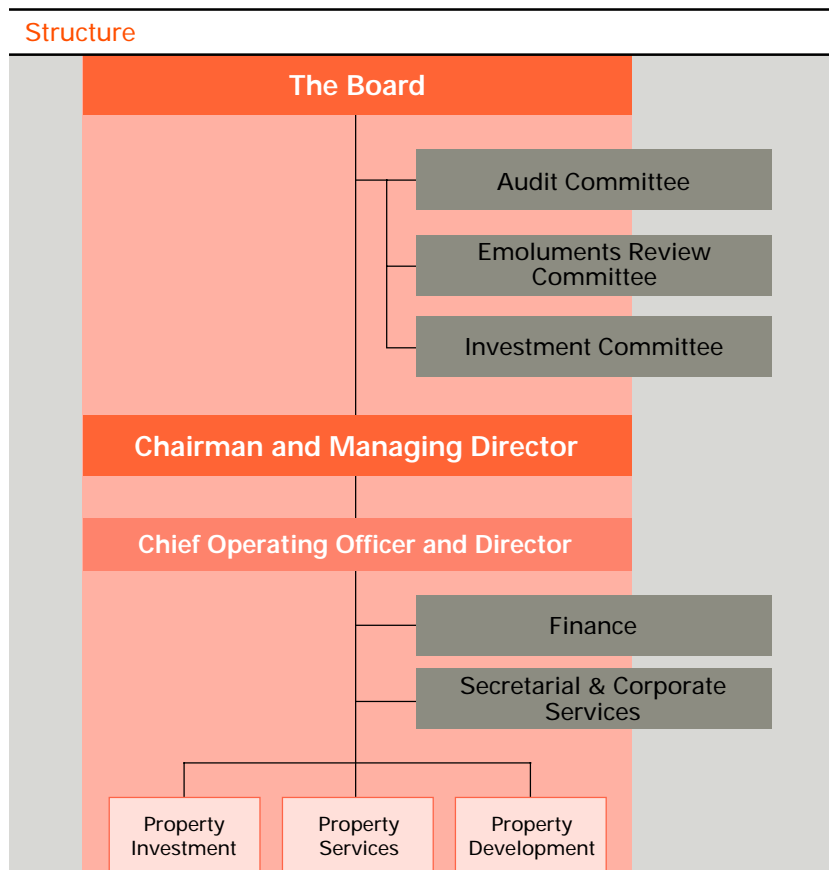
Dr. Geoffrey Meou-tsen YEH (E)
S.B.S., M.B.E., J.P., D.C.S., M.Sc.,
F.C.I.O.B., F.Inst. D.

Independent Non-Executive Director

Former Chairman of Hsin Chong Construction Group Ltd. Holds a Bachelor degree of Science from University of Illinois and a Master degree of Science from Harvard University. Appointed Non-Executive Director in 1979 and became an Independent Non-Executive Director in 2001. He is aged 71.

(A) *Audit Committee*
(E) *Emoluments Review Committee*
(I) *Investment Committee*

Directors, Officers and Advisers



Chairman and Managing Director

Peter Ting Chang LEE J.P. (I)

Independent Non-Executive Deputy Chairman

Sir David AKERS-JONES (Chairing A, E)
G.B.M., K.B.E., C.M.G., J.P.

Independent Non-Executive Directors

Dr. Victor Kwok King FUNG (I)
Per JORGENSEN (A)
Dr. Geoffrey Meou-tsen YEH (E)
S.B.S., M.B.E., J.P., D.C.S., M.Sc.,
F.C.I.O.B., F.Inst.D.

Non-Executive Directors

Fa-kuang HU (E)
G.B.S., C.B.E., J.P.
Hans Michael JEBSEN (I)
Anthony Hsien Pin LEE (I)
Chien LEE (A)
Dr. Deanna Ruth Tak Yung RUDGARD

Executive Directors

Michael Tze Hau LEE (I)
Michael Chi Kung MOY
Pauline Wah Ling YU WONG

Company Secretary

Wendy Wen Yee YUNG

(A) Audit Committee
(E) Emoluments Review Committee
(I) Investment Committee

Front row from right: Peter T.C. Lee, Michael T.H. Lee
Middle row from right: Wendy Wen Yee Yung, Michael Chi Kung Moy,
Pauline Wah Ling Yu Wong, Prof. Alex Chun Wan Lui
Back row from right: Deric Probst Wallace, Ben Sau Shun Lui,
Lora Wing Sze Luke, Mark Sun Wah Chim, Hoi Yee Yau



COMPANY SECRETARY

Wendy Wen Yee YUNG

General Counsel and Company Secretary

Responsible for Group corporate services including legal, secretarial, human resources, corporate communications and office administration. She holds a Master of Arts Degree from Oxford University and is a solicitor of the High Court of the HKSAR. Prior to joining the Group in 1999, she was a partner of an international law firm in Hong Kong. Aged 41.

SENIOR MANAGEMENT

Alex Chun Wan LUI

Senior Advisor, Urban Design and Architectural Services

Responsible for the Group's urban design and architectural services. A Registered Architect and an Authorized Person (Architect). Also a member of the Town Planning Board. He holds a Master Degree in City Planning from the Massachusetts Institute of Technology and a Bachelor of Architecture Degree from the University of Hong Kong. Before joining the Group in 2002, he was Professor in Architecture of the Chinese University of Hong Kong and has practised architecture & urban design for almost thirty years in Hong Kong, Singapore and USA. Aged 59.

Mark Sun Wa CHIM

General Manager, Office Leasing

Responsible for the Group's office leasing activities. He holds a MBA Degree from Heriot-Watt University. Before joining the Group in 1999, he was National Director, Commercial Department, of an international real estate consultancy firm with over fourteen years' experience in leasing. Aged 39.

Ben Sau Shun LUI

General Manager, Project and Technical Services

Responsible for the Group's project and technical services. A Registered Professional Engineer and a Chartered Civil and Structural Engineer, he holds a Master of Science Degree in Construction Project Management and a Bachelor of Science Degree in Civil Engineering, both from the University of Hong Kong. Before joining the Group in 2000, he has served senior project management positions in other major listed companies. Aged 44.

Lora Wing Sze LUKE

General Manager, Retail Leasing

Responsible for the Group's retail leasing activities. Prior to joining the Group in 2000, she was senior leasing manager of a major listed property investment company. She holds a MBA Degree from University of Reading in Real Estate and Construction. Aged 42.

Deric PROBST-WALLACE

General Manager, Property Services

Responsible for the Group's property services. He holds a MBA degree from the Cranfield School of Management, a diploma from the Chartered Institute of Marketing and a Bachelor of Science Degree from the University of Stirling. Before joining the Group in 2002, he was a Director of an international property services and construction-related consulting firm. Aged 40.

Hoi Yee YAU

Head of Corporate Planning

Heads the Group's Corporate Planning Department, Finance Division. She holds a MBA Degree from Harvard University and a Bachelor of Science Degree from Stanford University.

Prior to joining the Group in 2002, she has served senior management positions in investment and consulting companies. Aged 34.

Advisers

Auditors

Deloitte Touche Tohmatsu

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Share Registrars and Transfer Office

Standard Registrars Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Registered Office

49/F., Manulife Plaza
The Lee Gardens
33 Hysan Avenue
Hong Kong

Notes

DIRECTORS' REPORT AND ACCOUNTS 2002

Corporate Governance Statement

STATEMENT OF CORPORATE GOVERNANCE POLICY

The Board of Directors are committed to maintaining a high standard of corporate governance. The Company has complied throughout the review period with the Code of Best Practice (the "Code of Best Practice") as set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Board aims to continually review and enhance corporate governance practices in the light of international best practices, in addition to complying with applicable statutory requirements. Board efforts in this area are being recognized. The Board was awarded "Directors of the Year" by the Hong Kong Institute of Directors.

BOARD EFFECTIVENESS

Board Responsibilities and Board/Management Relationship

The principal task of the Board is, firstly, to formulate strategy and, secondly, to monitor and control operating and financial performance in pursuit of Group strategic objectives.

The Board's role is not to manage the business which responsibility remains vested with management. The Board is responsible for overseeing the processes that management has in place to identify business opportunities and risks. The Hysan Board and management fully appreciate their respective roles and are supportive of building a healthy corporate governance culture.

Board Composition

The Board currently comprises Peter T. C. Lee, Chairman and Managing Director, Michael T. H. Lee, Chief Operating Officer and Director, Pauline W. L. Yu Wong, Director, Property and Michael C. K. Moy, Chief Financial Officer and Director, and nine other non-executive Directors. Sir David Akers-Jones acts as the independent non-executive Deputy Chairman, also chairing the two corporate governance committees, namely the Audit Committee and Emoluments Review Committee. The biographies of the Directors appear on pages 24 and 25. These demonstrate a range of experience and calibre to bring judgment on issues of strategy, performance, and resources. Independent non-executive Directors also sit on the corporate governance committees of the Board.

The Board as a whole is responsible for the selection and approval of candidates for appointment to the Board, and has not therefore established a Nomination Committee. On appointment, new Directors will be given a comprehensive introduction to Group activities and induction into the responsibilities of non-executive Directors.

Under the Company's articles of association, all Directors are subject to retirement by rotation. The three Directors who have been longest in office as at each Annual General Meeting will retire from office and be subject to re-election.

Independent Non-executive Deputy Chairman

The Board structure, including the presence of an independent non-executive Deputy Chairman on the Board, is designed to ensure that the Board functions effectively and independent of management where appropriate. At the same time, the fact that the Chairman is also Managing Director means that the Chairman has a more detailed knowledge of the business and activities of the Company than would be possible for a Chairman who was not a member of management.

The executive Board was further strengthened by the appointment of Michael T. H. Lee as Chief Operating Officer effective 10 June 2002, responsible for the day-to-day management and co-ordination of the overall development of the Company. The Chairman and Managing Director will continue to have overall responsibility for strategic planning of the Group and developments generally.

Board Process

The Board meets at least quarterly. Its principal task is to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group's strategic objectives. Certain significant transactions, including material bank facilities, material acquisitions and disposals, and material transactions with connected parties are reserved for Board decision.

An important element of the Board's corporate governance programme is the continuous improvement in the quality and timeliness of the dissemination of information to Directors. Where appropriate, communications are sent electronically. At least quarterly, Directors are provided with comprehensive reports on the management's strategic plans, updates by business unit heads on their lines of business, financial objectives, plans and actions. During the year, following every committee meeting, committee chairs report to the Board on the activities of their respective committees.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.

Board Committees

The Board currently has three Board committees, namely the Audit Committee, Emoluments Review Committee and Investment Committee. The Audit and Emoluments Review Committees, being corporate governance committees, have 100% non-executive membership with a majority of independent Directors. These three committees deal with specific aspects of the Group's affairs, as detailed below:

Audit Committee

The Audit Committee which is chaired by Sir David Akers-Jones, its other current members being Per Jorgensen and Chien Lee, meets not less than twice per annum with a 100% attendance recorded in 2002. The Committee provides a forum of reporting by the Group's external auditors. Meetings are also attended by invitation by the Chief Operating Officer and the Chief Financial Officer. The Committee presents a report to the Board after each meeting, which addresses its work and findings.

Details on the mandate and work performed by the Audit Committee during the review year are set out in the Audit Committee Report on page 38.

Emoluments Review Committee

The Group's Emoluments Review Committee is also chaired by Sir David Akers-Jones. Other members are F. K. Hu and Geoffrey M. T. Yeh.

The function of the Committee is to review and determine the remuneration of the executive Directors. The Chairman and Managing Director makes recommendations to the Committee on the Company's framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations. On matters other than those concerning him, the Chairman and Managing Director may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

Details of each Director's emoluments and options are shown in section headed "Directors' Remuneration and Interests".

Investment Committee

The Group's Investment Committee comprises the Chairman and Managing Director, the Chief Operating Officer and Director, Victor K. K. Fung, Hans Michael Jebsen, with Anthony H. P. Lee as the Chairman. The five Directors, demonstrating a range of experience and background, meet as necessary to advise and make recommendations on the investment strategies of the Group within agreed terms of reference.

Corporate Governance Statement

DIRECTORS' REMUNERATION AND INTERESTS

Director Compensation

Executive Director Emoluments

Details on Directors' emoluments are set out in note 6 to the financial statements. As detailed above, the Emoluments Review Committee reviews and determines the remuneration of the executive Directors.

Non-Executive Director Emoluments

The annual remuneration of the non-executive Directors for year 2002 was HK\$546,918 per annum.

The independent non-executive Deputy Chairman receives an annual fee of HK\$65,000, with the other non-executive Directors being entitled to an annual fee of HK\$50,000. Members of the Audit Committee receive an additional annual fee of HK\$20,000. None of the non-executive Directors receive any pension benefits from the Company, nor do they participate in any bonus or incentive schemes.

Service Contracts

No Director has a service contract that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests

Directors' Interests in Shares

As at 31 December 2002, 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	No. of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Peter Ting Chang Lee	2,000,000	—	4,083,823 <i>(Note 1)</i>	—	6,083,823
Fa-kuang Hu	—	—	255,012 <i>(Note 2)</i>	—	255,012
Hans Michael Jebsen	60,000	—	2,432,914 <i>(Note 1)</i>	—	2,492,914
Per Jorgensen	6,678	—	—	—	6,678
Chien Lee	970,000	—	4,083,823 <i>(Note 1)</i>	3,750,000 <i>(Note 3)</i>	8,803,823
Michael Tze Hau Lee	1,023,233	—	—	—	1,023,233
Michael Chi Kung Moy	—	131,565 <i>(Note 4)</i>	—	—	131,565
Deanna Ruth Tak Yung Rudgard	1,871,600	—	—	—	1,871,600
Pauline Wah Ling Yu Wong	254,000	—	—	—	254,000
Geoffrey Meou-tsen Yeh	249,619	—	1,000 <i>(Note 1)</i>	—	250,619
V-nee Yeh (Alternate to Geoffrey Meou-tsen Yeh)	43,259	—	84,575 <i>(Note 1)</i>	—	127,834

Notes:

- (1) 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. Corporate interests of Peter T. C. Lee and Chien Lee relate to the same corporation.
- (2) Such shares were held by a company which was wholly-owned by Fa-kuang Hu and he was deemed to have beneficial interests in all these shares.
- (3) Such shares were held through a discretionary trust of which Chien Lee was a beneficiary.
- (4) These shares were held by the wife of Michael Chi Kung Moy who was therefore deemed to have interest in them.

As at 31 December 2002, 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" (also see note 31 to the financial statements).

Apart from the above, as at 31 December 2002, there was no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

Executive Share Options

The Company operates an Executive Share Option Scheme (the "Scheme") under which options may be granted to employees of the Company or any of its wholly-owned subsidiaries to subscribe for ordinary shares of the Company, thereby strengthening the links between individual staff and shareholder interests. Approved by shareholders on 28 April 1995, the Scheme has a term of ten years. The maximum number of shares in respect of which options may be granted under the Scheme (together with shares issued and issuable under the Scheme) is three per cent of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The maximum entitlement of each participant under the Scheme is 25 per cent of the maximum number of shares in respect of which options may at any time be granted under the Scheme. The exercise price was fixed at 80 per cent of the average of the closing prices of the shares on the Hong Kong Stock Exchange for the twenty trading days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

As at 31 December 2002, Scheme participants were executive Directors of the Company with shares issuable under options granted representing less than 0.4% of the then issued share capital of the Company. Options expiring, granted and outstanding to them are as follows:

	Balance as at 1.1.2002	Date of grant	Changes During the Year			Balance as at 31.12.2002	Exercise price (HK\$)	Exercisable period
			Cancelled/ Lapsed	Granted	Exercised			
Peter Ting Chang Lee	1,350,000	7.1.99	NIL	NIL	NIL	1,350,000	9.22	7.1.01-6.1.09
Pauline Wah Ling Yu Wong	900,000	3.5.95	NIL	NIL	NIL	900,000	13.46	3.5.97-2.5.05
Michael Chi Kung Moy	1,200,000	23.12.99	NIL	NIL	NIL	1,200,000	7.54	23.12.01-22.12.09

All options referred to above are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

No options have been granted since the coming into force of certain new Listing Rules requirements. Future grants will only be made under the existing Scheme where new Listing Rules requirements are complied with.

Corporate Governance Statement

The Chairman and Managing Director has been delegated by the Board the authority to make grants to other management staff, with the view to further strengthening the links between staff and shareholder objectives and to balance the interests of shareholders generally. The exercise price will be set at at least the higher of (i) the closing price of the Company's ordinary shares on the date of grant; and (ii) the average closing price of such shares for the five days immediately before the grant. Interests of shareholders will be balanced by having appropriate aggregate and individual grant limits, also being in line with new Listing Rules requirements. A clear performance criterion will be the main driver.

The Group has in place appropriate Code of Practice and procedures regulating dealings in Company shares by Directors and employees.

Disclosure of Directors' Interests in Competing Business under the Listing Rules

The Group is engaged principally in the development, ownership and management of high quality investment properties in Hong Kong. The following Directors are considered to have interests in other activities ("Deemed Competing Business") that compete or are likely to compete with the said core business of the Group, all within the meaning of the Listing Rules.

For the reasons stated below, and coupled with the diligence of the Group's independent non-executive Directors and the Audit Committee, the Group is capable of carrying on its business independent of and at arm's length from the Deemed Competing Business.

- (i) Peter T. C. Lee, Anthony H. P. Lee, Chien Lee, Michael T. H. Lee and Deanna R. T. Y. Rudgard are members of the founding family whose range of general investment activities include property investments in Hong Kong and overseas. In the light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) F. K. Hu (and his alternate, Raymond L. M. Hu) are substantial shareholders and directors of Ryoden (Holdings) Limited, Ryoden Development Limited, Designcase Limited and their respective subsidiaries and associates, which are engaged in investment holding, property investment and development, property agency and management, project management in both the People's Republic of China and Hong Kong.

The Company's management team is separate and independent from that of the companies listed above. In addition, the aforementioned Director has a non-executive role and is not involved in the Company's day-to-day operations and management.

Related Party and Connected Transactions

The Group has provided shareholder loans to a non-wholly owned subsidiary in proportion to its shareholding. The quasi-equity loans were provided in the ordinary course of the Group's business. These activities constitute financial assistance and "Connected Transactions" under the Listing Rules.

The Group also entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Company in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis.

Further details are set out in Note 37 to the financial statements.

Directors' Interests in Contracts of Significance

Except as disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERNAL CONTROL AND RISK MANAGEMENT

The Group regularly reviews its internal control system. The key features of our system of internal control include:

- (a) systems of delegated authorities: there are in place defined organizational responsibilities and limits of authority. Details on capital projects appraisal process are set out in "Capital Expenditure - Investment Appraisal" under "Operating and Financial Review - Financial Review";
- (b) financial monitoring: annual and long-term revenue, cashflow, and capital forecasts, updated regularly during the year; monthly monitoring of revenue, cashflow, and capital expenditure and reporting to top management, quarterly reporting of key financial information to Board;
- (c) risk management: details on financial risk management are set out in the relevant section in "Operating and Financial Review - Financial Review".

FINANCIAL TRANSPARENCY AND DISCLOSURE

The Group is committed to open and timely disclosure of relevant information on its activities to stakeholders, subject to applicable legal requirements. We aim to continually improve on the quality of our reporting. The Group had in operation during 2002 a communication programme, and will continue to enhance the same.

Communication is made through:

- the Company's annual and interim reports, which has been enhanced to present a comprehensive, balanced and understandable assessment of Group position and prospects
- notices of and explanatory memoranda for annual and other general meetings, which have been enhanced to provide shareholders with additional information in an understandable manner
- regular analyst briefings
- press briefings for Group annual results and other briefings, as appropriate
- press releases on major developments of the Group
- disclosures to the Stock Exchange of Hong Kong Limited and relevant regulatory bodies
- inquiries from investors, media or the public are responded to by Chief Financial Officer, Company Secretary or the appropriate members of senior management
- Company's web-site at <http://www.hysan.com.hk> from which shareholders can access information on the Group. The web-site provides, inter alia, corporate announcements, press releases, annual reports, and corporate information of the Group

Corporate Governance Statement

SHAREHOLDINGS INFORMATION AND SHAREHOLDER RIGHTS

Shareholdings Information

As at 31 December 2002:

Authorised share capital: HK\$7,250,000,000, comprising of 1,450,000,000 ordinary shares of HK\$5.00 each.

Issued and fully paid-up capital: HK\$5,173,084,625, comprising of 1,034,616,925 ordinary shares of HK\$5.00 each.

Class of shares: one class of ordinary shares of HK\$5.00 each with equal voting rights.

Top 10 Largest Shareholders

(as at 31 December 2002, as per register of members of the Company)

	Number of Shares	%
1. HKSCC Nominees Limited	376,077,646	36.35
2. HSBC Nominees (Hong Kong) Limited	126,597,346	12.24
3. Hang Seng (Nominee) Limited	125,602,454	12.14
4. Lee Hysan Estate Co, Ltd*	90,118,724	8.71
5. Kenwin Assets Limited*	43,902,720	4.24
6. Overton Holdings Limited*	43,902,720	4.24
7. Atlas Corporate Management Ltd*	39,809,001	3.85
8. Shanghai Commercial Bank (Nominees) Ltd	32,510,110	3.14
9. Liu Chong Hing (Nominees) Ltd	20,248,255	1.96
10. Clipperton Company Limited*	17,019,739	1.64
Total	915,788,715	88.51

Note: * denotes entities whose interests are attributable to the substantial shareholder: Lee Hysan Estate Company, Limited (see "Substantial Shareholders" under Directors' Report)

Location of Shareholders

(as at 31 December 2002, as per register of members of the Company)

Location of shareholders	Number of shares	%
Hong Kong	1,024,743,032	99.04
U.K.	4,379,714	0.42
US and Canada	5,125,512	0.50
Singapore	88,766	0.01
Others	279,901	0.03
Total	1,034,616,925	100.00

Shareholder Rights

All ordinary shares of the Company have equal voting rights. The Board welcomes moves towards a more constructive use of Annual General Meetings and regards the Annual General Meeting as the principal opportunity to meet private shareholders.

Annual General Meeting proceedings are continually reviewed in the light of corporate governance best practices. Separate resolutions are proposed at the Annual General Meeting on each substantially separate issue, including the election of individual directors. Comprehensive information on businesses to be transacted at the forthcoming Annual General Meeting, together with frequently asked questions regarding the voting procedures, has been included in the circular accompanying the Annual Report.

The Company arranges for the Annual Report and Financial Statements and related papers to be posted to shareholders so as to allow at least 35 days for consideration prior to the Annual General Meeting. Financial and other information on the Group is also made available at the Group's website at www.hysan.com.hk.

By order of the Board

Wendy W. Y. Yung

Company Secretary

Hong Kong, 11 March 2003

Audit Committee Report

The Audit Committee has three members, a majority of whom are independent non-executive Directors.

The Committee oversees the financial reporting process. In this process, management is primarily responsible for the preparation of Group financial statements including the selection of suitable accounting policies. External auditors are responsible for auditing and attesting to Group financial statements and evaluating Group system of internal controls. The Audit Committee oversees the respective work of management and external auditors to endorse the processes and safeguards employed by them.

The Audit Committee has reviewed and discussed with management and external auditors the 2002 consolidated financial statements included in the 2002 Annual Report. In this regard, the Committee had discussions with management with regard to new or changes in accounting policies as applied, and significant judgments affecting the Group financial statements. The Committee also received reports and met with the external auditors to discuss the general scope of their audit work, their assessment of Group internal controls.

Based on these review and discussions, and the report of the external auditors, the Audit Committee recommended to the Board of Directors approval of the consolidated financial statements for the year ended 31 December 2002, with the Auditors' Report thereon.

The Audit Committee also reviewed and recommended to the Board of Directors approval of the unaudited financial statements for the first six months of 2002, prior to public announcement and filing.

The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditors for 2003.

The Committee presents a report to the Board on its findings after each Committee meeting.

MEMBERS OF THE AUDIT COMMITTEE

David AKERS-JONES (*Chairman*)

Per JORGENSEN

Chien LEE

Hong Kong, 11 March 2003

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2002, which were approved by the Board of Directors on 11 March 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2002 to be property development and investment and investment holding. Details of the Group's associates and principal subsidiaries at 31 December 2002 are set out in notes 15 and 39 respectively to the financial statements.

An analysis of Group's turnover is set out in note 4 to the financial statements. As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided. A detailed review of the development of the business of the Group during the year, and likely future developments, is set out in the Chairman's Statement and the Operating and Financial Review of the Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 43.

An interim dividend of HK\$0.10 per share amounting to HK\$103,355,198 was paid to shareholders during the year.

The Board of Directors recommends the payment of a final dividend of HK\$0.265 per share with a scrip alternative to the shareholders on the register of members on 13 May 2003, absorbing HK\$274,173,485. The ordinary dividends paid and proposed in respect of the full year 2002 will absorb HK\$377,528,683, the balance of the profit will be retained.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in notes 29 and 30 to the financial statements.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer at 31 December 2002. The revaluation resulted in a deficit as compared to carrying amount of HK\$2,158 million, with the Group's attributable share being HK\$2,073 million, which has been charged directly to the investment property revaluation reserve.

Details of movements during the year in the investment properties of the Group and the Company are set out in note 13 to the financial statements.

Details of the major investment properties of the Group at 31 December 2002 are set out in section under "Schedule of Principal Properties" of the Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

Directors' Report

SHARE CAPITAL AND FIXED RATE NOTES

The Company issued a total of 3,313,550 ordinary shares under the scrip dividend scheme accompanying year 2001 final dividends and year 2002 interim dividends. During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities. Details of movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

During the year, a subsidiary of the Company issued an aggregate of US\$200 million 7% ten-year notes under the established medium term note programme with a full guarantee of the Company. The notes were listed on the Luxembourg Stock Exchange. The net proceeds were predominately used to refinance the maturing debts and for general corporate purpose.

CORPORATE GOVERNANCE

The Company is committed to a high standard of corporate governance and has complied throughout the year with the Code of Best Practice (the "Code of Best Practice") as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Further information on the Company's corporate governance practices is set out in the section "Corporate Governance". Such section sets out detailed information on (a) Board effectiveness (including workings of Audit Committee and other Board committees); (b) Directors' remuneration and interests (including information on Directors' emoluments, service contracts, interests in shares, executive share options, interests in contracts of significance and interests in competing businesses under the Listing Rules); and (c) Connected and Related Party Transactions. Further information on Group human resources and social responsibility are set out in relevant sections of the Annual Report.

THE BOARD

The Board currently comprises Peter T. C. Lee, Chairman and Managing Director, Michael T. H. Lee, Chief Operating Officer and Director, Pauline W. L. Yu Wong, Director, Property and Michael C. K. Moy, Chief Financial Officer and Director, and nine other non-executive Directors, Sir David Akers-Jones acts as the Independent non-executive Deputy Chairman, also chairing the two corporate governance committees, namely the Audit Committee and Emoluments Review Committee. The biographies of the Directors appear on pages 24 and 25.

Under the Company's articles of association, all Directors are subject to retirement by rotation. The three Directors who have been longest in office as at each Annual General Meeting will retire from office and be subject to re-election. Dr. Victor K.K. Fung, having served on the Board since 1998, gave notice that he would not stand for re-election as at the forthcoming Annual General Meeting. Accordingly, Peter T. C. Lee and Chien Lee will retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. During the year, Claus Michael Valentin Hemmingsen, Raymond Liang-ming Hu, Markus Friedrich Jebsen and V-nee Yeh served as alternate Directors.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:

- (a) select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;
- (b) state the reasons for any significant departure from accounting standards; and
- (c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 31 December 2002, 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	<u>429,046,912</u>

These interests are in addition to those disclosed in "Corporate Governance" section of the Annual Report in respect of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers was less than 30% of total turnover.

The aggregate purchases attributable to the Group's five largest suppliers was less than 30% of total purchases.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 38 to the financial statements.

DONATIONS

During the year, the Group made donations totalling HK\$1,457,382 for charitable and other purposes.

AUDITORS

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

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

Hong Kong, 11 March 2003

Auditors' Report

德勤 • 關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中 111 號
永安中心 26 樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF HYSAN DEVELOPMENT COMPANY LIMITED

希慎興業有限公司

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 43 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstance of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 11 March 2003

Consolidated Income Statement

for the year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	4	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	5	926,839	1,066,738
Finance costs	8	(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	9	(97,903)	(114,903)
Profit after taxation		598,462	663,720
Minority interests		(54,588)	(63,377)
Net profit for the year	29	543,874	600,343
Dividends	10	377,529	391,598
Earnings per share	11		
Basic		HK52.66 cents	HK58.26 cents
Diluted		HK52.66 cents	HK58.24 cents

Consolidated Balance Sheet

at 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Property, plant and equipment	12	56,329	50,158
Investment properties	13	24,841,010	26,638,500
Interests in associates	15	61,317	61,324
Investments in securities	16	1,483,821	1,754,059
Negative goodwill	17	(1,076)	(1,136)
Staff housing loans, secured	18	16,452	20,936
		26,457,853	28,523,841
Current assets			
Cash and bank balances		1,574	457
Time deposits		21,372	26,612
Accounts receivable	19	10,117	9,445
Interest receivable		24,215	14
Staff housing loans, secured - due within one year	18	1,863	2,764
Prepayments and deposits		38,183	59,459
		97,324	98,751
Current liabilities			
Long term bank loans - due within one year	24	737,638	139,837
Floating rate notes	25	—	1,999,547
Creditors and accruals	20	108,598	58,233
Interest payable		74,234	13,220
Rental deposits from tenants		233,530	248,911
Deferred income	21	686	—
Taxation payable		126,122	100,673
Unclaimed dividends		1,412	2,137
		1,282,220	2,562,558
Net current liabilities		(1,184,896)	(2,463,807)
Total assets less current liabilities carried forward		25,272,957	26,060,034

	Notes	2002 HK\$'000	2001 HK\$'000
Total assets less current liabilities brought forward		25,272,957	26,060,034
Non-current liabilities			
Advances from investees	22	51,676	52,571
Amounts due to minority shareholders	23	292,765	292,765
Long term bank loans - due after one year	24	3,009,223	3,088,634
Floating rate notes	25	398,090	397,047
Fixed rate notes	26	1,551,003	—
Deferred income	21	5,541	—
Deferred taxation	27	1,295	—
		5,309,593	3,831,017
		19,963,364	22,229,017
MINORITY INTERESTS		876,388	962,092
NET ASSETS		19,086,976	21,266,925
CAPITAL AND RESERVES			
Share capital	28	5,173,084	5,156,516
Accumulated profits	29	3,747,017	3,580,672
Other reserves	30	10,166,875	12,529,737
		19,086,976	21,266,925

The financial statements on pages 43 to 77 were approved and authorised for issue by the Board of Directors on 11 March 2003 and are signed on its behalf by:

Peter T.C. Lee
Director

David Akers-Jones
Director

Balance Sheet

at 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Property, plant and equipment	12	12,475	5,735
Investment properties	13	3,295,000	3,500,000
Investments in subsidiaries	14	12,990,625	12,908,172
Interests in associates	15	3	3
Investments in securities	16	2,031	2,831
Staff housing loans, secured	18	16,452	20,936
		16,316,586	16,437,677
Current assets			
Cash and bank balances		939	1,023
Time deposits		882	925
Accounts receivable	19	1,614	2,416
Staff housing loans, secured - due within one year	18	1,863	2,764
Prepayments and deposits		9,547	15,289
		14,845	22,417
Current liabilities			
Long term bank loans - due within one year	24	687,638	139,837
Creditors and accruals	20	14,177	16,711
Interest payable		11,458	11,066
Rental deposits from tenants		27,366	27,307
Amounts due to subsidiaries		622,700	7,473
Taxation payable		16,332	6,696
Unclaimed dividends		1,412	2,137
		1,381,083	211,227
Net current liabilities		(1,366,238)	(188,810)
Total assets less current liabilities		14,950,348	16,248,867
Non-current liabilities			
Long term bank loans - due after one year	24	2,200,123	3,088,634
Deferred taxation	27	1,295	—
		2,201,418	3,088,634
NET ASSETS		12,748,930	13,160,233
CAPITAL AND RESERVES			
Share capital	28	5,173,084	5,156,516
Accumulated profits	29	3,741,503	3,957,698
Other reserves	30	3,834,343	4,046,019
		12,748,930	13,160,233

The financial statements on pages 43 to 77 were approved and authorised for issue by the Board of Directors on 11 March 2003 and are signed on its behalf by:

Peter T.C. Lee
Director

David Akers-Jones
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000
At beginning of the year	21,266,925	23,478,424
Unrealised loss on investments in other securities	(284,395)	(566,708)
Deficit on revaluation of investment properties	(2,158,317)	(1,972,248)
Deficit on revaluation of land and buildings	(856)	(2,823)
Deficit on revaluation of investment properties shared by minority shareholders	86,600	131,703
Net losses not recognised in the income statements	(2,356,968)	(2,410,076)
Net profit for the year	543,874	600,343
Dividends paid during the year	(392,120)	(422,211)
Issue of shares in lieu of cash dividend	16,568	40,080
Premium on issue of shares in lieu of cash dividend	10,199	30,847
Share issue expenses	(10)	(31)
Shares repurchased and cancelled	—	(64,320)
Reversal of capital reserve and translation reserve on disposal of an associate	—	13,869
Realisation on disposal of investment properties	(1,492)	—
At end of the year	19,086,976	21,266,925
Represented by:		
Balance after amount set aside for dividend	18,812,802	20,978,160
Amount set aside for dividend	274,174	288,765
	19,086,976	21,266,925

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000
OPERATING ACTIVITIES		
Profit from operations	926,839	1,066,738
Adjustments for:		
Impairment loss arising (reversed) in respect of investments in securities	800	(6,225)
Interest income	(4,842)	(3,749)
Dividend income	(10,512)	(14,408)
Depreciation	4,793	6,029
Gain on property sales	(1,500)	—
Bank charges	(9,543)	(7,930)
Medium Term Note Programme expenses	(509)	(1,967)
Loss on disposal of property, plant and equipment	2	—
Release of negative goodwill arising on acquisition of additional interest in a subsidiary	(60)	(60)
Operating cash flows before movements in working capital	905,468	1,038,428
Decrease (increase) in accounts receivable, prepayments and deposits	20,604	(41,142)
Decrease in staff housing loans, secured	5,385	7,781
Increase (decrease) in rental deposits from tenants, creditors and accruals	35,118	(19,856)
Cash generated from operations	966,575	985,211
Hong Kong Profits Tax paid	(71,159)	(73,367)
NET CASH FROM OPERATING ACTIVITIES	895,416	911,844
INVESTING ACTIVITIES		
Interest received	4,222	3,826
Dividends received from investments in securities	9,617	8,612
Dividends received from associates	150	—
Additions to investment properties	(362,465)	(178,098)
Additions to property, plant and equipment	(11,872)	(2,380)
Proceeds on disposal of investment properties	1,550	—
Proceeds on disposal of property, plant and equipment	50	—
Acquisition of additional interest in a subsidiary	—	(243,947)
Advance to an associate	(10,064)	(7,288)
Repayments from an associate	—	1,601
Net proceeds received on disposal of an associate	—	35,929
Advances to investees	(14,957)	(17,207)
Construction costs paid	(38)	(179)
NET CASH USED IN INVESTING ACTIVITIES	(383,807)	(399,131)

	2002 HK\$'000	2001 HK\$'000
FINANCING ACTIVITIES		
Net proceeds received on derivatives	6,855	—
Interest paid	(171,213)	(316,019)
Dividends paid	(366,078)	(351,429)
Dividends paid to minority shareholders of subsidiaries	(53,692)	(63,502)
Share issue expenses	(10)	(31)
Repurchase of own shares	—	(64,320)
Repayment of long term loan in respect of acquisition of additional interest in a subsidiary	—	(263,754)
New unsecured bank loans	1,750,038	1,604,814
Issue of fixed rate notes	1,550,016	—
Repayment of unsecured bank loans	(1,231,648)	(1,081,843)
Repayment of floating rate notes	(2,000,000)	—
Repayment to investees	—	(1,115)
NET CASH USED IN FINANCING ACTIVITIES	(515,732)	(537,199)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,123)	(24,486)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	27,069	51,555
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22,946	27,069
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,574	457
Time deposits	21,372	26,612
	22,946	27,069

Notes to the Financial Statements

for the year ended 31 December 2002

1. GENERAL

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are property development and investment and investment holding.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas associates at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash Flow Statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interests received and interests paid, which were previously presented under a separate heading, are classified as investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas associates have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The change in exchange rates used for translation of the cash flows of overseas associates has not had any material effect on the results for the current or prior accounting periods.

Employee Benefits

In the current period, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight line basis over its useful life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Property, plant and equipment *continued*

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining term of the lease
Buildings	Over the shorter of the term of the lease, or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation increase under that SSAP.

Fixed rate notes / floating rate notes issue expenses

Expenses incurred directly in connection with the issue of fixed rate notes / floating rate notes are deferred and amortised on a straight line basis over the terms of the notes.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date, with the exception of those items covered under forward exchange contracts, which are re-translated at the contracted settlement rate. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the interests in associates are disposed of.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight line basis over the relevant lease term.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Recognition of income

Rental income is recognised on a straight line basis over the relevant lease term.

Income from property sales is recognised on the execution of a binding sales agreement.

Management fee income and security service income are recognised when the services are rendered.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Financial instruments and derivatives

Interest rate and currency swaps are used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of interest rate and currency swaps are recorded off balance sheet. Interest flows arising on the interest rate swaps are accounted for on an accrual basis.

4. TURNOVER

	2002 HK\$'000	2001 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.

5. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	111,699	107,645
Retirement benefits scheme contributions (<i>Note 32</i>)	4,821	4,456
Forfeited contributions	(1,189)	(2,742)
	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)
Gain on property sales	(1,500)	—
Interest income	(4,842)	(3,749)
Loss on disposal of property, plant and equipment	2	—

6. DIRECTORS' REMUNERATION

	2002 HK\$'000	2001 HK\$'000
Directors' fees	757	792
Other emoluments:		
Basic salaries	7,809	7,776
Housing, other allowances and benefits in kind	2,739	3,556
Bonus paid	1,552	1,625
Retirement benefits scheme contributions	232	210
	13,089	13,959

Notes to the Financial Statements

6. DIRECTORS' REMUNERATION *continued*

The number of Directors whose remuneration / fees within the bands set out below is as follows:

	2002 No. of Directors	2001 No. of Directors
HK\$ 0 – HK\$1,000,000	9	11
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	—	—
HK\$2,000,001 – HK\$2,500,000	—	—
HK\$2,500,001 – HK\$3,000,000	—	—
HK\$3,000,001 – HK\$3,500,000	2	1
HK\$3,500,001 – HK\$4,000,000	—	1
HK\$4,000,001 – HK\$4,500,000	1	—
HK\$4,500,001 – HK\$5,000,000	—	1
	13	15

Directors' fees paid to independent non-executive Directors during the year totalled HK\$255,000 (2001: HK\$249,740). They received no other emoluments from the Company or any of its subsidiaries.

7. EMPLOYEE COSTS

The five highest paid individuals included four (2001: three) Directors, details of whose remuneration are set out in note 6. The remuneration of the one individual (2001: two individuals) is detailed as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,120	3,886
Bonus paid	277	369
Retirement benefits scheme contributions	12	24
	2,409	4,279

	2002 No. of employees	2001 No. of employees
Remuneration within the band:		
HK\$1,000,001 – HK\$1,500,000	—	—
HK\$1,500,001 – HK\$2,000,000	—	1
HK\$2,000,001 – HK\$2,500,000	1	1
	1	2

8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on		
– bank loans, overdraft and other loans:		
wholly repayable within five years	78,625	179,209
not repayable within five years	16,292	4,789
– floating rate notes	24,952	117,678
– fixed rate notes	88,149	—
	208,018	301,676
Amortisation of fixed rate and floating rate notes issue expenses	2,401	2,855
Bank charges	9,543	7,930
Net exchange loss	82	—
Medium Term Note Programme expenses	509	1,967
	220,553	314,428

9. TAXATION

	2002 HK\$'000	2001 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 (<i>note 27</i>)	1,295	—
	97,903	114,903

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

Details of the potential deferred tax charge not provided for in the year are set out in note 27.

Notes to the Financial Statements

10. DIVIDENDS

	2002 HK\$'000	2001 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

The 2002 final dividend of HK\$0.265 (2001: HK\$0.28) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2002 will be payable in cash with a scrip dividend alternative.

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2001 final and 2002 interim dividends. These alternatives were accepted by the shareholders as follows:

	2002 Interim HK\$'000	2001 Final HK\$'000
Dividends:		
Cash	96,646	268,707
Share alternative	6,709	20,058
	103,355	288,765

11. EARNINGS PER SHARE

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

	2002 HK\$'000	2001 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.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings in Hong Kong under long lease HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 January 2002	42,500	39,999	5,280	1,611	89,390
Additions	—	2,441	9,431	—	11,872
Disposals	—	(305)	—	—	(305)
Deficit on revaluation	(1,500)	—	—	—	(1,500)
At 31 December 2002	41,000	42,135	14,711	1,611	99,457
Comprising:					
At cost	—	42,135	14,711	1,611	58,457
At valuation 2002	41,000	—	—	—	41,000
	41,000	42,135	14,711	1,611	99,457
ACCUMULATED DEPRECIATION					
At 1 January 2002	—	34,786	2,835	1,611	39,232
Provided for the year	644	3,165	984	—	4,793
Eliminated on disposals	—	(253)	—	—	(253)
Adjustment on revaluation	(644)	—	—	—	(644)
At 31 December 2002	—	37,698	3,819	1,611	43,128
NET BOOK VALUES					
At 31 December 2002	41,000	4,437	10,892	—	56,329
At 31 December 2001	42,500	5,213	2,445	—	50,158

Notes to the Financial Statements

12. PROPERTY, PLANT AND EQUIPMENT *continued*

	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1 January 2002	19,757	5,266	1,611	26,634
Additions	1,126	8,900	—	10,026
At 31 December 2002	20,883	14,166	1,611	36,660
ACCUMULATED DEPRECIATION				
At 1 January 2002	16,457	2,831	1,611	20,899
Provided for the year	2,363	923	—	3,286
At 31 December 2002	18,820	3,754	1,611	24,185
NET BOOK VALUES				
At 31 December 2002	2,063	10,412	—	12,475
At 31 December 2001	3,300	2,435	—	5,735

The leasehold land and buildings of the Group were revalued at 31 December 2002 by Knight Frank (Services) Limited, an independent professional valuer, on an open market value basis. The deficit arising on revaluation has been charged to asset revaluation reserve.

If leasehold land and buildings of the Group had not been revalued, they would have been included in these financial statements at cost less accumulated depreciation at HK\$33,560,049 (2001: HK\$34,084,593).

Furniture, fixtures and equipment of the Group and the Company include assets carried at cost of HK\$21,897,838 (2001: HK\$20,512,083) and HK\$1,266,778 (2001: HK\$846,317) respectively and accumulated depreciation of HK\$19,216,069 (2001: HK\$18,692,470) and HK\$841,662 (2001: HK\$804,179) respectively in respect of assets held for use under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$776,954 (2001: HK\$944,589) and HK\$37,483 (2001: HK\$21,352) respectively.

13. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1 January	26,638,500	28,432,700	3,500,000	3,740,000
Additions	362,465	178,098	2,274	1,331
Adjustment resulted from cost variation	(96)	(50)	—	—
Disposals	(1,542)	—	—	—
Deficit on revaluation	(2,158,317)	(1,972,248)	(207,274)	(241,331)
At 31 December	24,841,010	26,638,500	3,295,000	3,500,000

The value of investment properties comprises:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Land in Hong Kong:				
– Medium term lease	4,000,000	4,300,000	—	—
– Long lease	20,841,010	22,338,500	3,295,000	3,500,000
	24,841,010	26,638,500	3,295,000	3,500,000

The investment properties of the Group and the Company were revalued at 31 December 2002 by Knight Frank (Services) Limited, an independent professional valuer, on an open market value basis. The deficit arising on revaluation has been charged to investment property revaluation reserve.

All of the investment properties of the Group and the Company are held for use under operating leases.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	5	5
Amounts due therefrom	13,394,620	13,312,167
	13,394,625	13,312,172
Less: Impairment loss	(404,000)	(404,000)
	12,990,625	12,908,172

The Directors consider that the unlisted investments are worth at least their cost.

Details of the principal subsidiaries held by the Company at 31 December 2002 are set out in note 39.

Notes to the Financial Statements

15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	—	—	3	3
Share of net liabilities	(77,171)	(77,164)	—	—
	(77,171)	(77,164)	3	3
Amounts due therefrom	159,850	149,786	—	—
	82,679	72,622	3	3
Less: Impairment loss	(21,362)	(11,298)	—	—
	61,317	61,324	3	3

The aggregate attributable share of results of the associates is based on the unaudited management accounts of Parallel Asia Engineering Company Limited and Wingrove Investment Pte Limited for the year ended 31 December 2002.

The Group's share of post-acquisition losses of an associate exceeds the carrying amount of its equity investment in that associate, since the Group has obligation to meet its funding requirements.

Details of the Group's associates at 31 December 2002 are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Class of share held	Proportion of nominal value of issued share capital held by the Company		Principal activity
				indirectly	directly	
Parallel Asia Engineering Company Limited	Incorporated	Hong Kong	Ordinary	—	25%	Investment holding
Wingrove Investment Pte Limited	Incorporated	Singapore	Ordinary	25%	—	Property development and investment

16. INVESTMENTS IN SECURITIES

THE GROUP

	Other securities	
	2002 HK\$'000	2001 HK\$'000
Equity securities:		
Listed in Hong Kong	772,827	1,057,222
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	—
	2,031	2,831
Unlisted shares	136,856	136,856
Amounts due therefrom	700,440	685,483
	837,296	822,339
Less: Impairment losses	(128,333)	(128,333)
	708,963	694,006
	710,994	696,837
	1,483,821	1,754,059
Market value of securities listed in Hong Kong	772,827	1,057,222
Carrying amount analysed for reporting purposes as:		
Non-current	1,483,821	1,754,059

THE COMPANY

	Other securities	
	2002 HK\$'000	2001 HK\$'000
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	—
	2,031	2,831
Carrying amount analysed for reporting purpose as:		
Non-current	2,031	2,831

Notes to the Financial Statements

17. NEGATIVE GOODWILL

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Carrying amount at 1 January	1,136	—
Negative goodwill arising on acquisition of additional interest in a subsidiary during the year	—	1,196
Released to income during the year	(60)	(60)
Carrying amount at 31 December	1,076	1,136

The negative goodwill which arose on the Group's acquisition of additional interest in a subsidiary is released to income on a straight line basis over a period of twenty years.

18. STAFF HOUSING LOANS, SECURED

	THE GROUP AND THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Staff housing loans, secured	18,315	23,700
Less: Amounts due within one year shown under current assets	(1,863)	(2,764)
	16,452	20,936

The secured advances arise in connection with an established Staff Housing Loan scheme granted to the employees who meet the qualifying criteria. The advances bear a fixed interest rate of 4% per annum.

19. ACCOUNTS RECEIVABLE

Accounts receivables are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 31 December 2002 and 2001 were aged less than 90 days.

20. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 31 December 2002 and 2001 were aged less than 90 days.

21. DEFERRED INCOME

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Deferred income	6,227	—
Less: Amount due within one year shown under current liabilities	(686)	—
	5,541	—

In connection with the US\$200 million ten-year inaugural notes, the Group has entered into derivative transactions to lock in the ten-year US Treasury rate so as to manage its interest rate exposures. The gain on the transactions is deferred and recognised on a straight line basis over the term of the ten-year notes, with final maturity in February 2012.

22. ADVANCES FROM INVESTEEES

The advances are unsecured, interest free and are not repayable within one year.

23. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest free and are not repayable within one year.

Notes to the Financial Statements

24. LONG TERM BANK LOANS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans, unsecured	3,746,861	3,228,471	2,887,761	3,228,471
The bank loans are repayable as follows:				
Within one year	737,638	139,837	687,638	139,837
More than one year, but not exceeding two years	685,600	435,500	685,600	435,500
More than two years, but not exceeding five years	1,617,600	2,172,634	1,200,500	2,172,634
More than five years	706,023	480,500	314,023	480,500
	3,746,861	3,228,471	2,887,761	3,228,471
Less: Amounts due within one year shown under current liabilities	(737,638)	(139,837)	(687,638)	(139,837)
	3,009,223	3,088,634	2,200,123	3,088,634

25. FLOATING RATE NOTES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Floating rate notes	400,000	2,400,000
Less: Unamortised notes issue expenses	(1,910)	(3,406)
	398,090	2,396,594
Less: Amount due within one year shown under current liabilities	—	(1,999,547)
	398,090	397,047

HD Treasury (BVI) Limited and HD Finance (BVI) Limited, wholly-owned subsidiaries of the Company, issued HK\$2,000 million and HK\$400 million five-year floating rate notes on 27 March 1997 and 3 November 1999 respectively. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 0.565% and 1.25% over the 3-month HIBOR and are repayable in full in March 2002 and November 2004 respectively.

26. FIXED RATE NOTES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Fixed rate notes	1,559,977	—
Less: Unamortised notes issue expenses	(8,974)	—
	1,551,003	—

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US\$200 million ten-year fixed rate notes in February 2002. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 7% per annum and are repayable in full in February 2012.

27. DEFERRED TAXATION

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.

28. SHARE CAPITAL

	Number of shares		Share capital	
	2002 '000	2001 '000	2002 HK\$'000	2001 HK\$'000
THE COMPANY				
Ordinary shares of HK\$5 each				
Authorised:				
At 1 January and 31 December	1,450,000	1,450,000	7,250,000	7,250,000
Issued and fully paid:				
At 1 January	1,031,303	1,030,251	5,156,516	5,151,256
Issued in lieu of cash dividend	3,314	8,016	16,568	40,080
Shares repurchased and cancelled	—	(6,964)	—	(34,820)
At 31 December	1,034,617	1,031,303	5,173,084	5,156,516

On 13 June 2002 and 21 October 2002 respectively, the Company issued and allotted a total of 2,248,645 shares and 1,064,905 shares of HK\$5 each in the Company at HK\$8.92 and HK\$6.30 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2001 final and 2002 interim dividends pursuant to the scrip dividend scheme announced by the Company on 14 May 2002 and 18 September 2002. These shares rank pari passu in all respects with other shares in issue.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Notes to the Financial Statements

29. ACCUMULATED PROFITS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1 January	3,580,672	3,436,247	3,957,698	4,077,068
Shares repurchased and cancelled:				
– Nominal value of shares repurchased	—	(34,820)	—	(34,820)
– Premium on shares repurchased	—	(29,500)	—	(29,500)
Net profit for the year	543,874	600,343	161,334	336,548
Profit available for distribution	4,124,546	3,972,270	4,119,032	4,349,296
Dividends	(377,529)	(391,598)	(377,529)	(391,598)
At 31 December	3,747,017	3,580,672	3,741,503	3,957,698

The accumulated profits of the Group include accumulated losses of HK\$87,987,293 (2001: HK\$88,130,335) attributable to associates of the Group.

The distributable reserves of the Company as at 31 December 2002 amounted to HK\$3,841,503,255 (2001: HK\$4,057,697,703), being its accumulated profits and general reserve at that date.

30. OTHER RESERVES

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK'000	General reserve HK'000	Dividend reserve HK'000	Total HK\$'000
THE GROUP										
At 1 January 2001	1,272,538	11,408,707	1,170,205	11,552	501,102	(12,736)	120,175	100,000	319,378	14,890,921
Premium on issue of shares in lieu of cash dividend	30,847	—	—	—	—	—	—	—	—	30,847
Share issue expenses	(31)	—	—	—	—	—	—	—	—	(31)
Shares repurchased and cancelled	—	—	—	—	—	—	34,820	—	—	34,820
Unrealised loss on investments in other securities	—	—	(566,708)	—	—	—	—	—	—	(566,708)
Deficit on revaluation of investment properties	—	(1,972,248)	—	—	—	—	—	—	—	(1,972,248)
Deficit on revaluation of land and buildings	—	—	—	(2,823)	—	—	—	—	—	(2,823)
Deficit on revaluation of investment properties shared by minority shareholders	—	131,703	—	—	—	—	—	—	—	131,703
Reversed on disposal of an associate	—	—	—	—	1,133	12,736	—	—	—	13,869
Final dividend for 2000 paid	—	—	—	—	—	—	—	—	(319,378)	(319,378)
Amount set aside for 2001 dividend	—	—	—	—	—	—	—	—	391,598	391,598
Interim dividend for 2001 paid	—	—	—	—	—	—	—	—	(102,833)	(102,833)
At 31 December 2001	1,303,354	9,568,162	603,497	8,729	502,235	—	154,995	100,000	288,765	12,529,737
Premium on issue of shares in lieu of cash dividend	10,199	—	—	—	—	—	—	—	—	10,199
Share issue expenses	(10)	—	—	—	—	—	—	—	—	(10)
Unrealised loss on investments in other securities	—	—	(284,395)	—	—	—	—	—	—	(284,395)
Deficit on revaluation of investment properties	—	(2,158,317)	—	—	—	—	—	—	—	(2,158,317)
Deficit on revaluation of land and buildings	—	—	—	(856)	—	—	—	—	—	(856)
Deficit on revaluation of investment properties shared by minority shareholders	—	86,600	—	—	—	—	—	—	—	86,600
Realisation on disposal of investment properties	—	(1,492)	—	—	—	—	—	—	—	(1,492)
Final dividend for 2001 paid	—	—	—	—	—	—	—	—	(288,765)	(288,765)
Amount set aside for 2002 dividend	—	—	—	—	—	—	—	—	377,529	377,529
Interim dividend for 2002 paid	—	—	—	—	—	—	—	—	(103,355)	(103,355)
At 31 December 2002	1,313,543	7,494,953	319,102	7,873	502,235	—	154,995	100,000	274,174	10,166,875

Notes to the Financial Statements

30. OTHER RESERVES *continued*

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 2001	1,272,538	2,440,236	120,175	100,000	319,378	4,252,327
Premium on issue of shares in lieu of cash dividend	30,847	—	—	—	—	30,847
Share issue expenses	(31)	—	—	—	—	(31)
Deficit on revaluation of investment properties	—	(241,331)	—	—	—	(241,331)
Shares repurchased and cancelled	—	—	34,820	—	—	34,820
Final dividend for 2000 paid	—	—	—	—	(319,378)	(319,378)
Amount set aside for 2001 dividend	—	—	—	—	391,598	391,598
Interim dividend for 2001 paid	—	—	—	—	(102,833)	(102,833)
At 31 December 2001	1,303,354	2,198,905	154,995	100,000	288,765	4,046,019
Premium on issue of shares in lieu of cash dividend	10,199	—	—	—	—	10,199
Share issue expenses	(10)	—	—	—	—	(10)
Deficit on revaluation of investment properties	—	(207,274)	—	—	—	(207,274)
Final dividend for 2001 paid	—	—	—	—	(288,765)	(288,765)
Amount set aside for 2002 dividend	—	—	—	—	377,529	377,529
Interim dividend for 2002 paid	—	—	—	—	(103,355)	(103,355)
At 31 December 2002	1,313,543	1,991,631	154,995	100,000	274,174	3,834,343

(a) General reserve

General reserve was set up from the transfer of accumulated profits.

(b) Capital reserve

Capital reserve comprises negative goodwill of HK\$516,142,884 (2001: HK\$516,142,884) arising from acquisition of subsidiaries prior to 1 January 2001 and capitalisation issue of a subsidiary.

31. EXECUTIVE SHARE OPTION SCHEME

The Company operates an Executive Share Option Scheme (the "Scheme") under which options may be granted to employees of the Company or any of its wholly-owned subsidiaries to subscribe for ordinary shares of the Company, thereby strengthening the links between individual staff and shareholder interests. Approved by shareholders on 28 April 1995, the Scheme has a term of ten years. The maximum number of shares in respect of which options may be granted under the Scheme (together with shares issued and issuable under the Scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The maximum entitlement of each participant under the Scheme is 25% of the maximum number of shares in respect of which options may at any time be granted under the Scheme. The exercise price was fixed at 80% of the average of the closing prices of the shares on the Hong Kong Stock Exchange for the twenty trading days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

As at 31 December 2002, Scheme participants were executive Directors of the Company with shares issuable under options granted representing less than 0.4% (2001: 0.4%) of the then issued share capital of the Company. Options expiring, granted and outstanding to them are as follows:

	Balance as at 1.1.2001 and 1.1.2002	Date of grant	Changes During The Year			Balance as at 31.12.2001 and 31.12.2002	Exercise price (HK\$)	Exercisable period
			Cancelled/ Lapsed	Granted	Exercised			
Peter Ting Chang Lee	1,350,000	7.1.99	NIL	NIL	NIL	1,350,000	9.22	7.1.01-6.1.09
Pauline Wah Ling Yu Wong	900,000	3.5.95	NIL	NIL	NIL	900,000	13.46	3.5.97-2.5.05
Michael Chi Kung Moy	1,200,000	23.12.99	NIL	NIL	NIL	1,200,000	7.54	23.12.01-22.12.09

All options referred to above are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

No options have been granted since the coming into force of certain new Listing Rules requirements. Future grants will only be made under the existing Scheme where new Listing Rules requirements are complied with.

The Chairman and Managing Director has been delegated by the Board the authority to make grants to other management staff, with the view to further strengthening the links between staff and shareholder objectives and to balance the interests of shareholders generally. The exercise price will be set at at least the higher of (i) the closing price of the Company's ordinary shares on the date of grant; and (ii) the average closing price of such shares for the five days immediately before the grant. Interests of shareholders will be balanced by having appropriate aggregate and individual grant limits, also being in line with new Listing Rules requirements. A clear performance criterion will be the main driver.

32. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced MPF scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$4,820,554 (2001: HK\$4,456,482). Forfeited contributions for the year of HK\$1,189,078 (2001: HK\$2,741,993) were fully utilised to fund the Group's contributions.

Notes to the Financial Statements

33. CONTINGENT LIABILITIES

As at 31 December 2002, there were contingent liabilities in respect of the following:

	THE GROUP		THE COMPANY	
	2002 Million	2001 Million	2002 Million	2001 Million
Corporate guarantee to a third party in respect of the sale of the interest in an associate	HK\$3.6	HK\$3.6	HK\$3.6	HK\$3.6
Corporate guarantee to subsidiaries – for issue of floating rate notes – for issue of fixed rate notes	— —	— —	HK\$400.0 US\$200.0	HK\$2,400.0 —
Undertaking given to a bank in proportion to shareholding regarding facilities granted to a joint venture property project	S\$18.6	S\$18.6	—	—
Guarantees to banks to provide finance to – An associate – A property development project – Subsidiaries	S\$12.0 S\$22.0 —	S\$12.0 S\$22.0 —	S\$12.0 S\$22.0 HK\$2,840.0	S\$12.0 S\$22.0 —

34. CAPITAL COMMITMENTS

As at 31 December 2002, the Group had capital commitments in respect of the following:

	2002 Million	2001 Million
(a) Investment properties: Contracted but not provided for	HK\$171.4	HK\$70.9
(b) Share of capital commitments for joint ventures: Contracted but not provided for	HK\$7.7	HK\$20.2

35. LEASE COMMITMENTS

The Group and the Company as lessee

As at 31 December 2002, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	—	—	5,884	11,916
In the second to fifth year inclusive	—	—	138	5,608
	—	—	6,022	17,524

Operating lease payments represent rental payable by the Company to its subsidiaries for its staff quarters and office premises which are negotiated and fixed for an average of two years and three years respectively.

The Group and the Company as lessor

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	829,154	894,372	126,789	131,887
In the second to fifth year inclusive	1,139,991	1,240,792	148,671	105,997
After five years	253,768	313,466	15,525	16,509
	2,222,913	2,448,630	290,985	254,393

36. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Details of the Group's outstanding derivative instruments at balance sheet date are as follows:

	Notional Principal Amount	
	2002 HK\$'000	2001 HK\$'000
Forward rate agreement – less than one year	400,000	—
Interest rate swaps – one to five years	428,983	650,000
Currency swaps – after five years	1,559,977	—
	2,388,960	650,000

The Group has used off balance sheet derivative instruments to manage the interest rate and foreign exchange exposures. These instruments, such as interest rate swaps and currency swaps, are employed solely for hedging purpose and no speculative positions have been taken. The Group has also followed the established policy on monitoring and managing the counter-party risk by restricting the derivative transactions to financial institutions with strong investment-grade ratings and limiting the exposures to each counter-party at prudent levels.

Notes to the Financial Statements

37. RELATED PARTY AND CONNECTED TRANSACTIONS**A. Related party transactions**

During the year, the Group has the following transactions with related parties:

	Notes	Substantial shareholder		Directors	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Repairs and maintenance expenses paid to	(a)	—	—	20,823	21,070
Gross rental income from	(b)	6,147	6,167	36,567	46,054
Construction cost paid during the year for investment properties completed in previous years	(c)	—	—	—	179

As at 31 December 2002, the Group has the following balances with related parties:

	Notes	Substantial shareholder		Directors	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Included in creditors and accruals were repairs and maintenance expenses payable to	(a)	—	—	1,737	1,671
Amount due to a minority shareholder	(d)	—	—	84,486	84,486

37. RELATED PARTY AND CONNECTED TRANSACTIONS *continued*

A. Related party transactions *continued*

Notes:

- (a) Such expenses were incurred in connection with the repair and maintenance charges for lift, electrical installation and gondola services.
- (i) In relation to the lift and electrical installation and maintenance services, F. K. Hu (and his alternate, Raymond L. M. Hu) are directors of Ryoden Lift Services Limited ("RLS") and Ryoden Engineering Contracting Company Limited ("REC") and have indirect equity interests in RLS and REC. RLS and REC entered into a number of lift maintenance contracts and electrical installation maintenance and repair contracts respectively with a subsidiary of the Company.
- (ii) In relation to the gondola maintenance services, Hans Michael Jebsen is a director and shareholder of Jebsen and Company Limited which entered into a number of gondola maintenance contracts with a subsidiary of the Company.

These transactions were carried out in the normal course of business and the fees were determined with reference to market rates.

- (b) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying periods. The leases were entered into in the normal course of business and the rentals were determined with reference to market rates.
- (c) During the year ended 31 December 2001, Geoffrey M. T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and directors of Hsin Chong Construction Group Limited whose associate entered into a MVAC/BAS contract with a subsidiary of the Company relating to the construction of The Lee Gardens. The contract had been completed, with the relevant sum being the amount fully paid under the contract last year. Such transaction was entered into on normal commercial terms and on arm's length basis.
- (d) The sum represents outstanding loan advanced by Jebsen and Company Limited to a non-wholly owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. Details of the terms are set out in note 23.

B. Connected transaction

Loans totalling HK\$552,096,609 were advanced by the Group to Barrowgate Limited (The Group: 65.36%; Hang Seng Bank: 24.64%; Jebsen and Company Limited: 10%) for general funding purpose which sum has been included in the disclosure in note 14. Loans totalling HK\$292,764,698 advanced by the other shareholders in proportion to their respective shareholdings are disclosed in note 23. These quasi-equity loans are non-interest-bearing and have no fixed settlement date and are not repayable within one year. The grant of loans by the Group constitutes a grant of financial assistance and is a connected transaction under Rule 14.25(2) of the Listing Rules.

38. POST BALANCE SHEET EVENT

On 15 January 2003, a subsidiary of the Company acquired additional 1,313,158 ordinary shares of HK\$1 each of Country Link Enterprises Limited, grouped under investments in securities, for an aggregate consideration of HK\$1,313,158 which is satisfied by setting off the amounts due therefrom. As a result, the Group increases its shareholding from 18.75% to 26.3%.

Notes to the Financial Statements

39. PRINCIPAL SUBSIDIARIES AT 31 DECEMBER 2002

Name of subsidiary	Place of incorporation	Place of operation
Admore Investments Limited	Hong Kong	Hong Kong
Golden Capital Investment Limited	Hong Kong	Hong Kong
HD Finance (BVI) Limited	British Virgin Islands	British Virgin Islands
HD Treasury Limited	Hong Kong	Hong Kong
HD Treasury Management Limited	Hong Kong	Hong Kong
Hysan China Holdings Limited	British Virgin Islands	British Virgin Islands
Hysan Treasury Limited	Hong Kong	Hong Kong
Hysan (MTN) Limited	British Virgin Islands	Hong Kong
Hysan Property Management Limited	Hong Kong	Hong Kong
Kwong Hup Holding Limited	British Virgin Islands	British Virgin Islands
Kwong Wan Realty Limited	Hong Kong	Hong Kong
Minsal Limited	Hong Kong	Hong Kong
Mondsee Limited	Hong Kong	Hong Kong
Stangard Limited	Hong Kong	Hong Kong
Teamfine Enterprises Limited	Hong Kong	Hong Kong
Tohon Development Limited	Hong Kong	Hong Kong
Bamboo Grove Recreational Services Limited	Hong Kong	Hong Kong
HD Investment Limited	British Virgin Islands	British Virgin Islands
Jarrow Properties Limited	British Virgin Islands	British Virgin Islands
Kochi Investments Limited	British Virgin Islands	British Virgin Islands
Lee Theatre Realty Limited	Hong Kong	Hong Kong
Leighton Property Company Limited	Hong Kong	Hong Kong
Main Rise Development Limited	Hong Kong	Hong Kong
OHA Property Company Limited	Hong Kong	Hong Kong
Perfect Win Properties Limited	Hong Kong	Hong Kong
Silver Nicety Company Limited	Hong Kong	Hong Kong
South Eagle Investments Limited	British Virgin Islands	Hong Kong
Barrowgate Limited	Hong Kong	Hong Kong

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially affected the results or assets of the Group. Other than the fixed rate notes issued by Hysan (MTN) Limited as disclosed in note 26, none of the subsidiaries had issued any debt securities at the year-end.

Class of share held	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
		indirectly	directly	
Ordinary	HK\$2	—	100%	Investment holding
Ordinary	HK\$2	—	100%	Investment holding
Ordinary	HK\$1	—	100%	Treasury operation
Ordinary	HK\$2	—	100%	Treasury operation
Ordinary	HK\$2	—	100%	Treasury operation
Ordinary	HK\$1	—	100%	Investment holding
Ordinary	HK\$2	—	100%	Treasury operation
Ordinary	US\$1	—	100%	Treasury operation
Ordinary	HK\$2	—	100%	Property management
Ordinary	HK\$1	—	100%	Investment holding
Ordinary	HK\$1,000	—	100%	Property investment
Ordinary	HK\$2	—	100%	Property investment
Ordinary	HK\$2	—	100%	Property investment
Ordinary	HK\$300,000	—	100%	Provision of security services
Ordinary	HK\$2	—	100%	Investment holding
Ordinary	HK\$2	—	100%	Property investment
Ordinary	HK\$2	100%	—	Resident club management
Ordinary	HK\$1	100%	—	Investment holding
Ordinary	HK\$1	100%	—	Investment holding
Ordinary	HK\$1	100%	—	Capital market investment
Ordinary	HK\$10	100%	—	Property investment
Ordinary	HK\$2	100%	—	Property investment
Ordinary	HK\$2	100%	—	Investment holding
Ordinary	HK\$2	100%	—	Property investment
Ordinary	HK\$2	100%	—	Property investment
Ordinary	HK\$20	100%	—	Property investment
Ordinary	US\$1	100%	—	Property investment
Ordinary	HK\$10,000	65.36%	—	Property investment

Five-year Financial Summary

	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
CONSOLIDATED INCOME STATEMENT					
Turnover	3,590,656	2,295,717	1,480,246	1,355,450	1,233,398
Profit from operations	2,773,264	1,994,930	1,474,517	1,066,738	926,839
Finance costs	(1,251,944)	(526,819)	(449,020)	(314,428)	(220,553)
Gain on disposal of an associate	—	—	—	33,531	—
Impairment loss (arising) reversed in respect of interests in associates	(108,000)	(98,418)	3,419	(4,880)	(10,064)
Share of results of associates	(75,702)	(4,284)	4,210	(2,338)	143
Profit before taxation	1,337,618	1,365,409	1,033,126	778,623	696,365
Taxation	(111,550)	(86,795)	(117,210)	(114,903)	(97,903)
Profit after taxation	1,226,068	1,278,614	915,916	663,720	598,462
Minority interests	(86,797)	(74,656)	(65,743)	(63,377)	(54,588)
Net profit for the year	1,139,271	1,203,958	850,173	600,343	543,874
Dividends	381,099	412,795	433,064	391,598	377,529
Earnings per share					
– Basic	HK\$1.11	HK\$1.16	HK\$0.82	HK\$0.58	HK\$0.53
– Diluted	N/A	HK\$1.16	HK\$0.82	HK\$0.58	HK\$0.53

	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
CONSOLIDATED BALANCE SHEET					
Property, plant and equipment	56,060	56,443	56,632	50,158	56,329
Investment properties	25,949,000	25,173,000	28,432,700	26,638,500	24,841,010
Interests in associates	241,487	66,467	51,384	61,324	61,317
Investments in securities	1,847,563	2,468,742	2,297,335	1,754,059	1,483,821
Negative goodwill	—	—	—	(1,136)	(1,076)
Staff housing loans, secured	53,201	43,151	28,898	20,936	16,452
Net current liabilities	(615,596)	(1,476,134)	(1,149,722)	(2,463,807)	(1,184,896)
	27,531,715	26,331,669	29,717,227	26,060,034	25,272,957
Advances from investees	140,520	51,316	59,482	52,571	51,676
Amounts due to minority shareholders	292,765	292,765	292,765	292,765	292,765
Long term loan	263,754	263,754	263,754	—	—
Long term bank loans	3,796,000	1,660,000	1,890,000	3,088,634	3,009,223
Convertible bonds	1,108,239	—	—	—	—
Floating rate notes	1,994,107	2,390,884	2,393,739	397,047	398,090
Fixed rate notes	—	—	—	—	1,551,003
Deferred income	—	—	—	—	5,541
Deferred taxation	—	—	—	—	1,295
	7,595,385	4,658,719	4,899,740	3,831,017	5,309,593
Net assets	19,936,330	21,672,950	24,817,487	22,229,017	19,963,364
Minority interests	1,169,607	1,146,458	1,339,063	962,092	876,388
	18,766,723	20,526,492	23,478,424	21,266,925	19,086,976
Share capital	5,158,136	5,183,810	5,151,256	5,156,516	5,173,084
Reserves	13,608,587	15,342,682	18,327,168	16,110,409	13,913,892
Shareholders' funds	18,766,723	20,526,492	23,478,424	21,266,925	19,086,976

Notes

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	11 March 2003
Ex-dividend date for final dividend	6 May 2003
Share registers closed	9 to 13 May 2003
Annual General Meeting	13 May 2003
Record date for final dividend	13 May 2003
Despatch of scrip dividend circular and election form	(on or about) 20 May 2003
Despatch of final dividend warrants / definitive share certificates	(on or about) 13 June 2003
2003 interim results to be announced	August 2003*
2003 interim dividend payable	October 2003*

* *subject to change*

DIVIDEND

The Board recommends the payment of a final dividend of HK26.5 cents per share. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative to shareholders on the register of members as at Tuesday, 13 May 2003. The scrip dividend alternative is conditional upon 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.

A circular containing details of the scrip dividend and the form of election will be mailed to shareholders on or about Tuesday, 20 May 2003. Shareholders who elect for the scrip dividend, in lieu of the cash dividend, in whole or in part, shall return the form of election to the Company's Registrars on or before Monday, 9 June 2003.

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 Friday, 13 June 2003.

The share register will be closed from Friday, 9 May 2003 to Tuesday, 13 May 2003, 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 Wednesday, 7 May 2003.

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrars:-

Standard Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong
Telephone : (852) 2980 1768
Facsimile : (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrars promptly of any change of their address.

INVESTOR RELATIONS

For enquiries relating to investor relations, please email to investor@hysan.com.hk or write to:-

Investor Relations,
Hysan Development Company Limited
49/F., Manulife Plaza
The Lee Gardens, 33 Hysan Avenue
Hong Kong
Telephone : (852) 2895 5777
Facsimile : (852) 2577 5153

Press releases and other information of the Group can be found at our Internet website at "www.hysan.com.hk"



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