


**HYSAN'S  
CAUSEWAY  
BAY**  
**ANNUAL REPORT 2003**



*Causeway Bay is a place of vibrant contrasts. It is simultaneously modern and traditional, cosmopolitan yet full of local character. All these characteristics are entwined with and reinforce each other.*

*Hysan has grown together with Causeway Bay. In this Annual Report, we explore with you its different facets — Work, Time Out, Festivities, and Green.*

*Hysan has built and is set to further enhance its portfolio bearing in mind the distinctive features, the needs and aspirations of the people who use it.*

*Causeway Bay is unique and is the product of constant reinvention. It is an inspiring place to work, shop and enjoy.*



**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.

**YEAR 2003** remained another challenging year for the Group. In spite of the unfavourable market conditions that prevailed during most of 2003, occupancy levels of our property portfolio remained resilient throughout the year.

Our mission remains steadfast: that is to build and manage quality properties and to provide premium accommodation and services to our occupiers.

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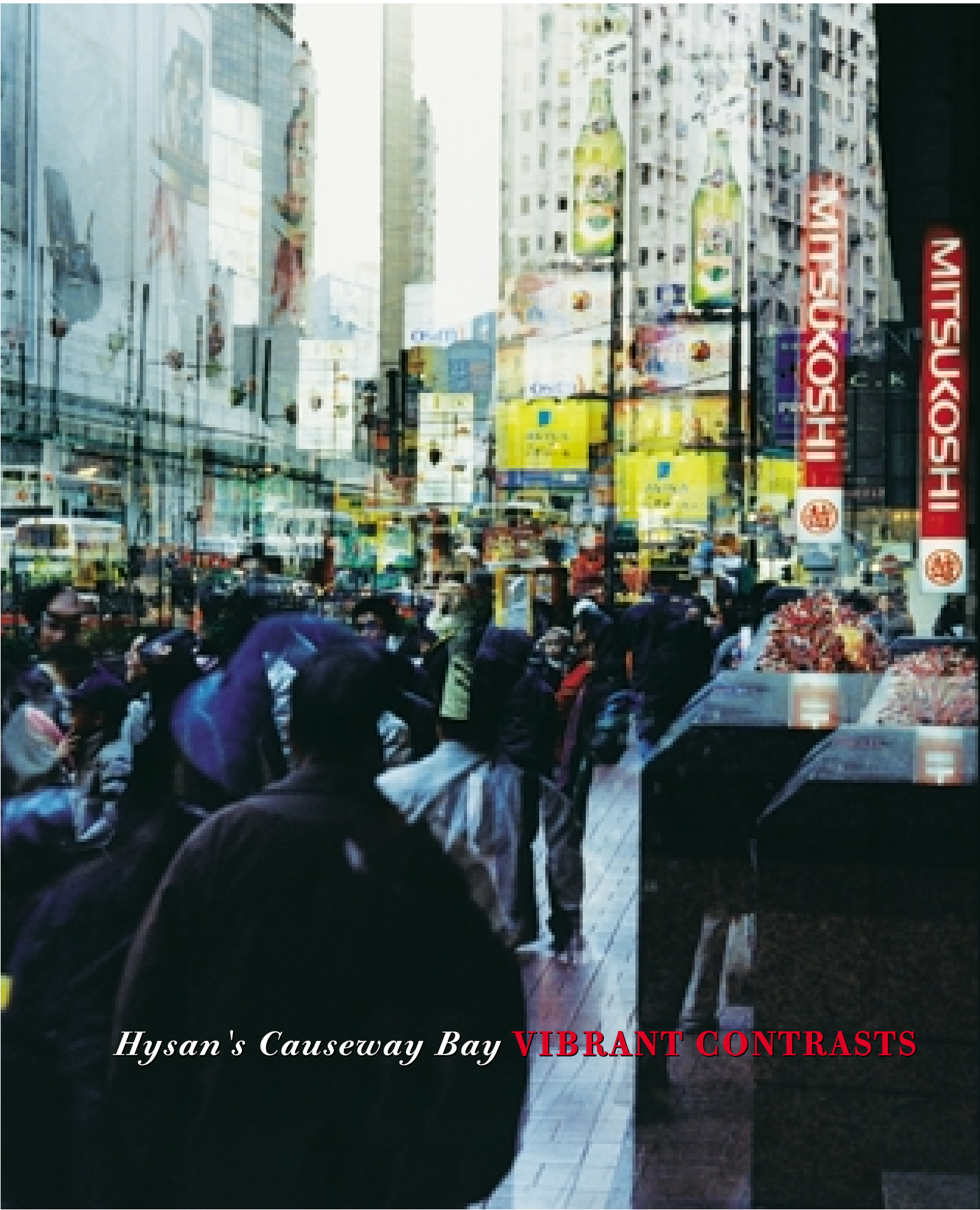


## PERFORMANCE HIGHLIGHTS

- **Strong occupancy rates achieved despite challenging market conditions**  
– 2003 average: office: 93%, retail: 98%
- **Rental levels stabilising in office sector**
- **Further expand our retail sector**  
– re-launched Lee Gardens Two achieving 93% commitment
- **Strong balance sheet**  
– maturity profile further lengthened

## RESULTS

	Year ended 31 December		
	2003 HK\$ million	2002 HK\$ million <i>(restated)</i>	Change %
Operating Profit	<b>883.3</b>	926.8	( 4.7 )
Net Profit	<b>545.4</b>	533.4	2.2
Gross rental income	<b>1,135.1</b>	1,229.6	( 7.7 )
	<b>HK¢</b>	HK¢	%
Earnings per share (basic)	<b>52.52</b>	51.65	1.7
Earnings per share (diluted)	<b>52.52</b>	51.65	1.7
Dividend per share	<b>36.5</b>	36.5	unchanged
	<b>HK\$</b>	HK\$	%
Net asset value per share	<b>17.86</b>	18.34	( 2.6 )



*Hysan's Causeway Bay* **VIBRANT CONTRASTS**

# CHAIRMAN'S STATEMENT



**Peter T.C. Lee**  
Chairman

The combination of a clear strategy, accompanied by high standards of governance, financial transparency and social responsibility are the core values of our Company philosophy.



*We can look back with pride over a long and consistent history. In the early part of the 20th century, the founding Lee family set out to provide and manage real estate for local businesses. At the beginning of the 21st century, we continue to provide solutions to our customers' ever changing needs. We aim to remain the occupier's partner of choice in the provision of real estate accommodation and services.*

*(Top) Streets names in Causeway Bay named after the founding family and their home town in China.*

*(Left) Both Lee Theatre Plaza and its predecessor, Lee Theatre, are Causeway Bay landmarks.*





2003 remained another challenging year for the Group. Against a background of continuing deflation and high unemployment in Hong Kong, the first half of the year was additionally affected by the outbreak of SARS. However, due to closer economic ties with mainland China and the greater influx of mainland visitors to Hong Kong, both the economy and market sentiment improved towards the end of the year.

### PERFORMANCE

In spite of the unfavourable market conditions that prevailed during most of 2003, I am pleased to report that occupancy levels of our property portfolio remained resilient throughout the year (office: average 93%; retail: average 98%).

The Group's 2003 annual attributable profit was HK\$545.4 million, 2.2% higher than in 2002 (2002 restated: HK\$533.4 million). Underlying gross rental income decreased by 7.7% to HK\$1,135.1 million (2002: HK\$1,229.6 million). The fall was mainly attributable to the negative rental reversions in the office sector and to the upgrading and renovation works being carried out at the retail centre of Caroline Centre (now renamed Lee Gardens Two). These were partly offset by the increased income from the re-launched residential apartments at Bamboo Grove. Contributions from joint venture developments and other investments increased by HK\$88.4 million. The impact of higher taxation in 2003 (including the change to a new accounting standard on deferred taxation) was partly offset by lower financing costs during the year.

Earnings per share were HK52.52 cents, an increase of 1.7% (2002 restated: HK51.65 cents).

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 (2002: unchanged). Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative.

The portfolio of investment properties was valued by Knight Frank at HK\$24,367 million as at 31 December 2003, which fell by 1.9% (2002: HK\$24,841 million). Shareholders' funds at 2003 year-end were HK\$18,640 million, compared to HK\$18,975 million (restated) in 2002. Net asset value per share decreased by 2.6% to HK\$17.86.

### VISION AND VALUES

The mission of Hysan Development remains steadfast: that is to build and manage quality properties and to provide premium accommodation and services to its occupiers.

With innovative ideas that anticipate and respond to tenant needs, and management of the highest professional and ethical standards, we are committed to being the occupier's partner of choice in real estate. This combination of a clear strategy accompanied by high standards of governance, financial transparency and social responsibility are the core values of our Company philosophy.

### DIRECTORS AND STAFF

Dr. Victor K.K. Fung, having served on the Board since 1998, elected not to stand for re-election at the last Annual General Meeting. The Board is greatly indebted to Dr. Fung for his invaluable guidance and contribution to the success of Hysan.

I also thank Michael C.K. Moy, who resigned as Chief Financial Officer in January, for his hard work and contribution to the Group. I welcome our new Chief Financial Officer, Ricky T.F. Tsang, who joined us in March.

I would like to take this opportunity to express my thanks to all our dedicated and loyal staff for their dedication and good work during the year.

### OUTLOOK

There is a general anticipation that the Hong Kong economy will continue on its path of recovery in 2004, accompanied by reduced deflation; however, local unemployment rates are likely to remain high.

For this recovery trend to be sustainable, it is important that the economic rebound continues on its present course in the coming months. Overall, with an improved economy, this should benefit the investment property sector in 2004.

We live in a world of increasing connectivity, where political events and economic conditions can often have significant impact on us, which are beyond our control. Nevertheless, we intend to respond to these challenges with vision and creativity, always bearing in mind the aspirations of our stakeholders. We are confident that together we will forge a better future.

**Peter T. C. Lee**

*Chairman*

Hong Kong, 9 March 2004



# OPERATING AND FINANCIAL REVIEW



**Michael T. H. Lee**  
*Managing Director*

Despite market and economic conditions, we have made good progress in further growing our business pursuant to the strategic principles mapped out three years ago.



*Another Causeway Bay landmark:  
The Lee Gardens*

## STRATEGIC DIRECTIONS

We aim to be the occupier's partner of choice in the provision of real estate accommodation and services.

The following strategic principles have guided our actions over the past three years:

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

## OUR ACHIEVEMENTS

Although the achievement of our objectives is always influenced by market and economic conditions, we have made good progress in further growing our business.

Our achievements to date include:

- optimising occupancy levels across the portfolio (current levels: office: 95% ; retail: 97%)
- maximising tenant retention including optimising lease structure and maturity profile
- developing distinctive retail centres in our retail hub targeting different consumer groups
- asset enhancements:
  - re-launch of residential Bamboo Grove project and Lee Gardens Two retail centre completed;
  - various renovation and / or building upgrades
- customer focus:
  - implementing a Group client relationship management system to formalise relationship management with clients;
  - property services: adopting comprehensive tenant service levels with industry recognition achieved
- maximising operating efficiency including significant savings in energy costs without compromising service standards
- strong balance sheet with debt maturity profile lengthened and funding sources diversified
- enhancing corporate governance and transparency with industry recognition achieved
- enhancing corporate social responsibility including formal adoption of an environmental, health and safety policy

## 2004 OBJECTIVES

Our future objectives will be to:

- optimise rental income and occupancy
- further refine and enhance our distinctive retail centres in the prime Causeway Bay retail hub
- continue to review the performance of our assets and maximise their value
- continue to maximise operating efficiency
- continue to achieve a strong balance sheet position geared to complement strategic directions
- to build and retain our first rate team
- further strengthen relations with our stakeholders:
  - our tenants
  - the investment community and analysts
  - the media
  - the community

## OPERATING REVIEW OFFICE

### MISSION

We aim to become the business partner of choice in the provision of quality office accommodation and services to our tenants. We offer a range of first class office premises with different occupier characteristics, and we have a diversified and quality tenant base covering a range of industries and activities. We are committed to interacting closely with our tenants in order to ensure that we anticipate and meet their changing needs.

### OVERVIEW

Although the general office market environment remained highly competitive throughout the review year, market sentiment showed considerable improvement by year-end. Effective rental levels appeared to be stabilising. These should encourage more positive developments in the general office sector, particularly for quality buildings in locations that have no major new supply.

### PERFORMANCE

During the year we continued to strengthen relationships with our tenants, which enabled us to maximise tenant retention, optimising lease maturity profiles where appropriate. We achieved generally satisfactory occupancy levels throughout the year, which are supported by our diversified and quality tenant base.

Occupancy level further improved to 95% (interim results 2003: 92%), reflecting new tenant intake as well as the expansion of existing tenants. Currently, there are indications of effective rental levels stabilising in the general office market. These should, in due course, be translated into earnings growth.

For the future, we shall continue to foster good relationships with our tenants. The implementation of a tenant relationship management system has helped formalise communications procedures with tenants and to ensure that we anticipate and meet their needs.



*Quality building features, whether in terms of building exterior, interior common areas, or public art displays, are at the top of tenants' priorities. These features are complemented by first class building management services.*

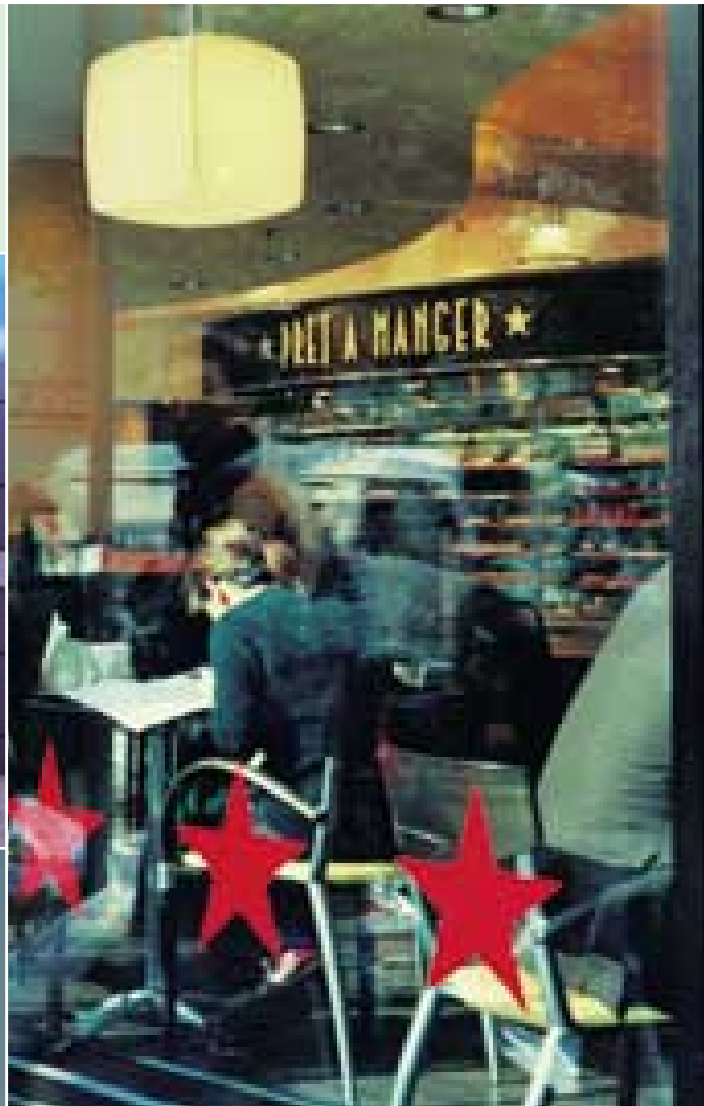




*Hysan's Causeway Bay* **WORK**







*Businesses covering a range of industries and activities are drawn to Causeway Bay by its excellent locational features — proximity to transport systems, clients / business partners, and business services; also in terms of the abundance of restaurant / retail / personal services.*

*(Photos) Some of our clients' "brain-storming" in action.*

*For Sony, it takes place in the roof canteen that commands a magnificent view of the harbour; for Jebson & Company, it is all held in a dedicated "Brain-storming Zone".*

*For Campbell's, it means meticulous tasting of its products in a specially equipped kitchen.*



## OPERATING REVIEW RETAIL

### MISSION

We adopt a proactive approach in refining our tenant mix with a view to projecting the premium positioning and distinctive images of our shopping centres. We aim to position our retail hub in Causeway Bay as an integrated and dynamic location with a broad appeal, a place where all shopping, leisure and service needs can be met. This approach is complemented by a year-round marketing programme which promotes the long-term growth of the Group as well as our retail tenants.

### OVERVIEW

The retail sector showed significant improvement in the second half of the year. Consumer confidence generally improved, supported by a further increase in tourist arrivals particularly from the PRC. Demand for space in prime locations remained strong, and rental levels generally improved. Consumers are increasingly drawn to retail centres and locations that offer an attractive shopping environment as well as an optimal mix of shopping and recreation outlets.

### PERFORMANCE

Our retail portfolio currently records an occupancy of 97%, including Lee Gardens Two. This strong occupancy reflects the premium location of our Causeway Bay retail portfolio.

Leasing activities for Lee Gardens Two were well-received, securing 93% lease commitment. We took advantage of the increased critical mass of The Lee Gardens and Lee Gardens Two projects to enhance the performance of the centres as well as the shopping experience for shoppers. We are continuing to introduce new retailers, which include high-end fashion brands, lifestyle retailers, children specialty shops as well as food and beverage outlets.

Our objective is to position our retail hub in Causeway Bay as an integrated and dynamic location with a broad retail appeal, a place where all shopping, leisure, and service needs can be met. We shall further refine the tenant mix in our shopping centres in this light.

*Today's shoppers are looking for something different: a shopping experience that is out of the ordinary. Environment and ambience are therefore of prime importance – there is a great emphasis on stylish presentation and attractive window displays to entice customers inside. Although eating and shopping have always been natural companions, the trend has further accelerated.*

*(Right) Hysan Avenue Winter Garden Café, outside The Lee Gardens*

*(Left & below) Some window displays at Lee Gardens Two*





Hysan Avenue  
Winter Garden  
Cafe

*Hysan's Causeway Bay* **TIME OUT**







*Shopping is one of the favourite pastimes of Hong Kongers and tourists alike, and Causeway Bay is one of Hong Kong's busiest retail hubs. Causeway Bay is a bazaar of global retailing: there is a stimulating blend of the traditional and the cutting edge, specialist shops as well as major international brands.*

*The oldest specialist shops date back many years. The arrival of shopping centres introduced a new approach to retailing — bringing in international brands with a strong emphasis on stylish presentation and attractive window displays.*

*As consumers become increasingly sophisticated, flagship stores also become popular. The arrival of today's lifestyle shopping no doubt adds a new dimension with consumers being attracted to high quality home living.*

*There has also been a return to small specialist shops offering high-quality and specialty goods. Goods with modernised local images are also proving to be a draw.*



## OPERATING REVIEW RESIDENTIAL

### MISSION

We are committed to anticipating and satisfying the changing needs of our customers with a view to fostering long-term partnerships.

### OVERVIEW

Leasing activities for luxury residential properties were generally slow during the first half of the year and this was largely due to a generally challenging economic environment. As a consequence of improved market sentiment, the level of activities increased during the second half of the year. Tenants continue to look for quality properties with good facilities and management services.

### PERFORMANCE

We continue to enhance the value and performance of our residential portfolio, and have completed the re-launch of Bamboo Grove development and refurbishment of Sunning Court. Both projects were well-received by the market and leasing activities are progressing well.

## PROPERTY SERVICES

### MISSION

Our target is to manage our portfolio to the highest standards. We set out to provide commercial tenants with the best operating environment for their business and customers, and to ensure the most comfortable surroundings for residential tenants to build their homes.

### PERFORMANCE

During the year, we successfully integrated comprehensive tenant service levels into our portfolio in order to better measure performance. We achieved industry recognition through the 2003 Best Practice Award (Technology Deployment) organised by the Best Practice Management.

In addition, we continued to optimise operational efficiency. Our energy efficiency initiatives resulted in considerable energy costs savings without compromising service standards. Our aim remains to further enhance our premium property services.







*The cultural diversity of Causeway Bay is reflected in the huge range of different styles of cooking on offer: from local to western; from traditional dining to a more casual and modern approach; and from ethnically pure to "Fusion" food.*

*If Causeway Bay restaurants today offer every conceivable type of cooking, they have also become even more sophisticated in design and ambience. Outdoor eating places have become increasingly popular as Hong Kongers are attracted to a healthier, more relaxed lifestyle.*





## OPERATING REVIEW CAPITAL IMPROVEMENT PROJECTS

Once again, we sought asset enhancement opportunities in 2003 through appropriate capital improvement projects, which included refurbishment, renovation, upgrading of building facilities and market repositioning.

The re-launch of Lee Gardens Two retail podium was well-received. Our pre-letting programme successfully secured 93% commitment.

Building exterior and building facilities upgrades of Leighton Centre and general improvement works for Sunning Court were also completed.

For the future, we will further enhance our asset value and select suitable capital improvement initiatives.

## DEVELOPMENT PROPERTIES

### Shanghai, PRC

We hold an effective interest of 23.7% in the Grand Gateway project in Shanghai, a development that has successfully established itself as one of the most popular retail centres in Shanghai. The retail podium is fully-let, with the residential tower having achieved 96% occupancy.

Construction for Phase Two is making good progress.

### Singapore

We have three joint-venture residential projects in Singapore. (10%: in each of Sanctuary Green and the Gardens at Bishan; 25%: Amaryllis Ville). During the year, construction and pre-sale of the developments continued amidst generally slow market conditions.

*Causeway Bay hosts many of Hong Kong's most fascinating festive and special celebrations. The annual flower market around Chinese New Year is a major event that attracts huge crowds. The festive season also provides an excuse for retailers to indulge in extravagant presentations. The Lee Gardens transforms itself into an elegant winter garden and festive displays along Hysan Avenue turn the area into a glittering wonderland.*





*Hysan's Causeway Bay* **FESTIVITIES**



## FINANCIAL REVIEW

<b>Condensed Consolidated Income Statement</b> For the year ended 31 December	<b>2003</b> HK\$M	<b>2002</b> HK\$M (restated)	<b>Changes</b> HK\$M
Turnover	1,139.3	1,233.3	(94.0)
Property expenses	(239.6)	(235.8)	(3.8)
Administrative expenses	(90.0)	(85.8)	(4.2)
Gain on disposal of investments in securities	48.2	-	48.2
Impairment loss arising in respect of investments in securities	-	(0.8)	0.8
Other operating income	25.4	15.9	9.5
Profit from operations	883.3	926.8	(43.5)
Finance costs	(168.3)	(220.6)	52.3
Impairment loss arising in respect of interests in associates	-	(10.0)	10.0
Share of results of associates and release of negative goodwill	21.7	0.1	21.6
Profit before taxation	736.7	696.3	40.4
Taxation	(165.2)	(108.3)	(56.9)
Profit after taxation	571.5	588.0	(16.5)
Minority interests	(26.1)	(54.6)	28.5
Profit attributable to shareholders	545.4	533.4	12.0

**Gross Rental Income** was 7.7% lower (HK\$94.5 million) at HK\$1,135.1 million (2002: HK\$1,229.6 million).

Rental income from office leasing fell 12.5% year-on-year, principally as a result of negative rental reversions across the portfolio. The office sector was particularly competitive during the first half of the year in the light of the imbalance of supply and demand of office space.

Retail rental was more resilient to negative rental reversions. The 9.0% year-on-year fall in retail rental income was largely attributable to the loss in income during the retail podium renovation works at Lee Gardens Two.

Rental income from Bamboo Grove increased significantly post-renovation and post-repositioning, representing the largest contributor to the overall 44% increase in residential rental income.

**Property Expenses** were marginally higher at HK\$239.6 million (2002: HK\$235.8 million). Savings in utilities expenses were achieved through greater efficiency, partially absorbing the higher agency and marketing expenses associated with the renovated Bamboo Grove and Lee Gardens Two.

**Administrative Expenses** rose by 4.8% (HK\$4.2 million) to HK\$90.0 million. This was principally attributable to the full-year effect of additional staff hired in 2002 for new functions and in order to better enhance overall service quality. Other administrative expenses were generally kept at a similar level.

**Gain On Disposal Of Investments In Securities** was HK\$48.2 million. There was no disposal in 2002. The Group's portfolio of marketable securities serves as a liquid buffer fund to help finance capital expenditure and other market opportunities as necessary.

**Other Operating Income** increased by HK\$9.5 million in 2003, to HK\$25.4 million (2002: HK\$15.9 million). Higher dividend income derived from the marketable securities portfolio was partially offset by a HK\$2.9 million reduction in interest income.

**Finance Costs** decreased by (23.7%) HK\$52.3 million on a year-to-year comparison, to HK\$168.3 million (2002: HK\$220.6 million), as interest rates continued on their downward path in 2003. The effective interest rate was almost 1% lower despite a higher average gross debt of HK\$5.8 billion in 2003 (2002: HK\$5.7 billion).

**Investments In Associates** generated an overall higher return. The year-on-year increase of HK\$18.1 million is a net result of the highly positive contribution from the Grand Gateway in Shanghai, offsetting a share of loss of the Singapore Amaryllis Ville project. In January 2003, the Group acquired additional shareholdings in the Shanghai Grand Gateway, from 16.875% to 23.67%, which triggered the accounting reclassification from an investment to an associate.

**Taxation** charged to the profit and loss account in 2002 was restated at HK\$108.3 million following the adoption of the SSAP 12 (Revised) "Income Taxes". Taxation charge for 2003 was HK\$56.9 million above the restated 2002 charge. Additional amounts were provided for the higher corporate tax rate and an additional tax provision was made at the interim results announcement out of prudence against certain assessments on non-deductibility of expenses previously claimed. Details are set out in note 9 to the financial statements. There is a reduction in the current year tax charge due to a lower operating profit level.

**Profit Attributable to Shareholders** amounted to HK\$545.4 million, HK\$12.0 million (2.2%) higher year-on-year, after deductions for minority interest. With a lower operating profit from Lee Gardens Two during the retail podium renovation and a higher effective tax rate, the minority interest in 2003 decreased by HK\$28.5 million (52.2%) to HK\$26.1 million (2002: HK\$54.6 million).

<b>Condensed Consolidated Balance Sheet</b> At 31 December	2003 HK\$M	2002 HK\$M (restated)	Changes HK\$M
Investment properties	24,366.8	24,841.0	(474.2)
Investments in securities	940.9	1,483.8	(542.9)
Interests in associates	873.1	61.3	811.8
Other assets	175.9	169.1	6.8
Total assets	26,356.7	26,555.2	(198.5)
Current liabilities	(969.2)	(1,282.2)	313.0
Non-current liabilities	(5,993.9)	(5,421.9)	(572.0)
	19,393.6	19,851.1	(457.5)
Minority interests	(753.9)	(876.4)	122.5
	<u>18,639.7</u>	<u>18,974.7</u>	<u>(335.0)</u>
Share capital	5,217.8	5,173.1	44.7
Other reserves	9,616.8	10,161.3	(544.5)
Accumulated profits	3,805.1	3,640.3	164.8
	<u>18,639.7</u>	<u>18,974.7</u>	<u>(335.0)</u>

**Total Assets** were HK\$26,356.7 million, down 0.7% (HK\$198.5 million) from 2002 balance (2002: HK\$26,555.2 million). The main factors were:

**Investment Properties** were HK\$24,366.8 million, down 1.9% (HK\$474.2 million) from HK\$24,841.0 million in 2002. Adjusting for net additions, the revaluation of the properties showed a year-on-year fall of (3.6%) HK\$891.7 million (Group share after minority interests was HK\$777.2 million). The Group continues to adhere to its strategy for enhancing and growing its investment properties portfolio, and the total capital expenditure for the year was HK\$417.5 million.

**Investments In Securities** decreased by 36.6% (HK\$542.9 million) to HK\$940.9 million. Excluding the HK\$643.7 million due to reclassification of the Shanghai Grand Gateway as interests in associates, the investment in securities was up 12.0% (HK\$100.7 million). A significant increase in unrealised gain was recorded for our listed securities portfolio in 2003 in the light of the strong stock market performance, particularly during the last quarter of 2003. The net gain of 12.0% is after deduction for the shares disposed of during the year for funding advances to associates and capital needs.

**Interests In Associates** increased 23.8% (HK\$168.1 million) to HK\$873.1 million, after adjusting for the reclassification of the Shanghai Grand Gateway. The Group invested an additional HK\$107.8 million in 2003, a major part of which was used to acquire a higher effective interest from another shareholder of the joint-venture project in Shanghai (current effective interest: 23.7%). The remaining movement, after crediting HK\$18.2 million to the profit and loss account, was taken to reserves.

<b>Investment properties</b>	<b>HK\$M</b>
Valuation at 31/12/2002	24,841.0
Additions	417.5
Revaluation deficit	(891.7)
	<u>(474.2)</u>
Valuation at 31/12/2003	<u>24,366.8</u>

<b>Investments in securities</b>	<b>HK\$M</b>
At 31/12/2002	1,483.8
Reclassification to interests in associates	(643.7)
Disposals	(105.7)
Unrealised gain on mark-to-market	206.5
	<u>(542.9)</u>
At 31/12/2003	<u>940.9</u>

<b>Interests in associates</b>	<b>HK\$M</b>
At 31/12/2002	61.3
Advances to associates	107.8
Reclassification from investments in securities	643.7
Share of results of associates	18.2
Share of reserves, exchange differences and release of negative goodwill	42.1
	<u>811.8</u>
At 31/12/2003	<u>873.1</u>

#### Condensed Consolidated Cash Flow Statement For the year ended 31 December 2003

	<b>HK\$M</b>
Cash inflow from operating activities	663.7
Dividends paid less dividends received	(324.9)
Advances to associates	(107.8)
Additions to investment properties	(417.5)
Net proceeds from disposal of investments in securities	116.0
Net increase in borrowings	215.6
Other net cash outflow	(153.4)
Net decrease in cash and cash equivalents	(8.3)
Cash and cash equivalents at 1/1/2003	22.9
Cash and cash equivalents at 31/12/2003	<u>14.6</u>

## FINANCIAL REVIEW

**Current Liabilities** decreased by 24.4% (HK\$313.0 million) of which HK\$35.6 million related to taxation. The current portion of the bank loans went down by HK\$659.6 million and the floating rate notes (nominal value HK\$400 million) will be due for repayment in November 2004.

**Non-Current Liabilities** were HK\$572.0 million higher, representing an increase in the bank loan of HK\$875.2 million; the floating rate notes (nominal value HK\$400 million) becoming current; and an increase in deferred taxation of HK\$66.8 million following the adoption of SSAP 12 (Revised) "Income Taxes".

**Minority Interests** reduced to HK\$753.9 million, reflecting the revaluation deficit on the investment properties less profit retained for the year.

### CONTINGENT LIABILITIES

The Group has provided guarantees for banking facilities granted to associated companies and investee companies. At 31 December 2003, the Group's share of guarantees and counter guarantees amounted to HK\$159 million (2002: HK\$156 million) and HK\$85 million (2002: HK\$84 million), respectively.

The Group has, as a matter of prudence, made an additional tax provision for prior years of HK\$48 million (cumulative HK\$90 million). Details of this provision are set out in note 9 to the financial statement.

### CAPITAL EXPENDITURE

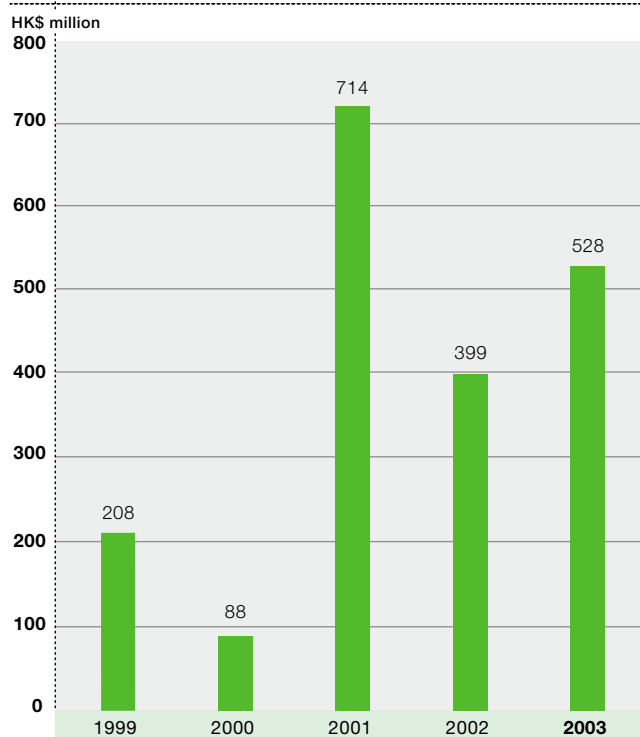
The spending on capital expenditures is subject to close scrutiny.

Detailed analysis on expected risks and returns are submitted to division heads, executive Directors or the Board for consideration and approval, depending on strategic importance, cost / benefit and the size of the projects. The criteria for assessment of financial feasibility are generally on net present value and internal rate of return from projected cash flow.

The Group spent HK\$417.5 million during the past year. Part of this was incurred for refurbishment of the Group's investment properties, including Lee Gardens Two, Sunning Court and One Hysan Avenue. In addition, the Group incurred HK\$107.8 million in advances to associates.

Capital expenditures were primarily financed by internally generated funds from operations and proceeds from disposals of marketable securities. With substantial committed banking facilities in place and a solid base of recurrent income, the Group is in a strong liquidity position and has sufficient financial resources to meet its capital commitments and ongoing working capital requirements.

Capital Expenditure



## KEY FINANCIAL RATIOS AND CREDIT RATING

### Net Interest Coverage

As of year-end 2003, the net interest coverage ratio (defined as profit from operations before depreciation less dividend and interest income divided by net interest expenses less dividend income) was 6.5 times (2002: 4.7 times). This is the highest ratio in the past five years, principally because of the lower interest rate.

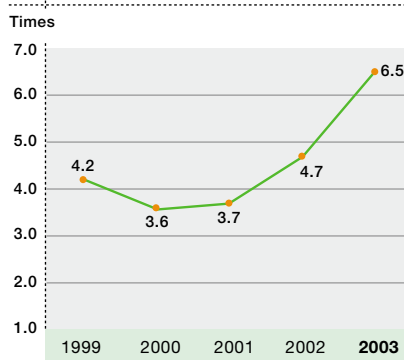
### Net Gearing

The year-end 2003 net gearing (defined as gross debt less cash and cash equivalents and marketable securities at year-end market value divided by shareholders funds) was 27.0% (2002 (restated): 25.9%). The re-investment in the Group's property portfolio and the downward revaluation of assets, netted off by the movements in the marketable securities, are reflected in the gearing rise of the past two years.

### Credit Rating

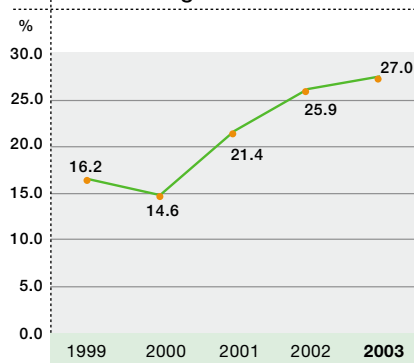
As at 31 December 2003, the Group's credit ratings were Baa1 from Moody's and BBB from Standard and Poor's. Both credit ratings continue to reflect the Group's strong financial profile supported by its sound financial management and stable rental income cash flows.

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 less dividend income)

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)



## FINANCIAL REVIEW

### FINANCING POLICY AND FINANCIAL RISK MANAGEMENT

#### Financing

As at 31 December 2003, the Group had total outstanding borrowings of HK\$5.92 billion, all of which are unsecured, with over 99% being on a committed basis.

In managing the debt portfolio, the Group has endeavoured to maintain diversified sources to obtain the required funding. Currently, the major source of financing is still from the banking sector, in which the Group has bilateral banking facilities with over 15 banks. Most of these banks have had a long established relationship with the Group.

To avoid overdependence on a single source, the Group has always maintained a certain level of debts raised from the capital market.

The Group's outstanding capital market issuances include the HK\$400 million five-year floating rate notes issued on 3 November 1999 and the US\$200 million ten-year notes issued in 2002 pursuant to the Group's US\$1,000 million Medium Term Note Programme.

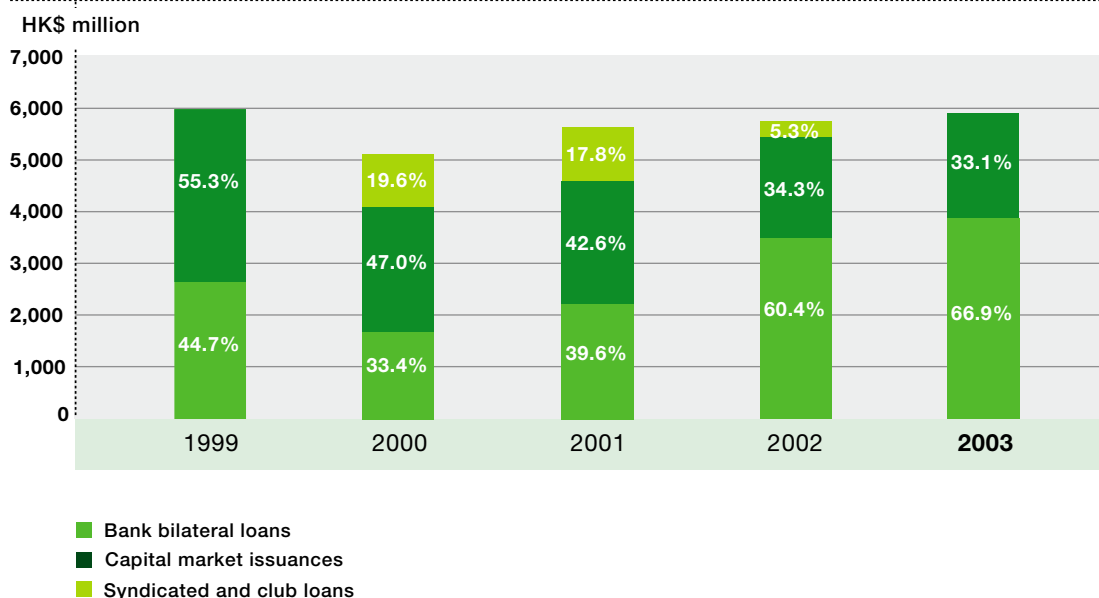
In view of the favourable loan market in 2003 with borrowing margins tightening further, the Group took the initiative to early refinance a total of about HK\$1.2 billion bank loans, including a club loan of HK\$300 million. The refinancing exercise contributed to the lower borrowing cost for the year. The Group's weighted average cost of borrowing dropped to 2.69% per annum in 2003 from 3.65% per annum in 2002.

#### Liquidity And Cash Balance

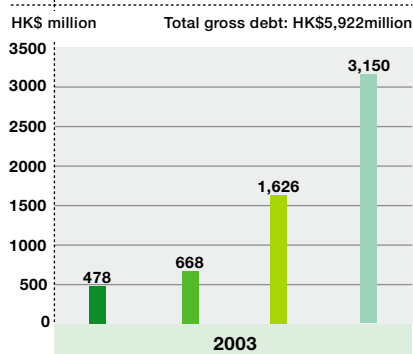
Sufficient liquidity has always been maintained to fund the Group's working capital and other short-term payment obligations. The liquidity mainly comes from the strong recurring cash flows of the business and the committed banking facilities. The Group's undrawn committed facilities stood at HK\$2.02 billion as at 31 December 2003, and aims to minimise the holding of any idle cash.

The liquidity risk of the Group has been further reduced by early refinancing and extending the loan tenors. The debt maturity profile is spread out over an intermediate term, with more than 50% of debts becoming due beyond five years. Such a maturity structure prevents the Group from encountering short-term refinancing pressure. For the HK\$400 million floating rate notes maturing in 2004, sufficient banking facilities have already been lined up to meet the redemption obligation.

Sources Of Financing At Year-end



### Maturity Profile At 2003 Year-end



### Risk Management

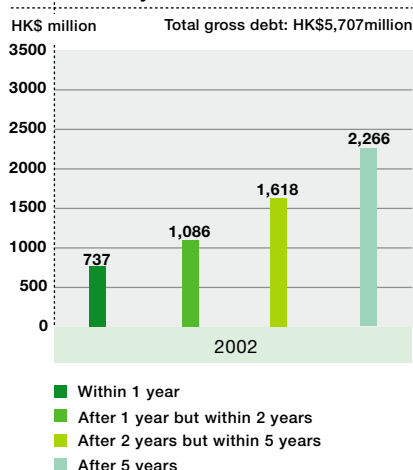
In managing interest rate and foreign exchange exposure, derivative instruments, such as interest rate swaps, cross currency swaps, forward rate agreements and forward foreign exchange contracts were used in accordance with the Group's policy, which restricts the use of derivatives to hedging purposes only.

With respect to the counterparty risk of the derivatives, the Group transacts only with financial institutions with strong investment-grade ratings. Limits have been set for each counterparty and procedures are in place and followed for on-going monitoring to ensure that the limits are not exceeded.

### Foreign Exchange Exposure

The Group aims to have minimal mismatches in currency and does not speculate in currency movements. As at end 2003, all of the Group's borrowings were in Hong Kong dollars except for the US\$200 million ten-year notes, which were hedged by appropriate hedging instruments. Other foreign exchange exposure relates to investments in Singapore and Shanghai overseas projects, which amounted to the equivalent of about HK\$790.5 million or 3.0% of the Group's assets. Of which, 92% were in Renminbi and the balance in Singapore dollars.

### Maturity Profile At 2002 Year-end




### Interest Rate Exposure

The Group manages interest rates exposure and centrally monitors the prevailing interest rate levels and outlook as well as the potential impact of interest rate volatility on the Group financial position. With the further easing of interest rates in 2003, the Group was able to reap the benefits of the soft interest rate environment by maintaining a high floating-rate ratio in the first half of the year. However, in order to mitigate the potential impact of a possible change in the interest rate trend, the Group gradually reduced the proportion of floating-rate debts in the second half of 2003. As a result, floating-rate debts accounted for about 60% of the entire debt portfolio as at 31 December 2003, compared to 91% at the end of 2002.

**Michael T. H. Lee**  
 Managing Director  
 Hong Kong, 9 March 2004





*We often find people focusing on the negative features of Causeway Bay's environment — the congestion and the resulting pollution — but visitors are often surprised by how much greenery there is in Hysan's hub. Hidden secrets include roads and side streets lined with trees, the availability of open space, and courtyards and roof terraces offering an abundance of greenery and flowers.*

*Hysan's Causeway Bay* **GREEN**

# SOCIAL RESPONSIBILITY

## HYSAN'S APPROACH

Hysan is committed to being a socially responsible company. This means that we go beyond fulfilling regulatory and compliance requirements, and invest in the environment, the community, and generally towards developing positive stakeholder relations.

During the year, we made further progress towards achieving our objectives in this regard.

## COMMUNITY: A CARING COMPANY

Hysan considers it important to support the community in which we operate and from which we generate revenue. In recognition of our efforts, in 2003 we were accredited as a "Caring Company" by the Hong Kong Council of Social Services.

We fully appreciate the importance of providing a prime location for charitable organisations to hold fund-raising and other promotional activities. The "Hysan Charity Booth programme" was introduced during the year to provide charitable organisations with the free use of venues in our portfolio for their activities. The launch of the programme at the Hennessy Centre Shopping Centre was well-received and we were encouraged by the enthusiastic response of charitable organisations.

We are also keen to encourage our employees to become involved in activities outside their normal work experience in order to develop a culture of care in the community. Through a wide range of activities organised by the Hysan Corporate Volunteer Team, staff devoted their leisure time to helping the under-privileged and to sharing our experience with the community. Activities organised included participation in fund-raising projects and campaigns, visits to homes for the elderly and under-privileged, and the organisation of talks and seminars to share with local community groups our expertise in property management and technical services.

At the same time, we continued to support various charitable institutions in Hong Kong through donations and sponsorship. Members of our management also serve various government and industry organisations.

## ENVIRONMENT

Hysan has in place a formal Safety, Health and Environment (SHE) policy. The Managing Director has overall responsibility for the SHE policy at the Board level. Procedures and monitoring systems of SHE initiatives and practices are developed to ensure effective operation of SHE management, particularly for our property management and technical services units. Relevant unit heads are responsible for ensuring optimal integration of SHE policy into our activities.

We are encouraged by the progress of the Energy Efficiency Campaign that was launched throughout our portfolio last year. Significant savings in energy consumption were achieved without compromising service standards.

During the current financial year, we will further refine our targets, including stepping up procedures for monitoring and benchmarking our energy efficiency performance. Communications with our stakeholders in this regard will also be strengthened to further raise awareness of environmental issues.

## HEALTH AND SAFETY

As a property investment company, our health and safety risk profile is low. Our hazards and risks range from trips and falls within property management and technical services units, construction design and management risks within project unit, and a range of generally low risk office-based hazards.

We enjoy a good staff safety record, having experienced minimal accident rates. Health and safety audit activities covering our staff as well as contractors are undertaken by in-house staff. Training programmes on health and safety matters are in place.

During the current financial year, we will continue to strengthen such audit activities and also further enhance the training programmes we have established.







# HUMAN RESOURCES

## TALENT MANAGEMENT

As at 31 December 2003, we have a total of 552 staff members; 126 are head office asset management teams and supporting units; 426 are building management, technical and security services staff. Our human resources strategy is to ensure that the right number of employees with the right skills and attitude are in the right positions to serve our customers and to achieve our corporate objectives.

In support of this strategy, we focus on talent management – attracting, retaining, developing and motivating the very best individuals. In 2003, special emphasis was given to three major areas: performance management and reward, learning and development, and internal communication.

## PERFORMANCE MANAGEMENT AND REWARD

We further enhanced our performance management system during 2003. Clear corporate and individual objectives were set and aligned at the beginning of the year. We believe that management by developing well-defined objectives will foster innovation and encourage innovative and alternative approaches to meeting the objectives.

In line with this belief, we successfully launched across our portfolio Comprehensive Tenants Service Levels, a set of key performance indicators that measure various key aspects of the property management cycle. By linking strategic corporate objectives to measurement standards, this system has proven to be invaluable in communicating our corporate vision, translating it into specific and easily-understood objectives for front-line teams.

In the context of a rapidly changing environment, it is also crucial that all our staff members have a clear understanding of their changing responsibilities. We are in the process of completing a full-scale job descriptions updating exercise to ensure that everyone has a clear understanding of his role, accountabilities and competencies.

Hysan has always rewarded its staff based on performance and contribution to the Company. During the year this link between individual performance and reward was further strengthened, as was reflected by the increasing performance-based portion of our top management's remuneration packages.

Following the introduction of the Excellent Customer Award for all front-line staff, we shall continue to introduce awards and give recognition to individuals who have achieved exceptional performance in other core competencies.

## LEARNING AND DEVELOPMENT

We continue to foster the learning culture in Hysan through a variety of developmental programmes. As part of the annual appraisal process, the training and development needs of all our staff members were clearly identified and systematically acted upon.

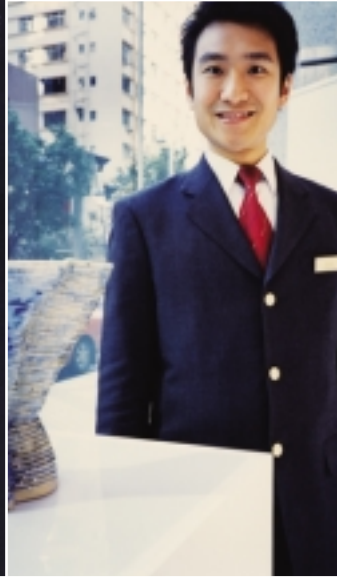
We continue to review and enhance the quality of our training curriculum. For head office management staff, we aim to provide a general management curriculum that is tailored to the Group's business and strategic requirements. The programme covers a range of business leadership skills including finance for non-finance managers, business legal knowledge, customer focus and other key aspects of operations management.

These courses are either run in-house by subject experts or by external professionals. Operational training curricula focusing on specific technical competencies for developing building management front-line staff will continue to be enhanced. We also emphasise effective post-training measurements to follow up the results of training and provide appropriate feedback and evaluation. It is the Company's belief that individual staff should take the initiative to enhance their skills and competencies. Management, in turn, should provide ample opportunities for them to broaden their capabilities and prepare them for more responsibilities. This continues to be achieved through cross-department projects, stretched assignments, and in carefully planned opportunities to broaden staff exposure.

## COMMUNICATION

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

We continue to refine our employee communication programme, which includes briefings and updates on results announcements and other key corporate developments, regular newsletters, and gatherings with senior management. Cross-team co-operation, including collaborative efforts between corporate office and front-line staff, will continue to be the focus for 2004.





# 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. Upgrading works on external facade are being carried out.

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 : 26  
Year Completed /  
Renovated : 1994



**Lee Gardens Two**  
28 Yun Ping Road,  
Causeway Bay

This is a 34-level office (Caroline Centre) and retail complex. The retail podium which underwent a comprehensive refurbishment in 2003 has been re-launched to synergise with the neighbouring Lee Gardens shopping centre.

Total Gross Floor Area: 626,996 sq.ft.  
Number of Floors : 34  
Carparks : 177  
Year Completed /  
Renovated : 1992 / 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 works on building facilities were completed in 2003.

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

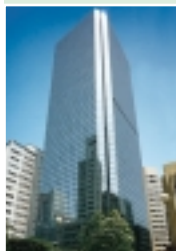


**111 Leighton Road**  
111 Leighton Road,  
Causeway Bay

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

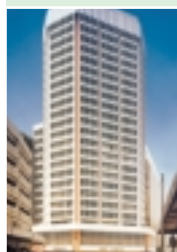


**Bamboo Grove**  
74 - 86 Kennedy Road,  
Mid-levels

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 personalised Resident Services which help ensure a comfortable and hassle free lifestyle.

Total Gross Floor Area: 691,546 sq.ft.  
Number of Units : 345  
Carparks : 436  
Year Completed /  
Renovated : 1985 / 2002

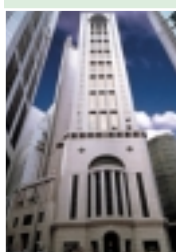


**One Hysan Avenue**  
1 Hysan Avenue,  
Causeway Bay

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.

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 19-storey 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. In 2003, the building underwent refurbishment to further enhance its value.

Total Gross Floor Area: 97,516 sq.ft.  
Number of Units : 59  
Carparks : available at  
Sunning Plaza  
Year Completed /  
Renovated : 1982 / 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 2003

In accordance with your appointment of Knight Frank 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 31 December 2003 was in the approximate sum of Hong Kong Dollars Twenty Four Billion Three Hundred Sixty Six Million Seven Hundred and Eighty Thousand Only (i.e. HK\$24,366,780,000).

We valued the properties on an open market value basis by capitalising 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**  
Hong Kong, 28 February 2004



# SCHEDULE OF PRINCIPAL PROPERTIES

as at 31 December 2003

## INVESTMENT PROPERTIES

Address	Lot No.	Use	Category of the lease	Percentage held by the Group
1. <b>The Lee Gardens</b> 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29, 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. <b>Hennessy Centre</b> 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. <b>Bamboo Grove</b> 74-86 Kennedy Road Mid-levels Hong Kong	I.L. 8624	Residential	Long lease	100%
4. <b>Lee Gardens Two</b> 28 Yun Ping Road Causeway Bay Hong Kong	Sec. G of I.L. 29, Sec. A, O, F and H of I.L. 457, the R.P. of Sec. C, D, E and G of I.L. 457, Subsec. 1 of Sec. C, D, E and G of I.L. 457, Subsec. 2 of Sec. E of I.L. 457 and Subsec. 1, 2, 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36%
5. <b>Leighton Centre</b> 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100%
6. <b>Lee Theatre Plaza</b> 99 Percival Street Causeway Bay Hong Kong	I.L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100%
7. <b>Sunning Plaza</b> 10 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29 and the R.P. of Sec. J of I.L. 29	Commercial	Long lease	100%
8. <b>Sunning Court</b> 8 Hoi Ping Road Causeway Bay Hong Kong		Residential	Long lease	100%
9. <b>Entertainment Building</b> 30 Queen's Road Central Hong Kong	The R.P. of I.L. 16 and the extension thereto	Commercial	Long lease	100%
10. <b>One Hysan Avenue</b> 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100%
11. <b>AIA Plaza</b> 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. <b>111 Leighton Road</b> 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100%

# DIRECTORS AND MANAGEMENT

## BOARD OF DIRECTORS



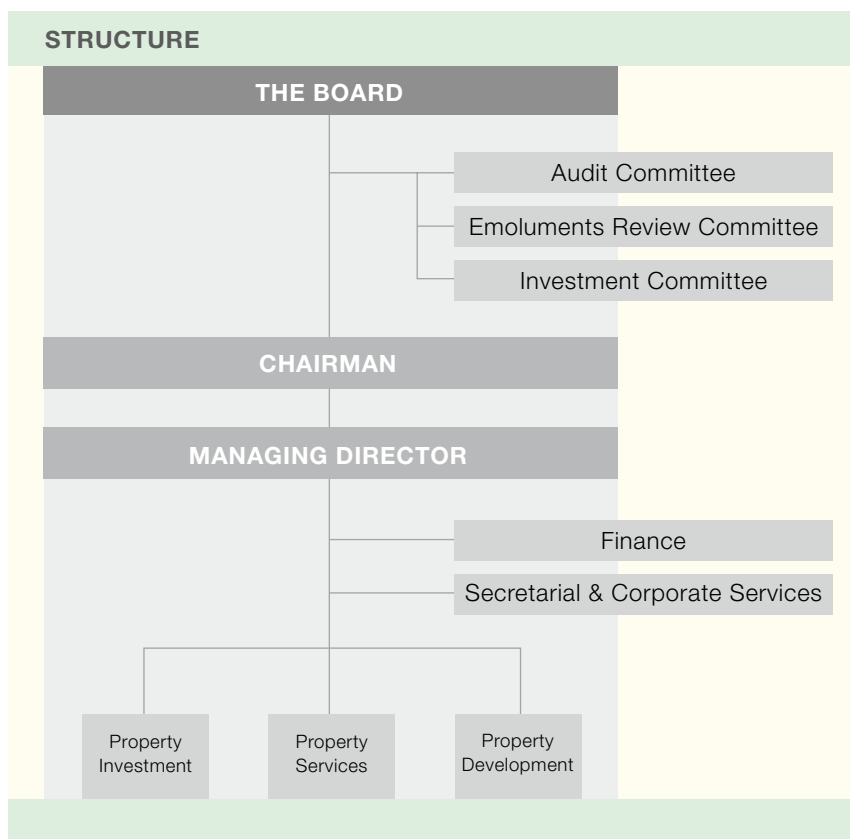
**Peter Ting Chang LEE** (I)  
J.P.  
**Chairman**

Peter T. C. Lee first joined the Board in 1988, became Managing Director in 1999, and Chairman in 2001. A non-executive director of Cathay Pacific Airways Limited, Hang Seng Bank Limited, SCMP Group Limited, Maersk (China) Shipping Company 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 50.



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

Chairman of GAM Hong Kong Limited. Deputy 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 76.



### CHAIRMAN

Peter Ting Chang LEE J.P. (I)

### INDEPENDENT NON-EXECUTIVE DEPUTY CHAIRMAN

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

### MANAGING DIRECTOR

Michael Tze Hau LEE (I)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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 B.B.S. (I)  
Anthony Hsien Pin LEE (I)  
Chien LEE (A)  
Dr. Deanna Ruth Tak Yung RUDGARD

### DIRECTOR, PROPERTY

Pauline Wah Ling YU WONG

### CHIEF FINANCIAL OFFICER

Ricky Tin For TSANG

### COMPANY SECRETARY

Wendy Wen Yee YUNG

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



**Michael Tze Hau LEE** (I)  
*Managing Director*

Michael T. H. Lee first joined the Board in 1990, became Chief Operating Officer in 2002, and Managing Director in 2003. A non-executive director of Tai Ping Carpets International Limited. President of the Executive Committee of Hong Kong Society for Protection of Children and Vice-Chairman of Helping Hand. 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 42.



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

Chairman Emeritus of Ryoden (Holdings) Limited. 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 80.



**Hans Michael JEBSEN** (I)  
B.B.S.  
*Non-executive Director*

Chairman of Jebesen and Company Limited as well as a director of other Jebesen Group companies worldwide. Also a director of The Wharf (Holdings) Limited. Appointed a Director in 1994 and is aged 47.



**Per JORGENSEN** (A)  
*Independent non-executive Director*

A director of A.P. Moller - Maersk A/S, Denmark and a number of A.P. Moller-Maersk companies in Asia, Africa and Europe. Appointed a Director in 1981 and is aged 68.



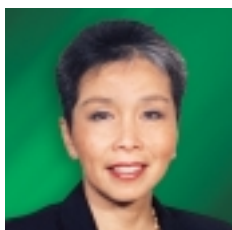
**Anthony Hsien Pin LEE** (I)  
*Non-executive Director*

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 46.



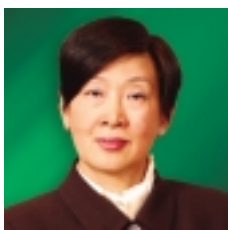
**Chien LEE** (A)  
*Non-executive Director*

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 50.



**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 64.



**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. Appointed a Director in 1991 and is aged 55.



**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 a Director in 1979. He is aged 72.



Left to right:  
Ben S.S. Lui, Mark S.W. Chim, Wendy W.Y. Yung, Ricky T.F. Tsang, Michael T.H. Lee, Peter T.C. Lee, Pauline W.L. Yu Wong, Alex C.W. Lui, Lora W.S. Luke, Deric Probst-Wallace

## CHIEF FINANCIAL OFFICER

### Ricky Tin For TSANG

Responsible for Group finance. He holds a Master of Arts Degree from Oxford University, also qualified as a Chartered Accountant with the Institute of Chartered Accountants of England and Wales, and is a member of the Association of Corporate Treasurers. Prior to joining the Group in 2004, he had held senior business and finance positions with leading financial institutions in Hong Kong and UK. He has extensive experience in a wide range of finance activities including risk management, treasury and financial control. He is aged 42.

## COMPANY SECRETARY

### Wendy Wen Yee YUNG

Responsible for Group corporate services including legal, company secretarial, human resources, corporate communications and 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. She is aged 42.

## 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. He is aged 60.

### 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 fifteen years' experience in leasing. He is aged 40.

### 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. He is aged 45.

### Lora Wing Sze LUKE

*General Manager, Retail Leasing*

Responsible for the Group's retail leasing activities. She holds a MBA Degree from University of Reading in Real Estate and Construction. Prior to joining the Group in 2000, she was senior leasing manager of a major listed property investment company. She is aged 43.

### 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. He is aged 41.

### 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. She is aged 35.

**DIRECTORS' REPORT  
CORPORATE GOVERNANCE  
AND ACCOUNTS 2003**



## DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2003, which were approved by the Board of Directors on 9 March 2004.

### PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2003 to be property investment, management and development. Details of the Group's associates and principal subsidiaries at 31 December 2003 are set out in notes 15 and 41 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 Chairman's Statement and Operating and Financial Review of the Annual Report.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 61.

An interim dividend of HK\$0.10 per share amounting to HK\$104,044,299 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 11 May 2004, absorbing HK\$276,546,456. The ordinary dividends proposed and paid in respect of the full year 2003 will absorb HK\$380,590,755, 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 31 and 32 to the financial statements.

### INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer at 31 December 2003. The revaluation resulted in a deficit as compared to carrying amount of HK\$892 million, with the Group's attributable share being HK\$777 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 2003 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.

## SHARE CAPITAL

The Company issued a total of 8,954,608 ordinary shares under the scrip dividend scheme accompanying year 2002 final dividends and year 2003 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 30 to the financial statements.

## CORPORATE GOVERNANCE

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

Further information on the Company's corporate governance practices is set out in the following separate reports:

- (a) "Corporate Governance Guidelines - A Statement of Policy for Hysan" — this Policy Statement approved by the Board, provides guidance on how corporate governance principles are applied to the Company.
- (b) "Corporate Governance Best Practices - Hysan's Statement of Adherence" — it gives detailed information on the Company's compliance with corporate governance best practices, including practices set out in the Code on Corporate Governance Practices proposed by The Stock Exchange of Hong Kong Limited in January 2004.
- (c) "Directors' Remuneration and Interests Report" — it gives detailed information of 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 business under the Listing Rules); Related Party and Connected Transactions.
- (d) "Audit Committee Report" — it sets out terms of reference, work performed and findings of the Audit Committee for the review year.

## THE BOARD

The Board currently comprises Peter Ting Chang Lee, Chairman, Michael Tze Hau Lee, Managing Director and Pauline Wah Ling Yu Wong, Director, Property and eight 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 36 and 37.

Dr. Victor Kwok King Fung did not stand for re-election at the last Annual General Meeting held on 13 May 2003. Michael Chi Kung Moy resigned as a Director on 28 January 2004.

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. Accordingly, Sir David Akers-Jones, Hans Michael Jebsen and Michael Tze Hau 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, Charles Gary Wellins, Raymond Liang-ming Hu, Markus Friedrich Jebsen and V-nee Yeh served as alternate Directors.

**DIRECTORS' REPORT** *continued***SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2003, the interests or short positions of every person, other than Directors or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company, were as follows:-

<b>Name</b>	<b>Capacity</b>	<b>No. of shares</b>	<b>% of the issued share capital</b>
Lee Hysan Estate Company, Limited	Corporate	429,046,912 <i>(Note 1)</i>	41.11
Lee Hysan Company Limited	Corporate	429,046,912 <i>(Note 1)</i>	41.11
Marathon Asset Management Ltd.	Investment Manager	66,041,651	6.33
The Capital Group Companies, Inc.	Corporate	62,203,604 <i>(Note 2)</i>	5.96
Prudential Asset Management (Hong Kong) Limited	Investment Manager	53,138,000 <i>(Note 3)</i>	5.09
Prudential Corporation Holdings Limited	Corporate	53,138,000 <i>(Note 3)</i>	5.09
Prudential PLC	Corporate	53,138,000 <i>(Note 3)</i>	5.09

All interests stated above represent long positions.

*Notes:*

- (1) These interests represent the same block of shares. Lee Hysan Estate Company, Limited is a wholly-owned subsidiary of Lee Hysan Company Limited.
- (2) These shares are held by The Capital Group Companies, Inc. in the capacity of investment manager and such holding were held via a number of its group subsidiaries.
- (3) These interests represent the same block of shares. Prudential Asset Management (Hong Kong) Limited is a wholly-owned subsidiary of Prudential Corporation Holdings Limited which in turn is a wholly-owned subsidiary of Prudential PLC, as notified under Part XV of the SFO.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2003.

These interests are in addition to those disclosed in "Directors' Remuneration and Interests Report" section in respect of the Directors.

## SHAREHOLDINGS INFORMATION

As at 31 December 2003:

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\$5,217,857,665 comprising of 1,043,571,533 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 2003, as per register of members of the Company)

	Number of shares held	%
1. HKSCC Nominees Limited	398,351,217	38.17
2. HSBC Nominees (Hong Kong) Limited	126,805,976	12.15
3. Hang Seng (Nominee) Limited	124,236,102	11.90
4. Lee Hysan Estate Co., Ltd.*	90,118,724	8.64
5. Kenwin Assets Limited*	43,902,720	4.21
6. Overton Holdings Limited*	43,902,720	4.21
7. Atlas Corporate Management Ltd*	39,809,001	3.81
8. Shanghai Commercial Bank (Nominees) Ltd	32,510,110	3.12
9. Liu Chong Hing (Nominees) Ltd	20,248,255	1.94
10. Clipperton Company Limited*	17,019,739	1.63
Total	936,904,564	89.78

Note:\* denotes entities whose interests are attributable to the substantial shareholder: Lee Hysan Estate Company, Limited (see "Substantial Shareholders" section above)

## LOCATION OF SHAREHOLDERS

(as at 31 December 2003, as per register of members of the Company)

Location of Shareholders	Number of shares held	%
Hong Kong	1,033,754,435	99.06
U.K.	4,342,652	0.41
US and Canada	5,126,512	0.49
Singapore	61,903	0.01
Others	286,031	0.03
Total	1,043,571,533	100.00



## DIRECTORS' REPORT *continued*

### 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.

### DONATIONS

During the year, the Group made donations totalling HK\$1,957,600 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*

Hong Kong, 9 March 2004

# CORPORATE GOVERNANCE GUIDELINES

## A Statement of Policy for Hysan

### INTRODUCTION

This Statement of Corporate Governance Policy has been adopted by the Board. It gives guidance on how the principles are applied to the Company. A Statement of Adherence to Corporate Governance Best Practices is set out on pages 47 to 52 of the Annual Report.

### THE MISSION OF THE BOARD OF DIRECTORS

The Hysan Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimising consistent long-term financial returns. The Board is accountable for determining that the Company and its subsidiaries are managed in such a way as to achieve this objective. The Board's responsibility is, firstly, to formulate strategy and, secondly, to monitor and control operating and financial performance in pursuit of Group strategic objectives.

### GUIDELINES ON IMPORTANT GOVERNANCE ISSUES

#### Board Appointment

##### 1 Composition of the Board

The Board will on a regular basis review the composition of the Board, the diversity of skills and experience, their complementarity and the characteristics required of both executive and non-executive members of the Board in the context of the business and its strategies.

##### 2 Appointment Procedures

The Board as a whole is responsible for the procedure of agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment and thereafter at regular intervals by rotation.

##### 3 Induction of new Directors

On appointment, new directors will be given a comprehensive introduction to the Group's business including visits to the Group's activities and meetings with senior management.

#### Board Leadership

##### 4 Chairman and Managing Director

- a) The roles of Chairman and Managing Director are currently separate.
- b) The Board supports the principle of Board independence and continually reviews the implementation of this principle. Currently, a "senior" Independent non-executive Director has been identified and acts as the Independent Deputy Chairman of the Board. The "senior" non-executive Director may also assume such responsibilities as might be designated by the Board.

#### Board Composition and Size

##### 5 Size of the Board

It is important that the Board is of a size to enable there to be a reasonable balance between executive and non-executive Directors.

##### 6 What constitutes independence for outside directors?

The Board believes that independence is a matter of judgement and conscience but that, in order to be independent, non-executive Directors should be free from any business or other relationship that might interfere with the exercise of their independent judgement. Directors considered to be independent will be identified in the Annual Report and other communications with shareholders.

## CORPORATE GOVERNANCE GUIDELINES *continued*

### A Statement of Policy for Hysan

#### 7 Term limits

All Directors are appointed and are then subject to periodic re-appointment by the shareholders through rotation in general meeting.

#### 8 Board compensation review

The pay and benefits for executive Directors, including the Chairman, are determined by the Emoluments Review Committee - a committee comprising a majority of Independent non-executive Directors. For non-executive Directors, their fees and remuneration are determined by the general meeting. The remuneration of executive Directors and non-executive Directors will be the subject of continual monitoring of comparable companies. The assistance of independent external advisers will be sought from time to time.

#### 9 Corporate Governance Board Committees

The Board will maintain two corporate governance committees comprising non-executive Directors appointed by the Board. The Emoluments Review Committee will in accordance with its terms of reference determine the pay and other benefits of the Chairman and executive Directors. The Audit Committee will review the financial accounts and policies and oversee internal controls and compliance. The full Board is responsible for continual enhancement of corporate governance practices.

#### 10 Board access to senior management

Senior management are from time to time brought into formal and informal contact with the Board at Board meetings and other events.

#### 11 Board access to independent professional advice

There is an agreed procedure for Directors (including Directors serving the Board Committees) to take independent professional advice at the Company's expense.

#### 12 Availability of information

The Chairman has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities. The Board therefore expects to receive timely advice on all material information about the Company, its subsidiaries, its activities, performance and its projects, particularly including any significant variances from a planned course of action.

#### 13 Meeting procedures

The Chairman, together with the Managing Director, will establish the agenda for each Board meeting. Other Directors may request the inclusion of items on the agenda.

The necessary papers for meetings will be distributed in advance of the meeting. The Chairman will provide the desired information and will endeavour to ensure that the material does not contain anything that is not relevant.

#### 14 Board authorities, delegations and discretions

The Board has determined those matters that are to be retained for full Board sanction and those matters that are to be delegated to the executive management of the business.

All Board Committees have clear written terms of reference. Board Committees report regularly to the full Board on their work and findings.

## CORPORATE GOVERNANCE BEST PRACTICES

### Hysan's Statement of Adherence

The Board is 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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). 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.

The following sets out the Company's compliance with corporate governance best practices, including taking into consideration the Draft Code On Corporate Governance Practices proposed by Stock Exchange in January 2004.

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
<b>Directors</b>		
(i) The Board: responsibility for leadership and control of the Company	✓	<ul style="list-style-type: none"> <li>The Board is responsible to the shareholders for leadership and supervision of Group management and represents their interests in maintaining and growing a successful business.</li> <li>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.</li> </ul>
(ii) Chairman & CEO: clear division of responsibilities	✓	<ul style="list-style-type: none"> <li>Peter T.C. Lee served as the Chairman.</li> <li>The Chairman is supported by an Independent non-executive Deputy Chairman, Sir David Akers-Jones and Managing Director, Michael T.H. Lee.</li> <li>The roles of Chairman and Managing Director are split. Chairman focuses on Group strategic and Board issues. Managing Director has overall chief executive responsibility for Group operations and development generally.</li> </ul>
(iii) Board Composition: balance and independence	✓	<ul style="list-style-type: none"> <li>The Board currently comprises three executive Directors (Chairman, Managing Director and Director, Property) and eight non-executive Directors (including three Independent non-executive Directors comprising not less than one-third of the full Board).</li> <li>The Board considers that the three Independent non-executive Directors (Sir David Akers-Jones, Per Jorgensen and Dr. Geoffrey M.T. Yeh) are free from any business or other relationship which might interfere with the exercise of their independent judgment.</li> <li>The presence of an Independent non-executive Deputy Chairman is designed to ensure that the Board functions effectively and independent of management where appropriate. Sir David Akers-Jones, as the Independent non-executive Deputy Chairman, is also chairing the two corporate governance committees, namely the Audit Committee and Emoluments Review Committee. Both committees have a majority of Independent non-executive Directors.</li> <li>The biographies of the Directors appear on pages 36 and 37. These demonstrate a range of experience and calibre to bring judgment on issues of strategy, performance, and resources.</li> </ul>
(iv) Appointments, Re-election and Removal: formal, considered and transparent procedures	✓	<ul style="list-style-type: none"> <li>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.</li> <li>Under the Company's articles of association, all Directors are subject to retirement by rotation.</li> <li>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. New Directors are required to submit themselves to shareholders for re-election to the Board at the first annual general meeting following their appointment.</li> <li>Currently, it takes each Director not exceeding four years to rotate which the Board considers satisfactory.</li> </ul>



CORPORATE GOVERNANCE BEST PRACTICES *continued*

## Hysan's Statement of Adherence

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company																																
(v) Responsibilities of Directors: general duties, share dealings and continual development	✓	<ul style="list-style-type: none"> <li>• The Directors fully appreciate their role and duties as directors and are supportive of building a healthy corporate governance culture.</li> <li>• On appointment, new Directors will be given a comprehensive orientation package, including introduction to Group activities, induction into their responsibilities and duties, and other regulatory requirements.</li> <li>• The Company Secretary is responsible for keeping all Directors updated on Listing Rules, regulatory requirements, as well as internal codes of conduct of the Company. (Also see section Board Process – “Supply of Information” below).</li> <li>• Throughout the year, Directors complied with the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules regarding directors’ securities. The Board has adopted in March 2004 a new code of Directors’ share dealings in line with changes to be introduced to the Model Code effective 31 March 2004.</li> </ul>																																
<b>Board Process</b>																																		
(i) Meetings: matters reserved for full Board decision and general proceedings	✓	<ul style="list-style-type: none"> <li>• The Board meets at least quarterly.</li> <li>• There is a defined schedule of matters reserved for full Board decision, including material bank facilities, material acquisitions and disposals, and material transactions with connected parties.</li> <li>• 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. The Company Secretary is responsible for taking minutes of Board and Board Committee meetings, which should be sent to Directors within a reasonable time (generally within 14 days) after each meeting and generally be made available for inspection by Directors.</li> <li>• There is an agreed procedure for Directors to take independent professional advice at Company’s expense.</li> <li>• There is in place a directors’ and officers’ liabilities insurance cover.</li> <li>• Details of Directors’ 2003 meetings attendance (excluding the board meeting held in May 2003 as certain oversea Directors were precluded from attending the meeting owing to SARS outbreak in Hong Kong) are set out below:</li> </ul> <p style="text-align: right;">Attendance (%)</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" data-bbox="783 1585 975 1610"><b>Executive Directors</b></td> </tr> <tr> <td data-bbox="783 1615 1134 1639">Peter T.C. Lee</td> <td data-bbox="1134 1615 1203 1639" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1644 938 1668">Michael T.H. Lee</td> <td data-bbox="1134 1644 1203 1668" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1673 986 1697">Pauline W.L. Yu Wong</td> <td data-bbox="1134 1673 1203 1697" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1702 948 1727">Michael C.K. Moy</td> <td data-bbox="1134 1702 1203 1727" style="text-align: right;">100%</td> </tr> <tr> <td colspan="2" data-bbox="783 1749 1145 1774"><b>Independent non-executive Directors</b></td> </tr> <tr> <td data-bbox="783 1778 986 1803">Sir David Akers-Jones</td> <td data-bbox="1134 1778 1203 1803" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1807 1086 1854">Dr. Victor K.K. Fung (stepped down on 13 May 2003)</td> <td data-bbox="1134 1807 1362 1854" style="text-align: right;">50% (out of 2 meetings during his term)</td> </tr> <tr> <td data-bbox="783 1859 916 1883">Per Jorgensen</td> <td data-bbox="1134 1859 1203 1883" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 1888 975 1912">Dr. Geoffrey M.T. Yeh</td> <td data-bbox="1134 1888 1203 1912" style="text-align: right;">100%</td> </tr> <tr> <td colspan="2" data-bbox="783 1935 1023 1960"><b>Non-executive Directors</b></td> </tr> <tr> <td data-bbox="783 1964 900 1989">Fa-kuang Hu</td> <td data-bbox="1134 1964 1390 1989" style="text-align: right;">75% (25% by his alternate)</td> </tr> <tr> <td data-bbox="783 1993 979 2018">Hans Michael Jebsen</td> <td data-bbox="1134 1993 1187 2018" style="text-align: right;">75%</td> </tr> <tr> <td data-bbox="783 2022 943 2047">Anthony H.P. Lee</td> <td data-bbox="1134 2022 1203 2047" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 2051 879 2076">Chien Lee</td> <td data-bbox="1134 2051 1203 2076" style="text-align: right;">100%</td> </tr> <tr> <td data-bbox="783 2080 1027 2105">Dr. Deanna R.T.Y. Rudgard</td> <td data-bbox="1134 2080 1394 2105" style="text-align: right;">66% (33% by her alternate)</td> </tr> </table>	<b>Executive Directors</b>		Peter T.C. Lee	100%	Michael T.H. Lee	100%	Pauline W.L. Yu Wong	100%	Michael C.K. Moy	100%	<b>Independent non-executive Directors</b>		Sir David Akers-Jones	100%	Dr. Victor K.K. Fung (stepped down on 13 May 2003)	50% (out of 2 meetings during his term)	Per Jorgensen	100%	Dr. Geoffrey M.T. Yeh	100%	<b>Non-executive Directors</b>		Fa-kuang Hu	75% (25% by his alternate)	Hans Michael Jebsen	75%	Anthony H.P. Lee	100%	Chien Lee	100%	Dr. Deanna R.T.Y. Rudgard	66% (33% by her alternate)
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Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
(ii) Supply of Information: quality and timeliness	✓	<ul style="list-style-type: none"> <li>• The Company aims to continually improve on the quality and timeliness of the dissemination of information to Directors. The Chairman is responsible for ensuring adequate supply of information to Directors.</li> <li>• The Company aims to give notice of Board meetings at least 21 days in advance. The agenda and accompanying board papers will be sent in full to all Directors in a timely manner (currently at least five clear days in advance of meeting). Where appropriate, communications are sent electronically.</li> <li>• Directors are regularly provided with comprehensive reports on the management's strategic plans, updates on lines of business, financial objectives, plans and actions.</li> <li>• Business unit heads are also invited to attend meetings from time to time to update Directors on their lines of business.</li> </ul>
<b>Remuneration of Directors</b>		
Formal and transparent procedures for Emoluments Review Committee to set executive Director remuneration policy	✓	<ul style="list-style-type: none"> <li>• The Company set up an Emoluments Review Committee in 1987. Its terms of reference are to review and determine the remuneration packages for all executive Directors.</li> <li>• The Emoluments Review Committee is chaired by the Independent non-executive Deputy Chairman, Sir David Akers-Jones, with a majority of Independent non-executive Directors. Its other current members are F. K. Hu and Dr. Geoffrey M. T. Yeh (Independent non-executive Director).</li> <li>• The Chairman makes recommendations to the Committee on the Company's framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations.</li> <li>• No Director is involved in deciding his own remuneration. On matters other than those concerning him, the Chairman or Managing Director may be invited to Committee meetings.</li> <li>• There is an agreed procedure for Committee members to take independent professional advice at Company's expense.</li> <li>• The Committee met once in 2003, with a 100% attendance. No executive Director attended the Emoluments Review Committee meeting.</li> <li>• The Committee presents a report to the Board after each meeting, which addresses its work and findings.</li> <li>• Details of the level of the Directors' remuneration (including a recent review conducted by the Committee in November 2003), service contracts, compensation and interests in shares are set out in the Directors' Remuneration and Interests Report on page 53.</li> </ul>
<b>Accountability and Audit</b>		
(i) Financial Reporting: balanced, clear and comprehensive assessment of Company's performance, position of prospects	✓	<ul style="list-style-type: none"> <li>• The Board believes that it presents a comprehensive, balanced and understandable assessment of the Group position and prospects in all shareholder communications.</li> <li>• The Board fully appreciates its responsibilities regarding the preparation of financial statements. A Statement of Directors' Responsibilities for the Financial Statements is set out on page 58.</li> </ul>

CORPORATE GOVERNANCE BEST PRACTICES *continued*




## Hysan's Statement of Adherence

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
(ii) Audit Committee and Auditors: terms of reference and relationship with management and external auditors	✓	<ul style="list-style-type: none"> <li>• The Audit Committee is chaired by the Independent non-executive Deputy Chairman (Sir David Akers-Jones) and has a majority of Independent non-executive Directors. Its other members are Per Jorgensen (Independent non-executive Director) and Chien Lee. All members have experience in reviewing or analyzing audited financial statements of public companies or major organisations.</li> <li>• The Committee meets not less than twice per annum. Meetings are also attended by invitation by the Managing Director and the Chief Financial Officer.</li> <li>• It has a 100% meetings attendance in 2003.</li> <li>• Under its terms of reference, the Committee is required, amongst other things, to oversee the relationship with external auditors, to review the Company's interim and annual financial statements, and to evaluate Group system of internal controls.</li> <li>• There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.</li> <li>• Relationship with management and external auditors: <ul style="list-style-type: none"> <li>- the Committee oversees the financial reporting process.</li> <li>- management is primarily responsible for the preparation of Group financial statements including the selection of suitable accounting policies.</li> <li>- external auditors are responsible for auditing and attesting to Group financial statements and evaluating Group system of internal controls.</li> <li>- the Committee oversees the respective work of management and external auditors to endorse the processes and safeguards employed by them.</li> </ul> </li> <li>• The Committee presents a report to the Board after each meeting, which addresses its work and findings.</li> <li>• 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 59.</li> </ul>
(iii) Auditor Independence	✓	<ul style="list-style-type: none"> <li>• During the year, the fees paid to the Company's external Hong Kong auditors for non-audit or review related activities amounted to HK\$99,400, comprising tax representative services fees of HK\$97,400 and miscellaneous services fees of HK\$2,000.</li> </ul>
(iv) Internal Control: sound and effective system to safeguard shareholder interests and Company assets	✓	<ul style="list-style-type: none"> <li>• Risk management is a crucial part of the Group's strategic management. The Group is committed to implementing effective risk management policies and internal control procedures to identify and manage the risks that the Group may be exposed to. These policies and procedures are reviewed regularly by management to ensure their effectiveness and compliance with best practices.</li> <li>• The Managing Director and Chief Financial Officer report to the Audit Committee at least twice a year on key issues in relation to internal controls, audit finding and risk management. In 2003, management engaged an external consultant to carry out a review on the internal controls of the treasury and payment process. The result of the review is found to be satisfactory.</li> </ul>

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
		<ul style="list-style-type: none"> <li>• Financial Risks               <ul style="list-style-type: none"> <li>- Financial Risk Management Policy - this policy, approved by the Board, identifies and lays down the guiding principles on the management of major financial risks including liquidity risk, funding risk, currency risk, interest rate risk, and the use of appropriate hedging instruments.</li> <li>- investment appraisal - the spending on capital expenditures is subject to close scrutiny. Detailed analysis on expected risks and returns are submitted to division heads, executive Directors or the Board for consideration and approval, depending on strategic importance, cost / benefit and the size of the projects. The criteria for assessment of financial feasibility is generally on net present value and internal rate of return from projected cash flow.</li> <li>- credit control - with a very tight control on credit risk, the Group has been successful in maintaining a negligible rate of delinquency on revenue, even under the economic downturn in the last few years.</li> </ul> </li> <li>• Operating Risks               <ul style="list-style-type: none"> <li>- process - the Group has an on-going process for identifying, evaluating and managing significant operating risks faced by the Group. This process is reviewed regularly by management. In the light of SARS outbreak in 2003, property management services business continuity plan was tested and successfully implemented.</li> <li>- insurance cover - the Group has in place insurance cover to transfer certain significant operational risks. The scope and levels of the cover are reviewed by the management on a yearly basis. The Group has appointed an international insurance broker to provide independent professional advice.</li> </ul> </li> </ul>
<b>Delegation by Board.</b>		
(i) Relationship with management	✓	<ul style="list-style-type: none"> <li>• The Hysan Board and management fully appreciate their respective roles and are supportive of building a healthy corporate governance culture.</li> <li>• The Board is responsible for overseeing the processes that management has in place to identify business opportunities and risks. The Board's role is not to manage the business which responsibility remains vested with management.</li> </ul>
(ii) Board Committees: specific terms of reference and report to full Board	✓	<ul style="list-style-type: none"> <li>• The Board currently has three Board Committees, namely the Audit Committee, Emoluments Review Committee and Investment Committee, with specific terms of reference.</li> <li>• The Audit and Emoluments Review Committees, being corporate governance committees, each has a 100% non-executive membership with a majority of Independent non-executive Directors. (Also see sections above).</li> <li>• The Group's Investment Committee comprises the Chairman, Managing Director, Hans Michael Jebesen, with Anthony H. P. Lee as the Chairman. The four 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.</li> <li>• Board Committees present their respective reports to the Board after each meeting, which addresses their work and findings.</li> </ul>



**CORPORATE GOVERNANCE BEST PRACTICES** *continued***Hysan's Statement of Adherence**

Guidelines for Corporate Governance	Does the Company Align?	Governance Procedures for the Company
<b>Communication with Shareholders</b>		
(i) General communication programme with stakeholders		<ul style="list-style-type: none"> <li>• The Group is committed to maintaining a policy of open and timely disclosure of relevant information on its activities to shareholders and other stakeholders, subject to applicable legal requirements.</li> <li>• The Group had in operation during 2003 a communication programme, and will continue to enhance the same.</li> <li>• Communication is made through:               <ul style="list-style-type: none"> <li>- the Company's annual and interim reports, which have been enhanced to present a comprehensive, balanced and understandable assessment of Group position and prospects</li> <li>- 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</li> <li>- regular analyst briefings</li> <li>- press briefings for Group annual results and other briefings, as appropriate</li> <li>- press releases on major developments of the Group</li> <li>- disclosures to Stock Exchange and relevant regulatory bodies</li> <li>- inquiries from investors, media or the public are responded to by Chief Financial Officer, Company Secretary or the appropriate members of senior management</li> <li>- Company's website at <a href="http://www.hysan.com.hk">http://www.hysan.com.hk</a> from which shareholders can access information on the Group. The website provides, inter alia, corporate announcements, press releases, annual reports, and corporate information of the Group</li> </ul> </li> </ul>
(ii) Shareholder Communications: constructive use of annual general meetings (voting and general proceedings)		<ul style="list-style-type: none"> <li>• The Board welcomes moves towards a more constructive use of Annual General Meetings and regards the Annual General Meetings as the principal opportunity to meet private shareholders. In 2003, all executive Directors and a majority of Independent non-executive Directors (including Sir David Akers-Jones, chairman of Audit Committee and Emoluments Review Committee) attended the Annual General Meeting.</li> <li>• 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.</li> <li>• All ordinary shares of the Company have equal voting rights. Annual General Meeting proceedings are continually reviewed in the light of corporate governance best practices:               <ul style="list-style-type: none"> <li>- separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual Directors.</li> <li>- results of the proxies votes received by the Company are made available on the Company's website at <a href="http://www.hysan.com.hk">www.hysan.com.hk</a>.</li> <li>- preparation of a comprehensive yet user-friendly Annual General Meeting circular containing:                   <ul style="list-style-type: none"> <li>• detailed report on voting procedures (including procedures for demanding a poll) presented in a user-friendly "frequently-asked-questions-and-answers" format</li> <li>• comprehensive information on each resolution to be proposed</li> <li>• biographies and interests of Directors standing for re-election inserted for ease of reference</li> </ul> </li> </ul> </li> </ul>
(iii) Shareholder rights and shareholdings information		<ul style="list-style-type: none"> <li>• Information on top 10 largest shareholders and location of shareholders is set out in Directors' Report on page 43.</li> </ul>

By order of the Board  
**Wendy W.Y. Yung**  
*Company Secretary*

Hong Kong, 9 March 2004

## DIRECTORS' REMUNERATION AND INTERESTS REPORT

### DIRECTOR COMPENSATION

#### Executive Director Emoluments

The Board first established the Emoluments Review Committee in 1987 to review and determine the remuneration of executive Directors.

The Committee is chaired by Sir David Akers-Jones, Independent non-executive Deputy Chairman, and has a majority of Independent non-executive Directors. Its other members are F.K. Hu and Dr. Geoffrey M.T. Yeh (Independent non-executive Director).

The Committee met once in 2003, with a 100% attendance. No executive Director attended the Emoluments Review Committee meeting.

The Group's remuneration policy seeks to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff and at the same time to reflect the importance of aligning awards with shareholder interests.

Management 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 or Managing Director may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

Management seeks to set levels of remuneration to ensure comparability and competitiveness with Hong Kong-based companies competing within a similar talent pool, with particular emphasis on the property industry. Independent professional advice will be sought to supplement internal resources where appropriate.

A review was carried out regarding the compensation of the Chairman and Managing Director in November 2003. The new levels of remuneration reflect comparator market information and advice from independent consultants (Watson Wyatt Hong Kong Limited). The proportion of total remuneration which is performance-related has also been increased following the review, in line with human resources practices.

Details of Director (including individual executive Director) emoluments and options are set out on notes 6 and 34 respectively to the financial statements.

#### Non-Executive Director Emoluments

The non-executive Directors received fees totalling HK\$493,219 for 2003. They received no other compensation from the Group.

The Independent non-executive Deputy Chairman receives total annual fee of HK\$111,305 (comprising the annual fee of HK\$65,000 for the Deputy Chairman office; HK\$20,000 per annum for Audit Committee he sits; the balance being reimbursement of expenses). 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. The fees are determined by the general meeting. The Board will take into consideration (inter alia) fees paid by comparator organisations.

### 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' REMUNERATION AND INTERESTS REPORT** *continued***DIRECTORS' INTERESTS IN SHARES**

As at 31 December 2003, the interests and short positions of the Directors and alternate Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

**Interests in Shares of the Company**

Name	No. of shares held				Total	% of the issued share capital
	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	0.583
Michael Tze Hau Lee	1,023,233	—	—	—	1,023,233	0.098
Fa-kuang Hu	—	—	255,012 <i>(Note 2)</i>	—	255,012	0.024
Hans Michael Jebesen	60,000	—	2,432,914 <i>(Note 1)</i>	—	2,492,914	0.239
Per Jorgensen	6,678	—	—	—	6,678	0.001
Chien Lee	970,000	—	4,083,823 <i>(Note 1)</i>	3,750,000 <i>(Note 3)</i>	8,803,823	0.844
Michael Chi Kung Moy *	—	131,565 <i>(Note 4)</i>	—	—	131,565	0.013
Deanna Ruth Tak Yung Rudgard	1,871,600	—	—	—	1,871,600	0.179
Pauline Wah Ling Yu Wong	254,000	—	—	—	254,000	0.024
Geoffrey Meou-tsen Yeh	252,332	—	1,000 <i>(Note 1)</i>	—	253,332	0.024
V-nee Yeh (alternate to Geoffrey Meou-tsen Yeh)	43,259	—	84,575 <i>(Note 1)</i>	—	127,834	0.012

All interests stated above represent long positions.

Certain executive Directors of the Company have been granted share options under the Company's Executive Share Option Scheme (details are set out under "Executive Share Options" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

*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 Ting Chang 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.
- \* Michael Chi Kung Moy resigned as a Director of the Company on 28 January 2004.

**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 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 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 the date of this report, Scheme participants were executive Directors of the Company with shares issuable under options granted representing less than 0.4% of the issued share capital of the Company.

Details of the options expiring, granted and outstanding to them and movement during the period are as follows:

Name	Balance as at 1.1.2003	Date of grant	Changes During the Year			Balance as at 31.12.2003	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

\* Michael Chi Kung Moy resigned as a Director of the Company on 28 January 2004.

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.

Apart from the Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

The power of grant to executive Directors is vested in the Emoluments Review Committee and otherwise pursuant to Listing Rules requirements.



**DIRECTORS' REMUNERATION AND INTERESTS REPORT** *continued*

The Board delegated the authority to make grants to other management staff to the Chairman and Managing Director, 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.

**Interests in Shares of Associated Corporations**

Listed below are certain Directors' interests in the shares of Parallel Asia Engineering Company Limited ("PAECL"), a 25% associate of the Company.

Name	No. of shares held	% of the issued share capital
Fa-kuang Hu	5,000 ( <i>Note 5</i> )	50
Raymond Liang-ming Hu (alternate to Fa-kuang Hu)	5,000 ( <i>Note 5</i> )	50

*Notes:*

- (5) Ryoden Development Limited ("Ryoden Development") has a 50% interest in the issued share capital in PAECL through a wholly-owned subsidiary. Fa-kuang Hu and Raymond Liang-ming Hu are deemed to be interested in PAECL by virtue of their interests as beneficiaries of a discretionary trust which has an indirect controlling interest in Ryoden Development.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2003 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**DISCLOSURE OF DIRECTORS' INTERESTS IN COMPETING BUSINESS UNDER THE LISTING RULES**

The Group is engaged principally in the property investment, development 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 Dr. 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 directors and have an indirect substantial interest in Designcase Limited and its subsidiaries, 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.
- (iii) Hans Michael Jebsen is a non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and 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 identified in (ii) and (iii) above. In addition, the relevant Directors have non-executive roles and are 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 40 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.

By order of the Board  
**Wendy W.Y. Yung**  
*Company Secretary*

Hong Kong, 9 March 2004

## 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.

## 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 principally 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 2003 consolidated financial statements included in the 2003 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 2003, 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 2003, 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 2004. 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, 9 March 2004



## 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 61 to 97 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### 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 2003 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, 9 March 2004

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (restated)
Turnover	4	1,139,308	1,233,398
Property expenses		(239,626)	(235,841)
Cost of property sales		—	(50)
<b>Gross profit</b>		<b>899,682</b>	<b>997,507</b>
Impairment loss arising in respect of investments in securities		—	(800)
Gain on disposal of investments in securities		48,159	—
Other operating income		25,424	15,908
Release of negative goodwill arising on acquisition of additional interest in a subsidiary		60	60
Administrative expenses		(89,992)	(85,836)
<b>Profit from operations</b>	5	<b>883,333</b>	<b>926,839</b>
Finance costs	8	(168,290)	(220,553)
Impairment loss arising in respect of interests in associates		—	(10,064)
Share of results of associates		18,233	143
Release of negative goodwill arising on acquisition of an associate		3,428	—
<b>Profit before taxation</b>		<b>736,704</b>	<b>696,365</b>
Taxation	9	(165,224)	(108,332)
<b>Profit after taxation</b>		<b>571,480</b>	<b>588,033</b>
Minority interests		(26,074)	(54,588)
<b>Net profit for the year</b>	31	<b>545,406</b>	<b>533,445</b>
Dividends	10	380,591	377,529
Earnings per share	11		
Basic		HK52.52 cents	HK51.65 cents
Diluted		HK52.52 cents	HK51.65 cents

# CONSOLIDATED BALANCE SHEET

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (restated)
<b>Non-current assets</b>			
Property, plant and equipment	12	57,717	56,329
Investment properties	13	24,366,780	24,841,010
Interests in associates	15	873,066	61,317
Investments in securities	16	940,888	1,483,821
Negative goodwill	17	(1,016)	(1,076)
Staff housing loans, secured	18	12,187	16,452
Prepayments and deposits	19	22,320	27,486
		<b>26,271,942</b>	<b>26,485,339</b>
<b>Current assets</b>			
Staff housing loans, secured - due within one year	18	3,188	1,863
Prepayments and deposits		28,259	10,697
Accounts receivable	20	10,644	10,117
Interest receivable		28,035	24,215
Time deposits		13,094	21,372
Cash and bank balances		1,539	1,574
		<b>84,759</b>	<b>69,838</b>
<b>Current liabilities</b>			
Long term bank loans - due within one year	26	78,000	737,638
Floating rate notes	27	399,132	—
Creditors and accruals	21	115,791	108,598
Interest payable		64,135	74,234
Rental deposits from tenants		219,729	233,530
Deferred income	22	686	686
Taxation payable		90,557	126,122
Unclaimed dividends		1,145	1,412
		<b>969,175</b>	<b>1,282,220</b>
<b>Net current liabilities</b>		<b>(884,416)</b>	<b>(1,212,382)</b>
<b>Total assets less current liabilities carried forward</b>		<b>25,387,526</b>	<b>25,272,957</b>

	Notes	2003 HK\$'000	2002 HK\$'000 (restated)
<b>Total assets less current liabilities brought forward</b>		<b>25,387,526</b>	25,272,957
<b>Non-current liabilities</b>			
Advances from investees	24	50,489	51,676
Amounts due to minority shareholders	25	321,714	292,765
Long term bank loans - due after one year	26	3,884,423	3,009,223
Floating rate notes	27	—	398,090
Fixed rate notes	28	1,551,991	1,551,003
Deferred income	22	4,855	5,541
Deferred taxation	29	180,400	113,619
		<b>5,993,872</b>	5,421,917
<b>NET ASSETS</b>		<b>19,393,654</b>	19,851,040
<b>MINORITY INTERESTS</b>		<b>753,855</b>	876,388
		<b>18,639,799</b>	18,974,652
<b>CAPITAL AND RESERVES</b>			
Share capital	30	5,217,857	5,173,084
Accumulated profits	31	3,805,113	3,640,298
Other reserves	32	9,616,829	10,161,270
		<b>18,639,799</b>	18,974,652

The financial statements on pages 61 to 97 were approved and authorised for issue by the Board of Directors on 9 March 2004 and are signed on its behalf by:

**Peter T.C. Lee**  
Director

**David Akers-Jones**  
Director

**BALANCE SHEET**

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (restated)
<b>Non-current assets</b>			
Property, plant and equipment	12	9,761	12,475
Investment properties	13	3,030,000	3,295,000
Investments in subsidiaries	14	11,348,763	12,990,625
Interests in associates	15	3	3
Investments in securities	16	2,031	2,031
Staff housing loans, secured	18	12,187	16,452
Prepayments and deposits	19	6,632	4,621
		<b>14,409,377</b>	<b>16,321,207</b>
<b>Current assets</b>			
Staff housing loans, secured - due within one year	18	3,188	1,863
Prepayments and deposits		5,406	4,926
Accounts receivable		2,113	1,614
Time deposits		1,599	882
Cash and bank balances		825	939
		<b>13,131</b>	<b>10,224</b>
<b>Current liabilities</b>			
Long term bank loans - due within one year	26	4,000	687,638
Creditors and accruals		14,056	14,177
Interest payable		1,922	11,458
Rental deposits from tenants		23,035	27,366
Taxation payable		2,869	16,332
Unclaimed dividends		1,145	1,412
Amounts due to subsidiaries		—	622,700
		<b>47,027</b>	<b>1,381,083</b>
<b>Net current liabilities</b>		<b>(33,896)</b>	<b>(1,370,859)</b>
<b>Total assets less current liabilities</b>		<b>14,375,481</b>	<b>14,950,348</b>
<b>Non-current liabilities</b>			
Amounts due to subsidiaries	23	805,850	—
Long term bank loans - due after one year	26	1,221,523	2,200,123
Deferred taxation	29	7,579	6,315
		<b>2,034,952</b>	<b>2,206,438</b>
<b>NET ASSETS</b>		<b>12,340,529</b>	<b>12,743,910</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	30	5,217,857	5,173,084
Accumulated profits	31	3,533,725	3,736,483
Other reserves	32	3,588,947	3,834,343
		<b>12,340,529</b>	<b>12,743,910</b>

The financial statements on pages 61 to 97 were approved and authorised for issue by the Board of Directors on 9 March 2004 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 2003

	2003 HK\$'000	2002 HK\$'000 (restated)
<b>At beginning of the year</b>		
- as previously reported	<b>19,086,976</b>	21,266,925
- adjustment on adoption of SSAP 12 (Revised)	<b>(112,324)</b>	(102,032)
- as restated	<b>18,974,652</b>	21,164,893
Issue of shares pursuant to scrip dividend scheme	<b>44,773</b>	16,568
Premium on issue of shares pursuant to scrip dividend scheme	<b>20,305</b>	10,199
Share issue expenses	<b>(20)</b>	(10)
Unrealised gain (loss) on investments in other securities	<b>206,455</b>	(284,395)
Deficit on revaluation of investment properties	<b>(891,704)</b>	(2,158,317)
Deficit on revaluation of investment properties shared by minority shareholders	<b>114,462</b>	86,600
Surplus (deficit) on revaluation of land and buildings	<b>4,124</b>	(856)
Deferred taxation liabilities (arising) released on revaluation of land and building	<b>(722)</b>	137
Effect of change in tax rate on deferred taxation liabilities arising on revaluation of properties and charged to:		
- Investment properties revaluation reserve	<b>(407)</b>	—
- Assets revaluation reserve	<b>(118)</b>	—
Share of reserves of an associate	<b>41,775</b>	—
Exchange differences on translation of an overseas associate	<b>(3,020)</b>	—
Net losses not recognised in the income statements	<b>(464,097)</b>	(2,330,074)
Net profit for the year	<b>545,406</b>	533,445
Dividends paid during the year	<b>(378,218)</b>	(392,120)
Realisation on disposal of investments in other securities transferred to income statement	<b>(37,944)</b>	—
Realisation on disposal of investment properties transferred to income statement	<b>—</b>	(1,492)
<b>At end of the year</b>	<b>18,639,799</b>	18,974,652
<b>Represented by:</b>		
Balance after amount set aside for dividend	<b>18,363,252</b>	18,700,478
Amount set aside for dividend	<b>276,547</b>	274,174
	<b>18,639,799</b>	18,974,652

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit from operations	<b>883,333</b>	926,839
Adjustments for:		
Impairment loss arising in respect of investments in securities	—	800
Interest income	<b>(1,926)</b>	(4,842)
Dividend income	<b>(22,613)</b>	(10,512)
Depreciation	<b>4,643</b>	4,793
Gain on disposal of investments in securities	<b>(48,159)</b>	—
Gain on property sales	—	(1,500)
(Gain) loss on disposal of property, plant and equipment	<b>(46)</b>	2
Release of negative goodwill arising on acquisition of additional interest in a subsidiary	<b>(60)</b>	(60)
Operating cash flows before movements in working capital	<b>815,172</b>	915,520
(Increase) decrease in accounts receivable, prepayments and deposits	<b>(12,923)</b>	20,604
Decrease in staff housing loans, secured	<b>2,940</b>	5,385
(Decrease) increase in rental deposits from tenants, creditors and accruals	<b>(6,230)</b>	35,118
Cash generated from operations	<b>798,959</b>	976,627
Hong Kong Profits Tax paid	<b>(135,255)</b>	(71,159)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>663,704</b>	905,468
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>1,246</b>	4,222
Dividends received from investments in securities	<b>22,613</b>	9,617
Dividends received from associates	<b>80</b>	150
Additions to investment properties	<b>(417,852)</b>	(362,465)
Additions to property, plant and equipment	<b>(1,909)</b>	(11,872)
Proceeds on disposal of investment properties	—	1,550
Proceeds on disposal of property, plant and equipment	<b>48</b>	50
Acquisition of interest in an associate	<b>(1)</b>	—
Advance to an associate	<b>(107,759)</b>	(10,064)
Net proceeds received on disposal of investments in securities	<b>115,950</b>	—
Advances to investees	<b>(1,187)</b>	(14,957)
Construction costs paid	—	(38)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(388,771)</b>	(383,807)

	2003 HK\$'000	2002 HK\$'000
<b>FINANCING ACTIVITIES</b>		
Net proceeds received on derivatives	—	6,855
Interest paid	(172,404)	(171,213)
Bank charges	(6,884)	(9,543)
Medium Term Note Programme expenses	(897)	(509)
Dividends paid	(313,407)	(366,078)
Dividends paid to minority shareholders of subsidiaries	(34,145)	(53,692)
Share issue expenses	(20)	(10)
New unsecured bank loans	1,798,800	1,750,038
Issue of fixed rate notes	—	1,550,016
Advance from minority shareholders	28,949	—
Repayment of unsecured bank loans	(1,583,238)	(1,231,648)
Repayment of floating rate notes	—	(2,000,000)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(283,246)</b>	<b>(525,784)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,313)</b>	<b>(4,123)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>22,946</b>	<b>27,069</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>14,633</b>	<b>22,946</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	1,539	1,574
Time deposits	13,094	21,372
	<b>14,633</b>	<b>22,946</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

### 1. GENERAL

The Company is a public listed 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 investment, management and development.

### 2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standard ("HKFRS"), the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes", issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAP and Interpretations approved by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Accumulated profits as at 1 January 2003 have been reduced by HK\$106.7 million (2002: HK\$96.3 million) which is the cumulative effect of the change in policy on the results up to that date. The balances on the Company's investment properties and assets revaluation reserves at 1 January 2003 have been reduced by HK\$4.3 million (2002: HK\$4.3 million) and HK\$1.3 million (2002: HK\$1.4 million) respectively, representing the deferred tax liabilities recognised in respect of the revaluation surpluses on the Company's properties at that date. The effect of the changes is an increased charge to taxation in the current year of HK\$65.5 million (2002: HK\$10.4 million).

### 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.

#### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES *continued*

#### **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.

#### **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.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**3. SIGNIFICANT ACCOUNTING POLICIES** *continued***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 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.

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.

### 3. SIGNIFICANT ACCOUNTING POLICIES *continued*

#### 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.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**3. SIGNIFICANT ACCOUNTING POLICIES** *continued***Taxation** *continued*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**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

	2003 HK\$'000	2002 HK\$'000
Turnover comprises:		
Gross rental income from properties	1,135,126	1,229,599
Income from property sales	—	1,550
Management fee and security service income	4,182	2,249
	<b>1,139,308</b>	<b>1,233,398</b>

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

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	118,555	111,699
Retirement benefits scheme contributions ( <i>note 35</i> )	5,006	4,821
Forfeited contributions ( <i>note 35</i> )	(1,067)	(1,189)
	<b>122,494</b>	<b>115,331</b>
Depreciation	4,643	4,793
Auditors' remuneration	1,866	1,629
Rental income arising from operating leases less out-goings	(899,948)	(996,702)
Dividends from		
- listed investments	(19,795)	(3,145)
- unlisted investments	(2,818)	(7,367)
Gain on property sales	—	(1,500)
Interest income	(1,926)	(4,842)
(Gain) loss on disposal of property, plant and equipment	(46)	2
Exchange loss	1,631	—

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**6. DIRECTORS' REMUNERATION**

	2003 HK\$'000	2002 HK\$'000
Directors' fees	725	757
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	12,093	10,548
Bonus paid	981	1,552
Retirement benefits scheme contributions	243	232
	<b>14,042</b>	13,089

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

	2003 No. of Directors	2002 No. of Directors
HK\$ 0 - HK\$1,000,000	9	9
HK\$1,000,001 - HK\$1,500,000	—	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	1	—
HK\$3,000,001 - HK\$3,500,000	2	2
HK\$3,500,001 - HK\$4,000,000	—	—
HK\$4,000,001 - HK\$4,500,000	1	1
	<b>13</b>	13

The above includes total emoluments actually paid to Directors. All executive Directors are entitled to housing benefits. Two Directors (the Chairman and Managing Director) did not take such housing benefits for a substantial part of 2003.

Directors' fees paid to Independent non-executive Directors during the year totalled HK\$223,219 (2002: HK\$255,000). They received no other emoluments from the Company or any of its subsidiaries.



**6. DIRECTORS' REMUNERATION** *continued*

Remuneration breakdown of each of the current executive Directors for year 2003 are set out below:

	Directors' fees HK\$'000	Basic salaries, housing, allowances and benefits HK\$'000	Bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Peter T.C. Lee ( <i>Note a</i> )	82	2,809	310	12	3,213
Michael T.H. Lee ( <i>Note b</i> )	50	2,468	175	12	2,705
Pauline W.L. Yu Wong	50	2,642	248	207	3,147
	182	7,919	733	231	9,065

Notes:

- (a) The Chairman did not take up housing benefits to which he was entitled for a substantial part of 2003. Following a review of his compensation in November 2003, his fixed base package is HK\$4.1 million as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review.
- (b) The Managing Director did not take up housing benefits to which he was entitled for a substantial part of 2003. Following a review of his compensation in November 2003, his fixed base package is HK\$3.5 million as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review.

Remuneration breakdown of Michael C.K. Moy, who resigned as a Director on 28 January 2004, for year 2003 were as follows:

	Directors' fees HK\$'000	Basic salaries, housing, allowances and benefits HK\$'000	Bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Michael C.K. Moy	50	4,174	248	12	4,484

**7. EMPLOYEE COSTS**

The five highest paid individuals included four (2002: four) directors, details of whose remuneration are set out in note 6. The remuneration of the remaining individual (2002: one individual), whose remuneration is within the band ranged from HK\$2,000,001 to HK\$2,500,000, is detailed as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,296	2,120
Bonus paid	92	277
Retirement benefits scheme contributions	12	12
	2,400	2,409

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**8. FINANCE COSTS**

	2003 HK\$'000	2002 HK\$'000
Interest on		
- bank loans, overdraft and other loans:		
wholly repayable within five years	49,304	78,947
not repayable within five years	20,001	27,913
- floating rate notes	10,059	24,952
- fixed rate notes	109,200	88,149
	<b>188,564</b>	219,961
Net interest paid (received) from financial instruments:		
- due within five years	710	(322)
- due after five years	(32,926)	(11,621)
	<b>(32,216)</b>	(11,943)
Amortisation of fixed rate and floating rate notes issue expenses	2,030	2,401
Bank charges	6,884	9,543
Net exchange loss	—	82
Medium Term Note Programme expenses	897	509
Hedging expenses	2,131	—
	<b>168,290</b>	220,553

**9. TAXATION**

	2003 HK\$'000	2002 HK\$'000 (restated)
Hong Kong Profits Tax for the year	51,532	64,703
Under (over) provision in prior years	158	(10,095)
Provision arising from prior years additional assessments	48,000	42,000
	<b>99,690</b>	96,608
Deferred tax ( <i>note 29</i> ):		
- current year	55,408	11,724
- attributable to change in tax rate	10,126	—
	<b>165,224</b>	108,332

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year.

During the year, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at the balance sheet date.

**9. TAXATION** *continued*

The charge for the year ended 31 December 2003 and 31 December 2002 can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<b>736,704</b>		696,365	
Tax at the domestic income tax rate of 17.5% (2002: 16%)	<b>128,923</b>	<b>17.5</b>	111,418	16.0
Tax effect of expenses that are not deductible in determining taxable profit	<b>871</b>	<b>0.1</b>	2,202	0.3
Tax effect of utilisation of tax losses not previously recognised	<b>(10,222)</b>	<b>(1.4)</b>	(15,992)	(2.3)
Tax effect of income that are not assessable in determining taxable profit	<b>(12,872)</b>	<b>(1.8)</b>	(2,609)	(0.4)
Tax effect of tax loss not provided	<b>331</b>	<b>0.1</b>	40	—
Tax effect of share of results of associates	<b>(3,191)</b>	<b>(0.4)</b>	(23)	—
Tax effect of deferred tax assets (liabilities) not recognised	<b>3,093</b>	<b>0.4</b>	(18,440)	(2.6)
Under (over) provision in prior years	<b>158</b>	<b>—</b>	(10,095)	(1.4)
Provision arising from prior years additional assessments	<b>48,000</b>	<b>6.5</b>	42,000	6.0
Increase in opening deferred tax balances resulting from an increase in the tax rate in Hong Kong	<b>10,126</b>	<b>1.4</b>	—	—
Others	<b>7</b>	<b>—</b>	(169)	—
Tax expense and effective tax rate for the year	<b>165,224</b>	<b>22.4</b>	108,332	15.6

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (see note 29).

At the date of issue of the accounts, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue ("IRD") regarding additional tax assessments disallowing certain expense deductions claimed in the tax returns for years of assessment 1995/1996 to 1999/2000 (total tax claimed by IRD: HK\$193 million). Having taken separate legal advice from two leading counsel, the Directors are of the view that there were ample grounds to contest the assessments and such Group subsidiaries are pursuing objection against the additional assessments vigorously.

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**10. DIVIDENDS**

	2003 HK\$'000	2002 HK\$'000
Ordinary shares:		
Interim dividend, paid - HK\$0.10 per share (2002: HK\$0.10)	104,044	103,355
Final dividend, proposed - HK\$0.265 per share (2002: HK\$0.265)	276,547	274,174
	<b>380,591</b>	377,529

The 2003 final dividend of HK\$0.265 (2002: HK\$0.265) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2003 will be payable in cash with a scrip dividend alternative.

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2002 final and 2003 interim dividends. These alternatives were accepted by the shareholders as follows:

	2003 Interim HK\$'000	2002 Final HK\$'000
Dividends:		
Cash	75,262	237,878
Share alternative	28,782	36,296
	<b>104,044</b>	274,174

**11. EARNINGS PER SHARE**

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

	2003 HK\$'000	2002 HK\$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (net profit for the year)	545,406	533,445
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,038,528	1,032,758
Effect of dilutive potential ordinary shares: Share options	40	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>1,038,568</b>	1,032,758

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices are higher than the fair value per share for 2002.

**11. EARNINGS PER SHARE** *continued*

The adjustment to comparative basic and diluted earnings per share, arising from the adoption of SSAP 12 (Revised) is as follows:

	HK\$'000	Basic and diluted HK cents
Reconciliation of 2002 earnings per share:		
Reported figures before adjustments	543,874	52.66
Adjustments arising from the adoption of SSAP 12 (Revised)	(10,429)	(1.01)
Restated	533,445	51.65

**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
<b>THE GROUP</b>					
COST OR VALUATION					
At 1 January 2003	41,000	42,135	14,711	1,611	99,457
Additions	—	1,564	345	—	1,909
Disposals	—	(3)	—	(480)	(483)
Surplus on revaluation	3,500	—	—	—	3,500
<b>At 31 December 2003</b>	<b>44,500</b>	<b>43,696</b>	<b>15,056</b>	<b>1,131</b>	<b>104,383</b>
Comprising:					
At cost	—	43,696	15,056	1,131	59,883
At valuation 2003	44,500	—	—	—	44,500
	44,500	43,696	15,056	1,131	104,383
ACCUMULATED DEPRECIATION					
At 1 January 2003	—	37,698	3,819	1,611	43,128
Provided for the year	624	1,444	2,575	—	4,643
Eliminated on disposals	—	(1)	—	(480)	(481)
Adjustment on revaluation	(624)	—	—	—	(624)
<b>At 31 December 2003</b>	<b>—</b>	<b>39,141</b>	<b>6,394</b>	<b>1,131</b>	<b>46,666</b>
NET BOOK VALUES					
<b>At 31 December 2003</b>	<b>44,500</b>	<b>4,555</b>	<b>8,662</b>	<b>—</b>	<b>57,717</b>
At 31 December 2002	41,000	4,437	10,892	—	56,329



**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**12. PROPERTY, PLANT AND EQUIPMENT** *continued*

	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
COST				
At 1 January 2003	20,883	14,166	1,611	36,660
Additions	31	257	—	288
Disposals	(3)	—	(480)	(483)
<b>At 31 December 2003</b>	<b>20,911</b>	<b>14,423</b>	<b>1,131</b>	<b>36,465</b>
ACCUMULATED DEPRECIATION				
At 1 January 2003	18,820	3,754	1,611	24,185
Provided for the year	552	2,448	—	3,000
Eliminated on disposals	(1)	—	(480)	(481)
<b>At 31 December 2003</b>	<b>19,371</b>	<b>6,202</b>	<b>1,131</b>	<b>26,704</b>
NET BOOK VALUES				
<b>At 31 December 2003</b>	<b>1,540</b>	<b>8,221</b>	<b>—</b>	<b>9,761</b>
At 31 December 2002	2,063	10,412	—	12,475

The leasehold land and buildings of the Group were revalued at 31 December 2003 by Knight Frank, an independent professional valuer, on an open market value basis. The surplus arising on revaluation has been credited 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\$33,035,506 (2002: HK\$33,560,049).

Furniture, fixtures and equipment of the Group and the Company include assets carried at cost of HK\$24,064,907 (2002: HK\$21,897,838) and HK\$1,297,354 (2002: HK\$1,266,778) respectively and accumulated depreciation of HK\$20,340,314 (2002: HK\$19,216,069) and HK\$948,631 (2002: HK\$841,662) respectively in respect of assets held for use under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$1,067,160 (2002: HK\$776,954) and HK\$103,446 (2002: HK\$37,483) respectively.

### 13. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	24,841,010	26,638,500	3,295,000	3,500,000
Additions	417,852	362,465	3,054	2,274
Adjustment resulted from cost variation	(378)	(96)	—	—
Disposals	—	(1,542)	—	—
Deficit on revaluation	(891,704)	(2,158,317)	(268,054)	(207,274)
<b>At 31 December</b>	<b>24,366,780</b>	<b>24,841,010</b>	<b>3,030,000</b>	<b>3,295,000</b>

The value of investment properties comprises:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Land in Hong Kong:				
- Medium term lease	4,400,000	4,000,000	—	—
- Long lease	19,966,780	20,841,010	3,030,000	3,295,000
	<b>24,366,780</b>	<b>24,841,010</b>	<b>3,030,000</b>	<b>3,295,000</b>

The investment properties of the Group and the Company were revalued at 31 December 2003 by Knight Frank, 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	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	5	5
Amounts due therefrom	11,752,758	13,394,620
	<b>11,752,763</b>	<b>13,394,625</b>
Less: Allowances on amounts due therefrom	(404,000)	(404,000)
	<b>11,348,763</b>	<b>12,990,625</b>

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 2003 are set out in note 41.

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**15. INTERESTS IN ASSOCIATES**

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	—	—	3	3
Share of net liabilities	(15,519)	(77,171)	—	—
	(15,519)	(77,171)	3	3
Amounts due therefrom	909,947	159,850	—	—
	894,428	82,679	3	3
Less: Impairment loss	(21,362)	(21,362)	—	—
	873,066	61,317	3	3

The aggregate attributable share of results of the associates is based on the unaudited management accounts for the year ended 31 December 2003.

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 2003 are as follows:

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of share held/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activity
				indirectly	directly	
Parallel Asia Engineering Company Limited	Incorporated	Hong Kong	Share	—	25%	Investment holding
Wingrove Investment Pte Limited	Incorporated	Singapore	Share	25%	—	Property development
Country Link Enterprises Limited	Incorporated	Hong Kong	Share	26.3%	—	Investment holding
Shanghai Kong Hui Property Development Company Limited	Sino-Foreign equity joint venture	The People's Republic of China	US\$165,000,000	23.7%	—	Property development and leasing

**16. INVESTMENTS IN SECURITIES****THE GROUP**

	Other securities	
	2003 HK\$'000	2002 HK\$'000
Equity securities:		
Listed in Hong Kong	873,547	772,827
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Unlisted shares	136,855	136,856
Amounts due therefrom	56,788	700,440
	193,643	837,296
Less: Impairment losses	(128,333)	(128,333)
	65,310	708,963
	67,341	710,994
	940,888	1,483,821
Market value of securities listed in Hong Kong	873,547	772,827
Carrying amount analysed for reporting purposes as:		
Non-current	940,888	1,483,821

**THE COMPANY**

	Other securities	
	2003 HK\$'000	2002 HK\$'000
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Carrying amount analysed for reporting purpose as:		
Non-current	2,031	2,031

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**17. NEGATIVE GOODWILL**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Carrying amount at 1 January	1,076	1,136
Released to income during the year	(60)	(60)
Carrying amount at 31 December	1,016	1,076

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	
	2003 HK\$'000	2002 HK\$'000
Staff housing loans, secured	15,375	18,315
Less: Amounts due within one year shown under current assets	(3,188)	(1,863)
	12,187	16,452

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% (2002: 4%) per annum.

**19. PREPAYMENTS AND DEPOSITS**

In 2002, deposits paid amounted to HK\$27,485,710 and HK\$4,620,822 for the Group and the Company respectively for acquiring non-current assets were reclassified from current assets to non-current assets.

**20. ACCOUNTS RECEIVABLE**

Accounts receivable are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 31 December 2003 and 2002 were aged less than 90 days.

**21. CREDITORS AND ACCRUALS**

All of the trade payables of the Group as at 31 December 2003 and 2002 were aged less than 90 days.



**22. DEFERRED INCOME**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Deferred income	5,541	6,227
Less: Amount due within one year shown under current liabilities	(686)	(686)
	<b>4,855</b>	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.

**23. AMOUNTS DUE TO SUBSIDIARIES**

The advances are unsecured and are not repayable within one year.

**24. ADVANCES FROM INVESTEEES**

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

**25. AMOUNTS DUE TO MINORITY SHAREHOLDERS**

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

**26. LONG TERM BANK LOANS**

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans, unsecured	<b>3,962,423</b>	3,746,861	<b>1,225,523</b>	2,887,761
The bank loans are repayable as follows:				
Within one year	<b>78,000</b>	737,638	<b>4,000</b>	687,638
More than one year, but not exceeding two years	<b>668,300</b>	685,600	<b>668,300</b>	685,600
More than two years, but not exceeding five years	<b>1,626,423</b>	1,617,600	<b>553,223</b>	1,200,500
More than five years	<b>1,589,700</b>	706,023	—	314,023
	<b>3,962,423</b>	3,746,861	<b>1,225,523</b>	2,887,761
Less: Amounts due within one year shown under current liabilities	<b>(78,000)</b>	(737,638)	<b>(4,000)</b>	(687,638)
	<b>3,884,423</b>	3,009,223	<b>1,221,523</b>	2,200,123

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**27. FLOATING RATE NOTES**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Floating rate notes	400,000	400,000
Less: Unamortised notes issue expenses	(868)	(1,910)
	<b>399,132</b>	398,090
Less: Amount due within one year shown under current liabilities	<b>(399,132)</b>	—
	—	398,090

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

**28. FIXED RATE NOTES**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Fixed rate notes	1,559,977	1,559,977
Less: Unamortised notes issue expenses	(7,986)	(8,974)
	<b>1,551,991</b>	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.

## 29. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognized by the Group and Company and movements thereon during the year.

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Deferred payments HK\$'000	Retirement benefits scheme contributions HK\$'000	Tax losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
At 1 January 2002						
- as previously reported	—	—	—	—	—	—
- adjustment on adoption of SSAP 12 (Revised)	103,188	5,742	545	(208)	(7,235)	102,032
- as restated	103,188	5,742	545	(208)	(7,235)	102,032
Charge (credit) to income for the year	13,028	—	(240)	141	(1,205)	11,724
Credit to equity for the year	—	(137)	—	—	—	(137)
At 1 January 2003	116,216	5,605	305	(67)	(8,440)	113,619
Charge (credit) to income for the year	57,056	—	(182)	63	(1,529)	55,408
Charge to equity for the year	—	722	—	—	—	722
Effect of change in tax rate						
- charge (credit) to income for the year	10,895	—	29	(6)	(792)	10,126
- charge to equity for the year	—	525	—	—	—	525
<b>At 31 December 2003</b>	<b>184,167</b>	<b>6,852</b>	<b>152</b>	<b>(10)</b>	<b>(10,761)</b>	<b>180,400</b>

	Accelerated tax depreciation HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>THE COMPANY</b>			
At 1 January 2002			
- as previously reported	—	—	—
- adjustment on adoption of SSAP 12 (Revised)	4,483	(90)	4,393
- as restated	4,483	(90)	4,393
Charge to income for the year	1,871	51	1,922
At 1 January 2003	6,354	(39)	6,315
Charge to income for the year	632	40	672
Effect of change in tax rate			
- charge (credit) to income for the year	596	(4)	592
<b>At 31 December 2003</b>	<b>7,582</b>	<b>(3)</b>	<b>7,579</b>

At 31 December 2003, the Group has unused tax losses of HK\$1,170 million (2002: HK\$824 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$61 million (2002: HK\$53 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,109 million (2002: HK\$771 million) due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

The Company does not have any unused tax loss as at balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**30. SHARE CAPITAL**

	Number of shares		Share capital	
	2003 '000	2002 '000	2003 HK\$'000	2002 HK\$'000
<b>THE COMPANY</b>				
Ordinary shares of HK\$5 each				
Authorised:				
At 1 January and 31 December	<b>1,450,000</b>	1,450,000	<b>7,250,000</b>	7,250,000
Issued and fully paid:				
At 1 January	<b>1,034,617</b>	1,031,303	<b>5,173,084</b>	5,156,516
Issue of shares pursuant to scrip dividend scheme	<b>8,955</b>	3,314	<b>44,773</b>	16,568
<b>At 31 December</b>	<b>1,043,572</b>	1,034,617	<b>5,217,857</b>	5,173,084

On 13 June 2003 and 10 October 2003 respectively, the Company issued and allotted a total of 5,826,061 shares and 3,128,547 shares of HK\$5 each in the Company at HK\$6.23 and HK\$9.20 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2002 final and 2003 interim dividends pursuant to the scrip dividend scheme announced by the Company on 13 May 2003 and 19 August 2003. 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.

**31. ACCUMULATED PROFITS**

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January				
- as previously reported	<b>3,747,017</b>	3,580,672	<b>3,741,503</b>	3,957,698
- adjustment on adoption of SSAP 12 (Revised)	<b>(106,719)</b>	(96,290)	<b>(5,020)</b>	(4,393)
- as restated	<b>3,640,298</b>	3,484,382	<b>3,736,483</b>	3,953,305
Net profit for the year	<b>545,406</b>	533,445	<b>177,833</b>	160,707
Profit available for distribution	<b>4,185,704</b>	4,017,827	<b>3,914,316</b>	4,114,012
Dividends	<b>(380,591)</b>	(377,529)	<b>(380,591)</b>	(377,529)
<b>At 31 December</b>	<b>3,805,113</b>	3,640,298	<b>3,533,725</b>	3,736,483

The accumulated profits of the Group include accumulated losses of HK\$69,754,658 (2002: HK\$87,987,293) attributable to associates of the Group.

The distributable reserves of the Company as at 31 December 2003 amounted to HK\$3,633,725,475 (2002: HK\$3,836,482,838), being its accumulated profits and general reserve at that date.

## 32. 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
<b>THE GROUP</b>										
At 1 January 2002										
- as previously reported	1,303,354	9,568,162	603,497	8,729	502,235	—	154,995	100,000	288,765	12,529,737
- adjustment on adoption of SSAP 12 (Revised)	—	(4,345)	—	(1,397)	—	—	—	—	—	(5,742)
- as restated	1,303,354	9,563,817	603,497	7,332	502,235	—	154,995	100,000	288,765	12,523,995
Premium on issue of shares pursuant to scrip dividend scheme	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)
Deferred taxation liabilities released on revaluation	—	—	—	137	—	—	—	—	—	137
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 1 January 2003	1,313,543	7,490,608	319,102	6,613	502,235	—	154,995	100,000	274,174	10,161,270
Premium on issue of shares pursuant to scrip dividend scheme	20,305	—	—	—	—	—	—	—	—	20,305
Share issue expenses	(20)	—	—	—	—	—	—	—	—	(20)
Unrealised gain on investments in other securities	—	—	206,455	—	—	—	—	—	—	206,455
Deficit on revaluation of investment properties	—	(891,704)	—	—	—	—	—	—	—	(891,704)
Surplus on revaluation of land and buildings	—	—	—	4,124	—	—	—	—	—	4,124
Deficit on revaluation of investment properties shared by minority shareholders	—	114,462	—	—	—	—	—	—	—	114,462
Realisation on disposal of investment in other securities	—	—	(37,944)	—	—	—	—	—	—	(37,944)
Share of reserve of an associate	—	41,763	—	—	—	12	—	—	—	41,775
Deferred taxation liabilities arising on revaluation	—	—	—	(722)	—	—	—	—	—	(722)
Effect of change in tax rate on deferred taxation liabilities arising on revaluation of properties and charged to reserves	—	(407)	—	(118)	—	—	—	—	—	(525)
Final dividend for 2002 paid	—	—	—	—	—	—	—	—	(274,174)	(274,174)
Amount set aside for 2003 dividend	—	—	—	—	—	—	—	—	380,591	380,591
Interim dividend for 2003 paid	—	—	—	—	—	—	—	—	(104,044)	(104,044)
Exchange differences on translation of an overseas associate	—	—	—	—	—	(3,020)	—	—	—	(3,020)
<b>At 31 December 2003</b>	<b>1,333,828</b>	<b>6,754,722</b>	<b>487,613</b>	<b>9,897</b>	<b>502,235</b>	<b>(3,008)</b>	<b>154,995</b>	<b>100,000</b>	<b>276,547</b>	<b>9,616,829</b>

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**32. 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
<b>THE COMPANY</b>						
At 1 January 2002	1,303,354	2,198,905	154,995	100,000	288,765	4,046,019
Premium on issue of shares pursuant to scrip dividend scheme	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 1 January 2003	1,313,543	1,991,631	154,995	100,000	274,174	3,834,343
Premium on issue of shares pursuant to scrip dividend scheme	20,305	—	—	—	—	20,305
Share issue expenses	(20)	—	—	—	—	(20)
Deficit on revaluation of investment properties	—	(268,054)	—	—	—	(268,054)
Final dividend for 2002 paid	—	—	—	—	(274,174)	(274,174)
Amount set aside for 2003 dividend	—	—	—	—	380,591	380,591
Interim dividend for 2003 paid	—	—	—	—	(104,044)	(104,044)
<b>At 31 December 2003</b>	<b>1,333,828</b>	<b>1,723,577</b>	<b>154,995</b>	<b>100,000</b>	<b>276,547</b>	<b>3,588,947</b>

## (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 (2002: HK\$516,142,884) arising from acquisition of subsidiaries prior to 1 January 2001 and capitalisation issue of a subsidiary.

**33. MAJOR NON-CASH TRANSACTION**

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 ("Country Link"), grouped under investments in securities during the year ended 31 December 2002, for an aggregate consideration of HK\$1,313,158 which is satisfied by setting off the amounts due therefrom. As a result, the Group increased its shareholding from 18.75% to 26.3% and Country Link became an associate of the Group.

Investment cost of HK\$1,875 and loan totalled of HK\$642,338,253 previously advanced by the Group to Country Link were therefore reclassified to interests in associates on that date.



### 34. 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 Stock Exchange of Hong Kong Limited 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 2003, Scheme participants were executive Directors of the Company with shares issuable under options granted representing less than 0.4% (2002: 0.4%) of the issued share capital of the Company. Options expiring, granted and outstanding to them are as follows:

	Balance	Changes during the year				Balance	Exercise price (HK\$)	Exercisable period
	as at 1.1.2002 and 1.1.2003	Date of grant	Cancelled/lapsed	Granted	Exercised	as at 31.12.2002 and 31.12.2003		
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

\* Michael Chi Kung Moy resigned as Director of the Company on 28 January 2004.

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 Board delegated the authority to make grants to other management staff to the Chairman and Managing Director, 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.

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**35. 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\$5,006,517 (2002: HK\$4,821,554). Forfeited contributions for the year of HK\$1,067,210 (2002: HK\$1,189,078) were fully utilised to fund the Group's contributions.

**36. CONTINGENT LIABILITIES**

As at 31 December 2003, there were contingent liabilities in respect of the following:

	THE GROUP		THE COMPANY	
	2003 Million	2002 Million	2003 Million	2002 Million
Corporate guarantee to a third party in respect of the sale of the interest in an associate	<b>HK\$3.6</b>	HK\$3.6	<b>HK\$3.6</b>	HK\$3.6
Corporate guarantee to subsidiaries				
- for issue of floating rate notes	—	—	<b>HK\$400.0</b>	HK\$400.0
- for issue of fixed rate notes	—	—	<b>US\$200.0</b>	US\$200.0
Undertaking given to a bank in proportion to shareholding regarding facilities granted to a joint venture property project	<b>S\$18.6</b>	S\$18.6	—	—
Guarantees to banks to provide finance to				
- An associate	<b>S\$12.0</b>	S\$12.0	<b>S\$12.0</b>	S\$12.0
- A property development project	<b>S\$22.0</b>	S\$22.0	<b>S\$22.0</b>	S\$22.0
- Subsidiaries	—	—	<b>HK\$3,930.0</b>	HK\$1,280.0

As at balance sheet date, the Group had given guarantees to banks and financial institutions for entering of derivatives transactions under the ISDA agreement. The notional amounts of the forward rate agreements, interest rate swaps and currency swaps are disclosed in note 39.

### 37. CAPITAL COMMITMENTS

As at 31 December 2003, the Group had capital commitments in respect of the following:

	2003 Million	2002 Million
(a) Investment properties: Contracted but not provided for	<b>HK\$37.6</b>	HK\$171.4
(b) Share of capital commitments for joint ventures: Contracted but not provided for	—	HK\$7.7

### 38. LEASE COMMITMENTS

#### The Group and the Company as lessee

As at 31 December 2003, 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	—	—	<b>8,072</b>	5,884
In the second to fifth year inclusive	—	—	<b>10,451</b>	138
	—	—	<b>18,523</b>	6,022

Operating lease payments represent rentals 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 at 31 December 2003, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	<b>798,758</b>	829,154	<b>119,148</b>	126,789
In the second to fifth year inclusive	<b>1,146,345</b>	1,139,991	<b>151,638</b>	148,671
After five years	<b>136,143</b>	253,768	<b>5,948</b>	15,525
	<b>2,081,246</b>	2,222,913	<b>276,734</b>	290,985

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**39. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

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

	Notional Principal Amount	
	2003 HK\$'000	2002 HK\$'000
Forward rate agreement - less than one year	786,996	400,000
Foreign exchange forward contracts - less than one year	205,558	—
Interest rate swaps - one to five years	1,598,983	428,983
Currency swaps - after five years	1,559,977	1,559,977
	<b>4,151,514</b>	2,388,960

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 counterparty risk by restricting the derivative transactions to financial institutions with strong investment grade ratings and limiting the exposures to each counterparty at prudent levels.

**40. 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	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Repairs and maintenance expenses paid to	(a)	—	—	19,969	20,823
Gross rental income from	(b)	5,063	6,147	31,468	36,567
Construction cost paid during the year for investment properties	(c)	—	—	82,934	—

#### 40. RELATED PARTY AND CONNECTED TRANSACTIONS *continued*

##### A. Related party transactions *continued*

As at 31 December 2003, the Group has the following balances with related parties:

	Notes	Substantial shareholder		Directors	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Included in creditors and accruals were repairs and maintenance expenses payable to	(a)	—	—	2,248	1,737
Construction cost payable to	(c)	—	—	5,248	—
Amount due to a minority shareholder	(d)	—	—	92,843	84,486

Notes:

- (a) Such expenses were incurred in connection with the repair and maintenance charges for escalators/lifts, electrical and gondola services.
- (i) F.K. Hu (and his alternate, Raymond L.M. Hu) were directors of Ryoden Lift Services Limited ("RLS") and Ryoden Engineering Contracting Company Limited ("REC") and both of them have indirect equity interests in each of these companies. RLS and REC entered into a number of maintenance contracts regarding lifts, electrical works and other miscellaneous works with a subsidiary of the Company.
- (ii) Hans Michael Jebsen is a director and shareholder of Jebsen and Company Limited which provided certain gondola maintenance related services to 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) Dr. Geoffrey M.T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and V-nee Yeh is also Chairman of Hsin Chong Construction Group Limited whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited ("Hsin Chong Asia"), entered into a main contract with a subsidiary of the Company relating to the renovation project of Lee Gardens Two. Such transaction was entered into on normal commercial terms and on arm's length basis.

The sum represented the sum paid to, or as the case may be, outstanding balances due under the main contract with Hsin Chong Asia. To the best of the Company's knowledge having made due enquiries, substantially the whole of such contracts were sub-contracted by Hsin Chong Asia to other sub-contractors. The contract sum is not the indicative of the amount actually derived by Hsin Chong Asia under the relevant contract, which amount is substantially less than the relevant contract sum.

- (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. The amount is unsecured, interest free and is not repayable within one year.

##### B. Connected transaction

Loans totalling HK\$606,717,961 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\$321,713,346 advanced by the other shareholders in proportion to their respective shareholdings are disclosed in note 25. 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.

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

For the year ended 31 December 2003

**41. PRINCIPAL SUBSIDIARIES AT 31 DECEMBER 2003**

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 Leasing Company Limited	Hong Kong	Hong Kong
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 floating rate notes and fixed rate notes issued by HD Finance (BVI) Limited and Hysan (MTN) Limited as disclosed in notes 27 and 28 respectively, 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 Share	HK\$2	—	100%	Investment holding
Share	HK\$2	—	100%	Investment holding
Share	HK\$1	—	100%	Treasury operation
Share	HK\$2	—	100%	Treasury operation
Share	HK\$2	—	100%	Treasury operation
Share	HK\$1	—	100%	Investment holding
Share	HK\$2	—	100%	Leasing administration
Share	HK\$2	—	100%	Treasury operation
Share	US\$1	—	100%	Treasury operation
Share	HK\$2	—	100%	Property management
Share	HK\$1	—	100%	Investment holding
Ordinary Share	HK\$1,000	—	100%	Property investment
Ordinary Share	HK\$2	—	100%	Property investment
Ordinary Share	HK\$2	—	100%	Property investment
Ordinary Share	HK\$300,000	—	100%	Provision of security services
Share	HK\$2	—	100%	Investment holding
Share	HK\$2	—	100%	Property investment
Ordinary Share	HK\$2	100%	—	Resident club management
Share	HK\$1	100%	—	Investment holding
Share	HK\$1	100%	—	Investment holding
Share	HK\$1	100%	—	Capital market investment
Ordinary Share	HK\$10	100%	—	Property investment
Ordinary Share	HK\$2	100%	—	Property investment
Share	HK\$2	100%	—	Investment holding
Ordinary Share	HK\$2	100%	—	Property investment
Share	HK\$2	100%	—	Property investment
Share	HK\$20	100%	—	Property investment
Share	US\$1	100%	—	Property investment
Share	HK\$10,000	65.36%	—	Property investment

## FIVE-YEAR FINANCIAL SUMMARY

	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000 (restated) <i>(Note a)</i>	2003 HK\$'000
<b>CONSOLIDATED INCOME STATEMENT</b>					
Turnover	2,295,717	1,480,246	1,355,450	1,233,398	<b>1,139,308</b>
Profit from operations	1,994,930	1,474,517	1,066,738	926,839	<b>883,333</b>
Finance costs	(526,819)	(449,020)	(314,428)	(220,553)	<b>(168,290)</b>
Gain on disposal of an associate	—	—	33,531	—	<b>—</b>
Impairment loss (arising) reversed in respect of interests in associates	(98,418)	3,419	(4,880)	(10,064)	<b>—</b>
Share of results of associates	(4,284)	4,210	(2,338)	143	<b>18,233</b>
Release of negative goodwill arising on acquisition of an associate	—	—	—	—	<b>3,428</b>
Profit before taxation	1,365,409	1,033,126	778,623	696,365	<b>736,704</b>
Taxation	(86,795)	(117,210)	(114,903)	(108,332)	<b>(165,224)</b>
Profit after taxation	1,278,614	915,916	663,720	588,033	<b>571,480</b>
Minority interests	(74,656)	(65,743)	(63,377)	(54,588)	<b>(26,074)</b>
Net profit for the year	1,203,958	850,173	600,343	533,445	<b>545,406</b>
Dividends	412,795	433,064	391,598	377,529	<b>380,591</b>
Earnings per share					
- Basic	HK\$1.16	HK\$0.82	HK\$0.58	HK\$0.52	<b>HK\$0.53</b>
- Diluted	HK\$1.16	HK\$0.82	HK\$0.58	HK\$0.52	<b>HK\$0.53</b>

	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000 (restated)	2003 HK\$'000
				(Note a)	
<b>CONSOLIDATED BALANCE SHEET</b>					
Property, plant and equipment	56,443	56,632	50,158	56,329	57,717
Investment properties	25,173,000	28,432,700	26,638,500	24,841,010	24,366,780
Interests in associates	66,467	51,384	61,324	61,317	873,066
Investments in securities	2,468,742	2,297,335	1,754,059	1,483,821	940,888
Negative goodwill	—	—	(1,136)	(1,076)	(1,016)
Staff housings loans, secured	43,151	28,898	20,936	16,452	12,187
Prepayment and deposits (Note b)	242	11,217	49,536	27,486	22,320
Net current liabilities	(1,476,376)	(1,160,939)	(2,513,343)	(1,212,382)	(884,416)
	26,331,669	29,717,227	26,060,034	25,272,957	25,387,526
Advances from investees	51,316	59,482	52,571	51,676	50,489
Amounts due to minority shareholders	292,765	292,765	292,765	292,765	321,714
Long term loan	263,754	263,754	—	—	—
Long term bank loans	1,660,000	1,890,000	3,088,634	3,009,223	3,884,423
Floating rate notes	2,390,884	2,393,739	397,047	398,090	—
Fixed rate notes	—	—	—	1,551,003	1,551,991
Deferred income	—	—	—	5,541	4,855
Deferred taxation	—	—	—	113,619	180,400
	4,658,719	4,899,740	3,831,017	5,421,917	5,993,872
Net assets	21,672,950	24,817,487	22,229,017	19,851,040	19,393,654
Minority interests	1,146,458	1,339,063	962,092	876,388	753,855
	20,526,492	23,478,424	21,266,925	18,974,652	18,639,799
Share capital	5,183,810	5,151,256	5,156,516	5,173,084	5,217,857
Reserves	15,342,682	18,327,168	16,110,409	13,801,568	13,421,942
Shareholders' funds	20,526,492	23,478,424	21,266,925	18,974,652	18,639,799

**Note:**

- (a) The figures for 2002 have been restated to reflect the adoption of the SSAP 12 (Revised).
- (b) Deposits paid for acquiring non-current assets were reclassified from current to non-current assets.

# Shareholder Information

## FINANCIAL CALENDAR

Full year results announced	9 March 2004
Ex-dividend date for final dividend	5 May 2004
Share registers closed	7 to 11 May 2004
Annual General Meeting	11 May 2004
Record date for final dividend	11 May 2004
Despatch of scrip dividend circular and election form	(on or about) 18 May 2004
Despatch of final dividend warrants / definitive share certificates	(on or about) 11 June 2004
2004 interim results to be announced	August 2004*
2004 interim dividend payable	October 2004*

\* 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, 11 May 2004. 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, 18 May 2004. 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, 7 June 2004.

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, 11 June 2004.

The share register will be closed from Friday, 7 May 2004 to Tuesday, 11 May 2004, both dates inclusive. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars not later than 4:00 p.m. on Thursday, 6 May 2004.

Press releases and other information of the Group can be found at our Internet website at "[www.hysan.com.hk](http://www.hysan.com.hk)"

## 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](mailto:investor@hysan.com.hk) or write to :

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



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