

Chief Executive's Review

*Adding value by active management:
anticipating and responding
to customers' ever changing needs for
space and services today and
in the future.*



STRATEGIC FOCUS

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

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

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

The defining features that will differentiate us and underpin future performance have been emerging. We have completed the reorganization of our leasing units into specialist office, retail, and residential teams to

work the portfolio more actively. These are further described in the section under "Activities in the Year" below.

ACTIVITIES IN THE YEAR

Investment Properties

■ Office

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

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

■ Retail

Our core retail portfolio, located in the retail hub of Causeway Bay, offers a variety of shopping experiences ranging from the Lee Theatre Plaza retail and leisure complex, to

high-end brands at the Lee Gardens, and specialist niches like the children's concept at Caroline Centre.

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

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

In moving forward, we are actively developing further specialist niches for our centres and strengthening the synergies between them.

■ Residential

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

Development Properties

■ Singapore

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

Pre-sales marketing for the Sanctuary Green (Phase I) and the Gardens at Bishan developments is progressing satisfactorily. The Group has a 10% interest in these projects.

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

■ Shanghai, The People's Republic of China

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

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

PEOPLE

Alongside our strategic priorities, we recognize that people are our vital asset. We aim to employ and motivate the best, while encouraging a culture of service and success. We have introduced a performance management programme to provide a framework for setting clear targets and managing the team. Further information on our employment policy is set out in the section headed "Staff" in the Directors' Report. I would like to take this opportunity to thank all staff for their hard work and dedication during this year of progress in our new direction.

THE FUTURE

Undoubtedly Year 2000 has been a year of progress and our active management initiatives have been emerging. We have very clear plans in moving forward and I am confident that we can build on this year's achievements to deliver attractive future returns.

Peter T. C. Lee

Managing Director

Hong Kong, 20 March 2001