

Operating and Financial Review

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

OPERATING REVIEW

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

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



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

INVESTMENT PROPERTIES

Office

■ Market Overview

The office market continued to be soft in the light of the overall economic conditions, leading to weakening rentals. Better-quality buildings under single ownership, particularly in prime locations with no major new supply remain better market-performers.

■ Our Performance

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

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

Retail

■ Market Overview

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

■ Our Performance

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



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



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

Residential

■ Market Overview

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

■ Our Performance

The re-launch of the repositioned

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

DEVELOPMENT PROPERTIES Shanghai

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

Singapore

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

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

PROPERTY SERVICES

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

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

CAPITAL IMPROVEMENT PROJECTS

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



Implementation of Corporate Strategic Principles

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

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

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

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

