

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