

# 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.



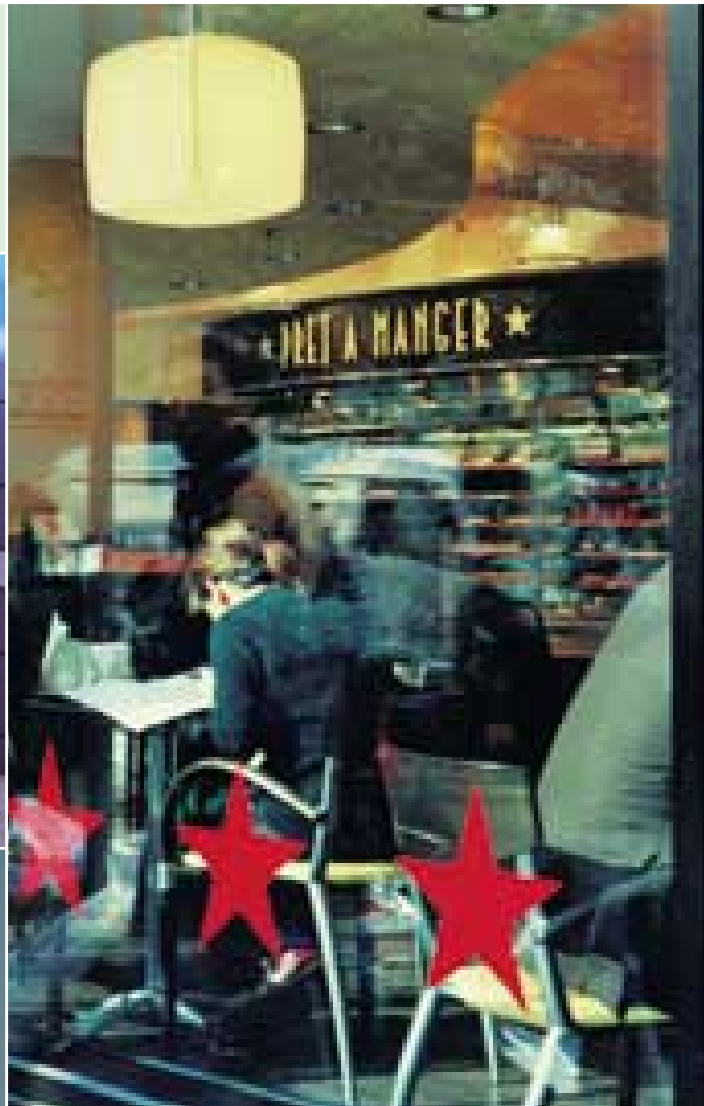
*Quality building features, whether in terms of building exterior, interior common areas, or public art displays, are at the top of tenants' priorities. These features are complemented by first class building management services.*





*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.

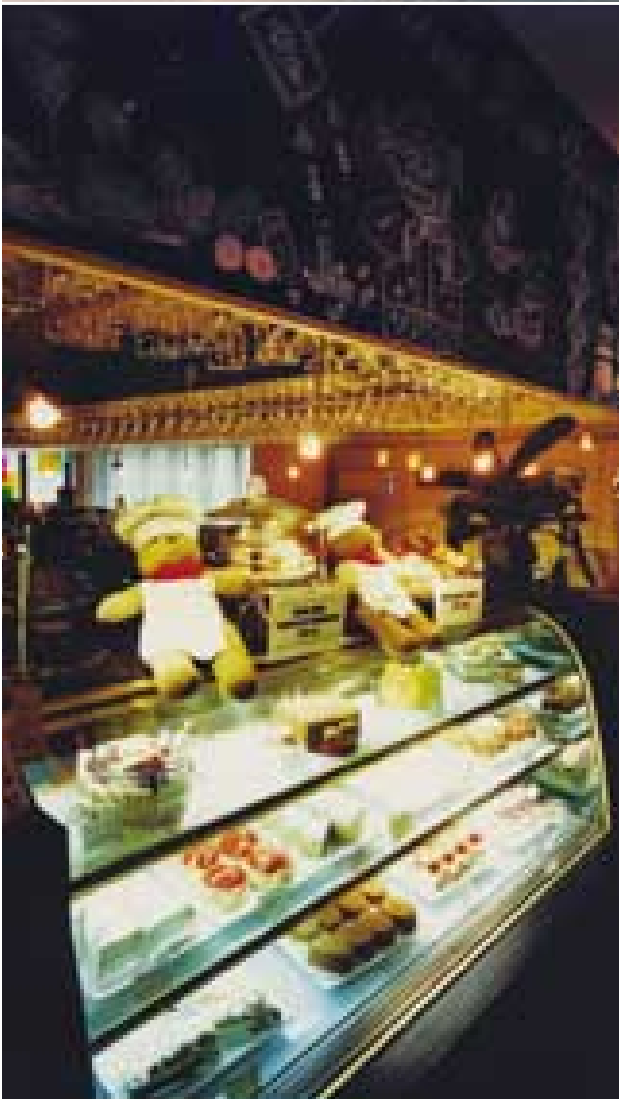
In addition, we continued to optimise operational efficiency. Our energy efficiency initiatives resulted in considerable energy costs savings without compromising service standards. Our aim remains to further enhance our premium property services.





*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

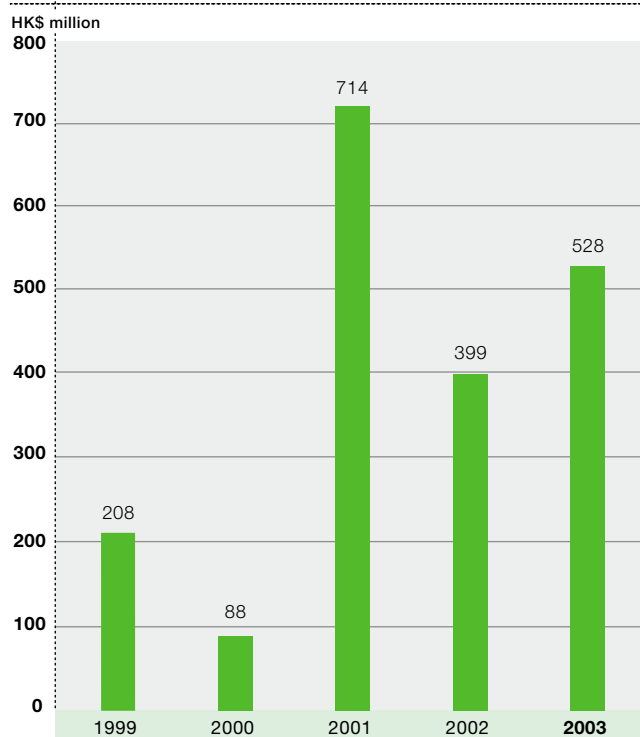
The spending on capital expenditures is subject to close scrutiny.

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.

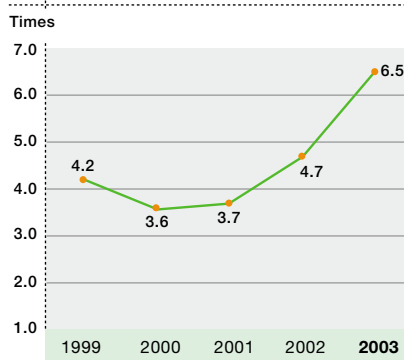
### Net Gearing

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

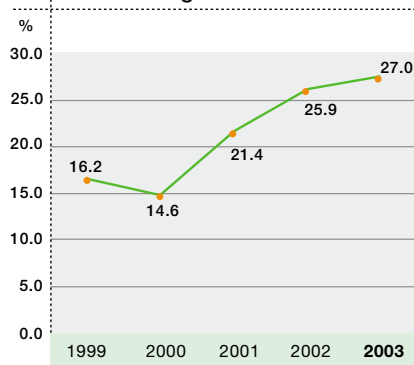
As at 31 December 2003, the Group's credit ratings were Baa1 from Moody's and BBB from Standard and Poor's. Both credit ratings continue to reflect the Group's strong financial profile supported by its sound financial management and stable rental income cash flows.

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.

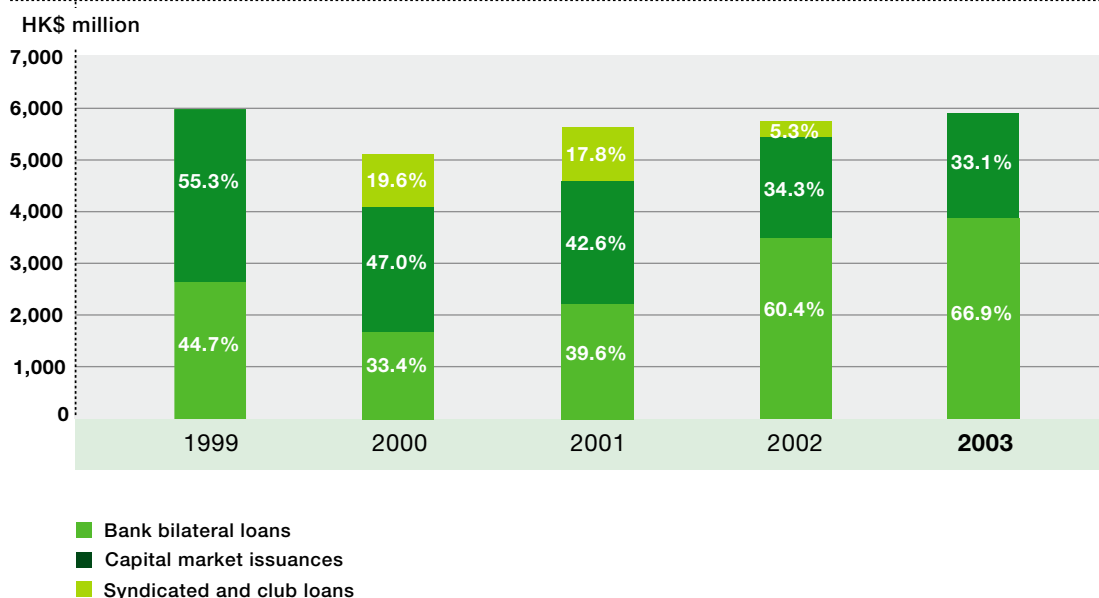
In view of the favourable loan market in 2003 with borrowing margins tightening further, the Group took the initiative to early refinance a total of about HK\$1.2 billion bank loans, including a club loan of HK\$300 million. The refinancing exercise contributed to the lower borrowing cost for the year. 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

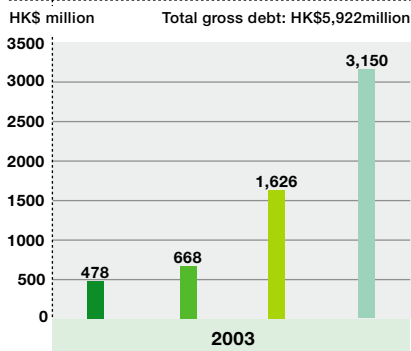
Sufficient liquidity has always been maintained to fund the Group's working capital and other short-term payment obligations. The liquidity mainly comes from the strong recurring cash flows of the business and the committed banking facilities. The Group's undrawn committed facilities stood at HK\$2.02 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

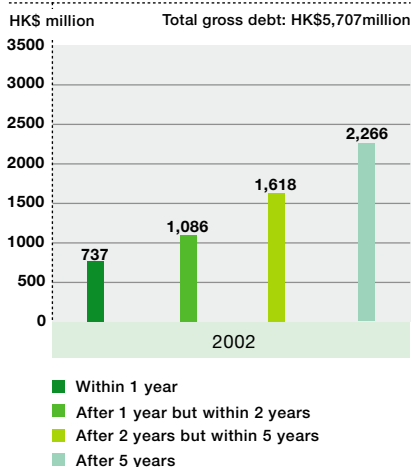
In managing interest rate and foreign exchange exposure, derivative instruments, such as interest rate swaps, cross currency swaps, forward rate agreements and forward foreign exchange contracts were used in accordance with the Group's policy, which restricts the use of derivatives to hedging purposes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