

To: Business Editor

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For immediate release

**HYSAN DEVELOPMENT COMPANY LIMITED
2004 INTERIM RESULTS – HIGHLIGHTS**

- *Hong Kong office market on recovery path*
- *Increased contributions from upgraded retail and residential properties*
- *Solid financial position geared to support corporate objectives*

- Net profit up 23.9% to HK\$304.9 million
(2003 restated: HK\$246.1 million)
- Gross rental income decreased by 5.7% to HK\$559.8 million
(2003: HK\$593.5 million)
- Office occupancy achieved 97%; retail properties virtually fully-let; residential occupancy (Bamboo Grove) achieved 80%
- Net finance costs down by HK\$9.4 million
- Share of results of associates of HK\$18.7 million
(2003 restated: a loss of HK\$5.1 million)
- Impairment loss write-back of HK\$41.0 million for two completed Singapore projects
- Investments in securities generated a gain of HK\$14.6 million
(2003: nil)
- Shareholders' funds was HK\$18,676.0 million
(2003 restated: HK\$18,616.4 million)
- Basic earnings per share up 22.8% to HK29.20 cents
(2003 restated: HK23.77 cents)
- Interim dividend of HK10 cents per share
(2003: HK10 cents)
- Average debt maturity at 5.2 years
- Net interest coverage ratio improved to 7.9 times
(31 December 2003: 6.5 times)
- Net gearing was 26.5%
(31 December 2003: 27.0 %)

HYSAN DEVELOPMENT NET PROFIT UP 23.9% TO HK\$304.9 MILLION

Results

Hysan Development Company Limited (HKSE:14) today (18 August) announced **net profit** for the first six months ended 30 June 2004 was HK\$304.9 million, 23.9% higher than in 2003 (2003 restated: HK\$246.1 million). **Basic earnings per share** also increased correspondingly to HK29.20 cents (2003 restated: HK23.77 cents). **Gross rental income** decreased by 5.7%, reflecting negative rental reversion principally in the office sector. There were improved contributions from the Group's overseas development activities. The Group wrote back an impairment loss previously provided for Singapore residential projects and had increased contributions from our Shanghai joint venture. Finance costs further decreased. The Group also recorded a gain from the disposal of marketable securities used to finance capital expenditure.

Investments in securities comprised principally of Hong Kong-listed securities held as long-term investment. This portfolio serves as a liquid buffer fund to help finance capital expenditure and other opportunities as they arise. Disposal during the period generated a gain of HK\$14.6 million.

Net finance costs were down by HK\$9.4 million, or 10.8% from corresponding period in 2003, taking advantage of lower prevailing interest rates.

Share of results of associates went up by HK\$23.8 million compared to 2003, with profits from the Shanghai Grand Gateway project offsetting losses from a Singapore project (Group interest: 25%).

Impairment loss write-back related to two completed Singapore projects in which the Group has a 10% interest in each project. Based on the percentage of units sold and the expected revenue net of costs, the Group wrote back HK\$41.0 million on impairment loss previously provided. The Group maintains a prudent policy in making sufficient provision against impairment losses.

Shareholders' funds as at 30 June 2004 was HK\$18,676.0 million (2003 restated: HK\$18,616.4 million).

Capital expenditure on refurbishment, renovation and additions to the Group's investment properties amounted to HK\$30.6 million.

Financial Management

Total gross debt level was HK\$5.83 billion as at 30 June 2004, little-changed from 31 December 2003.

Weighted average borrowing costs, included effects from hedging instruments, further lowered to 2.45%, as interest rate remained favourable in the review period.

Debt maturity as at 30 June 2004 stood at 5.2 years (repayable within one year: 9%, two to five years: 40%, over five years: 51%, largely the same as at 2003 year-end). 66.4% of Group debts were from bank loans, almost the same level as at 2003 year-end. The Group has always maintained an appropriate level of debts raised from capital market to avoid over-dependence on a single source. (As at 30 June 2004: 33.6%, largely the same as at 2003 year-end.)

All Group debts are unsecured, with over 98% being on a committed basis. The Group has ample undrawn committed facilities, which stood at HK\$2.79 billion as at 30 June 2004 (31 December 2003: HK\$2.02 billion).

As interest rate trended up, the Group took a higher percentage of fixed rate debts through the use of derivatives. The percentage of floating-rate debt decreased to about 50% as at 30 June 2004 (31 December 2003: 60%).

The Group's foreign exchange risk was minimal. All Group debts are either denominated in, or hedged back into, Hong Kong Dollars or the currency of the underlying assets. Group foreign exchange exposure relating to overseas joint ventures as at 30 June 2004 was HK\$831.7 million (31 December 2003: HK\$790.5 million), or 3% of the Group's assets. 88% of such exposure was denominated in Renminbi, with the balance being in Singapore dollars.

Financial Ratios and Credit Ratings

Net interest coverage ratio (defined as profit from operations before depreciation less dividend and interest income, divided by net interest expenses less dividend income) improved to 7.9 times at 30 June 2004, reflecting lower interest expenses (31 December 2003: 6.5 times).

Net gearing (defined as gross debt less cash and cash equivalents and marketable securities at period-end market value, divided by shareholders' funds) as at 30 June 2004 was 26.5%, little-changed from 2003 year-end (31 December 2003: 27.0%).

Credit ratings at 30 June 2004 remained unchanged, being Baa1 from Moody's and BBB from Standard and Poor's.

An **interim dividend** of HK10 cents per share (2003: HK10 cents) was announced. The dividend will be payable in cash with a scrip dividend alternative. The ex-dividend date will be 2 September 2004, dividend warrants and definitive share certificates in respect of the scrip dividend will be despatched on or about 11 October 2004. The share register will be closed from Monday, 6 September 2004 to Wednesday, 8 September 2004, both dates inclusive.

Comments by Peter T.C. Lee, Chairman

“The property leasing market continued its recovery path as evidenced by the generally improved occupancy and rental levels. As the global economy improves amidst some uncertainties, negative rental reversion in the office sector is likely to continue into 2005.”

Review of Operating Performance by Michael T.H. Lee, Managing Director

Office Leasing

The office leasing market continued its recovery path with generally improved rental levels. Activities were, however, principally relocation and upgrading to better locations and properties.

“Against this backdrop, the Group achieved a 97% occupancy. The first half of 2004 has seen rental levels improving with new leases signed recording an increase of 15 to 20% in rental levels when compared with 2003 year-end. Such increase has helped to ease the negative rental reversion trend but it will take time for rental levels to return to those of three years ago,” Mr. Lee remarked.

Retail Leasing

The retail sector continued to be active during the first six months of the year. Further enhanced consumer sentiment and tourist arrivals continued to be the driving forces. Prime shopping locations witnessed particular increase in activities and rental levels achieved.

“The Group’s retail properties were virtually fully-let, and made increased contributions during the review period. The re-opening of the upgraded Lee Gardens Two made a significant contribution to the 7.5% increase in retail rental levels, and will continue to do so for the remainder of 2004,” Mr. Lee commented.

“The opening was also the first major step in our longer term objective to position our hub in the prime retail district in Causeway Bay as a distinctive neighbourhood with a broad retail appeal, where shopping, leisure and service needs can be met,” Mr. Lee said.

The Group aims to integrate retail offerings in a horizontal, streetscape setting. Shopping centres with different themes, food and beverage, and entertainment will provide the necessary anchors. These will be complemented by landscape and general environmental enhancements.

Plans are also progressing to refine the tenant mix and positioning of Lee Theatre Plaza.

Residential Leasing

“The luxury residential market saw increased activities, with a steady improvement in rentals achieved. Our upgraded Bamboo Grove property demonstrated to be popular amongst expatriates and their families, as was seen in the surge of occupancy from 62% in December 2003 to 80% to date,” said Mr. Lee.

Development Properties

Construction for Phase 2 of the Grand Gateway Project in Shanghai, PRC made good progress. Leasing activities of the completed Phase 1 development performed well during the review period. The retail podium was virtually fully-let, and the residential tower achieved high occupancy.

Construction of the Group's three joint-venture residential developments in Singapore has been completed. Sales are in progress with a good part of the relevant residential units having been sold.

Hysan Development is a leading property investment, management and development company in Hong Kong, with a major portfolio in high-quality office, retail and residential properties. It is the largest commercial landlord in the prime office/retail Causeway Bay district.

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This press release and other corporate information can also be found at: www.hysan.com.hk or www.irasia.com/listco/hk/hysan/index.htm

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HYSAN DEVELOPMENT COMPANY LIMITED
希慎興業有限公司

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	<u>NOTES</u>	Six months ended	
		<u>30.6.2004</u> HK\$'000 (unaudited)	<u>30.6.2003</u> HK\$'000 (unaudited) (restated)
Turnover	5	561,926	595,531
Property expenses		(121,443)	(108,410)
Gross profit		440,483	487,121
Gain on disposals of investments in securities		14,619	-
Other operating income		12,894	18,204
Release of negative goodwill arising on acquisition of additional interest in a subsidiary		30	30
Write back of impairment loss on investments in securities	6	41,000	-
Administrative expenses		(37,673)	(41,650)
Profit from operations	7	471,353	463,705
Finance costs		(78,321)	(88,072)
Share of results of associates		18,694	(5,085)
Release of negative goodwill arising on acquisition of an associate		1,062	1,062
Profit before taxation		412,788	371,610
Taxation	8	(92,070)	(104,312)
Profit after taxation		320,718	267,298
Minority interests		(15,833)	(21,208)
Net profit for the period		304,885	246,090
Dividends	9	104,873	104,044
Earnings per share	10		
Basic		HK29.20 cents	HK23.77 cents
Diluted		HK29.19 cents	N/A

HYSAN DEVELOPMENT COMPANY LIMITED
希慎興業有限公司

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2004

	<u>NOTES</u>	<u>30.6.2004</u> HK\$'000 (unaudited)	<u>31.12.2003</u> HK\$'000 (audited) (restated)
Non-current assets			
Property, plant and equipment		56,417	57,717
Investment properties		24,397,348	24,366,780
Interests in associates		778,598	849,676
Investments in securities		950,701	940,888
Negative goodwill		(986)	(1,016)
Staff housing loans, secured		2,372	12,187
Other receivable, prepayments and deposits	11	63,632	28,420
		<u>26,248,082</u>	<u>26,254,652</u>
Current assets			
Staff housing loans, secured - due within one year		1,180	3,188
Other receivable, prepayments and deposits	11	28,619	22,159
Accounts receivable		8,446	10,644
Interest receivable		30,634	28,035
Time deposits		36,491	13,094
Cash and bank balances		5,282	1,539
		<u>110,652</u>	<u>78,659</u>
Current liabilities			
Long term bank loans - due within one year		109,000	78,000
Floating rate notes		399,653	399,132
Creditors and accruals		87,221	115,791
Interest payable		64,973	64,135
Rental deposits from tenants		232,043	219,729
Deferred income		686	686
Taxation payable		141,674	90,557
Unclaimed dividends		3,130	1,145
		<u>1,038,380</u>	<u>969,175</u>
Net current liabilities		<u>(927,728)</u>	<u>(890,516)</u>
Total assets less current liabilities carried forward		<u>25,320,354</u>	<u>25,364,136</u>

HYSAN DEVELOPMENT COMPANY LIMITED
希慎興業有限公司

	<u>30.6.2004</u> HK\$'000 (unaudited)	<u>31.12.2003</u> HK\$'000 (audited) (restated)
Total assets less current liabilities brought forward	<u>25,320,354</u>	<u>25,364,136</u>
Non-current liabilities		
Advances from investees	50,489	50,489
Amounts due to minority shareholders	327,256	321,714
Long term bank loans - due after one year	3,757,800	3,884,423
Fixed rate notes	1,552,485	1,551,991
Deferred income	4,513	4,855
Deferred taxation	187,686	180,400
	<u>5,880,229</u>	<u>5,993,872</u>
Minority interests	<u>764,146</u>	<u>753,855</u>
Net assets	<u><u>18,675,979</u></u>	<u><u>18,616,409</u></u>
Capital and reserves		
Share capital	5,239,652	5,217,857
Accumulated profits	3,995,511	3,795,499
Other reserves	9,440,816	9,603,053
	<u><u>18,675,979</u></u>	<u><u>18,616,409</u></u>

HYSAN DEVELOPMENT COMPANY LIMITED
希慎興業有限公司

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		(restated)
At beginning of the period		
- as previously reported	18,639,799	18,974,652
- prior period adjustment (note 4)	(23,390)	-
- as restated	18,616,409	18,974,652
Unrealised loss on investments in other securities	(7,337)	(7,207)
Effect of change in tax rate on deferred taxation liabilities arising on revaluation of properties and charged to:		
- Investment properties revaluation reserve	-	(407)
- Assets revaluation reserve	-	(118)
Share of exchange reserve of an associate	1	11
Net losses not recognised in the income statement	(7,336)	(7,721)
Net profit for the period	304,885	246,090
Issue of shares on exercise of share option	1,500	-
Premium on issue of shares on exercise of share option	762	-
Share issue expenses	(1)	(7)
Realisation on disposal of investment in other securities transferred to income statement	(11,957)	-
Dividends paid during the period	(228,283)	(237,878)
At end of the period	18,675,979	18,975,136
Represented by:		
Balance after amount set aside for dividend	18,571,186	18,871,092
Amount set aside for dividend	104,793	104,044
	18,675,979	18,975,136

NOTES

1. INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2004 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports", issued by the Hong Kong Society of Accountants, by Deloitte Touche Tohmatsu, whose independent review report is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Group's Audit Committee.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

4. PRIOR PERIOD ADJUSTMENT

The effect on adoption of the revised SSAP 12 "Income Taxes" ("SSAP 12 (Revised)") on the Group's interests in associates was not accounted for in the interim report for the six months ended 30 June 2003 and the annual financial statements for the year ended 31 December 2003. Comparative amounts for 2003 have been restated accordingly. Accumulated profits and share of revaluation reserve as at 1 January 2004 have been reduced by HK\$9,614,000 and HK\$13,776,000 respectively. The balances on the Group's interests in associates at 1 January 2004 have been reduced by HK\$23,390,000, representing the share of the deferred tax liabilities recognised by the associate. The effect of the changes is a decrease in share of losses of associates, a decrease in release of negative goodwill arising on acquisition of an associate and an increase in taxation for the six months ended 30 June 2003 of HK\$462,000, HK\$652,000 and HK\$4,616,000 respectively.

5. TURNOVER

	Six months ended	
	<u>30.6.2004</u>	<u>30.6.2003</u>
	HK\$'000	HK\$'000
Turnover comprises:		
Gross rental income from properties	559,784	593,452
Management fee and security service income	2,142	2,079
	<u>561,926</u>	<u>595,531</u>

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

6. WRITE BACK OF IMPAIRMENT LOSS ON INVESTMENTS IN SECURITIES

The amount represents the write back of the carrying amounts of the investments in securities to their estimated recoverable amounts.

7. PROFIT FROM OPERATIONS

	Six months ended	
	<u>30.6.2004</u>	<u>30.6.2003</u>
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	53,699	55,963
Depreciation	2,429	2,287
Rental income arising from operating leases less out-goings	(440,564)	(486,956)
Dividends from		
- listed investments	(12,010)	(14,770)
- unlisted investments	-	(1,772)
Interest income	<u>(688)</u>	<u>(1,051)</u>

8. TAXATION

	Six months ended	
	<u>30.6.2004</u>	<u>30.6.2003</u>
	HK\$'000	HK\$'000
		(restated)
Current tax	25,166	34,385
Underprovision in previous periods	55,000	48,000
Deferred tax		
- Current period	7,286	7,185
- Attributable to change in tax rate	-	10,126
	<u>87,452</u>	<u>99,696</u>
Taxation attributable to the Company and its subsidiaries		
Share of taxation attributable to an associate	4,618	4,616
	<u>92,070</u>	<u>104,312</u>

The charge comprises Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period.

The Company received notices of additional assessment from the Inland Revenue Department disallowing the deduction claim for interest expenses in prior years. Management has reviewed the basis on which the interest expenses were disallowed, and an additional tax provision of HK\$55 million was made accordingly during the current period.

9. DIVIDENDS

	Six months ended	
	<u>30.6.2004</u>	<u>30.6.2003</u>
	HK\$'000	HK\$'000
Interim dividend - HK10 cents per share (2003: HK10 cents)	104,793	104,044
Additional prior year's dividend paid on exercise of share option subsequent to 31 December 2003	80	-
	<u>104,873</u>	<u>104,044</u>

10. EARNINGS PER SHARE

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

	Six months ended	
	<u>30.6.2004</u> HK\$'000	<u>30.6.2003</u> HK\$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	304,885	246,090
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,044,241	1,035,196
Effect of dilutive potential ordinary shares:		
Share options	419	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,044,660	

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

11. OTHER RECEIVABLE, PREPAYMENTS AND DEPOSIT

At 31 December 2003, other receivable of HK\$6,100,000, represented the long-term portion of unamortised incentives granted to tenants, was reclassified from current assets to non-current assets.

12. CAPITAL COMMITMENTS

As at balance sheet date, the Group had capital commitments in respect of the following:

	<u>30.6.2004</u> HK\$'000	<u>31.12.2003</u> HK\$'000
Investment properties:		
Contracted for but not provided in the financial statements	48,456	37,600