

NEWS RELEASE

To: Business/Property Editor

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 For immediate release

**HYSAN DEVELOPMENT COMPANY LIMITED
 2005 ANNUAL RESULTS**
Highlights

- Group turnover up 8.3%
- Office rental reversions turned positive
- Strengthened balance sheet positioned for growth
- Full-year dividends up 12.5%

Results

	Year ended 31 December		Change %
	2005	2004 (restated)	
	HK\$M	HK\$M	
Turnover	1,250	1,154	8.3
Net profit attributable to shareholders	4,121	609	576.7 *
Underlying net profit attributable to shareholders	1,005	609	65.0
Net profit excluding asset value changes and prior year tax provision	641	586	9.4
Shareholders' funds	24,667	20,566	19.9 *
Adjusted shareholders' funds	27,134	22,399	21.1
	HK cents	HK cents	
Earnings per share	391.87	58.16	573.8 *
Underlying earnings per share	95.60	58.16	64.4
Dividend per share	45.00	40.00	12.5
	HK\$	HK\$	
Net asset value per share	23.42	19.59	19.6 *
Adjusted net asset value per share	25.76	21.33	20.8

* Not strictly comparable following the adoption of the new HKFRSs.

The 2005 financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) applicable to accounting periods commencing on or after 1 January 2005. The Group has adopted the fair value model for reporting investment properties, accordingly they are recorded at their fair values, as determined by an independent professional valuer. Fair value changes on investment properties and related deferred tax are recognised through profit and loss. In addition, certain owner-occupied properties have been reclassified from investment properties to property, plant and equipment. Revaluation changes on owner-occupied properties and related deferred tax arising thereon are taken to equity. On the basis that there is no capital gains tax in Hong Kong, no tax liability will be crystallised even on disposal of those properties at the value included in the financial statements. In light of the above, management has presented other indicators for assessing the performance of the Group: (i) "Underlying net profit attributable to shareholders" and "Underlying earnings per share", effectively arrived at by adjusting for the unrealised fair value changes on investment properties and the related deferred tax on the net profit figure. On the same basis, cumulative deferred tax provided on the fair value gains on investment and owner-occupied properties are added back to the shareholders' funds when computing "Adjusted shareholders' funds" and "Adjusted net asset value per share", (ii) "Net profit excluding asset value changes and prior year tax provision" is arrived at after further adjusting "Underlying net profit attributable to shareholders" for aggregate of realised gain/loss on disposal of investment properties and investment in securities, impairment and reversals, and prior year tax provision.

HYSAN DEVELOPMENT TURNOVER UP 8.3% TO HK\$1,250 MILLION

Results

Hysan Development Company Limited (Stock Code: 00014) today (7 March 2006) announced the Group's **turnover** for 2005 increased by HK\$96 million (8.3%) to HK\$1,250 million (2004: HK\$1,154 million) attributable to further growth in the retail and residential sectors (retail: 13%, residential: 23%). Rental reversions in the office sector turned positive in the second half of 2005 resulting in broadly the same year-on-year turnover. **Net profit**, reflecting the impact of fair value changes to investment properties taken through the income statement as required under the HKFRSs, increased by HK\$3,512 million (5.8 times), to HK\$4,121 million (2004 restated: HK\$609 million).

Underlying net profit, excluding unrealised fair value changes on investment properties and related items, increased to HK\$1,005 million in 2005 (2004 restated: HK\$609 million), an increase of HK\$396 million (65%) compared with 2004.

Net profit excluding asset value changes and prior year tax provision was HK\$641 million (9.4%) up from last year (2004 restated: HK\$586 million).

Finance costs increased by HK\$52 million (32.1%) as compared to last year. The Group's cost of financing rose to 3.60% in 2005 (2004: 2.54%).

Taxation increased to HK\$856 million in 2005 (2004: HK\$140 million) principally due to the HK\$668 million deferred tax provision relating to fair value gains on investment properties.

As at 31 December 2005, the **investment properties** of the Group (excluding Entertainment Building which was disposed of on 30 December 2005) were revalued at HK\$29,815 million, by an independent professional valuer, being 16.1% higher than the corresponding value for last year.

Shareholders' funds correspondingly rose by 19.9% to HK\$24,667 million in 2005. **Adjusted shareholders' funds** rose by 21.1% to HK\$27,134 million in 2005.

Dividend

A final **dividend** of HK35.0 cents per share (2004: HK30.0 cents) was announced. Together with the interim dividend of HK10.0 cents per share (2004: HK10.0 cents), there is an aggregate distribution of HK45.0 cents per share, representing a year-on-year increase of 12.5%. The dividend will be payable in cash with a scrip dividend alternative. The ex-dividend date will be 2 May 2006, dividend warrants and definitive share certificates in respect of the scrip dividend will be despatched on or about 16 June 2006. The share register will be closed from 4 May 2006 to 9 May 2006, both dates inclusive.

Financial Management

Total gross debt was HK\$4.4 billion as at 31 December 2005, a decrease of 22% from HK\$5.6 billion in 2004 mainly due to the repayment of certain bank loans after receiving the proceeds from the sale of Entertainment Building (completed on 30 December 2005).

Average debt maturity as at 31 December 2005 was about 5.2 years (repayable in more than two years but not more than five years: 44.7%; more than five years: 55.3%).

All of the Group's debts are unsecured and on a committed basis. At present, 14 local and overseas banks have provided bilateral banking facilities to the Group and such bank borrowings accounted for about 47% of the Group's total borrowings while the remaining 53% outstanding debts were sourced from the capital market.

The Group's **foreign exchange** risk was minimal. With the exception of the US\$200 million 10-year notes, which have been hedged by appropriate hedging instruments, all of the Group's other borrowings were denominated in Hong Kong dollars. Other foreign exchange exposure relates to the investments in overseas projects in Singapore and Shanghai. These foreign exchange exposures amounted to the equivalent of HK\$1,176 million or 3.5% of the total assets.

Net interest coverage ratio (defined as gross profit less administrative expenses before depreciation divided by net interest expenses) was 4.6 times as at 31 December 2005 (2004: 5.5 times).

Net gearing (defined as gross debt less cash and cash equivalents and marketable securities at year-end market value, divided by adjusted shareholders' funds) as at 31 December 2005 was 6.4% (2004: 20.8%).

Credit Ratings

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

COMMENT BY PETER T.C. LEE, CHAIRMAN

“The Hong Kong economy continued to improve during 2005 under broadly favourable global economic conditions. Investment properties generally performed well across the commercial and residential sectors, notwithstanding the impact of higher interest rates on market sentiment. Office sector rentals recorded the strongest growth as recovery gathered further momentum, particularly during the second half of the year. In comparison to the sharp recovery that began in late 2003, the retail and residential sectors recorded a slower yet stable growth rate.

“The Hong Kong economy is expected to maintain steady growth in 2006. Within our portfolio, we expect the office, retail and residential sectors to continue their respective rental growth. In the absence of unforeseen external factors, the overall outlook for this year remains positive.”

OPERATIONS REVIEW BY MICHAEL T.H. LEE, MANAGING DIRECTOR

Office Sector

The office sector began 2005 with negative rental reversions but turned positive in the second half of 2005.

“Market condition continued to improve with increase in demand brought about by businesses expanding and upgrading,” said Mr. Lee.

“Given this positive market condition, our leasing strategy focused on the optimisation of rental levels in lieu of higher occupancy. We were successful in concluding new leases and renewals with substantial growth in rental rates during the second half of 2005,” continued Mr. Lee.

Mr. Lee noted that the combined effect of these factors resulted in flat year-on-year office sector turnover in 2005 with rental increases to be translated into a full year contribution in 2006.

In 2005, the rental income derived from the office sector was HK\$501 million (2004: HK\$501 million). As at 31 December 2005, the portfolio had an occupancy rate of 95% (2004: 97%).

Retail Sector

The retail leasing sector generally performed well during the year supported by strong local consumer confidence and increased tourist arrivals. This was despite the negative impact on consumer sentiment brought about by rising interest rates, particularly felt during the second half of the year.

Mr. Lee said that the Group’s retail properties remained virtually fully-let as at 31 December 2005 and recorded a 13% increase in rental income to HK\$503 million (2004: HK\$446 million).

Residential Sector

Demand for luxury residential properties was strong, as a result of increased expatriate arrivals and a generally higher housing budget.

“Rental income from this sector increased by 23% year-on-year mainly due to higher occupancy and increased rental levels achieved for our Bamboo Grove apartments,” said Mr. Lee. (Occupancy: 2005 - 89%, 2004 - 84%.)

Development Properties

The Group has interests in the following overseas joint-venture projects:

The Shanghai Grand Gateway development continued to deliver a good performance. The Group's share (23.7% ownership) of results (before fair value changes) recorded a 15% increase year-on-year. Leasing activities for Phase I and the completed Phase II office development achieved high occupancy. The construction of the Phase II luxury residential and service apartments development is underway with completion expected in 2006.

Sales of the residential units in the Group's three joint-venture residential developments in Singapore continued with a good part having been sold (Group interests: Amaryllis Ville: 25%, Sanctuary Green: 10% and Gardens at Bishan: 10%).

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

For enquiries, please contact:

Catherine Ng
Head of Corporate Communications
Tel: (852) 2830 5154 Fax: (852) 2577 5219
E-mail: catherine.ng@hysan.com.hk

HYSAN DEVELOPMENT COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	3	1,249,796	1,154,486
Property expenses		(237,351)	(259,321)
Gross profit		<u>1,012,445</u>	<u>895,165</u>
Reversal of impairment loss on investments in securities		-	63,000
Gain on disposal of investments in securities		-	14,619
Other operating income		38,327	26,983
Release of negative goodwill arising on acquisition of additional interest in a subsidiary		-	60
Administrative expenses		(102,889)	(95,938)
Finance costs		(214,585)	(161,650)
Fair value changes on investment properties		4,226,005	-
Fair value changes on financial instruments		(24,777)	-
Share of results of associates		241,358	38,482
Release of negative goodwill arising on acquisition of an associate		-	2,124
Profit before taxation		<u>5,175,884</u>	<u>782,845</u>
Taxation	4	(856,583)	(140,164)
Profit for the year	5	<u>4,319,301</u>	<u>642,681</u>
Attributable to:			
Equity holders of the parent		4,120,555	608,642
Minority interests		198,746	34,039
		<u>4,319,301</u>	<u>642,681</u>
Dividends	6	<u>473,865</u>	<u>419,862</u>
Earnings per share	7		
Basic		<u>391.87 cents</u>	<u>58.16 cents</u>
Diluted		<u>391.62 cents</u>	<u>58.14 cents</u>

HYSAN DEVELOPMENT COMPANY LIMITED

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

	2005 HK\$'000	2004 HK\$'000 (restated)
Non-current assets		
Property, plant and equipment	69,477	82,067
Prepaid lease payments	123,096	123,259
Investment properties	29,815,430	27,916,790
Interests in associates	504,645	855,486
Available-for-sale investments	1,256,100	-
Investments in securities	-	1,018,017
Derivative financial instruments	32,004	-
Negative goodwill	-	(956)
Staff housing loans, secured	1,825	2,247
Other receivables, prepayments and deposits	27,724	56,497
	<u>31,830,301</u>	<u>30,053,407</u>
Current assets		
Amount due from an associate	642,596	-
Derivative financial instruments	14,195	-
Staff housing loans, secured - due within one year	422	245
Other receivables, prepayments and deposits	53,579	28,658
Accounts receivable	4,726	12,846
Interest receivable	43,546	30,102
Time deposits	1,401,230	16,866
Cash and bank balances	284	5,058
	<u>2,160,578</u>	<u>93,775</u>
Current liabilities		
Derivative financial instruments	64,057	-
Accounts payable and accruals	137,559	115,121
Interest payable	78,671	66,328
Rental deposits from tenants	121,604	104,990
Deferred income	-	685
Advances from investees	54,068	-
Taxation payable	198,139	131,262
Unclaimed dividends	1,128	1,126
	<u>655,226</u>	<u>419,512</u>
Net current assets (liabilities)	<u>1,505,352</u>	<u>(325,737)</u>
Total assets less current liabilities	<u>33,335,653</u>	<u>29,727,670</u>

HYSAN DEVELOPMENT COMPANY LIMITED

CONSOLIDATED BALANCE SHEET - continued
AT 31 DECEMBER 2005

	2005 HK\$'000	2004 HK\$'000 (restated)
Non-current liabilities		
Derivative financial instruments	39,802	-
Advances from investees	-	54,068
Amounts due to minority shareholders	327,256	327,256
Long term bank loans - due after one year	2,056,500	3,502,100
Floating rate notes	548,213	547,739
Fixed rate notes	1,499,591	1,552,979
Zero coupon notes	196,219	-
Rental deposits from tenants	135,009	141,096
Deferred income	-	4,171
Deferred taxation	2,879,451	2,200,943
	<u>7,682,041</u>	<u>8,330,352</u>
NET ASSETS	<u>25,653,612</u>	<u>21,397,318</u>
Capital and reserves		
Share capital	5,266,304	5,249,818
Reserves	19,400,992	15,316,630
Equity attributable to equity holders of the parent	<u>24,667,296</u>	<u>20,566,448</u>
Minority interests	986,316	830,870
	<u>25,653,612</u>	<u>21,397,318</u>

NOTES

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those set out in the Annual Report 2004, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") and Interpretations (collectively referred to as the "new HKFRSs"). The adopted new HKFRSs that are of significant differences from the accounting policies set out in the Annual Report 2004 are discussed below, with the comparative figures for 2004 restated in accordance with the relevant requirements:

HKFRS 3 "Business Combinations"

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in capital reserve of approximately HK\$13,908,000 has been transferred to the Group's retained profits on 1 January 2005. Comparative figures for 2004 have not been restated (see note 2 for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005 (of which negative goodwill of approximately HK\$516,143,000 was previously recorded in capital reserve and of approximately HK\$956,000 was previously presented as a deduction from assets and of approximately HK\$47,653,000 was previously included in interests in associates), with a corresponding increase to retained profits (see note 2 for the financial impact).

HYSAN DEVELOPMENT COMPANY LIMITED

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES - continued

HKFRS 2 "Share-based Payment"

HKFRS 2 "Share-based Payment" requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005 and recognised the share option expenses of approximately HK\$2,171,000 in relation to share options granted by the Company for the year, with a corresponding adjustment recognised in the Group's employee share-based compensation reserve. Prior to the application of HKFRS 2, all share options of the Group were granted before 7 November 2002 and the Group did not have share options granted after 7 November 2002 and had not vested on 1 January 2005. Accordingly, no prior period adjustment has been required.

HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement"

HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES - continued

Debt or equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

All investments in securities of the Group as at 31 December 2004 amounting approximately HK\$1,018,017,000 was reclassified to available-for-sale investments in accordance with HKAS 39 on 1 January 2005. The adoption of HKAS 39 with respect to the classification and measurement of debt or equity securities has had no material financial impact to the Group, and accordingly no adjustment is required as at 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES - continued

Derivatives and hedging

By 31 December 2004, the Group's derivative financial instruments, mainly comprised interest rate and currency swaps and forward foreign exchange contracts, were used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. The derivatives were previously not recorded on balance sheet. Interest flows arising on the derivatives were previously accounted for on an accrual basis. Transactions hedged by forward exchange contracts were recorded at the forward rate specified in the contracts.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Group designates certain derivatives as hedging instruments to hedge against its exposure of changes in fair value of certain assets and liabilities. For fair value hedges, changes in the fair value of the hedged items attributable to the relevant hedged risks and of the hedging instruments are recognised in profit or loss in the period in which fair value changes arise. For cash flow hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity and 'recycled' into the income statement when the hedged items affect profit or loss. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in profit or loss. For net investment hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in profit or loss. On disposal of the foreign operation, the gain or loss on the hedging instrument remaining in equity will be transferred to profit or loss for the period in which the disposal takes place.

The Group has applied the relevant transitional provisions in HKAS 39. For derivatives that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has, from 1 January 2005 onwards, deemed such derivatives as held for trading. For cash flow hedges that meet the requirements of hedge accounting set out in HKAS 39, the Group has, from 1 January 2005 onwards, applied hedge accounting in accordance with the transitional provision in HKAS 39 to account for such hedges (see note 2 for the financial impact). For fair value hedges, the Group has completed the necessary documentation for designation of the hedge relationship on 1 January 2005 and applied fair value hedge accounting on a prospective basis.

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES - continued

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively in relation to transfer of financial assets from 1 January 2005 onwards. This change has had no material effect on the results for the current period.

HKAS 17 "Leases"

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases (except for property interest under operating leases previously accounted for as investment property under the fair value model which is transferred to owner-occupied property), which are carried at cost and amortised over the lease term on a straight-line basis. The surplus on revaluation in respect of the land interests accounted for as property, plant and equipment previously recognised in the asset revaluation reserve was adjusted retrospectively. Comparative figures for 2004 have been restated (see note 2 for the financial impact).

HKAS 40 "Investment Properties"

The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard (SSAP 13) were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in the investment property revaluation reserve at 1 January 2005 has been transferred to the Group's retained profits (see note 2 for the financial impact).

HYSAN DEVELOPMENT COMPANY LIMITED

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS / CHANGES IN ACCOUNTING POLICIES - continued

HKAS 40 "Investment Properties" - continued

The adoption of HKAS 40 has resulted in a change of classification of certain properties which were previously classified as investment properties according to SSAP 13. In previous period, property with 15% or less by area of value that was occupied by the Company or another company in the group should normally be regarded as an investment property in its entirety even though part of it is not held for investment purposes. According to HKAS 40, if a portion of the properties could be sold separately (or leased out separately under a finance lease), an entity accounts for the portion separately. If the portion could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. In the current year, the Group applied HKAS 40 and has reclassified certain such owner-occupied properties that could be sold separately (or leased out separately under a finance lease) from investment properties to property, plant and equipment retrospectively. Comparative figures for 2004 have been restated (see note 2 for the financial impact).

HK (SIC) Interpretation 21 ("HK (SIC) INT-21") "Income Taxes - Recovery of Revalued Non-Depreciable Assets"

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP - Interpretation 20). In the current year, the Group has applied HK(SIC) INT-21 which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK (SIC) INT-21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see note 2 for the financial impact).

The application of HK (SIC) INT-21 has also resulted in recognition of deferred taxation in respect of the revalued investment properties held by an associate of the Group. The increase in the Group's share of results of associates arising from fair value changes of investment properties net of related deferred taxation amounted to approximately HK\$181,523,000 for the current year (see note 2 for financial impact). This change has had no material effect on the results for prior periods and accordingly no prior period adjustment is required.

HYSAN DEVELOPMENT COMPANY LIMITED

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Gains arising from fair value changes of investment properties	4,226,005	-
Less: Gains arising from fair value changes of disposed investment properties	(467,019)	-
Net revaluation deficits in respect of disposed investment properties previously recognised in investment property revaluation reserve and transferred to retained profits on 1 January 2005	1,388,462	-
	<hr/> 5,147,448	<hr/> -
Losses arising from fair value changes on financial instruments	(24,777)	-
Increase in depreciation arising from reclassification from investment properties to property, plant and equipment	(926)	(918)
Decrease in deferred taxation arising from reclassification from investment properties to property, plant and equipment	162	161
Increase in deferred taxation in relation to fair value gains of investment properties	(668,351)	-
Gains arising from fair value changes of investment properties net of related deferred taxation from an associate	181,523	-
Decrease in release of negative goodwill	(2,184)	-
Expenses in relation to share options granted to the directors and employees	(2,171)	-
	<hr/> 4,630,724	<hr/> (757)
Increase (decrease) in profit for the year	<hr/> <hr/> 4,630,724	<hr/> <hr/> (757)
Attributable to:		
Equity holder of the parent	4,473,850	(757)
Minority interests	156,874	-
	<hr/> 4,630,724	<hr/> (757)
	<hr/> <hr/> 4,630,724	<hr/> <hr/> (757)

Analysis of increase (decrease) in profit for the year by line items presented according to their function:

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Increase in fair value changes on investment properties	5,147,448	-
Decrease in fair value changes on financial instruments	(24,777)	-
(Increase) decrease in deferred taxation	(668,189)	161
Increase in administrative expenses	(3,097)	(918)
Decrease in release of negative goodwill	(2,184)	-
Increase in share of results of associates	181,523	-
	<hr/> 4,630,724	<hr/> (757)
	<hr/> <hr/> 4,630,724	<hr/> <hr/> (757)

HYSAN DEVELOPMENT COMPANY LIMITED

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES - continued

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31.12.2004 HK\$'000 (originally stated)	Adjustments HK\$'000 (Note)	As at 31.12.2004 HK\$'000 (restated)	Adjustments HK\$'000	As at 1.1.2005 HK\$'000 (restated)
Property, plant and equipment	68,975	13,092	82,067	-	82,067
Prepaid lease payments	-	123,259	123,259	-	123,259
Investment properties	28,147,190	(230,400)	27,916,790	-	27,916,790
Interests in associates	855,486	-	855,486	47,653	903,139
Derivative financial assets	-	-	-	38,443	38,443
Derivative financial liabilities	-	-	-	(72,254)	(72,254)
Negative goodwill	(956)	-	(956)	956	-
Deferred taxation	(218,091)	(1,982,852)	(2,200,943)	-	(2,200,943)
Other assets/liabilities	(5,378,385)	-	(5,378,385)	-	(5,378,385)
Net assets	23,474,219	(2,076,901)	21,397,318	14,798	21,412,116
Share capital	5,249,818	-	5,249,818	-	5,249,818
Retained profits	3,984,917	(17,875)	3,967,042	8,902,705	12,869,747
Capital reserve	502,235	-	502,235	(502,235)	-
Hedging reserves	-	-	-	(32,720)	(32,720)
Investment property revaluation reserve	10,251,625	(1,898,673)	8,352,952	(8,352,952)	-
Asset revaluation reserve	20,356	(9,619)	10,737	-	10,737
Other reserves	2,483,664	-	2,483,664	-	2,483,664
Minority interests	-	-	-	830,870	830,870
Total equity	22,492,615	(1,926,167)	20,566,448	845,668	21,412,116
Minority interests	981,604	(150,734)	830,870	(830,870)	-
	23,474,219	(2,076,901)	21,397,318	14,798	21,412,116

Note: The amounts represent adjustments to comparative figures for 2004 arising from (i) reclassification of certain investment properties of the Group to property, plant and equipment as a result of application of HKAS 40; (ii) recognition of deferred taxation in respect of revalued investment properties in accordance with HK(SIC) INT - 21 and (iii) reclassification of leasehold interests in land to prepaid lease payments under operating leases according to HKAS 17. These changes of accounting policies have been applied retrospectively.

HYSAN DEVELOPMENT COMPANY LIMITED

3. TURNOVER

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Turnover comprises:		
Gross rental income from properties	1,249,392	1,153,911
Management fee and security service income	404	575
	<hr/>	<hr/>
	1,249,796	1,154,486
	<hr/> <hr/>	<hr/> <hr/>

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

4. TAXATION

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000 (restated)
Hong Kong Profits Tax for the year	75,270	49,737
Underprovision in prior years	25	66
Prior years provision	103,000	55,000
	<hr/>	<hr/>
	178,295	104,803
	<hr/>	<hr/>
Deferred tax:		
- changes in fair value of investment properties	668,351	-
- changes in fair value of disposed leasehold properties	(4,903)	-
- other temporary differences	14,840	35,361
	<hr/>	<hr/>
	678,288	35,361
	<hr/>	<hr/>
	856,583	140,164
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

At the date of issue of the financial statements, the Group have disputes with the Hong Kong Inland Revenue Department regarding additional tax assessments for prior years (total tax claimed: HK\$193 million).

Taking into consideration the latest development in Hong Kong tax law and relevant precedents, a decision has been made by the Directors to make an additional tax provision of HK\$103 million in respect of the disputes in the financial statements for the year ended 31 December 2005. However, it remains the Directors' view that there still have ample grounds to contest the assessments based on tax principles as well as facts and the Group will continue to pursue the objection against the additional assessments vigorously.

HYSAN DEVELOPMENT COMPANY LIMITED

5. PROFIT FOR THE YEAR

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000 (restated)
Profit for the year has been arrived at after charging (crediting):		
Staff costs	131,354	129,470
Retirement benefits scheme contributions	5,301	5,068
Forfeited contributions	(3,789)	(6,606)
	132,866	127,932
Amortisation of prepaid lease payments	163	163
Depreciation for property, plant and equipment	5,787	5,578
Reversal of revaluation deficit on building for own use previously recognised in income statement	(65)	(50)
Auditors' remuneration	1,740	1,629
Gross rental income from investment properties	(1,249,392)	(1,153,911)
Less: Direct operating expenses that generated rental income	233,575	250,895
Direct operating expenses that did not generate rental income	3,776	8,426
	(1,012,041)	(894,590)
Dividends from		
- listed investments	(33,714)	(20,275)
- unlisted investments	-	(4,672)
	(33,714)	(24,947)
Interest income	(2,914)	(1,229)
Share of tax of an associate (included in share of results of associates)	107,646	19,495
Loss on disposal of property, plant and equipment	9	40
	<hr/>	<hr/>

6. DIVIDENDS

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000
Ordinary shares:		
Interim dividend, paid - HK10 cents per share (2004: HK10 cents)	105,224	104,793
Final dividend, proposed - HK35 cents per share (2004: HK30 cents)	368,641	314,989
Additional prior year's dividend paid on exercise of share options subsequent to 31 December 2003	-	80
	<hr/>	<hr/>
	473,865	419,862
	<hr/> <hr/>	<hr/> <hr/>

HYSAN DEVELOPMENT COMPANY LIMITED

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	4,120,555	608,642
	<u> </u>	<u> </u>
	<u>2005</u> '000	<u>2004</u> '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,051,502	1,046,427
Effect of dilutive potential ordinary shares:		
Share options	682	503
	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,052,184	1,046,930
	<u> </u>	<u> </u>

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 average market price per share.

HYSAN DEVELOPMENT COMPANY LIMITED

7. EARNINGS PER SHARE - continued

For the purpose of assessing the underlying performance of the Group, the management is of the view that the profit for the year should be adjusted for fair value changes on investment properties and related deferred taxation in arriving at "Underlying profit attributable to equity holders of the parent". The difference between the underlying profit attributable to equity holders of the parent and profit attributable to equity holders of the parent as shown in the consolidated income statement for the year is reconciled as follows:

	<u>2005</u> HK\$'000	<u>2005</u> HK\$'000	Earnings per share (Basic) HK cents
Profit attributable to equity holders of the parent as shown in the consolidated income statement		4,120,555	391.87
Gains arising from fair value changes of investment properties	(4,226,005)		(401.90)
Less: Gains arising from fair value changes of disposed investment properties	467,019		44.41
	<u>(3,758,986)</u>		
Increase in deferred taxation in relation to fair value gains of investment properties	668,351		63.56
Gain arising from fair value changes of investment properties net of related deferred taxation attributable to minority interests	156,874	(2,933,761)	14.92
		<u>(181,523)</u>	<u>(17.26)</u>
Gain arising from fair value changes of investment properties net of related deferred taxation from an associate			
Underlying profit attributable to equity holders of the parent		<u>1,005,271</u>	<u>95.60</u>

The "underlying profit attributable to equity holders of the parent" excludes total net revaluation deficits in respect of investment properties disposed of during the year amounting to approximately HK\$1,388,462,000 (previously recognised in investment property revaluation reserve), which was transferred to retained profits on 1 January 2005 in accordance with HKAS 40.

	<u>2004</u> HK\$'000 (restated)	Earnings per share (Basic) HK cents
Profit and underlying profit attributable to equity holders of the parent as shown in the consolidated income statement	608,642	58.16
	<u>608,642</u>	<u>58.16</u>