Hysan 希慎

NEWS RELEASE

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For immediate release

HYSAN DEVELOPMENT COMPANY LIMITED
2004 FINAL RESULTS – HIGHLIGHTS

- Net profit up 13.7 %
- Office rental reversion should turn positive in the latter part of 2005
- Full year dividend increased by 9.6%
- Strong balance sheet with maturity profile further lengthened

- Net profit up 13.7% to HK$609 million
(2003 restated: HK$536 million)
- Gross rental income increased by 1.3% to HK$1,150 million
(2003: HK$1,135 million)
- High occupancy achieved across the portfolio
(2004 year-end: office - 97%; retail - 99%; residential - 84%)
- Finance costs down by 3.9% to HK$162 million
- Share of results of associates increased to HK$58 million
- Impairment loss reversal of HK$63 million for two Singapore projects
- Basic earnings per share up 12.8% to HK58.22 cents
(2003 restated: HK51.59 cents)
- Final dividend of HK30.0 cents per share
(2003: HK26.5 cents)
- Investment properties portfolio valuation up 15.5% to HK$28,147 million
- Shareholders' funds increased to HK$22,493 million
(2003 restated: HK$18,616 million)
- Gross debt decreased 5.2% to HK$5.6 billion
(2003: HK$5.9 billion)
- Average debt maturity lengthened to 5.5 years
- Net interest coverage ratio improved to 7.3 times
(31 December 2003: 6.5 times)
- Net gearing was 20.8%
(31 December 2003: 27.0 %)

HYSAN DEVELOPMENT NET PROFIT UP 13.7% TO HK$609 MILLION

Results

Hysan Development Company Limited (HKSE: 14) today (8 March 2005) announced the Group's 2004 annual **attributable profit** was HK$609 million, 13.7% higher than in 2003 (2003 restated: HK$536 million). Underlying **gross rental income** increased by 1.3% to HK$1,150 million (2003: HK$1,135 million). Good performance of retail and residential sectors, including increased contribution from repositioned properties, outweighed office negative rental reversions. There were improved contributions from the Group's overseas development activities. The Group also reversed an impairment loss previously provided for the Singaporean residential projects. Finance costs further decreased during the review year.

Finance costs were down by 3.9% to HK$162 million (2003: HK$168 million) as interest rate continued to remain low.

Share of results of associates increased to HK$58 million driven by the HK$71 million contribution from Phase I of the Shanghai Grand Gateway Project as a result of good leasing performance. This offset loss in a Singapore project amidst the improved albeit slow residential property market. Consequent to the improved operating result of our associates, the Group's share of deferred tax also increased to HK$20 million (2003: HK$8 million).

Impairment loss of HK$63 million was reversed in the light of improved property market conditions in Singapore.

Investment properties portfolio valuation was HK$28,147 million, up by 15.5% (HK$3,780 million) from HK$24,367 million in 2003 mainly driven by higher market value.

Shareholders' funds increased by 20.8% from HK$18,616 million in 2003 to HK$22,493 million in 2004, reflecting the net profit after dividends in 2004 and revaluation gain generated from the investment properties and listed securities.

Capital expenditure (excluding purchase of plant and equipment) during the review year was HK$104 million.

A final **dividend** of HK30.0 cents per share (2003: HK26.5 cents) was announced. Together with the interim dividend of HK10.0 cents per share, there is an aggregate distribution of HK40.0 cents per share, representing a year-on-year increase of 9.6%. The dividend will be payable in cash with a scrip dividend alternative. The ex-dividend date will be 4 May 2005, dividend warrants and definitive share certificates in respect of the scrip dividend will be despatched on or about 10 June 2005. The share register will be closed from 6 May 2005 to 10 May 2005, both dates inclusive.

Financial Management

Total gross debt decreased by 5.2% from HK$5.9 billion at the end of 2003 to HK$5.6 billion in 2004.

Debt maturity as at 31 December 2004 stretched further. Only 36.2% of the outstanding debts would be due within five years with no outstanding debt maturing within the next two years. The average maturity of the debt portfolio was about 5.5 years.

The Group's 2004 cost of financing was 2.5%. In anticipation of higher interest rates, the Group has further reduced the floating-rate debts to 49.3% in 2004 from 60.1% in 2003. This move was to further reduce the adverse impact of any rise in interest rates in the near future. The remaining 50.7% fixed-rate net debts are largely fixed between two to three years.

The Group aims to have minimal mismatches in currency and does not speculate in currency movements. 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 the overseas projects in Singapore and Shanghai. These foreign exchange exposure amounted to the equivalent of HK$901 million or 3.0% of the total assets.

Financial Ratios and Credit Ratings

As at 31 December 2004, 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 7.3 times (2003: 6.5 times), the highest in the past five years. This strong performance was mainly due to the modest debt level, low interest rates and the active management of interest rate exposure.

The year-end net gearing (defined as gross debt less cash and cash equivalents and marketable securities at year-end market value, divided by shareholders’ funds) was 20.8% (2003: 27.0%). A lower net gearing was achieved as cash generated from operations and investment activities was used to pay down the net debt, while revaluation gain on investment properties and securities uplifted the shareholders’ funds.

Credit ratings given to the Group by Moody’s and Standard and Poor’s were Baa1 and BBB respectively. Furthermore, on 6 April 2004, Moody’s changed the outlook of the Group’s Baa1 rating from negative to stable, reflecting Moody's view on the Group's stronger cash flow and financial profile in the light of the upturn in Hong Kong's retail market and stability in the office sector.

Comment by Peter T.C. Lee, Chairman

"Against a background of broadly steady and resilient global economic environment, the Hong Kong economy rebounded and continued to improve in 2004 as evident in strong trading activities, increased tourism from China, and rise in property values. The investment property sector benefited from the upturn in business and retail activities, achieving higher occupancy and increased rental levels.

"After a strong rebound last year, Hong Kong's economy is expected to grow steadily in 2005. The overall Hong Kong investment property market should remain positive albeit at a slower growth rate than last year.

"In light of this, the rental reversion cycle in the Causeway Bay office sector should turn positive towards the latter part of 2005 with the rest of our property investment portfolio benefiting from an improving economy."

<u>Review of Operating Performance by Michael T.H. Lee, Managing Director</u>

Operating Highlights

"Our retail and residential rental business recorded strong growth. The improved contributions from these sectors, particularly in the second half of the year, outweighed the impact of the continual negative rental reversion in the office sector for the full year," said Mr. Lee.

Mr. Lee also noted that high occupancy levels were achieved across the three rental sectors.

"We expect the negative rental reversion in the office sector to enter its final phase in 2005 given the anticipated shortage of supply of office space in 2005 and 2006," Mr. Lee added.

We shall continue to create value for our investment properties by undertaking asset enhancement programmes in the form of retenanting, physical improvements, renovation and repositioning. The strategic repositioning and upgrading of Lee Gardens Two and Bamboo Grove proved successful and opportune in capturing a market recovery.

Office Leasing

The office sector continued to enjoy high occupancy throughout the year. As at 31 December 2004, occupancy levels further improved to 97% (2003: 93%), reflecting a good balance of expansion activities of existing tenants as well as the securing of new tenants across a range of industries.

Taken as a whole, rental levels achieved for renewals in 2004 (including those concluded in 2003 under the normal lease renewal cycle) still fell short of levels under the original tenancy agreements. This was reflected in the drop in office sector rental income by 15%.

"In spite of this, there was continued improvement in effective rental levels achieved," Mr. Lee said.

Retail Leasing

As at 31 December 2004, the retail portfolio recorded an occupancy of 99% (2003: 95%, 99% excluding Lee Gardens Two). Rental income increased by 12%, which was attributable to full-year contribution of the re-launched Lee Gardens Two and better rents generated from the rest of the portfolio.

The retail leasing team had an active year focusing on the following:

- pro-active retail leasing - occupancy rate already achieved 99% before the grand opening of Lee Gardens Two;

- continuous refinement of tenant mix and improvement in layout of our retail centres – including planning for a major re-tenanting programme for Lee Theatre Plaza;

- effective marketing campaign – successful re-launch of Lee Gardens Two and image promotion of our retail centres.

Mr. Lee cited that the Group, has over the past years, continually seized opportunities to refine the tenant mix of its retail centres and created hubs within the Hysan cluster of buildings in Causeway Bay. These included Lee Gardens and Lee Gardens Two (luxury retail); Lee Theatre Plaza, Leighton Centre and One Hysan Avenue (lifestyle and restaurants); Hennessy Centre (family-oriented retail); Sunning cluster including Sunning Plaza, AIA Plaza and 111 Leighton Road (specialty food and beverage).

Continuous refinement of our retail centres towards establishing a horizontally-integrated shopping district that offers a broad appeal to different consumer groups will continue.

Residential Leasing

Residential rental income increased by 50% and was largely driven by the improvement in Hong Kong's economic outlook and the resulting increase in expatriate arrivals, which in turn created a stronger demand for expatriate housing.

This was reflected in the significantly-improved occupancy of the Group's re-launched Bamboo Grove. Overall residential sector occupancy achieved was 84% as at 31 December 2004 (2003: 60%).

"With the improved business operating environment in Hong Kong, it is anticipated that the residential rental property market will benefit from a steady increase in rental levels," Mr. Lee added.

There was already a surge in occupancy in Bamboo Grove from 82% in December 2004 to 86% to date.

Development Properties

The Group has associate-level interests in two Shanghai and Singapore overseas development projects.

There were contributions from Phase I of the Shanghai Grand Gateway Project as a result of a good leasing performance.

Construction of the Group's three 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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HIGHLIGHTS

The financial information in this announcement does not constitute the Group's statutory account for the year ended 31 December 2004, but represents an extract from those accounts. The accounting policies used are consistent with those set out in the 2003 Annual Report. The Accounts for the year have been reviewed by the Audit Committee of the Company. The following financial information has also been agreed by the external auditors, Deloitte Touche Tohmatsu.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
			(restated)
Turnover	2	1,154,486	1,139,308
Property expenses		(259,321)	(239,626)
Gross profit		895,165	899,682
Reversal of impairment loss on investments in securities		63,000	-
Gain on disposal of investments in securities		14,619	48,159
Other operating income		26,934	25,424
Release of negative goodwill arising on acquisition of additional interest in a subsidiary		60	60
Administrative expenses		(95,139)	(89,992)
Profit from operations	3	904,639	883,333
Finance costs		(161,650)	(168,290)
Share of results of associates		57,977	18,233
Release of negative goodwill arising on acquisition of an associate		2,124	2,124
Profit before taxation		803,090	735,400
Taxation	4	(159,771)	(173,534)
Profit after taxation		643,319	561,866
Minority interests		(34,039)	(26,074)
Net profit for the year		609,280	535,792
Dividends	5	419,862	380,591
Earnings per share	6		
Basic		HK58.22 cents	HK51.59 cents
Diluted		HK58.20 cents	HK51.59 cents

Consolidated Balance Sheet

	At 31 December	
	2004	2003
	HK$'000	*HK$'000*
		(restated)
NON-CURRENT ASSETS		
Property, plant and equipment	68,975	57,717
Investment properties	28,147,190	24,366,780
Interests in associates	855,486	849,676
Investments in securities	1,018,017	940,888
Negative goodwill	(956)	(1,016)
Staff housing loans, secured - due after one year	2,247	12,187
Other receivable, prepayments and deposits	56,497	28,420
	30,147,456	26,254,652
CURRENT ASSETS		
Staff housing loans, secured - due within one year	245	3,188
Other receivable, prepayments and deposits	28,658	22,159
Accounts receivable	12,846	10,644
Interest receivable	30,102	28,035
Time deposits	16,866	13,094
Cash and bank balances	5,058	1,539
	93,775	78,659
CURRENT LIABILITIES		
Long term bank loans - due within one year	-	78,000
Floating rate notes	-	399,132
Creditors and accruals	115,121	115,791
Interest payable	66,329	64,135
Rental deposits from tenants	104,990	81,410
Deferred income	685	686
Taxation payable	131,262	90,557
Unclaimed dividends	1,126	1,145
	419,513	830,856
NET CURRENT LIABILITIES	(325,738)	(752,197)
TOTAL ASSETS LESS CURRENT LIABILITIES	29,821,718	25,502,455
NON-CURRENT LIABILITIES		
Advances from investees	54,068	50,489
Amount due to minority shareholders	327,256	321,714
Long term bank loans - due after one year	3,502,100	3,884,423
Floating rate notes	547,739	-
Fixed rate notes	1,552,979	1,551,991
Rental deposits from tenants	141,096	138,319
Deferred income	4,170	4,855
Deferred taxation	218,091	180,400
	6,347,499	6,132,191
NET ASSETS	23,474,219	19,370,264
MINORITY INTERESTS	981,604	753,855
	22,492,615	18,616,409

CAPITAL AND RESERVES

Share capital	5,249,818	5,217,857
Accumulated profits	3,984,917	3,795,499
Other reserves	13,257,880	9,603,053
	22,492,615	18,616,409

Consolidated Statement of Changes in Equity

	Year ended 31 December	
	2004	2003
	HK$'000	*HK$'000*
		(restated)
At beginning of the year	18,616,409	18,974,652
Unrealised gain on investments in other securities	65,125	206,455
Surplus (deficit) on revaluation of investment properties	3,676,824	(891,704)
(Surplus) deficit on revaluation of investment properties shared by minority shareholders	(223,499)	114,462
Surplus on revaluation of land and buildings	12,677	4,124
Deferred taxation liabilities arising on revaluation of land and building	(2,218)	(722)
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 reserves of an associate	57,354	27,999
Exchange differences on translation of an overseas associate	(4,371)	(3,020)
Net gains (losses) not recognised in the income statements	3,581,892	(542,931)
	22,198,301	18,431,721
Net profit for the year	609,280	535,792
Dividends declared during the year	(381,420)	(378,218)
Issue of shares pursuant to scrip dividend scheme	25,961	44,773
Premium on issue of shares pursuant to scrip dividend scheme	38,121	20,305
Issue of shares on exercise of share option	6,000	-
Premium on issue of shares on exercise of share option	8,376	-
Share issue expenses	(47)	(20)
Realisation on disposal of investments in other securities transferred to income statement	(11,957)	(37,944)
At end of the year	22,492,615	18,616,409
Represented by:		
Balance after amount set aside for dividend	22,177,626	18,339,862
Amount set aside for dividend	314,989	276,547
	22,492,615	18,616,409

Notes :

1. PRIOR YEAR ADJUSTMENT

The effect on adoption of the revised Statement of Standard Accounting Practice 12 "Income Taxes" ("SSAP 12 (revised)") issued by the Hong Kong Institute of Certified Public Accountants on the Group's interests in associates was not accounted for in the annual financial statements for the year ended 31 December 2003. Comparative amounts for 2003 have been restated, to reflect the adoption of the SSAP 12 (revised) by an associate, accordingly. Accumulated profits and share of revaluation reserve as at 1 January 2004 have been reduced by HK$9,614,290 and HK$13,775,940 respectively. The balances on the Group's interests in associates at 1 January 2004 have been reduced by HK$23,390,230, representing the share of the deferred tax liabilities recognised by the associate. The effect of the changes is a decrease in release of negative goodwill arising on acquisition of an associate and an increase in taxation for the year ended 31 December 2003 of HK$1,303,624 and HK$8,310,666, respectively.

2. TURNOVER

	2004	2003
	HK$'000	*HK$'000*
Turnover comprises:		
Gross rental income from properties	1,150,185	1,135,126
Management fee and security service income	4,301	4,182
	1,154,486	1,139,308

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

3. PROFIT FROM OPERATIONS

	2004	2003
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging (crediting):		
Staff costs	127,932	122,494
Depreciation	4,942	4,643
Auditors' remuneration	1,629	1,866
Rental income arising from operating leases less out-goings of HK$248,011,085 (2003:HK$235,177,762)	(902,174)	(899,948)
Dividends from		
- listed investments	(20,275)	(19,795)
- unlisted investments	(4,672)	(2,818)
Interest income	(1,229)	(1,926)
Loss (gain) on disposal of property, plant and equipment	40	(46)
Exchange loss	37	1,631

4. TAXATION

	2004 HK$'000	2003 HK$'000 (restated)
Hong Kong Profits Tax for the year	49,737	51,532
Underprovision in prior years	66	158
Provision arising from prior years additional assessments	55,000	48,000
	104,803	99,690
Deferred tax		
- current year	35,473	55,408
- attributable to change in tax rate	-	10,126
Taxation attributable to the Company and its subsidiaries	140,276	165,224
Share of deferred tax attributable to an associate	19,495	8,310
	159,771	173,534

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity.

The Company received notices of additional assessment from the Hong Kong Inland Revenue Department ("IRD") 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 year.

At the date of issue of the accounts, certain subsidiaries of the Group have disputes with IRD regarding additional tax assessments disallowing certain expense deductions claimed in the tax returns for years of assessment 1995/1996 to 1999/2000 (total tax claimed by IRD: HK$193 million). Having taken separate legal advice from two leading counsels, the Directors are of the view that there were ample grounds to contest the assessments and such Group subsidiaries are pursuing objection against the additional assessments vigorously. Accordingly, no further provision was made during the year under review.

5. DIVIDENDS

	2004 ***HK$'000***	2003 *HK$'000*
Ordinary shares:		
Interim dividend, paid - HK10 cents per share (2003: HK10 cents)	104,793	104,044
Final dividend, proposed - HK30 cents per share (2003: HK26.5 cents)	314,989	276,547
Additional prior year's dividend paid on exercise of share option subsequent to 31 December 2003	80	-
	419,862	380,591

6. EARNINGS PER SHARE

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

	2004	2003
	HK$'000	*HK$'000*
		(restated)
Earnings for the purposes of basic and diluted earnings per share (net profit for the year)	609,280	535,792
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,046,427	1,038,528
Effect of dilutive potential ordinary shares:		
Share options	503	40
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,046,930	1,038,568

The adjustment to comparative basic and diluted earnings per share, arising from the prior year adjustment as set out in note 1 is as follows:

		Basic and diluted
	HK$'000	*HK cents*
Reconciliation of 2003 earnings per share:		
Reported figures before adjustments	545,406	52.52
Adjustments arising from prior year adjustment	(9,614)	(0.93)
Restated	535,792	51.59