

NEWS RELEASE

To: Business/Property Editor

Date: 9 August 2005
For immediate release

HYSAN DEVELOPMENT COMPANY LIMITED

2005 INTERIM RESULTS

Highlights

- Group turnover up 9.2%
- Office rental market continued to improve
- Higher contributions from upgraded retail and residential properties

Results

	(unaudited)		Change (%)
	Six months ended 30 June		
	2005	2004	
	(restated)		
	HK\$M	HK\$M	
Turnover	613	562	9.2
Net profit attributable to shareholders	2,562	304	742.5 #
Underlying net profit attributable to shareholders	364	304	19.9
Shareholders' funds	23,096	20,644 *	11.9 #
Adjusted shareholders' funds	25,371	22,492 *	12.8
	HK cents	HK cents	
Earnings per share	244.0	29.1	737.8 #
Underlying earnings per share	34.7	29.1	19.2
Interim dividend per share	10.0	10.0	-
	HK\$	HK\$	
Net assets value per share	21.95	19.66 *	11.6 #
Adjusted net assets value per share	24.11	21.42 *	12.6

* At 31 December 2004

Not strictly comparable following the adoption of the new HKFRSs.

The 2005 interim financial statements have been prepared in accordance with the Hong Kong Financial Reporting and Accounting Standards (the "new HKFRSs"). Under the new HKFRSs, the fair value model for investment properties has been adopted. The Group's investment properties are recorded at their fair value as determined by a professional valuer, and the fair value changes and related deferred tax thereon 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 recognised in equity. As there is no capital gains tax in Hong Kong, no tax is payable if those investment and owner-occupied properties were to be sold at the amount included in the financial statements. To assess the underlying performance of the Group, the management is of the view that the 2005 profit figures should be adjusted for fair value changes on investment properties and the related deferred tax in arriving at "**Underlying net profit attributable to shareholders**" and "**Underlying earnings per share**". Similarly, the cumulative deferred tax provided on fair value gains on investment and owner-occupied properties should be added back to the shareholders' funds when computing "**Adjusted shareholders' funds**" and "**Adjusted net assets value per share**".

HYSAN DEVELOPMENT TURNOVER UP 9.2% TO HK\$613 MILLION

Results

Hysan Development Company Limited (HKSE: 00014) today (9 August 2005) announced the Group's **turnover** for the first six months ended 30 June 2005 was up 9.2% as increased contributions from the retail and residential sectors (retail: 14.3%, residential 30.5%) offset the 1.4% decrease in office rental income.

Underlying net profit, which excluded the effect of revaluation of investment properties, was up 19.9% to HK\$364 million (2004 restated: HK\$304 million). **Underlying earnings per share** for the period correspondingly rose by 19.2% to HK34.7 cents.

Investment property portfolio valuation was up 10.2% to HK\$30,761 million as at 30 June 2005 (31 December 2004 restated: HK\$27,917 million). After the Group's adoption of the fair value model for investment properties under the HKAS 40, valuation gains of HK\$2,799 million have now been taken through the statutory profit and loss account as required under the new applicable accounting standards. **Adjusted shareholders' funds** correspondingly rose by 12.8% to HK25,371 million.

Finance costs increased by 15.8% to HK\$91 million (2004: HK\$78 million) as a result of the rise in market interest rates.

Taxation increased from HK\$87 million to HK\$502 million principally due to deferred tax provision relating to fair value gains on investment properties.

Financial Management

Total gross debt was HK\$5.59 billion as at 30 June 2005, slightly lower than the HK\$5.61 billion as at 31 December 2004.

Debt maturity as at 30 June 2005 was about 5.3 years (repayable within one to five years: 48%, over five years: 52%). After the issuance of the 15-year zero-coupon notes in February 2005 with the notional amount of HK\$430 million, the proportion of capital market financing has increased to 41.4% of the Group's total debts. Nevertheless, bank loans which accounted for the remaining 58.6% of the total debts continued to be the major source of the debt financing to the Group.

All of the Group's debts are unsecured and on a committed basis. As a policy to maintain sufficient liquidity for the Group's operations, undrawn committed facilities of HK\$2.8 billion were maintained as at 30 June 2005 (31 December 2004: HK\$2.3 billion).

The Group's foreign exchange risk was minimal. All Group debts were either denominated in, or hedged back into, Hong Kong Dollars or the currency of the underlying assets. The Group's foreign exchange exposure relating to overseas joint ventures as at 30 June 2005 was HK\$966 million, or about 2.9% of the Group's assets. (91.4% 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 before taxation excluding finance costs, fair value changes on financial instruments and investment properties, share of results of associates, depreciation, dividend and interest income, divided by net interest expenses less dividend income) was 7.2 times as at 30 June 2005 (31 December 2004 : 7.3 times).

Net gearing (defined as gross debt less cash and cash equivalents and marketable securities at period-end market value, divided by adjusted shareholders' funds) as at 30 June 2005 was 18.0% (31 December 2004: 20.8%).

Credit ratings as at 30 June 2005 remained unchanged, being Baa1 from Moody's and BBB from Standard and Poor's.

An **interim dividend** of HK10 cents per share (2004: HK10 cents) was announced. The dividend will be payable in cash with a scrip dividend alternative. The ex-dividend date will be 24 August 2005. The share register will be closed from Friday, 26 August 2005 to Tuesday, 30 August 2005, both dates inclusive. The dividend warrants and definitive share certificates in respect of the scrip dividend will be despatched on or about 30 September 2005.

Comment by Peter T.C. Lee, Chairman

“The investment property market continued to benefit from the generally improved economic environment as reflected in improved rental levels across the office, retail, and residential sectors. Office rental reversions also began to turn positive during the review period.

“While the Hong Kong economy is likely to grow at a more moderate rate for the second half of the year, outlook for the investment property market remains positive. Overall, the Group’s performance for the rest of the year should be satisfactory. Positive office rental reversions will be reflected in earnings growth for the Group in 2006.”

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

Office Leasing

“The increased market activities brought about by positive market sentiment had benefited the Group in terms of higher rental levels achieved for new leases and renewals,” said Mr. Lee.

The first half of 2005 has seen rental levels improving with new leases signed recording an average increase of 20 to 30% when compared with those at 2004 year-end.

“The effect of positive rental reversions is working through our portfolio, bringing revenue growth in 2006,” added Mr. Lee.

Retail Leasing

The retail market remained active on the back of increased local consumption and tourist arrivals. Driven by the increase in retail sales, prime retail properties were in demand which in turn drove up rental levels.

The Group’s retail portfolio continued to enjoy the advantage of its strategic location in the heart of Causeway Bay’s prime office and retail hub with retail space virtually fully let and increased rental levels.

“The overall increase in retail sector rental income was attributable mainly to the contributions from the repositioned Lee Gardens Two, and average rental increases of around 10 to 15% for new leases,” said Mr. Lee.

The Group is continuing its longer-term asset enhancement programme to create value for its investment properties through selective re-tenanting, physical improvements, renovation and repositioning. This includes the repositioning of Lee Theatre Plaza to strengthen its specialty food and beverage character.

Residential Leasing

The luxury residential leasing market continued to be active with an increasing number of expatriate arrivals.

The Group’s residential rental income increased by some 30% largely driven by higher occupancy and rental levels at the repositioned Bamboo Grove.

There was already a surge in occupancy in Bamboo Grove from 82% in December 2004 to 90% to date.

Development Properties

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

Leasing activities of Phase 1 of The Shanghai Grand Gateway, in which the Group has an effective interest of 23.7%, performed well during the period. For the Phase 2 development, occupancy permits for the office buildings were obtained. Construction of the luxury residential and service apartment towers, Grand Gateway Garden II, is underway and expected to be completed 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

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CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

	<u>NOTES</u>	Six months ended	
		<u>30.6.2005</u> HK\$'000 (unaudited)	<u>30.6.2004</u> HK\$'000 (unaudited) (restated)
Turnover	5	613,454	561,926
Property expenses		(106,405)	(121,443)
Cost of property sales		(600)	-
Gross profit		506,449	440,483
Gain on disposals of investments in securities		-	14,619
Other operating income		20,662	12,894
Release of negative goodwill arising on acquisition of additional interest in a subsidiary		-	30
Reversal of impairment loss on investments in securities		-	41,000
Administrative expenses		(45,000)	(38,626)
Fair value changes on investment properties		2,799,189	-
Fair value changes on financial instruments		23,405	-
Share of results of associates		19,886	14,076
Release of negative goodwill arising on acquisition of an associate		-	1,062
Finance costs		(90,678)	(78,321)
Profit before taxation	6	3,233,913	407,217
Taxation	7	(502,229)	(87,285)
Net profit for the period		<u>2,731,684</u>	<u>319,932</u>
Attributable to:			
Equity holders of the parent		2,562,160	304,099
Minority interests		169,524	15,833
		<u>2,731,684</u>	<u>319,932</u>
Dividends	8	<u>105,224</u>	<u>104,873</u>
Earnings per share	9		
Basic		<u>HK243.96 cents</u>	<u>HK29.12 cents</u>
Diluted		<u>HK243.83 cents</u>	<u>HK29.11 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2005

	30.6.2005 HK\$'000 (unaudited)	31.12.2004 HK\$'000 (audited) (restated)
Non-current assets		
Property, plant and equipment	297,131	299,375
Investment properties	30,760,680	27,916,790
Interests in associates	926,909	855,486
Investments in securities	-	1,018,017
Available-for-sale investments	1,071,624	-
Derivative financial instruments	77,969	-
Negative goodwill	-	(956)
Staff housing loans, secured - due after one year	2,114	2,247
Other receivables, prepayments and deposits	62,585	56,497
	<u>33,199,012</u>	<u>30,147,456</u>
Current assets		
Staff housing loans, secured - due within one year	258	245
Other receivables, prepayments and deposits	31,120	28,658
Accounts receivable	7,669	12,846
Interest receivable	32,700	30,102
Derivative financial instruments	4,712	-
Time deposits	45,468	16,866
Cash and bank balances	3,882	5,058
	<u>125,809</u>	<u>93,775</u>
Current liabilities		
Derivative financial instruments	6,874	-
Creditors and accruals	101,333	115,121
Interest payable	70,006	66,329
Rental deposits from tenants	105,526	104,990
Deferred income	685	685
Taxation payable	124,780	131,262
Unclaimed dividends	3,033	1,126
	<u>412,237</u>	<u>419,513</u>
Net current liabilities	<u>(286,428)</u>	<u>(325,738)</u>
Total assets less current liabilities	<u>32,912,584</u>	<u>29,821,718</u>
Non-current liabilities		
Advances from investees	54,068	54,068
Amounts due to minority shareholders	327,256	327,256
Long term bank loans - due after one year	3,279,300	3,502,100
Floating rate notes	547,976	547,739
Fixed rate notes	1,551,880	1,552,979
Zero coupon notes	200,844	-
Derivative financial instruments	23,900	-
Rental deposits from tenants	154,785	141,096
Deferred income	3,828	4,170
Deferred taxation	2,685,723	2,217,104
	<u>8,829,560</u>	<u>8,346,512</u>
Net assets	<u>24,083,024</u>	<u>21,475,206</u>
Capital and reserves		
Share capital	5,261,199	5,249,818
Retained profits	15,332,047	3,972,405
Other reserves	2,503,240	11,422,113
Equity attributable to equity holders of the parent	<u>23,096,486</u>	<u>20,644,336</u>
Minority interests	986,538	830,870
	<u>24,083,024</u>	<u>21,475,206</u>

HYSAN DEVELOPMENT COMPANY LIMITED
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

1. INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2005 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 Institute of Certified Public Accountants ("HKICPA"), 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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA 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 (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business combinations

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3 from 1 January 2005. Goodwill previously recognised in reserves amounting to 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.

HYSAN DEVELOPMENT COMPANY LIMITED
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. PRINCIPAL ACCOUNTING POLICIES - continued

Business combinations - continued

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 has derecognised all negative goodwill at 1 January 2005 (of which negative goodwill of HK\$516,143,000 was previously recorded in capital reserve, HK\$956,000 was previously presented as a deduction from assets and HK\$47,653,000 was previously included in interests in associates), with a corresponding increase to retained profits.

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which 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 directors' and employees' share options 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. Prior to the application of HKFRS 2, all unvested 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.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

HYSAN DEVELOPMENT COMPANY LIMITED
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. PRINCIPAL ACCOUNTING POLICIES - continued

Financial instruments - continued

Classification and measurement of financial assets and financial liabilities

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

Debt and 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 the 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 net profit or loss for that period. From 1 January 2005 onwards, the Group classifies and measures 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" that are not part of the hedging relationship and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures 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 "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

HYSAN DEVELOPMENT COMPANY LIMITED
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. PRINCIPAL ACCOUNTING POLICIES - continued

Financial instruments - continued

Derivatives and hedging

By 31 December 2004, the Group's derivative financial instruments, mainly comprised interest rate and currency swaps, were used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. The notional amounts of derivatives were previously recorded off balance sheet. Interest flows arising on the derivatives were previously accounted for on an accrual basis.

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 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 the 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 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 HKAS 39 to account for such hedges (see Note 4 for the financial impact).

HYSAN DEVELOPMENT COMPANY LIMITED
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. PRINCIPAL ACCOUNTING POLICIES - continued

Financial instruments - 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 for transfers of financial assets on or after 1 January 2005. This change has had no material effect on the results for the current period.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. 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, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". 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 the profit or loss for the period in which they arise. In previous periods, investment properties under the 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 revaluation 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 investment property revaluation reserve at 1 January 2005 has been transferred to the Group's retained profits (see Note 4 for the financial impact).

HYSAN DEVELOPMENT COMPANY LIMITED
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

3. PRINCIPAL ACCOUNTING POLICIES - continued

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 periods, 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 portions 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 period, 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 4 for the financial impact).

Accordingly, the amount previously held in investment property revaluation reserve relating to these owner-occupied properties has been reclassified to the Group's asset revaluation reserve. Any difference resulting between the carrying amount and the fair value of these properties is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. The adoption of HKAS 40 has also resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of the owner-occupied properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of these assets through use.

Deferred taxes related to investment properties

In previous periods, 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 period, the Group has applied HKAS Interpretation 21 ("INT-21") "Income Taxes - Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are 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 HKAS INT-21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see Note 4 for the financial impact).

The Group has not early applied the following new interpretation that has been issued but is not yet effective. The directors of the Company anticipate that the application of this interpretation will have no material impact on the financial statements of the Group.

HKFRS-Interpretation 4 Determining whether an Arrangement Contains a Lease

HYSAN DEVELOPMENT COMPANY LIMITED
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

4. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in Note 3 above on the results for the current and prior period are as follows:

	Six months ended	
	<u>30.6.2005</u>	<u>30.6.2004</u>
	HK\$'000	HK\$'000
Gains arising from fair value changes of investment properties	2,799,189	-
Gains arising from fair value changes of hedging instruments under fair value hedges	12,054	-
Gains arising from fair value changes of derivative financial instruments	8,868	-
Gains arising from fair value changes of financial liabilities, measured at fair value through profit or loss	2,483	-
Decrease in deferred taxation liabilities arising from reclassification from investment properties to property, plant and equipment	173	167
Increase in deferred taxation liabilities in relation to fair value gains of investment properties	(453,394)	-
Decrease in release of negative goodwill	(1,092)	-
Increase in depreciation arising from reclassification from investment properties to property, plant and equipment	(989)	(953)
Expenses in relation to share options granted to the director and employees	(690)	-
Increase in net profit for the period	<u>2,366,602</u>	<u>(786)</u>
Attributable to:		
Equity holders of the parent	2,218,257	(786)
Minority interests	148,345	-
	<u>2,366,602</u>	<u>(786)</u>

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

	Six months ended	
	<u>30.6.2005</u>	<u>30.6.2004</u>
	HK\$'000	HK\$'000
Increase in fair value changes on investment properties	2,799,189	-
Increase in fair value changes on financial instruments	23,405	-
(Increase) decrease in deferred taxation liabilities	(453,221)	167
Increase in administrative expenses	(1,679)	(953)
Decrease in release of negative goodwill	(1,092)	-
	<u>2,366,602</u>	<u>(786)</u>

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4. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES
 - continued

The cumulative effect of the application of the new HKFRSs on the balance sheet as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31.12.2004 (originally stated) HK\$'000	Adjustments HK\$'000 (Note)	As at 31.12.2004 (restated) HK\$'000	Adjustments HK\$'000	As at 1.1.2005 (restated) HK\$'000
Property, plant and equipment	68,975	230,400	299,375	-	299,375
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 instruments	-	-	-	(33,811)	(33,811)
Negative goodwill	(956)	-	(956)	956	-
Deferred tax liabilities	(218,091)	(1,999,013)	(2,217,104)	-	(2,217,104)
Other assets/liabilities	(5,378,385)	-	(5,378,385)	-	(5,378,385)
Net assets	<u>23,474,219</u>	<u>(1,999,013)</u>	<u>21,475,206</u>	<u>14,798</u>	<u>21,490,004</u>
Share capital	5,249,818	-	5,249,818	-	5,249,818
Retained profits	3,984,917	(12,512)	3,972,405	8,902,706	12,875,111
Capital reserve	502,235	-	502,235	(502,235)	-
Hedging reserves	-	-	-	(32,720)	(32,720)
Investment property revaluation reserve	10,251,625	(1,898,672)	8,352,953	(8,352,953)	-
Asset revaluation reserve	20,356	62,905	83,261	-	83,261
Other reserves	2,483,664	-	2,483,664	-	2,483,664
Minority interests	-	-	-	830,870	830,870
Total equity	<u>22,492,615</u>	<u>(1,848,279)</u>	<u>20,644,336</u>	<u>845,668</u>	<u>21,490,004</u>
Minority interests	<u>981,604</u>	<u>(150,734)</u>	<u>830,870</u>	<u>(830,870)</u>	<u>-</u>
	<u>23,474,219</u>	<u>(1,999,013)</u>	<u>21,475,206</u>	<u>14,798</u>	<u>21,490,004</u>

Note: The amounts represent adjustments to comparative figures for 2004 arising from reclassification of certain investment properties of the Group to property, plant and equipment as a result of application of HKAS 40 and recognition of deferred taxation liabilities in respect of revalued investment properties in accordance with HKAS INT-21. These changes of accounting policies have been applied retrospectively.

5. TURNOVER

	Six months ended	
	30.6.2005 HK\$'000	30.6.2004 HK\$'000 (restated)
Turnover comprises:		
Gross rental income from properties	612,452	561,647
Other property management fee income	202	279
Income from property sales	800	-
	<u>613,454</u>	<u>561,926</u>

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

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6. PROFIT BEFORE TAXATION

	Six months ended	
	<u>30.6.2005</u>	<u>30.6.2004</u>
	HK\$'000	HK\$'000 (restated)
Profit before taxation has been arrived at after charging (crediting) the following items:		
Staff costs	60,553	56,938
Retirement benefits scheme contributions	2,561	2,447
Forfeited contributions	<u>(1,885)</u>	<u>(5,686)</u>
	61,229	53,699
Depreciation	3,489	3,382
Exchange loss	-	37
Share of tax of an associate (included in share of results of associates)	10,573	4,618
Loss on disposal of property, plant and equipment	3	-
Rental income arising from operating leases less outgoings of HK\$105,659,000 (1.1.2004 to 30.6.2004: HK\$120,607,000)	(506,793)	(441,040)
Dividends from listed available-for-sales investments/ investments in securities	(18,861)	(12,010)
Interest income	<u>(1,126)</u>	<u>(688)</u>

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7. TAXATION

	Six months ended	
	<u>30.6.2005</u>	<u>30.6.2004</u>
	HK\$'000	HK\$'000 (restated)
Current tax	38,615	25,166
Underprovision in prior years	-	55,000
	<u>38,615</u>	<u>80,166</u>
Deferred tax		
- Changes in fair value of investment properties	489,794	-
- Other temporary differences	(26,180)	7,119
	<u>463,614</u>	<u>7,119</u>
	<u>502,229</u>	<u>87,285</u>

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

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 last period.

8. DIVIDENDS

	Six months ended	
	<u>30.6.2005</u>	<u>30.6.2004</u>
	HK\$'000	HK\$'000
Interim dividend – HK10 cents per share (2004: HK10 cents)	105,224	104,793
Additional prior year's dividend paid on exercise of share options subsequent to 31 December 2003	-	80
	<u>105,224</u>	<u>104,873</u>

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9. 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:

	Six months ended	
	<u>30.6.2005</u>	<u>30.6.2004</u>
	HK\$'000	HK\$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (net profit for the period attributable to equity holders of the parent)	<u>2,562,160</u>	<u>304,099</u>
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,050,228	1,044,241
Effect of dilutive potential ordinary shares:		
Share options	<u>556</u>	<u>419</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,050,784</u>	<u>1,044,660</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 fair value per share.

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9. 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 period should be adjusted for fair value changes on investment properties and related deferred taxation liabilities 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 net profit attributable to equity holders of the parent as shown in the condensed consolidated income statement for the period is reconciled as follows:

	Six months ended <u>30.6.2005</u> HK\$'000	Earnings per share <u>(Basic)</u> HK cents
Net profit attributable to equity holders of the parent as shown in the condensed consolidated income statement	2,562,160	243.96
Gains arising from fair value changes of investment properties	(2,799,189)	
Increase in deferred taxation liabilities in relation to fair value gains of investment properties	453,394	
Gain arising from fair value changes of investment properties net of related deferred taxation liabilities attributable to minority interests	<u>148,345</u>	
Underlying profit attributable to equity holders of the parent	364,710	34.73
Gains arising from fair value changes of hedging instruments under fair value hedges	(12,054)	
Gains arising from fair value changes of derivative financial instruments	(8,868)	
Gains arising from fair value changes of financial liabilities, measured at fair value through profit or loss	(2,483)	
Decrease in deferred taxation liabilities arising from reclassification from investment properties to property, plant and equipment	(173)	
Decrease in release of negative goodwill	1,092	
Increase in depreciation arising from reclassification from investment properties to property, plant and equipment	989	
Expenses in relation to share options granted to the director and employees	<u>690</u>	
Net profit attributable to equity holders of the parent before adoption of the new HKFRSs	<u>343,903</u>	32.75
	Six months ended <u>30.6.2004</u> HK\$'000	Earnings per share <u>(Basic)</u> HK cents
Net profit attributable to equity holders of the parent as shown in the condensed consolidated income statement	<u>304,099</u>	29.12
Underlying profit attributable to equity holders of the parent	304,099	29.12
Increase in depreciation arising from reclassification from investment properties to property, plant and equipment	953	
Decrease in deferred taxation liabilities arising from reclassification from investment properties to property, plant and equipment	<u>(167)</u>	
Net profit attributable to equity holders of the parent before adoption of the new HKFRSs	<u>304,885</u>	29.20