
NEWS RELEASE

To: Business/Property Editor

Date: 8 August 2006
For immediate release

**HYSAN DEVELOPMENT COMPANY LIMITED
2006 INTERIM RESULTS**

Highlights

- Group turnover up 1.2%
- Profit excluding asset value changes up 17.6%
- Positive office rental reversions translated into earnings growth
- Outlook remains positive with steady rental growth expected across commercial and residential sectors

Results

	Six months ended 30 June		Change (%)
	2006 HK\$'M	2005 HK\$'M	
Turnover - Overall	620	613	1.2
- Excluding Entertainment Building ¹	620	575	7.9
Profit attributable to shareholders	1,519	2,562	(40.7)
Underlying profit attributable to shareholders ²	620	364	70.3
Profit excluding asset value changes ³	428	364	17.6
	HK cents	HK cents	
Earnings per share, based on:			
Underlying profit attributable to shareholders ²	58.8	34.7	69.5
Profit excluding asset value changes ³	40.7	34.7	17.3
	At 30 June 2006 HK\$'M	At 31 December 2005 HK\$'M	
Shareholders' funds	25,830	24,667	4.7
Adjusted shareholders' funds ⁴	28,482	27,134	5.0
	HK\$	HK\$	
Net assets value per share	24.49	23.42	4.6
Adjusted net assets value per share ⁴	27.01	25.76	4.9

In preparing the Group's 2006 interim financial statements under the Hong Kong Financial Reporting Standards, the fair value model for investment properties has been adopted. Accordingly such properties were recorded at their fair values, as determined by an in-house professional valuer and endorsed by an independent professional valuer (2005 year-end: at fair value determined by an independent professional valuer). Fair value changes on investment properties and related deferred tax were recognised through profit and loss. Revaluation changes on owner-occupied properties and related deferred tax arising thereon were taken to equity. Deferred tax on fair value gains has to be provided for despite no capital gains tax liability will be crystallised 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 profit attributable to shareholders", effectively arrived at by adjusting for the unrealised fair value changes on investment properties and the related deferred tax on the profit figure. On the same basis, cumulative deferred tax provided on the fair value gains on investment and owner-occupied properties have been added back to the shareholders' funds when computing "Adjusted shareholders' funds" and "Adjusted net assets value per share", (ii) "Profit excluding asset value changes" was arrived at after further adjusting "Underlying profit attributable to shareholders" for aggregate of realised gain/loss on disposal of investment properties and available-for-sale investments, impairment, reversal and recovery.

- 1. Entertainment Building was disposed of at 2005 year-end.*
- 2. Excluded HK\$870 million unrealised fair value gains on the investment property portfolio net of deferred tax and minority interests, and HK\$29 million on unrealised fair value gains included in an associate.*
- 3. Asset value changes comprised recognition of a recovery item and realised gains on available-for-sale investments totalling HK\$192 million.*
- 4. Adjusted for HK\$2,652 million being the cumulative deferred tax provided on the fair value gains on the investment and owner-occupied properties attributable to shareholders as at 30 June 2006.*

HYSAN DEVELOPMENT GROUP TURNOVER UP 1.2% TO HK\$620 MILLION

Results

Hysan Development Company Limited (Stock Code: 00014) today (8 August 2006) announced the Group's **turnover** for the first six months ended 30 June 2006 increased by 1.2% to HK\$620 million (2005: HK\$613 million), while turnover excluding Entertainment Building increased by 7.9% (2005: HK\$575 million). **Profit excluding asset value changes** increased by 17.6% to HK\$428 million (2005: HK\$364 million), reflecting reduced finance charges attributable to lower debt level, and gains on financial instruments.

Profit attributable to shareholders decreased by HK\$1,043 million (40.7%) to HK\$1,519 million (2005: HK\$2,562 million) because of the larger revaluation surplus on properties booked last year.

Underlying profit attributable to shareholders, excluding unrealised fair value gains on investment properties net of deferred tax and minority interests increased to HK\$620 million (2005: HK\$364 million), an increase of HK\$256 million (70.3%) compared with 2005.

Finance costs decreased by HK\$9 million (9.9%) to HK\$82 million (2005: HK\$91 million), mainly attributable to the lower debt level. The Group's cost of financing rose to 4.85% in 2006, up from 3.05% in the first half of 2005 and 3.60% for 2005 full year.

Taxation was broadly in line with the movement in the profit before taxation.

As at 30 June 2006, the **investment properties** of the Group were revalued at HK\$30,972 million (31 December 2005: HK\$29,815 million), by an in-house professional valuer and endorsed by an independent professional valuer. Excluding additions and disposals, fair value gains on investment properties of HK\$1,130 million (up 3.8%) were recognised to the consolidated income statement during the period.

Shareholders' funds as at 30 June 2006 correspondingly rose by 4.7% to HK\$25,830 million. **Adjusted shareholders' funds** as at 30 June 2006 rose by 5.0% to HK\$28,482 million.

Dividend

An interim **dividend** of HK10.0 cents per share (2005: HK10.0 cents) was announced. The dividend will be payable in cash with a scrip dividend alternative. The ex-dividend date will be 23 August 2006, dividend warrants and definitive share certificates in respect of the scrip dividend will be despatched on or about 3 October 2006. The share register will be closed from 25 August 2006 to 29 August 2006, both dates inclusive.

Financial Management

Total gross debt was HK\$3,044 million as at 30 June 2006, a decrease of HK\$1,331 million from the balance at 31 December 2005 (2005: HK\$4,375 million).

Average debt maturity as at 30 June 2006 was about 5.5 years (repayable within one to five years: HK\$1,270 million, over five years: HK\$1,774 million). Following the disposal of Entertainment Building at the end of 2005, certain bank loans have been repaid during the period by applying the sales proceeds thereon.

All of the Group's debts are unsecured and on a committed basis. To maintain sufficient liquidity for the Group's operations, undrawn committed facilities of HK\$3.6 billion were maintained as at 30 June 2006 (31 December 2005: HK\$3.6 billion).

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\$1,216 million or 3.6% of the Group's total assets as at 30 June 2006.

Net interest coverage ratio (defined as gross profit less administrative expenses before depreciation divided by net interest expenses) was 6.9 times as at 30 June 2006 (31 December 2005: 4.6 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 2006 was 5.1% (31 December 2005: 6.4%).

Credit Ratings

Credit ratings as at 30 June 2006 remained unchanged, being Baa1 from Moody's and BBB from Standard and Poor's.

COMMENT BY PETER T.C. LEE, CHAIRMAN

“The global economy is generally positive despite growing concerns about the impact of interest rates, oil prices, and political developments on economic growth. Hong Kong’s economy is therefore expected to remain stable for the rest of the year.

“The Hong Kong investment property market should continue to be satisfactory, benefiting our commercial and residential sectors with steady rental growth.”

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

The three leasing sectors continued to enjoy growth in rental income in the first half of 2006. The revenue growth has, as a result, more than offset the rental income shortfall from the disposal of Entertainment Building at the end of 2005. The Group's turnover increased by 1.2% to HK\$620 million (2005: HK\$613 million), while turnover excluding Entertainment Building increased by 7.9% (2005: HK\$575 million).

Office Sector

Positive rental reversion, which began in the second half of 2005, contributed to a 6.6% increase in office revenue, to HK\$242 million, when the contribution from Entertainment Building was excluded. Reflecting the effect of such disposal, overall office sector revenue, however, decreased slightly by 2.1%.

"Leases renewed in the past 12 months have benefited from positive rental reversion, and we expect the sector to continue to record steady rental growth," Mr. Lee noted.

Occupancy as at 30 June 2006 stood at 93%.

Retail Sector

The Group's retail space was virtually fully let with stable increase in rental rate for new leases and renewals. Overall retail sector revenue increased 1.2%; and when Entertainment Building was excluded, retail revenue increased 9.2% to HK\$250 million.

Mr. Lee noted that local consumer confidence and tourist arrivals were the key drivers of the rental growth in the retail sector.

Residential Sector

There was sustained demand for luxury residential property on the back of the steady arrival of expatriates with more flexible housing budgets. Both rental rate and occupancy have improved from the corresponding period in 2005, resulting in an increase of 10.2% in rental income.

Occupancy as at 30 June 2006 was 92%.

Development Properties

The Group's share of results of associates increased by HK\$32 million (160%), mainly attributable to fair value gains on properties at Shanghai Grand Gateway where the Group has an effective interest of 23.7%. Leasing activities for Phase 1 and Phase 2 (except for the luxury residential tower currently under construction) continued to perform well.

About Hysan

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

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	<u>NOTES</u>	Six months ended	
		<u>30.6.2006</u> HK\$'000 (unaudited)	<u>30.6.2005</u> HK\$'000 (unaudited)
Turnover	4	620,239	612,654
Property expenses		<u>(111,005)</u>	<u>(106,405)</u>
Gross profit		509,234	506,249
Other income		117,174	20,662
Administrative expenses		(52,087)	(45,000)
Fair value changes on investment properties		1,130,365	2,799,389
Fair value changes on financial instruments		70,336	23,405
Net realised gain on disposal of available-for-sale investments		104,276	-
Share of results of associates		51,554	19,886
Finance costs	5	<u>(81,735)</u>	<u>(90,678)</u>
Profit before taxation		1,849,117	3,233,913
Taxation	6	<u>(246,147)</u>	<u>(502,229)</u>
Profit for the period	7	<u>1,602,970</u>	<u>2,731,684</u>
Attributable to:			
Equity holders of the parent		1,519,389	2,562,160
Minority interests		<u>83,581</u>	<u>169,524</u>
		<u>1,602,970</u>	<u>2,731,684</u>
Dividends	8	<u>105,506</u>	<u>105,224</u>
Earnings per share		HK cents	HK cents
Basic	9	<u>144.23</u>	<u>243.96</u>
Diluted		<u>144.11</u>	<u>243.83</u>

HYSAN DEVELOPMENT COMPANY LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2006

	<u>30.6.2006</u> HK\$'000 (unaudited)	<u>31.12.2005</u> HK\$'000 (audited)
Non-current assets		
Property, plant and equipment	69,509	69,477
Prepaid lease payments	123,015	123,096
Investment properties	30,972,030	29,815,430
Interests in associates	556,279	504,645
Available-for-sale investments	1,236,240	1,256,100
Derivative financial instruments	2,075	32,004
Staff housing loans, secured - due after one year	1,507	1,825
Other receivables, prepayments and deposits	28,331	27,724
	<u>32,988,986</u>	<u>31,830,301</u>
Current assets		
Staff housing loans, secured - due within one year	213	422
Other receivables, prepayments and deposits	75,897	97,125
Accounts receivable	8,557	4,726
Derivative financial instruments	54,660	14,195
Amount due from an associate	642,338	642,596
Time deposits	296,075	1,401,230
Cash and bank balances	4,238	284
	<u>1,081,978</u>	<u>2,160,578</u>
Current liabilities		
Derivative financial instruments	12,057	64,057
Accounts payable and accruals	236,281	216,230
Rental deposits from tenants	122,147	121,604
Amounts due to minority shareholders	327,256	-
Advances from investees	54,068	54,068
Taxation payable	204,217	198,139
Unclaimed dividends	1,900	1,128
	<u>957,926</u>	<u>655,226</u>
Net current assets	<u>124,052</u>	<u>1,505,352</u>
Total assets less current liabilities carried forward	<u>33,113,038</u>	<u>33,335,653</u>

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CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2006 - continued

	<u>30.6.2006</u> HK\$'000 (unaudited)	<u>31.12.2005</u> HK\$'000 (audited)
Total assets less current liabilities bought forward	<u>33,113,038</u>	<u>33,335,653</u>
Non-current liabilities		
Derivative financial instruments	89,010	39,802
Amounts due to minority shareholders	-	327,256
Long term bank loans - due after one year	720,000	2,056,500
Floating rate notes	548,500	548,213
Fixed rate notes	1,449,623	1,499,591
Zero coupon notes	184,667	196,219
Rental deposits from tenants	163,434	135,009
Deferred taxation	<u>3,085,542</u>	<u>2,879,451</u>
	<u>6,240,776</u>	<u>7,682,041</u>
Net assets	<u>26,872,262</u>	<u>25,653,612</u>
Capital and reserves		
Share capital	5,273,031	5,266,304
Reserves	<u>20,557,047</u>	<u>19,400,992</u>
Equity attributable to equity holders of the parent	25,830,078	24,667,296
Minority interests	<u>1,042,184</u>	<u>986,316</u>
	<u>26,872,262</u>	<u>25,653,612</u>

NOTES

1. INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2006 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 the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

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 revalued amounts or fair values, 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 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current and/or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

Potential impact arising from the recently issued Accounting Standards

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) - INT 8	Scope of HKFRS 2 ³
HK(IFRIC) - INT 9	Reassessment of embedded derivatives ⁴

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3. PRINCIPAL ACCOUNTING POLICIES - continued

- ¹ Effective for accounting periods beginning on or after 1 January 2007.
- ² Effective for accounting periods beginning on or after 1 March 2006.
- ³ Effective for accounting periods beginning on or after 1 May 2006.
- ⁴ Effective for accounting periods beginning on or after 1 June 2006.

4. TURNOVER

	Six months ended	
	<u>30.6.2006</u>	<u>30.6.2005</u>
	HK\$'000	HK\$'000
Turnover comprises:		
Gross rental income from properties	620,034	612,452
Management fee and security service income	<u>205</u>	<u>202</u>
	<u>620,239</u>	<u>612,654</u>

Income from property sales of HK\$800,000 and the corresponding cost of property sales of HK\$600,000 for the six months ended 30 June 2005 have been reclassified as fair value changes on investment properties.

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

5. FINANCE COSTS

	Six months ended	
	<u>30.6.2006</u>	<u>30.6.2005</u>
	HK\$'000	HK\$'000
Interest on		
- bank loans, overdrafts and other loans:		
wholly repayable within five years	19,824	17,391
not repayable within five years	-	13,714
- floating rate notes	12,709	5,009
- fixed rate notes	<u>54,360</u>	<u>54,417</u>
	86,893	90,531
Net interest (received) paid on derivative financial instruments		
(Note):		
- due within five years	(10,129)	11,238
- due after five years	<u>(6,117)</u>	<u>(22,251)</u>
	70,647	79,518
Amortisation of discount on zero coupon notes	5,370	4,080
Bank charges	3,640	3,707
Others	<u>2,078</u>	<u>3,373</u>
	<u>81,735</u>	<u>90,678</u>

Note: Fair value changes excluded accrued interest in derivative financial instruments for the period.

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6. TAXATION

	Six months ended	
	<u>30.6.2006</u>	<u>30.6.2005</u>
	HK\$'000	HK\$'000
Current tax	<u>40,456</u>	<u>38,615</u>
Deferred tax		
- Changes in fair value of investment properties	197,243	489,794
- Other temporary differences	<u>8,448</u>	<u>(26,180)</u>
	<u>205,691</u>	<u>463,614</u>
	<u>246,147</u>	<u>502,229</u>

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

7. PROFIT FOR THE PERIOD

	Six months ended	
	<u>30.6.2006</u>	<u>30.6.2005</u>
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs	68,104	60,553
Retirement benefits scheme contributions	2,581	2,561
Forfeited contributions	(1,573)	(1,885)
	69,112	61,229
Depreciation of property, plant and equipment	3,345	3,489
Gross rental income from investment properties	(620,034)	(612,452)
Less: Direct operating expenses that generated rental income	108,953	105,659
Direct operating expenses that did not generate rental income	2,052	746
	(509,029)	(506,047)
Dividends from listed available-for-sale investments	(19,201)	(18,861)
Interest income	(10,123)	(1,126)
Recovery of a loan to an associate	(87,043)	-
Share of tax of an associate (included in share of results of associates)	27,947	10,573
Write off property, plant and equipment	<u>463</u>	<u>3</u>

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8. DIVIDENDS

	Six months ended	
	<u>30.6.2006</u>	<u>30.6.2005</u>
	HK\$'000	HK\$'000
Interim dividend – HK10 cents per share (2005: HK10 cents)	105,461	105,224
Additional prior year's dividend paid on exercise of share option subsequent to 31 December 2005	<u>45</u>	<u>-</u>
	<u>105,506</u>	<u>105,224</u>

During the period, a dividend of HK35 cents (2004: HK30 cents) per share, which included scrip dividend alternatives offered to shareholders, was paid to shareholders as the final dividend for 2005. The scrip dividend alternatives were accepted by the shareholders as follows:

	HK\$'000
Dividends:	
Cash	340,330
Share alternative	<u>28,311</u>
	<u>368,641</u>

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>30.6.2006</u>	<u>30.6.2005</u>
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	<u>1,519,389</u>	<u>2,562,160</u>

	Six months ended	
	<u>30.6.2006</u>	<u>30.6.2005</u>
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,053,472	1,050,228
Effect of dilutive potential ordinary shares:		
Share options	<u>863</u>	<u>556</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,054,335</u>	<u>1,050,784</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.

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 in arriving at "Underlying profit attributable to equity holders of the parent". Net realised gain on disposal of available-for-sale investments and recovery of a loan to an associate should also be adjusted in arriving at "Profit excluding asset value changes attributable to the equity holders of the parent". The difference between the underlying profit, profit excluding asset value changes and 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>30.6.2006</u> HK\$'000	Earnings per share <u>(Basic)</u> HK cents
Profit attributable to equity holders of the parent as shown in the condensed consolidated income statement	1,519,389	144.23
Gains arising from fair value changes of investment properties	(1,130,365)	
Increase in deferred taxation in relation to fair value gains of investment properties	197,243	
Gain arising from fair value changes of investment properties net of related deferred taxation attributable to minority interests	62,472	
Gain arising from fair value changes of investment properties net of related deferred taxation from an associate	<u>(29,156)</u>	
Underlying profit attributable to equity holders of the parent	619,583	58.81
Recovery of a loan to an associate	(87,043)	
Net realised gain on disposal of available-for-sale investments	<u>(104,276)</u>	
Profit excluding asset value changes attributable to equity holders of the parent	<u>428,264</u>	40.65

	Six months ended <u>30.6.2005</u> HK\$'000	Earnings per share <u>(Basic)</u> HK cents
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 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 attributable to minority interests	<u>148,345</u>	
Underlying profit attributable to equity holders of the parent	<u>364,710</u>	34.73