

INVESTING IN **Hysan**
A N N U A L R E P O R T 2 0 0 4

Hysan's mission is to build, own and manage quality buildings, and being the occupiers' partner of choice in the provision of real estate accommodation and services, thereby delivering attractive and sustainable returns to shareholders.

The Hysan Advantage

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Solid Foundation

- Strong heritage of property investment, development and management expertise

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Balanced Portfolio in Prime Location

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- Building a first-class team

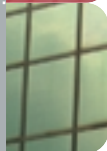
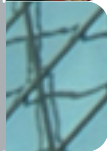
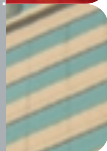
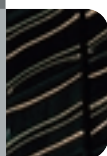
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Effective Governance

- Our commitment to maintaining high standards of corporate governance

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Year 2004 in Review

HIGHLIGHTS

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

KEY FINANCIAL & OPERATING DATA	2004	2003	Change %
Consolidated income statement (HK\$ million)			
Turnover	1,154	1,139	1.3
Finance costs	(162)	(168)	3.9
Net profit for the year	609	536*	13.7
Consolidated balance sheet (HK\$ million)			
Total assets	30,241	26,333*	14.8
Shareholders' funds	22,493	18,616*	20.8
Consolidated cash flow statement (HK\$ million)			
Net cash from operating activities	744	664	12.0
Net cash from (used in) investing activities	62	(389)	-
Net cash used in financing activities	(799)	(283)	182.3
Net increase (decrease) in cash and cash equivalents	7	(8)	-
Key ratios			
Net gearing	20.8%	27.0%	23.0
Net interest coverage (times)	7.3x	6.5x	12.3
Weighted average cost of financing	2.54%	2.69%	5.6
Per share data			
Earnings per share (HK cents) - basic	58.22	51.59*	12.8
Earnings per share (HK cents) - diluted	58.20	51.59*	12.8
Dividend per share (HK cents)	40.00	36.50	9.6
Net assets value per share (HK\$)	21.42	17.84*	20.1
Net debts per share (HK\$)	5.32	5.66	6.0
Share information			
Number of shares in issue at year end (million)	1,050	1,044	0.6
Weighted average number of shares (million)	1,046	1,039	0.7
Highest share price (HK\$)	16.70	12.50	33.6
Lowest share price (HK\$)	10.40	5.10	103.9
Closing price at year end (HK\$)	16.35	12.00	36.3
Operating data			
Investment property value (HK\$ million)	28,147	24,367	15.5
Occupancy at year end			
- office	97%	93%	4.3
- retail	99%	95%	4.2
- residential	84%	60%	40.0

* restated

STRATEGIC OBJECTIVES & ACHIEVEMENTS

2004 objectives

We set the following objectives for year 2004, reflecting ongoing efforts in implementing our strategic directions:

- optimise rental income and occupancy
- further refine and enhance our distinctive retail centres in the prime Causeway Bay retail hub
- continue to review the performance of our assets and maximise their value
- continue to maximise operating efficiency
- continue to achieve a strong balance sheet position geared to complement strategic directions
- to build and retain our first rate team
- further strengthen relations with our stakeholders:
 - our tenants
 - the investment community and analysts
 - the media
 - the community

2004 achievements

- Achieved high occupancy levels in the office and retail sectors: office: 97%; retail: 99%
- Achieved revenue growth in the retail and residential sectors, outweighing negative rental reversion in the office sector
- Enhanced our assets including through:
 - the successful re-positioning of Lee Gardens Two retail centre
 - the planning for re-tenanting of Lee Theatre Plazato realise our vision of establishing a horizontally integrated shopping district in our retail hub to cater to different consumer groups
- Continued our customer focus orientation through:
 - conducting a comprehensive tenant satisfaction survey of commercial/residential tenants
 - continuing tenant relationship management initiatives to foster good tenant relations
- Maintained a strong balance sheet with debt maturity profile further lengthened and funding sources diversified
- Enhanced corporate governance and transparency with industry recognition achieved





Welcome to Hysan in Causeway Bay:
The moment you step into Hysan's commercial properties in Causeway Bay, you are joining many others who choose to experience the world of high quality facilities and services that we have on offer.





利園

THE

366 companies found a home in our over 2.6 million square feet of prime office space in Causeway Bay. 162 retail shops and restaurants, housed in some one million square feet of retail space cater to every shopping and entertainment need of our discerning customers.

Lei Fong Road
樂知道 9-1





Our facilities and services are backed by a small but dedicated team of management, front-line and back-of-the-house staff members who will ensure that our mission of developing and managing quality buildings while providing quality services is fully accomplished.

Solid Foundation

Strong Heritage

Hysan's foundation in property investment, development and management was built over 80 years ago when the Group's founding Lee family first started acquiring plots of land in "East Point" (as Causeway Bay was then called) used previously for homes, offices and godowns for a british trading company. A public garden and entertainment ground were constructed on the site, and were named collectively The Lee Gardens. The Lee Theatre was also built for chinese opera and other stage performances.

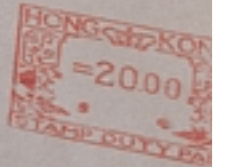
The Lee family continued to develop the area in the vicinity of The Lee Gardens, building wider streets and constructing private residences. A distinctive community gradually emerged as the properties in the community were upgraded and re-built to meet the changing needs of the Hong Kong economy. In the years that followed, the Lee family continued to develop the area and help transform Causeway Bay into what is today a commerical and retail hub.

In 1981, when Hysan Development Company Limited was incorporated and listed on the Hong Kong Stock Exchange, it owned five major developments in Causeway Bay. Today, Hysan has grown to become a leading property investment, development and management company in Hong Kong with an office, retail and residential portfolio of some 4.7 million square feet. Much of the portfolio is located in Causeway Bay, where Hysan is the largest commercial landlord.

The pioneering spirit of the Lee family continues to flourish at Hysan today. The Group is committed to strategically investing in and developing quality properties, and to delivering attractive and sustainable returns to shareholders. We are equally committed to fostering long term partnerships with our tenants.

This Indenture, of two parts, made the
between OUR SOVEREIGN LADY VICTORIA, by the GRACE of GOD
Defender of the Faith, of the one part

00121



THIS INDENTURE is made the *5th* day of *July*
BETWEEN LEH HYSAN ESTATE COMPANY LIMITED whose registered
office is at 202, Queen's Road Central, Victoria
the Colo... whose registered
the fir... Floor,
Victo
seco
who
V



I. L. No. 29 SEC. D D
AREA : 39,202.575 SQ. FT.
C. R. = \$164.20

TOTAL

2 Balanced Portfolio in Prime Location

Our Quality Portfolio

- A total investment property portfolio of approximately 4.7 million square feet
- A balanced portfolio of high quality office and retail properties, complemented by good exposure to the luxury residential sector
- Majority of the portfolio located in Causeway Bay, making the Group the largest commercial landlord in this prime office/retail district
- A broad and quality tenant base comprising major multinational corporations and local corporations, international as well as local brands
- High occupancy levels consistently recorded across the investment property portfolio



Our Assets

Hysan's investment property portfolio comprises 12 office, retail and residential developments, 10 of which are located in Causeway Bay, one of Hong Kong's prime and busiest office/retail districts. The Group also owns a retail and office development in Central, and a luxury residential complex in the Mid-Levels. Total portfolio size is approximately 4.7 million square feet.

A Balanced Portfolio

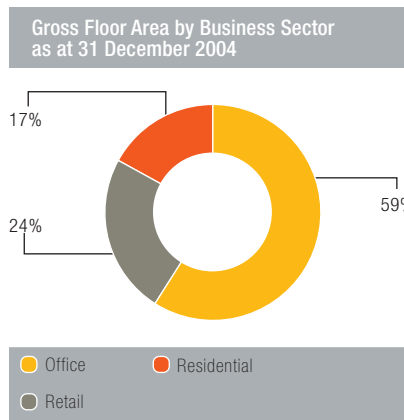
Hysan has a balanced commercial portfolio comprising high quality office and retail space. Our office properties offer mainly Grade "A" office space, and our retail centres comprise prime retail space in the Causeway Bay shopping district. These advantages are complemented by good exposure to luxury residential properties.

The Causeway Bay Advantage

Hysan's commercial portfolio is predominantly located in Causeway Bay. The portfolio's strategic location in the heart of Causeway Bay has attracted businesses that choose to be located close to a seamless public transportation system. This means that business clients, business partners, and business services are all within easy reach.

The following table and chart illustrate the composition of our portfolio as at 31 December 2004:

Business Sector	Gross Floor Area (million sq. ft.)
Office	2.8 (59%)
Retail	1.1 (24%)
Residential	0.8 (17%)
Total	4.7 (100%)



Quality Tenant Base

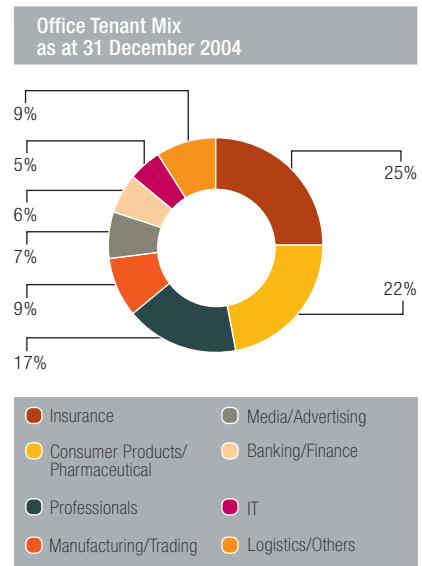
Hysan has a strong tenant base in terms of quality and diversity. Our office tenants include multi-national corporations and major local corporations that are engaged in a range of industries. A high percentage of these tenants are insurance, consumer products and servicing companies as well as professional firms.

Our retail portfolio also includes a quality and diversified tenant base comprising luxury and general retail, lifestyle, and speciality food and beverage.

The following tables and charts set out our top five office and retail tenants by Gross Floor Area and our overall tenant base in terms of business activities:

Top Five Office Tenants by Gross Floor Area

American International Assurance Company (Bermuda) Limited
Manulife (International) Limited
Sony Corporation of Hong Kong Limited
Maersk Hong Kong Limited
Jebsen and Company Limited





High Occupancy

We have a record of consistently maintaining high occupancies in our commercial portfolio.

The following chart sets out our performance in the office sector over the past five years, against performance of the overall Wanchai/Causeway Bay district:

Lease Terms

In accordance with practices in the Hong Kong property market, Hysan's office leases are typically for three years, but in some cases for six to nine years in duration. The rents charged are generally reviewed every three years and are based upon prevailing market rates.

Retail leases are normally for three years. Longer lease terms may be signed on an individual and case-by-case basis. The rents charged are generally reviewed every three years based upon market rates. Retail leases generally provide for a fixed monthly rent with turnover rent in some cases.

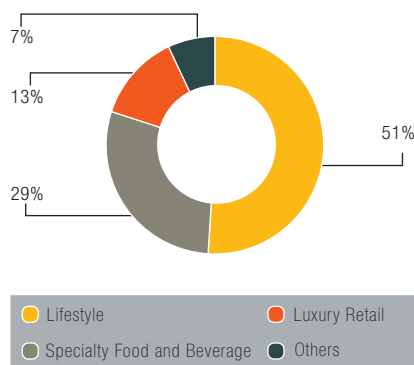
Residential leases are typically for two years and are generally offered for renewal based on prevailing market rates.

Hysan's office, retail, and residential tenants are also charged a monthly management fee that covers principally building maintenance expenses. Tenants are required to pay their utility and government rates.

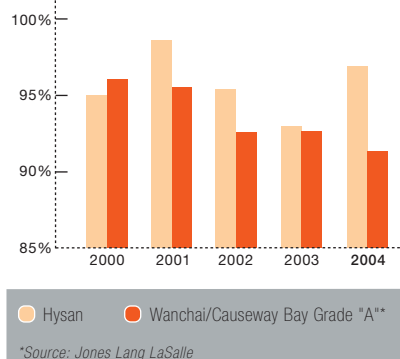
Top Five Retail Tenants by Gross Floor Area

- Mitsukoshi Enterprises Co Ltd
- Maxim's Caterers Ltd
- Esprit Retail (Hong Kong) Limited
- Physical Health Centre Hong Kong Limited
- JV Fitness Ltd

Retail Tenant Mix as at 31 December 2004



Office Occupancy as at 31 December



The retail sector maintained a consistently high occupancy with an average of more than 97% over the same five-year period.



BAMBOO GROVE

← Mid-Levels



LEIGHTON CENTRE



LEE THEATRE PLAZA



HENNESSY CENTRE



ENTERTAINMENT BUILDING

← Central

Happy Valley ↓

ONE HYSAN AVENUE



Bamboo Grove

74 - 86 Kennedy Road, Mid-Levels

A luxury residential complex in the Mid-Levels, Bamboo Grove underwent major refurbishment in 2002 to enhance both the value and quality of the complex. The complex commands panoramic views of the harbour and the greenery of the Peak, and is well served by a multitude of public transport. In addition to superb property management services and full club-house and sports facilities, tenants also enjoy personalised Resident Services that help ensure a comfortable and problem-free stay.

Total Gross Floor Area:	691,546 sq.ft.
Number of Units:	345
Parking Spaces:	436
Year Completed/Renovated:	1985/2002

Entertainment Building

30 Queen's Road Central, Central

Enjoying a prime location in Hong Kong's Central financial and commercial district, the post-modern design Entertainment Building has 34 levels, comprising over 200,000 square feet of office and retail space.

Total Gross Floor Area:	211,148 sq.ft.
Number of Floors:	34
Year Completed/Renovated:	1993

Leighton Centre

77 Leighton Road, Causeway Bay

This office and retail complex enjoys close proximity to all forms of public transport. Its central location in the Causeway Bay area makes it a much sought-after location for many professional practices. Upgrading works on building facilities were completed in 2004.

Total Gross Floor Area:	435,008 sq.ft.
Number of Floors:	28
Parking Spaces:	332
Year Completed/Renovated:	1977/2004

Lee Theatre Plaza

99 Percival Street, Causeway Bay

Like its predecessor, Lee Theatre, the Lee Theatre Plaza is a Hong Kong landmark, being one of the territory's Ginza-style shopping, dining and entertainment complexes. It provides easy access to various kinds of transport and the MTR Causeway Bay station. The Plaza houses many of the world's most famous lifestyle brands and is a popular venue for shopping, dining and entertainment.

Total Gross Floor Area:	315,749 sq.ft.
Number of Floors:	26
Year Completed/Renovated:	1994

Hennessy Centre

500 Hennessy Road, Causeway Bay

Hennessy Centre is an office and retail complex conveniently served by a multitude of public transport including the MTR, bus and trams. The building is home to a popular Japanese department store, a supermarket, three levels of Chinese restaurants and a children's store.

Total Gross Floor Area:	719,642 sq.ft.
Number of Floors:	45
Parking Spaces:	263
Year Completed/Renovated:	1981/upgrading works on building facade were carried out in 2004

One Hysan Avenue

1 Hysan Avenue, Causeway Bay

Located at the junction of three busy streets in the heart of Causeway Bay, this office and retail complex enjoys a prime location and there is a broad diversity of retail facilities in the surrounding area.

Total Gross Floor Area:	169,019 sq.ft.
Number of Floors:	26
Year Completed/Renovated:	1976/2002

Sogo



THE LEE GARDENS



LEE GARDENS TWO

Victoria Park



SUNNING PLAZA

SUNNING COURT



AIA PLAZA

111 LEIGHTON ROAD



Hong Kong Stadium ↓

The Lee Gardens

33 Hysan Avenue, Causeway Bay

The Lee Gardens is the Group's flagship property comprising an office tower and a high-end shopping centre. The development, close to the MTR Causeway Bay station, enjoys spectacular views of the Harbour and Happy Valley and is home to many international corporations, luxury fashion brands and renowned restaurants.

Total Gross Floor Area:	902,797 sq.ft.
Number of Floors:	53
Parking Spaces:	200
Year Completed/Renovated:	1997

Lee Gardens Two

28 Yun Ping Road, Causeway Bay

This is an office and retail complex. The retail podium underwent a comprehensive refurbishment in 2003 and re-launched as Lee Gardens Two. The complex is conveniently linked to the neighbouring The Lee Gardens and is home to many international corporations, luxury fashion brands, renowned restaurants and a children's concept floor.

Total Gross Floor Area:	626,996 sq.ft.
Number of Floors:	34
Parking Spaces:	176
Year Completed/Renovated:	1992/renovation of retail podium in 2003

Sunning Plaza

10 Hysan Avenue, Causeway Bay

Designed by the renowned architect I.M. Pei, Sunning Plaza greets tenants and visitors with a spacious entrance and lift lobby. The office complex has 30 levels. Among its retail tenants are popular food and beverage outlets, which have established the Plaza as a hub for relaxation and social recreation.

Total Gross Floor Area:	279,717 sq.ft.
Number of Floors:	30
Parking Spaces:	150 (jointly owned with Sunning Court)
Year Completed/Renovated:	1982

Sunning Court

8 Hoi Ping Road, Causeway Bay

The 19-level Sunning Court is a unique residential tower in the dynamic Causeway Bay area. Located in a pleasant environment with streets lined with trees, and within easy reach of all forms of relaxation and entertainment in the surrounding district, the building provides maximum comfort for its tenants. The building underwent refurbishment of its external facade in 2003.

Total Gross Floor Area:	97,516 sq.ft.
Number of Units:	59
Parking Spaces:	150 (jointly owned with Sunning Plaza)
Year Completed/Renovated:	1982/2003

AIA Plaza

18 Hysan Avenue, Causeway Bay

AIA Plaza is a 25-level office and retail complex at the corner of Hysan Avenue. The commercial complex boasts a bright and spacious lobby, and houses restaurants, specialty cafes and banking services.

Total Gross Floor Area:	139,119 sq.ft.
Number of Floors:	25
Year Completed/Renovated:	1989

111 Leighton Road

111 Leighton Road, Causeway Bay

Located in a pleasant and tranquil area in the heart of Causeway Bay, 111 Leighton Road is an ideal office location for professional and designer firms. The retail shops include a European kitchen concept store and fashion stores.

Total Gross Floor Area:	79,905 sq.ft.
Number of Floors:	24
Year Completed/Renovated:	1988/2004

REPORT OF THE VALUER

To the Board of Directors
Hysan Development Company Limited

Dear Sirs,

Annual revaluation of investment properties as at 31 December 2004

In accordance with your appointment of Knight Frank Hong Kong Limited to value the investment properties in Hong Kong owned by Hysan Development Company Limited and its subsidiaries, we are pleased to advise that the open market value of the properties as at 31 December 2004 was in the approximate sum of Hong Kong Dollars Twenty Eight Billion One Hundred Forty Seven Million One Hundred and Ninety Thousand Only (i.e. HK\$28,147,190,000).

We valued the properties on an open market value basis by capitalising the net income as provided to us with due allowance for outgoings and provisions for reversionary income potential. However, no allowance has been made in our valuation for any expenses or taxation which may be incurred in effecting a sale.

Yours faithfully,
KNIGHT FRANK HONG KONG LIMITED
Hong Kong, 23 February 2005

SCHEDULE OF PRINCIPAL PROPERTIES

as at 31 December 2004

INVESTMENT PROPERTIES				
Address	Lot No.	Use	Category of the Lease	Percentage Held by the Group
1. The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29, Sec. L of I.L. 457, Sec. MM of I.L. 29, the R.P. of Sec. L of I.L. 29, and the R.P. of I.L. 457	Commercial	Long lease	100%
2. Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong	Sec. FF of I.L. 29 and the R.P. of Marine Lot 365	Commercial	Long lease	100%
3. Bamboo Grove 74-86 Kennedy Road Mid-Levels Hong Kong	I.L. 8624	Residential	Long lease	100%
4. Lee Gardens Two 28 Yun Ping Road Causeway Bay Hong Kong	Sec. G of I.L. 29, Sec. A, O, F and H of I.L. 457, the R.P. of Sec. C, D, E and G of I.L. 457, Subsec. 1 of Sec. C, D, E and G of I.L. 457, Subsec. 2 of Sec. E of I.L. 457 and Subsec. 1, 2, 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36%
5. Leighton Centre 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100%
6. Lee Theatre Plaza 99 Percival Street Causeway Bay Hong Kong	I.L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100%
7. Sunning Plaza 10 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29 and the R.P. of Sec. J of I.L. 29	Commercial	Long lease	100%
8. Sunning Court 8 Hoi Ping Road Causeway Bay Hong Kong		Residential	Long lease	100%
9. Entertainment Building 30 Queen's Road Central Hong Kong	The R.P. of I.L. 16 and the extension thereto	Commercial	Long lease	100%
10. One Hysan Avenue 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100%
11. AIA Plaza 18 Hysan Avenue Causeway Bay Hong Kong	Sec. N of I.L. 457 and Sec. LL of I.L. 29	Commercial	Long lease	100%
12. 111 Leighton Road 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100%

3 Established Strategic Directions

Chairman's Statement



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. I am pleased to report that during the past year, our property portfolio has captured the generally favourable market conditions and reflected the success we made in enhancing its underlying asset value.

Hong Kong's viability as a regional financial and business centre is directly dependent on its ability to provide goods and services in an environment characterised by transparency, accountability and responsibility. We shall continue to embody these values in our commitment to our stakeholders.

Overview

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.

Performance

I am pleased to report that during the past year, our property portfolio has captured the generally favourable market conditions. The unveiling of the Lee Gardens Two retail centre has resulted in a marked enhancement of the retail attractions in the area, adding to the modern and dynamic character of Causeway Bay. Similarly, the re-launching of the residential Bamboo Grove has proven to be highly successful with improved rental contributions and in keeping with our long-term strategy of enhancing the asset value of our property portfolio.

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. Underlying earnings per share were HK58.22 cents, an increase of 12.8% (2003 restated: HK51.59 cents).

The external valuation of the Group's investment property portfolio increased to HK\$28,147 million (2003: HK\$24,367 million). Underlying net assets value per share increased by 20.1% to HK\$21.42 (2003 restated: HK\$17.84).

The Board recommends the payment of a final dividend of HK30.0 cents per share (2003: HK26.5 cents). 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%. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative.

Values

Hong Kong's viability as a regional financial and business centre is directly dependent on its ability to provide goods and services in an environment characterised by transparency, accountability and responsibility. The faster our modern world evolves, the more important

these values become. We shall continue to embody these values in our commitment to our stakeholders and we are pleased that our efforts in corporate governance have been recognised by professional and industry bodies during the year.

Directors and Staff

I would like to take this opportunity to express my thanks to Board members for their wise counsel during the year, and also to all dedicated and loyal staff for their good work.

Outlook

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 investment property portfolio also benefiting from an improving economy.

Peter T.C. Lee
Chairman

4 Executing the Strategy

Management's Discussion and Analysis



Michael T. H. Lee
Managing Director

In 2004, our retail and residential rental business recorded strong growth, which outweighed the impact of the continued negative rental reversion in the office sector.

We continued to create value for our investment properties by undertaking asset enhancement programmes in the form of re-tenanting, physical improvements, renovation and repositioning. The strategic repositioning and upgrading of Lee Gardens Two and Bamboo Grove both proved successful and opportune in capturing the market recovery and provided an impetus to us to further pursue growth opportunities within our existing portfolio.

Our objectives for 2005 include stepping up the enhancement of our existing portfolio, optimising rental income across the portfolio, and further enhancing our retail centres so that we can realise our goal of creating a horizontally integrated shopping district.



PERFORMANCE AT A GLANCE

Condensed Consolidated Income Statement for the year ended 31 December

	2004 HK\$ million	2003 HK\$ million (restated)	Change HK\$ million	Change %
1 Turnover	1,154	1,139	15	1.3
2 Property expenses	(259)	(239)	(20)	-8.2
3 Gain on disposal of investments in securities	15	48	(33)	-69.6
Other operating income	27	25	2	5.9
4 Associates - share of results and release of negative goodwill	60	20	40	218.0
5 Reversal of impairment loss on investments in securities	63	-	63	-
6 Administrative expenses	(95)	(90)	(5)	-5.7
7 Finance costs	(162)	(168)	6	3.9
Taxation				
- group	(140)	(165)	25	15.1
- an associate	(20)	(8)	(12)	-134.6
Minority interests	(34)	(26)	(8)	-30.6
Net profit for the year	609	536	73	13.7

Condensed Consolidated Balance Sheet as at 31 December

	2004 HK\$ million	2003 HK\$ million (restated)	Change HK\$ million	Change %
8 Investment properties	28,147	24,367	3,780	15.5
9 Investments in securities - listed	915	874	41	4.7
10 Investments in securities - unlisted	103	67	36	53.2
11 Interests in associates	855	850	5	0.7
Cash and bank balances	22	15	7	49.8
Other assets	199	160	39	23.1
Total assets	30,241	26,333	3,908	14.8
12 Debt borrowings	(5,603)	(5,914)	311	5.2
Taxation				
- current	(131)	(91)	(40)	-44.9
- deferred	(218)	(180)	(38)	-20.9
Other liabilities	(815)	(778)	(37)	-4.7
Total assets less liabilities	23,474	19,370	4,104	21.2
Shareholders' funds	22,493	18,616	3,877	20.8
Minority interests	981	754	227	30.2
	23,474	19,370	4,104	21.2

Nature and Principal Components

- 1 Turnover:** comprised principally rental income derived from our investment property portfolio in Hong Kong.
- 2 Property expenses:** property services costs directly associated with daily operations of investment properties.
- 3 Gain on disposal of investments in securities:** profit arising from the sale of listed securities in the Group's investment portfolio which serves as a liquidity buffer to meet capital expenditure and investment needs.
- 4 Associates—share of results and release of negative goodwill:** the interests in associates represent our associate-level interests in Shanghai Grand Gateway and Amaryllis Ville in Singapore.
- 5 Reversal of impairment loss on investments in securities:** amount reversed for impairment loss previously provided for two Singapore residential projects in which the Group has a 10% interest.
- 6 Administrative expenses:** cost in relation to general office, corporate expenses as well as staff costs.
- 7 Finance costs:** interest and related fees and expenses on bank borrowings and capital market issuances.
- 8 Investment properties:** approximately 4.7 million gross square feet of high-quality office, retail and residential space held for generating rental income. These properties are stated at their market value.
- 9 Listed securities:** shares in Hong Kong-listed blue chip companies.
- 10 Unlisted securities:** mainly minority equity interests in overseas property development projects.
- 11 Interests in associates:** minority interests in Shanghai and Singapore property development projects.
- 12 Debt borrowings:** bank borrowings and notes issued in the capital market.

2004 Movements

Turnover increased by 1.3% reflecting improved retail sector performance (due to the re-opening of Lee Gardens Two) and residential sector performance (due to the higher occupancy in Bamboo Grove). The growth in these two sectors has fully absorbed the impact of negative office rental reversion.

The re-opening of Lee Gardens Two and higher occupancy in Bamboo Grove drove up the incidental property expenses, in particular, marketing expenses and utilities costs.

Cash generated from operating and investing activities well exceeded the capital expenditure resulting in less listed securities disposal in 2004.

Positive contribution from Shanghai Grand Gateway was partially offset by the loss from Amaryllis Ville, leaving a net contribution increase of HK\$40 million.

The HK\$63 million impairment loss was reversed in light of improved property market conditions in Singapore.

The increase in administrative expenses was mainly due to additional salary costs for human capital investments.

Finance costs went down reflecting the Group's effectiveness in actively managing debt level and interest rate exposures.

Investment properties increased by 15.5% mainly driven by higher market value.

Net increase of HK\$41 million represented unrealised gain of HK\$65 million netted of HK\$24 million carrying value of disposed securities.

Net increase of HK\$36 million in unlisted securities was made up of HK\$63 million reversal of impairment loss less HK\$27 million cash received.

Net increase of HK\$5 million represented share of profit (including negative goodwill) and reserves from associates amounted to HK\$60 million and HK\$57 million respectively, netted of share of deferred tax and cash receipts totalled HK\$112 million.

Cash generated from operating and investing activities well exceeded the capital expenditure and dividend payments, lowering the debt borrowings by HK\$311 million as a result.



MARKET OVERVIEW

Office

The office leasing market continued to improve in 2004 in light of a more broad-based economic recovery and anticipation of tighter supply. Leasing activities were primarily characterised by relocation and upgrading, whilst more expansion activities were seen in the second half of 2004 against the backdrop of continually improving economic prospects.

Annual net take-up of Grade "A" office space in Hong Kong surged by 56% in 2004 to approximately 3.2 million square feet (net). The Grade "A" office vacancy in Wanchai/Causeway Bay was 7.7% as at December 2004

(Source - Jones Lang LaSalle).

Effective rentals for Grade "A" Wanchai/Causeway Bay offices further increased throughout the year. It is expected that the growth momentum will continue on the back of favourable demand and supply conditions.

Retail

The overall retail property market showed a strong recovery. The growth in retail sales was mainly attributable to continued revival in local consumer demand and strong visitor spending. Retailers were keen on exploring relocation and expansion plans in order to capture the increase in retail consumption. Prime shopping areas remained the major targets for retail operators.

Residential

Following the improvement in the local business environment during 2004, there was a stronger demand for luxury residential premises brought about by increased expatriate arrivals, particularly in the financial sector. A steady increase in residential rentals was recorded during 2004.

OVERALL OPERATIONS REVIEW

Our Business

Hysan is principally engaged, together with its subsidiaries and joint ventures, in investment, development and management of quality properties. As at 31 December 2004, Hysan's investment property interests totalled some 4.7 million gross square feet of high-quality office, retail and residential space in Hong Kong.

2004 Performance

Condensed Consolidated Income Statement for the year ended 31 December				
	2004	2003	Change	Change
	HK\$ million	HK\$ million (restated)	HK\$ million	%
Turnover	1,154	1,139	15	1.3
Property expenses	(259)	(239)	(20)	-8.2
Gain on disposal of investments in securities	15	48	(33)	-69.6
Other operating income	27	25	2	5.9
Associates - share of results and release of negative goodwill	60	20	40	218.0
Reversal of impairment loss on investments in securities	63	-	63	-
Administrative expenses	(95)	(90)	(5)	-5.7
Finance costs	(162)	(168)	6	3.9
Taxation				
- group	(140)	(165)	25	15.1
- an associate	(20)	(8)	(12)	-134.6
Minority interests	(34)	(26)	(8)	-30.6
Net profit for the year	609	536	73	13.7

Turnover

Turnover comprised principally rental income derived from our investment property portfolio in Hong Kong.

Turnover increased by 1.3% to HK\$1,154 million (2003: HK\$1,139 million), attributable to growth in the retail and residential sectors, which outweighed the continual negative rental reversion in the office sector. The year-on-year change by sector is tabulated below:

Business Sector	Year-on-Year Change
Office	-15%
Retail	12%
Residential	50%

Leasing Performance by Business Sector

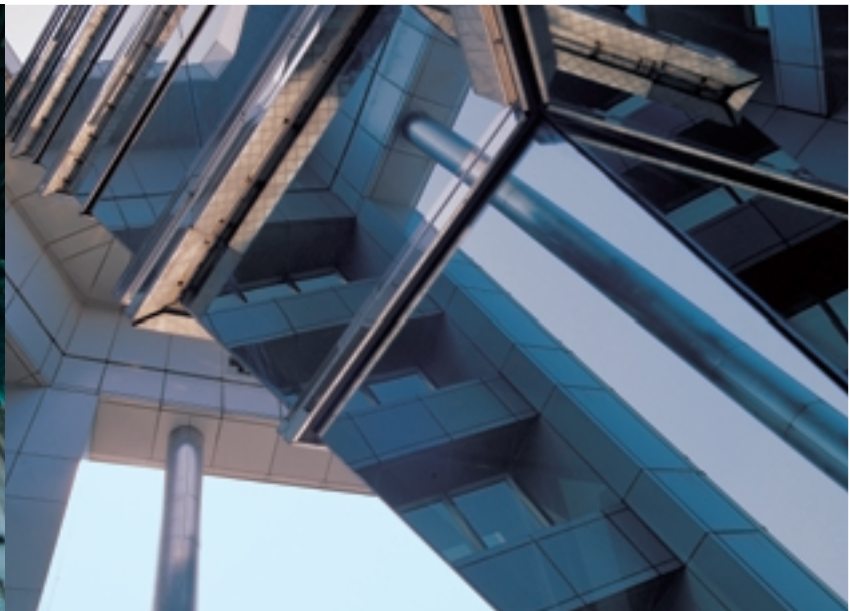
While many factors contribute to the success of our leasing activities, key drivers for assessment of our performance included those set out below:

- **Occupancy level** - retaining tenants, attracting new tenants
- **Rental level** - market rental and reversionary trend
- **Strategic level** - (for retail sector in particular) optimal tenant mix

Office Sector Performance

We continued to achieve high occupancy in the office sector throughout the year. The objective of meeting target tenant retention (ranging from 80 to 100% for different industries) was met. 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%. There was, however, continued improvement in effective rental levels achieved and it is expected that negative rental reversion should enter its final phase in 2005.



Retail Sector Performance

As at 31 December 2004, our 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 from the re-launched Lee Gardens Two and better rents generated from the rest of the portfolio. These results reflect the premium location of our Causeway Bay portfolio and our Group efforts in asset enhancement and tenant mix management.

Our leasing team had an active year focusing on the following:

- pro-active retail leasing - occupancy rate achieved 99% before the grand opening of Lee Gardens Two;
- continuous refinement of tenant mix and improvement in the layout of our retail centres - including planning for a major re-tenanting programme for Lee Theatre Plaza;
- marketing campaign - the successful re-launch of Lee Gardens Two and image promotion for our retail centres.

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



Residential Sector Performance

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%).



Property Expenses

Property expenses are costs of providing property services directly associated with daily operations of our investment properties. They are principally utilities costs, staff costs, recurring repairs and maintenance, and marketing.

2004 property expenses stood higher at HK\$259 million (2003: HK\$239 million), which was largely attributable to higher marketing and promotion expenses as well as extra property costs on the re-opening of Lee Gardens Two and higher occupancy in Bamboo Grove. Repairs and maintenance expenses were also higher.

Gain on Disposal of Investments in Securities

The Group's portfolio of listed securities continued to serve as a liquidity buffer to help finance capital expenditures and other market opportunities.

Disposal of listed securities during the year generated a gain of HK\$15 million (2003: HK\$48 million) and the sales proceeds were used to finance the Group's capital expenditure requirements.

Share of Results of Associates

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

Development Property	Use	Total Gross Floor Area (million sq.ft.)	Group Percentage Ownership	Status
Shanghai, PRC				
The Grand Gateway	Phase I: Retail and Residential	1.4	23.7	Completed and leased (retail: 100%; residential: 96%)
	Phase II: Residential and Office	1.2		Construction works in progress
Singapore				
Amaryllis Ville	Residential	0.4	25.0	Over 70% sold and about half of the unsold units leased.

There was a HK\$58 million gain from the share of results of associates driven by contribution from Phase I of the Shanghai Grand Gateway project of HK\$71 million as a result of good leasing performance. This offset loss in the Singapore joint venture project

amidst the improved albeit slow Singapore 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 restated: HK\$8 million).



Reversal of Impairment Loss

The Group has interests in the following Singapore residential projects:

Development Property	Use	Total Gross Floor Area (million sq.ft.)	Group Percentage Ownership	Status
Singapore				
Sanctuary Green	Residential	0.7	10.0	Temporary occupancy permit issued and 59% sold
The Gardens at Bishan	Residential	0.9	10.0	Temporary occupancy permit issued. Sales launched with 95% sold.

Management has made impairment loss reversal of HK\$63 million (2003: Nil), taking into consideration the rate of sales and improved market conditions.

Administrative Expenses

Administrative expenses mainly comprised general office and corporate expenses as well as staff costs. These expenses increased marginally by 5.7% (HK\$5 million) to HK\$95 million (2003: HK\$90 million), which was principally attributable to human capital investment to support the Group's business objectives.

Finance Costs

In 2004, interest rates continued to remain low and resulted in lower finance costs (by 3.9%) to HK\$162 million (2003: HK\$168 million). The decrease in gross debt (2004: HK\$5.6 billion; 2003: HK\$5.9 billion) also contributed to the reduction in 2004.

Further discussions on financial management, including financing policy and risk management are set out in the "Financial Prudence and Managing Risks" section.

Taxation

The tax provision attributable to the Group for 2004 was lowered by HK\$25 million due to a higher base in 2003. This reflected a higher deferred tax in 2003 including a one-off charge as corporate tax rate rose from 16.0% to 17.5%.

Taxation for the year included an additional provision of HK\$55 million in respect of possible non-deductibility of certain interests claimed in prior years. This additional provision was made out of prudence during the first half of 2004.

Net Profit for the Year

Net profit for the year increased by 13.7% (HK\$73 million) to HK\$609 million (2003 restated: HK\$536 million).

Condensed Consolidated Balance Sheet as at 31 December

	2004 HK\$ million	2003 HK\$ million (restated)	Change HK\$ million	Change %
Investment properties	28,147	24,367	3,780	15.5
Investments in securities - listed	915	874	41	4.7
Investments in securities - unlisted	103	67	36	53.2
Interests in associates	855	850	5	0.7
Cash and bank balances	22	15	7	49.8
Other assets	199	160	39	23.1
Total assets	30,241	26,333	3,908	14.8
Debt borrowings	(5,603)	(5,914)	311	5.2
Taxation				
- current	(131)	(91)	(40)	-44.9
- deferred	(218)	(180)	(38)	-20.9
Other liabilities	(815)	(778)	(37)	-4.7
Total assets less liabilities	23,474	19,370	4,104	21.2
Shareholders' funds	22,493	18,616	3,877	20.8
Minority interests	981	754	227	30.2
	23,474	19,370	4,104	21.2

Assets

Total assets were HK\$30,241 million, increased 14.8% (HK\$3,908 million) from the 2003 level of HK\$26,333 million (restated). The main drivers were:

Investment Properties

The investment properties were HK\$28,147 million, up by 15.5% (HK\$3,780 million) from HK\$24,367 million in 2003. Adjusting for net additions, there was a 15.1% revaluation gain amounting to HK\$3,677 million (the Group's share after minority interests was HK\$3,453 million).

The Group continued to adhere to its strategy of enhancing and growing its investment property portfolio. Capital expenditure on investment properties in 2004 totalled HK\$104 million.

Investments in Securities

Investments in listed Hong Kong securities increased by 4.7% (HK\$41 million) to HK\$915 million (2003: HK\$874 million). Good stock market performance in 2004 led to an extra HK\$65 million unrealised gain from our listed securities portfolio. The net increase of HK\$41 million was arrived at after netting off the HK\$24 million being carrying value of securities disposed.

Investments in unlisted securities comprised principally minority interests in overseas property development projects. As discussed under the section "Condensed Consolidated Income Statement" above, impairment loss amounting to HK\$63 million was reversed from two Singapore development projects and was partially offset by cash receipts of HK\$27 million during the year.

Interests in Associates

The interests in associates comprised our associate-level interests in the Shanghai and Singapore development projects referred to above. After the Group's attributable share of current year profit (including negative goodwill) of HK\$60 million as well as revaluation reserve of HK\$57 million, netting off cash receipts (HK\$88 million), deferred tax provision (HK\$20 million) and exchange loss (HK\$4 million), the Group's interests in associates increased by 0.7% to HK\$855 million (2003 restated: HK\$850 million).

Debt Borrowings

The gross debt decreased by 5.2% (HK\$311 million) from HK\$5.9 billion at the end of 2003 to HK\$5.6 billion in 2004. The reduction was achieved as a result of higher cash flow from operations, cash receipts from overseas joint venture projects and disposal of listed securities, against a background of slightly lower capital expenditure for the review year.

Taxation Payable and Deferred Taxation

Provision for taxation increased from HK\$271 million in 2003 to HK\$349 million in 2004. The net increase was made up of a HK\$104 million charge for the year, HK\$38 million related to additional deferred tax, reduced by tax payments of HK\$64 million.

Management has been advised by the Group's tax consultants and believed adequate provisions have been made against current tax liabilities and deferred tax liabilities in accordance with relevant accounting standards.

Shareholders' Funds

Shareholders' funds increased by 20.8% from HK\$18,616 million (restated) in 2003 to HK\$22,493 million in 2004. These reflected the net profit after dividend payments in 2004 and revaluation gain from the investment properties and listed securities.

Minority Interests

The 2004 increase of HK\$227 million in minority interests was driven by revaluation surplus as well as increased profit contribution arising from Lee Gardens Two.

Contingent Liabilities

The Group has provided guarantees for banking facilities granted to associates and investee companies. As of 31 December 2004, the Group's share of guarantees and counter guarantees amounted to about HK\$61 million and HK\$89 million respectively.

The Group has also underwritten to the associates cash calls to finance their respective working capital requirements and no capital call request was outstanding as at 31 December 2004. Based on the degree of completion of the overseas projects and the currently available information, management does not anticipate any call for major cash contribution in the foreseeable future.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of contingent liabilities. The most significant estimate relates to the valuation of the Group's property investments.

For the purpose of preparing the 2004 financial statements, real estate properties were carried at market values determined by an independent professional valuer, Knight Frank Hong Kong Limited. The Group's investments in overseas property development projects were determined from management reports and audited financial statements. Due diligence was carried out on asset value, market information and estimated achievable sales proceeds. Due to the inherent uncertainties of valuation, the values reflected in the financial statements may differ from subsequent realisation.

The Group and its subsidiaries and associates may be subject to certain income and non-income-based taxes in their respective jurisdictions. As such, the management, upon advice from tax consultants where necessary, made reasonable estimates and necessary disclosures for tax exposures. Actual assessment amounts and results may differ from such estimates.

Changes in Significant Accounting Policies in 2005

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has established the objective of harmonising Hong Kong Accounting Standards with International Financial Reporting Standards. The HKICPA has accordingly issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "HKFRS" and "HKAS"), which are effective for accounting periods beginning on or after 1 January 2005.

The Group has already commenced an assessment of the impact of these new HKFRS and HKAS and has so far concluded that adoption of the following new accounting standards will be of particular significance to the Group:

- HKAS 40 on Investment Property;
- HKAS 32 on Financial Instruments: Disclosures and Presentation;
- HKAS 39 on Financial Instruments: Recognition and Measurement; and
- HKFRS 3 on Business Combinations.

Overview

An important underlying concept of the HKAS 40, HKAS 32 and HKAS 39 is to move away from the "historical cost" principle to the concept of "fair value". Movements in balance sheet carrying values are charged to the income statement, which may introduce greater volatilities in earnings and financial ratios.

HKFRS 3 calls for revised accounting treatment for negative goodwill which is currently governed by Statement of Standard Accounting Practice 30.

HKFRS 3 essentially calls for negative goodwill to be recognised immediately instead of a systematic amortisation as a gain to the income statement.

HKAS 40

Companies are given an option to carry their long-term property interests at either cost (less amortisation) or "fair value". Consistency in treatment for subsequent accounting periods is required once the option is chosen.

The Group will account for its investment properties using the "fair value" approach. All revaluation surpluses and shortfalls will be taken through the income statement, affecting earnings directly. The current treatment of taking revaluation surpluses and shortfalls to reserves will cease. As a result, more volatility in our earnings figures is anticipated. The precise financial impact will depend on the prevailing real estate market conditions at reporting dates.

Deferred tax on all revaluation surpluses is likely to be provided. This will affect the net assets value per share figure.

In view of this significant change, management will adopt an appropriate communication plan to ensure that its shareholders and other stakeholders understand the changes and full implications so that they can make an informed assessment of the Group's financial performance. Management therefore intends to present additional information to the shareholders and stakeholders on earnings and net assets value per share, highlighting the impacts of the revaluation movements and their related deferred tax charges.

HKAS 32 and 39

The two standards seek to move away from "historical cost accounting" to "performance accounting" and require mark-to-market treatment and additional disclosure on financial

instruments. Hedging instruments do not need to be marked-to-market but can only be recognised under strict definitions and criteria stipulated in the standards. Appropriate disclosures are required.

As part of its treasury risk management activities, the Group enters into derivatives and forward contracts for differences. Typical contracts include interest rate swaps (converting a floating rate debt into fixed rate) and cross currency swaps (converting debts denominated in foreign currency back into our base currency in Hong Kong Dollars). Group treasury policy only permits the use of derivatives for hedging purposes, it is therefore likely that most of these contracts will continue to qualify as hedges under the new standards. However, the pricing and other market inefficiencies may cause timing differences in earnings over the life of the hedging instrument. We are not currently in a position to quantify its financial impact as it is dependent on market conditions prevailing at reporting dates.

HKFRS 3

Under the current accounting standards, negative goodwill, being excess of the acquirer's interest in the net assets values of the identifiable assets, liabilities and contingent liabilities bought over the costs of purchase, are deferred in the balance sheet. Such negative goodwill is systematically amortised with a corresponding gain credited to the income statement.

The new HKFRS 3, however, calls for an immediate recognition of such gains to the income statement. All outstanding negative goodwill (HK\$49 million) previously deferred shall be eliminated



and derecognised by way of an adjustment to the opening shareholders' funds. Starting from year 2005, the annual gain of HK\$2 million, being amortisation of negative goodwill previously acquired, shall no longer go through the income statement.

Capital Expenditure and Management

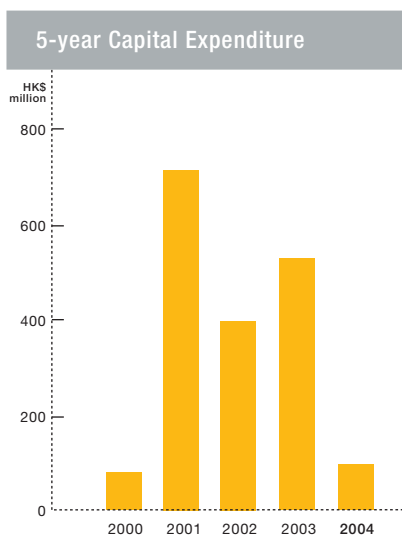
The Group is committed to enhancing the asset value of its investment property portfolio through selective re-tenanting, physical improvements, renovation and repositioning:

- re-tenanting** is particularly important for our retail properties in optimising tenant mix. In moving towards our goal of creating a horizontally integrated shopping district offering a broad appeal to different consumer groups, the Group has, over the past few years, continually seized opportunities to refine the tenant mix of its retail centres. These included The Lee Gardens and Lee Gardens Two (luxury retail); Lee Theatre Plaza and Leighton Centre (lifestyle and restaurants); Hennessy Centre (family-oriented retail); Sunning cluster comprising Sunning Plaza, AIA Plaza and 111 Leighton Road (specialty food and beverage);
- physical improvements** - the Group regularly reviews the need for, and implements physical improvements ranging from reconfiguration of building and shop space layout to improving building efficiency and rental potential;
- repositioning** completed in the last two years included the Bamboo Grove residential project and the Lee Gardens Two retail project. Both projects proved successful

as evidenced by the rental levels and occupancy contributions;

- renovations and whole life cycle maintenance programme** - the Group also has in place a portfolio-wide whole life cycle maintenance programme as part of its ongoing strategy to proactively review and implement maintenance activities. Works carried out in 2004 under the whole life cycle maintenance programme included improvement projects for Leighton Centre and Hennessy Centre.

Total cash outlay of capital expenditure (excluding purchase of plant and equipment) during the review year was HK\$104 million.



The Group has an internal control system for scrutinising capital expenditures. Detailed analysis on expected risks and returns are submitted to division heads, Executive Directors or the Board for consideration and approval, and depending on strategic importance, cost/benefit and the size of the projects. The criteria for assessment of financial feasibility are generally on net present value, payback period and internal rate of return from projected cash flow and residual value.

At year end, the Group had HK\$2.3 billion undrawn committed bank facilities. This availability, together with the Medium Term Note Programme, the Treasury securities portfolio and positive cash flows from operations, should be sufficient to cover the Group's refinancing and capital expenditure needs over the next few years.

Customer Focus

Our Long-Term Partnership with Tenants

Hysan values long-term partnerships with its tenants and strives to provide the highest standards in service and property management in meeting and exceeding their needs.

Tenant Relationship Management

Communications is key to understanding tenants' needs and regular meetings with tenants provide the necessary platforms for our teams of account managers to understand and respond to their individual requirements. Feedback from tenants on services and property facilities is followed up internally by means of service management systems such as ServiceScan®.

Property Management

Hysan's ServiceScan® service management system uses a comprehensive set of service levels for all property management services including car parks, lifts and escalators, security, request handling, cleaning and maintenance. The system identifies a series of key performance indicators that is measured monthly in each building, enabling us to monitor service performance and identify opportunities for improvement. Since implementing ServiceScan®, Hysan has amended service levels to continuously improve delivery and meet customer requirements. The programme has generated considerable positive customer comments and it was awarded the Best Practice Award shortly after implementation.

As part of Hysan's Satisfaction Management System to measure customer satisfaction levels for ongoing service improvements, a comprehensive customer satisfaction survey covering customer service and property management service areas was conducted between April and May 2004. 585 office, retail and residential tenants were surveyed by means of one-on-one interviews on six customer services areas including Public Area Services, Problem Handling Ability, Building Staff Performance, Security Staff Performance, Technical Performance, and Communication Channels. The two property management service areas surveyed were Facilities Provision and Site Factors.

The findings indicated that 99% of our tenants were satisfied with the overall service areas with the remaining 1% only slightly unsatisfied. The survey also aimed to identify those service areas that have the greatest impact on the satisfaction level of tenants and it helped prioritise organisational improvement efforts in these areas. As a result of the survey, an improvement plan has been drawn up that will see Hysan providing more staff training, redesigning some work processes and offering additional services in tenanted areas. Quarterly tracking surveys with tenants will be carried out in future for continuous tracking of customer satisfaction levels.

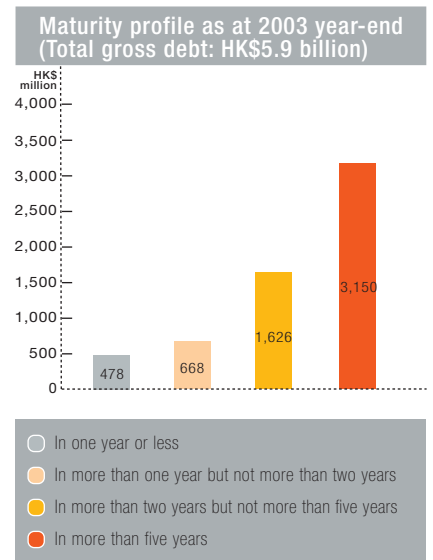
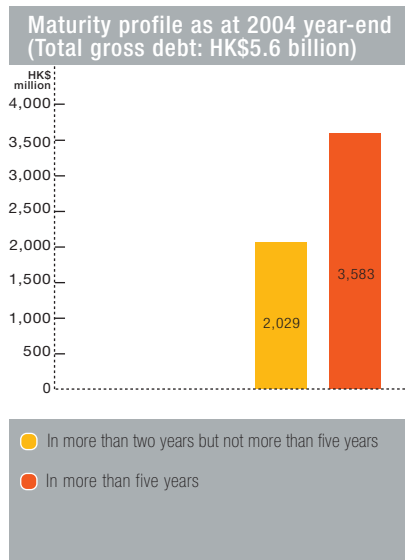
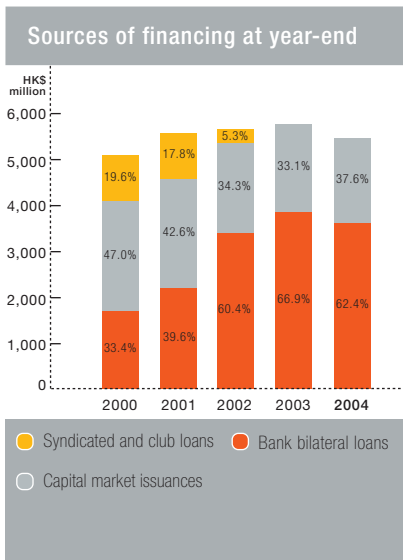


Financial Prudence and Managing Risks

Financing Policy, Internal Controls and Risk Management

We adhered to a policy of financial prudence throughout the review year and achieved:

- low net gearing ratio at 20.8%
- high net interest coverage ratio at 7.3 times
- average debt maturity stretched further to 5.5 years
- debt level reduced from HK\$5.9 billion to HK\$5.6 billion
- 50.7% of outstanding debts are fixed rate debts to further reduce adverse impact of any rise in interest rates
- investment-grade credit rating
 - Baa1 (Moody's)
 - BBB (Standard and Poor's)



FINANCING POLICY

We adhere to a policy of financial prudence. Our objectives are to:

- maintain a strong balance sheet by actively managing debt level and cash flow
- secure diversified funding sources from both banks and capital markets
- minimise refinancing and liquidity risks by attaining healthy debt repayment capacity, maturity profile, availability of banking facilities with minimum collateral on debt
- manage the exposures arisen from adverse market movements in interest rates and foreign exchange through appropriate hedging strategies
- monitor counter-party risks by imposing proper counter-party limits and reduce financial investment risk by holding quality marketable securities

The Treasury policy manual lays down the acceptable range of operational parameters and gives guidance on the above areas in order to achieve the objective of financial prudence.

Treasury has an overall objective of optimisation of borrowing costs: that is, to minimise the finance costs subject to the constraints of the operational parameters. The cost of financing was 2.54% for 2004.

As at 31 December 2004, the total outstanding borrowings of the Group amounted to HK\$5.6 billion, a decrease of 5.2% from HK\$5.9 billion in 2003. All these borrowings are on unsecured and committed basis.

The Group always takes a prudent approach in managing its loan portfolio. On the individual loan level, the Group strives to lower the borrowing margin as far as possible; but on the portfolio level, the more important objectives are to ensure sufficient available facilities, diversify the funding sources and maintain a suitable average tenor relative to the overall duration of the use of the funds. The Group also established long-term relationships with a number of local and overseas banks. At present, 15 local and overseas banks have provided bilateral banking facilities to the Group and such bank borrowings accounted for 62.4% of the Group's total borrowings while the remaining 37.6% outstanding debts were sourced from the capital market.

In November 2004, HK\$400 million floating rate notes were due for redemption. In order to maintain a comfortable balance on debts from the capital market, the Group issued a total of three new floating rate notes, amounting to HK\$550 million, from the Medium Term Note (MTN) Programme established in 2001. These issues marked the lowest point in the funding cost amongst the Group's existing loans and committed facilities.

In February 2005, the Group launched a 15-year zero-coupon notes issuance. The notes, which have the longest tenor in the Group's debt portfolio, were issued at a discount with a notional amount of HK\$430 million. The Group has a call option on the notes on the 10th anniversary date of the issue date. This note issuance, another drawdown from the MTN Programme, signified market confidence in the Group's credit by accepting an exceptionally long tenor for a Hong Kong Dollar issuance and no requirement of interest payment before the final maturity (or call) date of the notes.

All these capital market issuances reaffirm the Group's capability in tapping the capital market for various types of debt instruments and the Group's prudent financing strategy which focuses not only on lowering the funding costs but also reducing the financing risks.

Liquidity and Cash Balance

The Group does not underestimate the importance of sufficient liquidity. The Group's major sources of liquidity are from the strong recurring cash flows of the business and the committed banking facilities. The total undrawn committed facilities of HK\$2.3 billion as at 31 December 2004 essentially allows the Group to obtain the same level of liquidity as holding the equivalent amount of cash.

Another step that the Group has taken to lower the liquidity risk due to the lack of funds for repayment of maturing debts is to maintain an evenly spread maturity profile and reduce the concentration of debts maturing in the near term.

As at 31 December 2004, 63.8% of the outstanding debts would only be due after five years. Furthermore, there will not be any outstanding debt maturing within the next two years. The average maturity of the debt portfolio was about 5.5 years.

With such a maturity profile in place, the Group stands in a favourable position to commit on longer capital expenditure requirements if opportunity arises without concern on the refinancing risk.

Total debt at end of 2004 was HK\$5.6 billion, HK\$0.3 billion below the level in 2003. The source and application drivers leading to the lower debt are analysed below:

	2004 HK\$ million	2003 HK\$ million	Change HK\$ million
Operating activities			
Cash generated from operations	808	799	9
Tax paid	(64)	(135)	71
	744	664	80
Investing activities			
Net receipts from (payments to) overseas projects	117	(109)	226
Additions to investment properties	(104)	(418)	314
Additions to plant and equipment	(4)	(2)	(2)
Proceeds from securities disposals	26	116	(90)
Dividends and interests received	27	24	3
	62	(389)	451
Financing activities			
Dividends paid	(347)	(348)	1
Finance costs	(161)	(180)	19
Net (decrease) increase in borrowings	(311)	216	(527)
Others	20	29	(9)
	(799)	(283)	(516)
Net increase (decrease) in cash balances	7	(8)	15

Operating activities in 2004 brought a moderately higher cashflow than 2003, at HK\$808 million, of which HK\$64 million was applied to pay for the taxation due during the year.

Overseas joint venture projects repaid HK\$117 million in 2004, contrary to a net outflow in 2003. Additions to investment properties were much lower in 2004 at HK\$104 million, alleviating the need to dispose our blue-chip listed securities, the Group's liquidity buffer, to the same extent as in 2003. Proceeds from listed securities disposal amounted to HK\$26 million in 2004.

Net cash generated from 2004 operating and investing activities were HK\$744 million and HK\$62 million respectively. Allowing for dividend payments of HK\$347 million and finance costs of HK\$161 million, the remaining cash was applied to reduce the debt borrowing by HK\$311 million.



Interest Rate Exposure

Interest expenses account for a significant proportion of the Group's total expenses. Therefore, the Group monitors the interest rate exposures closely. Depending on our medium-term projections on the interest rates, appropriate hedging strategy would be adopted to manage the exposure.

The Group's cost of financing in 2004 was 2.54%. In anticipation of higher interest rates in the next few years, 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 impacts of any rise in interest rates in the near future. The remaining 50.7% fixed rate debts are largely fixed between two to three years.

Foreign Exchange Exposure

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 of 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.

Use of Derivatives

The Group uses derivatives extensively to manage the interest rate and foreign exchange exposures. To avoid the Group being exposed to losses arising from the use of derivatives, the potential impacts of their use are evaluated thoroughly before executing the transactions. The Group's policy also prohibits the use of derivatives for purposes other than hedging.

Before entering into any hedging transaction, the Group will ensure that the counterparty possesses strong investment-grade ratings so that the transaction will not expose the Group to undue credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty. The level of the limit is basically in line with the credit quality of the counterparty.

Credit Ratings

Moody's and Standard and Poor's have given the Group the credit ratings of 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 light of the upturn in Hong Kong's retail market and stability in the office sector.

With these sound investment-grade ratings, the Group can readily access the local as well as international capital markets to raise funds from different types of investors.

Key Financial Ratios Net Interest Coverage

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 favourable debt level, low interest rates and the active management of interest rate exposure.

Net Gearing

The year-end 2004 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 debt, while revaluation gain on investment properties and securities uplifted the shareholders' funds.

INTERNAL CONTROLS

Overall Responsibility

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness.

A sound system of internal controls is designed to manage rather than eliminate risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss. The concept of reasonable assurance recognises that the cost of a control procedure should not exceed the expected benefits.

Control Structure

Whilst the Board maintains full control and direction over the appropriate strategic, financial, organisational and compliance issues, it has delegated to management the implementation of the systems of internal controls within an established framework.

Management has a clear responsibility to provide the whole Board with all the information that is relevant to discharge the Board's responsibilities.

Control Environment, Monitor and Review

Management has put in place an organisational structure with formally defined lines of responsibility and delegation of authority. The Group's operating procedures include a comprehensive system for reporting information to management and the Board. Budgets prepared by individual business and support units based on

business objectives and operating environment are reviewed and endorsed by both management and the Board.

Forecasts are revised on a quarterly basis and compared against budget and prior forecasts. When presenting budgets and forecasts, potential significant business risks were identified, evaluated and reported. Variances against budget and latest forecasts are presented with reference to key performance drivers, to facilitate monitoring and measurement against corporate objectives. Business sector reports and key operating statistics, ratios and trends are also presented.

This top-down management control environment is supplemented by transaction processing controls. The importance of control is communicated to staff members to foster the control environment and awareness within the Group. Staff policy is set out to ensure competent personnel in key managerial and supervisory positions with appropriate knowledge and experience to effectively administer management policies and procedures.

Review of Effectiveness, Internal and External Audit

The Managing Director and the Chief Financial Officer undertake to report to the Audit Committee any significant control failings or weaknesses together with details of corrective action. On a half yearly basis, the Audit Committee and management



meet with the external auditors, Deloitte Touche Tohmatsu who will report their findings on internal controls and relevant financial reporting matters.

Management believes that effective internal controls is a continuous process of self-refinement and communication. A high degree of management involvement is adopted alongside a detailed and regular reporting environment. Root cause analysis is performed on failures reported.

Management currently takes the view that there is no immediate need to set up an Internal Audit function within the Group in light of current systems of internal controls and risk management. This will be reviewed from time to time. Management may engage external consultants to review selected areas of the control systems so as to obtain comfort on the operational and effectiveness of the internal control.

An international accounting firm was engaged in early 2004 to perform a process review on the Group's treasury and payment cycle and the results were satisfactory. Another review is being undertaken and an international accounting firm was appointed to examine the expenses processing cycle of the Group, with the objective of evaluating the operational effectiveness of the controls in the authorisation and approval of selected expenditure streams.

RISK MANAGEMENT

Management and manager of each business and support units, together with leaders of major projects, are responsible for identifying, evaluating and managing the significant risks that may cause business disruption or discontinuation. Appropriate policy and procedures are developed depending on materiality, probability of occurrence and impact if occurring. These include, but are not limited to:

1. Treasury policy manual on liquidity, interests and foreign exchange exposures;
2. Defined procedure for legal and compliance updates;
3. Established system of call tree for emergency on enterprise level and building services interruption;
4. Preventive maintenance programme to address building safety, regulations and environmental issues;
5. Comprehensive insurance coverage and regular review by a professional external broker; and
6. Defined authorisation as well as payment review and approval systems.

Way Forward

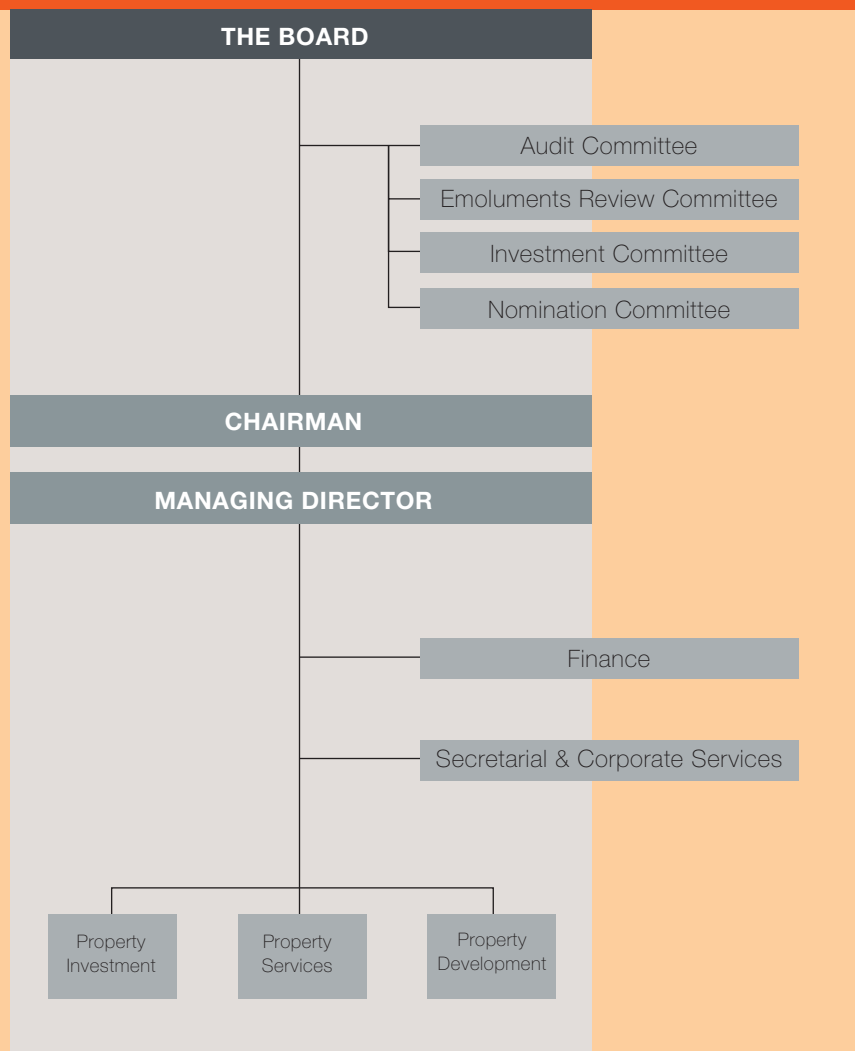
In addition, management plans to conduct a comprehensive review during 2005, with the following objectives:

1. Review all written policies and procedures with a view to formalise and to ensure clearly defined limits of delegated authority, and to provide a collaborative framework for management to deal with areas of significant risks;
2. Review all reports to management and directors to ensure a reasonable basis of detecting material misstatement or loss; and
3. Formalise an enterprise risk management framework. A comprehensive control self-assessment exercise should be conducted annually by each major project, business and support area to identify risks that will cause material disruption to our business, or in extreme cases when business continuity may be affected. The probability of those risks occurring, the impact if they do occur and the effectiveness of the controls to mitigate those risks to the desired level should be assessed.

Sound Management

Board of Directors and Senior Management

Structure



CHAIRMAN

Peter Ting Chang LEE *(I, chairing N)*
J.P.

INDEPENDENT NON-EXECUTIVE DEPUTY CHAIRMAN

Sir David AKERS-JONES
(N, chairing A,E)
G.B.M., K.B.E., C.M.G., J.P.

MANAGING DIRECTOR

Michael Tze Hau LEE *(I)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Per JORGENSEN *(A)*
Dr. Geoffrey Meou-tsen YEH *(E,N)*
S.B.S., M.B.E., J.P., D.C.S., M.Sc.,
F.C.I.O.B., F.Inst. D.

NON-EXECUTIVE DIRECTORS

Fa-kuang HU *(E)*
G.B.S., C.B.E., J.P.
Hans Michael JEBSEN *(I)*
B.B.S.
Anthony Hsien Pin LEE *(chairing I)*
Chien LEE *(A)*
Dr. Deanna Ruth Tak Yung RUDGARD

DIRECTOR, PROPERTY

Pauline Wah Ling YU WONG

CHIEF FINANCIAL OFFICER

Ricky Tin For TSANG

COMPANY SECRETARY

Wendy Wen Yee YUNG

- (A) Audit Committee
- (E) Emoluments Review Committee
- (I) Investment Committee
- (N) Nomination Committee

BOARD OF DIRECTORS



Peter Ting Chang LEE

J.P.

Chairman (I, chairing N)

Peter T. C. Lee joined the Board in 1988, became Managing Director in 1999, and Chairman in 2001. Mr. Lee is a non-executive director of Cathay Pacific Airways Limited, Hang Seng Bank Limited, SCMP Group Limited, Maersk (China) Shipping Company Limited, and a director of a number of other companies. He is also vice president of the Real Estate Developers Association of Hong Kong. He is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited. Mr. Lee holds a Bachelor of Science Degree in Civil Engineering from the University of Manchester and is also qualified as a Solicitor of the Supreme Court of England and Wales. He is aged 51.



Sir David AKERS-JONES

G.B.M., K.B.E., C.M.G., J.P.

Independent non-executive Deputy Chairman (N, chairing A, E)

Sir David is Chairman of GAM Hong Kong Limited, Deputy Chairman of CNT Group Limited and a non-executive director of various other companies. He is also a chairman and member of various voluntary organisations. He received his Master of Arts Degree at Oxford University. He was formerly the Chief Secretary of Hong Kong. He was appointed a Director in 1989 and became the Deputy Chairman in 2001. He is aged 77.



Michael Tze Hau LEE

Managing Director (I)

Michael T. H. Lee joined the Board in 1990, became Chief Operating Officer in 2002, and Managing Director in 2003. Mr. Lee is a member of the Main Board Listing Committee of The Stock Exchange of Hong Kong Limited, a non-executive director of Tai Ping Carpets International Limited, and a member of the Executive Committee of Hong Kong Housing Society. He is President of Hong Kong Society for the Protection of Children and Vice Chairman of Helping Hand. He is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited. Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and Master of Business Administration Degree from Boston University. He is aged 43.



Fa-kuang HU

G.B.S., C.B.E., J.P.

Non-executive Director (E)

Mr. Hu is Senior Advisor of Mitsubishi Electric Hong Kong Group Limited (formerly "Ryoden (Holdings) Limited"). He is also a director of i-CABLE Communications Limited. Mr. Hu holds a Bachelor of Science Degree from Shanghai Jiao Tong University; appointed a Director in 1979 and is aged 81.



Hans Michael JEBSEN

B.B.S.

Non-executive Director (I)

Mr. Jepsen is Chairman of Jepsen and Company Limited as well as a director of other Jepsen Group companies worldwide. He is also a director of The Wharf (Holdings) Limited. He was appointed a Director in 1994 and is aged 48.



Per JORGENSEN
Independent non-executive Director (A)

Mr. Jorgensen is a director of A.P. Moller - Maersk A/S, Denmark and a number of A.P. Moller-Maersk companies in Asia, Africa and Europe. He was appointed a Director in 1981 and is aged 69.



Anthony Hsien Pin LEE
Non-executive Director (chairing I)

Mr. Lee is a director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. He is also a director of Australian-listed Mariner Financial Limited, a Sydney based financial services group. He received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited. He was appointed a Director in 1994 and is aged 47.



Chien LEE
Non-executive Director (A)

Mr. Lee is a private investor and a director of a number of companies including Swire Pacific Limited of which he is a non-executive director. He is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited. Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University. Mr. Lee was appointed a Director in 1988 and is aged 51.



Dr. Deanna Ruth Tak Yung RUDGARD
Non-executive Director

Dr. Rudgard received a Master of Arts Degree, Bachelor of Medicine and of Surgery Degree from Oxford University. She is a member of the founding Lee family and a director of Lee Hysan Estate Company, Limited. She was appointed a Director in 1993 and is aged 65.



Pauline Wah Ling YU WONG
Director, Property

Responsible for the Group's property portfolio. Having obtained a Bachelor of Arts Degree from The University of Hong Kong, she qualified as a Fellow Member of the Chartered Institute of Housing. She joined the Company in 1981 and has over 30 years of experience in the property field. She was appointed a Director in 1991 and is aged 56.



Dr. Geoffrey Meou-tsen YE H
S.B.S., M.B.E., J.P., D.C.S., M.Sc., F.C.I.O.B., F.Inst.D.
Independent non-executive Director (E, N)

Dr. Yeh is former Chairman of Hsin Chong Construction Group Ltd. He is currently an independent non-executive director of China Travel International Investment Hong Kong Limited. He holds a Bachelor of Science Degree from University of Illinois and a Master of Science Degree from Harvard University. Dr. Yeh was appointed a Director in 1979. He is aged 73.



From left:
Ben S.S. Lui, Mark S.W. Chim, Wendy W.Y. Yung, Ricky T.F. Tsang, Michael T.H. Lee, Peter T.C. Lee, Pauline W.L. Yu Wong, Alex C.W. Lui, Lora W.S. Luke, Deric Probst-Wallace, Vincent W.K. Chang

SENIOR MANAGEMENT

Ricky Tin For TSANG *Chief Financial Officer*

Mr. Tsang is responsible for Group finance. He holds a Master Degree in Engineering from Oxford University, and is qualified as a Chartered Accountant with the Institute of Chartered Accountants of England and Wales. Mr. Tsang is also a member of the Association of Corporate Treasurers in the United Kingdom. Prior to joining the Group in 2004, he had held senior business and finance positions with leading financial institutions in Hong Kong and the United Kingdom. He has extensive experience in management and finance including risk management, treasury and financial control. He is aged 43.

Wendy Wen Yee YUNG *Company Secretary*

Ms. Yung is responsible for Group corporate services including legal, company secretarial, human resources, corporate communications and administration. She sits on the Hong Kong Selection Committee of the Rhodes Scholarships which support postgraduate studies at Oxford University. She holds a Master of Arts Degree from Oxford University and is a solicitor of the High Court of the HKSAR. Prior to joining the Group in 1999, she was a partner of an international law firm in Hong Kong. She is aged 43.

Alex Chun Wan LUI *Senior Advisor, Urban Design and Architectural Services*

Mr. Lui is responsible for the Group's urban design and architectural services. He is a Registered Architect and an Authorised Person (Architect), and a member of the Town Planning Board. He holds a Master Degree in City Planning from the Massachusetts Institute of Technology and a Bachelor of Architecture Degree from the University of Hong Kong. Before joining the Group in 2002, he was Professor in Architecture of the Chinese University of Hong Kong and has practised architecture and urban design for almost 30 years in Hong Kong, Singapore and USA. He is aged 61.

Mark Sun Wa CHIM *General Manager, Office Leasing*

Mr. Chim is responsible for the Group's office leasing activities. He graduated from The Hong Kong Polytechnic University in Building Technology and Management and holds an MBA Degree from Heriot-Watt University. Before joining the Group in 1999, he was National Director, Commercial Department, of an international real estate consultancy firm and has over 16 years of experience in leasing. He is aged 41.

Ben Sau Shun LUI *General Manager, Project and Technical Services*

Mr. Lui is responsible for the Group's project and technical services. He is a Chartered Civil Engineer and Registered Structural Engineer, and holds a Bachelor of Science Degree in Civil Engineering and a Master of Science Degree in Construction Project Management, both from the University of Hong Kong. Before joining the Group in 2000, he has served senior project management positions in other major listed companies. He is aged 46.

Lora Wing Sze LUKE *General Manager, Retail*

Ms. Luke is responsible for the Group's retail leasing and marketing activities. She holds an MBA Degree from University of Reading in Real Estate and Construction. Prior to joining the Group in 2000, she was senior leasing manager of a major listed property investment company. She is aged 44.

Deric PROBST-WALLACE *General Manager, Property Services*

Mr. Probst-Wallace is responsible for the Group's property services. He holds a Diploma from the Chartered Institute of Marketing, a Bachelor of Science Degree from the University of Stirling and an MBA Degree from the Cranfield School of Management. He is a Director of the Hong Kong Chapter of the International Facility Management Association and guest lecturer at The Hong Kong Polytechnic University. Before joining the Group in 2002, he was director of an international property services and construction-related consulting firm. He is aged 42.

Vincent Wai Kwan CHANG *Group Financial Controller*

Mr. Chang is responsible for Group financial and reporting affairs. He holds an MBA Degree from the Chinese University of Hong Kong, and is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in 2004, he was a director in the Asia Regional Office of a leading international real estate investment and management company. He had held Asia regional investment advisory and financial management position with leading international financial institutions and investment houses. He is aged 36.

Acting Responsibly



Being a Responsible Business

Hysan's goal is being a responsible business and we are as strongly committed to the community where we operate as we are to our shareholders.

Community

In 2004, we continued to be a responsible corporate citizen and our efforts were recognised by the Hong Kong Council of Social Service when it named us a Caring Company for the second consecutive year.

The Hysan Corporate Volunteer Team, which was established in 2003 and receives financial support from the Group, continued its mission of serving and caring for the community by taking part in various volunteering and community activities including the WWF Hoi Ha Charity Walk and Heep Hong Society Open Day.

2004 also saw Hysan continuing its collaboration with social service organisations to provide priority employment opportunities for re-trainees who have completed re-training courses.

As a major commercial landlord in Causeway Bay, Hysan launched the Charity Booth Programme in 2003 to provide charitable organisations with the free use of its venue to hold fund-raising and promotional activities. In 2004 alone, over 30 charitable activities took place at the Booth. The Group also offered exhibition venues within its portfolio in support of charitable events.

Hysan and its employees responded to the devastating tsunamis that hit

South Asia in December 2004 by mounting a staff fund-raising campaign with the Group matching all staff donations. The Group also assisted UNICEF in its fund-raising efforts by placing donation boxes in some of the Group's properties, and 17 Hysan Volunteer Team members and friends helped man donation hotlines for a Hong Kong-Government led fund-raising event held on 1 January 2005.

Hysan's responsible corporate citizenship also meant the sharing of our business expertise and knowledge with social service organisations. Members of senior management participated in helping these organisations with strategic planning and implementation.

Environment

Hysan has been awarded 13 Gold Wastewi\$e Logos by the Environmental Protection Department for its outstanding achievements in waste reduction and recycling in all of the properties the Group owns and manages. As a result of the Wastewi\$e scheme, significant waste reduction and recycling targets were met by Hysan and its tenants collectively, including the recycling of more than 750,000 kilogrammes of waste paper, and the savings of over 500 reams of A4 paper and 11 million feet of paper towel.

During the year, Hysan continued its energy efficiency drive by rationalising building operating schedules and employing more environmentally-friendly equipment.



Human Resources

Building Our Team

Objectives and Guiding Principles

The objective of the Human Resources Department is to act as a strategic business partner of the management team, responsible for aligning the people strategy with the Company's short and long-term goals. As at 31 December 2004, we have a total of 543 staff members.

Over the past few years, we introduced various human resources systems and tools to enable Hysan managers to effectively lead the organisation. These included revised performance appraisal and objective setting systems. In this light, our current emphasis is to work with Hysan managers to maximise the value of these tools.

Developing a Management Culture Based on Accountabilities

In light of a rapidly changing market environment, the Group emphasises value creation and innovation. Staff are expected to work together with leaders in driving the business ahead. We worked together with management towards developing a management culture based on "accountabilities". Each manager has clear responsibilities and will be given the necessary resources to fulfil the tasks. Within these parameters, a manager will be expected to deliver the agreed objectives.

We supported Finance Department in rolling out a new annual business planning and budgetary process. All department heads, including supporting lines, are required to prepare clear and specific department annual business plans. A "top-down" approach is then

adopted in consolidating and finalising the Company annual budget. Briefing sessions are held to ensure that departmental heads appreciate the significance of aligning departmental objectives to corporate objectives.

We completed a full-scale job description updating exercise for our building office staff to ensure that everyone has a clear understanding of his role, accountabilities and competencies. This process will be rolled out to the Head Office during 2005.

Performance Management and Reward

Hysan has always rewarded its staff based on performance and contribution to the Group. More refined merit guidelines by performance levels were built into the 2004 bonus programme and 2005 salary review. We have also balanced market competitiveness and internal equity in determining individual salary adjustment levels.

Learning and Development

We continue to foster the learning culture in Hysan during the year. As a starting point, development needs of all staff are identified as part of the annual appraisal process.

For head office management staff, we aim to provide a management curriculum that is tailored to the Group's strategic and business requirements. In the coming year, one of the focus areas is further developing the people management skills of our

managers. We shall also conduct more in-depth needs surveys and analyses to better ascertain the training requirements of our people.

As we may not have the necessary critical mass to provide business function-specific training curricula for all, we instead develop and refine guidelines on tuition reimbursement, and examination leave to support the strive for functional excellence. These guidelines are being finalised for implementation in the near future.

Communications

We conducted our first employee survey for Head Office staff in November 2004. It was positively received as reflected in the high 98% response rate. Results indicated that communication, including cross-department team work, is the priority area for improvement.

We are in the process of implementing the follow-up steps. Presentation of results to all staff have been completed. Individual department heads will organise action development meetings with their staff. Action items generated will then be consolidated by Human Resources and implemented in light of the agreed priorities. A periodic tracking and updating system will be put in place. Human Resources Department will facilitate the process by providing meeting facilitation workshops for line managers, and generally provide an actionable framework.



10 Effective Governance

Our Commitment to Corporate Governance

Attaining a high standard of corporate governance has become an intrinsic value in Hysan since its early days as a publicly-listed company. At the time of listing in 1981, separate management and operations of the private company (Lee Hysan Estate Company, Limited) and the public company (Hysan Development Company Limited) were consciously maintained to avoid potential conflicts of interest.

Meaning of Corporate Governance

The core meaning of corporate governance is about setting a framework for the functioning of a Board. The Board sets a clear goal for the business and empowers management to achieve that goal. Monitoring mechanisms are set to limit the risks that the business should be taking in pursuing its goals.

Corporate governance is an important component in our belief to act as a responsible business. That belief applies to our relationship with various stakeholders, our shareholders, business partners as well as the community.

Our Approach

We believe that central to good corporate governance is engendering an appropriate management philosophy. Both the Board and management must fully appreciate their respective roles and are supportive of developing a healthy relationship and culture.

In considering applicable regulatory codes and international best practices, we therefore look beyond a mechanical "compliance" approach. We emphasise our underlying principles and not only compliance with the detailed rules.

Value of Good Corporate Governance

Our key driver for good corporate governance is our belief that it is the right thing to do as a responsible business.

We also believe that corporate governance provides a framework (essentially by ensuring the necessary check and balances) that helps enhance the effective functioning of boards. This contributes to business prosperity.

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and management of the Company are committed to maintaining high standards of corporate governance. The Board had adopted a Statement of Corporate Governance Policy (available on website: www.hysan.com.hk) which gives guidance on how corporate governance principles are applied to the Company. In addition to complying with applicable statutory requirements, we aim to continually review and enhance our corporate governance practices in light of local and international best practices. We are honoured to have received recognitions from professional and industry bodies during 2004: Best Practice Awards 2004 – Corporate Governance, organised by Best Practice Management Limited; Directors of The Year Awards 2004, organised by The Hong Kong Institute of Directors; and 2004 Best Corporate Governance Disclosure Awards, organised by the Hong Kong Institute of Certified Public Accountants.

The Company has complied throughout the review year with the Code of Best Practice as set out in the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). We have also implemented early adoption of the Stock Exchange’s proposed Code (the “New Corporate Governance Code”) on Corporate Governance Practices.

The Company has introduced corporate governance best practices in certain key areas above and beyond the Stock Exchange’s current and proposed requirements. These are more particularly set out in this report. They include:

1. introducing a formal process for board evaluation;
2. establishing the office of an Independent non-executive Deputy Chairman acting as a “senior” Independent non-executive Director;
3. enhancing shareholder communications generally, including institutional shareholder communications;
4. emphasising business ethics and integrity; and
5. providing enhanced disclosure on shareholdings information.

We aim to provide greater transparency of our corporate governance practices beyond the requirements of the Stock Exchange’s proposed corporate governance report. To us, maintaining high standards of corporate governance practices is more than a mechanical compliance exercise. We have therefore set out in this report our guiding principles as well as detailed procedures in application. Additional information on certain corporate governance areas is set out in the following separate reports:

- Audit Committee Report;
- Directors’ Remuneration and Interests Report; and
- “Financial Prudence and Managing Risks” – report on Internal Controls and Risk Management.

STATEMENT OF COMPLIANCE

A. Directors

A1. The Board

Code Principle

The board should assume responsibility for leadership and control of the issuer; and be responsible for directing and supervising the issuer's affairs.

Hysan's Corporate Governance Best Practice

To Hysan, board mission is central to any discussions on directors and board practices. Hysan recognises that non-executive directors have two important roles. Firstly, strategic planning and, secondly, monitoring. This is clearly stated in Hysan's Corporate Governance Guidelines: Mission of the Board of Directors:

"The Board of Directors represents the shareholders' interest in maintaining and growing a successful business including optimising consistent long-term financial returns. The Board is accountable for determining that the Company and its subsidiaries are managed in such a way as to achieve this objective. The Board's responsibility is, firstly, to formulate strategy and, secondly, to monitor and control operating and financial performance in pursuit of Group strategic objectives."

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

Hysan has in place established Board process. Hysan's practices are more stringent than Code provisions in various areas, including notice of Board meetings and keeping of meeting records.

Code provisions	Alignment?	Governance procedures for Hysan																														
<ul style="list-style-type: none"> At least four board meetings a year. 	✓	<ul style="list-style-type: none"> The Board meets at least quarterly. Details of Directors' attendance records in 2004: <table style="margin-left: 20px;"> <thead> <tr> <th></th> <th style="text-align: right;">Attendance (%)</th> </tr> </thead> <tbody> <tr> <td colspan="2">Executive Directors</td> </tr> <tr> <td>Peter T.C. Lee</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Michael T.H. Lee</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Pauline W.L. Yu Wong</td> <td style="text-align: right;">100</td> </tr> <tr> <td colspan="2">Independent non-executive Directors</td> </tr> <tr> <td>Sir David Akers-Jones</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Per Jorgensen</td> <td style="text-align: right;">75 (25 by alternate)</td> </tr> <tr> <td>Dr. Geoffrey M.T. Yeh</td> <td style="text-align: right;">75 (25 by alternate)</td> </tr> <tr> <td colspan="2">Non-executive Directors</td> </tr> <tr> <td>Fa-kuang Hu</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Hans Michael Jebesen</td> <td style="text-align: right;">50</td> </tr> <tr> <td>Anthony H.P. Lee</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Chien Lee</td> <td style="text-align: right;">75</td> </tr> <tr> <td>Dr. Deanna R.T.Y. Rudgard</td> <td style="text-align: right;">75 (25 by alternate)</td> </tr> </tbody> </table> 		Attendance (%)	Executive Directors		Peter T.C. Lee	100	Michael T.H. Lee	100	Pauline W.L. Yu Wong	100	Independent non-executive Directors		Sir David Akers-Jones	100	Per Jorgensen	75 (25 by alternate)	Dr. Geoffrey M.T. Yeh	75 (25 by alternate)	Non-executive Directors		Fa-kuang Hu	100	Hans Michael Jebesen	50	Anthony H.P. Lee	100	Chien Lee	75	Dr. Deanna R.T.Y. Rudgard	75 (25 by alternate)
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Dr. Deanna R.T.Y. Rudgard	75 (25 by alternate)																															
<ul style="list-style-type: none"> All directors be given an opportunity to include matters in the agenda for regular board meetings. 	✓	<ul style="list-style-type: none"> Directors are consulted to include any matter in the agenda for regular Board meetings. 																														
<ul style="list-style-type: none"> Notice of at least 14 days be given of a regular board meeting. 	✓	<ul style="list-style-type: none"> The Company generally gives notice and draft agenda of regular Board meetings at least 21 days in advance. The Company aims at giving reasonable notice generally for all other Board meetings. 																														
<ul style="list-style-type: none"> Access to advice and services of the company secretary. 	✓	<ul style="list-style-type: none"> All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters. 																														

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Minutes of meetings kept by company secretary and open for inspection. Draft and final minutes sent to all Directors for comments within a reasonable time. 	✓	<ul style="list-style-type: none"> The Company Secretary is responsible for taking minutes of Board and Board Committee meetings, which would be sent to Directors within a reasonable time (generally within 14 days) after each meeting and generally be made available for inspection by Directors/committee members.
<ul style="list-style-type: none"> Agreed procedure for Directors to seek independent professional advice at the company's expense. 	✓	<ul style="list-style-type: none"> Hysan's corporate governance guidelines provide for Directors taking independent professional advice at the Company's expense.
<ul style="list-style-type: none"> If a substantial shareholder/director has a conflict of interest in a material matter, board meeting should be held. Such director must abstain from voting and not be counted in quorum. 	✓	<ul style="list-style-type: none"> There is a prescribed list of matters reserved for full Board decision which includes material transactions with connected persons. For this category, full Board meetings will be held instead of by way of circulation. The Company's articles provide for voting and quorum requirements conforming with Code requirements.
Recommended Best Practice		
<ul style="list-style-type: none"> Insurance cover in respect of legal action against directors. 	✓	<ul style="list-style-type: none"> There is in place a Directors' & Officers' Liabilities Insurance cover.
<ul style="list-style-type: none"> Board committees should adopt broadly the same principles and procedures. 	✓	<ul style="list-style-type: none"> Board committees adopt broadly the same principles and procedures as stated above.

A2. Chairman and Chief Executive Officer

Code Principle

Clear division of responsibilities – separate offices of chairman and chief executive officer to ensure a balance of power and authority.

Hysan's Corporate Governance Best Practice

Hysan generally support the principles of (i) splitting the roles of Chairman and Managing Director; and (ii) board independence. This is provided in Hysan Corporate Governance Guidelines: Principle 4 – Chairman and Managing Director:

"a) The roles of Chairman and Managing Director are currently separate.

b) The Board supports the principle of Board independence and continually reviews the implementation of this principle. Currently, a "senior" Independent non-executive Director has been identified and acts as the Independent Deputy Chairman of the Board. The "senior" non-executive Director may also assume such responsibilities as might be designated by the Board."

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

Hysan's practices go beyond Code provisions in a number of areas:

- Establishment of the office of a "senior" Independent non-executive Director – Sir David Akers-Jones acts as the Independent non-executive Deputy Chairman of the Board, who also chairs the Hysan corporate governance related committees, namely the Audit Committee and the Emoluments Review Committee. The presence of an Independent non-executive Deputy Chairman is designed to ensure the Board functions effectively and independent of management where appropriate.
- Introduction of a formal board evaluation process.
- Active role played by the Chairman in driving corporate governance developments in the Company.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Roles of chairman and chief executive officer should be separate; clearly established and set out in writing. 	✓	<ul style="list-style-type: none"> Peter T.C. Lee serves as the Chairman and Michael T.H. Lee serves as the Managing Director. The Chairman focuses on Group strategic and Board issues. The Managing Director has overall chief executive responsibility for Group operations and development generally.
<ul style="list-style-type: none"> The Chairman should ensure all directors be briefed on issues arising at the board meeting. 	✓	<ul style="list-style-type: none"> The Chairman has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities. The Company aims to continually improve on the quality and timeliness of the dissemination of information to Directors. (See Section A6 – "Supply of and access to information" for further details)
<ul style="list-style-type: none"> The Chairman should ensure directors to receive adequate information. 		
Recommended Best Practice		
<p>Various recommended roles for Chairman including:</p> <ul style="list-style-type: none"> Drawing up and approving board agenda. 	✓	<ul style="list-style-type: none"> The agenda of Board meetings is finalised by the Chairman in consultation with executive Directors and Company Secretary after taking into consideration any matters proposed by the non-executive Directors.
<ul style="list-style-type: none"> Establishment of ensuring good corporate governance practices and procedures. 	✓	<ul style="list-style-type: none"> The Chairman plays a key role in driving corporate governance development in the Company. New initiatives introduced in 2005: <ul style="list-style-type: none"> introducing a formal process for Board evaluation; enhanced shareholder communications generally including institutional shareholder communications; enhanced business ethics practices.
<ul style="list-style-type: none"> Encourage directors to make a full and active contribution to board affairs. 	✓	<ul style="list-style-type: none"> Hysan goes beyond recommended best practices and now has in place a formal process of Board evaluation. Under the direction of the Chairman, the Board considers its performance as a group. As part of the evaluation process, the non-executive Directors met with the Chairman and feedback was provided on various areas including Board process, and the relationship between Board and management.
<ul style="list-style-type: none"> At least annually hold meetings with non-executive directors without executive directors present. 		
<ul style="list-style-type: none"> Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors. 		

A3. Board composition

Code Principle

The board should have a balance of skills and experience appropriate to the requirements of the business of the issuer, which also consists of a balanced composition of executive and non-executive directors (including independent non-executive directors) so that independent judgment can effectively be exercised.

Hysan's Corporate Governance Best Practice

Diversity

Hysan's Board members bring an appropriate diverse set of experience, competencies, skills and judgment to the Board. From our experience, diversity of background and experience lead to more effective Board deliberations.

Skill/experience

Executive Directors

- Top management (overall strategic direction and daily operations of Hysan) – Peter T.C. Lee (Chairman) and Michael T.H. Lee (Managing Director)
- Business line – Pauline W.L. Yu Wong (Director, Property)

Independent non-executive Directors

- Civil service – Sir David Akers-Jones (Independent non-executive Deputy Chairman)
- Multi-national corporations/global exposure – Per Jorgensen
- Related business (construction) – Dr. Geoffrey M.T. Yeh

Non-executive Directors

- Related business (real estate and investment) – F.K. Hu
- Trading companies/global exposure – Hans Michael Jebsen
- Finance and investment – Chien Lee and Anthony H.P. Lee
- Professional – Dr. Deanna R.T.Y. Rudgard

Independence

Hysan supports the principle of Board independence. This is stated in our Corporate Governance Guidelines: Principle 6 – What constitutes independence for outside directors:

“The Board believes that independence is a matter of judgment and conscience but that, in order to be independent, non-executive Directors should be free from any business or other relationship that might interfere with the exercise of their independent judgment. Directors considered to be independent will be identified in the Annual Report and other communications with shareholders.”

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

The current Hysan Board structure, including the presence of the Independent non-executive Deputy Chairman (who also chairs two corporate governance related Board committees), is designed to ensure that our Board functions effectively and independent of management where appropriate.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none">• Identify the independent non-executive directors in all corporate communications.	✓	<ul style="list-style-type: none">• Composition of the Board, by category of Directors, including names of Chairman, executive Directors, Independent non-executive Directors and non-executive Directors is disclosed in all corporate communications.
Recommended Best Practice		
<ul style="list-style-type: none">• Independent non-executive directors should represent at least one-third of the board.	✓	<ul style="list-style-type: none">• Hysan Board comprises three Independent non-executive Directors representing one-third of the full Board.
<ul style="list-style-type: none">• Maintain on the website an updated list of its directors identifying their role, function and (where applicable) independence.	✓	<ul style="list-style-type: none">• Biographies of Directors, including clear designation of their roles and responsibilities, are maintained on the website.

A4. Appointments, re-election and removal

Code Principle

Formal, considered and transparent procedures should be established for the appointment of new directors. Significant emphasis should also be placed on issue of succession planning.

Hysan’s Corporate Governance Best Practice

The Board as a whole is responsible for the procedure of agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment and thereafter at regular intervals by rotation.

In March 2005, the Board established a Nomination Committee which is chaired by Peter T.C. Lee, Chairman of the Board, and its other members are Sir David Akers-Jones, Independent non-executive Deputy Chairman, and Dr. Geoffrey M.T. Yeh, Independent non-executive Director.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board from time to time and recommends to the Board on appointments of Directors. The full terms of reference are available on the Company’s website: www.hysan.com.hk.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Non-executive directors should be appointed for a specific term, subject to re-election. All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting. Every director should be subject to rotation at least once every three years. 	✓	<ul style="list-style-type: none"> Subject to shareholders' approval at the forthcoming Annual General Meeting ("AGM"), the Company's Articles of Association will be amended so that every Director shall be subject to retirement by rotation at least once every three years. Under the Company's Articles, new Directors are required to submit themselves for re-election at the first AGM following their appointment.
Recommended Best Practice		
<ul style="list-style-type: none"> Election of an independent non-executive director serving more than nine years – explanatory statement to provide information on his independence. 	✓	<ul style="list-style-type: none"> The AGM circular contains detailed information on election of Directors including detailed biographies, interests, and (where appropriate) independence of all Directors standing for re-election.
<ul style="list-style-type: none"> The issuer should establish a nomination committee, comprising a majority of independent non-executive directors. 	✓	<ul style="list-style-type: none"> In March 2005, the Board established a Nomination Committee comprising a majority of Independent non-executive Directors.

A5. Responsibilities of directors

Code Principle

All directors (including non-executive directors) are required to keep abreast of their responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer.

Hysan's Corporate Governance Best Practice

The roles of Hysan's Directors are clearly stated in Hysan's Corporate Governance Guidelines – The mission of the Board of Directors.

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

Hysan has in place clear corporate governance policy and process to ensure that all Directors fully appreciate their roles and responsibilities.

The Company Secretary is responsible for keeping Directors updated on all regulatory changes, including organising appropriate continuing development programmes for Directors. Comprehensive orientation package will be given to all Directors on appointment.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Every newly appointed director should receive a comprehensive, formal induction to ensure that he has a proper understanding of the business; his responsibilities under the Listing Rules, applicable regulatory requirements, business and governance policies of the issuer. 	✓	<ul style="list-style-type: none"> On appointment, new Directors will be given a comprehensive orientation package, including introduction to Group activities, induction into their responsibilities and duties, and other regulatory requirements. Non-executive Directors are regularly provided with comprehensive reports on the management's strategic plans, updates on lines of business, financial objectives, plans and actions. The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Functions of non-executive directors include: <ul style="list-style-type: none"> - bring an independent judgment at the board meeting - take the lead where potential conflicts of interests arise - serve on committees if invited - scrutinise the issuer's performance. 	✓	<ul style="list-style-type: none"> Strategic planning and monitoring are two distinct but intertwined roles of Hysan Directors. Strategic planning should be based on an identification of the opportunities and the full ranges of risks that will determine which of these opportunities are worth pursuing. On an on-going basis, the Board will review with management how the strategic environment is changing, what major risks and opportunities have emerged, how they are being managed and what, if any, adjustments in strategic direction would be required. There is satisfactory attendance for Board and Board Committee meetings in 2004.
<ul style="list-style-type: none"> Directors should ensure that they can give sufficient time and attention to the affairs of the issuer. 		
<ul style="list-style-type: none"> Directors must comply with their obligations under the Model Code set out in Appendix 10. 	✓	<ul style="list-style-type: none"> Throughout the year, Directors complied with the required standards of the Model Code set out in Appendix 10 to the Listing Rules regarding Directors' securities.
Recommended Best Practice		
<ul style="list-style-type: none"> Directors should participate in a programme of continuous professional development. 	✓	<ul style="list-style-type: none"> Hysan supports the principle of continuing professional development for Directors. In 2004, a special seminar on new Listing Rules was organised in-house for Directors, with emphasis on Directors' responsibilities and interests.
<ul style="list-style-type: none"> Directors should disclose at the time of his appointment (and at subsequent times) and offices held in other organisations and other significant commitments. 	✓	<ul style="list-style-type: none"> Directors disclose their other directorships to the Company twice a year.
<ul style="list-style-type: none"> Directors should ensure regular attendance and active participation of board, board committee and general meetings. 	✓	<ul style="list-style-type: none"> In 2004, 100% of executive Directors, 100% of Independent non-executive Directors and a majority of non-executive Directors attended the AGM.
<ul style="list-style-type: none"> Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments. 	✓	<ul style="list-style-type: none"> Details on roles and functioning of non-executive Directors are set out above.

A6. Supply of and access to information

Code Principle

Directors should be provided in a timely manner with appropriate information so as to enable them to make an informed decision and to discharge their duties and responsibilities.

Hysan's Corporate Governance Best Practice

An important element of the Hysan corporate programme is the continuous improvement in the quality and timeliness of the dissemination of information to our Directors.

This principle is clearly stated in Hysan's Corporate Governance Guidelines:

- Principle 10 – Board access to senior management
“Senior management are from time to time brought into formal and informal contact with the Board at Board meetings and other events.”
- Principle 12 – Availability of Information
“The Chairman has a clear responsibility to provide the whole Board with all the information that is relevant to the discharge of the Board's responsibilities. The Board therefore expects to receive timely advice on all material information about the Company, its subsidiaries, its activities, performance and its projects, particularly including any significant variances from a planned course of action.”

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Hysan aims to continually improve on the quality and timeliness of the dissemination of information to Directors.

At least quarterly, Hysan Directors are provided with comprehensive reports on the management’s strategic plans, updates by business unit heads on their lines of business, financial objectives, plans and actions.

Business unit heads are invited to attend meetings from time to time to update Directors on their lines of business.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Board papers should be sent to all directors at least three days before the date of board/committee meeting. 	✓	<ul style="list-style-type: none"> Board papers are sent to all Directors at least five days before the date of board/committee meeting.
<ul style="list-style-type: none"> Each director should have separate and independent access to senior management. 	✓	<ul style="list-style-type: none"> Senior management are from time to time brought into formal and informal contact with the Board at board meetings and other events.
<ul style="list-style-type: none"> Directors are entitled to have access to board papers; steps must be taken to respond properly and fully to director queries. 	✓	<ul style="list-style-type: none"> Board papers and minutes are made available for inspection by Directors and Committee Members.

B. Remuneration of Directors and Senior Management

B1. The level and make-up of remuneration and disclosure

Code Principle

A formal and transparent procedure should be established for setting policy on executive director remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

Hysan’s Corporate Governance Best Practice

This is clearly stated in Hysan’s Corporate Governance Guidelines: Principle 8 – Board compensation review:

“The pay and benefits for executive Directors, including the Chairman, are determined by the Emoluments Review Committee. For non-executive Directors, their fees and remuneration are determined by the general meeting. The remuneration of executive Directors and non-executive Directors will be the subject of continual monitoring of comparable companies. The assistance of independent external advisers will be sought from time to time.”

The Company set up an Emoluments Review Committee in 1987 to review executive Director compensation. The Committee is chaired by Sir David Akers-Jones, Independent non-executive Deputy Chairman, with a majority of Independent non-executive Directors. Its current members are F.K. Hu, non-executive Director and Dr. Geoffrey M.T. Yeh, Independent non-executive Director. Full terms of reference are available on the Company’s website: www.hysan.com.hk.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Management makes recommendations to the Committee on Hysan’s framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations. No Director or any of his associates is involved in deciding his own remuneration. The Committee generally meets at least once every year. There was 100% attendance for the last meeting.

Hysan provided for clear disclosure of individual Director remuneration on a named basis. There is a separate “Directors’ Remuneration and Interests Report”.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Issuers should establish a remuneration committee with specific written terms of reference (containing the minimum prescribed duties) which information is available on request or on the website. 	✓	<ul style="list-style-type: none"> • Hysan set up an Emoluments Review Committee in 1987. Full terms of reference are available on the Company's website: www.hysan.com.hk.
<ul style="list-style-type: none"> • The committee should consult the chairman and/or chief executive officer regarding proposed remuneration of other executive directors and have access to professional advice where necessary. 	✓	<ul style="list-style-type: none"> • A detailed review of the compensation of Chairman and Managing Director was carried out in November 2003. See "Directors' Remuneration and Interests Report" for further details on process and findings.
<ul style="list-style-type: none"> • The remuneration committee should be provided with sufficient resources to discharge its duties. 	✓	<ul style="list-style-type: none"> • Independent professional advice will be sought to supplement internal resources where appropriate.
Recommended Best Practice		
<ul style="list-style-type: none"> • A significant proportion of executive directors' remuneration should be linked to corporate and individual performance. 	✓	<ul style="list-style-type: none"> • Details of remuneration of executive Directors are disclosed on an individual basis. A performance-based element has been built into top management compensation.

C. Accountability and Audit

C1. Financial reporting

Code Principle

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Hysan's Corporate Governance Best Practice

The Board aims to present a comprehensive, balanced and understandable assessment of the Group position and prospects in all shareholder communications.

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

The 2004 Annual Report provides enhanced disclosure by way of:

- general discussion on various attributes that make Hysan an attractive investment for shareholders;
- Management Overview - a full Management's Discussion and Analysis covering:
 - operations review with key performance drivers
 - enhanced financial disclosures with analysis and details given, including analysis of comparative and movement of key cost and revenue drivers for income statement, balance sheet and cash flow
- separate sections on financing policy and risk management
- enhanced corporate governance reports

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Management to provide explanation and information to enable board to make informed assessment of relevant matters. 	✓	<ul style="list-style-type: none"> • Directors are regularly provided with comprehensive reports on the management's strategic plans, updates on lines of business, financial objectives, plans and actions.
<ul style="list-style-type: none"> • Acknowledgement of director responsibility for preparing the accounts; a statement by the auditors regarding reporting responsibilities in auditors' report. 	✓	<ul style="list-style-type: none"> • A Statement of Director Responsibilities for Financial Statements is set out in this Annual Report. • The Auditors' Report states auditors' reporting responsibilities.
<ul style="list-style-type: none"> • Board responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements; other financial disclosures/reports under the Listing Rules and statutory requirements. 	✓	<ul style="list-style-type: none"> • The Board aims to present a comprehensive, balanced and understandable assessment of the Group position and prospects in all shareholder communications.

C2. Internal controls

Code Principle

The board should maintain a sound and effective internal controls system to safeguard the shareholders' investment and the issuer's assets.

Hysan's Corporate Governance Best Practice

The Group is committed to implementing effective risk management policies and internal controls procedures to identify and manage the risks that the Group may be exposed to.

Procedures – Code provisions and recommended best practice

Hysan's Corporate Governance Best Practice

- The Managing Director and Chief Financial Officer report to the Audit Committee at least twice a year on key issues in relation to internal controls, audit findings and risk management.
- Detailed disclosure is set out in a separate report headed "Financial Prudence and Managing Risks" – report on Internal Controls and Risk Management.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • The directors should at least annually conduct a review of the effectiveness of the system of internal controls. 	✓	<ul style="list-style-type: none"> • The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. • Management regularly reviews the effectiveness of the risk management and system of internal controls and compliance with best practices. The Managing Director and Chief Financial Officer also report to the Audit Committee twice a year on key findings regarding internal controls. The Audit Committee, in turn, communicates any material issues to the full Board.
Recommended Best Practice		
<ul style="list-style-type: none"> • The board's annual review should consider various prescribed areas. • Disclosure in annual report to provide meaningful information. 	✓	<ul style="list-style-type: none"> • Details of internal controls structure, monitor and review are set out in "Financial Prudence and Managing Risks" section in the Annual Report.
<ul style="list-style-type: none"> • Review the need for an internal audit function on an annual basis. 	✓	<ul style="list-style-type: none"> • Management currently takes the view that there is no immediate need to set up an Internal Audit function in light of the fact that current systems of internal controls and risk management are being regularly reviewed by the management and directly by the Audit Committee. The need for an internal audit function will be reviewed from time to time.

C3. Audit Committee

Code Principle

The audit committee should have clear terms of reference, including arrangements for considering how it applies the financial reporting and internal controls principles. The committee should maintain an appropriate relationship with the company's auditors.

Hysan's Corporate Governance Best Practice

Hysan believes that crucial to the effective functioning of an audit committee is a clear appreciation of the separate roles of management, the external auditors and Audit Committee members.

Hysan management is responsible for selecting company accounting policies and the preparation of the financial statements. The external auditors are responsible for auditing and attesting to the Company's financial statements and evaluating Group system of internal controls. The Audit Committee, as the delegate of the full Board, is responsible for overseeing the entire process. This is clearly stated in Hysan's Audit Committee Report.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Hysan’s Audit Committee is chaired by Sir David Akers-Jones, Independent non-executive Deputy Chairman and has a majority of Independent non-executive Directors. Its other members are Per Jorgensen, Independent non-executive Director and Chien Lee, non-executive Director. All members have experience in reviewing or analysing audited financial statements of public companies or major organisations. Full terms of reference are available on the Company’s website: www.hysan.com.hk. The Audit Committee meets not less than twice a year. Meetings are also attended by invitation by the Managing Director and Chief Financial Officer. The Committee held two meetings in 2004 with 100% attendance.

Hysan goes beyond Code procedures and has published a separate Audit Committee Report since 2002. It sets out in detail the roles of the Committee including its relationship with management and the external auditors, work performed during the review year, and report procedures.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time. 	✓	<ul style="list-style-type: none"> Draft minutes prepared by the Company Secretary are sent to members within 14 days of each meeting.
<ul style="list-style-type: none"> A former partner of the existing auditors should not sit on the Audit Committee. 	✓	<ul style="list-style-type: none"> None of the three Audit Committee members are former partners of the external auditors.
<ul style="list-style-type: none"> The terms of reference of audit committee (containing the minimum prescribed duties) be made available on request and on the website. 	✓	<ul style="list-style-type: none"> Full terms of reference are available on website: www.hysan.com.hk.
<ul style="list-style-type: none"> Disclosure – statement from the audit committee explaining its recommendation on the appointment, resignation or dismissal of external auditors; express disclosure where the board disagrees with the committee’s view. 	✓	<ul style="list-style-type: none"> Audit Committee recommended to the Board (which in turn endorsed the view) that, subject to shareholders’ approval at the forthcoming AGM, Deloitte Touche Tohmatsu be re-appointed as the external auditors for 2005. During the year, the fees paid to the Company’s external Hong Kong auditors for non-audit or review related activities amounted to HK\$228,300 (2003: HK\$99,400), comprising tax services fees of HK\$153,000 and training workshops for International Accounting Standards of HK\$75,300.
<ul style="list-style-type: none"> The audit committee should be provided with sufficient resources to discharge its duties. 	✓	<ul style="list-style-type: none"> There is an agreed procedure for Audit Committee members to take independent professional advice at Company’s expense.
Recommended Best Practice		
<ul style="list-style-type: none"> Terms of reference include: <ul style="list-style-type: none"> “whistle-blowing” procedures by which employees of the issuer may, in confidence, raise concerns about possible improprieties. oversee the issuer’s relation with the external auditor. 	✓	<ul style="list-style-type: none"> “Whistling-blowing” procedures are included in Hysan’s “Code of Ethics”. (See section headed “Business Ethics and Integrity” below) The Audit Committee oversees the relationship of management with the external auditors.

D. Delegation by the Board

D1. Management functions

Code Principle

An issuer should have a formal schedule of matters reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Hysan’s Corporate Governance Best Practice

This is clearly stated in the Hysan’s Corporate Governance Guidelines: Principle 14 – Board authorities, delegations and discretions:

“The Board has determined those matters that are to be retained for full Board sanction and those matters that are to be delegated to the executive management of the business. All Board Committees have clear written terms of reference. Board Committees report regularly to the full Board on their work and findings.”

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

The Board and management fully appreciate their respective roles and are supportive of the development of a healthy corporate governance culture.

The Board’s role is not to manage the business, which responsibility remains vested with management. Board responsibility is to test and question management, and to monitor progress.

There is a formal list of corporate matters reserved for full Board decision. Where applicable, thresholds are defined by reference to “materiality” and are reviewed by the Board from time to time and at least on an annual basis.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board. 	✓	<ul style="list-style-type: none"> There is a defined schedule of matters reserved for full Board decision, including: <ul style="list-style-type: none"> - Long-term objectives and strategies; - Extension of group activities into new business areas; - Annual budgets; - Preliminary announcements of interim and final results; - Dividend; - Material banking facilities; - Material acquisitions and disposals; - Material connected transactions; - Annual internal controls assessment; and - Appointments to the Board following recommendations by the Nomination Committee.
<ul style="list-style-type: none"> Formalise the functions reserved to the board and those delegated to management. 	✓	
Recommended Best Practice		
<ul style="list-style-type: none"> Issuers should have formal letters of appointment for directors setting out the key terms and conditions relative to their appointment. 	✓	<ul style="list-style-type: none"> A formal appointment letter, setting out the key terms and conditions relative to their appointment, will be prepared for each newly appointed Director.

D2. Board Committees

Code Principle

Board committees should be formed with specific written terms of reference that deal clearly with the committees’ authority and duties.

Hysan’s Corporate Governance Best Practice

Hysan currently has four Board Committees, including three corporate governance related committees (being the Audit, Emoluments Review, the new Nomination Committees) and the Investment Committee. All Board Committees have clear written terms of reference. Board Committees report regularly to the Board on their work and findings.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Work performed during the review year by the corporate governance related committees are set out in separate reports:

- Audit Committee Report; and
- Directors’ Remuneration and Interests Report.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Clear terms of reference to enable proper discharge of committee functions. 	✓	<ul style="list-style-type: none"> • The Board has established four Board Committees with specific terms of reference.
<ul style="list-style-type: none"> • The terms of reference should require committees to report their decisions to the board. 	✓	<ul style="list-style-type: none"> • Board Committees present their respective reports to the Board after each meeting, which reports address their work and findings.

E. Communication with Shareholders

E1. Effective communication

Code Principle

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Hysan’s Corporate Governance Best Practice

Hysan is committed to maintaining a policy of open and timely disclosure of relevant information on its attributes to shareholders and other stakeholders, subject to applicable legal requirements.

The Board welcomes moves towards a more constructive use of AGM and regards the AGM as the principal opportunity to meet private shareholders. A new approach to AGM was adopted in 2004 (see section headed “Additional Corporate Governance Areas – shareholder communications” below).

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

Hysan exceeded Code procedures in conducting the statutory business of the 2004 AGM in the following ways:

- Despatch of Annual Report and financial statements and related papers to shareholders at least 35 days prior to AGM, as compared with statutory requirement of 21 days
- Preparation of a comprehensive yet user-friendly AGM circular containing:
 - detailed report on voting procedures (including procedures for demanding a poll) presented in a user-friendly “frequently-asked-questions-and-answers” format
 - comprehensive information on each resolution to be proposed
 - biographies and interests of Directors standing for re-election inserted for ease of reference
- Chairman demanded poll on all resolutions proposed.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • A separate resolution be proposed by the chairman for each substantially separate issue. 	✓	<ul style="list-style-type: none"> • Separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual directors.
<ul style="list-style-type: none"> • The chairman of the board should attend the general meeting and arrange for the chairmen of the audit, remuneration and nomination committees to be present. 	✓	<ul style="list-style-type: none"> • In 2004, there was 100% attendance of all executive Directors, Independent non-executive Directors, and Chairman of Audit and Emoluments Review Committees.

E2. Voting by poll

Code Principle

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.


Hysan’s Corporate Governance Best Practice

Hysan supports the principle of voting by poll.

Procedures – Code provisions and recommended best practice

Hysan’s Corporate Governance Best Practice

- Hysan has adopted poll voting procedures for all resolutions in 2004 AGM.

Code provisions	Alignment?	Governance procedures for Hysan
<ul style="list-style-type: none"> • Disclosure in general meeting circulars of procedures and rights of shareholders to demand a poll. 		<ul style="list-style-type: none"> • Procedures for demanding a poll were set out in a user-friendly “frequently asked-questions-and-answers” format in the circular accompanying the AGM Notice. These procedures were also explained during the AGM proceedings. • A representative of external auditor was appointed as scrutineer. • Poll results were published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.
<ul style="list-style-type: none"> • Ensure that votes cast are properly counted and recorded. 		
<ul style="list-style-type: none"> • Chairman of meeting should adequately explain the poll procedures at commencement of meeting. 		

ADDITIONAL CORPORATE GOVERNANCE AREAS

Business Ethics and Integrity

Maintaining the highest professional and ethical standards is central to Hysan’s core operating philosophy.

In 2005, the Group formally adopted a Code of Ethics addressing guiding principles governing conduct of Directors and employees, which include promotion of fair and open competition, and appropriate “whistle-blowing” procedures. Details of the Code are available on our website: www.hysan.com.hk.

General and Institutional Shareholder Communications

Hysan further enhanced its communications programme in the following areas, which exceeded Code requirements.

(1) General shareholder communications

- a new approach for the AGM was introduced. In addition to enhancing processes for the statutory part of the meeting, we introduced a “general business overview” session led by the Chairman and Managing Director in our 2004 AGM. Topics covered include 2003 in review (covering strategic directions; operations; financial position) and 2004 objectives. The move was positively received by shareholders.
- there is currently no requirement in Hong Kong providing for mandatory forwarding of shareholder communication materials by nominee companies to ultimate shareholders. We initiated and funded a new programme with major nominee companies to pro-actively facilitate the onward forwarding of communication materials to shareholders.

(2) Institutional shareholder communications

We regard it important to enter into a dialogue with institutional shareholders based on mutual understanding of objectives. The Managing Director and Chief Financial Officer participated in two road shows during the review year covering Europe and Asia (Japan and Singapore).

Shareholdings Information

As at 31 December 2004:

Authorised share capital: HK\$7,250,000,000, comprising 1,450,000,000 ordinary shares of HK\$5.00 each.

Issued and fully paid-up capital: HK\$5,249,818,295 comprising 1,049,963,659 ordinary shares of HK\$5.00 each.

Class of shares: one class of ordinary shares of HK\$5.00 each with equal voting rights.

TOP 10 LARGEST SHAREHOLDERS

(as at 31 December 2004, as per register of members of the Company)

No.	Name of Shareholder	Number of shares held	% of the issued share capital#
1.	HKSCC Nominees Limited	417,124,592	39.73
2.	Lee Hysan Estate Company, Limited*	240,118,724	22.87
3.	HSBC Nominees (Hong Kong) Limited	86,965,781	8.28
4.	Kenwin Assets Limited*	43,902,720	4.18
5.	Overton Holdings Limited*	43,902,720	4.18
6.	Atlas Corporate Management Ltd*	39,809,001	3.79
7.	Hang Seng (Nominee) Limited	33,622,680	3.20
8.	Liu Chong Hing (Nominees) Ltd	20,248,255	1.93
9.	Clipperton Company Limited*	17,019,739	1.62
10.	Shanghai Commercial Bank (Nominees) Ltd	12,510,110	1.19
Total		955,224,322	90.97

LOCATION OF SHAREHOLDERS

(as at 31 December 2004, as per register of members of the Company)

Location of Shareholders	Number of shares held	% of the issued share capital#
Hong Kong	1,040,250,739	99.07
United States and Canada	5,122,312	0.49
United Kingdom	4,285,056	0.41
Singapore	64,255	0.01
Others	241,297	0.02
Total	1,049,963,659	100.00

TYPES OF SHAREHOLDERS

Type of Shareholders	Number of shares held	% of the issued share capital#
Lee Hysan Company Limited, Lee Hysan Estate Company, Limited and their subsidiaries	429,046,912	40.86
Other corporate shareholders	557,846,555	53.13
Individual shareholders	63,070,192	6.01
Total	1,049,963,659	100.00

Note:

The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2004 (i.e. 1,049,963,659 ordinary shares).

* denotes entities whose interests are attributable to the substantial shareholder: Lee Hysan Estate Company, Limited (see "Substantial Shareholders' and Other Persons' Interests in Shares" section in Directors' Report)

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2004, which were approved by the Board of Directors on 8 March 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2004 to be property investment, management and development. Details of the Group's associates and principal subsidiaries at 31 December 2004 are set out in notes 15 and 41 respectively to the financial statements.

An analysis of Group's turnover is set out in note 4 to the financial statements. As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided. A detailed review of the development of the business of the Group during the year, and likely future developments, is set out in Chairman's Statement and Management's Discussion and Analysis of the Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 82.

An interim dividend of HK10 cents per share amounting to HK\$104,793,062 was paid to shareholders during the year.

The Board of Directors recommends the payment of a final dividend of HK30 cents per share with a scrip alternative to the shareholders on the register of members on 10 May 2005, absorbing HK\$314,989,098. The ordinary dividends proposed and paid in respect of the full year 2004 will absorb HK\$419,782,160, the balance of the profit will be retained.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in notes 32 and 33 to the financial statements.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer at 31 December 2004. The revaluation resulted in a surplus as compared to carrying amount of HK\$3,676,823,627, with the Group's attributable share being HK\$3,453,324,229, which has been credited directly to the investment property revaluation reserve.

Details of movements during the year in the investment properties of the Group and the Company are set out in note 13 to the financial statements.

Details of the major investment properties of the Group at 31 December 2004 as set out in section under "Schedule of Principal Properties" of the Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

SHARE CAPITAL

During the year, the Company issued a total of 6,392,126 ordinary shares. Details of movements in the share capital of the Company are set out in note 31 to the financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied throughout the year with the Code of Best Practice as set out in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange (the "Stock Exchange") of Hong Kong Limited.

Further information on the Company's corporate governance practices is set out in the following separate reports:

- (a) "Corporate Governance Report" – it gives detailed information on the Company's early adoption of the Stock Exchange's Code on Corporate Governance ("Corporate Governance Code"); local and international best practices.

CORPORATE GOVERNANCE *continued*

- (b) "Directors' Remuneration and Interests Report" – it gives detailed information of Directors' remuneration and interests (including information on Director compensation, service contracts, Directors' interests in shares; contracts and competing business).
- (c) "Audit Committee Report" – it sets out terms of reference, work performed and findings of the Audit Committee for the review year.

THE BOARD

The Board currently comprises Peter T.C. Lee, Chairman, Michael T.H. Lee, Managing Director and Pauline W.L. Yu Wong, Director, Property and eight other non-executive Directors. Sir David Akers-Jones acts as the Independent non-executive Deputy Chairman, also chairing the corporate governance committees, namely the Audit Committee and Emoluments Review Committee. The biographies of the Directors as at the date of this Report appear on pages 45 and 46.

Michael Chi Kung Moy resigned as a Director on 28 January 2004.

Subject to shareholders' approval at the Annual General Meeting ("AGM") to be held on 10 May 2005, the Company's Articles of Association will be amended to effect early adoption of the Corporate Governance Code such that every Director shall be subject to retirement by rotation at least once every three years at the AGM.

Under the Company's current Articles of Association, Fa-kuang Hu, Dr. Geoffrey Meou-tsen Yeh and Pauline Wah Ling Yu Wong who have been longest in office will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

Per Jorgensen, Dr. Deanna Ruth Tak Yung Rudgard and Anthony Hsien Pin Lee, having held office for three years since last re-election, offer to retire at the forthcoming AGM in line with the spirit of the proposed amendment to the Company's Articles. Being eligible, these Directors offer themselves for re-election at the forthcoming AGM.

During the year, Raymond Liang-ming Hu, Markus Friedrich Jebesen, Li Kam Wing, Charles Gary Wellins and V-nee Yeh served as alternate Directors.

The Company has received from each Independent non-executive Director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considered all Independent non-executive Directors to be independent.

DIRECTORS' INTERESTS IN SHARES

Details of Directors' interests in shares of the Company are set out in Directors' Remuneration and Interests Report.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2004, the interests or short positions of Substantial Shareholders and Other Persons of the Company, in the shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company, were as follows:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	No. of shares held	% of the issued share capital*
Lee Hysan Estate Company, Limited	Interests of controlled corporations	429,046,912 (Note 1)	40.86
Lee Hysan Company Limited	Interests of controlled corporations	429,046,912 (Note 1)	40.86
J.P. Morgan Chase & Co.	(Note 2)	84,210,504	8.02
Marathon Asset Management Ltd.	Investment Manager	52,597,064	5.01

* The percentages have been compiled based on the total number of shares of the Company in issue as at 31 December 2004 (i.e. 1,049,963,659 ordinary shares).

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *continued*

Aggregate long positions in shares and underlying shares of the Company *continued*

Notes:

- (1) These interests represent the same block of shares. Lee Hysan Estate Company, Limited is a wholly-owned subsidiary of Lee Hysan Company Limited.
- (2) As notified by J.P. Morgan Chase & Co., these shares were held in their respective capacities as investment manager (holding 51,746,168 shares) and custodian (holding 32,464,336 shares).

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 December 2004.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 40 to the financial statements.

Some of these transactions also constitute "Connected Transactions" (including "Continuing Connected Transactions") under the Listing Rules, as identified below.

CONNECTED TRANSACTIONS

As at 31 December 2004, loans totalling HK\$617,175,561 had been advanced by the Group to Barrowgate Limited (equity interests held by the Group: 65.36%; Hang Seng Bank: 24.64%; Jebson and Company Limited: 10%) for general funding purpose. Such balance includes a loan of HK\$10,457,600 advanced by the Group in 2004. Loans totalling HK\$327,255,746 had been advanced by the other shareholders to Barrowgate as at 31 December 2004 in proportion to their respective shareholdings. These quasi-equity loans are non-interest-bearing and have no fixed settlement date and are not repayable within one year. The grant of loans by the Group constitutes a grant of financial assistance and is a connected transaction under applicable Listing Rules, however, it is exempt from applicable reporting, announcement and independent shareholders' approval requirements.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted "continuing connected transactions" (the "Transactions") under the Listing Rules. Details of the Transactions are set out as follows:

I. Lease granted by the Group

(a) Lee Gardens Two, 28 Yun Ping Road, Hong Kong ("Lee Gardens Two")

The following lease arrangements were entered into by Barrowgate Limited (property owner of Lee Gardens Two) with the following connected persons (also substantial shareholders of Barrowgate Limited). Particulars are set out below:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
Jebson and Company Limited (10% equity interest in Barrowgate Limited)	10 September 2003	4 years commencing from 1 September 2003	Office units at 28th to 31st Floors	13,870,776
	Various carpark agreements	On monthly basis with various commencement dates	3 carparking spaces	

CONTINUING CONNECTED TRANSACTIONS *continued*

I. Lease granted by the Group *continued*

(a) Lee Gardens Two, 28 Yun Ping Road, Hong Kong ("Lee Gardens Two") *continued*

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
Hang Seng Bank Limited (24.64 % equity interest in Barrowgate Limited)	3 September 2004	2 years and 16 days commencing from 15 September 2004	Shop units at Ground Floor and Basement	9,836,256

(b) Bamboo Grove, 74-86 Kennedy Road, Hong Kong ("Bamboo Grove")

Certain leases were entered into by Kwong Wan Realty Limited, a wholly-owned subsidiary of the Company and property owner of Bamboo Grove, with Lee Hysan Estate Company, Limited, a substantial shareholder of the Company (holding 40.86% interest). Details of the leases are set out below:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
Lee Hysan Estate Company, Limited	17 October 2003	2 years commencing from 1 November 2003	An apartment and 1 carparking space	1,975,200
Lee Hysan Estate Company, Limited	12 January 2004	2 years commencing from 16 January 2004	An apartment and 2 carparking spaces	1,289,880

(c) Lee Gardens Two, 28 Yun Ping Road, Hong Kong

The following lease arrangements were entered into by Barrowgate Limited with MF Jebsen International Limited, which was a connected person by virtue of the interest of an associate of a non-executive Director:

Connected person	Date of Agreement	Terms	Premises	Annual consideration HK\$
MF Jebsen International Limited	23 April 2004 and a Supplemental Deed of 12 July 2004	4 years commencing from 1 February 2004 and 3 years and 7 months commencing from 1 July 2004	Office units at 24th and 25th Floors	6,324,624
	1 May 2003	On monthly basis commencing from 1 May 2003	1 carparking space	

CONTINUING CONNECTED TRANSACTIONS *continued*

II. Leasing and property management services with a non-wholly-owned subsidiary at Lee Gardens Two

The following management agreements were entered into by Hysan Leasing Company Limited and Hysan Property Management Limited, both being wholly-owned subsidiaries of the Company, with Barrowgate Limited for the provision of services to Lee Gardens Two, including (i) leasing, marketing and lease administration services; and (ii) property management services:

Connected person	Date of Agreement	Terms	Premises	Consideration HK\$ (Note)
Barrowgate Limited	25 February 2004 and a supplemental Appointment Letter of 19 July 2004	3 years commencing from 1 April 2004	Whole premise of Lee Gardens Two	5,710,307 (i) and 1,762,677 (ii)

Note: These represent the actual considerations for the period from commencement of the respective management agreements to 31 December 2004, calculated on the basis of the fee schedules as prescribed therein.

All the Transactions were entered in the ordinary and usual course of business of the respective companies after due negotiations on an arm's length basis with reference to the prevailing market conditions.

Announcements were published on 20 July 2004 and 6 September 2004 respectively regarding the Transactions in accordance with the Listing Rules. The Stock Exchange has granted a waiver for the transactions as refer to in section I (c) and II above by virtue of Rule 14A.42 from strict compliance with the requirements of Rules 14A.35, 14A.45 to 14A.47 of the Listing Rules on condition that details of the transactions be included in the Company's subsequent published annual report for financial years in which the transactions are subsisting.

The Company has engaged the auditors of the Company to perform certain factual finding procedures with respect of the above mentioned Transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported the following findings on these Transactions to the Board of Directors:

1. the Transactions had received the approval from the Board of Directors;
2. the Transactions did not exceed the cap stated in the relevant announcements; and
3. the Transactions were entered into in accordance with the agreement governing such transactions.

Pursuant to Rule 14A.37 of the Listing Rules, all Independent non-executive Directors of the Company have reviewed and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business;
2. on normal commercial terms; and
3. fair and reasonable and in the commercial interests of the Group.

INTEREST IN CONTRACTS OF SIGNIFICANCE

During the year, there subsisted a number of lift and escalator maintenance contracts entered into between Ryoden Lift Services Limited ("RLS") and Hysan Property Management Limited, a wholly-owned subsidiary of the Company. Both Mr. F.K. Hu and his alternate, Mr. Raymond L.M. Hu were considered as having interests in these contracts by virtue of their indirect equity interests in RLS. Such contracts constitute contracts of significance for the purpose of the Listing Rules. In light of the size of the equity interest of Mr. F.K. Hu (and that of his alternate as mentioned above) in RLS, these contracts do not constitute related party transactions (under applicable accounting principles) or continuing connected transactions (under the Listing Rules).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers was less than 30% of total turnover.

The aggregate purchases attributable to the Group's five largest suppliers was less than 30% of total purchases.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

DONATIONS

During the year, the Group made donations totalling HK\$3,400,126 for charitable and other purposes.

AUDITORS

A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming AGM.

By order of the Board

Peter T. C. Lee

Chairman

Hong Kong, 8 March 2005

Directors' Remuneration and Interests Report

DIRECTOR COMPENSATION

Executive Director Emoluments

The Board first established the Emoluments Review Committee in 1987 to review and determine the remuneration of executive Directors.

The Committee is chaired by Sir David Akers-Jones, Independent non-executive Deputy Chairman, and has a majority of Independent non-executive Directors. Its other members are F.K. Hu and Dr. Geoffrey M.T. Yeh (Independent non-executive Director).

Management makes recommendations to the Committee on the Company's framework for, and cost of, executive Director remuneration and the Committee then reviews these recommendations. On matters other than those concerning him, the Chairman or Managing Director may be invited to Committee meetings. No Director is involved in deciding his own remuneration.

The Group's remuneration policy seeks to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff and at the same time to reflect the importance of aligning awards with shareholder interests. Remuneration packages are set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing within a similar talent pool, with particular emphasis on the property industry. Independent professional advice will be sought to supplement internal resources where appropriate.

Following a review completed in November 2003 by the Committee, the Company has developed a policy that involves top management (the Chairman and Managing Director) having a remuneration package consisting of several remuneration components. The fixed part of the package is a combination of basic salary and benefits. The proportion of performance-based compensation has been increased. In addition, there are arrangements for a long-term incentive plan. The new levels of remuneration (note 6 to the financial statements) reflect comparator market information and advice from independent consultants (Watson Wyatt Hong Kong Limited). No executive Director was involved in determining his own remuneration.

The Emoluments Review Committee last met in March 2005 to determine the 2004 performance-based annual incentive of the Chairman and Managing Director. There was 100% attendance without any executive Director presence.

Details of Director (including individual executive Director) emoluments and options are set out in notes 6 and 34 respectively to the financial statements.

Non-executive Director Emoluments

The Directors' fees are subject to shareholder approval at general meeting. The non-executive Directors received fees totalling HK\$475,000 for 2004. Their remuneration comprises a basic annual director's fee of HK\$50,000 per annum; fee for serving on Audit Committee (HK\$20,000 per annum). They received no other compensation from the Group.

The Independent non-executive Deputy Chairman receives total annual fee of HK\$85,000 (comprising the annual fee of HK\$65,000 for the Deputy Chairman office and HK\$20,000 per annum for Audit Committee he sits). None of the non-executive Directors receive any pension benefits from the Company, nor do they participate in any bonus or incentive schemes.

DIRECTOR COMPENSATION *continued*

Non-executive Director Emoluments *continued*

Taking into consideration the level of responsibility, experience and abilities required of the Directors, and fees offered for similar positions in comparable companies, proposals will be tabled at the forthcoming AGM to review and approve new levels of directors' fees:

	HK\$ per annum
<u>Board of Directors</u>	
Chairman	140,000
Deputy Chairman	120,000
Director	100,000
<u>Audit Committee</u>	
Chairman	60,000
Member	30,000
<u>Other Committees</u>	
Chairman	30,000
Member	20,000

Long-term incentives: Executive Share Options

Existing Scheme

The Company operates an Executive Share Option Scheme (the "Scheme") under which options may be granted to employees of the Company or any of its wholly-owned subsidiaries to subscribe for ordinary shares of the Company, thereby strengthening the links between individual staff and shareholder interests. Approved by shareholders on 28 April 1995, the Scheme has a term of 10 years and will expire on 28 April 2005. The maximum number of shares in respect of which options may be granted under the Scheme (together with shares issued and issuable under the Scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The maximum entitlement of each participant under the Scheme is 25% of the maximum number of shares in respect of which options may at any time be granted under the Scheme. The exercise price was fixed at 80% of the average of the closing prices of the shares on the Stock Exchange for the 20 trading days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

As at 31 December 2004, an executive Director of the Company remained as the Scheme participant with shares issuable under options granted representing less than 0.2% of the issued share capital of the Company. Details of options outstanding and movements during the year are as follows:

Name	Balance	Date of grant	Changes during the year			Balance	Exercise price HK\$	Exercisable period
	as at 1.1.2004		Cancelled/ lapsed	Granted	Exercised	as at 31.12.2004		
Peter Ting Chang Lee	1,350,000	7.1.1999	Nil	Nil	Nil	1,350,000	9.22	7.1.2001 - 6.1.2009
Pauline Wah Ling Yu Wong	900,000	3.5.1995	Nil	Nil	900,000*	Nil	13.46	3.5.1997 - 2.5.2005

* Weighted average closing price per share immediately before the dates of exercise of the options for 900,000 shares : HK\$15.58.

All options referred to above are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

Directors' Remuneration and Interests Report *continued*

DIRECTOR COMPENSATION *continued*

Long-term incentives: Executive Share Options *continued*

Existing Scheme continued

In addition to the above, during the year, options to subscribe for 300,000 shares at an exercise price of HK\$7.54 per share were exercised (closing market price per share immediately before the date of exercise: HK\$15) by a grantee, whose remaining options for 900,000 shares of the Company lapsed upon his resignation.

The power of grant to executive Directors is vested in the Emoluments Review Committee and will be exercised in compliance with Listing Rules requirements. The Chairman and Managing Director have been delegated the authority to make grants to management staff below executive Director level.

Apart from the Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

New Scheme and Grant Structure

The Directors will recommend the adoption of a new share option scheme (the "New Scheme") at the forthcoming AGM. Terms of the New Scheme are substantially the same as these under the existing Scheme, save for incorporating current Listing Rules requirements. Major terms of the New Scheme are set out in the Circular accompanying this Report.

At a Board meeting held in March 2005, the Board has approved a new grant and vesting structure. Grants will be made on a periodic basis. Vesting period is three years in equal portions. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. Grant and vesting structure will be reviewed by the Board from time to time.

SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2004, the interests of the Directors and Alternate Director in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

Aggregate long positions in shares and underlying shares of the Company

Name	No. of shares held				Total	% of the issued share capital*
	Personal interests	Family interests	Corporate interests	Other interests		
Peter Ting Chang Lee	2,000,000	—	4,083,823 (Note 1)	—	6,083,823	0.579
Michael Tze Hau Lee	1,023,233	—	—	—	1,023,233	0.097
Fa-kuang Hu	—	—	255,012 (Note 2)	—	255,012	0.024

DIRECTORS' INTERESTS IN SHARES *continued*

Aggregate long positions in shares and underlying shares of the Company *continued*

Name	Personal interests	No. of shares held			Total	% of the issued share capital*
		Family interests	Corporate interests	Other interests		
Hans Michael Jebsen	60,000	—	2,432,914 <i>(Note 1)</i>	—	2,492,914	0.237
Per Jorgensen	6,678	—	—	—	6,678	0.001
Chien Lee	970,000	—	4,083,823 <i>(Note 1)</i>	3,150,000 <i>(Note 3)</i>	8,203,823	0.781
Deanna Ruth Tak Yung Rudgard	1,871,600	—	—	—	1,871,600	0.178
Pauline Wah Ling Yu Wong	274,000	—	—	—	274,000	0.026
Geoffrey Meou-tsen Yeh	254,148	—	1,000 <i>(Note 1)</i>	—	255,148	0.024
V-nee Yeh (alternate to Geoffrey Meou-tsen Yeh)	43,259	—	84,575 <i>(Note 1)</i>	—	127,834	0.012

* This percentage has been compiled based on the total number of shares of the Company in issue as at 31 December 2004 (i.e. 1,049,963,659 ordinary shares)

Certain executive Directors of the Company have been granted share options under the Company's Executive Share Option Scheme (details are set out under "Long-term incentives: Executive Share Options" above). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Notes:

- (1) Such shares were held through corporations in which the respective Directors were members entitled to exercise one-third or more of the voting power at general meetings. Corporate interests of Peter Ting Chang Lee and Chien Lee relate to the same corporation.
- (2) Such shares were held by a company which was wholly-owned by Fa-kuang Hu and he was deemed to have beneficial interests in all these shares.
- (3) Such shares were held through a discretionary trust of which Chien Lee was one of the beneficiaries.

Aggregate long positions in shares of Associated Corporations

Listed below are certain Directors' interests in the shares of Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company, and Parallel Asia Engineering Company Limited ("PAECL"), a 25% associate of the Company.

Name	No. of shares held	% of the issued share capital
Hans Michael Jebsen	1,000 <i>(Note 4)</i>	10 <i>(Note 4)</i>
Fa-kuang Hu	5,000 <i>(Note 5)</i>	50 <i>(Note 5)</i>
Raymond Liang-ming Hu (alternate to Fa-kuang Hu)	5,000 <i>(Note 5)</i>	50 <i>(Note 5)</i>

DIRECTORS' INTERESTS IN SHARES *continued*

Aggregate long positions in shares of Associated Corporations *continued*

Notes:

- (4) Jebsen and Company Limited ("Jebsen and Company") has a 10% interest in the issued share capital in Barrowgate through a wholly-owned subsidiary. Hans Michael Jebsen is deemed to be interested in Barrowgate by being the controlling shareholder and Chairman of Jebsen and Company.
- (5) Ryoden Development Limited ("Ryoden Development") has a 50% interest in the issued share capital in PAECL through a wholly-owned subsidiary. Fa-kuang Hu and Raymond Liang-ming Hu are deemed to be interested in PAECL by virtue of their interests as beneficiaries of a discretionary trust which has an indirect controlling interest in Ryoden Development.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2004 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

During the review year, certain Directors are parties to contracts with the Group, which contracts constitute related party transactions, connected transactions or contracts of significance under applicable accounting or regulatory rules. (See Directors' Report)

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Group is engaged principally in the property investment, development and management of high quality investment properties in Hong Kong. The following Directors are considered to have interests in other activities ("Deemed Competing Business") that compete or are likely to compete with the said core business of the Group, all within the meaning of the Listing Rules.

For the reasons stated below, and coupled with the diligence of the Group's Independent non-executive Directors and the Audit Committee, the Group is capable of carrying on its business independent of and on an arm's length from the Deemed Competing Business.

- (i) Peter T. C. Lee, Anthony H. P. Lee, Chien Lee, Michael T. H. Lee and Dr. Deanna R. T. Y. Rudgard are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.
- (ii) F. K. Hu (and his alternate, Raymond L. M. Hu) are directors and have an indirect substantial interest in Designcase Limited and its subsidiaries, which are engaged in investment holding, property investment and development, property agency and management, project management in both the People's Republic of China and Hong Kong.
- (iii) Hans Michael Jebsen (and his alternate, Li Kam Wing) hold the offices of directors in each of Jebsen and Company Limited and Jebsen China Services Limited (the "Companies") and some of their subsidiaries, of which their business activities include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Mr. Jebsen is also a substantial shareholder of the Companies.

Mr. Jebsen is a non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and management in both the People's Republic of China and Hong Kong.

The Company's management team is separate and independent from that of the companies identified in (ii) and (iii) above. In addition, the relevant Directors have non-executive roles and are not involved in the Company's day-to-day operations and management.

By order of the Board

Wendy W.Y. Yung

Company Secretary

Hong Kong, 8 March 2005

Directors' Responsibilities for the Financial Statements

The Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:

- (a) select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;
- (b) state the reasons for any significant departure from accounting standards; and
- (c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Audit Committee Report

The Audit Committee has three members, a majority of whom are Independent non-executive Directors.

The Committee oversees the financial reporting process. In this process, management is responsible for the preparation of Group financial statements including the selection of suitable accounting policies. External auditors are responsible for auditing and attesting to Group financial statements and evaluating Group system of internal controls. The Audit Committee oversees the respective work of management and external auditors to endorse the processes and safeguards employed by them. The Committee presents a report to the Board on its findings after each Committee meeting.

The Audit Committee reviewed and discussed with management and external auditors the 2004 consolidated financial statements included in the 2004 Annual Report. In this regard, the Committee had discussions with management with regard to new or changes in accounting policies as applied, and significant judgments affecting the Group financial statements. The Committee also received reports and met with the external auditors to discuss the general scope of their audit work (including the impact of new or changes in accounting policies as applied), their assessment of Group internal controls.

Based on these review and discussions, and the report of the external auditors, the Audit Committee recommended to the Board of Directors approval of the consolidated financial statements for the year ended 31 December 2004, with the Auditors' Report thereon.

The Audit Committee also reviewed and recommended to the Board of Directors approval of the unaudited financial statements for the first six months of 2004, prior to public announcement and filing.

The Committee recommended to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditors for 2005.

The Committee had also reviewed and revised its terms of reference, effecting early adoption of the Stock Exchange's new corporate governance requirements.

MEMBERS OF THE AUDIT COMMITTEE

David AKERS-JONES (*Chairman*)

Per JORGENSEN

Chien LEE

Hong Kong, 8 March 2005

Deloitte.

德勤

TO THE SHAREHOLDERS OF HYSAN DEVELOPMENT COMPANY LIMITED

希慎興業有限公司

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 82 to 114 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstance of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
8 March 2005

Consolidated Income Statement

For the year ended 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (restated)
Turnover	4	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	16	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	5	904,639	883,333
Finance costs	8	(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	9	(159,771)	(173,534)
Profit after taxation		643,319	561,866
Minority interests		(34,039)	(26,074)
Net profit for the year	32	609,280	535,792
Dividends	10	419,862	380,591
Earnings per share	11		
Basic		HK58.22 cents	HK51.59 cents
Diluted		HK58.20 cents	HK51.59 cents

Consolidated Balance Sheet

At 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (restated)
Non-current assets			
Property, plant and equipment	12	68,975	57,717
Investment properties	13	28,147,190	24,366,780
Interests in associates	15	855,486	849,676
Investments in securities	16	1,018,017	940,888
Negative goodwill	17	(956)	(1,016)
Staff housing loans, secured	18	2,247	12,187
Other receivable, prepayments and deposits	19	56,497	28,420
		30,147,456	26,254,652
Current assets			
Staff housing loans, secured - due within one year	18	245	3,188
Other receivable, prepayments and deposits	19	28,658	22,159
Accounts receivable	20	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	27	—	78,000
Floating rate notes	28	—	399,132
Creditors and accruals	21	115,121	115,791
Interest payable		66,329	64,135
Rental deposits from tenants	22	104,990	81,410
Deferred income	23	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	25	54,068	50,489
Amounts due to minority shareholders	26	327,256	321,714
Long term bank loans - due after one year	27	3,502,100	3,884,423
Floating rate notes	28	547,739	—
Fixed rate notes	29	1,552,979	1,551,991
Rental deposits from tenants	22	141,096	138,319
Deferred income	23	4,170	4,855
Deferred taxation	30	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	31	5,249,818	5,217,857
Accumulated profits	32	3,984,917	3,795,499
Other reserves	33	13,257,880	9,603,053
		22,492,615	18,616,409

The financial statements on pages 82 to 114 were approved and authorised for issue by the Board of Directors on 8 March 2005 and are signed on its behalf by:

Peter T.C. Lee
DIRECTOR

David Akers-Jones
DIRECTOR

Balance Sheet

At 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (restated)
Non-current assets			
Property, plant and equipment	12	9,025	9,761
Investment properties	13	3,510,000	3,030,000
Investments in subsidiaries	14	9,241,442	11,348,763
Interests in associates	15	3	3
Investments in securities	16	2,031	2,031
Staff housing loans, secured	18	2,247	12,187
Other receivable, prepayments and deposits	19	759	6,913
		12,765,507	14,409,658
Current assets			
Staff housing loans, secured - due within one year	18	245	3,188
Other receivable, prepayments and deposits	19	4,492	5,125
Accounts receivable	20	3,251	2,113
Time deposits		754	1,599
Cash and bank balances		3,937	825
		12,679	12,850
Current liabilities			
Long term bank loans - due within one year	27	—	4,000
Creditors and accruals	21	27,960	14,056
Interest payable		—	1,922
Rental deposits from tenants	22	11,316	4,769
Taxation payable		137	2,869
Unclaimed dividends		1,126	1,145
		40,539	28,761
Net current liabilities		(27,860)	(15,911)
Total assets less current liabilities		12,737,647	14,393,747
Non-current liabilities			
Amounts due to subsidiaries	24	30,980	805,850
Long term bank loans - due after one year	27	—	1,221,523
Rental deposits from tenants	22	10,734	18,266
Deferred taxation	30	9,069	7,579
		50,783	2,053,218
NET ASSETS		12,686,864	12,340,529
Capital and reserves			
Share capital	31	5,249,818	5,217,857
Accumulated profits	32	3,296,591	3,533,725
Other reserves	33	4,140,455	3,588,947
		12,686,864	12,340,529

The financial statements on pages 82 to 114 were approved and authorised for issue by the Board of Directors on 8 March 2005 and are signed on its behalf by:

Peter T.C. Lee
DIRECTOR

David Akers-Jones
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	2004 HK\$'000	2003 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 statement	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

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit from operations	904,639	883,333
Adjustments for:		
Reversal of impairment loss on investments in securities	(63,000)	—
Interest income	(1,229)	(1,926)
Dividend income	(24,947)	(22,613)
Depreciation	4,942	4,643
Gain on disposal of investments in securities	(14,619)	(48,159)
Loss (gain) on disposal of property, plant and equipment	40	(46)
Release of negative goodwill arising on acquisition of additional interest in a subsidiary	(60)	(60)
Operating cash flows before movements in working capital	805,766	815,172
Increase in accounts receivable, prepayments and deposits	(36,778)	(12,923)
Decrease in staff housing loans, secured	12,883	2,940
Increase (decrease) in rental deposits from tenants, creditors and accruals	26,628	(6,230)
Cash generated from operations	808,499	798,959
Hong Kong Profits Tax paid	(64,098)	(135,255)
NET CASH FROM OPERATING ACTIVITIES	744,401	663,704
INVESTING ACTIVITIES		
Interest received	543	1,246
Dividends received from investments in securities	24,947	22,613
Dividends received from associates	1,563	80
Additions to investment properties	(104,527)	(417,852)
Additions to property, plant and equipment	(3,563)	(1,909)
Proceeds on disposal of property, plant and equipment	—	48
Acquisition of interest in an associate	—	(1)
Repayment from (advances to) associates	86,216	(107,759)
Net proceeds received on disposal of investments in securities	26,512	115,950
Repayment from investees	27,146	—
Increase (decrease) in advance from investees	3,579	(1,187)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	62,416	(388,771)
FINANCING ACTIVITIES		
Net proceeds on exercise of share option	14,376	—
Interest paid	(147,270)	(172,404)
Bank charges	(11,312)	(6,884)
Medium Term Note Programme expenses	(976)	(897)
Dividends paid	(317,357)	(313,407)
Dividends paid to minority shareholders of subsidiaries	(29,789)	(34,145)
Share issue expenses	(47)	(20)
New unsecured bank loans	1,549,100	1,798,800
Issue of floating rate notes	550,000	—
Floating rate notes issue expenses	(2,370)	—
Advance from minority shareholders	5,542	28,949
Repayment of unsecured bank loans	(2,009,423)	(1,583,238)
Repayment of floating rate notes	(400,000)	—
NET CASH USED IN FINANCING ACTIVITIES	(799,526)	(283,246)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,291	(8,313)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	14,633	22,946
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21,924	14,633
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	5,058	1,539
Time deposits	16,866	13,094
	21,924	14,633

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are property investment, management and development.

2. PRIOR YEAR ADJUSTMENT

The effect on adoption of the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight line basis over its useful life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Negative goodwill *continued*

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining term of the lease
Buildings	Over the shorter of the term of the lease, or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation increase under that SSAP.

Fixed rate notes/floating rate notes issue expenses

Expenses incurred directly in connection with the issue of fixed rate notes/floating rate notes are deferred and amortised on a straight line basis over the terms of the notes.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date, with the exception of those items covered under forward exchange contracts, which are re-translated at the contracted settlement rate. Gains and losses arising on exchange are dealt with in the income statement.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Foreign currencies *continued*

On consolidation, the financial statements of associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the interests in associates are disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight line basis over the relevant lease term.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Recognition of income

Rental income is recognised on a straight line basis over the relevant lease term.

Income from property sales is recognised on the execution of a binding sales agreement.

Management fee income and security service income are recognised when the services are rendered.

Dividend income from investments is recognised when the shareholders' right to receive dividend has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Financial instruments and derivatives

Interest rate and currency swaps are used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of interest rate and currency swaps are recorded off balance sheet. Interest flows arising on the interest rate swaps are accounted for on an accrual basis.

4. TURNOVER

	2004 HK\$'000	2003 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.

5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	129,470	118,555
Retirement benefits scheme contributions (<i>note 35</i>)	5,068	5,006
Forfeited contributions (<i>note 35</i>)	(6,606)	(1,067)
	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

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

6. DIRECTORS' REMUNERATION

	2004 HK\$'000	2003 HK\$'000
Directors' fees	661	725
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	11,323	12,093
Bonus	3,083	981
Retirement benefits scheme contributions	232	243
Contractual compensation for loss of office	1,508	—
Forfeited contributions	(2,483)	—
	14,324	14,042

The number of Directors whose remuneration/fees within the bands set out below is as follows:

	2004 No. of Directors	2003 No. of Directors
HK\$ 0 - HK\$1,000,000	8	9
HK\$1,000,001 - HK\$1,500,000	—	—
HK\$1,500,001 - HK\$2,000,000	—	—
HK\$2,000,001 - HK\$2,500,000	—	—
HK\$2,500,001 - HK\$3,000,000	1	1
HK\$3,000,001 - HK\$3,500,000	1	2
HK\$3,500,001 - HK\$4,000,000	—	—
HK\$4,000,001 - HK\$4,500,000	—	1
HK\$4,500,001 - HK\$5,000,000	1	—
HK\$5,000,001 - HK\$5,500,000	—	—
HK\$5,500,001 - HK\$6,000,000	1	—
	12	13

All executive Directors were entitled to housing benefits in 2003. Two directors (the Chairman and Managing Director) did not take up their entitlement for a substantial part of that year.

A review was carried out by the Emoluments Review Committee regarding the compensation and benefit of the Chairman and Managing Director in November 2003. Independent consultants (Watson Wyatt Hong Kong Limited) were engaged. New remuneration structure (reflecting a higher performance-based component) and levels were set effective December 2003. Detailed breakdown of Chairman and Managing Director remuneration for year 2004 is set out below.

Directors' fees paid to Independent non-executive Directors during the year totalled HK\$205,000 (2003: HK\$223,219). They received no other emoluments from the Company or any of its subsidiaries.

6. DIRECTORS' REMUNERATION *continued*

Remuneration breakdown of each of the current executive Directors for year 2004 are set out below:

	Directors' fees HK\$'000	Basic salaries, housing, allowances and benefits HK\$'000	Bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Peter T.C. Lee (<i>Note a</i>)	82	4,146	1,372	12	5,612
Michael T.H. Lee (<i>Note b</i>)	50	3,538	1,212	12	4,812
Pauline W.L. Yu Wong	50	2,596	249	207	3,102
	182	10,280	2,833	231	13,526

Remuneration breakdown of each of the current executive Directors for year 2003 are set out below:

	Directors' fees HK\$'000	Basic salaries, housing, allowances and benefits HK\$'000	Bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Peter T.C. Lee (<i>Note a</i>)	82	2,809	310	12	3,213
Michael T.H. Lee (<i>Note b</i>)	50	2,468	175	12	2,705
Pauline W.L. Yu Wong	50	2,642	248	207	3,147
	182	7,919	733	231	9,065

Notes:

(a) Year 2003: The Chairman did not take up housing benefits to which he was entitled for a substantial part of 2003.

Year 2004: Following a review of his compensation in November 2003, his fixed base package is HK\$4.1 million as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review. The stated bonus figure includes bonus paid for 2003, and 2004 target bonus figure pending finalisation by Emoluments Review Committee after year-end 2004.

(b) Year 2003: The Managing Director did not take up housing benefits to which he was entitled for a substantial part of 2003.

Year 2004: Following a review of his compensation in November 2003, his fixed base package is HK\$3.5 million as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review. The stated bonus figure includes bonus paid for 2003, and 2004 target bonus figure pending finalisation by Emoluments Review Committee after year-end 2004.

7. EMPLOYEE COSTS

The five highest paid individuals included four (2003: four) directors, details of whose remuneration are set out in note 6. The remuneration of the remaining individual (2003: one individual) is detailed as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,000	2,296
Bonus	500	92
Retirement benefits scheme contributions	10	12
Incentive payment on joining	488	—
	2,998	2,400

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on		
- bank loans, overdraft and other loans:		
wholly repayable within five years	22,409	49,304
not repayable within five years	13,530	20,001
- floating rate notes	7,527	10,059
- fixed rate notes	108,263	109,200
	151,729	188,564
Net interest paid (received) from financial instruments:		
- due within five years	38,699	710
- due after five years	(45,387)	(32,926)
	(6,688)	(32,216)
Amortisation of fixed rate and floating rate notes issue expenses	1,965	2,030
Bank charges	11,312	6,884
Medium Term Note Programme expenses	976	897
Hedging expenses	2,356	2,131
	161,650	168,290

9. 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 (<i>note 30</i>):		
- current year	35,473	55,408
- attributable to change in tax rate	—	10,126
	140,276	165,224
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.

9. TAXATION *continued*

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004	2003
	HK\$'000	HK\$'000 (restated)
Profit before taxation	803,090	735,400
Tax at the domestic income tax rate of 17.5%	140,541	128,695
Tax effect of expenses that are not deductible in determining taxable profit	1,866	871
Tax effect of utilisation of tax losses not previously recognised	(23,214)	(10,222)
Tax effect of income that are not assessable in determining taxable profit	(20,050)	(12,644)
Tax effect of tax loss not provided	322	331
Tax effect of share of results of associates	9,349	5,119
Tax effect of initial recognition exception	(4,186)	3,093
Underprovision in prior years	66	158
Provision arising from prior years additional assessments	55,000	48,000
Increase in opening deferred tax balances resulting from an increase in the tax rate in Hong Kong	—	10,126
Others	77	7
Tax expense for the year	159,771	173,534

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 (see note 30).

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.

10. DIVIDENDS

	2004	2003
	HK\$'000	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 options subsequent to 31 December 2003	80	—
	419,862	380,591

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

10. DIVIDENDS *continued*

The 2004 final dividend of HK30 cents (2003: HK26.5 cents) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2004 will be payable in cash with a scrip dividend alternative.

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2003 final and 2004 interim dividends. These alternatives were accepted by the shareholders as follows:

	2004 Interim HK\$'000	2003 Final HK\$'000
Dividends:		
Cash	89,055	228,283
Share alternative	15,738	48,343
	104,793	276,626

11. EARNINGS PER SHARE

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

	2004 HK\$'000	2003 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 2 is as follows:

	HK\$'000	Basic and diluted 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

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings in Hong Kong under long lease HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 January 2004	44,500	43,696	15,056	1,131	104,383
Additions	—	1,212	2,351	—	3,563
Disposals	—	(11)	(45)	—	(56)
Surplus on revaluation	12,000	—	—	—	12,000
At 31 December 2004	56,500	44,897	17,362	1,131	119,890
Comprising:					
At cost	—	44,897	17,362	1,131	63,390
At valuation 2004	56,500	—	—	—	56,500
	56,500	44,897	17,362	1,131	119,890
ACCUMULATED DEPRECIATION					
At 1 January 2004	—	39,141	6,394	1,131	46,666
Provided for the year	677	1,613	2,652	—	4,942
Eliminated on disposals	—	(7)	(9)	—	(16)
Adjustment on revaluation	(677)	—	—	—	(677)
At 31 December 2004	—	40,747	9,037	1,131	50,915
NET BOOK VALUES					
At 31 December 2004	56,500	4,150	8,325	—	68,975
At 31 December 2003	44,500	4,555	8,662	—	57,717
THE COMPANY					
COST					
At 1 January 2004		20,911	14,423	1,131	36,465
Additions		48	2,295	—	2,343
Disposals		(1)	(31)	—	(32)
At 31 December 2004		20,958	16,687	1,131	38,776
ACCUMULATED DEPRECIATION					
At 1 January 2004		19,371	6,202	1,131	26,704
Provided for the year		533	2,521	—	3,054
Eliminated on disposals		(1)	(6)	—	(7)
At 31 December 2004		19,903	8,717	1,131	29,751
NET BOOK VALUES					
At 31 December 2004		1,055	7,970	—	9,025
At 31 December 2003		1,540	8,221	—	9,761

The leasehold land and buildings of the Group were revalued at 31 December 2004 by Knight Frank Hong Kong Limited, an independent professional valuer, on an open market value basis. The surplus arising on revaluation has been credited to asset revaluation reserve.

If leasehold land and buildings of the Group had not been revalued, they would have been included in these financial statements at cost less accumulated depreciation at HK\$32,510,962 (2003: HK\$33,035,506).

Furniture, fixtures and equipment of the Group and the Company include assets carried at cost of HK\$25,268,741 (2003: HK\$24,064,907) and HK\$1,305,266 (2003: HK\$1,297,354) respectively and accumulated depreciation of HK\$21,610,451 (2003: HK\$20,340,314) and HK\$1,051,520 (2003: HK\$948,631) respectively in respect of assets held for use under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$1,280,875 (2003: HK\$1,067,160) and HK\$103,174 (2003: HK\$103,446) respectively.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

13. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	24,366,780	24,841,010	3,030,000	3,295,000
Additions	104,527	417,852	13,384	3,054
Adjustment resulted from cost variation	(941)	(378)	—	—
Surplus (deficit) on revaluation	3,676,824	(891,704)	466,616	(268,054)
At 31 December	28,147,190	24,366,780	3,510,000	3,030,000

The value of investment properties comprises:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Land in Hong Kong:				
- Medium term lease	4,850,000	4,400,000	—	—
- Long lease	23,297,190	19,966,780	3,510,000	3,030,000
	28,147,190	24,366,780	3,510,000	3,030,000

The investment properties of the Group and the Company were revalued at 31 December 2004 by Knight Frank Hong Kong Limited, an independent professional valuer, on an open market value basis. The surplus arising on revaluation has been credited to investment property revaluation reserve.

All of the investment properties of the Group and the Company are held for rental under operating leases.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	5	5
Amounts due therefrom	9,645,437	11,752,758
	9,645,442	11,752,763
Less: Allowances on amounts due therefrom	(404,000)	(404,000)
	9,241,442	11,348,763

The Directors consider that the unlisted investments are worth at least their cost.

Details of the principal subsidiaries held by the Company at 31 December 2004 are set out in note 41.

15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	—	—	3	3
Share of net assets	100,770	10,868	—	—
Negative goodwill of associates	(47,653)	(49,777)	—	—
	53,117	(38,909)	3	3
Amounts due therefrom	817,400	909,947	—	—
	870,517	871,038	3	3
Less: Impairment loss	(15,031)	(21,362)	—	—
	855,486	849,676	3	3

The aggregate attributable share of results of the associates is based on the unaudited management accounts for the year ended 31 December 2004.

The Group's share of post-acquisition losses of an associate exceeds the carrying amount of its equity investment in that associate, since the Group has obligation to meet its funding requirements.

Details of the Group's associates at 31 December 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of share held/ registered capital	Percentage of issued capital/ registered capital held	Principal activity
Parallel Asia Engineering Company Limited	Private limited company	Hong Kong	Share	25	Investment holding
Wingrove Investment Pte Ltd.	Private company limited by shares	Singapore	Share	25*	Property development and leasing
Country Link Enterprises Limited ("Country Link")	Private limited company	Hong Kong	Share	26.3*	Investment holding
Shanghai Kong Hui Property Development Co., Ltd.	Sino-Foreign equity joint venture	The People's Republic of China	US\$165,000,000#	23.7*#	Property development and leasing

* Indirectly held

Registered capital

The negative goodwill of associate arose on the acquisition of Country Link. The gross negative goodwill of HK\$51,901,736 (restated as set out in note 2) had been released to income to the extent of HK\$2,124,440 at 1 January 2004. In the current year, an amount of HK\$2,124,440 (2003: HK\$2,124,440) was released to the consolidated income statement.

Negative goodwill is released to income on a straight line basis of 20 years, represents the remaining average useful life of the assets acquired.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

16. INVESTMENTS IN SECURITIES

THE GROUP

	Other securities	
	2004 HK\$'000	2003 HK\$'000
Equity securities:		
Listed in Hong Kong	914,822	873,547
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Unlisted shares	131,855	136,855
Amounts due therefrom	29,642	56,788
	161,497	193,643
Less: Impairment loss (<i>Note</i>)	(60,333)	(128,333)
	101,164	65,310
	103,195	67,341
	1,018,017	940,888
Market value of securities listed in Hong Kong	914,822	873,547
Carrying amount analysed for reporting purposes as:		
Non-current	1,018,017	940,888

THE COMPANY

	Other securities	
	2004 HK\$'000	2003 HK\$'000
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Carrying amount analysed for reporting purpose as:		
Non-current	2,031	2,031

Note: The Directors reviewed the carrying amount of investment in the equity interests of unlisted investees whose business activity is property development at 31 December 2004. In the light of the improved property market during 2004, the Directors considered impairment loss of HK\$63,000,000 (2003: nil) should be reversed.

17. NEGATIVE GOODWILL

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Carrying amount at 1 January	1,016	1,076
Released to income during the year	(60)	(60)
Carrying amount at 31 December	956	1,016

The negative goodwill which arose on the Group's acquisition of additional interest in a subsidiary is released to income on a straight line basis over a period of 20 years.

18. STAFF HOUSING LOANS, SECURED

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Staff housing loans, secured	2,492	15,375
Less: Amounts due within one year shown under current assets	(245)	(3,188)
	2,247	12,187

The secured advances arise in connection with an established Staff Housing Loan scheme granted to the employees who meet the qualifying criteria. The advances bear a fixed interest rate of 4% (2003: 4%) per annum.

19. OTHER RECEIVABLE, PREPAYMENTS AND DEPOSITS

At 31 December 2003, other receivable of HK\$6,100,223 and HK\$281,483 of the Group and the Company, respectively representing the long-term portion of unamortised incentives granted to tenants, were reclassified from current assets to non-current assets.

20. ACCOUNTS RECEIVABLE

Accounts receivable are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 31 December 2004 and 2003 were aged less than 90 days.

21. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 31 December 2004 and 2003 were aged less than 90 days.

22. RENTAL DEPOSITS FROM TENANTS

At 31 December 2003, the long term portion of rental deposits received from tenants of HK\$138,319,201 and HK\$18,265,804 of the Group and the Company respectively, were reclassified from current liabilities to non-current liabilities.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

23. DEFERRED INCOME

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Deferred income	4,855	5,541
Less: Amount due within one year shown under current liabilities	(685)	(686)
	4,170	4,855

In connection with the US\$200 million 10-year inaugural notes, the Group has entered into derivative transactions to lock in the 10-year US Treasury rate so as to manage its interest rate exposures. The gain on the transactions is deferred and recognised on a straight line basis over the term of the 10-year notes, with final maturity in February 2012.

24. AMOUNTS DUE TO SUBSIDIARIES

The advances are unsecured and are not repayable within one year.

25. ADVANCES FROM INVESTEEES

The advances are unsecured, interest free and are not repayable within one year.

26. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest free and are not repayable within one year.

27. LONG TERM BANK LOANS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans, unsecured	3,502,100	3,962,423	—	1,225,523
The bank loans are repayable as follows:				
Within one year	—	78,000	—	4,000
More than one year, but not exceeding two years	—	668,300	—	668,300
More than two years, but not exceeding five years	1,479,300	1,626,423	—	553,223
More than five years	2,022,800	1,589,700	—	—
	3,502,100	3,962,423	—	1,225,523
Less: Amounts due within one year shown under current liabilities	—	(78,000)	—	(4,000)
	3,502,100	3,884,423	—	1,221,523

28. FLOATING RATE NOTES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Floating rate notes	550,000	400,000
Less: Unamortised notes issue expenses	(2,261)	(868)
	547,739	399,132
Less: Amount due within one year shown under current liabilities	—	(399,132)
	547,739	—

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued HK\$550 million five-year floating rate notes during the year. The notes are guaranteed as to principal and interest by the Company, bear interest ranged from 0.3% to 0.38% over the 3-month HIBOR and are repayable in full in 2009.

HD Finance (BVI) Limited, a wholly-owned subsidiary of the Company, issued HK\$400 million five-year floating rate notes on 3 November 1999. The notes were guaranteed as to principal and interest by the Company, bore interest at the rate of 1.25% over the 3-month HIBOR and were repaid in full in November 2004.

29. FIXED RATE NOTES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Fixed rate notes	1,559,977	1,559,977
Less: Unamortised notes issue expenses	(6,998)	(7,986)
	1,552,979	1,551,991

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US\$200 million 10-year fixed rate notes in February 2002. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 7% per annum and are repayable in full in February 2012.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

30. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and Company and movements thereon during the year.

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Deferred payments HK\$'000	Retirement benefits scheme contributions HK\$'000	Tax losses HK\$'000	Total HK\$'000
THE GROUP						
At 1 January 2003	116,216	5,605	305	(67)	(8,440)	113,619
Charge (credit) to income for the year	57,056	—	(182)	63	(1,529)	55,408
Charge to equity for the year	—	722	—	—	—	722
Effect of change in tax rate						
- charge (credit) to income for the year	10,895	—	29	(6)	(792)	10,126
- charge to equity for the year	—	525	—	—	—	525
At 1 January 2004	184,167	6,852	152	(10)	(10,761)	180,400
Charge (credit) to income for the year	39,899	—	(152)	9	(4,283)	35,473
Charge to equity for the year	—	2,218	—	—	—	2,218
At 31 December 2004	224,066	9,070	—	(1)	(15,044)	218,091

	Accelerated tax depreciation HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
THE COMPANY			
At 1 January 2003	6,354	(39)	6,315
Charge to income for the year	632	40	672
Effect of change in tax rate			
- charge (credit) to income for the year	596	(4)	592
At 1 January 2004	7,582	(3)	7,579
Charge to income for the year	1,487	3	1,490
At 31 December 2004	9,069	—	9,069

At 31 December 2004, the Group has unused tax losses of HK\$1,144 million (2003: HK\$1,170 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$86 million (2003: HK\$61 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,058 million (2003: HK\$1,109 million) due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

The Company does not have any unused tax loss as at balance sheet date.

31. SHARE CAPITAL

	Number of shares		Share capital	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
THE COMPANY				
Ordinary shares of HK\$5 each				
Authorised:				
At 1 January and 31 December	1,450,000	1,450,000	7,250,000	7,250,000
Issued and fully paid:				
At 1 January	1,043,572	1,034,617	5,217,857	5,173,084
Issue of shares pursuant to scrip dividend scheme	5,192	8,955	25,961	44,773
Exercise of share options	1,200	—	6,000	—
At 31 December	1,049,964	1,043,572	5,249,818	5,217,857

On 11 June 2004 and 11 October 2004 respectively, the Company issued and allotted a total of 4,059,085 shares and 1,133,041 shares of HK\$5 each in the Company at HK\$11.91 and HK\$13.89 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2003 final and 2004 interim dividends pursuant to the scrip dividend scheme announced by the Company on 11 May 2004 and 8 September 2004.

During the year, options to subscribe for a total of 1,200,000 shares were exercised at the exercise prices of HK\$7.54 and HK\$13.46 per share. Details of options outstanding and movements during the year are set out in note 34.

These shares rank pari passu in all respects with other shares in issue.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

32. ACCUMULATED PROFITS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
At 1 January	3,795,499	3,640,298	3,533,725	3,736,483
Net profit for the year	609,280	535,792	182,728	177,833
Profit available for distribution	4,404,779	4,176,090	3,716,453	3,914,316
Dividends	(419,862)	(380,591)	(419,862)	(380,591)
At 31 December	3,984,917	3,795,499	3,296,591	3,533,725

The accumulated profits of the Group include accumulated losses of HK\$39,583,731 (2003 (restated): HK\$78,065,324) attributable to associates of the Group.

The distributable reserves of the Company as at 31 December 2004 amounted to HK\$3,396,591,247 (2003: HK\$3,633,725,475), being its accumulated profits and general reserve at that date.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

33. OTHER RESERVES

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000 (restated)	Investment revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000 (restated)
THE GROUP										
At 1 January 2003	1,313,543	7,490,608	319,102	6,613	502,235	—	154,995	100,000	274,174	10,161,270
Premium on issue of shares pursuant to scrip dividend scheme	20,305	—	—	—	—	—	—	—	—	20,305
Share issue expenses	(20)	—	—	—	—	—	—	—	—	(20)
Unrealised gain on investments in other securities	—	—	206,455	—	—	—	—	—	—	206,455
Deficit on revaluation of investment properties	—	(891,704)	—	—	—	—	—	—	—	(891,704)
Surplus on revaluation of land and buildings	—	—	—	4,124	—	—	—	—	—	4,124
Deficit on revaluation of investment properties shared by minority shareholders	—	114,462	—	—	—	—	—	—	—	114,462
Realisation on disposal of investment in other securities	—	—	(37,944)	—	—	—	—	—	—	(37,944)
Share of reserve of an associate	—	27,987	—	—	—	12	—	—	—	27,999
Deferred taxation liabilities arising on revaluation	—	—	—	(722)	—	—	—	—	—	(722)
Effect of change in tax rate on deferred taxation liabilities arising on revaluation of properties and charged to reserves	—	(407)	—	(118)	—	—	—	—	—	(525)
Final dividend for 2002 declared	—	—	—	—	—	—	—	—	(274,174)	(274,174)
Amount set aside for 2003 dividend	—	—	—	—	—	—	—	—	380,591	380,591
Interim dividend for 2003 declared	—	—	—	—	—	—	—	—	(104,044)	(104,044)
Exchange differences on translation of an overseas associate	—	—	—	—	—	(3,020)	—	—	—	(3,020)
At 1 January 2004	1,333,828	6,740,946	487,613	9,897	502,235	(3,008)	154,995	100,000	276,547	9,603,053
Premium on issue of shares pursuant to scrip dividend scheme	38,121	—	—	—	—	—	—	—	—	38,121
Premium on issue of shares on exercise of share options	8,376	—	—	—	—	—	—	—	—	8,376
Share issue expenses	(47)	—	—	—	—	—	—	—	—	(47)
Unrealised gain on investments in other securities	—	—	65,125	—	—	—	—	—	—	65,125
Surplus on revaluation of investment properties	—	3,676,824	—	—	—	—	—	—	—	3,676,824
Surplus on revaluation of land and buildings	—	—	—	12,677	—	—	—	—	—	12,677
Surplus on revaluation of investment properties shared by minority shareholders	—	(223,499)	—	—	—	—	—	—	—	(223,499)
Realisation on disposal of investment in other securities	—	—	(11,957)	—	—	—	—	—	—	(11,957)
Share of reserve of an associate	—	57,354	—	—	—	—	—	—	—	57,354
Deferred taxation liabilities arising on revaluation	—	—	—	(2,218)	—	—	—	—	—	(2,218)
Final dividend for 2003 declared	—	—	—	—	—	—	—	—	(276,547)	(276,547)
Amount set aside for 2004 dividend	—	—	—	—	—	—	—	—	419,782	419,782
Interim dividend for 2004 declared	—	—	—	—	—	—	—	—	(104,793)	(104,793)
Exchange differences on translation of an overseas associate	—	—	—	—	—	(4,371)	—	—	—	(4,371)
At 31 December 2004	1,380,278	10,251,625	540,781	20,356	502,235	(7,379)	154,995	100,000	314,989	13,257,880

33. OTHER RESERVES *continued*

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 2003	1,313,543	1,991,631	154,995	100,000	274,174	3,834,343
Premium on issue of shares pursuant to scrip dividend scheme	20,305	—	—	—	—	20,305
Share issue expenses	(20)	—	—	—	—	(20)
Deficit on revaluation of investment properties	—	(268,054)	—	—	—	(268,054)
Final dividend for 2002 declared	—	—	—	—	(274,174)	(274,174)
Amount set aside for 2003 dividend	—	—	—	—	380,591	380,591
Interim dividend for 2003 declared	—	—	—	—	(104,044)	(104,044)
At 1 January 2004	1,333,828	1,723,577	154,995	100,000	276,547	3,588,947
Premium on issue of shares pursuant to scrip dividend scheme	38,121	—	—	—	—	38,121
Premium on issue of shares on exercise of share options	8,376	—	—	—	—	8,376
Share issue expenses	(47)	—	—	—	—	(47)
Surplus on revaluation of investment properties	—	466,616	—	—	—	466,616
Final dividend for 2003 declared	—	—	—	—	(276,547)	(276,547)
Amount set aside for 2004 dividend	—	—	—	—	419,782	419,782
Interim dividend for 2004 declared	—	—	—	—	(104,793)	(104,793)
At 31 December 2004	1,380,278	2,190,193	154,995	100,000	314,989	4,140,455

(a) **General reserve**

General reserve was set up from the transfer of accumulated profits.

(b) **Capital reserve**

Capital reserve comprises negative goodwill of HK\$516,142,884 (2003: HK\$516,142,884) arising from acquisition of subsidiaries prior to 1 January 2001 and capitalisation issue of a subsidiary.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

34. EXECUTIVE SHARE OPTION SCHEME

The Company operates an Executive Share Option Scheme (the "Scheme") under which options may be granted to employees of the Company or any of its wholly-owned subsidiaries to subscribe for ordinary shares of the Company, thereby strengthening the links between individual staff and shareholder interests. Approved by shareholders on 28 April 1995, the Scheme has a term of 10 years and will expire on 28 April 2005. The maximum number of shares in respect of which options may be granted under the Scheme (together with shares issued and issuable under the Scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The maximum entitlement of each participant under the Scheme is 25% of the maximum number of shares in respect of which options may at any time be granted under the Scheme. The exercise price was fixed at 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the 20 trading days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

As at 31 December 2004, an executive Director of the Company remained as the Scheme participant with shares issuable under options granted representing less than 0.2% (2003: 0.4%) of the issued share capital of the Company. Details of options outstanding and movements during the year are as follows:

Name	Balance as at 1.1.2003 and 1.1.2004	Date of grant	Changes during the year			Balance as at		Exercise price HK\$	Exercisable period
	Date		Cancelled/ lapsed	Granted	Exercised	31.12.2003	31.12.2004		
Peter Ting Chang Lee	1,350,000	7.1.1999	Nil	Nil	Nil	1,350,000	1,350,000	9.22	7.1.2001-6.1.2009
Pauline Wah Ling Yu Wong	900,000	3.5.1995	Nil	Nil	900,000	900,000	Nil	13.46	3.5.1997-2.5.2005

In addition to the above, during the year, options to subscribe for 300,000 shares at an exercise price of HK\$7.54 per share were exercised (closing market price per share immediately before the date of exercise: HK\$15) by a grantee, whose remaining options for 900,000 shares of the Company lapsed upon his resignation. There was no movement with respect to share options granted to that grantee in 2003.

All options referred to above are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

The Directors will recommend the adoption of a new share option scheme in line with the Listing Rules requirements by shareholders at the forthcoming Annual General Meeting to be held on 10 May 2005.

35. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced MPF scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$5,067,976 (2003: HK\$5,006,517). Forfeited contributions for the year amounted to HK\$6,605,786 (2003: HK\$1,067,210) were refunded to the Group.

36. CONTINGENT LIABILITIES

As at 31 December 2004, there were contingent liabilities in respect of the following:

	THE GROUP		THE COMPANY	
	2004 Million	2003 Million	2004 Million	2003 Million
Corporate guarantee to a third party in respect of the sale of the interest in an associate	HK\$3.6	HK\$3.6	HK\$3.6	HK\$3.6
Corporate guarantee to subsidiaries				
- for issue of floating rate notes	—	—	HK\$550.0	HK\$400.0
- for issue of fixed rate notes	—	—	US\$200.0	US\$200.0
Undertaking given to a bank in proportion to shareholding regarding facilities granted to a joint venture property project of an associate	S\$18.6	S\$18.6	—	—
Guarantees to banks to provide financing facilities to				
- An associate	S\$12.0	S\$12.0	S\$12.0	S\$12.0
- A property development project	—	S\$22.0	—	S\$22.0
- Subsidiaries	—	—	HK\$6,229.0	HK\$3,930.0

As at balance sheet date, the Group had given guarantees to banks and financial institutions for entering of derivatives transactions under the International Swap Dealers Association, Inc. ("ISDA") agreement. The notional amounts of the forward rate agreements, interest rate swaps and currency swaps are disclosed in note 39.

37. CAPITAL COMMITMENTS

As at 31 December 2004, the Group and the Company had capital commitments in respect of the following:

	THE GROUP		THE COMPANY	
	2004 Million	2003 Million	2004 Million	2003 Million
Investment properties: Contracted but not provided for	HK\$8.4	HK\$37.6	HK\$0.2	HK\$5.6

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

38. LEASE COMMITMENTS

The Group and the Company as lessee

As at 31 December 2004, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	—	—	6,949	8,072
In the second to fifth year inclusive	—	—	3,199	10,451
	—	—	10,148	18,523

Operating lease payments represent rentals payable by the Company to its subsidiaries for its staff quarters and office premises which are negotiated and fixed for an average of two years and three years respectively.

The Group and the Company as lessor

As at 31 December 2004, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	777,801	798,758	95,094	119,148
In the second to fifth year inclusive	945,539	1,146,345	75,148	151,638
After five years	103,095	136,143	4,704	5,948
	1,826,435	2,081,246	174,946	276,734

Operating lease payments represent rentals receivable by the Group from its investment properties. Leases are negotiated and rentals are fixed for an average of one to three years.

39. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Details of the Group's outstanding derivative instruments at balance sheet date are as follows:

	Notional Principal Amount	
	2004 HK\$'000	2003 HK\$'000
Forward rate agreement — less than one year	—	786,996
Foreign exchange forward contracts		
- less than one year	150,707	205,558
- one to five years	137,058	—
Interest rate swaps		
- less than one year	350,000	—
- one to five years	2,518,983	1,598,983
Currency swaps — after five years	1,559,977	1,559,977
	4,716,725	4,151,514

The Group has used off balance sheet derivative instruments to manage the interest rate and foreign exchange exposures. These instruments, such as interest rate swaps and currency swaps, are employed solely for hedging purpose and no speculative positions have been taken. The Group has also followed the established policy on monitoring and managing the counterparty risk by restricting the derivative transactions to financial institutions with strong investment-grade ratings and limiting the exposures to each counterparty at prudent levels.

40. RELATED PARTY TRANSACTIONS

During the year, the Group has the following transactions with related parties:

	Notes	Substantial shareholder		Directors	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Repairs and maintenance expenses paid to		—	—	34	19,969
Gross rental income from	(a)	4,495	5,063	17,458	31,468
Construction cost paid during the year for investment properties	(b)	—	—	15,783	82,934

As at 31 December 2004, the Group has the following balances with related parties:

	Notes	Substantial shareholder		Directors	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Included in creditors and accruals were repairs and maintenance expenses payable to		—	—	—	2,248
Construction cost payable to	(b)	—	—	2,624	5,248
Amount due to a minority shareholder	(c)	—	—	94,443	92,843

Notes:

- (a) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying periods. The leases were entered into in the normal course of business and the rentals were determined with reference to market rates.
- (b) Dr. Geoffrey M.T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and V-nee Yeh is also Chairman of Hsin Chong Construction Group Ltd. whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited ("Hsin Chong Asia"), entered into a main contract with a subsidiary of the Company relating to the renovation project of Lee Gardens Two. Such transaction was entered into on normal commercial terms and on arm's length basis.

The sum represented the sum paid to, or as the case may be, outstanding balances due under the main contract with Hsin Chong Asia. To the best of the Company's knowledge having made due enquiries, substantially the whole of such contracts were sub-contracted by Hsin Chong Asia to other sub-contractors. The contract sum is not the indicative of the amount actually derived by Hsin Chong Asia under the relevant contract, which amount is substantially less than the relevant contract sum.

- (c) The sum represents outstanding loan advanced by Jebesen and Company Limited to a non wholly-owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. The amount is unsecured, interest free and is not repayable within one year. Hans Michael Jebesen is a director and shareholder of Jebesen and Company Limited.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

41. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			indirectly	directly	
Admore Investments Limited	Hong Kong	HK\$2	—	100%	Investment holding
Golden Capital Investment Limited	Hong Kong	HK\$2	—	100%	Investment holding
HD Finance (BVI) Limited	British Virgin Islands	HK\$1	—	100%	Treasury operation
HD Treasury Limited	Hong Kong	HK\$2	—	100%	Treasury operation
HD Treasury Management Limited	Hong Kong	HK\$2	—	100%	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK\$1	—	100%	Investment holding
Hysan Leasing Company Limited	Hong Kong	HK\$2	—	100%	Leasing administration
Hysan Treasury Limited	Hong Kong	HK\$2	—	100%	Treasury operation
Hysan (MTN) Limited	British Virgin Islands/Hong Kong	US\$1	—	100%	Treasury operation
Hysan Property Management Limited	Hong Kong	HK\$2	—	100%	Property management
Kwong Hup Holding Limited	British Virgin Islands	HK\$1	—	100%	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK\$1,000	—	100%	Property investment
Minsal Limited	Hong Kong	HK\$2	—	100%	Property investment
Mondsee Limited	Hong Kong	HK\$2	—	100%	Property investment
Stangard Limited	Hong Kong	HK\$300,000	—	100%	Provision of security services
Teamfine Enterprises Limited	Hong Kong	HK\$2	—	100%	Investment holding
Tohon Development Limited	Hong Kong	HK\$2	—	100%	Property investment
Bamboo Grove Recreational Services Limited	Hong Kong	HK\$2	100%	—	Resident club management
HD Investment Limited	British Virgin Islands	HK\$1	100%	—	Investment holding
Jarrow Properties Limited	British Virgin Islands	HK\$1	100%	—	Investment holding
Kochi Investments Limited	British Virgin Islands	HK\$1	100%	—	Capital market investment

41. PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			indirectly	directly	
Lee Theatre Realty Limited	Hong Kong	HK\$10	100%	—	Property investment
Leighton Property Company Limited	Hong Kong	HK\$2	100%	—	Property investment
Main Rise Development Limited	Hong Kong	HK\$2	100%	—	Investment holding
OHA Property Company Limited	Hong Kong	HK\$2	100%	—	Property investment
Perfect Win Properties Limited	Hong Kong	HK\$2	100%	—	Property investment
Silver Nicety Company Limited	Hong Kong	HK\$20	100%	—	Property investment
South Eagle Investments Limited	British Virgin Islands/Hong Kong	US\$1	100%	—	Property investment
Barrowgate Limited	Hong Kong	HK\$10,000	65.36%	—	Property investment

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially affected the results or assets of the Group. Other than floating rate notes and fixed rate notes issued by Hysan (MTN) Limited as disclosed in notes 28 and 29, none of the subsidiaries had issued any debt securities at the year end.

42. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as the "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs and has so far concluded that adoption of the following new accounting standards may have an impact on the presentation of financial information of the Group:

- HKAS 40 on Investment Property;
- HKAS 32 on Financial Instruments: Disclosures and Presentation;
- HKAS 39 on Financial Instruments: Recognition and Measurement; and
- HKFRS 3 on Business Combinations.

An important underlying concept of these standards is greater use of fair values in measuring transactions. Fair value adjustments are charged to the income statement or to equity as required under the standards.

42. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS *continued*

HKAS 40

HKAS 40 supersedes SSAP 13 "Investment properties" and set out the accounting treatment for investment property and related disclosure. An entity is permitted to choose either the cost model or the fair value model to account for its investment properties subject to certain criteria where fair value model should be used. Specific transitional provisions are provided in the standard.

Upon the Group adopting the fair value model, all revaluation surplus and deficit will be recognised in the income statement. The precise financial impact will depend on the property market condition at reporting dates.

HKAS 32 and 39

The two standards prescribe the accounting treatment, presentation and disclosure requirements of financial instruments and move off-balance sheet items (include derivatives and embedded derivatives) onto the balance sheet. HKAS 32 introduces extensive disclosure in respect of financial instruments and the entity's exposure to financial risks (including interest rate risk and credit risk). HKAS 39 sets out the recognition and measurement requirement of financial instruments and hedge accounting. Hedge accounting can only be permitted under strict criteria stipulated in the standard, appropriate disclosures are required.

As part of its treasury risk management activities, the Group enters into derivatives and forward contracts to hedge against the interest rate risks and foreign currency risks. Typical contracts include interest rate swaps (converting a floating rate debt into fixed rate) and cross currency swaps (converting debts denominated in foreign currency to Hong Kong dollars). All of the existing financial instruments entered by the Group will have to be recognised at fair value on the balance sheet. The Group is not currently in a position to quantify the financial impact as it depends on the financial market condition at reporting dates.

HKFRS 3

HKFRS 3 supersedes SSAP 30 "Business Combinations" and set out the requirement and accounting treatment for business combinations.

Under SSAP 30, negative goodwill, being excess of the acquirer's interest in the fair value of the net identifiable assets acquired over the costs of acquisition, are recognised as a "negative asset" on the balance sheet. Such negative goodwill is released to the income statement based on an analysis of the circumstances.

HKFRS 3 requires the discount arising from acquisition of a subsidiary/associate/joint venture to be recognised immediately in the income statement.

Under the transitional arrangement of HKFRS 3, the outstanding negative goodwill (approximately HK\$49 million) previously recognised on the balance sheet shall be derecognised by way of an adjustment to the shareholders' funds at 1 January 2005. Accordingly, starting from year 2005, there will not be further release of negative goodwill (amounted to approximately HK\$2 million per annum) to the income statement.

Five-Year Financial Summary

	2004 HK\$ million	2003 HK\$ million (restated)	2002 HK\$ million	2001 HK\$ million	2000 HK\$ million
		(Note)			
Condensed Consolidated Income Statement					
Turnover	1,154	1,139	1,233	1,355	1,480
Property expenses	(259)	(239)	(236)	(224)	(239)
Gain on disposal of investments in securities	15	48	—	—	294
Gain on disposal of an associate	—	—	—	34	—
Other operating income	27	25	16	18	29
Share of results and release of negative goodwill of associates	60	20	—	(2)	4
Impairment loss (arising from) reversed on interests in associates	—	—	(10)	(5)	3
Impairment loss reversed on (arising from) investments in securities	63	—	(1)	6	—
Administrative expenses	(95)	(90)	(86)	(90)	(89)
Finance costs	(162)	(168)	(220)	(314)	(449)
Taxation	(160)	(173)	(108)	(115)	(117)
Minority interests	(34)	(26)	(55)	(63)	(66)
Net profit for the year	609	536	533	600	850
Dividends	420	381	378	392	433
Earnings per share					
- Basic	HK\$0.58	HK\$0.52	HK\$0.52	HK\$0.58	HK\$0.82
- Diluted	HK\$0.58	HK\$0.52	HK\$0.52	HK\$0.58	HK\$0.82
PERFORMANCE INDICATORS					
Net gearing	20.8%	27.0%	25.9%	21.4%	14.6%
Net interest coverage (times)	7.3x	6.5x	4.7x	3.7x	3.6x
Net assets value per share (HK\$)	21.42	17.84	18.34	20.62	22.79
Net debts per share (HK\$)	5.32	5.66	5.49	5.43	4.91
Year-end share price (HK\$)	16.35	12.00	5.80	7.85	11.00

Definition:

Net gearing: gross debt less cash and cash equivalents and marketable securities at year-end market value, divided by shareholders' funds

Net interest coverage: profit from operations before depreciation less dividend and interest income, divided by net interest expenses less dividend income

Net assets value per share: shareholders' funds divided by number of issued shares

Net debts per share: gross debt less cash and cash equivalents divided by number of issued shares

Five-Year Financial Summary *continued*

	2004	2003	2002	2001	2000
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
		<i>(Note)</i>			
Condensed Consolidated Balance Sheet					
Investment properties	28,147	24,367	24,841	26,639	28,433
Investments in securities	1,018	941	1,484	1,754	2,297
Interests in associates	855	850	61	61	51
Cash and bank balances	22	15	23	27	52
Other assets	199	160	146	142	116
Total assets	30,241	26,333	26,555	28,623	30,949
Debt borrowings	(5,603)	(5,914)	(5,696)	(5,625)	(5,099)
Taxation	(349)	(271)	(240)	(101)	(59)
Other liabilities	(815)	(778)	(768)	(668)	(974)
Total assets less liabilities	23,474	19,370	19,851	22,229	24,817
Shareholders' funds	22,493	18,616	18,975	21,267	23,478
Minority interests	981	754	876	962	1,339
	23,474	19,370	19,851	22,229	24,817

Note: The figures for 2003 have been restated to reflect the prior year adjustment on an associate's deferred tax adjustments.

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	8 March 2005
Ex-dividend date for final dividend	4 May 2005
Share register closed	6 to 10 May 2005
Annual General Meeting	10 May 2005
Record date for final dividend	10 May 2005
Despatch of scrip dividend circular and election form	(on or about) 17 May 2005
Despatch of final dividend warrants/definitive share certificates	(on or about) 10 June 2005
2005 interim results to be announced	9 August 2005*
2005 interim dividend payable	30 September 2005*

*subject to change

DIVIDEND

The Board recommends the payment of a final dividend of HK30 cents per share. Subject to shareholder approval, the final dividend will be payable in cash with a scrip dividend alternative to shareholders on the register of members as at Tuesday, 10 May 2005. The scrip dividend alternative is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto.

A circular containing details of the scrip dividend and the form of election will be mailed to shareholders on or about Tuesday, 17 May 2005. Shareholders who elect for the scrip dividend, in lieu of the cash dividend, in whole or in part, shall return the form of election to the Company's Registrars on or before Monday, 6 June 2005.

Definitive share certificates in respect of the scrip dividend and cheques (for those shareholders who do not elect for scrip dividend) will be despatched to shareholders on or about Friday, 10 June 2005.

The share register will be closed from Friday, 6 May 2005 to Tuesday, 10 May 2005, both dates inclusive. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars no later than 4:00 p.m. on Thursday, 5 May 2005.

SHARE LISTING

Hysan's shares are listed on The Stock Exchange of Hong Kong Limited. Its shares are also traded over-the-counter in London and in addition, it has a sponsored American Depositary Receipts (ADR) Programme in the New York market.

STOCK CODE

The Stock Exchange of Hong Kong Limited: 00014
Bloomberg: 14HK
Reuters: 0014.HK
Ticket Symbol for ADR Code: HYSNY
CUSIP reference number: 449162304

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrars:

Standard Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong
Telephone: (852) 2980 1768
Facsimile : (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrars promptly of any change of their address.

INVESTOR RELATIONS

For enquiries relating to investor relations, please email to investor@hysan.com.hk or write to:

Investor Relations
Hysan Development Company Limited
49/F., The Lee Gardens, 33 Hysan Avenue
Hong Kong
Telephone : (852) 2895 5777
Facsimile : (852) 2577 5153

OUR WEBSITE

Press releases and other information of the Group can be found at our Internet website: "www.hysan.com.hk"



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