

OPERATIONS REVIEW

IMPACT OF NEW REPORTING AND ACCOUNTING STANDARDS

Net Profit - which indicator?

Categories

			2005 HK\$M	2004 HK\$M (restated)	Change HK\$M	%
1	INCOME AND COST ITEMS	Turnover	1,250	1,154		
		Property expenses	(237)	(259)		
		Administrative expenses	(103)	(96)		
		Finance costs	(214)	(162)		
		Other operating income	38	27		
		Fair value changes on financial instruments	(25)	-		
		Share of results of associates and release of negative goodwill	59	41		
		Taxation - current year	(85)	(85)		
		Minority interests	(42)	(34)		
			Net profit excluding asset value changes and prior year tax provision	641	586	55
	Prior year tax provision	(103)	(55)			
		538	531			
2	ASSET VALUE CHANGES	Impairment reversal on investments in unlisted securities	-	63		
		Gain on disposal of investments in listed securities	-	15		
		Realised fair value gain on disposal of properties	467	-		
			467	78		
1 + 2 = 3	INDICATOR	Underlying Net Profit	1,005	609	396	65.0%
4	ASSET VALUE CHANGES	Unrealised fair value changes on investment properties net of deferred tax				
		- For the Group	3,091	-		
		- Attributable to Minority Interests	(157)	-		
		- Included in Associates	182	-		
		3,116	-			
3 + 4 = 5	INDICATOR	Net Profit per financial statements	4,121	609	3,512	576.7%

Shareholders' Funds - which indicator?

6	INDICATOR	Adjusted Shareholders' Funds	27,134	22,399	4,735	21.1%
		Group's share of cumulative deferred tax on properties revaluation	(2,467)	(1,833)		
	INDICATOR	Shareholders' Funds per financial statements	24,667	20,566	4,101	19.9%

WHAT CHANGES DID NEW ACCOUNTING STANDARDS BRING?

- **Unchanged:**
 - Business and Operations
 - Cash Flow
- **Significant Changes:**
 - Financial Reporting

WHY MANAGEMENT GAVE ADDITIONAL INDICATORS?

The new accounting standards, applicable to accounting periods commencing on or after 1 January 2005, intend to present the fair value of assets on the balance sheet with movements of the asset value between balance sheet dates either recognised in the profit and loss or equity accounted for. The principle of inclusion of assets at fair value extends to cover derivatives and embedded options. Such a move away from historical cost accounting has introduced a higher volatility on earnings, due principally to additional recognition of asset value changes between balance sheet dates.

The increased fluctuations in earnings, however, may pose limitations on the use of unadjusted earning figures, financial ratios, trends and comparison against prior period(s). The effects are particularly significant for companies whose principal activity is to derive income from the holding of assets, such as the Group's.

Further sources of earning volatility are attributable to derivatives contracts, particularly when these contracts carry a high degree of hedging effectiveness. The recognition of their fair value changes, sensitive to prevailing market conditions and pricing effectiveness, may well be timing differences between accounting periods, and between the hedged and hedging items. As such, these fair value changes are not adjusted in calculating the underlying net profit attributable to shareholders and the adjusted shareholders' funds.

The principle of deferred tax is also introduced where fair value and tax value differ for the balance sheet items, resulting in deferred tax provision having to be made against the difference at the prevailing tax rate. As there is no capital gains tax on disposal of our properties, the additional deferred tax provision made on the fair value gains on these properties reduces the net realisable assets value of our Group.

Given the comparison limitations, we have provided additional indicators when assessing the Group's performance. The components that make up these indicators are explained in graphical form on page 22. To assess the performance of the Group whose principal activity is to derive rental income from the investment properties, management is of the view that a net profit figure, excluding principally disposal gains from and impairment of assets, should be presented. Accordingly, net profit, excluding asset value changes and prior year tax provision, was HK\$641 million, up 9.4% from last year (2004 restated: HK\$586 million).

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 2005, Hysan's investment property interests totalled some 4.5 million gross square feet of high-quality office, retail and residential space in Hong Kong.

2005 PERFORMANCE

The Group's turnover increased by HK\$96 million (8.3%) over the 2004 level. Net profit increased by HK\$3,512 million (5.8 times), to HK\$4,121 million (2004 restated: HK\$609 million), reflecting the impact of fair value changes on investment properties taken through the income statement as required under HKFRSs. Underlying net profit, excluding unrealised revaluation changes on investment properties and related items, increased to HK\$1,005 million in 2005 (2004 restated: HK\$609 million), an increase of HK\$396 million (65.0%) compared with last year.

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

The adoption of the new accounting standards effective 1 January 2005 has also led to additional costs or cessation of amortisation credit arising from:

- Loss on fair value changes on financial instruments
- Time value of the share options granted to employees
- Depreciation and amortisation on owner-occupied properties
- Cessation of amortisation of negative goodwill

The aggregate charge to the income statement in 2005 was HK\$30 million (2004: HK\$1 million).

PERFORMANCE INDICATORS

Whilst many factors contributed to the results of the Group's businesses, some of the key drivers for assessment of our performance included those set out below. Performance is measured by these and other financial indicators as further analysed below.

Operations:

- Occupancy rate
- Rental income growth
- Property expenses and as a percentage of turnover

Investments in Listed Securities:

- Total return
 - dividends received
 - capital value growth

Financials:

- Average finance costs
- Net gearing
- Net interest coverage
- Fixed/floating debt ratio
- Average debt maturity
- Ratio of bank facilities and capital market issuance
 - diversity of funding sources

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	2005 HK\$ million	2004 HK\$ million (restated)	Change HK\$ million	Change %
Turnover	1,250	1,154	96	8.3
Property expenses	(237)	(259)	22	8.5
Gain on disposal of investments in securities	-	15	(15)	(100.0)
Other operating income	38	27	11	40.7
Reversal of impairment loss on investments in securities	-	63	(63)	(100.0)
Administrative expenses	(103)	(96)	(7)	(7.3)
Fair value changes on investment properties	4,226	-	4,226	N/A
Fair value changes on financial instruments	(25)	-	(25)	N/A
Associates - share of results and release of negative goodwill	241	41	200	487.8
Finance costs	(214)	(162)	(52)	(32.1)
Taxation				
- current	(178)	(105)	(73)	(69.5)
- deferred	(678)	(35)	(643)	(1,837.1)
Minority interests	(199)	(34)	(165)	(485.3)
Net profit for the year	4,121	609	3,512	576.7
Net profit excluding asset value changes and prior year tax provision	641	586	55	9.4
Underlying net profit	1,005	609	396	65.0

Turnover

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

Turnover increased by 8.3 % to HK\$1,250 million (2004: HK\$1,154 million). Retail and residential sectors recorded further growth, while rental reversions in the office sector turned from negative to positive in the second half of 2005 which brought a similar level of turnover as in 2004.

Key Indicators

The rental income and occupancy levels by sector are set out as follows:

	Occupancy		Rental Income			
	2005	2004	2005 HK\$ M	2004 HK\$ M	Change HK\$ M	%
Office	95%	97%	501	501	-	-
Retail	99%	99%	503	446	57	13
Residential	89%	84%	209	170	39	23
Others	N/A	N/A	37	37	-	-
			1,250	1,154	96	8

Office Sector

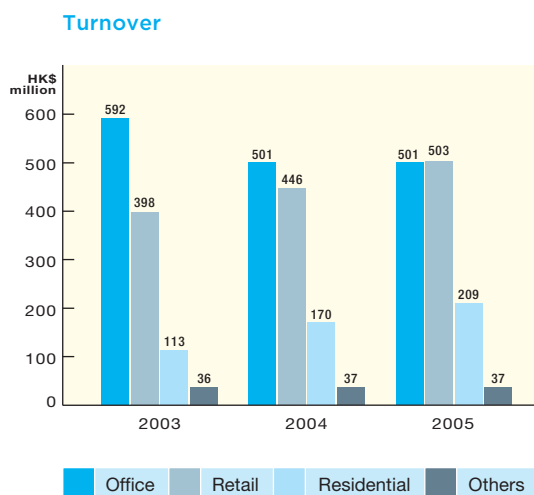
Our office sector began 2005 with negative rental reversion. Market condition continued to improve with growth in demand brought about by businesses expanding and upgrading. In light of this, our leasing strategy focused on the optimisation of rental; hence an emphasis on rental levels achievable over higher occupancy. The Group was successful in concluding new leases and renewals with substantial growth in rental rates during the second half of 2005. The combined effect of these factors resulted in broadly the same level of rental income in 2005 and the rental rates increases will be translated into a full year contribution in 2006. As at 31 December 2005, the portfolio had an occupancy rate of 95% (2004: 97%).

Retail Sector

The general retail leasing sector performed well during the year supported by strong local consumer confidence and increased tourist arrivals. This was despite the negative impact on consumer sentiment brought about by rising interest rates, particularly felt during the second half of the year. The Group's retail properties remained virtually fully let as at 31 December 2005 and recorded a 13% increase in rental income.

Residential Sector

Demand for luxury residential properties was strong, as a result of increased expatriate arrivals and a generally higher housing budget. Rental income from our residential sector increased by 23% year-on-year. This was mainly due to higher occupancy (2005: 89%; 2004: 84%) and increased rental levels achieved for our Bamboo Grove apartments.



Property Expenses

Property expenses are the costs of providing property services directly associated with the daily operations of our investment properties, such being mainly utility costs, building operations, front-line operating staff costs, repairs and maintenance costs.

Management has been active in reviewing property expenses to provide quality property management services in a cost effective manner. The decrease in property expenses was mainly due to lower repair and maintenance costs with better contract prices obtained and higher overall occupancy. These savings offset rise in utilities costs and other cost inflation, resulting in an overall decrease in property expenses.

Key Indicators

	2005	2004
Property expenses (HK\$ M)	237	259
Percentage on turnover	19%	22%

Other Operating Income

Other operating income mainly comprised dividend and interest income.

The increase of 40.7% to HK\$38 million in 2005 (2004: HK\$27 million) was mainly due to higher dividend income from the Group's listed securities investment.

Administrative Expenses

Administrative expenses increased by HK\$7 million (7.3%) over the 2004 level, principally due to increased managerial staff costs.

The Group has been reviewing its resources in order to ensure it has the right skills to manage and grow the Group's businesses. As a result, the Group has identified and implemented a human resources upskilling exercise.

Fair Value Changes on Investment Properties

The Group has elected the fair value model for investment properties under the Hong Kong Accounting Standard ("HKAS") 40. As at 31 December 2005, the investment properties (excluding the divested Entertainment Building) of the Group were revalued at HK\$29,815 million, by an independent professional valuer, being 16.1% higher than the corresponding value for last year.

	Fair Value HK\$ M
As at 31 December 2004 (restated)	
- Entertainment Building	2,230
- Others	25,687
	27,917
Reclassification and addition	399
Revaluation surplus - realised	467
- unrealised	3,759
Disposals - Entertainment Building	(2,686)
- Others	(41)
As at 31 December 2005	29,815*

* Excluded the divested Entertainment Building whilst the Group's turnover of HK\$1,250 million included rental income from Entertainment Building up to the date of disposal. This should be taken into consideration when assessing the yield, rental on assets or similar performance measurements.

Fair Value Changes on Financial Instruments

The Group enters into hedging arrangements from time to time to hedge volatilities and pricing risks of its treasury assets and liabilities. Negative fair value changes of HK\$25 million recognised in the income statement mainly represent the aggregate of the marked-to-market fair value movements of these financial instruments.

Share of Results of Associates

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

Development Property	Sector	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: Office Residential	0.7 0.6		Completed and leased (100%) Construction works in progress
Singapore				
Amaryllis Ville	Residential	0.4	25.0	Over 80% sold and about 88% of the unsold units leased

The Shanghai Grand Gateway development continued to deliver a good performance. The Group's share of results (before fair value changes) recorded a 15% increase year-on-year. Leasing activities for Phase I and the completed Phase II office development achieved high occupancy. The construction of the Phase II luxury residential and service apartments development is underway with completion expected in 2006. Under HKAS 40, properties at Shanghai Grand Gateway have been revalued at market value by an independent professional valuer. The Group's share of the increase in valuation, less the corresponding deferred tax thereon, amounted to HK\$182 million.

With the Singapore residential property market showing some improvements, the Singapore Amaryllis Ville project made a small positive contribution in 2005. This principally reflected rental income derived from leasing of 88% of the remaining unsold units.

Finance Costs

During 2005, market short-term interest rate for Hong Kong dollar borrowings rose by 3.9% as the Hong Kong Interbank Offer Rate increased sharply over the period. The Group's finance costs increased substantially by HK\$52 million (32.1%) as compared to last year. The Group's average finance costs rose to 3.60% in 2005 (2004: 2.54%).

Whilst part of the sales proceeds from Entertainment Building (completed on 30 December 2005) was used to repay certain bank loans before the year end, the remaining balance of the proceeds was placed in bank deposits, and will be applied to further reduce the Group's debt level to lower the finance costs, against a background of rising interest rates.

Further discussions on financial management, including financing policy and financial risk management are set out in the "Financing Policy" section.

Taxation

There was a sharp increase in tax provision to HK\$856 million in 2005 (2004: HK\$140 million) principally due to the HK\$668 million deferred tax provision relating to revaluation gains on investment properties.

The Group's tax position was reviewed, and an additional provision relating to prior year assessments of HK\$103 million was made out of prudence.

CONDENSED CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

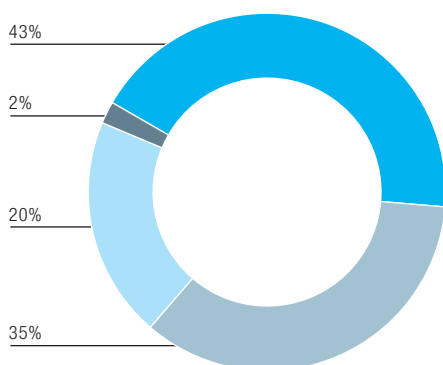
	2005 HK\$ million	2004 HK\$ million (restated)	Change HK\$ million	Change %
Investment properties	29,815	27,917	1,898	6.8
Available-for-sale investments - listed	1,170	915	255	27.9
Available-for-sale investments - unlisted	86	103	(17)	(16.5)
Interests in associates	1,147	855	292	34.2
Cash and bank balances	1,402	22	1,380	6,272.7
Other assets	371	335	36	10.7
Total assets	33,991	30,147	3,844	12.8
Debt borrowings	(4,301)	(5,603)	1,302	23.2
Taxation				
- current	(198)	(131)	(67)	(51.1)
- deferred	(2,879)	(2,201)	(678)	(30.8)
Other liabilities	(960)	(815)	(145)	(17.8)
Total assets less liabilities	25,653	21,397	4,256	19.9
Shareholders' funds	24,667	20,566	4,101	19.9
Minority interests	986	831	155	18.7
	25,653	21,397	4,256	19.9
Adjusted shareholders' funds	27,134	22,399	4,735	21.1

Investment Properties

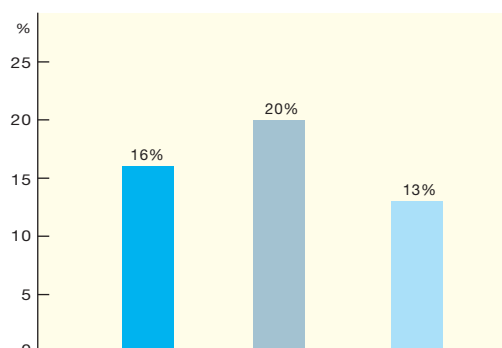
The investment properties (excluding Entertainment Building which was disposed of on 30 December 2005) were HK\$29,815 million, up by 6.8% (HK\$ 1,898 million) from HK\$27,917 million in 2004.

Breakdowns of the Group's investment properties value by sector as at year-end 2005 and the capital growth by sector over last year's value (excluding Entertainment Building in both cases), are as follows:

Capital Value by Sector



Capital Growth by Sector



Office Retail Residential Others

Under HKAS 40, realised fair value gain on disposal of investment properties is calculated by reference to the opening fair value rather than historical cost. Profit recognised by the Group in respect of the disposal of Entertainment Building is set out as follows:

	Net Profit	Note
	HK\$ M	
Fair value gain during:		
1/1/2005 - 30/6/2005	208	(1)
1/1/2005 - 31/12/2005	456	(2)

Note (1): excluded from 2005 interim underlying net profit (unrealised as at 30 June 2005)
 Note (2): included in 2005 final underlying net profit (realised as at 31 December 2005)

Available-for-Sale Investments

Available-for-sale investments comprised principally securities listed in Hong Kong.

The Hong Kong stock market generally performed well in 2005. Total return from our listed securities portfolio including both dividend income and capital value growth, was 31.6%. Total fair value of our listed securities portfolio as at year-end 2005 was HK\$1,170 million.

Interests in Associates

Interests in associates increased by HK\$292 million (34.2%) over last year. This represented the Group's share of results of the Shanghai Grand Gateway and Singapore Amaryllis Ville projects, and accelerated negative goodwill recognition following the adoption of HKFRSs.

Cash and Bank Balances

The sharp increase in cash and bank balances to HK\$1,402 million in 2005 (2004: HK\$22 million) resulted from depositing a portion of the proceeds from the sale of Entertainment Building at year-end. The cash will be utilised for further debt repayment.

Debt Borrowings

The fair value of the Group's gross debt stood at HK\$4,301 million at year-end 2005, down by HK\$1,302 million (23.2%) as compared to the corresponding figure in 2004. This reflects the Group's debt reduction utilising recurring cash flow from operations and the application of sales proceeds of Entertainment Building.

Taxation

Provision for current taxation and deferred taxation increased to HK\$3,077 million in 2005 (2004 restated: HK\$2,332 million). The net increase was made up of HK\$85 million charge for the year, HK\$668 million related to additional deferred tax associated with investment properties revaluation gains, reduced by tax payments of HK\$111 million. In addition, a HK\$103 million tax provision for prior year assessments was made out of prudence.

Shareholders' Funds

Shareholders' funds increased by 19.9% from HK\$20,566 million in 2004 (restated) to HK\$24,667 million in 2005, driven by results for the year and revaluation gains associated with investment properties and listed securities portfolios. Adjusted shareholders' funds rose from HK\$22,399 million in 2004 to HK\$27,134 million in 2005.

Minority Interests

The increase of HK\$155 million in minority interests was attributable to increased profit contribution as well as a revaluation surplus from Lee Gardens Two.

Contingent Liabilities

The Group has provided guarantees for banking facilities granted to associates and investee companies. As of 31 December 2005, the Group's share of guarantees amounted to about S\$31 million.

The Group has also underwritten to the associates on cash calls to finance their respective working capital requirements. Based on currently available information, management does not anticipate any major call for cash contributions in the foreseeable future.

Critical Accounting Estimates

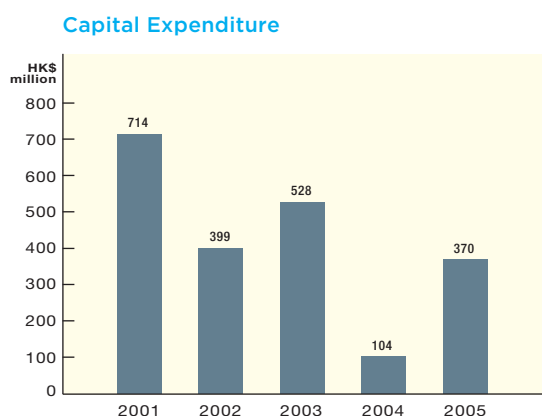
The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The most significant estimate relates to the valuation of the Group's property investments. For details, please refer to note 5 to the financial statements.

Capital Expenditure and Management

The Group is committed to enhancing the asset value of its investment properties portfolio through selective re-tenanting, refurbishment, repositioning and redevelopment.

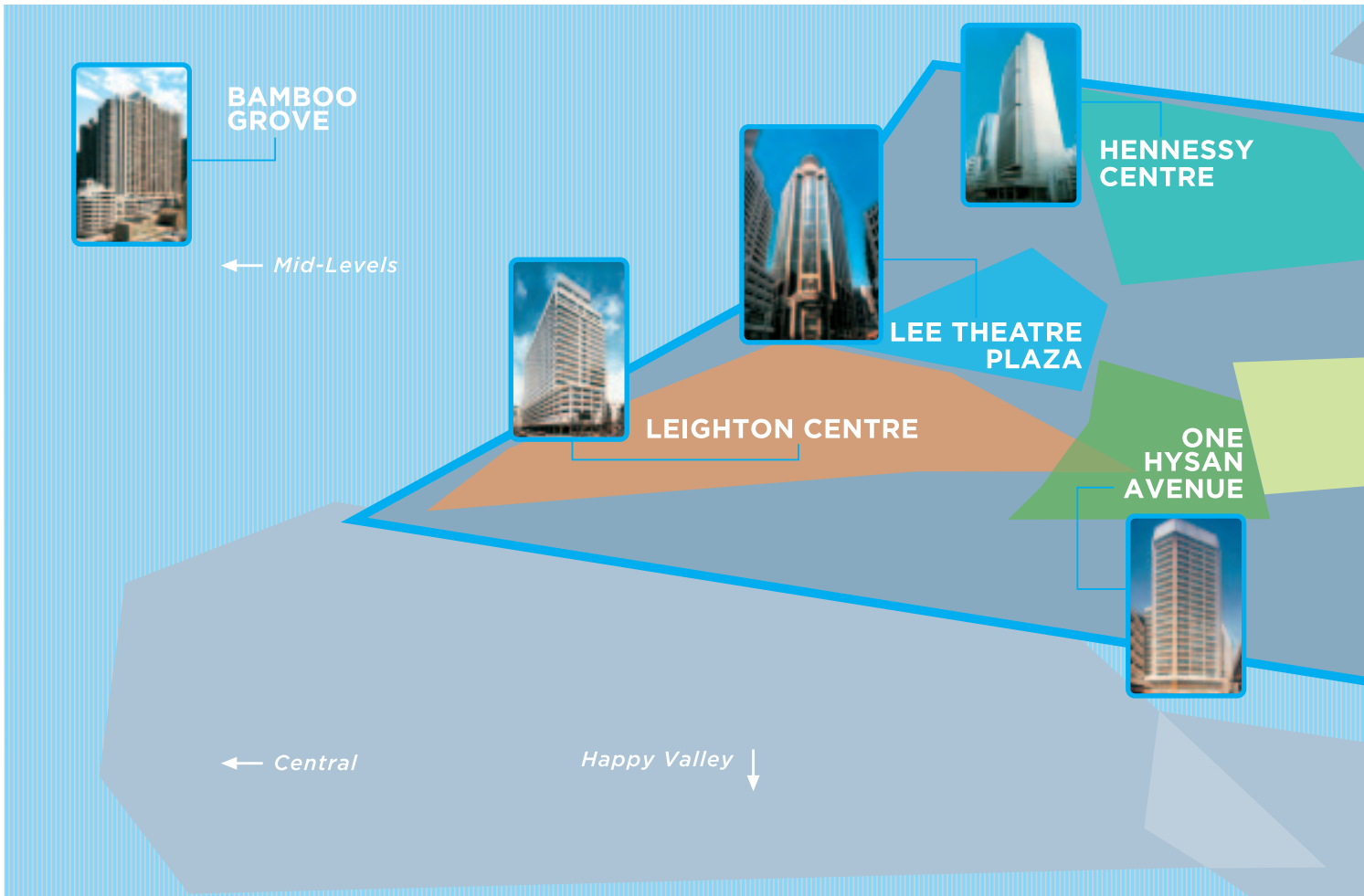
The Group also has in place a portfolio-wide whole-life cycle maintenance programme as part of its ongoing strategy to proactively review and implement maintenance activities.

Total cash outlay of capital expenditure (excluding purchase of plant and equipment) during the review year was HK\$370 million. The following graph illustrates capital expenditure patterns during the past five years:



The Group has an internal control system for scrutinising capital expenditure. Detailed analysis of expected risks and returns is submitted to division heads, Executive Directors or the Board for consideration and approval, 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, pay back period and internal rate of return from projected cash flow.

At year end, the Group had HK\$3.6 billion undrawn committed bank facilities. These facilities, together with the Medium Term Note Programme, available-for-sale investments and positive cash flows from local and overseas operations, provide adequate funding to cover the Group's expected refinancing and capital expenditure needs over the next few years, including the redevelopment of the Hennessy Centre project, announced in January 2006. The redevelopment will commence in the fourth quarter of 2006 with expected completion by the end of 2009.



INVESTMENT PROPERTIES PORTFOLIO

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

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 city's popular shopping and dining complexes, housing many of the world's most famous lifestyle brands and restaurants. The building provides access to various kinds of transport and the MTR Causeway Bay station.

Total Gross Floor Area:	317,160 sq.ft.
Number of Floors:	26
Year Completed/Renovated:	1994

Hennessy Centre

500 Hennessy Road, Causeway Bay

Located on a busy thoroughfare, Hennessy Centre is an office and retail complex. It is conveniently served by a multitude of public transport including the MTR access at Jardine's Bazaar, and bus and tram stops at its doorstep. Home to a popular Japanese department store, a supermarket and three levels of Chinese restaurants in the retail portion of the building, Hennessy Centre is a popular destination for shopping and dining.

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 with a diversity of retail facilities in the surrounding area. The building underwent refurbishment of its external facade in 2002.

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



The Lee Gardens

33 Hysan Avenue, Causeway Bay

The Lee Gardens is the Group's flagship property comprising an office tower, Manulife Plaza, 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

Lee Gardens Two 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. 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 tree-lined streets, 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 building 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 quieter 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