Executing the Strategy

Management's Discussion and Analysis

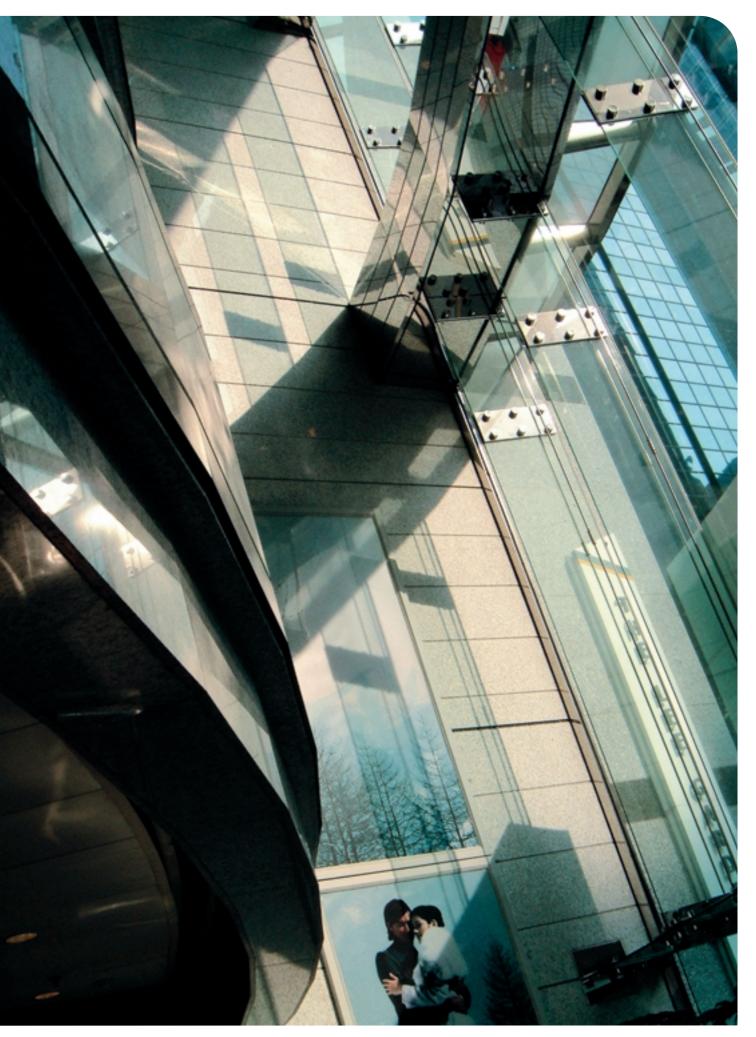


Michael T. H. Lee Managing Director

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.



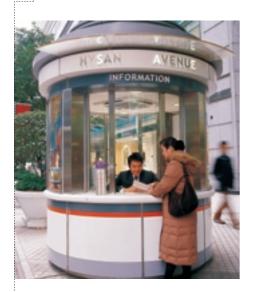
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PERFORMANCE AT A GLANCE

Cond	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 Taxation	(162)	(168)	6	3.9
	- 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

Cond	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 Taxation	(5,603)	(5,914)	311	5.2	
	- 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 Minority interests	22,493 981 23,474	18,616 754 19,370	3,877 227 4,104	20.8 30.2 21.2	

2004 Movements Nature and Principal Components Turnover: comprised principally rental income Turnover increased by 1.3% reflecting improved retail derived from our investment property portfolio sector performance (due to the re-opening of Lee in Hong Kong. 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. Property expenses: property services costs directly The re-opening of Lee Gardens Two and higher occupancy associated with daily operations of investment in Bamboo Grove drove up the incidental property expenses, in particular, marketing expenses and utilities costs. properties. 3 Gain on disposal of investments in securities: profit Cash generated from operating and investing activities arising from the sale of listed securities in the Group's well exceeded the capital expenditure resulting in less investment portfolio which serves as a liquidity buffer listed securities disposal in 2004. to meet capital expenditure and investment needs. Associates—share of results and release of negative Positive contribution from Shanghai Grand Gateway was goodwill: the interests in associates represent our partially offset by the loss from Amaryllis Ville, leaving a net associate-level interests in Shanghai Grand Gateway contribution increase of HK\$40 million. and Amaryllis Ville in Singapore. 5 The HK\$63 million impairment loss was reversed in Reversal of impairment loss on investments in securities: amount reversed for impairment loss light of improved property market conditions in Singapore. previously provided for two Singapore residential projects in which the Group has a 10% interest. 6 Administrative expenses: cost in relation to general The increase in administrative expenses was mainly due to office, corporate expenses as well as staff costs. additional salary costs for human capital investments. 7 Finance costs: interest and related fees and expenses Finance costs went down reflecting the Group's effectiveness in actively managing debt level and interest on bank borrowings and capital market issuances. rate exposures. 8 **Investment properties**: approximately 4.7 million gross Investment properties increased by 15.5% mainly driven by square feet of high-quality office, retail and residential higher market value. space held for generating rental income. These properties are stated at their market value. 9 Listed securities: shares in Hong Kong-listed blue chip Net increase of HK\$41 million represented unrealised companies. gain of HK\$65 million netted of HK\$24 million carrying value of disposed securities. 10 Unlisted securities: mainly minority equity interests Net increase of HK\$36 million in unlisted securities was in overseas property development projects. made up of HK\$63 million reversal of impairment loss less HK\$27 million cash received. 11 Interests in associates: minority interests in Net increase of HK\$5 million represented share of profit Shanghai and Singapore property development (including negative goodwill) and reserves from associates amounted to HK\$60 million and HK\$57 million respectively, projects. netted of share of deferred tax and cash receipts totalled HK\$112 million. Debt borrowings: bank borrowings and notes Cash generated from operating and investing activities 12 issued in the capital market. 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	%	
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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%