

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

	Six months ended		Change (%)
	30 June 2005	30 June 2004 (restated) <sup>1</sup>	
	HK\$M	HK\$M	
Turnover	<b>613</b>	562	9.2
Net profit attributable to shareholders	<b>2,562</b>	304	742.5 <sup>4</sup>
Underlying net profit attributable to shareholders <sup>2</sup>	<b>364</b>	304	19.9
	<b>HK cents</b>	HK cents	
Earnings per share	<b>244.0</b>	29.1	737.8 <sup>4</sup>
Underlying earnings per share <sup>2</sup>	<b>34.7</b>	29.1	19.2
Interim dividend per share	<b>10.0</b>	10.0	–
	<b>At 30 June 2005</b>	At 31 December 2004 (restated) <sup>1</sup>	
	<b>HK\$M</b>	HK\$M	
Shareholders' funds	<b>23,096</b>	20,644	11.9 <sup>4</sup>
Adjusted shareholders' funds <sup>3</sup>	<b>25,371</b>	22,492	12.8
	<b>HK\$</b>	HK\$	
Net assets value per share	<b>21.95</b>	19.66	11.6 <sup>4</sup>
Adjusted net assets value per share <sup>3</sup>	<b>24.11</b>	21.42	12.6

The 2005 interim financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants applicable to accounting periods commencing on or after 1 January 2005. In preparing the Group's interim financial statements under the new HKFRSs, the fair value model for investment properties has been adopted. In accordance with this model, the Group's investment properties have been recorded at their fair value as determined by a professional valuer, and the fair value changes and related deferred tax thereon are recognised through profit and loss. In addition, certain owner-occupied properties have been reclassified from investment properties to property, plant and equipment. Revaluation changes on owner-occupied properties and related deferred tax arising thereon are recognised in equity. As there is no capital gains tax in Hong Kong, no tax is payable if those investment and owner-occupied properties were to be sold at the amount included in the financial statements. To assess the underlying performance of the Group, the management is of the view that the 2005 profit figures should be adjusted for fair value changes on investment properties and the related deferred tax in arriving at "Underlying net profit attributable to shareholders" and "Underlying earnings per share". Similarly, the cumulative deferred tax provided on fair value gains on investment and owner-occupied properties should be added back to the shareholders' funds when computing "Adjusted shareholders' funds" and "Adjusted net assets value per share".

1. Restated on reclassification of certain owner-occupied properties (corporate office and training centre) from investment properties to leasehold land and buildings, as a result of the application of HKAS 40 "Investment Property" and recognition of deferred tax in respect of cumulative fair value gains of investment properties in accordance with HKAS-INT 21. These changes in accounting policies have been applied retrospectively.
2. Excluded HK\$2,799 million fair value gains on the investment property portfolio but added back HK\$453 million related deferred tax and HK\$148 million attributable to minority interests during the six months ended 30 June 2005.
3. Adjusted for HK\$2,275 million (year ended 31 December 2004: HK\$1,848 million) being the cumulative deferred tax provided on fair value gains on the investment and owner-occupied properties attributable to shareholders as at 30 June 2005.
4. The period on period change is not strictly comparable following the adoption of the new HKFRSs (see discussion on "Effect of Adoption of New Financial Reporting Standards").

## Effect of Adoption of New Financial Reporting Standards

The new HKFRSs had material impacts on the reported net profit and net assets value of the Group. To illustrate the effect of the changes following the adoption of the new HKFRSs on the 2005 figures (with changes applied retrospectively to prior year comparatives, where applicable), the earnings per share ("EPS") and net assets value ("NAV") per share before and after adoption of the new HKFRSs are tabulated below:

### Reconciliation of Underlying Net Profit attributable to Shareholders

	HK\$M	HK\$M	EPS HK cents
<b>Reported under the new HKFRSs</b>		<b>2,562</b>	<b>244.0</b>
Adjusted for			
<sup>1</sup> Fair value gains on investment properties	(2,799)		
<sup>2</sup> Related deferred tax	453		
Related minority interests	148	(2,198)	
<b>Underlying net profit attributable to shareholders</b>		<b>364</b>	<b>34.7</b>
<sup>3</sup> Fair value gains on financial instruments recognised		(23)	
Release of negative goodwill discontinued		1	
Expenses in relation to employee share options granted		1	
<sup>1</sup> Depreciation and related deferred tax on owner-occupied properties		1	
<b>Net profit attributable to shareholders for the six months ended 30 June 2005 before adoption of the new HKFRSs</b>		<b>344</b>	<b>32.7</b>
Net profit attributable to shareholders for the six months ended 30 June 2004 ( <i>restated</i> )		304	29.1
<sup>1</sup> Depreciation and related deferred tax on owner-occupied properties		1	
Net profit attributable to shareholders for the six months ended 30 June 2004 before adoption of the new HKFRSs		305	29.2

### Reconciliation of Adjusted Shareholders' Funds

	HK\$M	HK\$M	NAV per share HK\$
<b>Reported under the new HKFRSs</b>		<b>23,096</b>	<b>21.95</b>
<sup>1,2</sup> Adjusted for deferred tax on fair value gains on investment and owner-occupied properties attributable to shareholders			
Cumulative at 1 January 2005	1,848		
Six months ended 30 June 2005	427	2,275	
<b>Adjusted shareholders' funds at 30 June 2005</b>		<b>25,371</b>	<b>24.11</b>
<sup>3</sup> Fair value changes on financial instruments		(54)	
Derecognition of negative goodwill		(49)	
<b>Shareholders' funds at 30 June 2005 before adoption of the new HKFRSs</b>		<b>25,268</b>	<b>24.01</b>
Shareholders' funds at 31 December 2004 ( <i>restated</i> )		20,644	19.66
<sup>1,2</sup> Adjusted for deferred tax on fair value gains on investment and owner-occupied properties attributable to shareholders			
Cumulative at 31 December 2004		1,848	
Shareholders' funds at 31 December 2004 before adoption of the new HKFRSs		22,492	21.42

Notes:

1. HKAS 40 "Investment Property" – The Group has adopted the fair value model in accounting for its investment property portfolio. At the balance sheet date, the investment property portfolio has been included at market value as determined by a professional valuer, with fair value changes of HK\$2,799 million recognised in the consolidated income statement for the review period.

The application of the standard has resulted in a change of classification of certain owner-occupied properties (corporate office and training centre) from investment properties to property, plant and equipment. Depreciation and its related deferred tax have been provided on the owner-occupied properties. This change has been applied retrospectively for prior periods. Cumulative and current period deferred tax impact of HK\$10 million and HK\$5 million arising from revaluation gains of owner-occupied properties has been adjusted to shareholders' funds.

2. HKAS – INT 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" – Deferred tax has been provided on the fair value changes of the investment property portfolio at the current income tax rate. As a result, HK\$453 million was provided for the six months ended 30 June 2005, of which HK\$31 million was attributable to minority shareholders. As there was no capital gains tax in Hong Kong, gains on disposals of the investment properties at the amounts included in the financial statements would not be taxable. In the absence of any specific transitional provisions, HKAS – INT 21 was applied retrospectively and at 31 December 2004, deferred tax of HK\$1,988 million in relation to cumulative fair value gains of investment properties has been recognised and charged to investment property revaluation reserve, of which HK\$150 million was attributable to minority shareholders.

3. HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" – From 1 January 2005 onwards, all derivatives are required to be carried at fair value at each balance sheet date. For fair value hedges, changes in the fair value of the hedging instruments and underlying hedged items are recognised in profit and loss in the period in which fair value changes arise. For cash flow hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity and recycled into the income statement when the hedged items affect profit or loss. Under these provisions, losses of HK\$34 million were adjusted to the shareholders' funds at 1 January 2005. During the six months ended 30 June 2005, gains of HK\$65 million related to the cash flow hedges were taken to the hedging reserve while gains of HK\$23 million related to hedge ineffectiveness and changes of fair value of derivatives not qualified or designated for hedge accounting were credited to the consolidated income statement.