Contents

	Page
Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	8
Notes to the Condensed Financial Statements	9
Interim Dividend	31
Financial Review	31
Operational Review	34
Business Outlook	35
Directors' Interests	36
Substantial Shareholders' Interests	37
Corporate Governance	37
Purchase, Sale or Redemption of Shares	40
Audit Committee Review	40

BOARD OF DIRECTORS
Gordon Macwhinnie
Non-Executive Chairman and Independent Non-Executive Director
Patrick Lee Seng Wei
Chief Executive
Li Chi Kong
Executive Director
Henry Lai Hin Wing
Non-Executive Director
Steven Lee Siu Chung
Non-Executive Director
John Douglas Mackie
Independent Non-Executive Director
Steven Samuel Zoellner
Independent Non-Executive Director

EXECUTIVE COMMITTEE
Patrick Lee Seng Wei *Chairman*
Li Chi Kong

REMUNERATION COMMITTEE
Gordon Macwhinnie *Chairman*
Henry Lai Hin Wing
John Douglas Mackie
Steven Samuel Zoellner

AUDIT COMMITTEE
Gordon Macwhinnie *Chairman*
Henry Lai Hin Wing
John Douglas Mackie
Steven Samuel Zoellner

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
CITIC Ka Wah Bank Limited
Fubon Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
Wing Hang Bank, Limited

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SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
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Hong Kong

COMPANY SECRETARY
Phoebe Lau Mei Yi

AUDITORS
Deloitte Touche Tohmatsu

SOLICITORS
Fred Kan & Co.
P. C. Woo & Co.
Mallesons Stephen Jaques
Haldanes
Leland Chu & Co.

for the six months ended 30th June, 2005

The Board of Directors ("Board") of Allied Properties (H.K.) Limited ("Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries ("Group") for the six months ended 30th June, 2005 with comparative figures are as follows:

	Notes	Six months ended 30th June, 2005 Unaudited HK$'000	2004 Unaudited HK$'000 (Restated)
Turnover	4	**546,795**	573,916
Other operating income		**26,282**	6,834
Total income		**573,077**	580,750
Cost of sales		**(101,102)**	(64,917)
Brokerage and commission expenses		**(70,611)**	(98,324)
Selling expenses		**(405)**	–
Administrative expenses		**(162,789)**	(179,660)
Changes in values of properties	5	**358,385**	–
Bad and doubtful debts (provided) written back		**(6,687)**	1,211
Other operating expenses		**(59,763)**	(63,047)
Finance costs		**(30,427)**	(27,539)
Release of negative goodwill		**–**	79,133
Amortisation of capital reserve		**–**	8,633
Share of results of associates		**79,972**	79,681
Share of results of jointly controlled entities		**58,116**	11,585
Profit before taxation	6	**637,766**	327,506
Taxation	7	**(44,427)**	(19,668)
Profit for the period		**593,339**	307,838
Attributable to			
Equity holders of the Company		**541,276**	252,675
Minority interest		**52,063**	55,163
		593,339	307,838
Dividend		**–**	–
Earnings per share	8		
Basic		**HK$1.01**	HK$0.52
Diluted		**N/A**	HK$0.50

at 30th June, 2005

	Notes	At 30th June, 2005 Unaudited HK$'000	At 31st December, 2004 Audited HK$'000 (Restated)
Non-current assets			
Investment properties	9	**2,583,637**	2,215,668
Property, plant and equipment	10	**211,606**	197,390
Properties held for development		**97,311**	97,377
Prepaid land lease payments		**279,703**	272,947
Goodwill		**267**	–
Negative goodwill		**–**	(389,264)
Intangible assets		**21,497**	10,375
Interests in associates		**2,682,631**	2,508,633
Interests in jointly controlled entities		**875,125**	817,798
Available-for-sale financial assets	11	**977,815**	–
Investments	12	**–**	911,480
Long-term loan receivable		**4,401**	3,200
Deferred tax assets		**3,974**	10,279
		7,737,967	6,655,883
Current assets			
Properties held for sale and other inventories		**426,657**	401,721
Financial assets at fair value through profit or loss	13	**119,651**	–
Investments	12	**–**	48,263
Prepaid land lease payments		**2,659**	2,659
Accounts receivable, deposits and prepayments	14	**2,371,400**	2,330,938
Amounts due from associates		**50,065**	231
Amount due from a jointly controlled entity		**1,038**	2,040
Tax recoverable		**1,703**	1,464
Short-term pledged bank deposit		**1,159**	1,220
Bank deposits, bank balances and cash		**714,923**	598,254
		3,689,255	3,386,790
Current liabilities			
Accounts payable and accrued charges	15	**1,128,094**	1,162,499
Amount due to Allied Group Limited		**4,736**	6,094
Amounts due to associates		**5,018**	49,260
Amount due to a jointly controlled entity		**141,063**	141,063
Tax payable		**32,468**	27,452
Bank borrowings due within one year		**894,001**	603,180
Other liabilities due within one year	16	**383**	459
Dividend payable		**26,858**	–
		2,232,621	1,990,007
Net current assets		**1,456,634**	1,396,783
Total assets less current liabilities		**9,194,601**	8,052,666

at 30th June, 2005

	Notes	At 30th June, 2005 Unaudited HK$'000	At 31st December, 2004 Audited HK$'000 (Restated)
Capital and reserves			
Share capital	17	**1,074,303**	1,074,303
Reserves	18	**5,480,550**	4,389,114
Equity attributable to equity holders of the Company		**6,554,853**	5,463,417
Minority interest		**1,383,941**	1,281,999
Total equity		**7,938,794**	6,745,416
Non-current liabilities			
Bank borrowings due after one year		**1,027,420**	1,046,569
Loan notes	19	**69,637**	129,637
Deferred tax liabilities		**156,661**	128,236
Other liabilities due after one year	16	**2,089**	2,808
		1,255,807	1,307,250
		9,194,601	8,052,666

for the six months ended 30th June, 2005

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Special capital reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Capital (goodwill) reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interest HK$'000	Total equity HK$'000
At 1st January, 2004												
As originally stated	978,768	492,784	245,739	69,379	2,320,430	72,044	(205,761)	(24,027)	939,958	4,889,314	1,148,929	6,038,243
Prior period adjustment arising from changes in accounting policies	–	–	(183,433)	–	–	–	95,488	–	(214,230)	(302,175)	5,989	(296,186)
As restated	978,768	492,784	62,306	69,379	2,320,430	72,044	(110,273)	(24,027)	725,728	4,587,139	1,154,918	5,742,057
Surplus arising on revaluation	–	–	–	9,552	–	–	–	–	–	9,552	3,210	12,762
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	–	–	–	463	–	–	463	32	495
Share of post-acquisition reserve movements of associates	–	–	–	331	–	–	(4)	–	–	327	108	435
Share of post-acquisition reserve movements of jointly controlled entities	–	–	–	–	–	–	624	–	–	624	–	624
Net income recognised directly in equity	–	–	–	9,883	–	–	1,083	–	–	10,966	3,350	14,316
Transferred from accumulated profits to capital reserve	–	–	–	–	–	–	–	830	(830)	–	–	–
Profit attributable to equity holders	–	–	–	–	–	–	–	–	252,675	252,675	55,163	307,838
Released on impairment of non-trading securities	–	–	–	517	–	–	–	–	–	517	173	690
Released on disposal of non-trading securities	–	–	–	871	–	–	–	–	–	871	292	1,163
Released on dilution of interest in an associate	–	–	–	31	–	–	2	(3)	–	30	(3,933)	(3,903)
Capital reserve released on amortisation	–	–	–	–	–	–	–	(8,633)	–	(8,633)	–	(8,633)
Total recognised income and expenses for the period	–	–	–	11,302	–	–	1,085	(7,806)	251,845	256,426	55,045	311,471
Dividend distribution to minority interest	–	–	–	–	–	–	–	–	–	–	(20,440)	(20,440)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,856)	(1,856)
Exercise of warrants subscription rights	32	8	–	–	–	–	–	–	–	40	–	40
At 30th June, 2004	978,800	492,792	62,306	80,681	2,320,430	72,044	(109,188)	(31,833)	977,573	4,843,605	1,187,667	6,031,272

for the six months ended 30th June, 2005

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Capital (goodwill) reserve HK$'000	Accumulated profits HK$'000	Dividend reserve HK$'000	Total HK$'000	Minority interest HK$'000	Total equity HK$'000
At 1st January, 2005												
As originally stated	1,074,303	516,644	226,488	247,059	72,044	(205,496)	(39,177)	3,899,912	26,858	5,818,635	1,275,939	7,094,574
Prior period adjustments arising from changes in accounting policies	–	–	(155,342)	–	–	95,512	–	(295,388)	–	(355,218)	6,060	(349,158)
As restated, before opening balance adjustments	1,074,303	516,644	71,146	247,059	72,044	(109,984)	(39,177)	3,604,524	26,858	5,463,417	1,281,999	6,745,416
Opening balance adjustments arising from changes in accounting policies	–	–	(71,146)	–	–	–	41,987	523,766	–	494,607	42,604	537,211
As restated after prior period and opening balance adjustments	1,074,303	516,644	–	247,059	72,044	(109,984)	2,810	4,128,290	26,858	5,958,024	1,324,603	7,282,627
Surplus arising on revaluation	–	–	–	86,795	–	–	–	–	–	86,795	28,947	115,742
Deferred tax arising on revaluation of assets	–	–	–	74	–	–	–	–	–	74	13	87
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	–	–	(283)	–	–	–	(283)	(26)	(309)
Share of post-acquisition reserve movements of associates	–	–	–	(4,318)	–	–	2,844	–	–	(1,474)	(491)	(1,965)
Share of post-acquisition reserve movements of jointly controlled entities	–	–	–	–	–	(521)	–	–	–	(521)	–	(521)
Net income recognised directly in equity	–	–	–	82,551	–	(804)	2,844	–	–	84,591	28,443	113,034
Transferred from accumulated profits to capital reserve	–	–	–	–	–	–	235	(235)	–	–	–	–
Profit attributable to equity holders	–	–	–	–	–	–	–	541,276	–	541,276	52,063	593,339
Released on disposal of available-for-sale financial assets	–	–	–	(2,172)	–	–	–	–	–	(2,172)	(726)	(2,898)
Released on disposal of jointly controlled entities	–	–	–	–	–	(8)	–	–	–	(8)	(2)	(10)
Total recognised income and expenses for the period	–	–	–	80,379	–	(812)	3,079	541,041	–	623,687	79,778	703,465
Final dividend	–	–	–	–	–	–	–	–	(26,858)	(26,858)	–	(26,858)
Dividend distribution to minority interest	–	–	–	–	–	–	–	–	–	–	(20,440)	(20,440)
At 30th June, 2005	1,074,303	516,644	–	327,438	72,044	(110,796)	5,889	4,669,331	–	6,554,853	1,383,941	7,938,794

for the six months ended 30th June, 2005

	Six months ended 30th June, 2005 Unaudited HK$'000	2004 Unaudited HK$'000
Net cash (used in) from operating activities	**(2,737)**	244,408
Net cash (used in) from investing activities	**(73,740)**	163,672
Net cash from (used in) financing activities	**116,303**	(295,659)
Increase in cash and cash equivalents	**39,826**	112,421
Exchange adjustments	**9**	(159)
Cash and cash equivalents at 1st January	**540,349**	479,328
Cash and cash equivalents at 30th June	**580,184**	591,590
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents, being		
Bank deposits, bank balances and cash	**714,923**	672,394
Bank overdrafts	**(134,739)**	(80,804)
	580,184	591,590

for the six months ended 30th June, 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interest and share of tax of associates or jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Business combinations
In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill
In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated profits on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually as well as in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. Comparative figures for 2004 have not been restated. (See note 3 for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")
In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st January, 2005. (See note 3 for the financial impact).

Interests in jointly controlled entities
In previous periods, interests in jointly controlled entities were accounted for using the equity method. In the current period, the Group has applied HKAS 31 "Interests in Jointly Controlled Entities" which allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities.

for the six months ended 30th June, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24

At 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities were classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" were measured at fair value. Unrealised gains or losses of "trading securities" were reported in the profit or loss for the period in which gains or losses arose. Unrealised gains or losses of "non-trading securities" were reported in equity until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

The effect of redesignation of investments together with their reclassification at 1st January, 2005 on the adoption of HKAS 39 is summarised in the table below:

				New designation on 1st January, 2005			
	As originally stated at 31st December, 2004 HK$'000	Effect on adoption of HKAS 39 HK$'000	As restated at 1st January, 2005 HK$'000	Intangible assets HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale financial assets HK$'000	Interests in associates HK$'000
Investment in securities							
Non-trading securities	784,778	(2,096)	782,682	–	–	782,682	–
Trading securities	48,263	(223)	48,040	–	48,040	–	–
Other investments							
Club debentures and exchange participation rights *	9,195	–	9,195	9,195	–	–	–
Statutory deposits and other deposits with Exchange and Clearing Companies	26,624	–	26,624	–	–	26,624	–
Amounts due from investee companies, less impairment losses	90,883	(1,447)	89,436	–	250	89,186	–
Interests in associates #	2,483,113	2,469	2,485,582	–	2,469	–	2,483,113

* Following the adoption of HKAS 39, the Group has reclassified its exchange participation rights and club memberships which are previously grouped under "other investments" to "intangible assets".

\# The warrants of a listed associate which were previously grouped under "interests in associates" at 31st December, 2004 are classified as "financial assets at fair value through profit or loss" and carried at fair value in accordance with the provisions of HKAS 39.

for the six months ended 30th June, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (Cont'd)

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model, as appropriate. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. (See note 3 for the financial impact).

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in property revaluation reserve has been transferred to the Group's accumulated profits on 1st January, 2005.

The adoption of HKAS 40 has resulted in a change of classification of certain properties which were previously classified as investment properties in accordance with SSAP 13. In previous periods, property with 15% or less by area of value that was occupied by the company or another company in the group should normally be regarded as an investment property in its entirety even though part of it is not held for investment purposes. According to HKAS 40, if a portion of the properties could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portion could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. In the current period, the Group applied HKAS 40 and has reclassified certain such owner-occupied properties that could be sold separately (or leased out separately under a finance lease) from investment properties to property, plant and equipment retrospectively. Comparative figures for 2004 have been restated. (See note 3 for the financial impact).

for the six months ended 30th June, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Hotel properties

Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK-INT 2") clarifies the accounting policy for owner-operated hotel properties. In previous periods, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. HK-INT 2 requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HK-INT 2, the new accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated. (See note 3 for the financial impact).

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP – Interpretation 20). In the current period, the Group has applied HKAS Interpretation 21 ("HKAS INT-21") "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS INT-21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated. (See note 3 for the financial impact).

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company ("Directors") anticipate that the applications of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS – INT 4	Determining whether an Arrangement Contains a Lease
HKFRS – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

for the six months ended 30th June, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 above on the results for the current and prior periods are as follows:

	Six months ended 30th June, 2005 HK$'000	Six months ended 30th June, 2004 HK$'000
Decrease in amortisation of intangible assets	**423**	–
Release of negative goodwill and decrease in amortisation of goodwill	**(77,611)**	–
Increase in deferred tax charge in relation to investment properties	**(26,499)**	(1,689)
Increase in depreciation arising from reclassification of investment properties to property, plant and equipment	**(1,458)**	(1,088)
Increase in amortisation of prepaid land lease payments	**(1,291)**	(1,317)
Loss arising from changes in fair value of financial liabilities, measured at fair value through profit or loss	**(807)**	–
Increase in depreciation arising from restatement of property at cost	**(250)**	(16)
Increase in deferred tax charge arising from restatement of property at cost	**(35)**	(26)
Decrease in deferred tax charge arising from reclassification of hotel property from investment properties to property, plant and equipment	**–**	4,022
Decrease in deferred tax charge arising from reclassification of land premium to prepaid land lease payments	**–**	15
Increase in share of results of associates	**11,394**	11,683
Increase (decrease) in share of results of jointly controlled entities	**34,684**	(7,127)
(Decrease) increase in net profit for the period	**(61,450)**	4,457
Attributable to		
Equity holders of the Company	**(62,845)**	1,539
Minority interest	**1,395**	2,918
	(61,450)	4,457

for the six months ended 30th June, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONT'D)

Analysis of (decrease) increase in net profit for the period by line items presented according to their function:

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000
Decrease in other operating income	**(3,998)**	–
Increase in other operating expenses	**(3,806)**	(3,744)
Decrease in administrative expenses	**423**	–
Reclassification of impairment losses recognised in respect non-trading securities	**–**	690
Decrease in release of negative goodwill	**(73,613)**	–
Decrease in share of results of associates	**(20,559)**	(16,857)
Increase (decrease) in share of results of jointly controlled entities	**22,261**	(13,063)
Decrease in taxation	**17,842**	37,431
	(61,450)	4,457

The cumulative effect of the application of the new HKFRSs on the balance sheet at 31st December, 2004 and 1st January, 2005 are summarised below:

	At 31st December, 2004 (Originally stated) HK$'000	Adjustments HK$'000 (note)	At 31st December, 2004 (Restated) HK$'000	Adjustments HK$'000	At 1st January, 2005 (Restated) HK$'000
Investment properties	2,611,336	(395,668)	2,215,668	–	2,215,668
Property, plant and equipment	130,199	67,191	197,390	–	197,390
Interests in associates	2,483,113	25,520	2,508,633	149,242	2,657,875
Interests in jointly controlled entities	1,036,507	(218,709)	817,798	–	817,798
Prepaid land lease payments	–	275,606	275,606	–	275,606
Negative goodwill	(389,264)	–	(389,264)	389,264	–
Deferred tax assets	10,170	109	10,279	–	10,279
Deferred tax liabilities	(25,029)	(103,207)	(128,236)	–	(128,236)
Other assets/liabilities	1,237,542	–	1,237,542	(1,295)	1,236,247
Net assets	7,094,574	(349,158)	6,745,416	537,211	7,282,627
Share capital	1,074,303	–	1,074,303	–	1,074,303
Property revaluation reserve	226,488	(155,342)	71,146	(71,146)	–
Translation reserve	(205,496)	95,512	(109,984)	–	(109,984)
Capital (goodwill) reserve	(39,177)	–	(39,177)	41,987	2,810
Accumulated profits	3,899,912	(295,388)	3,604,524	523,766	4,128,290
Other reserves	862,605	–	862,605	–	862,605
Minority interest	–	1,281,999	1,281,999	42,604	1,324,603
Total equity	5,818,635	926,781	6,745,416	537,211	7,282,627
Minority interest	1,275,939	(1,275,939)	–	–	–

Note: The amounts represent adjustments to comparative figures for 2004 arising from the reclassification of certain investment properties of the Group to property, plant and equipment and prepaid land lease payments as a result of the application of HKAS 40, recognition of deferred tax liabilities in respect of revalued investment properties in accordance with HKAS INT-21 and changes in presentation of balance sheet items in accordance with HKAS 1. These changes of accounting policies have been applied retrospectively.

for the six months ended 30th June, 2005

4. SEGMENTAL INFORMATION

Analysis of the Group's business segmental information is as follows:

	Six months ended 30th June, 2005			
	Investment, broking and finance HK$'000	**Property rental, hotel operations and management services HK$'000**	**Sale of properties and property based investments HK$'000**	**Total HK$'000**
Turnover	**468,583**	**86,344**	**–**	**554,927**
Less: inter-segment turnover	**(6,682)**	**(1,450)**	**–**	**(8,132)**
	461,901	**84,894**	**–**	**546,795**
Segment result	**135,218**	**396,868**	**(1,981)**	**530,105**
Finance costs				**(30,427)**
Share of results of associates				**79,972**
Share of results of jointly controlled entities	**2**	**58,114**	**–**	**58,116**
Profit before taxation				**637,766**
Taxation				**(44,427)**
Profit for the period				**593,339**

	Six months ended 30th June, 2004			
	Investment, broking and finance HK$'000	Property rental, hotel operations and management services HK$'000	Sale of properties and property based investments HK$'000	Total HK$'000
	(Restated)	(Restated)	(Restated)	(Restated)
Turnover	495,517	85,279	–	580,796
Less: inter-segment turnover	(4,650)	(2,230)	–	(6,880)
	490,867	83,049	–	573,916
Segment result	146,239	31,365	(1,591)	176,013
Finance costs				(27,539)
Release of negative goodwill				79,133
Amortisation of capital reserve				8,633
Share of results of associates				79,681
Share of results of jointly controlled entities	(895)	12,480	–	11,585
Profit before taxation				327,506
Taxation				(19,668)
Profit for the period				307,838

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

During the period under review, less than 10% of the operations of the Group in terms of both turnover and segment result were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

for the six months ended 30th June, 2005

5. CHANGES IN VALUES OF PROPERTIES

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000
Changes in values of properties comprise:		
Increase in fair value of investment properties	**328,607**	–
Reversal of write-down of properties held for sale	**24,925**	–
Reversal of impairment losses in respect of buildings	**4,853**	–
	358,385	–

6. PROFIT BEFORE TAXATION

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000 (Restated)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	**1,686**	1,180
Amortisation of prepaid land lease payments	**2,144**	1,636
Depreciation	**12,357**	10,423
Impairment losses recognised in respect of non-trading securities	**–**	690
Interest expenses in respect of litigation (note)	**–**	2,934
Loss on dilution of interest in an associate	**–**	4,771
Net unrealised loss on trading securities	**1,780**	4,973
Unrealised loss on derivatives	**1,358**	–
and after crediting:		
Dividend income from investments in listed securities	**8,543**	29,744
Dividend income from investments in unlisted securities	**17,733**	29,540
Excess of net fair value over consideration arising from acquisition of subsidiaries	**199**	–
Interest income	**74,019**	82,230
Net realised profit on derivatives	**10,635**	6,709
Net realised profit on financial assets at fair value through profit or loss	**1,970**	–
Net realised profit on trading securities	**–**	204
Profit on dealing in foreign currencies	**2,817**	13,630
Profit on disposal of available-for-sale financial assets	**2,951**	–
Profit on disposal of a jointly controlled entity	**1,219**	–
Profit on disposal of non-trading securities	**–**	3,421
Profit on other dealing activities	**2,306**	4,149
Refund of interest expenses in respect of litigation (note)	**14,011**	–
Unrealised profit on derivatives	**–**	3
Write-back of loss arising from default of loan agreement with Millennium Touch Limited	**–**	773

for the six months ended 30th June, 2005

6. PROFIT BEFORE TAXATION (CONT'D)

Note: On 1st April, 2004, the High Court of Hong Kong awarded a judgment ("Judgment") in favour of New World Development Company Limited ("NWDC") against Sun Hung Kai Securities Limited ("SHKS"), a wholly-owned subsidiary of Sun Hung Kai & Co. Limited ("Sun Hung Kai"), following legal proceedings regarding a joint venture in respect of land and two hotels in Kuala Lumpur, Malaysia. The Judgment was for a principal amount of HK$80,117,653 together with interest of HK$25,416,366 and interest at judgment rate from 16th December, 1998 until payment, and costs.

SHKS has since year 2000 booked as "Investments" an amount of approximately HK$118,000,000 including payments already made to NWDC in a total sum of HK$35,319,000. Additionally, a provision of approximately HK$18,700,000 for interest was made in 2000. A further provision of HK$58,364,000 has been made in these accounts in respect of interest and legal costs in 2003 and interest expense of HK$2,934,000 was paid in 2004.

SHKS appealed against the Judgment to the Court of Appeal. The Court of Appeal has now handed down its judgment ("Court of Appeal Judgment") in which the court ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. It is not presently known when that appeal will be heard.

Pending any judgment pursuant to such appeal to the Court of Final Appeal, Sun Hung Kai's present understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% ("SHKS Interest") of NWDC's entire interest (including the shareholder loans advanced by, or on behalf of, NWDC, and/or Stapleton Development Limited ("SDL") and/or SHKS to Great Union Properties Sdn Bhd ("GUP")) in the Joint Venture (as defined in the Judgment), being the 50-50 joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels of 1,000 rooms and a 200 unit service apartment block at the city centre of Kuala Lumpur and that SDL holds 12.5% of the shares in GUP on trust for SHKS.

7. TAXATION

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000 (Restated)
The charge comprises:		
Current tax:		
Hong Kong	**12,282**	17,796
Outside Hong Kong	**209**	2,741
	12,491	20,537
Deferred tax	**31,936**	(869)
	44,427	19,668

Hong Kong Profits Tax is calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

for the six months ended 30th June, 2005

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$541,276,000 (2004: HK$252,675,000 as restated) and on 537,151,901 (2004: weighted average number of 489,395,450) shares in issue during the period.

No diluted earnings per share has been presented for the current period as the Company had no dilutive potential ordinary shares during the period.

The calculation of the diluted earnings per share for 2004 is based on the profit attributable to equity holders of the Company of HK$252,675,000, as restated, and the weighted average number of 501,502,224 shares in issue during the period after adjusting for the effects of all dilutive potential ordinary shares.

9. INVESTMENT PROPERTIES

	Hotel property HK$'000	**Others** HK$'000	**Total** HK$'000
The Group			
Valuation			
At 1st January, 2004, as originally stated	278,038	1,978,035	2,256,073
Effect on adoption of HKAS 17, HKAS 40 and HK-INT 2			
– transferred to property, plant and equipment and prepaid land lease payments	(278,038)	(22,980)	(301,018)
As restated	–	1,955,055	1,955,055
Acquisition of a subsidiary	–	126,375	126,375
Additions	–	110	110
Transferred from properties held for sale	–	44,795	44,795
Overprovision of construction costs	–	(2,386)	(2,386)
Fair value changes	–	91,719	91,719
At 31st December, 2004	–	2,215,668	2,215,668
Acquisition of subsidiaries	–	39,362	39,362
Fair value changes	–	328,607	328,607
At 30th June, 2005	–	2,583,637	2,583,637

for the six months ended 30th June, 2005

9. INVESTMENT PROPERTIES (CONT'D)

The carrying amounts of investment properties held by the Group at 30th June, 2005 and 31st December, 2004 comprised:

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
		(Restated)
Properties in Hong Kong:		
Long-term	**2,141,175**	1,823,868
Medium-term	**442,462**	391,800
	2,583,637	2,215,668

The Group's investment properties in Hong Kong were revalued on 30th June, 2005 by Norton Appraisals Limited, an independent professional valuer, on an open market value basis.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

Following the application of HKAS 17 "Leases", HKAS 40 "Investment Property" and HK-INT 2 "The Appropriate Accounting Policies for Hotel Properties", the hotel property, owner-occupied property and leasehold land of the Group were reclassified to leasehold land and buildings and prepaid land lease payments, as appropriate. The impact of the above application on the financial statements for the current and prior periods was adjusted retrospectively (see note 3 for the financial impact).

for the six months ended 30th June, 2005

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
Listed equity securities, at market value, issued by corporate entities		
Hong Kong	**447,199**	–
Outside Hong Kong	**3,809**	–
	451,008	–
Unlisted equity securities, at fair value, issued by corporate entities		
Hong Kong	**309,600**	–
Outside Hong Kong (note)	**102,987**	–
	412,587	–
Statutory deposits and other deposits with exchange and clearing companies	**26,746**	–
Amounts due from investee companies (note)	**87,474**	–
	977,815	–

Note: A sum totalling HK$118,003,000 (2004: HK$118,003,000) is included in "unlisted equity securities" and "amounts due from investee companies" being the amount, (excluding interest which has been expensed in prior years) which represents the carrying value of the SHKS Interest, the circumstances surrounding which are further described in note 6 and note 21(c).

The Group has decided that it is not presently appropriate to make any provisions in respect of the litigation or for impairment of the value of its interest in the total Kuala Lumpur hotels project pursuant to the Judgment and the Court of Appeal Judgment (together "Judgments"). This decision has been taken because it is considered that the current circumstances of the nature and value of the interests existing under the Judgments and the uncertainty of the appeal against the Court of Appeal Judgment to the Court of Final Appeal ("Final Appeal"), result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. On the one hand if SHKS is completely successful in the Final Appeal then it may be entitled to recovery of monies already paid. On the other hand if it is not totally successful or only partially successful then it may be possible that further provision for impairment of the value of its final interests in the Kuala Lumpur hotels project may be required. The extent of such provision is not presently capable of determination as the holding company of the hotel namely GUP has not provided a current valuation of the project and SHKS has not had sufficient access to the detailed books and records of GUP to reach a supportable view as to the value of the project.

for the six months ended 30th June, 2005

12. INVESTMENTS

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000	**At 30th June, 2005 HK$'000**	At 31st December, 2004 HK$'000	**At 30th June, 2005 HK$'000**	At 31st December, 2004 HK$'000	**At 30th June, 2005 HK$'000**	At 31st December, 2004 HK$'000
Listed equity securities, at market value,								
issued by corporate entities								
Hong Kong	–	476,810	–	23,152	–	–	–	499,962
Outside Hong Kong	–	4,474	–	3,740	–	–	–	8,214
issued by banks								
Hong Kong	–	–	–	13,133	–	–	–	13,133
Outside Hong Kong	–	–	–	59	–	–	–	59
issued by public utility entities								
Hong Kong	–	–	–	32	–	–	–	32
	–	481,284	–	40,116	–	–	–	521,400
Unlisted equity securities issued by corporate entities								
Hong Kong	–	183,501	–	–	–	–	–	183,501
Outside Hong Kong *	–	119,993	–	–	–	–	–	119,993
	–	303,494	–	–	–	–	–	303,494
Unlisted marketable debt securities issued by an overseas government	–	–	–	7,741	–	–	–	7,741
Other unlisted securities	–	–	–	406	–	–	–	406
Club debentures, exchange seats and statutory deposits and other deposits with Exchange and Clearing Companies	–	–	–	–	–	35,819	–	35,819
Amounts due from investee companies less impairment losses recognised *	–	–	–	–	–	90,883	–	90,883
	–	784,778	–	48,263	–	126,702	–	959,743
Carrying amount analysed for reporting purposes as:								
Non-current	–	784,778	–	–	–	126,702	–	911,480
Current	–	–	–	48,263	–	–	–	48,263
	–	784,778	–	48,263	–	126,702	–	959,743

* Please refer to footnote of note 11.

for the six months ended 30th June, 2005

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
Listed equity securities, at market value		
issued by corporate entities		
Hong Kong	**15,445**	–
Outside Hong Kong	**2,861**	–
issued by banks		
Hong Kong	**12,503**	–
Outside Hong Kong	**70**	–
issued by public utilities		
Hong Kong	**32**	–
	30,911	–
Unlisted equity securities, at fair value		
issued by a corporate entity outside Hong Kong	**77,536**	–
Marketable debt securities issued by an overseas government	**7,718**	–
Derivatives listed in Hong Kong	**2,956**	–
Others	**530**	–
	119,651	–

14. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

Included in accounts receivable, deposits and prepayments are trade receivables totalling HK$2,193,044,000 (at 31st December, 2004: HK$2,240,736,000), the aged analysis of which is as follows:

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
0 to 30 days	**2,165,277**	2,207,115
31 to 180 days	**9,102**	20,671
181 to 365 days	**2,168**	2,888
over 365 days	**316,640**	410,560
	2,493,187	2,641,234
Allowance for doubtful debts	**(300,143)**	(400,498)
	2,193,044	2,240,736

for the six months ended 30th June, 2005

14. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONT'D)

The above balance of HK$2,493,187,000 (at 31st December, 2004: HK$2,641,234,000) includes term loans of HK$330,765,000 (at 31st December, 2004: HK$328,656,000). The maturity profile of term loans is shown in note 26.

There were listed securities, unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 30th June, 2005 was HK$5,950,779,000 (at 31st December, 2004: HK$6,420,945,000).

The granting of credit in respect of trade receivables of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective credit and risk management committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific allowances are made for doubtful debts as and when they are considered necessary by the management and the credit and risk management committees. Trade receivables in the balance sheet are stated net of such allowances.

15. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK$857,998,000 (at 31st December, 2004: HK$921,363,000), the aged analysis of which is as follows:

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
0 to 30 days	**776,069**	855,672
31 to 180 days	**23,910**	9,787
181 to 365 days	**1,611**	1,296
Over 365 days	**56,408**	54,608
	857,998	921,363

16. OTHER LIABILITIES

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
Obligations under a finance lease	**–**	76
Other employee benefits	**1,450**	2,169
Advance from minority shareholders	**1,022**	1,022
	2,472	3,267
Less: Amount repayable within one year shown under current liabilities	**(383)**	(459)
Amount due after one year	**2,089**	2,808

for the six months ended 30th June, 2005

17. SHARE CAPITAL

	Number of shares	Value HK$'000
Ordinary shares of HK$2 each		
Authorised:		
At 31st December, 2004 and 30th June, 2005	3,000,000,000	6,000,000
Issued and fully paid:		
At 31st December, 2004 and 30th June, 2005	537,151,901	1,074,303

18. RESERVES

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
		(Restated)
Share premium	**516,644**	516,644
Property revaluation reserve	**–**	71,146
Investment revaluation reserve	**327,438**	247,059
Capital redemption reserve	**72,044**	72,044
Translation reserve	**(110,796)**	(109,984)
Capital (goodwill) reserve	**5,889**	(39,177)
Accumulated profits	**4,669,331**	3,604,524
Dividend reserve	**–**	26,858
	5,480,550	4,389,114

19. LOAN NOTES

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
At 1st January	**129,637**	231,637
Repurchased and cancelled	**(60,000)**	(102,000)
	69,637	129,637

The loan notes bear interest at 4% per annum and are due on 7th March, 2008.

for the six months ended 30th June, 2005

20. ACQUISITION OF SUBSIDIARIES

The Group acquired the following subsidiaries during the period:

Name	Principal activities	Date of acquisition	Percentage acquired	Component of cost	Cost including capitalised expenses HK$'000
Hing Yip Holdings Limited	Property investment	1st February, 2005	100%	Cash	13,811
Excalibur Futures Limited	Futures dealing and broking	17th March, 2005	100%	Cash	16,853
Excalibur Securities Limited	Securities broking	17th March, 2005	100%	Cash	9,033
Sing Hing Investment Limited	Property investment	18th April, 2005	100%	Cash	38,477
					78,174

The aggregate assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount HK$'000	Fair value HK$'000
Cash and cash equivalents	15,758	15,758
Intangible assets	618	618
Investment property	26,934	39,362
Prepaid land lease payments	6,376	8,900
Property, plant and equipment	10,179	11,610
Available-for-sale financial assets	1,734	1,734
Accounts receivable, deposits and prepayments	17,723	16,823
Accounts payables and accrued charges	(16,575)	(16,575)
Deferred tax liabilities	(124)	(124)
Net assets	62,623	78,106
Total purchase consideration		78,174
		68
Excess of net fair value over consideration recognised in income statement		199
Goodwill		267
Purchase consideration settled in cash		78,174
Cash and cash equivalents in subsidiaries acquired		(15,758)
Cash outflow on acquisition		62,416

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of the subsidiaries.

for the six months ended 30th June, 2005

20. ACQUISITION OF SUBSIDIARIES (CONT'D)

The aggregate revenue and the profit for the period of the acquired subsidiaries are as follows:

	Six months ended 30th June, 2005 HK$'000	Post acquisition attributable to the Group HK$'000
Total revenue	**19,080**	**12,774**
Profit for the period	**1,215**	**1,649**

21. CONTINGENT LIABILITIES

(a) At 30th June, 2005, the Group had guarantees as follows:

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
Guarantee for banking facility granted to an investee company	**6,996**	7,000
Indemnities on banking guarantees made available to a clearing house and regulatory body	**5,540**	5,540
Other guarantees	**5,238**	3,184
	17,774	15,724

(b) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC") and Sun Hung Kai Investment Services Limited ("SHKIS"), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching a statement of claim ("200/2004") by Shanghai Finance Holdings Limited ("SFHL"), claiming, inter alia, that the sale of the shares in Shun Loong Holdings Limited ("SLHL") ("Shun Loong Shares") by STCC as assignee to SHKIS (for a consideration of HK$36,500,000 subject to additional amounts in a total sum not exceeding HK$15,700,000 which might have been payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and an account as to the amount received by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and believe that the claim is not soundly based and have applied to have the claim struck-out. The proceedings have been stayed until further order by the court. While a provision has been made for legal costs, at this stage the management is of the view that it is not appropriate for any other provision to be made with respect to this action.

for the six months ended 30th June, 2005

21. CONTINGENT LIABILITIES (CONT'D)

(c) By the Judgment of High Court on 1st April, 2004 in HCA 3191/1999 between NWDC and SDL against SHKS, SHKS was ordered to pay NWDC the sum of HK$105,534,018 together with interest on the principal sum of HK$80,117,653 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which the Court found ("Oral Agreement"). As at 17th June, 2004, the date when the Judgment sum was paid, the Judgment amounted to HK$150,115,682 (being HK$105,534,018 plus interest of HK$44,581,664). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. The Court of Appeal has now handed down the Court of Appeal Judgment in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. It is not presently known when the Final Appeal will be heard.

Since the handing down of the Judgment, NWDC has written to SHKS demanding payment of three further amounts for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS ("New Claims"):

1. on 1st March, 2000 in the sum of HK$27,234,754;

2. on 2nd January, 2001 in the sum of HK$7,697,418 (Sun Hung Kai understands that a further writ was issued by NWDC in April 2004, naming SHKS as defendant, and claiming the aforesaid two amounts as well as interest thereon from March 2000 and January 2001 respectively ("Further Writ"). The Further Writ has not been served on SHKS); and

3. on 1st June, 2004 in the sum of HK$2,565,839 in respect of a bank loan by GUP. (A provision has been made with respect to this claim in the accounts of SHKS).

The outcome of the Final Appeal as well as other issues will be relevant to the determination of whether SHKS is liable to pay the New Claims which NWDC asserts are due under the Oral Agreement. Accordingly, the Group takes the view that the New Claims are a contingent liability, and that while a provision has been made for legal costs, it is considered that it is not presently appropriate for any other provision to be made with respect to the Final Appeal or the Further Writ. An analysis as to the possible financial implications for the Group depending on the ultimate outcome of the Final Appeal was provided in note 11.

22. CAPITAL COMMITMENTS

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
Capital expenditure contracted for but not provided for in the financial statements	**11,082**	29,039
Capital expenditure authorised but not contracted for	**2,382**	2,209

for the six months ended 30th June, 2005

23. OPERATING LEASE ARRANGEMENTS

At 30th June, 2005, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	At 30th June, 2005		At 31st December, 2004	
	Land and buildings HK$'000	**Others HK$'000**	Land and buildings HK$'000	Others HK$'000
Within one year	**22,674**	**4**	20,155	578
In the second to fifth years inclusive	**28,063**	**–**	34,466	–
	50,737	**4**	54,621	578

Operating leases are negotiated for terms ranging from two to four years.

24. PLEDGE OF ASSETS

At 30th June, 2005 certain of the Group's investment properties, land and buildings, properties held for development, prepaid land lease payments and properties held for sale with an aggregate carrying value of HK$3,378,919,000 (at 31st December, 2004: HK$3,026,237,000 as restated), certain securities in respect of a listed subsidiary with a cost of HK$902,933,000 (at 31st December, 2004: HK$902,933,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK$1,175,026,000 (at 31st December, 2004: HK$1,074,406,000) were pledged to secure loans and general banking facilities to the extent of HK$3,196,483,000 (at 31st December, 2004: HK$3,404,144,000) granted to the Group. Facilities amounting to HK$1,870,806,000 (at 31st December, 2004: HK$1,649,749,000) were utilised at 30th June, 2005.

At 30th June, 2005, a bank deposit of HK$1,159,000 (at 31st December, 2004: HK$1,220,000) was pledged to secure a bank guarantee amounting to HK$2,000,000 (at 31st December, 2004: HK$2,000,000).

for the six months ended 30th June, 2005

25. RELATED PARTY TRANSACTIONS

A. The following is a summary of the significant transactions with related parties during the period:

(a) Summary of income and expense items:

	(Income)/Expense Six months ended 30th June, 2005 HK$'000	2004 HK$'000
Ultimate holding company		
Corporate management services, calculated at 0.5% of the Group's net assets	**–**	12,223
Share of administration expenses	**231**	–
Advertising income	**(400)**	(400)
Rent, property management and air-conditioning fees	**(1,710)**	(1,732)
Fellow subsidiary		
Advertising income	**(200)**	(200)
Dividend income	**(14,540)**	–
Jointly controlled entity		
Property management and air-conditioning fees and other property related service fees	**(7,010)**	(6,999)
Administration and management fees	**(1,180)**	(1,180)
Associates		
Interest income	**(1,330)**	(4,004)
Insurance premium	**(3,147)**	(3,205)
Rent, property management and air-conditioning fees and other related service fees	**(847)**	(659)
Service fee income	**(1,513)**	–

(b) During the period, both the Group and a joint venture partner, each having a 50% interest in a jointly controlled entity, received and repaid various interest free loans from such jointly controlled entity. At 30th June, 2005, the amounts lent to the Group totalled HK$141,000,000 (at 30th June, 2004: HK$179,000,000).

(c) During the period, the Group acquired two companies from a subsidiary of a listed associate at total consideration of HK$52,283,000.

(d) On 2nd March, 2005, a loan facility up to HK$100,000,000 was granted by the Group to a subsidiary of a listed associate with interest charged at prime rate of The Hong Kong and Shanghai Banking Corporation Limited plus 1% per annum and guaranteed by the listed associate. At 30th June, 2005, the term loan facilities utilised amounted to HK$48,000,000.

B. Key management personnel compensation:

	Six months ended 30th June, 2005 HK$'000	2004 HK$'000
Short-term benefits	**1,704**	1,804
Retirement benefit costs	**44**	43
	1,748	1,847

for the six months ended 30th June, 2005

26. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are included as on demand.

	At 30th June, 2005					
	On demand HK$'000	**Within 3 months HK$'000**	**3 months to 1 year HK$'000**	**1 year to 5 years HK$'000**	**After 5 years HK$'000**	**Total HK$'000**
Assets						
Fixed deposits with banks	**–**	**188,027**	**–**	**–**	**–**	**188,027**
Long-term loan receivable	**–**	**–**	**–**	**4,401**	**–**	**4,401**
Term loan/loan note of a listed associate	**–**	**48,000**	**–**	**78,000**	**–**	**126,000**
Term loans	**228,428**	**91,800**	**10,537**	**–**	**–**	**330,765**
Marketable debt securities	**–**	**7,718**	**–**	**–**	**–**	**7,718**
Liabilities						
Bank loans and overdrafts	**–**	**609,018**	**284,983**	**950,069**	**77,351**	**1,921,421**
Loan notes	**–**	**–**	**–**	**69,637**	**–**	**69,637**

	At 31st December, 2004					
	On demand HK$'000	Within 3 months HK$'000	3 months to 1 year HK$'000	1 year to 5 years HK$'000	After 5 years HK$'000	Total HK$'000
Assets						
Fixed deposits with banks	–	144,181	–	–	–	144,181
Long-term loan receivable	–	–	–	3,200	–	3,200
Loan note of a listed associate	–	–	–	78,000	–	78,000
Term loans	232,911	61,145	34,600	–	–	328,656
Marketable debt securities	–	7,741	–	–	–	7,741
Liabilities						
Bank loans and overdrafts	–	76,247	526,933	960,207	86,362	1,649,749
Loan notes	–	–	–	129,637	–	129,637
Obligations under a finance lease	–	76	–	–	–	76

Interim Dividend

The Board does not recommend the declaration of an interim dividend (2004: Nil).

Financial Review

Turnover for the period decreased by 4.7% to HK$546.8 million (2004: HK$573.9 million). The decrease was mainly due to a decline in the commission income of the securities broking and dealing activities as retail broking activities slowed amid market uncertainty on interest rates and oil prices. The profit attributable to the equity holders of the Company for the period was approximately HK$541.3 million. (2004: HK$252.7 million as restated). The increase was mainly represented by the gain in fair value of the investment property portfolio of the Group. Earnings per share amounted to HK$1.01 (2004: HK$0.52).

The period to period changes are not strictly comparable following the adoption of the new HKFRS. Details of the effects of the adoption of new accounting standards are outlined in note 3 to the condensed financial statements.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

The Group is principally financed by cash inflow from operating activities and banking facilities granted by the banks and 5 year 4% loan notes issued by Sun Hung Kai. The banking facilities of the Group are reviewed from time to time and new banking facilities will be obtained or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

There was no material change to the issued share capital of the Company during the period.

At 30th June, 2005, the current ratio (current assets/current liabilities) of the Group was 1.65 times, which decreased from the 1.70 times applicable at the end of 2004.

At 30th June, 2005, the Group's net borrowings amounted to HK$1,275.0 million (at 31st December, 2004: HK$1,179.9 million), representing bank borrowings and loan notes of HK$1,991.1 million (at 31st December, 2004: HK$1,779.4 million) less bank deposits, bank balances and cash of HK$716.1 million (at 31st December, 2004: HK$599.5 million) and the Group had net assets of HK$6,554.9 million (at 31st December, 2004: HK$5,463.4 million as restated). Accordingly, the Group's gearing ratio of net borrowings to net assets was 19.5% (at 31st December, 2004: 21.6% as restated).

	At 30th June, 2005 HK$'000	At 31st December, 2004 HK$'000
Bank borrowings of the Group are repayable as follows:		
Within one year or on demand	**894,001**	603,180
More than one year but not exceeding two years	**651,773**	226,738
More than two years but not exceeding five years	**298,296**	733,469
More than five years	**77,351**	86,362
	1,921,421	1,649,749
Loan notes repayable within five years	**69,637**	129,637
	1,991,058	1,779,386

The Group's bank borrowings are charged at floating rates. Most of the Group's bank borrowings are denominated in Hong Kong dollars.

ACQUISITION AND DISPOSAL

During the period, Sun Hung Kai group acquired all the interest in Hing Yip Holdings Limited and Sing Hing Investment Limited from a wholly-owned subsidiary of Tian An China Investments Company Limited ("Tian An"), at a total consideration of HK$52.3 million. These two subsidiaries are principally engaged in property investment in China and own certain office premises in the Tian An Centre in Shanghai. A portion of the office premises is occupied by Sun Hung Kai's Shanghai offices to facilitate expansion while the presently unused units have been leased out for rental income.

In March 2005, Sun Hung Kai group acquired all the interest in Excalibur Futures Limited ("Excalibur Futures") and Excalibur Securities Limited ("Excalibur Securities") at a total consideration of HK$25.9 million. Excalibur Futures is principally engaged in futures dealing and broking whereas Excalibur Securities is engaged in securities broking.

Other than the above acquisitions, there were no material acquisitions or disposals of subsidiaries, associates and jointly controlled entities during the period.

RISK OF FOREIGN EXCHANGE FLUCTUATION

There have been no significant changes in the exposures to foreign exchange risks from those previously outlined in the Company's annual report for 2004.

CONTINGENT LIABILITIES

Details regarding the contingent liabilities are set out in note 21 to the condensed financial statements on pages 26 and 27.

MATERIAL LITIGATION UPDATE

(a) On 28th February, 2005, by order of the Hong Kong High Court, the claim by Shenzhen Building Materials Group Co. Limited against SHKIS was dismissed with costs to SHKIS. SHKIS is continuing to seek recovery of its costs.

(b) By the Judgment of High Court on 1st April, 2004 in HCA 3191/1999 between NWDC and SDL against SHKS, SHKS was ordered to pay NWDC the sum of HK$105,534,018 together with interest on the principal sum of HK$80,117,653 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which the Court found ("Oral Agreement"). As at 17th June, 2004, the date when the Judgment sum was paid, the Judgment amounted to HK$150,115,682 (being HK$105,534,018 plus interest of HK$44,581,664). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. The Court of Appeal has now handed down the Court of Appeal Judgment in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

    SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. It is not presently known when the Final Appeal will be heard. Matter relating to the Judgment and the Court of Appeal Judgment are further described in notes 6, 11 and 21(c) to the condensed financial statements.

MATERIAL LITIGATION UPDATE (CONT'D)

(c) On 4th February, 2004, STCC and SHKIS were served with a writ attaching a statement of claim ("200/2004") by SFHL, claiming, inter alia, that the sale of the shares in Shun Loong Shares by STCC as assignee to SHKIS (for a consideration of HK$36,500,000 subject to additional amounts in a total sum not exceeding HK$15,700,000 which might have been payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and an account as to the amount received by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and believe that the claim is not soundly based and have applied to have the claim struck-out. The proceedings have been stayed until further order by the court.

(d) Shun Loong Finance Limited and SLHL (together the "Petitioners"), both wholly-owned subsidiaries of Sun Hung Kai, filed a winding-up petition on 19th February, 2004 in the British Virgin Islands ("B.V.I.") seeking an order that SFHL be wound up by reason of its failure to pay debts owing to the Petitioners. The B.V.I. proceedings were stayed by order of the B.V.I. court. The Petitioners have appealed that decision but have agreed not to pursue the appeal during the stay of 200/2004.

(e) Sun Hung Kai, STCC and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.

(f) SHKIS filed a notice of action on 8th June, 2004 in Canada naming as defendants Sung Chun ("Sung"), Song Lei ("Song") and the Bank of Montreal claiming from Sung and Song reimbursement for funds totalling US$1,300,000 transferred by them in addition to costs, and against the Bank of Montreal for an injunction freezing the subject funds or alternatively for payment of the funds into court. SHKIS discontinued the action in respect of the Bank of Montreal, and agreed to a dismissal of the action against Song. On 31st March, 2005, the Court granted summary judgment to SHKIS in the amount of Canadian currency sufficient to purchase HK$10,533,000 plus prejudgment and postjudgment interest thereon. SHKIS has instructed its legal advisers to effect the payment to it of the funds, as well as interest that has accrued thereon, that are held in the custody of the Superior Court of Justice. SHKIS is continuing to seek recovery of its costs from Sung in Canada.

(g) SHKIS filed a writ on 23rd July, 2004 in Hong Kong naming as defendants Sellon Enterprises Limited ("Sellon"), Sung and Song and seeking a declaration that Sellon holds property wholly or in part on trust for SHKIS. The case remains at an early stage.

PLEDGE OF ASSETS

Details regarding the pledge of assets are set out in note 24 to the condensed financial statements on page 28.

PROPERTIES

Hong Kong

The Group's investment property portfolio continued to record improving results, benefiting from the buoyant local property market. St. George Apartments, Century Court, Allied Cargo Centre and China Online Centre all achieved higher rental income, reflecting the benefits from the higher market rental rates as leases were renewed.

Following the completion of phase two of Ibis North Point at the end of last year, the Group's recurrent income from hotel business has been strengthened. The hotel operating income almost doubled compared with the corresponding period of last year due to the rise in the number of rooms and the increased average room rates as a result of the strong tourism industry in Hong Kong.

To take advantage of the prosperous tourism industry in Hong Kong, the Group is seeking opportunities to increase its investment in the hospitality industry. Application has been made to redevelop Allied Cargo Centre in Tsuen Wan into a hotel complex.

Allied Kajima Limited, 50% indirectly owned by the Group and holding properties including Allied Kajima Building, Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel, contributed a profit of 365.7% over the corresponding period in 2004. The increase was mainly due to a strong performance of Novotel Century Hong Kong hotel resulting from higher average room rates, together with the benefit of the gain in value of its investment property.

Mainland PRC

Although total sales of gross floor areas attributable to Tian An, a 48.6% owned listed associate of Sun Hung Kai, decreased to 56,000 sq.m from 120,100 sq.m. during the period under review, Tian An achieved a profit attributable to its shareholders of HK$83.0 million for the period (2004: HK$77.8 million as restated), representing a 6.6% increase over the previous period. This was due to the improved contribution from its jointly controlled entities and gain in fair values of its investment properties in the People's Republic of China ("PRC").

The introduction of various policies of macro-economic adjustments have affected property sales and investment sentiment in the PRC. Tian An is fortunate that its major development projects such as the next phase of Shanghai Tian An Villa in Sheshan, the development project at Chaobao Road in Shanghai as well as Phase III of Tian An Golf Garden in Shenzhen will only be coming on stream towards the end of next year. It is expected that the property market should have improved by then. In the meantime, Tian An will take advantage of the present market sentiment to increase its landbank should opportunities arise.

FINANCIAL SERVICES

Sun Hung Kai, a major listed subsidiary of the Group, recorded a profit attributable to its shareholders of HK$215.6 million (2004: HK$214.6 million as restated), with all of its major business segments reporting profitable results.

The turnover and commission income of the securities broking division recorded a decline as retail broking activities slowed amid market uncertainty on interest rates and oil prices.

The corporate finance division experienced a reduction in turnover. However, it successfully sponsored two IPOs on the main board of Stock Exchange, completed the secondary placement of shares in a number of listed companies and was also actively involved in a number of underwriting exercises for IPO and rights issues. The division will continue to focus on IPO projects for medium-sized enterprises in both Hong Kong and China and the financial advisory and placing services for listed companies in Hong Kong.

The first half of 2005 saw steady growth in Sun Hung Kai's margin loan book. Term lending activity has been pleasing during the period.

A hedge fund division was set up in the first half of 2005 to take advantage of investor demand and growth in the Asian hedge fund industry. The division is planning further fund launches in the second half of 2005.

Shun Loong group has adopted a range of business initiatives that are directed at increasing revenues and broadening the client base. In March 2005, Sun Hung Kai completed the acquisitions of Excalibur Futures and Excalibur Securities. Since the acquisitions, Excalibur Futures' turnover has increased and its client base has expanded. It continues to rank highly in the HSI futures market and Sun Hung Kai expects a positive contribution to its profitability for 2005.

INVESTMENTS

Quality HealthCare Asia Limited ("QHA")

QHA, a 34.40% owned listed associate of Sun Hung Kai, continued to deliver growth in its overall profit performance. Net profit for the period attributable to its equity holders achieved a 15.1% increase to HK$23.2 million. All of its three core healthcare divisions, including medical services, associated health services and elderly services, were profitable.

In April 2005, QHA applied approximately HK$43.3 million cash to repurchase 10% of its ordinary share capital then issued.

The Hong Kong SAR Government has repeatedly delivered very clear messages and directives for healthcare reform and public private partnership opportunities. QHA is supportive of these initiatives and looks forward to participating in these reforms in order to improve and widen the healthcare services available for Hong Kong people.

Yu Ming Investments Limited ("Yu Ming")

Yu Ming, a 22.43% owned listed associate of Sun Hung Kai, reported a profit attributable to its shareholders of HK$188.3 million. As at 30th June, 2005, Yu Ming's major investments were a 13.5% interest in AsiaWorld-Expo, which was held through a private sector consortium, Argyle Centre, CR Airways Limited, Oriental Cashmere Limited, high-yield bonds and equity securities. The increase in profit from HK$22.8 million of the same period of last year to HK$188.3 million was mainly as a result of share of profit from investment in the Argyle Centre, which has appreciated significantly in value.

Shanghai Allied Cement Limited ("SAC")

SAC, a 54.77% owned listed subsidiary of Tian An, reported a loss attributable to its shareholders of HK$16.3 million. The loss resulted from the continuous decline in cement prices while the cost of domestic raw materials and coal remained at a high level in the first half year of 2005, together with the keen competition among some major producers. SAC's management is cautiously optimistic on the long-term prospects of the cement industry in the PRC and hopes to take advantage of the present competitive environment to review its businesses and improve its cost structure and efficiency.

EMPLOYEES

The total number of staff of the Group at 30th June, 2005 was 1,736 (at 31st December, 2004: 1,774). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

MANAGEMENT OF RISKS

The management of risks in respect of the Group's finance business is primarily conducted by Sun Hung Kai. There has been no material change in the nature of Sun Hung Kai group's exposures, policies and practices in managing its risks to those which were reported in the Company's annual report for 2004.

Business Outlook

The recent structural changes to the PRC currency regime and the continuing fine-tuning of austerity measures imposed by the Mainland government have produced encouraging development opportunities for the Mainland economy. Pursuant to increasing business integration with the Mainland, Hong Kong should continue to benefit from a prosperous Mainland economy.

Following improved performance in various business sectors such as finance, retailing, tourism and services, local economic prospects remain optimistic for the second half-year as employment rates improve and consumer confidence grows. With the recent opening of the Hong Kong Disneyland, the Group is anticipating a further improvement in the retail and hospitality sector.

On the other hand, Hong Kong is facing higher interest rates and persistently high oil prices. These two factors may bring inflationary pressures to bear on operating and finance costs. The management is wary of these factors but remains committed to its objective of delivering a satisfactory set of 2005 full year results for the benefit of all shareholders.

At 30th June, 2005, Messrs. Patrick Lee Seng Wei, Li Chi Kong and Steven Lee Siu Chung, Directors of the Company, had the following interests 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:

Name of Director	Name of company	Number of shares and underlying shares held	Approximate % of the relevant issued share capital	Nature of interest
Patrick Lee Seng Wei	The Company	270,000 (note 1)	0.05%	Personal interest (held as beneficial owner)
	Allied Group Limited ("Allied Group") (note 2)	550,000 (note 3)	0.21%	Personal interest (held as beneficial owner)
Li Chi Kong	SAC (note 2)	600,000 (note 4)	0.08%	Personal interest (held as beneficial owner)
Steven Lee Siu Chung	Allied Group (note 2)	200 (note 3)	0.00%	Personal interest (held as beneficial owner)
	Sun Hung Kai (note 2)	1,000 (note 5)	0.00%	Personal interest (held as beneficial owner)

Notes:

1. This represents an interest in 270,000 shares of the Company.

2. Allied Group is the ultimate holding company of the Company. Sun Hung Kai is an indirect non wholly-owned subsidiary of the Company. A controlled corporation (within the meaning of Part XV of the SFO) of the Company has a direct interest in more than 20% of the issued share capital of SAC. Therefore, Allied Group, Sun Hung Kai and SAC are associated corporations of the Company within the meaning of Part XV of the SFO.

3. These represent interests in 550,000 shares and 200 shares of Allied Group.

4. This represents an interest in 600,000 share options of SAC giving rise to an interest in 600,000 underlying shares of SAC. The share options were granted on 28th July, 2003 at a consideration of HK$10.00 and are exercisable at an exercise price of HK$0.70 at any time during the period from 28th January, 2004 to 27th July, 2013 (both days inclusive).

5. This represents an interest in 1,000 shares of Sun Hung Kai.

6. All interests stated above represent long positions.

Save as disclosed above, at 30th June, 2005, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the 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 Issuers ("Model Code").

Substantial Shareholders' Interests

At 30th June, 2005, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate % of the issued share capital	Notes
Allied Group	401,764,059	74.79%	1
Lee and Lee Trust	401,764,059	74.79%	2, 3

Notes:

1. The interest includes the holding of: (i) 167,061,619 shares held by Capscore Limited ("Capscore"); (ii) 4,186,632 shares held by Citiwealth Investment Limited ("Citiwealth"); (iii) 134,177,783 shares held by Sunhill Investments Limited ("Sunhill"); and (iv) 96,338,025 shares held by Allied Group. Capscore, Citiwealth and Sunhill are all wholly-owned subsidiaries of Allied Group. Allied Group was therefore deemed to have an interest in the shares in which Capscore, Citiwealth and Sunhill were interested.

2. The figure refers to the same interest of Allied Group in 401,764,059 shares of the Company.

3. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust. They together owned approximately 39.25% interest of the issued share capital of Allied Group and were therefore deemed to have an interest in the shares in which Allied Group was interested.

4. The interest stated above represents long position. At 30th June, 2005, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

Corporate Governance

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2005, except for the following deviations:

Code Provision A.1.7

This code provision stipulates that there should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the issuer's expense.

To comply with this code provision, the Board has established in June 2005 a procedure to enable its Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

Code Provision A.2.1

This code provision stipulates that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Chairman of the Company is Sir Gordon Macwhinnie who is primarily responsible for the leadership of the Board, while the functions of a CEO are performed by the Chief Executive, Mr. Patrick Lee Seng Wei, who is also an Executive Director of the Company. Their responsibilities are clearly segregated and have been set out in writing and approved by the Board in June 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES (CONT'D)

Code Provisions A.4.1 and A.4.2

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Non-Executive Directors of the Company had no fixed term of office prior to June 2005, but retired from office on a rotational basis in accordance with the relevant provision of the Articles of Association of the Company. According to the Articles of Association of the Company then in effect before 3rd June, 2005, at each annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, should retire from office, provided that no Director holding office as executive chairman or as a managing director or as a chief executive should be subject to retirement by rotation. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting of the Company and would then be eligible for re-election at the meeting.

To fully comply with the code provision A.4.1, the term of office of all the Non-Executive Directors of the Company was fixed in June 2005, but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. In addition, to ensure full compliance with the code provision A.4.2, relevant amendments to the Articles of Association of the Company were proposed and approved by the shareholders of the Company at its annual general meeting held on 3rd June, 2005.

Code Provision A.5.4

This code provision stipulates that the board should establish written guidelines on no less exacting terms than the Model Code as set out in Appendix 10 of the Listing Rules for the relevant employees, who are likely to be in possession of unpublished price sensitive information in relation to the issuer or its securities, in respect of their dealings in the securities of the issuer.

To comply with this code provision, the Company has adopted in June 2005 the Model Code for securities transactions by certain employees of the Company, who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

Code Provisions B.1.3 and B.1.4

Code provision B.1.3 stipulates that the terms of reference of the remuneration committee should include, as a minimum, those specific duties as set out in the provision, and code provision B.1.4 stipulates that the remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

The terms of reference of the remuneration committee of the Company ("Remuneration Committee") have been revised in June 2005 to comply with the code provision B.1.3, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of an issuer. The Board considers that the Remuneration Committee should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the Executive Directors;

(ii) the Remuneration Committee members only consist of Independent Non-Executive Directors ("INEDs") who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;

(iii) the Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and

(iv) there is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The revised terms of reference of the Remuneration Committee have also been placed on the Company's website in June 2005 to ensure full compliance with the code provision B.1.4.

CODE ON CORPORATE GOVERNANCE PRACTICES (CONT'D)

Code Provisions C.3.3 and C.3.4

Code provision C.3.3 stipulates that the terms of reference of the audit committee should include at least those duties as set out in the provision, and code provision C.3.4 stipulates that the audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

The terms of reference of the Audit Committee of the Company ("Audit Committee") have been revised in June 2005 to comply with the code provision C.3.3, but with the deviations from the code provision of the audit committee's responsibility to:

(i) implement policy on the engagement of the external auditors to supply non-audit services;

(ii) ensure that management has discharged its duty to have an effective internal control system; and

(iii) ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the issuer.

The Board considers that the Audit Committee should recommend (as opposed to implement) the policy on the engagement of the external auditors to supply non-audit services for the following reasons:

(i) it is proper, and appropriate for the Board and its Committees to develop policy and make appropriate recommendations;

(ii) the proper and appropriate mechanism for implementation of such policy and recommendations is through the Executive Directors and management; and

(iii) INEDs are not in an effective position to implement policy and follow up the same on a day-to-day basis.

Further, the Board considers that the Audit Committee only possesses the effective ability to scrutinize (as opposed to ensure) whether management has discharged its duty to have an effective internal control system. The Audit Committee is not equipped to ensure that the same is in place as this would involve day-to-day supervision and the employment of permanent experts. The Audit Committee is not in a position either to ensure coordination between the internal and external auditors but it can promote the same. Similarly, the Audit Committee cannot ensure that the internal audit function is adequately resourced but it can check whether it is adequately resourced.

The revised terms of reference of the Audit Committee have been placed on the Company's website in June 2005 to ensure full compliance with the code provision C.3.4.

Code Provision D.1.2

This code provision stipulates that an issuer should formalise the functions reserved to the board and those delegated to the management and should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.

The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in June 2005. The Board will review the same once a year.

Code Provision D.2.1

This code provision stipulates that, where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.

To comply with this code provision, the Board has adopted in June 2005 sufficiently clear terms of reference for all the board committees of the Company to enable such committees to discharge their functions properly.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the period under review.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 2005.

Audit Committee Review

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30th June, 2005. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the HKICPA, and on the interim results announcements of the listed associates, as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

By Order of the Board
Sir Gordon Macwhinnie
Chairman

15th September, 2005