恒隆地產
HANG LUNG PROPERTIES

恒隆地產有限公司
HANG LUNG PROPERTIES LIMITED

Interim Report 2005-2006

Corporate Information

DIRECTORS

Ronnie C. Chan *(Chairman)*
S.S. Yin *(Vice Chairman)* *
Nelson W.L. Yuen *(Managing Director)*
Ronald J. Arculli, *JP* *
Laura L.Y. Chen *
H.K. Cheng, *GBS, OBE, JP* *
P.W. Liu, *SBS* *
Terry S. Ng *(Executive Director)*
William P.Y. Ko (*Executive Director)*
Estella Y.K. Ng *(Executive Director)*

* *Independent Non-Executive Director*

AUDIT COMMITTEE

H.K. Cheng, *GBS, OBE, JP (Chairman)*
Laura L.Y. Chen
P.W. Liu, *SBS*

NOMINATION AND REMUNERATION COMMITTEE

P.W. Liu, *SBS (Chairman)*
Ronald J. Arculli, *JP*
Laura L.Y. Chen
H.K. Cheng, *GBS, OBE, JP*

COMPANY SECRETARY

Robin S.W. Ching

QUALIFIED ACCOUNTANT

Estella Y.K. Ng

AUTHORISED REPRESENTATIVES

Terry S. Ng
Robin S.W. Ching

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INVESTOR RELATIONS CONTACT

Terry S. Ng
Executive Director
Email address : ir@hanglung.com

RESULTS AND DIVIDEND

For the six months ended December 31, 2005, net profit attributable to ordinary shareholders was $1,615.6 million or 0.8% higher than the period before. Turnover fell by 54.9% to $2,296.2 million. Earnings per ordinary share was 43.9 cents, representing a drop of 8.4% from the previous year.

Excluding revaluation gain and related deferred taxes, the underlying net profit decreased by 45.1% to $880.1 million, and the earnings per ordinary share retreated by 50.1% to 23.9 cents.

Your Board has declared an interim dividend of 13 cents per ordinary share payable on April 21, 2006 to ordinary shareholders of record on March 31, 2006.

OPERATIONS REVIEW

For the half year under review, we only sold about 300 apartments instead of the 1,000 or so a year before. This was the key reason why turnover and net profit both fell. Residential sales all over the city were very quiet and management saw no reason to sell into a weak market.

Property leasing did rather satisfactorily compared to the same period of a year ago. Overall rental turnover grew by 9% to $1,293.8 million. The respective numbers for Hong Kong and Shanghai were 5% and 24%. Shanghai now accounts for 27% of total rents received; a year ago it was 23%.

The Grand Gateway performed particularly well with total rents received advancing by 34%. This is due not only to rent increase but also to changes in tenant mix with more high fashion brand names. The replacement of the only department store with specialty shops also contributed to the pleasing results. Compare to twelve months ago, average rents have risen by some 55%.

In terms of occupancy rate, the numbers for all property types in Hong Kong remain basically the same as the year before, i.e. around 95% overall. All our facilities in Shanghai are practically fully let.

Following the success of January 2005 when we bought a sizeable piece of land in Tianjin for shopping mall development, and as we had anticipated six months ago, we purchased in September a plot in Shenyang, the capital city of Liaoning Province, for a similar project. Like the piece in Tianjin which is arguably the best located in that city, the new acquisition is among the most desirable in this biggest and probably most dynamic city in the whole of Northeastern China. It has a population of well over 7 million people. Average daily visitors in the neighborhood of our site is around 400,000 and can reach one million during holidays. The land of 3.5 hectares is being cleared and we will construct 110,000 square meters in a five-storey shopping center. Total project cost for Shenyang Hang Lung Plaza is expected to be around $2.5 billion and completion should come in 2009 if not before.

Last month we signed an agreement with the Jinan municipal government to purchase an even bigger site in this capital city of Shandong Province. The transaction should be completed if and when the site is successfully cleared by the government. It is expected in July.

On top of the 6.4 hectare site, we hope to construct a five-storey mall with some 130,000 square meters. Total cost is anticipated to be around $2.5 billion and the building should open no later than 2009. In 2005, Shandong became the number one province in the whole country in terms of economic output. As one of the very few provinces which is strong in both manufacturing and agriculture, it is hard to imagine that its biggest city of almost 6 million citizens will not see a further rise in consumer spending.

Management is working on several more projects in a number of equally exciting cities. I hope to have more to report later this year.

PROSPECTS

Full year results will depend to a good extent on whether we can sell Hong Kong flats in the remaining months. That in turn is a function of the market which is beyond our control. The comforting fact however is that in our industry, there is hardly any product obsolescence. Units not sold this period will not disappear; profits (which I do expect) from their sales will only come in later. I remain hopeful that some completed apartments will be sold in the coming months.

Performance of our leasing activities is anticipated to be similar to that of the first half of the fiscal year. Both Hong Kong and especially Shanghai should trade well.

As in the past two to three years, management will devote considerable efforts to finding appropriate new projects in the mainland. The process is extremely tedious and it will require tremendous amounts of hard work to consummate such land acquisitions. Success will take time but that will only make their eventual arrival even sweeter. For now, we will simply dig in and plow ahead.

Financially the company remains very healthy.

Ronnie C. Chan
Chairman

Hong Kong, February 21, 2006

OVERVIEW

Strong growth in the Shanghai rental business was one of the major contributors to the Group's results for the six months ended 31 December 2005. Net profit attributable to ordinary shareholders increased by 1% to HK$1,615.6 million. This was attributable to the growth in the property leasing business in Hong Kong and Shanghai; and the increase in value of the Group's investment properties. Profits from property leasing increased by 10% to HK$982.9 million. Our Shanghai rental properties continued their strong growth, with turnover and profits increasing by 24% to HK$343.5 million and 27% to HK$259.5 million, respectively. Hong Kong rental income and profits both increased by 5% to HK$950.3 million and HK$723.4 million, respectively. Turnover for the period fell by 55% to HK$2,296.2 million, mainly due to decreases in property sales.

Revaluation of investment properties was made for the interim period ended 31 December 2005 in accordance with the new accounting standard adopted as reported in the financial year ended 30 June 2005. A gain of HK$926.8 million was recognized accordingly; however, no revaluation was made for 31 December 2004.

The Board of Directors has declared an interim dividend of 13 cents per ordinary share, to be paid on 21 April 2006 to holders of ordinary shares registered as of 31 March 2006. This interim payout is the same as that of last year. The Register of Members will be closed from 29 March 2006 to 31 March 2006, both days inclusive, and no transfer of shares will be effected during that period. In order to qualify for the interim ordinary dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, not later than 4:00 p.m. on 28 March 2006.

PROPERTY LEASING

The property leasing activities maintained a steady growth, with rental profit during the first half of this financial year increasing by 10% to HK$982.9 million. Our two Shanghai properties have been performing exceptionally well; combined with the steady increase in rental activities in our Hong Kong properties, the Group achieved a satisfactory leasing result during the period under review.

Hong Kong

Our Hong Kong properties have maintained steady growth along with the improvement in the Hong Kong economy, with rental income and profits both increasing by 5% to HK$950.3 million and HK$723.4 million, respectively. Increased rental rates across different categories of the leasing portfolio have been reported.

Shanghai

Our Shanghai rental properties, Plaza 66 and The Grand Gateway, continued their strong growth, with turnover and profits increasing by 24% to HK$343.5 million and 27% to HK$259.5 million, respectively.

PROPERTY SALES

Hong Kong

During the period, 299 units of AquaMarine, located in West Kowloon, were sold at an average price of HK$4,800 p.s.f. which was on the high side for the surrounding district.

PROPERTY DEVELOPMENT

Shanghai

Construction of Office Tower 2 at Plaza 66 on Nan Jing Xi Lu, Shanghai is currently on schedule and completion is expected to be completed in the last quarter of 2006 with pre-leasing activities to commence in the coming months.

Shenyang

In September 2005, the Group successfully acquired a prime lot of land in Shenyang of nearly 35,000 square meters. Similar to our investment in Tianjin, a world-class commercial complex with gross floor area of about 130,000 square meters will be built, and will be a landmark in Shenyang when completed.

FINANCE

At 31 December 2005, the Group's consolidated net bank borrowings (after deducting cash and bank deposits) totaled HK$2,608.5 million, compared to HK$907.6 million at 30 June 2005. The increase is mainly due to the capital expenditure on the Group's property development projects. The Group's cash position is very strong, with gearing ratio standing at a very low level of 10%.

Finance costs increased 85% to HK$186.7 million mainly due to the increase in market interest rates and the reduction in interest capitalization upon the completion of the Group's residential properties.

OUTLOOK

Earlier on this year, the Group reached agreement with the Jinan Government to acquire a prime lot of land of nearly 64,000 square meters, in order to build a shopping mall with gross floor area of about 140,000 square meters. The purchase should be completed if and when the demolition and resettlement work is completed by the Jinan Government in July this year. Our plan for 2006 is to make further investments in three to four major Chinese cities to build world-class commercial complexes.

The Group will continue to maximize property development profit margins by releasing our properties into the market at the best possible time. We also expect our leasing activities to maintain steady growth with strong performance from our Shanghai rental properties.

The Company is committed to maintaining a high standard of corporate governance. During the six months period ended 31 December 2005, the principles of corporate governance adopted by the Company were in line with the corporate governance report set out in our 2004/05 Annual Report which included, inter alia, the Board and the Executive Committee, Audit Committee, Nomination and Remuneration Committee, systems of internal audit, internal control and financial reporting, and code of conduct for employees of the Company. Currently, the Board comprises ten persons, consisting of five executive directors and five independent non-executive directors. The Board continues to review its practices from time to time with an aim to improve the Group's corporate governance practices so as to meet international best practice.

AUDIT COMMITTEE

The Audit Committee of the Company, which is chaired by an independent non-executive director, currently comprises three independent non-executive directors. It meets at least two to three times a year and meetings are attended by external and internal auditors, the finance director and the company secretary for the purpose of discussing the nature and scope of audit work, setting and monitoring the Company's internal audit programme and assessing the Company's internal controls. It has reviewed this interim report, including the unaudited interim financial statements for the six months ended 31 December 2005 which were not required to be audited, and has recommended their adoption by the Board.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the accounting period ended 31 December 2005, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted a code of conduct regarding securities transactions by directors ("Code of Conduct") on terms no less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules ("the Code") and the Company has made specific enquiry of all directors that they have complied with the required standard set out in the Code and the Code of Conduct.

Purchase, Sale or Redemption of Listed Securities

During the accounting period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2005, the directors and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Part XV of the Securities and Futures Ordinance ("SFO") or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein:

		The Company			*Hang Lung Group Limited*		
		Ordinary Shares of HK$1.00 each		Share Options Outstanding (Note 1)	Shares of HK$1.00 each		Share Options Outstanding (Note 2)
Name of Directors	Capacity	Interests in Shares	% of Issued Capital	No. of Shares	Interests in Shares	% of Issued Capital	No. of Shares
Ronnie C. Chan	Personal	—	—	5,090,000	—	—	5,090,000
S.S. Yin	—	—	—	—	—	—	—
Nelson W.L. Yuen	Personal	—	—	7,126,000	—	—	5,500,000
Ronald J. Arculli	Beneficial owner & interest of controlled corporation	724,346	0.02	—	1,089,975	0.08	—
Laura L.Y. Chen	—	—	—	—	—	—	—
H.K. Cheng	—	—	—	—	—	—	—
P.W. Liu	—	—	—	—	—	—	—
Terry S. Ng	Personal	—	—	3,239,000	—	—	2,638,000
William P.Y. Ko *	Personal	—	—	1,830,000	—	—	724,000
Estella Y.K. Ng *	Personal	—	—	1,592,000	—	—	824,000

* Mr. William P.Y. Ko and Ms. Estella Y.K. Ng were appointed as directors of the Company on 1 September 2005.

Notes

1.

Name	No. of Option Shares Outstanding	Date Granted	Exercise Price Per Share (HK$)	Period during which options exercisable
Ronnie C. Chan	5,090,000	20 May 2004	$9.20	20 May 2005 to 19 May 2014 *
Nelson W.L. Yuen	7,126,000	20 May 2004	$9.20	20 May 2005 to 19 May 2014 *
Terry S. Ng	3,239,000	20 May 2004	$9.20	20 May 2005 to 19 May 2014 *
William P.Y. Ko	1,330,000	20 May 2004	$9.20	20 May 2005 to 19 May 2014 *
	500,000	1 Sept. 2005	$12.35	1 Sept. 2006 to 31 Aug. 2015 +
Estella Y.K. Ng	1,092,000	20 May 2004	$9.20	20 May 2005 to 19 May 2014 *
	500,000	1 Sept. 2005	$12.35	1 Sept. 2006 to 31 Aug. 2015 +

* These share options were granted to the named directors under the Share Option Scheme of the Company, exercisable in 4 tranches, i.e. the first 25% from 20 May 2005, the second 25% from 20 May 2006, the third 25% from 20 May 2007 and the balance 25% from 20 May 2008, all expiring on 19 May 2014.

\+ These share options were granted to the named directors under the Share Option Scheme of the Company, exercisable in 4 tranches, i.e. the first 25% from 1 Sept. 2006, the second 25% from 1 Sept. 2007, the third 25% from 1 Sept. 2008 and the balance 25% from 1 Sept. 2009, all expiring on 31 Aug. 2015.

2.

Name	No. of Option Shares Outstanding	Date Granted	Exercise Price Per Share (HK$)	Period during which options exercisable
Ronnie C. Chan	5,090,000	20 May 2004	$9.45	20 May 2005 to 19 May 2014 *
Nelson W.L. Yuen	2,500,000	24 Feb. 2000	$6.12	24 Feb. 2001 to 23 Feb. 2010 #
	3,000,000	20 May 2004	$9.45	20 May 2005 to 19 May 2014 *
Terry S. Ng	1,250,000	1 Nov. 2001	$5.87	1 Nov. 2002 to 31 Oct. 2011 ∆
	1,388,000	20 May 2004	$9.45	20 May 2005 to 19 May 2014 *
William P.Y. Ko	400,000	24 Feb. 2000	$6.12	24 Feb. 2001 to 23 Feb. 2010 #
	324,000	20 May 2004	$9.45	20 May 2005 to 19 May 2014 *
Estella Y.K. Ng	500,000	12 May 2004	$10.17	12 May 2005 to 11 May 2014 +
	324,000	20 May 2004	$9.45	20 May 2005 to 19 May 2014 *

* These share options were granted to the named directors under the Share Option Scheme of Hang Lung Group Limited, exercisable in 4 tranches, i.e. the first 25% from 20 May 2005, the second 25% from 20 May 2006, the third 25% from 20 May 2007 and the balance 25% from 20 May 2008, all expiring on 19 May 2014.

\# These share options were granted to the named directors under the Share Option Scheme of Hang Lung Group Limited, all of which are now exercisable until 23 February 2010.

∆ This share option was granted to the named director under the Share Option Scheme of Hang Lung Group Limited, which is now exercisable until 31 October 2011.

\+ This share option was granted to the named director under the Share Option Scheme of Hang Lung Group Limited, exercisable in 4 tranches, i.e. the first 25% from 12 May 2005, the second 25% from 12 May 2006, the third 25% from 12 May 2007 and the balance 25% from 12 May 2008, all expiring on 11 May 2014.

Save as disclosed above, none of the directors of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation.

Other than as stated above, at no time during the accounting period was the Company, its holding company or any of their subsidiaries a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2005, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

(a) Interests in Shares

Name	No. of Ordinary Shares Held		% of Issued Capital
CHAN TAN Ching Fen	2,064,809,670	(Note 1)	56.02
Cole Limited	2,064,809,670	(Note 1)	56.02
Cole Enterprises Holdings Limited	2,064,809,670	(Note 1)	56.02
Rosenior Limited	2,064,809,670	(Note 1)	56.02
Merssion Limited	2,064,809,670	(Note 1)	56.02
Hang Lung Group Limited	2,028,334,570	(Note 2)	55.03
Prosperland Housing Limited	1,267,608,690	(Note 3)	34.38
Purotat Limited	354,227,500	(Note 3)	9.61
The Capital Group Companies, Inc.	367,646,128		9.98

Notes

1. These shares were the same parcel of shares held by a trust of which Ms. CHAN TAN Ching Fen was the founder. Cole Limited, Cole Enterprises Holdings Limited, Rosenior Limited and Merssion Limited were deemed to be interested in the ordinary shares held by Hang Lung Group Limited and its subsidiaries, which number of ordinary shares were included in the above-mentioned number of 2,064,809,670.

2. Hang Lung Group Limited was deemed to be interested in the shareholdings of its subsidiaries, viz. 1,267,608,690 ordinary shares held by Prosperland Housing Limited, 354,227,500 ordinary shares held by Purotat Limited, and 406,498,380 ordinary shares held by other subsidiaries.

3. The 1,267,608,690 ordinary shares held by Prosperland Housing Limited and the 354,227,500 ordinary shares held by Purotat Limited were included in the above-mentioned number of 2,028,334,570 ordinary shares held by Hang Lung Group Limited.

(b) Short Positions in Shares and Underlying Shares

Save as disclosed in paragraph (a) above, no other interest required to be recorded in the register kept under Section 336 of the SFO has been notified to the Company.

Consolidated Income Statement

For the six months ended 31 December 2005 (Unaudited)
(Expressed in Hong Kong dollars)

	Note	2005 $Million	2004 $Million (restated)
Turnover	2	2,296.2	5,088.0
Other income		149.0	22.9
Direct costs and operating expenses		(1,067.9)	(2,902.0)
Administrative expenses		(77.1)	(71.2)
Profit from operations before finance costs		1,300.2	2,137.7
Finance costs	3	(186.7)	(100.7)
Operating profit	3	1,113.5	2,037.0
Increase in fair value of investment properties	7	926.8	—
Share of results of jointly controlled entities		43.6	12.0
Profit before taxation	2(a)	2,083.9	2,049.0
Taxation	4	(357.9)	(350.3)
Profit after taxation		1,726.0	1,698.7
Attributable to:			
Ordinary shareholders		1,615.6	1,603.3
Minority interests		110.4	95.4
		1,726.0	1,698.7
Interim dividend at 13¢ (2004: 13¢) per ordinary share	5(a)	480.2	478.8
Earnings per ordinary share	6(a)		
Basic		43.9¢	**47.9¢**
Diluted		43.6¢	**47.6¢**
Earnings per ordinary share excluding changes in fair value of investment properties net of deferred tax	6(b)		
Basic		23.9¢	47.9¢
Diluted		23.9¢	47.6¢

The annexed notes form part of the interim financial statements.

Consolidated Balance Sheet

At 31 December 2005 (Unaudited)
(Expressed in Hong Kong dollars)

	Note	31/12/2005 $Million	30/6/2005 $Million (restated)
Non-current assets			
Investment properties	7	36,980.4	36,031.9
Other fixed assets		2,501.5	1,818.9
Interest in jointly controlled entities		514.1	482.4
Loans and investments		8.5	9.1
		40,004.5	38,342.3
Current assets			
Inventories		10,007.1	10,693.4
Trade and other receivables	8	1,485.6	768.7
Cash and deposits with banks		5,944.5	3,205.8
		17,437.2	14,667.9
Current liabilities			
Trade and other payables	9	1,587.0	1,704.6
Taxation		291.7	599.2
Preference dividend payable		3.1	15.5
		1,881.8	2,319.3
Net current assets		15,555.4	12,348.6
Total assets less current liabilities		55,559.9	50,690.9

	Note	31/12/2005 $Million	30/6/2005 $Million (restated)
Non-current liabilities			
Bank loans		8,553.0	4,113.4
Convertible cumulative preference shares	10	352.9	355.0
Floating rate notes due 2009		1,500.0	1,500.0
Other long term liabilities		608.6	643.3
Deferred taxation		3,066.2	2,824.3
		14,080.7	9,436.0
NET ASSETS		41,479.2	41,254.9
CAPITAL AND RESERVES			
Share capital	11	3,687.1	3,683.2
Reserves		36,880.4	36,605.1
Shareholders' equity	12	40,567.5	40,288.3
Minority interests	12	911.7	966.6
TOTAL EQUITY		41,479.2	41,254.9

The annexed notes form part of the interim financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2005 (Unaudited)
(Expressed in Hong Kong dollars)

	Note	2005 $Million	2004 $Million (restated)
Total equity at 1 July			
Shareholders' equity (as previously reported)		40,643.3	31,018.6
Minority interests (previously presented separately from liabilities and equity at 30 June)		966.6	934.7
		41,609.9	31,953.3
Prior period adjustment arising from change in accounting policies	1	(355.0)	(460.6)
Total equity as restated		41,254.9	31,492.7
Opening adjustment arising from change in accounting policies	1	(20.8)	—
		41,234.1	31,492.7
Issue of ordinary shares		36.0	4,452.0
Employee share option benefits	11	12.2	16.5

	2005 $Million	2004 $Million (restated)
Net profit for the period	1,726.0	
– as previously reported		1,614.8
– attributable to minority interests as previously reported		95.4
– prior period adjustment arising from change in accounting policies		(11.5)
– as restated		1,698.7
Final ordinary dividend in respect of previous year	(1,363.8)	(1,089.0)
Repayment to minority interests	(165.3)	(115.9)
Total equity at 31 December	41,479.2	36,455.0
Attributable to:		
Ordinary shareholders	40,567.5	35,540.8
Minority interests	911.7	914.2
	41,479.2	36,455.0

The annexed notes form part of the interim financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2005 (Unaudited)
(Expressed in Hong Kong dollars)

	Note	2005 $Million	2004 $Million
Operating profit before changes in working capital		1,225.2	2,133.1
Decrease in inventories		552.2	1,301.9
Other changes in working capital		(692.2)	(1,220.2)
Cash generated from operations		1,085.2	2,214.8
Profits tax paid		(423.5)	(380.5)
Net cash generated from operating activities		661.7	1,834.3
Net cash used in investing activities		(3,308.1)	(87.5)
Net cash generated from financing activities		2,731.9	3,755.3
Increase in cash and cash equivalents		85.5	5,502.1
Cash and cash equivalents at 1 July		2,506.3	1,062.6
Cash and cash equivalents at 31 December	13	2,591.8	6,564.7

The annexed notes form part of the interim financial statements.

1. BASIS OF PREPARATION

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

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 30 June 2005 except for those changes following the Group's adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), including HKASs and relevant Interpretations ("HKAS-INTs" and "HK-INTs") which took effect on 1 July 2005. The changes in accounting policies, which have significant impacts on the Group's financial statements are summarised as follows:

(a) HKFRS 3 "Business Combinations"

In prior years, positive goodwill arising on or after 1 July 2001 was amortised on a straight line basis over its estimated useful life and was subject to impairment testing when there were indications of impairment. Negative goodwill which arose on or after 1 July 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred. Positive and negative goodwill which arose prior to 1 July 2001, was taken directly to capital reserves in accordance with the transitional provisions set out in the Statement of Standard Accounting Practice 30 "Business Combinations".

With effect from 1 July 2005, in accordance with HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets", the Group no longer amortises positive goodwill. Such goodwill is tested for impairment. Impairment losses are recognised when the carrying amount of the cash generating units to which the goodwill has been allocated exceeds its recoverable amount. Negative goodwill is recognised immediately in the income statement as it arises.

This change in accounting policy has been adopted prospectively from 1 July 2005. The Group's negative goodwill of $275.3 million previously credited to capital reserve has been transferred to retained profits. The net effect of the above transfer has increased retained profits by $275.3 million and reduced capital reserve by the same amount.

1. BASIS OF PREPARATION (Continued)

(b) HKAS 32 "Financial Instruments: Disclosure and Presentation", and HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Derivatives and hedging

In prior years, the Group's derivative financial instruments which were mainly used to manage the Group's exposure to interest rate fluctuation were recognised on an accrual basis.

With effect from 1 July 2005, and in accordance with HKAS 39, all derivative financial instruments entered into by the Group are stated at fair value. Changes in the fair value of derivatives held as hedging instruments in a cash flow hedge of committed future transactions are recognised in equity to the extent that the hedge is effective. Any ineffective portion of the changes in fair value of the derivatives is recognised in the income statement.

This change was adopted by way of reducing the opening balance of the retained profits as at 1 July 2005 by $20.8 million. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39. As a result of this policy, net profit for the current period increased by $15.0 million.

(ii) Reclassification of convertible cumulative preference shares

In prior years, convertible cumulative preference shares were classified as equity based on their legal form. Dividends paid to the preference shareholders were presented as a distribution to equity participants.

With effect from 1 July 2005, in accordance with HKAS 32, the classification of convertible cumulative preference shares is based on the substance of the contractual agreement. On the issue of the convertible cumulative preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible preference share; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity. The carrying amount of the conversion option is not remeasured in subsequent years. The dividends paid to the preference shareholders are recognised as finance costs in the income statement.

The change in accounting policy has been adopted retrospectively by reducing the opening balance of share capital at 1 July 2005 by $434.4 million (2004: $563.6 million) and increasing the equity component of convertible cumulative preference shares by $79.4 million (2004: $103.0 million).

(c) HKFRS 2 "Share-based payment"

In prior years, no amounts were recognised when employees were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price received.

With effect from 1 July 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained profits.

The new accounting policy has been applied retrospectively with comparatives restated. The opening balance of retained profits as of 1 July 2005 as a result of the change of policy decreased by $36.9 million (2004: $4.0 million) and the Group's profit after taxation during the current period decreased by $12.2 million (2004: $16.5 million), with the corresponding amounts credited to the capital reserve.

(d) Presentational changes

The application of the new HKFRSs has also resulted in changes in the presentation of the financial statements retrospectively with comparatives restated to conform to the current period's presentation, in particular of below:

(i) In prior years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Financial results shared by minority interests were separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 July 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the ordinary shareholders of the Company, and the results shared by minority interests are presented on the face of the consolidated income statement as an allocation of the attributable profit between the minority interests and the ordinary shareholders of the Company.

(ii) In prior years, shares of jointly controlled entities' tax was presented as a component of taxation in the income statement. On adoption of the HKAS 1, share of jointly controlled entities' tax are presented net of the share of jointly controlled entities' profit.

1. BASIS OF PREPARATION (Continued)

(e) Summary of the effect of changes in the accounting policies

(i) Effect on opening balance of total equity at 1 July 2005 and 1 July 2004

	Shareholders' equity			
	Share capital $Million	Retained profits $Million	Capital reserves $Million	Total $Million
At 1 July 2005				
Prior period adjustment				
HKAS 32	(434.4)	—	79.4	(355.0)
HKFRS 2	—	(36.9)	36.9	—
	(434.4)	(36.9)	116.3	(355.0)
Opening adjustment				
HKAS 39	—	(20.8)	—	(20.8)
HKFRS 3	—	275.3	(275.3)	—
Total increase/ (decrease) in equity	(434.4)	217.6	(159.0)	(375.8)
At 1 July 2004				
Prior period adjustment				
HKAS 32	(563.6)	—	103.0	(460.6)
HKFRS 2	—	(4.0)	4.0	—
Total increase/ (decrease) in equity	(563.6)	(4.0)	107.0	(460.6)

(ii) Effect on profit after taxation attributable to ordinary shareholders for the six months ended 31 December 2005

	2005 $Million
HKAS 39	15.0
HKFRS 2	(12.2)
Total effect for the period	2.8

2. TURNOVER AND SEGMENT INFORMATION

	Segment revenue 2005 $Million	Segment revenue 2004 $Million	Segment results 2005 $Million	Segment results 2004 $Million (restated)
(a) Business segment				
Property sales	1,002.4	3,906.2	245.4	1,294.5
Property leasing	1,293.8	1,181.8	982.9	891.5
	2,296.2	5,088.0	1,228.3	2,186.0
Other income			149.0	22.9
Administrative expenses			(77.1)	(71.2)
Finance costs			(186.7)	(100.7)
Operating profit			1,113.5	2,037.0
Increase in fair value of investment properties – property leasing			926.8	—
Share of results of jointly controlled entities – property leasing			43.6	12.0
Profit before taxation			2,083.9	2,049.0
(b) Geographical segment				
Group				
Hong Kong	1,952.7	4,811.2	968.8	1,981.2
Mainland China	343.5	276.8	259.5	204.8
	2,296.2	5,088.0	1,228.3	2,186.0
Jointly controlled entities				
Hong Kong			43.6	12.0

3. OPERATING PROFIT

	2005 $Million	2004 $Million (restated)
Operating profit is arrived at after charging:		
Finance costs		
Interest on borrowings	162.1	94.2
Dividend on convertible cumulative preference shares (Note)	12.4	15.2
Other ancillary borrowing costs	15.2	7.1
Total borrowing costs	189.7	116.5
Less: Borrowing costs capitalised	(3.0)	(15.8)
	186.7	100.7
Cost of inventories	691.0	2,495.7
Staff costs, including contribution to retirement schemes of $11.2 million (2004: $7.8 million)	144.1	120.3
Depreciation	1.6	1.8
and after crediting:		
Interest income	88.8	22.9

Note: The convertible cumulative preference shares of $7,500 each issued in November 1993 bearing dividend at 5.5% per annum on a reference amount of US$1,000 each. The preference dividend is in respect of the six months ended 31 December 2005.

4. TAXATION

Provision for Hong Kong Profits Tax and PRC Income Tax is calculated at 17.5% and 33% respectively on the estimated assessable profits for the period.

	2005 $Million	2004 $Million (restated)
Current tax		
Hong Kong Profits Tax for the period	104.5	300.0
PRC Income Tax for the period	11.5	—
	116.0	300.0
Deferred taxation		
Origination and reversal of temporary differences	241.9	50.3
	357.9	350.3

5. DIVIDENDS

(a) Dividends attributable to the period

	2005 $Million	2004 $Million
Declared after the balance sheet date:		
13 cents (2004: 13 cents) per ordinary share	480.2	478.8

The above interim dividends were declared after the balance sheet dates and have not been recognised as liabilities at the respective balance sheet dates.

(b) Dividends attributable to the previous financial year but approved during the period

	2005 $Million	2004 $Million
Final dividend in respect of the previous financial year, approved during the period, of 37 cents (2004: 33 cents) per ordinary share	1,363.8	1,089.0

6. EARNINGS PER ORDINARY SHARE

(a) The calculation of basic earnings per ordinary share is based on the net profit attributable to ordinary shareholders of $1,615.6 million (2004 restated: $1,603.3 million) and the weighted average number of 3,684.0 million (2004: 3,347.0 million) ordinary shares in issue during the period.

The calculation of diluted earnings per ordinary share is based on the adjusted net profit attributable to ordinary shareholders of $1,628.0 million (2004 restated: $1,618.5 million) and the weighted average number of 3,736.5 million (2004: 3,397.2 million) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

(b) The calculation of basic and diluted earnings per ordinary share excluding changes in fair value of investment properties net of deferred tax and minority interests is based on the profit adjusted as follows:

	2005 $Million	2004 $Million (restated)
Net profit attributable to ordinary shareholders	1,615.6	1,603.3
Effect of changes in fair value of investment properties	(921.1)	—
Effect of corresponding deferred tax	185.6	—
Adjusted earnings for calculation of basic earnings per ordinary share	880.1	1,603.3
Effect of dilutive potential ordinary shares		
Dividend on convertible cumulative preference shares	12.4	15.2
Adjusted earnings for calculation of diluted earnings per ordinary share	892.5	1,618.5

7. INVESTMENT PROPERTIES

The investment properties of the Group were revalued at 31 December 2005 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on an open market value basis.

No valuation of the investment property portfolio was carried out at 31 December 2004, and no corresponding adjustment has been made for the six months ended on that date.

8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors with the following ageing analysis:

	31/12/2005 $Million	30/6/2005 $Million
Within 1 month	1,162.5	438.3
1 – 3 months	1.7	3.7
Over 3 months	0.8	2.3
	1,165.0	444.3

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following ageing analysis:

	31/12/2005 $Million	30/6/2005 $Million
Within 1 month	558.4	645.9
Over 3 months	78.6	94.3
	637.0	740.2

10. CONVERTIBLE CUMULATIVE PREFERENCE SHARES

	Number of shares	$Million
Convertible cumulative preference shares of $7,500 each		
At 1 July 2005	57,915	355.0
Shares converted into ordinary shares	(355)	(2.1)
At 31 December 2005	57,560	352.9

As at 31 December 2005, the number of outstanding convertible cumulative preference shares is 57,560 (30/6/2005: 57,915) with conversion rights to 44,090,960 (30/6/2005: 44,362,890) ordinary shares, exercisable at any time from 26 December 1993.

11. SHARE CAPITAL

	Number of shares ('000)	$Million
Issued and fully paid		
Ordinary shares of $1 each		
At 1 July 2005	3,683,153	3,683.2
Issue of shares from exercise of options	3,679	3.7
Convertible cumulative preference shares conversion (Note i)	272	0.2
At 31 December 2005	3,687,104	3,687.1

(i) During the period, 355 (2004: 17,215) convertible cumulative preference shares were converted which resulted in the issue of 271,930 (2004: 13,186,690) ordinary shares of the Company.

Share Option Scheme

At 31 December 2005, the directors and employees had the following interests in options to subscribe for ordinary shares of the Company ("Share Options") granted at nominal consideration under the Share Option Scheme of the Company. Each Share Option gives the holder the right to subscribe for one ordinary share.

11. SHARE CAPITAL (Continued)

The movements of Share Options during the period are as follows:

	Number of Share Options outstanding on 1 July 2005	Number of Share Options reclassified#	Number of Share Options granted during the period	Number of Share Options exercised during the period	Number of Share Options outstanding on 31 December 2005	Date granted	Period during which options are exercisable	Exercise price $	Weighted average share price before exercise of options $
Directors	18,694,000	2,422,000	—	(3,239,000)	17,877,000	20 May 2004	20 May 2005 to 19 May 2014	9.20	11.96
	—	—	1,000,000	—	1,000,000	1 September 2005	1 September 2006 to 31 August 2015	12.35	—
Employees	10,267,000	(2,422,000)	—	(440,000)	7,405,000	20 May 2004	20 May 2005 to 19 May 2014	9.20	12.32
	400,000	—	—	—	400,000	3 May 2005	3 May 2006 to 2 May 2015	11.85	—
	—	—	400,000	—	400,000	1 September 2005	1 September 2006 to 31 August 2015	12.35	—
	—	—	306,000	—	306,000	1 November 2005	1 November 2006 to 31 October 2015	11.40	—
Total	29,361,000	—	1,706,000	(3,679,000)	27,388,000				

The weighted average value per Share Option granted during the period estimated at the date of grant using the Black-Scholes pricing model ("the Model") was $3. The weighted average assumptions used are as follows:

Risk-free interest rate	4%
Expected life (in years)	6
Volatility	0.3
Expected dividend per share	$0.4

The Model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. As the Company's Share Options have characteristics significantly different from those of traded options, the Model may not necessarily provide a reliable measure of the fair value of the Share Options.

These represented the options of the two directors promoted during the period.

12. CAPITAL AND RESERVES

	Shareholders' equity										
	Share capital $Million	Share premium $Million	Capital reserve on consolidation $Million	Capital redemption reserve $Million	Exchange reserve $Million	Equity component of convertible cumulative preference shares $Million	Employee share-based compensation reserve $Million	Retained profits $Million	Total $Million	Minority interests $Million	Total equity $Million
At 1 July 2005											
– as previously reported	4,117.6	15,497.5	275.3	1,675.5	13.8	—	—	19,063.6	40,643.3	966.6	41,609.9
– prior period adjustments on											
HKAS 32	(434.4)	—	—	—	—	79.4	—	—	(355.0)	—	(355.0)
HKFRS 2	—	—	—	—	—	—	36.9	(36.9)	—	—	—
– as restated	3,683.2	15,497.5	275.3	1,675.5	13.8	79.4	36.9	19,026.7	40,288.3	966.6	41,254.9
– opening adjustment											
HKAS 39	—	—	—	—	—	—	—	(20.8)	(20.8)	—	(20.8)
HKFRS 3	—	—	(275.3)	—	—	—	—	275.3	—	—	—
	3,683.2	15,497.5	—	1,675.5	13.8	79.4	36.9	19,281.2	40,267.5	966.6	41,234.1
Issue of ordinary shares	3.7	30.2	—	—	—	—	—	—	33.9	—	33.9
Conversion of convertible cumulative preference shares	0.2	—	—	2.4	—	(0.5)	—	—	2.1	—	2.1
Employee share option benefits	—	8.4	—	—	—	—	3.8	—	12.2	—	12.2
Net profit for the period	—	—	—	—	—	—	—	1,615.6	1,615.6	110.4	1,726.0
Ordinary dividend paid	—	—	—	—	—	—	—	(1,363.8)	(1,363.8)	—	(1,363.8)
Repayment to minority interests	—	—	—	—	—	—	—	—	—	(165.3)	(165.3)
At 31 December 2005	3,687.1	15,536.1	—	1,677.9	13.8	78.9	40.7	19,533.0	40,567.5	911.7	41,479.2

13. NOTE TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Analysis of the balances of cash and cash equivalents

	2005 $Million	2004 $Million
Cash and cash equivalents in the consolidated balance sheet	5,944.5	6,564.7
Less: Bank deposits with maturity greater than three months	(3,352.7)	—
Cash and cash equivalents in the consolidated cash flow statement	2,591.8	6,564.7

14. CONTINGENT LIABILITIES

At 31 December 2005, contingent liabilities were as follows:

	Company	
	31/12/2005 $Million	30/6/2005 $Million
Guarantees given to banks to secure credit facilities	10,145.2	5,714.1

15. COMMITMENTS

Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	Group	
	31/12/2005 $Million	30/6/2005 $Million
Contracted for	1,287.4	546.1
Authorised but not contracted for	4,032.7	2,931.2
	5,320.1	3,477.3

16. RELATED PARTY TRANSACTIONS

A fellow subsidiary of the Company contributed funds as capital investment, to a subsidiary of the Company for the development of Plaza 66, a property project in Shanghai. The amount outstanding at 31 December 2005 was $247.2 million (30/6/2005: $260.8 million).

17. REVIEW OF INTERIM FINANCIAL STATEMENTS

The interim financial statements are unaudited, but have been reviewed by the Audit Committee.

Financial Briefs as at 31 December 2005	HK$ Million
Turnover	2,296.2
Net profit attributable to ordinary shareholders	1,615.6
Total assets	57,441.7
Shareholders' equity	40,567.5
Per ordinary share data Earnings - Basic - Diluted Interim dividend Net assets (including minority interests) Shareholders' equity	 43.9¢ 43.6¢ 13.0¢ $11.2 $11.0
Gearing ratio *	10%
Pay-out ratio	30%
Number of ordinary shares outstanding (in million)	3,687.1

Financial Calendar	
Financial period	1 July 2005 to 31 December 2005
Interim results announced	21 February 2006
Latest time to lodge transfers	4:00 p.m. on 28 March 2006
Closure of ordinary share register	29 March to 31 March 2006 (both days inclusive)
Record date for interim ordinary dividend	31 March 2006
Interim ordinary dividend payable	21 April 2006

* Gearing ratio represents net debt over equity plus net debt. Net debt represents bank loans, floating rate notes and finance lease obligations, less cash and deposits with banks. Equity comprises shareholders' equity and minority interests.