



恒隆集團有限公司

HANG LUNG GROUP LIMITED

Interim Report 2005-2006

DIRECTORS

Ronnie C. Chan (*Chairman*)
S.S. Yin (*Vice Chairman*) *
Nelson W.L. Yuen (*Managing Director*)
Gerald L. Chan #
Laura L.Y. Chen *
H.K. Cheng, *GBS, OBE, JP* *
Simon S.O. Ip, *CBE, JP* *
York Liao, *SBS, JP* *
Terry S. Ng (*Executive Director*)

Non-Executive Director

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Simon S.O. Ip, *CBE, JP* (*Chairman*)
Laura L.Y. Chen
H.K. Cheng, *GBS, OBE, JP*
York Liao, *SBS, JP*

NOMINATION AND REMUNERATION COMMITTEE

H.K. Cheng, *GBS, OBE, JP* (*Chairman*)
Laura L.Y. Chen
Simon S.O. Ip, *CBE, JP*
York Liao, *SBS, 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

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Executive Director
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RESULTS AND DIVIDEND

For the last six months of 2005, both turnover and net profit attributable to shareholders retreated. The former fell 52.3% to \$2,551.8 million and the latter 21.8% to \$1,091.1 million. Net profit for the half year to December 31, 2004 however included a non-cash item of deemed profit of \$478 million on placement of Hang Lung Properties shares. With that in mind, the present earnings per share of 82.0 cents represent a drop of 22%.

When revaluation gain and associated deferred tax were excluded, the underlying net profit of \$559.7 million was 59.9% lower than the period before. Earnings per share diminished by 59.9% to 42.1 cents.

Your Board has declared an interim dividend of 14.5 cents per share payable on April 21, 2006 to shareholders of record on March 31, 2006.

OPERATIONS REVIEW

It was a quiet six months in terms of apartment sales, and increasingly so as 2005 drew to a close. This is especially true of the primary market. The only sign of life came briefly in October and our subsidiary Hang Lung Properties (HLP) took advantage of it and parted with about 300 units of AquaMarine. It brought in about \$1 billion turnover. Average unit sales price was almost \$4,800 per square feet which was about 4% higher than the initial launch in October 2004.

Last June, overall price levels for the city's residential transactions were actually doing well at a six year high. They were however on average about 10% lower by year end. This was true of both new and second-hand units.

Rental activities were a bright spot for the period under review. While rents only rose by 6% in Hong Kong, they shot up 38% for our Shanghai portfolio. With the help of the new office tower which was completed last June and was fully let, total rents received at The Grand Gateway grew by 63%.

Another rewarding development was that HLP was successful in securing an excellent site in Shenyang in Liaoning Province. This capital city is the economic hub for the entire Northeastern part of the country. The acquisition of an equally attractive plot in Jinan, the capital city of Shandong Province, should be concluded in July. An agreement with the municipal government has been signed and the transaction should close if and when the resettlement and demolition works are successfully completed by the government.

Given the above, and together with the piece in Tianjin purchased a year ago in January, the Group is well on its way to becoming a major developer and owner of top quality malls on the mainland. Unlike our two existing projects in Shanghai, the three new additions in Tianjin, Shenyang and Jinan are all purely commercial. They are all low rise shopping centers of five to six storeys, and range in size from 110,000 to 140,000 square meters each. The three projects will cost HLP a total of around \$7.5 billion. With HLP anticipating in the coming four years a cash inflow of between \$30 billion and \$40 billion from Hong Kong development projects and from rental income in both Hong Kong and Shanghai, these new malls are easily affordable.

PROSPECTS

Developmental sales proceeds from Hong Kong will depend to a good extent on local market conditions. Rental income will be much more steady and is expected to do well in the coming year or two. First, Hong Kong rents should rise further as long as the economy continues to perform satisfactorily. The many job openings of late will not only bring down unemployment but also raise salaries. Consumer spending should trend upward in the months to come. Many financial services firms which offer high paying jobs are actually complaining of the shortage of talent and of big floor plate offices. All these are promising signs for our business. This is of course not to say that there are no worries on the horizon, but on balance, I believe that the economy will improve further in the near future.

The situation in the mainland where so much of our recent efforts have concentrated may show a similar pattern. Persistently higher global commodity prices including oil, looming trade conflicts with the U.S. given the huge trade surplus in favor of China, and the end of a prolonged low interest rate environment, are but a few of the concerns. However, they do not seem to affect the immediate prospects of our business in Shanghai. In case these factors do worsen later, history tends to show that the down cycle may end before or around the time our many new shopping centers come on the market beginning around 2009 (or 2008 at the earliest).

But for now, it seems likely that our two Shanghai developments will continue to trade well. Barring unforeseen circumstances, rental income for the fiscal year 2006/2007 should be even better as the service apartment block and the second residential building at The Grand Gateway will be completed in the coming few months. Together with the office tower which is already fully leased and which will only reach its capacity later this fiscal year, further increase in rental income is a reasonable expectation. Starting in 2007, new income from the rental of the second office tower at Plaza 66 should kick in. Again, we will benefit from it.

All in all, the coming year or two should yield satisfactory results.

Ronnie C. Chan

Chairman

Hong Kong, February 21, 2006

OVERVIEW

Continuous growth in the Shanghai leasing activities gained in its significance to the Group's performance for the first half of this financial year. Net profit attributable to shareholders was HK\$1,091.1 million, 22% lower than the previous period. The decrease was because the net profit for the previous period included a non-recurring, deemed profit of HK\$478 million arising from the placement of Hang Lung Properties' shares. Profits from property leasing increased by 14% to HK\$1,065.4 million. The Group's Shanghai rental properties performed exceptionally well, with rental income increasing 38% to HK\$414.3 million. This increase was partly due to additional rental income from the new office tower of The Grand Gateway, where leasing activities commenced in August 2005. Hong Kong rental income amounted to HK\$1,005.4 million, representing a 6% increase. The Group's turnover for the period amounted to HK\$2,551.8 million, a decrease of 52% which is mainly due to the decrease in property sales.

A gain of HK\$1,144.0 million on revaluation of investment properties was recognized for the period under review, while no valuation was made for 31 December 2004.

The Board of Directors has declared an interim dividend of 14.5 cents per share to be paid on 21 April 2006 to shareholders registered as of 31 March 2006, which is the same amount of interim payout as compared to the previous period. 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 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

During the first half of the financial year, property leasing activities recorded strong growth with rental turnover and profit both increasing by 14% to HK\$1,419.7 million and HK\$1,065.4 million, respectively. The favorable results were attributable to the strong growth of the Group's Shanghai portfolio, along with the steady performance of the Hong Kong properties.

Hong Kong

Improvement in the Hong Kong economy has led to a steady growth in rental income contributed by our Hong Kong properties. Rental income recorded a 6% increase to HK\$1,005.4 million for the first six months of the financial year.

Shanghai

Our Shanghai rental properties performed exceptionally well, with rental income increasing 38% to HK\$414.3 million. This increase was partly due to additional rental income from the new office tower of The Grand Gateway, where leasing activities commenced in August 2005.

PROPERTY SALES

Hong Kong

During the period, 299 units or about 19% of AquaMarine, located in West Kowloon, were sold at an average price of HK\$4,800 p.s.f.

PROPERTY DEVELOPMENT

Shanghai

The Grand Gateway's new serviced apartment tower was completed earlier this year, and the construction of the remaining residential tower is scheduled for completion in the second half of the year. With respect to the second office tower at Plaza 66, construction is on schedule and completion is expected to be in the last quarter of this year.

Shenyang

Following the Group's success in securing our Tianjin project in early 2005, we acquired a prime lot of nearly 35,000 square meters at Zhongjie Lu, Shenhe District, Shenyang City, where we will build a superlative, world-class commercial complex with a total gross floor area of about 130,000 square meters.

FINANCE

At 31 December 2005, the Group's consolidated net bank borrowings (after deducting cash and bank deposits) totaled HK\$5,160.9 million compared to HK\$2,663.3 million at 30 June 2005. The increase was mainly due to the capital expenditure on the Group's property development projects. The Group's cash position continues to be very strong, with a low gearing ratio of 14%.

Finance costs increased 94% to HK\$240.9 million, mainly due to the increase in market interest rates during the period.

OTHERS

On 30 December 2005, the Court of Appeal ruled in favor of the Group in litigation relating to the sale of The Bay Bridge. The purchaser, however, has lodged a further appeal and a hearing has yet to be scheduled.

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 in order 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 contribution from our PRC properties becoming increasingly important upon the completion of the remaining developments in Plaza 66 and The Grand Gateway.

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 nine persons, consisting of three executive directors, one non-executive director 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 four 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:

Name of Directors	Capacity	<i>The Company</i>			<i>Hang Lung Properties Limited</i>		
		Interests in Shares	Issued Capital	No. of Shares	Interests in Shares	Issued Capital	No. of Shares
Ronnie C. Chan	Personal	—	—	5,090,000	—	—	5,090,000
S.S. Yin	—	—	—	—	—	—	—
Nelson W.L. Yuen	Personal	—	—	5,500,000	—	—	7,126,000
Gerald L. Chan	—	—	—	—	—	—	—
Laura L.Y. Chen	—	—	—	—	—	—	—
H.K. Cheng	—	—	—	—	—	—	—
Simon S.O. Ip	—	—	—	—	—	—	—
York Liao	—	—	—	—	—	—	—
Terry S. Ng	Personal	—	—	2,638,000	—	—	3,239,000

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	\$9.45	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*

* 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.

⁺ This share option was granted to the named director under the Share Option Scheme of the Company, which is now exercisable until 23 February 2010.

[^] This share option was granted to the named director under the Share Option Scheme of the Company, which is now exercisable until 31 October 2011.

2. These share options were granted to the named directors on 20 May 2004 under the Share Option Scheme of Hang Lung Properties Limited at exercise price of \$9.20 per share, 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.

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 or any of its 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 Shares Held	% of Issued Capital
CHAN TAN Ching Fen	493,463,580 (Note 1)	37.05
Cole Limited	493,463,580 (Note 1)	37.05
Cole Enterprises Holdings Limited	493,463,580 (Note 1)	37.05
Rosenior Limited	493,463,580 (Note 1)	37.05
Merssion Limited	493,463,580 (Note 1)	37.05
Kingswick Investment Limited	93,000,000 (Note 2)	6.98
The Capital Group Companies, Inc.	93,480,300	7.02

Notes

1. These shares were the same parcel of shares held by a trust of which Ms. CHAN TAN Ching Fen was the founder.
2. The 93,000,000 shares held by Kingswick Investment Limited were included in the above-mentioned number of 493,463,580 shares held by Ms. CHAN TAN Ching Fen / Cole Limited / Cole Enterprises Holdings Limited / Rosenior Limited / Merssion 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	2,551.8	5,351.0
Other income		212.3	508.0
Direct costs and operating expenses		(1,205.3)	(3,084.8)
Administrative expenses		(93.8)	(111.5)
Profit from operations before finance costs		1,465.0	2,662.7
Finance costs	3	(240.9)	(123.9)
Operating profit	3	1,224.1	2,538.8
Increase in fair value of investment properties	7	1,144.0	—
Share of results of jointly controlled entities		47.4	17.8
Profit before taxation	2(a)	2,415.5	2,556.6
Taxation	4	(444.0)	(362.5)
Profit after taxation		1,971.5	2,194.1
Attributable to:			
Shareholders		1,091.1	1,395.9
Minority interests		880.4	798.2
		1,971.5	2,194.1
Interim dividend at 14.5¢ (2004: 14.5¢) per share	5	193.1	192.6
Earnings per share	6(a)		
Basic		82.0¢	105.1¢
Diluted		81.5¢	104.5¢
Earnings per share excluding changes in fair value of investment properties net of deferred tax	6(c)		
Basic		42.1¢	105.1¢
Diluted		41.8¢	104.5¢

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	40,535.3	39,369.7
Other fixed assets		3,065.4	2,360.9
Interest in jointly controlled entities		1,258.3	1,244.4
Loans and investments		156.2	148.0
		45,015.2	43,123.0
Current assets			
Inventories		10,071.2	10,757.3
Trade and other receivables	8	1,764.3	995.5
Cash and deposits with banks		6,506.2	3,733.8
		18,341.7	15,486.6
Current liabilities			
Trade and other payables	9	1,843.1	2,034.8
Taxation		317.9	625.7
		2,161.0	2,660.5
Net current assets		16,180.7	12,826.1
Total assets less current liabilities		61,195.9	55,949.1

	Note	31/12/2005 \$Million	30/6/2005 \$Million (restated)
Non-current liabilities			
Bank loans		11,667.1	6,397.1
Floating rate notes due 2009		1,500.0	1,500.0
Other long term liabilities	10	961.5	1,116.0
Deferred taxation		3,297.8	2,969.9
		17,426.4	11,983.0
NET ASSETS		43,769.5	43,966.1
CAPITAL AND RESERVES			
Share capital	11	1,331.8	1,328.1
Reserves		22,116.9	21,510.5
Shareholders' equity	12	23,448.7	22,838.6
Minority interests	12	20,320.8	21,127.5
TOTAL EQUITY		43,769.5	43,966.1

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)		22,838.6	18,828.5
Minority interests (previously presented separately from liabilities and equity at 30 June)		21,482.5	15,638.0
		44,321.1	34,466.5
Prior period adjustment arising from change in accounting policies	1	(355.0)	(460.6)
Total equity as restated		43,966.1	34,005.9
Opening adjustment arising from change in accounting policies	1	6.8	—
		43,972.9	34,005.9
Issue of shares		27.9	3.4
Decrease in fair value of listed investments		(1.0)	—
Employee share option benefits	11	17.4	24.6
Change of shareholding in subsidiary		(1,043.1)	3,764.0

	2005 \$Million	2004 \$Million (restated)
Net profit for the period	1,971.5	
– as previously reported		1,352.9
– attributable to minority interests as previously reported		819.0
– prior period adjustment arising from change in accounting policies		22.2
– as restated		2,194.1
Final dividend in respect of previous year	(532.7)	(478.0)
Dividend to minority interests	(616.0)	(620.7)
Repayment to minority interests	(27.4)	(18.4)
Total equity at 31 December	43,769.5	38,874.9
Attributable to:		
Shareholders	23,448.7	19,776.1
Minority interests	20,320.8	19,098.8
	43,769.5	38,874.9

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		1,266.1	2,183.6
Decrease in inventories		552.2	1,304.9
Other changes in working capital		(788.7)	(1,253.0)
Cash generated from operations		1,029.6	2,235.5
Profits tax paid		(423.9)	(381.0)
Net cash generated from operating activities		605.7	1,854.5
Net cash used in investing activities		(4,351.0)	(204.3)
Net cash generated from financing activities		3,864.5	3,658.0
Increase in cash and cash equivalents		119.2	5,308.2
Cash and cash equivalents at 1 July		3,034.3	1,959.4
Cash and cash equivalents at 31 December	13	3,153.5	7,267.6

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 \$1,480.0 million previously credited to capital reserve on consolidation and other capital reserves has been transferred to retained profits. The net effect of the above transfer has increased retained profits by \$1,480.0 million and reduced capital reserve on consolidation and other capital reserves by \$1,058.4 million and \$421.6 million respectively.

1. BASIS OF PREPARATION (continued)

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

The application of HKAS 32 and 39 has resulted in a change in accounting policy relating to the classification of financial assets and liabilities and their measurement. The principal effects of the change on the Group are summarised as below:

(i) *Investment in equity securities*

In prior years, equity investments held on a continuing basis for long-term purpose were classified as non-current assets and stated at cost less provision. All other investments are stated at fair value with the changes in fair value being dealt with in the income statement. With effect from 1 July 2005, and in accordance with HKAS 39, all investments are carried at fair value with their changes in fair value are recognised in equity except for investments held for trading purposes which are recognised in the income statement.

This change was adopted by increasing the opening balance of the capital reserve as at 1 July 2005 by \$27.6 million. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(ii) *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 and minority interests as at 1 July 2005 by \$11.0 million and \$9.8 million respectively. 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 \$8.1 million.

1. BASIS OF PREPARATION (continued)

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

(iii) *Reclassification of convertible cumulative preference shares of a subsidiary*

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

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 minority interest on the balance sheet. 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 minority interests at 1 July 2005 by \$355.0 million (2004: \$460.6 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 \$37.8 million (2004: \$4.0 million) and the Group's profit after taxation during the current period decreased by \$11.9 million (2004: \$16.6 million), with the corresponding amounts credited to the capital reserve.

1. BASIS OF PREPARATION (continued)

(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 with equity, separately from the equity attributable to the 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 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			Total \$Million
	Retained profits \$Million	Capital and other reserves \$Million	Minority interests \$Million	
At 1 July 2005				
Prior period adjustment				
HKAS 32	—	—	(355.0)	(355.0)
HKFRS 2	(37.8)	37.8	—	—
	(37.8)	37.8	(355.0)	(355.0)
Opening adjustment				
HKAS 39	(11.0)	27.6	(9.8)	6.8
HKFRS 3	1,480.0	(1,480.0)	—	—
Total increase/(decrease) in equity	1,431.2	(1,414.6)	(364.8)	(348.2)
At 1 July 2004				
Prior period adjustment				
HKAS 32	—	—	(460.6)	(460.6)
HKFRS 2	(4.0)	4.0	—	—
Total increase/(decrease) in equity	(4.0)	4.0	(460.6)	(460.6)

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

	2005 \$Million
HKAS 39	8.1
HKFRS 2	(11.9)
Total effect for the period	(3.8)

2. TURNOVER AND SEGMENT INFORMATION

	Segment revenue		Segment results	
	2005	2004	2005	2004
	\$Million	\$Million	\$Million	\$Million (restated)
(a) Business segment				
Property sales	1,129.4	4,090.3	277.1	1,320.0
Property leasing	1,419.7	1,250.1	1,065.4	933.4
Other operations	2.7	10.6	4.0	12.8
	2,551.8	5,351.0	1,346.5	2,266.2
Other income			212.3	508.0
Administrative expenses			(93.8)	(111.5)
Finance costs			(240.9)	(123.9)
Operating profit			1,224.1	2,538.8
Increase in fair value of investment properties				
– property leasing			1,144.0	—
Share of results of jointly controlled entities				
– Property leasing			46.9	16.2
– Other operations			0.5	1.6
Profit before taxation			2,415.5	2,556.6
(b) Geographical segment				
Group				
Hong Kong	2,011.9	4,872.8	1,012.4	2,017.4
Mainland China	539.9	478.2	334.1	248.8
	2,551.8	5,351.0	1,346.5	2,266.2
Jointly controlled entities				
Hong Kong			47.4	17.8

3. OPERATING PROFIT

	2005 \$Million	2004 \$Million (restated)
Operating profit is arrived at after charging:		
Finance costs		
Interest on borrowings	213.2	104.3
Dividend on convertible cumulative preference shares (Note 1)	12.4	15.2
Other ancillary borrowing costs	18.3	20.2
	243.9	139.7
Total borrowing costs	243.9	139.7
Less: Borrowing costs capitalised	(3.0)	(15.8)
	240.9	123.9
Included in cost of property sales:		
Cost of inventories	691.0	2,501.9
Cost of investment properties	93.6	152.4
Staff costs, including contribution to retirement schemes of \$11.8 million (2004: \$8.2 million)	154.8	134.8
Depreciation	4.6	8.4
and after crediting:		
Deemed profit on placement of a listed subsidiary's shares (Note 2)	—	478.0
Interest income	94.6	30.0
Dividend income on listed investments	1.0	1.0

Notes

- (1) The convertible cumulative preference shares were issued by Hang Lung Properties Limited ("HLP"), the Company's listed subsidiary, 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.
- (2) The deemed profit arose from the placement of 370 million new ordinary shares by HLP in November 2004.

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	104.6	300.3
PRC Income Tax for the period	11.5	—
	116.1	300.3
Deferred taxation		
Origination and reversal of temporary differences	327.9	62.2
	444.0	362.5

5. DIVIDENDS

(a) Dividends attributable to the period

	2005 \$Million	2004 \$Million
Declared after the balance sheet date: 14.5 cents (2004: 14.5 cents) per share	193.1	192.6

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 40 cents (2004: 36 cents) per share	532.7	478.0

6. EARNINGS PER SHARE

- (a) The calculation of basic earnings per share is based on the net profit attributable to shareholders of \$1,091.1 million (2004 restated: \$1,395.9 million) and the weighted average number of 1,330.5 million (2004: 1,327.8 million) shares in issue during the period.
- (b) The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders of \$1,091.1 million (2004 restated: \$1,395.9 million) and the weighted average number of 1,338.6 million (2004: 1,335.6 million) shares after adjusting for the effects of all dilutive potential shares.
- (c) The calculation of basic and diluted earnings per 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 shareholders	1,091.1	1,395.9
Effect of changes in fair value of investment properties	(615.0)	—
Effect of corresponding deferred tax	83.6	—
Adjusted earnings for calculation of basic/diluted earnings per share	559.7	1,395.9

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	1,162.9	438.7
1-3 months	1.7	3.7
Over 3 months	0.9	2.3
	1,165.5	444.7

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	702.1	683.9
Over 3 months	75.9	67.7
	778.0	751.6

10. OTHER LONG TERM LIABILITIES

Other long term liabilities included convertible cumulative preference shares issued by HLP, the particulars are as follows:

<i>Convertible cumulative preference shares of \$7,500 each</i>	Number of shares	\$Million
At 1 July 2005	57,915	355.0
Shares converted into ordinary shares of HLP	(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 of HLP, exercisable at any time from 26 December 1993.

11. SHARE CAPITAL

	Number of shares Million	\$Million
Issued and fully paid <i>Shares of \$1 each</i>		
At 1 July 2005	1,328.1	1,328.1
Issue of shares from exercise of options	3.7	3.7
At 31 December 2005	1,331.8	1,331.8

11. SHARE CAPITAL (continued)

Share Option Scheme

The Company

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

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

	Number of Share Options outstanding on 1 July 2005	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	3,750,000	—	(1,250,000)	2,500,000	24 February 2000	24 February 2001 to 23 February 2010	6.12	15.28
	1,250,000	—	—	1,250,000	1 November 2001	1 November 2002 to 31 October 2011	5.87	—
	10,866,000	—	(1,388,000)	9,478,000	20 May 2004	20 May 2005 to 19 May 2014	9.45	15.06
Employees	2,390,000	—	(700,000)	1,690,000	24 February 2000	24 February 2001 to 23 February 2010	6.12	15.28
	100,000	—	(100,000)	—	1 December 2000	30 November 2001 to 29 November 2010	5.49	14.85
	75,000	—	(30,000)	45,000	10 July 2001	10 July 2002 to 9 July 2011	6.87	14.90
	120,000	—	—	120,000	7 December 2001	7 December 2002 to 6 December 2011	6.83	—
	500,000	—	—	500,000	12 May 2004	12 May 2005 to 11 May 2014	10.17	—
	3,058,000	—	(223,000)	2,835,000	20 May 2004	20 May 2005 to 19 May 2014	9.45	15.06
	—	77,000	—	77,000	1 November 2005	1 November 2006 to 31 October 2015	14.70	—
Total	22,109,000	77,000	(3,691,000)	18,495,000				

11. SHARE CAPITAL (continued)

Hang Lung Properties Limited ("HLP")

At 31 December 2005, the directors and employees of HLP, the Company's subsidiary had the following interests in Share Options of HLP granted at nominal consideration under the Share Option Scheme of HLP. Each Share Option gives the holder the right to subscribe for one ordinary share.

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 two directors of HLP promoted during the period.

12. CAPITAL AND RESERVES

Shareholders' equity

	Share of post-acquisition capital reserve of jointly controlled entities	Capital reserve on consolidation	Share premium	Share capital	Capital redemption reserve	Investment revaluation reserve	Other capital reserve	General reserve	Employee share-based compensation reserve	Retained profits	Total equity	Total equity
	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million
At 1 July 2005	1,328.1	1,058.4	2,197.3	16.5	26.1	—	421.6	275.0	—	17,515.6	22,838.6	44,321.1
- as previously reported - prior period	—	—	—	—	—	—	—	—	—	—	—	—
adjustments on HKAS 32	—	—	—	—	—	—	—	—	—	—	—	(355.0)
HKFRS 2	—	—	—	—	—	—	—	—	37.8	(37.8)	—	—
- as restated - opening adjustment	1,328.1	1,058.4	2,197.3	16.5	26.1	—	421.6	275.0	37.8	17,477.8	22,838.6	43,966.1
HKAS 39	—	—	—	—	—	27.6	—	—	—	(11.0)	16.6	6.8
HKFRS 3	—	(1,058.4)	—	—	—	—	(421.6)	—	—	1,480.0	—	—
Issue of shares	1,328.1	—	2,197.3	16.5	26.1	27.6	—	275.0	37.8	18,946.8	22,855.2	43,972.9
Decrease in fair value of listed investment	3.7	—	24.2	—	—	—	—	—	—	—	27.9	27.9
Employee share option benefits	—	—	—	—	—	(1.0)	—	—	—	—	(1.0)	(1.0)
Change of shareholding in subsidiary	—	—	3.6	—	—	—	—	—	4.6	—	8.2	17.4
Net profit for the period	—	—	—	—	—	—	—	—	—	—	—	(1,043.1)
Dividend paid	—	—	—	—	—	—	—	—	—	1,091.1	1,091.1	880.4
Repayment to minority shareholders	—	—	—	—	—	—	—	—	—	(532.7)	(532.7)	(616.0)
	—	—	—	—	—	—	—	—	—	—	—	(27.4)
At 31 December 2005	1,331.8	—	2,225.1	16.5	26.1	26.6	—	275.0	42.4	19,505.2	23,448.7	20,320.8
												43,769.5

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	6,506.2	7,267.6
Less: Bank deposits with maturity greater than three months	(3,352.7)	—
Cash and cash equivalents in the consolidated cash flow statement	3,153.5	7,267.6

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 for subsidiaries	3,444.2	2,303.2

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	1,299.6	764.0
Authorised but not contracted for	4,033.7	2,931.2
	5,333.3	3,695.2

16. RELATED PARTY TRANSACTIONS

The Group has a 20% interest in a jointly controlled entity which participated in the development of Package One of the MTRC Tung Chung Station Development Project. At 31 December 2005, the Group advanced to this jointly controlled entity a total of \$1,015.3 million (30/6/2005: \$1,015.3 million). All advances are interest-free, unsecured and have no fixed settlement dates.

17. REVIEW OF INTERIM FINANCIAL STATEMENTS

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

FINANCIAL BRIEFS & CALENDAR

Financial Briefs as at 31 December 2005	HK\$ Million
Turnover	2,551.8
Net profit attributable to shareholders	1,091.1
Total assets	63,356.9
Shareholders' equity	23,448.7
Per share data	
Earnings – Basic	82.0¢
– Diluted	81.5¢
Interim dividend	14.5¢
Net assets (including minority interests)	\$32.9
Shareholders' equity	\$17.6
Gearing ratio*	14%
Pay-out ratio	18%
Number of shares outstanding (in million)	1,331.8

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 share register	29 March to 31 March 2006 (both days inclusive)
Record date for interim dividend	31 March 2006
Interim 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.