

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current and/or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

Potential impact arising from the recently issued Accounting Standards

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for accounting periods beginning on or after 1 January 2007.

² Effective for accounting periods beginning on or after 1 March 2006.

³ Effective for accounting periods beginning on or after 1 May 2006.

⁴ Effective for accounting periods beginning on or after 1 June 2006.

3. TURNOVER

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Turnover comprises:		
Gross rental income from properties	620,034	612,452
Management fee and security service income	205	202
	620,239	612,654

Income from property sales of HK\$800,000 and the corresponding cost of property sales of HK\$600,000 for the six months ended 30 June 2005 have been reclassified as fair value changes on investment properties.

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

4. FINANCE COSTS

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Interest on		
– bank loans, overdrafts and other loans:		
wholly repayable within five years	19,824	17,391
not repayable within five years	–	13,714
– floating rate notes	12,709	5,009
– fixed rate notes	54,360	54,417
	86,893	90,531
Net interest (received) paid on derivative financial instruments (Note):		
– due within five years	(10,129)	11,238
– due after five years	(6,117)	(22,251)
	70,647	79,518
Amortisation of discount on zero coupon notes	5,370	4,080
Bank charges	3,640	3,707
Others	2,078	3,373
	81,735	90,678

Note: Fair value changes excluded accrued interest in derivative financial instruments for the period.

5. TAXATION

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Current tax	40,456	38,615
Deferred tax (Note 14)		
– Changes in fair value of investment properties	197,243	489,794
– Other temporary differences	8,448	(26,180)
	205,691	463,614
	246,147	502,229

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs	68,104	60,553
Retirement benefits scheme contributions	2,581	2,561
Forfeited contributions	(1,573)	(1,885)
	69,112	61,229
Depreciation of property, plant and equipment	3,345	3,489
Gross rental income from investment properties	(620,034)	(612,452)
Less: Direct operating expenses that generated rental income	108,953	105,659
Direct operating expenses that did not generate rental income	2,052	746
	(509,029)	(506,047)
Dividends from listed available-for-sale investments	(19,201)	(18,861)
Interest income	(10,123)	(1,126)
Recovery of a loan to an associate	(87,043)	–
Share of tax of an associate (included in share of results of associates)	27,947	10,573
Write off property, plant and equipment	463	3

7. DIVIDENDS

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Interim dividend – HK10 cents per share (2005: HK10 cents)	105,461	105,224
Additional prior year's dividend paid on exercise of share option subsequent to 31 December 2005	45	–
	105,506	105,224

During the period, a dividend of HK35 cents (2004: HK30 cents) per share, which included scrip dividend alternatives offered to shareholders, was paid to shareholders as the final dividend for 2005. The scrip dividend alternatives were accepted by the shareholders as follows:

	HK\$'000
Dividends:	
Cash	340,330
Share alternative	28,311
	<u>368,641</u>

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	1,519,389	2,562,160
	1,053,472	1,050,228
Effect of dilutive potential ordinary shares:		
Share options	863	556
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,054,335	1,050,784

8. EARNINGS PER SHARE *continued*

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the average market price per share.

For the purpose of assessing the underlying performance of the Group, the management is of the view that the profit for the period should be adjusted for fair value changes on investment properties and related deferred taxation in arriving at "Underlying profit attributable to equity holders of the parent". Net realised gain on disposal of available-for-sale investments and recovery of a loan to an associate should also be adjusted in arriving at "Profit excluding asset value changes attributable to the equity holders of the parent". The difference between the underlying profit, profit excluding asset value changes and profit attributable to equity holders of the parent as shown in the condensed consolidated income statement for the period is reconciled as follows:

	Six months ended 30.6.2006 HK\$'000	Earnings per share (Basic) HK cents
Profit attributable to equity holders of the parent as shown in the condensed consolidated income statement	1,519,389	144.23
Gains arising from fair value changes of investment properties	(1,130,365)	
Increase in deferred taxation in relation to fair value gains of investment properties	197,243	
Gain arising from fair value changes of investment properties net of related deferred taxation attributable to minority interests	62,472	
Gain arising from fair value changes of investment properties net of related deferred taxation from an associate	(29,156)	
Underlying profit attributable to equity holders of the parent	619,583	58.81
Recovery of a loan to an associate	(87,043)	
Net realised gain on disposal of available-for-sale investments	(104,276)	
Profit excluding asset value changes attributable to equity holders of the parent	428,264	40.65
	Six months ended 30.6.2005 HK\$'000	Earnings per share (Basic) HK cents
Profit attributable to equity holders of the parent as shown in the condensed consolidated income statement	2,562,160	243.96
Gains arising from fair value changes of investment properties	(2,799,189)	
Increase in deferred taxation in relation to fair value gains of investment properties	453,394	
Gain arising from fair value changes of investment properties net of related deferred taxation attributable to minority interests	148,345	
Underlying profit attributable to equity holders of the parent	364,710	34.73

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group's buildings in Hong Kong under long lease were revalued at 30 June 2006 by an in-house professional valuer, on market value basis. The valuation has been reviewed and endorsed by Knight Frank Petty Limited, an independent professional valuer. The resulting revaluation surplus of HK\$2,284,000 has been credited to the asset revaluation reserve for the period.

10. INVESTMENT PROPERTIES

	30.6.2006
	HK\$'000
FAIR VALUE	
At 1 January 2006	29,815,430
Additions	27,583
Adjustment resulted from cost variation	(1,048)
Disposals	(300)
Fair value changes	1,130,365
At 30 June 2006	30,972,030

The carrying amount of investment properties:

	30.6.2006
	HK\$'000
Leasehold land in Hong Kong	
– Medium term lease	5,582,000
– Long lease	25,390,030
	30,972,030

The investment properties of the Group were revalued at 30 June 2006 by an in-house professional valuer, on market value basis. The valuation has been reviewed and endorsed by Knight Frank Petty Limited, an independent professional valuer. The surplus arising on revaluation of HK\$1,130,365,000 has been credited to income statement for the period.

The Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

11. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND DEPOSITS

Accounts receivable are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 30 June 2006 were less than 90 days old.

The fair value of the Group's accounts receivable, other receivables and deposits at 30 June 2006 was approximate to the corresponding carrying amounts.

12. ACCOUNTS PAYABLE AND ACCRUALS

All of the accounts payables and accruals of the Group as at 30 June 2006 were less than 90 days old.

The fair value of the Group's accounts payable and accruals at 30 June 2006 was approximate to the corresponding carrying amounts.

13. LONG TERM BANK LOANS

	30.6.2006
	HK\$'000
Bank loans, unsecured	720,000
The bank loans are repayable as follows:	
More than two years, but not exceeding five years	720,000
More than five years	–
Amounts due after one year shown under non-current liabilities	720,000

During the six months ended 30 June 2006, the Group has repaid bank loans of approximately HK\$1,336,500,000.

The fair value of the Group's bank loans was approximate to the corresponding carrying amounts.

14. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the period:

Deferred tax liabilities

	30.6.2006			
	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2006	223,949	2,657,520	(2,018)	2,879,451
Charge to income for the period (Note 5)	8,022	197,243	426	205,691
Charge to equity for the period	–	400	–	400
At 30 June 2006	231,971	2,855,163	(1,592)	3,085,542

At 30 June 2006, the Group has unused estimated tax losses of HK\$515 million available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$9 million of such losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of HK\$506 million as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

15. SHARE-BASED PAYMENT TRANSACTIONS

The Company has granted options under two executive share option schemes. The purpose of both schemes was to strengthen the link between individual staff and shareholder interests. The power of grant to executive Directors is vested in the Emoluments Review Committee and endorsed by all Independent non-executive Directors as required under the Listing Rules. As approved by the Board, either the Chairman or the Managing Director may make grants to management staff below executive Director level.

The 1995 Share Option Scheme (“the 1995 Scheme”)

The 1995 Scheme was approved by shareholders on 28 April 1995 and had a term of 10 years. It expired on 28 April 2005. All outstanding options granted under the 1995 Scheme will continue to be valid and exercisable in accordance with the provisions of the 1995 Scheme.

The 2005 Share Option Scheme (“the 2005 Scheme”)

The Company adopted the 2005 Scheme (together with the 1995 Scheme are referred to as “the Schemes”) at the Annual General Meeting of the Company held on 10 May 2005, which has a term of 10 years and will expire on 9 May 2015.

15. SHARE-BASED PAYMENT TRANSACTIONS *continued*

During the review period, a total of 659,000 share options were granted under the 2005 Scheme.

As at 30 June 2006, an aggregate of 2,881,333 share options granted under the Schemes remained outstanding, representing approximately 0.27% of the issued share capital of the Company.

Details of options granted and outstanding under the Schemes during the review period are as follows:

Name	Balance as at 1.1.06	Date of grant	Changes During the Period			Balance as at 30.6.06	Exercise Price HK\$	Exercise period
			Granted	Cancelled/ Lapsed	Exercised			
1995 Scheme								
Executive Director								
Peter Ting Chang Lee (Note 1)	1,350,000	7.1.1999	Nil	Nil	Nil	1,350,000	9.22	7.1.2001 – 6.1.2009
Eligible employees								
(Note 2)	535,000	30.3.2005	Nil	5,400 (Note 4)	128,267 (Note 5)	401,333	15.85	30.3.2005 – 29.3.2015
2005 Scheme								
Executive Director								
Michael Tze Hau Lee (Note 3)	240,000	10.5.2005	Nil	Nil	Nil	240,000	16.60	10.5.2005 – 9.5.2015
	Nil	30.3.2006	188,000	Nil	Nil	188,000	22.00 (Note 6)	30.3.2006 – 29.3.2016
Eligible employees								
(Note 2)	144,000	9.8.2005	Nil	Nil	Nil	144,000	18.79	9.8.2005 – 8.8.2015
	120,000	12.10.2005	Nil	Nil	Nil	120,000	18.21	12.10.2005 – 11.10.2015
	Nil	30.3.2006	361,000	33,000 (Note 4)	Nil	328,000	22.00 (Note 6)	30.3.2006 – 29.3.2016
	Nil	26.6.2006	110,000	Nil	Nil	110,000	20.11 (Note 7)	26.6.2006 – 25.6.2016
	<u>2,389,000</u>		<u>659,000</u>	<u>38,400</u>	<u>128,267</u>	<u>2,881,333</u>		

15. SHARE-BASED PAYMENT TRANSACTIONS *continued*

Notes:

1. Options granted to Peter T. C. Lee were under the 1995 Scheme with a holding period of 2 years and a vesting period of 5 years.
2. Eligible Employees are working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance. The options granted under the Schemes have vesting periods of 3 years in equal proportions.
3. Options granted to Michael T. H. Lee were under the 2005 Scheme with a vesting period of 3 years in equal proportions.
4. These options lapsed during the period upon the resignation of certain Eligible Employees.
5. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$22.09.
6. The closing price of the shares of the Company immediately before the date of grant (as of 29 March 2006) was HK\$22.45.
7. The closing price of the shares of the Company immediately before the date of grant (as of 23 June 2006) was HK\$20.25.

Apart from the above, the Company had not granted any share option under the Schemes to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Value of share options

The value of the share options granted during the period is as follows to be expensed through the Group’s income statement over the three-year vesting period of the options:

The Company has used the Black-Scholes option pricing model (the “Model”) to value the share options granted during the review period. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

15. SHARE-BASED PAYMENT TRANSACTIONS *continued*

Value of share options *continued*

Details of the fair values of share options determined at the date of grant using the Model with significant variables and assumptions are as follows:

	Date of Grant	
	30.3.2006	26.6.2006
Closing share price at the date of grant	HK\$22.00	HK\$20.00
Risk free rate (Note 1)	4.539%	4.915%
Expected life of option (Note 2)	10 years (till 29 March 2016)	10 years (till 25 June 2016)
Expected volatility (Note 3)	27.04%	32.00%
Expected dividend per annum (Note 4)	HK\$0.390	HK\$0.392
Estimated fair values of options granted	HK\$4,271,220	HK\$859,247

Notes:

1. Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
2. Expected life of option: being the period of 10 years commencing on the date of grant, adjusted based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
3. Expected volatility: being the approximate historical volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
4. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

16. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital commitments in respect of the following:

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
Investment properties:		
Contracted but not provided for	51,279	69,000

17. RELATED PARTY TRANSACTIONS AND BALANCES

A. Related Party Transactions

During the period, the Group has the following transactions with related parties:

	Notes	Substantial shareholder		Directors	
		Six months ended 30.6.2006 HK\$'000	30.6.2005 HK\$'000	Six months ended 30.6.2006 HK\$'000	30.6.2005 HK\$'000
Expenses paid to	(a)	–	–	85	15
Gross rental income	(b)	2,962	2,246	16,353	10,611
Construction cost for investment properties	(c)	–	–	–	8,824

At the balance sheet date, the Group has the following balances with related parties:

	Notes	Directors	
		30.6.2006 HK\$'000	31.12.2005 HK\$'000
Expenses payable to	(a)	–	48
Construction cost payable to	(c)	1,554	1,554
Amount due to a minority shareholder	(d)	94,443	94,443

Notes:

- (a) These transactions were provision of goods and services carried out in the normal course of business.
- (b) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying periods. The leases were entered into in the normal course of business and the rentals were determined with reference to market rates.

17. RELATED PARTY TRANSACTIONS AND BALANCES *continued*

A. Related Party Transactions *continued*

- (c) Dr. Geoffrey M.T. Yeh, the Company's Independent non-executive Director, (and his alternate, V-nee Yeh) are substantial shareholders and V-nee Yeh is also the Chairman of Hsin Chong Construction Group Ltd. whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited ("Hsin Chong Asia"), entered into a main contract with a subsidiary of the Company relating to the renovation project of Lee Gardens Two. Such transaction was entered into on normal commercial terms and on arm's length basis.

The sum represented the sum paid to, or as the case may be, outstanding balances due under the main contract with Hsin Chong Asia. To the best of the Company's knowledge having made due enquiries, substantially the whole of such contracts were sub-contracted by Hsin Chong Asia to other sub-contractors. The contract sum is not the indicative of the amount actually derived by Hsin Chong Asia under the relevant contract, in which the amount is substantially less than the relevant contract sum.

- (d) The sum represents outstanding loan advanced by Jebsen and Company Limited to a non wholly-owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. The amount is unsecured, interest free and is repayable on demand. At 31 December 2005, the amount was not repayable within one year. Hans Michael Jebsen, the Company's non-executive Director, is a director and shareholder of Jebsen and Company Limited.

B. Key Management Personnel Compensation

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	11,879	8,123
Retirement benefits costs	141	128
Employee share option benefits	1,251	350
	13,271	8,601

The remuneration of directors and key executives is determined by the Emoluments Review Committee and Managing Director respectively having regard to the performance of individuals and market trends.