



恒隆集團有限公司

HANG LUNG GROUP LIMITED

Interim Report 2006-2007

Stock Code: 10

## DIRECTORS

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

# *Non-Executive Director*

\* *Independent Non-Executive Director*

## AUDIT COMMITTEE

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

## AUTHORISED REPRESENTATIVES

Terry S. Ng  
Velencia Lee

## QUALIFIED ACCOUNTANT

Estella Y.K. Ng

## COMPANY SECRETARY

Velencia Lee

## REGISTERED OFFICE

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Tel : 2879 0111  
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## INTERNET ADDRESS

Website : <http://www.hanglunggroup.com>

## RESULTS & DIVIDENDS

Turnover for the six months under review was \$2,146.6 million or a fall of 14.5% from the same period of a year ago. Net profit attributable to shareholders however rose by 110.4% to \$2,295.4 million. It includes a non-cash item of deemed profit of \$879.4 million on placement of Hang Lung Properties (HLP) shares. (HLP is the major subsidiary of your Company.) When excluding revaluation gain and its deferred tax, underlying net profit increased by 145.7% to \$1,375.2 million while earnings per share was 145.1% higher at 103.2 cents.

An interim dividend of 14.5 cents was declared by your board and will be paid on 20 April 2007 to shareholders on record on 4 April 2007.

## OPERATIONS REVIEW

We started the fiscal year in a most auspicious manner. Three new mainland projects which HLP had worked on for some time all took a big step forward. So far we have successfully completed land acquisition for two of them—the 9.2 hectare Doumugong site in Shenyang and a 3.7 hectare piece in Wuxi, Jiangsu Province. Both developments will have a world-class shopping mall with high-rise offices and a five-star hotel. The third project located in Changsha, Hunan Province will have a similar profile. The plot measures approximately 7 hectares.

Back in Hong Kong, residential sales were very slow particularly in the mass market. Fortunately we do not play in that space. In 2006, less than 14,000 new units were transacted in all of Hong Kong. This figure was 13% less than in 2005 and it was the lowest for over a decade. Total dollar amount involved fell 38% from the year before. The implication was clear: developers like us with higher quality products held back from selling or could not sell them. In our case, it was definitely the former. The extraordinarily high unit price of a recent government land transaction for luxury housing probably broke a world record. That validates our decision not to sell cheaply completed upscale apartments.

Our investment portfolios in Hong Kong and in Shanghai both traded well. Assets owned directly by your Company (i.e. not owned through HLP) performed especially superbly. In particular, we were helped by the addition of the second residential block and the serviced apartments at The Grand Gateway. They were both completed in 2006 and are now fully contributing. Since the first residential tower was taken out of the market for refurbishment, we expect an increase to the bottom line once it is back in service towards the end of the third quarter.

A few days ago, the Court of Final Appeal ruled against us in the lawsuit relating to the 1996 sale of the hotel called The Bay Bridge. This seemed incredible to us after having won twice in the lower courts. We do not agree with the rationale of the ruling and believe that it will have serious ramifications for all developers in future sales of new properties. Given the existing judicial system, that ruling is final and though we are bitterly disappointed by it, we have no choice but to accept it.

In essence the ruling meant that we did not sell the hotel as we thought we had done. We will be required to return the deposit of about HK\$321 million with interest. The real loss to us is the legal fees incurred by both parties. Compared to the size of our company and given our financial strength, it is not that significant.

## PROSPECTS

The small legal hitch notwithstanding, your management team has been invigorated. We are excited by the recent successes of our major subsidiary HLP in the execution of our China strategy, namely, the purchase of superior pieces of land in economically vibrant cities. As described earlier, our efforts this past year have born fruit in Shenyang (Liaoning Province), Wuxi (Jiangsu Province) and likely very soon, Jinan (Shandong Province). Several other metropolises are in the pipeline and I expect more acquisitions within 2007.

Management is also encouraged that many global institutional investors support our strategy. We are perhaps the only major real estate company anywhere which has a carefully conceived and well-articulated mainland China strategy. We have skillfully executed two very large Shanghai projects—Plaza 66 and The Grand Gateway—which are aesthetical pleasing and financially rewarding. We have built “Hang Lung” into a brand name on the mainland and have trained a superb management team which is highly motivated. Barring unforeseen circumstances, our future should be bright.

Back in our home base of Hong Kong, there are two main tasks at hand: improving our sizable investment portfolio and selling completed residential units through Hang Lung Properties to maximize profit. For the former, the consumer market is strong so retail rents are rising. Offices are also leasing well. The latter may be challenging if not for the fact that all of our completed apartments are well located, in-town and high-end products which trade much better than mass market units. For example, we do not have one project in the New Territories. There are signs that the market segment we are in may rise but we do not know when. We can only exercise patience—a necessary virtue for this business and of which we are not short. I expect it to once again serve us well.

**Ronnie C. Chan**

*Chairman*

Hong Kong, February 8, 2007

## OVERVIEW

Net profit attributable to Hang Lung Group shareholders increased by 110% to HK\$2,295.4 million during the six months ended 31 December 2006. The increase was attributable to the strong growth in property leasing in both Hong Kong and Shanghai, the increase in value of the Group's investment properties, and a non-cash item of deemed profit of HK\$879.4 million from the placement of shares of Hang Lung Properties Limited, a listed subsidiary. The Group's Shanghai rental business remained strong, with rental profit increasing remarkably by 35% to HK\$408.0 million. Hong Kong rental also saw a satisfactory growth with profits increasing by 12% to HK\$857.2 million. A gain of HK\$2,418.5 million on the revaluation of investment properties was recognized during the period, contributed mainly by the newly completed Office Tower II of Plaza 66. The Group's turnover for the period amounted to HK\$2,146.6 million, a decrease of 15%, due mainly to the decrease in property sales.

The Board of Directors has declared an interim dividend of 14.5 cents per share to be paid on 20 April 2007 to shareholders registered as of 4 April 2007, which is the same amount of interim payout as the previous period. The Register of Members will be closed from 2 April 2007 to 4 April 2007, 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 30 March 2007.

## PROPERTY LEASING

The Group's property leasing activities remained firm. Rental turnover and profit during the first half of this financial year increased by 17% to HK\$1,616.1 million and 18% to HK\$1,265.2 million, respectively. Robust growth in our Shanghai rental portfolio, along with the positive performance of the Hong Kong properties, led to the favorable result for the period.

## Hong Kong

Rental income and profits for our Hong Kong properties recorded a 10% growth to HK\$1,067.6 million and 12% growth to HK\$857.2 million, respectively. Our offices especially benefited from the improving Hong Kong economy and increasing rental demand, recording close to a 20% increase in terms of rental revenue.

## Shanghai

Our Shanghai rental properties continued their strong growth, with a 32% increase in rental income to HK\$548.5 million and an increase in profit by 35% to HK\$408.0 million. The increase was partly due to additional rental income from the Serviced Apartment Tower and Residential Tower II of The Grand Gateway following the commencement of leasing activities in March 2006 and November 2006 respectively. Buoyed by the strong economic growth in Shanghai, rental reversion in our properties has been satisfactory. With the new Office Tower II of Plaza 66 joining our Shanghai portfolio at the end of December 2006, our leasing business should enjoy further enhancement.

## PROPERTY SALES

### Hong Kong

During the period, about 170 residential units of the AquaMarine, located in West Kowloon, were sold at an average price of HK\$4,400 per square foot.

## PROPERTY DEVELOPMENT

### Shenyang

The Group acquired another prime lot of land of roughly 92,000 square metres in the Shenhe district of Shenyang City, for approximately RMB895 million in August 2006. The site is planned for development into a grand scale multi-complex project with gross floor area of about 920,000 square metres. Total investment is expected to be RMB8 billion.

## Wuxi

In December 2006, we acquired a prime lot in Wuxi City to develop a large scale multi-complex project with gross floor area of about 243,000 square metres. Total investment is expected to be RMB3.5 billion.

## FINANCE

In November 2006, the Company's listed subsidiary, Hang Lung Properties Limited, placed 410 million new shares at HK\$16.3 per share to institutional investors, raising approximately HK\$6.7 billion.

Upon the placement of Hang Lung Properties Limited shares, the Group's consolidated net bank borrowings (after deducting cash and bank deposits) was reduced from HK\$5,597.6 million at 30 June 2006 to HK\$1,563.8 million at 31 December 2006. The Group's cash position continues to be very strong, with a low gearing ratio of 6%.

## OTHERS

On 5 February 2007, the Court of Final Appeal ruled in favor of Sino Land Company Limited in respect of the litigation relating to the sale of a hotel known as "The Bay Bridge" in Yau Kom Tau, Tsuen Wan. The Directors believe that the judgment will not have a material financial impact to the Group.

## OUTLOOK

The Group will continue pursuing its strategy of expanding aggressively in mainland China, where we see ample room for sustained growth in retail property. Our proven experience, management expertise and long-term vision together with our strengthened financial position put us in a strong position to take advantage of such opportunities in mainland China as well as in Hong Kong.

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 continued steady growth in our leasing business with a strong performance from our Shanghai rental properties.



We are committed to maintaining a high standard of corporate governance. During the six months period ended 31 December 2006, the principles of corporate governance adopted by us were in line with the corporate governance report set out in our corporate website which included, inter alia, Directors, Remuneration of Directors and Senior Management, Accountability and Audit, Delegation by the Board, Communication with Shareholders, and Code of Conduct for our employees.

### **BOARD COMPOSITION**

Currently, our Board comprises nine persons, consisting of three Executive Directors, one Non-Executive Director and five Independent Non-Executive Directors. Our 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. An updated list of our Board members showing their biographical details is maintained on our website under Profile of Directors.

### **NOMINATION AND REMUNERATION COMMITTEE**

Our Nomination and Remuneration Committee, which is chaired by an Independent Non-Executive Director, currently comprises four Independent Non-Executive Directors. The members have met on a regular basis to review human resource issues, including significant Group-wide changes in salary structure and terms and conditions affecting Directors and senior management. They also review the board structure and composition regularly, and make recommendations to the Board regarding any proposed changes, appointment or re-appointment of Directors, and succession planning for Directors. Full terms of reference are accessible to all via our website.

## AUDIT COMMITTEE

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently comprises four Independent Non-Executive Directors. It meets at least twice 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. Full terms of reference are available on our website. The Committee has reviewed this interim report, including the unaudited interim financial statements for the six months ended 31 December 2006 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 2006, we have complied with the code provisions set out in the Code on Corporate Governance Practices as stated in Appendix 14 of the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited.

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

We have 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 we have 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 2006, the Directors and their associates had the following interests in the shares and underlying shares of the Company and its associated corporation 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	% of Issued Capital	No. of Shares	Interests in Shares	% of Issued Capital	No. of Shares
Ronnie C. Chan	Personal	—	—	11,790,000	—	—	7,090,000
S.S. Yin	—	—	—	—	—	—	—
Nelson W.L. Yuen	Personal	—	—	8,000,000	—	—	12,926,000
Gerald L. Chan	—	—	—	—	—	—	—
H.K. Cheng	—	—	—	—	—	—	—
Laura L.Y. Chen	—	—	—	—	—	—	—
Simon S.O. Ip	—	—	—	—	—	—	—
York Liao	—	—	—	—	—	—	—
Terry S. Ng	Personal	—	—	4,338,000	—	—	6,539,000

## 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	20/5/2004	\$9.45	20/5/2005 to 19/5/2014*
	6,700,000	20/11/2006	\$20.52	20/11/2007 to 19/11/2016 <sup>Δ</sup>
Nelson W.L. Yuen	2,500,000	24/2/2000	\$6.12	24/2/2001 to 23/2/2010 <sup>#</sup>
	3,000,000	20/5/2004	\$9.45	20/5/2005 to 19/5/2014*
	2,500,000	20/11/2006	\$20.52	20/11/2007 to 19/11/2016 <sup>Δ</sup>
Terry S. Ng	1,250,000	1/11/2001	\$5.87	1/11/2002 to 31/10/2011 <sup>#</sup>
	1,388,000	20/5/2004	\$9.45	20/5/2005 to 19/5/2014*
	1,700,000	20/11/2006	\$20.52	20/11/2007 to 19/11/2016 <sup>Δ</sup>

\* 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.

<sup>Δ</sup> 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 10% from 20 November 2007, the next 20% from 20 November 2008, the next 30% from 20 November 2009 and the balance 40% from 20 November 2010, all expiring on 19 November 2016.

<sup>#</sup> These share options were granted to the named directors under the Share Option Scheme of the Company, all of which are now exercisable until their respective expiry dates.

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	20/5/2004	\$9.20	20/5/2005 to 19/5/2014 *
	2,000,000	20/11/2006	\$17.14	20/11/2007 to 19/11/2016 #
Nelson W.L. Yuen	7,126,000	20/5/2004	\$9.20	20/5/2005 to 19/5/2014 *
	5,800,000	20/11/2006	\$17.14	20/11/2007 to 19/11/2016 #
Terry S. Ng	3,239,000	20/5/2004	\$9.20	20/5/2005 to 19/5/2014 *
	3,300,000	20/11/2006	\$17.14	20/11/2007 to 19/11/2016 #

\* These share options were granted to the named directors under the Share Option Scheme of Hang Lung Properties Limited ("HLP"), 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 HLP, exercisable in 4 tranches, i.e. the first 10% from 20 November 2007, the next 20% from 20 November 2008, the next 30% from 20 November 2009 and the balance 40% from 20 November 2010, all expiring on 19 November 2016.

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 spouses 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 2006, 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	Note	% of Issued Capital
Chan Tan Ching Fen	493,463,580	1	37.03
Cole Limited	493,463,580	1	37.03
Cole Enterprises Holdings Limited	493,463,580	1	37.03
Rosenior Limited	493,463,580	1	37.03
Merssion Limited	493,463,580	1	37.03
Kingswick Investment Limited	93,000,000	2	6.98
Commonwealth Bank of Australia	66,586,000	—	5.00

#### 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 2006 (Unaudited)

(Expressed in Hong Kong dollars)

	Note	2006 \$Million	2005 \$Million
Turnover	2	2,146.6	2,511.0
Other income	3(a)	1,051.0	212.3
Direct costs and operating expenses		(772.2)	(1,134.1)
Administrative expenses		(167.3)	(124.2)
Operating profit		2,258.1	1,465.0
Increase in fair value of investment properties	7	2,418.5	1,144.0
Finance costs	3	4,676.6 (264.4)	2,609.0 (240.9)
Share of profits of jointly controlled entities		48.3	47.4
Profit before taxation	2(a) & 3	4,460.5	2,415.5
Taxation	4	(847.8)	(444.0)
Profit for the period		3,612.7	1,971.5
Attributable to:			
Shareholders		2,295.4	1,091.1
Minority interests		1,317.3	880.4
		3,612.7	1,971.5
Interim dividend at 14.5¢ (2005: 14.5¢) per share	5(a)	193.2	193.1
Earnings per share	6(a)		
Basic		172.3¢	82.0¢
Diluted		171.2¢	81.5¢
Earnings per share excluding changes in fair value of investment properties net of deferred tax	6(b)		
Basic		103.2¢	42.1¢
Diluted		102.6¢	41.8¢

The annexed notes form part of the interim financial statements.

# CONSOLIDATED BALANCE SHEET

At 31 December 2006 (Unaudited)

(Expressed in Hong Kong dollars)

	Note	31/12/2006 \$Million	30/6/2006 \$Million
<b>Non-current assets</b>			
Fixed assets			
Investment properties	7	48,389.4	43,753.3
Other fixed assets		3,228.7	3,247.2
		51,618.1	47,000.5
Interest in jointly controlled entities		1,330.7	1,307.4
Loans and investments		144.4	171.6
Deferred tax assets		77.3	77.3
		53,170.5	48,556.8
<b>Current assets</b>			
Inventories		10,026.4	10,214.5
Trade and other receivables	8	1,650.2	1,547.7
Cash and deposits with banks		6,606.0	6,189.4
		18,282.6	17,951.6
<b>Current liabilities</b>			
Trade and other payables	9	2,261.4	1,981.0
Taxation		136.5	383.9
		2,397.9	2,364.9
<b>Net current assets</b>		<b>15,884.7</b>	<b>15,586.7</b>
<b>Total assets less current liabilities</b>		<b>69,055.2</b>	<b>64,143.5</b>



	Note	31/12/2006 \$Million	30/6/2006 \$Million
<b>Non-current liabilities</b>			
Bank loans		8,169.8	11,787.0
Floating rate notes due 2009		1,500.0	1,500.0
Other long term liabilities		531.2	570.7
Deferred tax liabilities		4,674.9	3,959.5
		<b>14,875.9</b>	<b>17,817.2</b>
<b>NET ASSETS</b>		<b>54,179.3</b>	<b>46,326.3</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	10	1,332.6	1,332.4
Reserves		25,456.8	23,680.7
Shareholders' equity		26,789.4	25,013.1
Minority interests		27,389.9	21,313.2
<b>TOTAL EQUITY</b>	11	<b>54,179.3</b>	<b>46,326.3</b>

The annexed notes form part of the interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2006 (Unaudited)

(Expressed in Hong Kong dollars)

	Note	2006 \$Million	2005 \$Million
Total equity at 1 July			
Shareholders' equity		25,013.1	22,845.4
Minority interests		21,313.2	21,127.5
		46,326.3	43,972.9
Issue of shares		1.5	27.9
Increase/(Decrease) in fair value of listed investments		13.6	(1.0)
Investment revaluation reserve realised on disposal of listed investments		(14.2)	—
Net profit for the period		3,612.7	1,971.5
Employee share-based payment expenses	10	14.2	17.4
Exchange difference on translation of subsidiaries		40.6	—
Final dividend in respect of previous year		(546.4)	(532.7)
Change in minority interests in a subsidiary		5,386.6	(1,043.1)
Dividend paid to minority shareholders		(620.8)	(616.0)
Repayment to minority shareholders		(34.8)	(27.4)

	2006 \$Million	2005 \$Million
Total equity at 31 December	54,179.3	43,769.5
Attributable to:		
Shareholders	26,789.4	23,448.7
Minority interests	27,389.9	20,320.8
	54,179.3	43,769.5

The annexed notes form part of the interim financial statements.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2006 (Unaudited)

(Expressed in Hong Kong dollars)

	Note	2006 \$Million	2005 \$Million
Operating profit before changes in working capital		1,267.2	1,266.1
Decrease in inventories		127.0	552.2
Other changes in working capital		(36.0)	(788.7)
Cash generated from operations		1,358.2	1,029.6
Profits tax paid		(379.7)	(423.9)
Net cash generated from operating activities		978.5	605.7
Net cash used in investing activities		(1,598.8)	(4,351.0)
Net cash generated from financing activities		1,036.9	3,864.5
Increase in cash and cash equivalents		416.6	119.2
Cash and cash equivalents at 1 July		5,489.9	3,034.3
Cash and cash equivalents at 31 December	12	5,906.5	3,153.5

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 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants 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 accounting policies and methods of computation used in the interim financial statements are consistent with those applied in the financial statements for the year ended 30 June 2006.

## 2. TURNOVER AND SEGMENT INFORMATION

	Segment revenue		Segment results	
	2006 \$Million	2005 \$Million	2006 \$Million	2005 \$Million
(a) Business segment				
Property leasing	1,616.1	1,381.6	1,265.2	1,069.4
Property sales	530.5	1,129.4	109.2	307.5
	<b>2,146.6</b>	<b>2,511.0</b>	<b>1,374.4</b>	<b>1,376.9</b>
Other income			1,051.0	212.3
Administrative expenses			(167.3)	(124.2)
Operating profit			2,258.1	1,465.0
Increase in fair value of investment properties				
— property leasing			2,418.5	1,144.0
Finance costs			(264.4)	(240.9)
Share of profits of jointly controlled entities				
— property leasing			48.3	47.4
Profit before taxation			<b>4,460.5</b>	<b>2,415.5</b>

## 2. TURNOVER AND SEGMENT INFORMATION (continued)

		Segment revenue		Segment results	
		2006	2005	2006	2005
		\$Million	\$Million	\$Million	\$Million
(b)	Geographical segment				
	Group				
	Hong Kong	1,598.1	1,971.1	966.4	1,042.8
	Mainland China	548.5	539.9	408.0	334.1
		<b>2,146.6</b>	<b>2,511.0</b>	<b>1,374.4</b>	<b>1,376.9</b>
	Jointly controlled entities				
	Hong Kong			48.3	47.4

## 3. PROFIT BEFORE TAXATION

	2006	2005
	\$Million	\$Million
Profit before taxation is arrived at after charging:		
Finance costs		
Interest on borrowings	310.4	213.2
Dividend on convertible cumulative preference shares of a subsidiary	—	12.4
Other ancillary borrowing costs	15.7	18.3
	<b>326.1</b>	<b>243.9</b>
Total borrowing costs		
Less: Borrowing costs capitalised	(61.7)	(3.0)
	<b>264.4</b>	<b>240.9</b>
Included in cost of property sales:		
Cost of inventories	408.1	691.0
Cost of investment properties	—	93.6
Staff costs, including contribution to retirement schemes of \$10.3 million (2005: \$11.8 million)	168.4	154.8
Depreciation	3.9	4.6
	<b>879.4</b>	<b>—</b>
and after crediting:		
Deemed profit on placement of a listed subsidiary's shares (Note 3(a))	152.9	94.6
Interest income	17.3	—
Profit on disposal of listed investments	—	—

(a) Other income included a deemed profit arose from the placement of 410 million new shares by Hang Lung Properties Limited in November 2006.

#### 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.

	2006 \$Million	2005 \$Million
Current tax		
Hong Kong Profits Tax	74.9	104.6
PRC Income Tax	57.4	11.5
	<b>132.3</b>	116.1
Deferred taxation		
Origination and reversal of temporary differences	715.5	327.9
	<b>847.8</b>	444.0

#### 5. DIVIDENDS

- (a) Dividends attributable to the period

	2006 \$Million	2005 \$Million
Declared after the balance sheet date: 14.5 cents (2005: 14.5 cents) per share	<b>193.2</b>	193.1

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, approved and paid during the period

	2006 \$Million	2005 \$Million
Final dividend in respect of the previous financial year of 41 cents (2005: 40 cents) per share	<b>546.4</b>	532.7

## 6. EARNINGS PER SHARE

- (a) The calculation of basic earnings per share is based on the net profit attributable to shareholders of \$2,295.4 million (2005: \$1,091.1 million) and the weighted average number of 1,332.5 million (2005: 1,330.5 million) shares in issue during the period.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders of \$2,295.4 million (2005: \$1,091.1 million) and the weighted average number of 1,340.8 million (2005: 1,338.6 million) shares after adjusting for the effects of all dilutive potential shares.

- (b) 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:

	2006 \$Million	2005 \$Million
Net profit attributable to shareholders	2,295.4	1,091.1
Effect of changes in fair value of investment properties	(1,265.8)	(615.0)
Effect of corresponding deferred tax	345.6	83.6
Adjusted earnings for calculation of basic/diluted earnings per share	1,375.2	559.7

## 7. INVESTMENT PROPERTIES

The investment properties of the Group were revalued at 31 December 2006 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on an open market value basis.

## 8. TRADE AND OTHER RECEIVABLES

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

	31/12/2006 \$Million	30/6/2006 \$Million
Within 1 month	529.4	376.4
1 - 3 months	2.8	3.0
Over 3 months	0.9	0.6
	533.1	380.0

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:

	31/12/2006 \$Million	30/6/2006 \$Million
Due within 1 month	811.2	692.5
Due over 3 months	61.0	83.3
	<b>872.2</b>	<b>775.8</b>

## 10. SHARE CAPITAL

	Number of shares (‘000)	\$Million
Issued and fully paid <i>Shares of \$1 each</i>		
At 1 July 2006	1,332,416	1,332.4
Shares issued under share option scheme	189	0.2
At 31 December 2006	<b>1,332,605</b>	<b>1,332.6</b>

## 10. SHARE CAPITAL (continued)

### Share Option Scheme

#### *The Company*

At 31 December 2006, the directors and employees had the following interests in options to subscribe for shares 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 31 December 2006	Date granted	Period during which options are exercisable	Exercise price \$
	Outstanding on 1 July 2006	Granted	Exercised	Lapsed				
Directors	2,500,000	—	—	—	2,500,000	24 February 2000	24 February 2001 to 23 February 2010	6.12
	1,250,000	—	—	—	1,250,000	1 November 2001	1 November 2002 to 31 October 2011	5.87
	9,478,000	—	—	—	9,478,000	20 May 2004	20 May 2005 to 19 May 2014	9.45
	—	10,900,000	—	—	10,900,000	20 November 2006	20 November 2007 to 19 November 2016	20.52
Employees	1,280,000	—	(70,000)	—	1,210,000	24 February 2000	24 February 2001 to 23 February 2010	6.12
	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
	2,653,000	—	(119,000)	(25,000)	2,509,000	20 May 2004	20 May 2005 to 19 May 2014	9.45
	77,000	—	—	—	77,000	1 November 2005	1 November 2006 to 31 October 2015	14.70
	—	1,500,000	—	—	1,500,000	20 November 2006	20 November 2007 to 19 November 2016	20.52
<b>Total</b>	<b>17,858,000</b>	<b>12,400,000</b>	<b>(189,000)</b>	<b>(25,000)</b>	<b>30,044,000</b>			

The weighted average share price at the dates of exercise for share options during the period was \$19.82.

## 10. SHARE CAPITAL (continued)

### Hang Lung Properties Limited ("HLP")

At 31 December 2006, 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 share.

The movements of share options during the period are as follows:

	Number of share options				Outstanding on 31 December 2006	Date granted	Period during which options are exercisable	Exercise price \$
	Outstanding on 1 July 2006	Granted	Exercised	Lapsed				
Directors	17,877,000	—	—	—	17,877,000	20 May 2004	20 May 2005 to 19 May 2014	9.20
	1,000,000	—	—	—	1,000,000	1 September 2005	1 September 2006 to 31 August 2015	12.35
	—	16,500,000	—	—	16,500,000	20 November 2006	20 November 2007 to 19 November 2016	17.14
Employees	6,645,000	—	(727,000)	(100,000)	5,818,000	20 May 2004	20 May 2005 to 19 May 2014	9.20
	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
	—	8,900,000	—	—	8,900,000	14 November 2006	14 November 2007 to 13 November 2016	16.75
<b>Total</b>	<b>26,628,000</b>	<b>25,400,000</b>	<b>(727,000)</b>	<b>(100,000)</b>	<b>51,201,000</b>			

The weighted average share price at the dates of exercise for share options during the period was \$15.68.

## 10. SHARE CAPITAL (continued)

The weighted average value per share option granted during the period estimated at the date of grant using a Black-Scholes pricing model was \$5. The weighted average used are as follows:

	The Company	HLP	
		Share options granted on 14 November 2006	20 November 2006
Share price at grant date	\$20.30	\$16.40	\$17.14
Exercise price	\$20.52	\$16.75	\$17.14
Risk-free interest rate	4%	4%	4%
Expected life (in years)	6	6	6
Volatility	0.4	0.3	0.3
Expected dividend per share	\$0.56	\$0.51	\$0.51

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year immediately preceding the grant date. Expected dividend per share is based on historical dividend. Changes in the input assumptions could materially affect the fair value estimate.

## 11. TOTAL EQUITY

### Shareholders' equity

	Share capital \$Million	Share premium \$Million	Share of capital reserve of jointly controlled entities \$Million	Capital redemption reserve \$Million	Investment revaluation reserve \$Million	Other capital reserve \$Million	General reserve \$Million	Employee share-based compensation reserve \$Million	Retained profits \$Million	Total \$Million	Minority interests \$Million	Total equity \$Million
At 1 July 2006	1,332.4	2,228.8	16.5	26.1	26.1	4.4	275.0	50.2	21,053.6	25,013.1	21,313.2	46,326.3
Issue of shares	0.2	1.6	—	—	—	—	—	(0.3)	—	1.5	—	1.5
Increase in fair value of listed investments	—	—	—	—	13.6	—	—	—	—	13.6	—	13.6
Realised on disposal of listed investments	—	—	—	—	(14.2)	—	—	—	—	(14.2)	—	(14.2)
Employee share-based payment expenses	—	—	—	—	—	—	—	9.7	—	9.7	4.5	14.2
Exchange difference on translation of overseas subsidiaries	—	—	—	—	—	20.4	—	—	—	20.4	20.2	40.6
Change in minority interests in a subsidiary	—	—	—	—	—	—	—	(3.7)	—	(3.7)	5,390.3	5,386.6
Net profit for the period	—	—	—	—	—	—	—	—	2,295.4	2,295.4	1,317.3	3,612.7
Dividend paid	—	—	—	—	—	—	—	—	(546.4)	(546.4)	(620.8)	(1,167.2)
Repayment to minority shareholders	—	—	—	—	—	—	—	—	—	—	(34.8)	(34.8)
At 31 December 2006	1,332.6	2,230.4	16.5	26.1	25.5	24.8	275.0	55.9	22,802.6	26,789.4	27,389.9	54,179.3

## 12. NOTE TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Analysis of the balances of cash and cash equivalents

	2006 \$Million	2005 \$Million
Cash and deposits with banks in the consolidated balance sheet	6,606.0	6,506.2
Less: Bank deposits with maturity greater than three months	(699.5)	(3,352.7)
Cash and cash equivalents in the condensed consolidated cash flow statement	5,906.5	3,153.5

## 13. CONTINGENT LIABILITIES

At 31 December 2006, contingent liabilities were as follows:

	Company	
	31/12/2006 \$Million	30/6/2006 \$Million
Guarantees given to banks to secure credit facilities for subsidiaries	3,395.4	3,350.2

## 14. COMMITMENTS

Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	Group	
	31/12/2006 \$Million	30/6/2006 \$Million
Contracted for	1,034.0	1,033.1
Authorised but not contracted for	6,149.6	2,976.8
	7,183.6	4,009.9

The above commitments include those in respect of the Group's expansion of its property investment operations into various cities in mainland China.

## 15. 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 2006, the Group advanced to this jointly controlled entity a total of \$1,015.3 million (30 June 2006: \$1,015.3 million). All advances are interest-free, unsecured and have no fixed settlement dates.

## 16. POST BALANCE SHEET EVENT

Trade and other payables included a deposit of \$321.0 million related to a down payment from the purchaser of The Bay Bridge where the purchaser terminated the transaction and claimed for return of the deposit. According to the judgment of the Court of Final Appeal made after the balance sheet date, the deposit is refundable to the purchaser with interest, and any damages to be determined by the High Court.

## 17. COMPARATIVE FIGURES

In order to enhance the understandability of the financial statements, certain comparative figures on the consolidated income statement have been reclassified.

## 18. REVIEW OF INTERIM FINANCIAL STATEMENTS

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

## FINANCIAL BRIEFS

Financial Briefs as at 31 December 2006	HK\$ Million
Turnover	2,146.6
Net profit attributable to shareholders	2,295.4
Total assets	71,453.1
Shareholders' equity	26,789.4
Per share data	
Earnings – Basic	172.3¢
– Diluted	171.2¢
Interim dividend	14.5¢
Net assets (including minority interests)	\$40.7
Shareholders' equity	\$20.1
Gearing ratio*	6%
Pay-out ratio	8%
Number of shares issued (in million)	1,332.6

\* 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.



# INFORMATION FOR INVESTORS

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## FINANCIAL CALENDAR

Financial period	1 July 2006 to 31 December 2006
Interim results announced	8 February 2007
Latest time to lodge transfer	4:00 p.m. on 30 March 2007
Closure of share register	2 April to 4 April 2007 (both days inclusive)
Record date for interim dividend	4 April 2007
Interim dividend payable	20 April 2007

## SHARE LISTING

As at 31 December 2006, 1,332,605,242 shares of HK\$1.00 each are listed on The Stock Exchange of Hong Kong Limited. We have a sponsored American Depositary Receipt (ADR) Programme in the New York market.

## STOCK CODE

The Stock Exchange of Hong Kong Limited	00010
Reuters	0010.HK
Bloomberg	10HK
Ticker Symbol for ADR Code	HNLGY
CUSIP reference number	41043E102

## SHARE INFORMATION

Share Price as at 31 December 2006 : HK\$23.65  
Market Capitalisation as at 31 December 2006 : HK\$31.5 billion

## SHARE REGISTRARS

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