

## REVIEW OF RESULTS

Profit attributable to Company's shareholders for the six months ended 31 December 2005 was HK\$13,505 million, an increase of 167% compared with HK\$5,060 million for the corresponding period last year. The results reflect the adoption of new Hong Kong Financial Reporting Standards with effect from 1 July 2005. In particular, the Group has recognized in the profit and loss account an increase in fair value of investment properties of HK\$7,784 million based on professional valuation at the interim balance sheet date, and shared an increase in fair value of investment properties of HK\$1,225 million of jointly controlled entities and associates, in accordance with HKAS 40 "Investment Properties". Underlying attributable profit which excludes the impact of adopting HKAS 40 and HK(SIC) Interpretation 21 on investment properties and income taxes, amounted to HK\$6,079 million, up by HK\$577 million or 10.5% over the corresponding figure of HK\$5,502 million in the same period last year. The increase in underlying profit reflects higher property sales and development profit margin as well as strong rental income growth during the period whereas profit for the previous interim period included an exceptional profit of HK\$1,414 million arising on disposal of the Group's long-term investment in Asia Container Terminals Holdings Limited.

## EFFECT OF ADOPTION OF NEW FINANCIAL REPORTING STANDARDS

The interim financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively referred to as the "new HKFRS") issued by the Hong Kong Institute of Certified Public Accountants applicable to accounting periods commencing on or after 1 January 2005. In preparing the Group's interim financial statements under the new HKFRS, the fair value model for investment properties has been adopted. In accordance with this model, the Group's investment properties have been recorded at their fair value as determined by a professional valuer, and the fair value changes are recognized through profit and loss account. HK(SIC) Interpretation 21 requires that deferred taxation be provided on fair value changes of leasehold investment property at profits tax rate, despite that capital gain arising on sale of investment property in Hong Kong is not subject to taxation. The Group's core business is to develop and hold investment properties for long term purposes. To assess the underlying performance of the Group, the management is of the view that the financial results should be adjusted to exclude the effect of fair value changes on investment properties and the related deferred tax in arriving at "Underlying profit attributable to Company's shareholders" and "Underlying earnings per share". Similarly, the cumulative deferred tax provided on fair value gains on investment properties in Hong Kong should be added back to the equity attributable to Company's shareholders in arriving at "Underlying equity attributable to Company's shareholders" and "Underlying net asset value per share".

## EFFECT OF ADOPTION OF NEW FINANCIAL REPORTING STANDARDS (CONT'D)

The new HKFRS had material impact on the Group's reported financial results and net asset value. The statements set out below illustrate the effect of the changes following the adoption of the new HKFRS with reconciliations between the reported and underlying profit, earnings per share ("EPS"), equity and net asset value ("NAV") per share attributable to the Company's shareholders before and after adoption of the new HKFRS. These statements should be read in conjunction with Note (1) to the interim accounts, which explains in more details the changes in the Group's accounting policies in preparing the interim financial statements.

Reconciliation between underlying profit and reported profit attributable to Company's shareholders:

	Six months ended 31 December			
	2005		2004	
	HK\$M	EPS HK\$	HK\$M	EPS HK\$
<b>Reported profit per accounts under new HKFRS</b>	<b>13,505</b>	<b>5.62</b>	<b>5,060</b>	<b>2.11</b>
Adjusted for the impact of HKAS 40				
<sup>1</sup> Fair value gains on investment properties	(9,009)		-	
<sup>2</sup> Related deferred tax	1,577		-	
Related minority interest	6		-	
	(7,426)			
<sup>3</sup> Gain on sale of investment properties	-		536	
<sup>3</sup> Related deferred tax	-		(94)	
			442	
<b>Underlying profit attributable to Company's shareholders</b>	<b>6,079</b>	<b>2.53</b>	<b>5,502</b>	<b>2.29</b>
Depreciation and related deferred tax on owner-occupied properties	25		25	
Employee share options granted	2		2	
Amortization of leasehold land	9		9	
Amortization of telecommunication licence	13		(2)	
Alignment of accounts of associates and joint ventures to be coterminous with the Company	9		13	
	58		47	
<b>Profit attributable to Company's shareholders before the adoption of the new HKFRS</b>	<b>6,137</b>	<b>2.56</b>	<b>5,549</b>	<b>2.31</b>

## EFFECT OF ADOPTION OF NEW FINANCIAL REPORTING STANDARDS (CONT'D)

Notes:

1. This is to exclude the fair value changes of the Group's investment property portfolio recognized through profit and loss account during the six months ended 31 December 2005, which shall be recognized in the profit and loss account as and when an investment property is sold. No valuation of investment property portfolio was carried out at 31 December 2004, and no corresponding adjustment has been made for the six-month period ended on that date.
2. This adjustment is to exclude the deferred tax provided in the profit and loss account on the change in fair value of the Group's investment property portfolio for the six months ended 31 December 2005.
3. This adjustment represents the amount of fair value gains excluding deferred tax released to the profit and loss account arising from sale of investment properties during the six-month period ended 31 December 2004.

Reconciliation between underlying and reported equity attributable to Company's shareholders:

	At 31 December 2005		At 30 June 2005	
	HK\$M	NAV Per Share HK\$	HK\$M	NAV Per Share HK\$
<b>Reported equity attributable to Company's shareholders under new HKFRS</b>	<b>154,554</b>	<b>64.37</b>	143,933	59.95
Adjusted for the impact of HKAS 40				
Deferred tax on cumulative fair value gains on investment properties in Hong Kong	12,590		11,014	
<b>Underlying equity attributable to Company's shareholders</b>	<b>167,144</b>	<b>69.61</b>	154,947	64.53
Fair value gains on financial instruments	(701)		-	
Fair value gains on reclassification of certain properties as investment properties	(6,932)		(7,488)	
Reversal of cumulative fair value gains on owner-occupied properties	1,703		1,703	
Depreciation and related deferred tax on owner-occupied properties	963		938	
Amortization of leasehold land	153		144	
Amortization of telecommunication licence	19		6	
Alignment of accounts of associates and joint ventures to be coterminous with the Company	(89)		(98)	
	<b>(4,884)</b>		<b>(4,795)</b>	
<b>Equity attributable to Company's shareholders before the adoption of the new HKFRS</b>	<b>162,260</b>	<b>67.58</b>	150,152	62.54

## FINANCIAL RESOURCES AND LIQUIDITY

### (a) Net debt and gearing

The Group's financial position remains strong with a low debt leverage and strong interest cover. Gearing ratio as at 31 December 2005, calculated on the basis of net debt to Company's shareholders' funds, remained low at 16.5% compared to 11.5% at 30 June 2005. Interest cover, measured by the ratio of underlying profit from operations to total net interest expenses including those capitalized, was 13.8 times compared to 40.1 times for the same period last year, largely as a result of higher interest rate environment and increase in Group's average borrowing level caused by more expenditures incurred on land acquisitions during the interim period.

As at 31 December 2005, the Group's gross borrowings totalled HK\$33,991 million. Of these, HK\$2,109 million related to the bank borrowings of the Group's subsidiary, Route 3 (CPS) Company Limited, which were secured by way of charges over its assets. All other borrowings of the Group are unsecured. Net debt, after deducting cash and bank deposits of HK\$8,506 million, amounted to HK\$25,485 million. The maturity profile of the Group's gross borrowings is set out as follows:

	31 December 2005	30 June 2005
	HK\$ Million	HK\$ Million
Repayable:		
Within one year	2,501	1,605
After one year but within two years	2,819	4,045
After two years but within five years	24,876	17,266
After five years	3,795	150
Total borrowings	33,991	23,066
Cash and bank deposits	8,506	6,519
Net debt	25,485	16,547

## FINANCIAL RESOURCES AND LIQUIDITY (CONT'D)

- (b) The Group has no significant exposure to foreign exchange risk given its large asset base and operational cash flow primarily denominated in Hong Kong dollars.
- (c) The majority of the Group's borrowings are subject to floating interest rates. The Group has constantly monitored this exposure and, when appropriate, will apply interest swaps to manage the risk.
- (d) As at 31 December 2005, the Group had outstanding interest rate swaps (to swap into floating rate debts) in the aggregate amount of HK\$2,450 million. These derivative financial instruments are designated as fair value hedges and are measured at their fair value at the balance sheet date. It is the Group's policy not to enter into derivative transactions for speculative purposes.

## CHARGES OF ASSETS

As at 31 December 2005, certain bank deposits of the Group's subsidiary, SmarTone, in the aggregate amount of HK\$329 million, were pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks. In addition, the assets of the Group's subsidiary, Route 3 (CPS) Company Limited, with an aggregate net book value of HK\$5,106 million have been charged as collateral securities for its bank borrowings. Except for the above two charges, all the Group's assets are free from any encumbrances.

## CONTINGENT LIABILITIES

As at 31 December 2005, the Group had contingent liabilities in respect of guarantees for bank borrowings of joint venture companies and other guarantees in the aggregate amount of HK\$4,013 million (30 June 2005: HK\$4,505 million).