



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

**Interim Report
For The Six Months
Ended 30th June, 2005**

CORPORATE INFORMATION

Directors

Thomas Lau, Luen-hung (*Chairman*)
Joseph Lau, Luen-hung (*Chief Executive Officer*)
Amy Lau, Yuk-wai[#]
Koon, Wing-ye^{*}
Cheng, Kwee^{*}
Chan, Kwok-wai^{*}

[#] *Non-executive Director*

^{*} *Independent Non-executive Director*

Audit Committee

Koon, Wing-ye
Cheng, Kwee
Chan, Kwok-wai

Remuneration Committee

Koon, Wing-ye
Cheng, Kwee
Chan, Kwok-wai

Company Secretary and Qualified Accountant

Lam, Kwong-wai

Solicitors

Sidley Austin Brown & Wood
Sit, Fung, Kwong & Shum

Auditors

Deloitte Touche Tohmatsu

Principal Bankers and Financial Institutions

Bank of China (Hong Kong) Limited
Bank of East Asia, Limited
China Construction Bank Corporation
Citibank, N.A.
Hang Seng Bank Limited
Industrial & Commercial Bank of China
Liu Chong Hing Bank Limited
Standard Chartered Bank (Hong Kong) Limited
UFJ Bank Limited

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Stock Code

127 (Ordinary Share)
2516 (Convertible Bonds due 2010)

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF CHINESE ESTATES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 23.

Respective responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 29th August, 2005

RESULTS

The Board of Directors of Chinese Estates Holdings Limited (the “Company”), would like to announce the following unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2005 together with the comparative figures for 2004:–

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

	Notes	Six months ended 30th June,	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited and restated)
Turnover	4	429,707	3,558,763
Cost of sales		<u>(85,626)</u>	<u>(3,240,570)</u>
Gross profit		344,081	318,193
Other operating income	6	64,851	19,936
Administrative expenses		(69,357)	(60,799)
Investment income	7	178,567	320,121
Other operating expenses	8	(8,833)	(1,473)
Fair value changes on investment properties	15	1,611,930	–
Gain on disposals of property and other fixed assets		88,362	11,848
Gain on disposals of investment properties		10,450	8,413
Finance costs	10	(97,892)	(16,029)
Other (losses) income, net	11	(1,927)	4,980
Share of results of jointly controlled entities		–	(768)
Share of results of associates		<u>201,285</u>	<u>17,512</u>
Profit before taxation		2,321,517	621,934
Taxation	12	<u>(320,199)</u>	<u>(34,918)</u>
Profit for the period		<u><u>2,001,318</u></u>	<u><u>587,016</u></u>
Attributable to:			
Equity holders of the parent		1,962,323	584,134
Minority interests		<u>38,995</u>	<u>2,882</u>
		<u><u>2,001,318</u></u>	<u><u>587,016</u></u>
Dividend	13	<u><u>223,324</u></u>	<u><u>253,200</u></u>
Earnings per share	14		
Basic		<u><u>96.7 cents</u></u>	<u><u>27.7 cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET
At 30th June, 2005

	<i>Notes</i>	30th June, 2005 HK\$'000 (Unaudited)	31st December, 2004 HK\$'000 (Audited and restated)
Non-current assets			
Investment properties	15	20,756,700	19,343,480
Property and other fixed assets		281,361	296,689
Properties under development	16	1,279	750
Prepaid lease payments		9,466	9,473
Intangible assets		–	1,131
Goodwill		–	7,702
Negative goodwill		–	(191,028)
Interests in associates	17	753,202	631,671
Advances to associates	18	1,187,367	944,132
Investments in securities		–	317,270
Financial assets at fair value through profit and loss		392,246	–
Available-for-sale investments		1,569,175	–
Advance to an investee company		3,150	6,086
Other assets		15,951	15,951
Loans receivable – due after one year		89,668	11,143
Deferred tax assets		79,788	84,881
Pledged deposits		94,424	67,001
		25,233,777	21,546,332
Current assets			
Properties under development	16	1,194,986	877,012
Properties held for sale		34,257	36,525
Investments in securities		–	1,622,839
Financial assets at fair value through profit and loss		156,505	–
Derivative financial instruments	19	3,922	1,018
Loans receivable – due within one year		222,985	2,821
Debtors, deposits and prepayments	20	90,286	76,459
Securities receivables and deposits		28,874	24,994
United States currency treasury bills		591,482	526,613
Taxation recoverable		2,663	2,590
Pledged deposits		18,422	62,459
Time deposits, bank balances and cash		3,880,110	1,196,018
		6,224,492	4,429,348

CONDENSED CONSOLIDATED BALANCE SHEET (*cont'd*)
At 30th June, 2005

	<i>Notes</i>	30th June, 2005 HK\$'000 (Unaudited)	31st December, 2004 HK\$'000 (Audited and restated)
Current liabilities			
Derivative financial instruments	19	29,947	2,028
Creditors and accruals	21	74,991	60,909
Cash and margin payable		109,961	15,347
Deposits and receipts in advance		251,657	225,161
Taxation liabilities		73,612	57,858
Borrowings – due within one year	22	2,858,108	2,283,161
Provisions		24,444	24,444
		<u>3,422,720</u>	<u>2,668,908</u>
Net current assets		<u>2,801,772</u>	<u>1,760,440</u>
Total assets less current liabilities		<u>28,035,549</u>	<u>23,306,772</u>
Non-current liabilities			
Borrowings – due after one year	22	5,444,265	4,769,648
Convertible bonds	23	1,501,980	–
Amounts due to associates	24	15,757	26,646
Amounts due to minority shareholders	24	303,956	373,878
Deferred tax liabilities		2,388,865	2,043,612
		<u>9,654,823</u>	<u>7,213,784</u>
Total assets and liabilities		<u>18,380,726</u>	<u>16,092,988</u>
Capital and reserves			
Share capital	25	203,021	203,021
Reserves		18,057,237	15,979,482
Equity attributable to equity holders of the parent		<u>18,260,258</u>	16,182,503
Minority interests		120,468	(89,515)
Total equity		<u>18,380,726</u>	<u>16,092,988</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th June, 2005

Attributable to equity holders of the parent

	Share capital HK\$'000	Share premium HK\$'000	Treasury stocks HK\$'000	Investment properties revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Convertible bonds – equity investments component HK\$'000	Securities reserve HK\$'000	Other reserve HK\$'000	Special reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1st January, 2004														
As originally stated	216,390	2,067,284	(1,764)	7,701,857	28,018	-	-	-	2,499,685	84,992	1,771,154	14,367,616	-	14,367,616
Effect of changes in accounting policies	-	-	-	(1,438,715)	(28,018)	-	-	-	-	-	(227,041)	(1,693,774)	(155,675)	(1,849,449)
As restated	216,390	2,067,284	(1,764)	6,263,142	-	-	-	-	2,499,685	84,992	1,544,113	12,673,842	(155,675)	12,518,167
Deferred tax on revaluation reserve	-	-	-	(4)	-	-	-	-	-	-	-	(4)	-	(4)
Share of associates' reserve movements during the period	-	-	-	(639)	-	-	-	-	-	-	-	(639)	-	(639)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	1,156	1,156	-	1,156
Net income (expense) recognised directly in equity	-	-	-	(643)	-	-	-	-	-	-	1,156	513	-	513
Profit for the period (restated)	-	-	-	-	-	-	-	-	-	-	584,134	584,134	2,882	587,016
Total recognised income (expense) for the period	-	-	-	(643)	-	-	-	-	-	-	585,290	584,647	2,882	587,529
Cancellation on repurchase of own shares	(6,068)	(356,669)	(2,491)	-	-	-	-	-	-	8,559	-	(356,669)	-	(356,669)
Surplus realised on disposals of investment properties, net of tax	-	-	-	(6,649)	-	-	-	-	-	-	-	(6,649)	34	(6,615)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(3,682)	(3,682)
Final dividend paid	-	-	-	-	-	-	-	-	-	-	(253,200)	(253,200)	-	(253,200)
At 30th June, 2004 and 1st July, 2004	210,322	1,710,615	(4,255)	6,255,850	-	-	-	-	2,499,685	93,551	1,876,203	12,641,971	(156,441)	12,485,530
Deferred tax on revaluation reserve	-	-	-	(615,118)	-	-	-	-	-	-	-	(615,118)	-	(615,118)
Share of associates' reserve movements during the period	-	-	-	260,438	-	-	-	-	-	-	-	260,438	-	260,438
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	1,821	1,821	-	1,821
Surplus on revaluation	-	-	-	3,203,702	-	-	-	-	-	-	-	3,203,702	-	3,203,702
Share of revaluation reserve by minority interests	-	-	-	(30,481)	-	-	-	-	-	-	-	(30,481)	30,481	-
Net income recognised directly in equity	-	-	-	2,818,541	-	-	-	-	-	-	1,821	2,820,362	30,481	2,850,843
Profit for the period (restated)	-	-	-	-	-	-	-	-	-	-	1,029,427	1,029,427	36,445	1,065,872
Total recognised income for the period	-	-	-	2,818,541	-	-	-	-	-	-	1,031,248	3,849,789	66,926	3,916,715
Cancellation on repurchase of own shares	(7,301)	(135,423)	4,255	-	-	-	-	-	-	3,046	-	(135,423)	-	(135,423)
Surplus realised on disposals of investment properties, net of tax	-	-	-	(976)	-	-	-	-	-	-	-	(976)	-	(976)
Interim dividend paid	-	-	-	-	-	-	-	-	-	-	(172,858)	(172,858)	-	(172,858)
At 31st December, 2004	203,021	1,575,192	-	9,073,415	-	-	-	-	2,499,685	96,597	2,734,593	16,182,503	(89,515)	16,092,988

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)
For the six months ended 30th June, 2005

	Attributable to equity holders of the parent													
	Share capital	Share premium	Treasury stocks	Investment properties revaluation reserve	Hotel property revaluation reserve	Convertible bonds – equity component	Securities investments reserve	Other reserve	Special reserve	Capital redemption reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2004, and 1st January, 2005	203,021	1,575,192	-	9,073,415	-	-	-	-	2,499,685	96,597	2,734,593	16,182,503	(89,515)	16,092,988
Effect of changes in accounting policies	-	-	-	(9,073,415)	-	-	-	-	-	-	9,366,522	293,107	88,876	381,983
As restated	203,021	1,575,192	-	-	-	-	-	-	2,499,685	96,597	12,101,115	16,475,610	(639)	16,474,971
Share of associates' reserve movements during the period	-	-	-	-	-	-	-	(79,613)	-	-	(11,442)	(91,055)	-	(91,055)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	(1,300)	(1,300)	-	(1,300)
Expense recognised directly in equity	-	-	-	-	-	-	-	(79,613)	-	-	(12,742)	(92,355)	-	(92,355)
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,962,323	1,962,323	38,995	2,001,318
Total recognised income (expense) for the period	-	-	-	-	-	-	-	(79,613)	-	-	1,949,581	1,869,968	38,995	1,908,963
Deemed gain on disposals of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	82,112	82,112
Final dividend paid	-	-	-	-	-	-	-	-	-	-	(223,324)	(223,324)	-	(223,324)
Equity component of convertible bonds	-	-	-	-	-	230,775	-	-	-	-	-	230,775	-	230,775
Fair value changes on available-for-sale investments	-	-	-	-	-	-	(92,771)	-	-	-	-	(92,771)	-	(92,771)
At 30th June, 2005	203,021	1,575,192	-	-	-	230,775	(92,771)	(79,613)	2,499,685	96,597	13,827,372	18,260,258	120,468	18,380,726

Note: The other reserve represents the share of an associate's reserve of the Group, which arose from the privatisation of The Kwong Sang Hong International Limited on 2nd February, 2005.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30th June, 2005

	Six months ended	
	30th June,	
	2005	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(107,194)	779,671
Net cash (used in) from investing activities	(4,188)	18,270
Net cash from issue of convertible bonds	1,771,915	–
Net cash from financing activities other than convertible bonds	1,023,567	441,982
	<hr/>	<hr/>
Net increase in cash and cash equivalents	2,684,100	1,239,923
Cash and cash equivalents at 1st January	1,196,018	226,439
Effect of foreign exchange rate changes	(8)	(51)
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	3,880,110	1,466,311
	<hr/> <hr/>	<hr/> <hr/>
Analysis of cash and cash equivalents		
Time deposits, bank balances and cash	3,880,110	1,466,311
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2005

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 and with Hong Kong Accounting Standard 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

2. Principal Accounting Policies

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 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the HKAS 1 has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

(a) *Owner-occupied Leasehold Interest in Land*

In previous periods, owner-occupied leasehold land and buildings were included in properties under development and measured at cost less impairment. In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

(b) *Financial Instruments*

In the current period, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible bonds

HKAS 32 requires an issuer of a compound financial instrument (that contains both liability components and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holders to convert the bond into equity, is included in equity. In subsequent periods, the liability component is carried at amortised cost using effective interest method.

(b) **Financial Instruments** (cont'd)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit and loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, investments are classified as "financial assets at fair value through profit and loss", "available-for-sale investments", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit and loss" and "available-for-sale investments" are carried at fair value, with changes in fair values recognised in profit and loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method (see Note 3 for the financial impact).

Derivatives

In previous periods the recognised and unrecognised gains or losses of foreign currency forward contracts are recognised in accordance with the scope of SSAP 11. From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are classified as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

(c) **Investment Properties**

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". Under HKAS 40, land held for currently undetermined future use is treated as investment property. Accordingly, property interests held for development which was previously measured at cost less impairment was reclassified to investment property at 1st January, 2005.

The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in investment property revaluation reserve at 1st January, 2005 has been transferred to the Group's retained profits. Gains on change in fair value of investment properties held by the Group and the associates were recognised in the income statement during the period (see Note 3 for the financial impact).

In addition, HKAS 40 has removed the 15% benchmark for determining the significance of the portion of property held for own use or leased to group companies which was previously allowed under SSAP 13. Under HKAS 40, only if a property used for administrative purpose could be sold separately, the Group is required to account for that property separately as property, plant and equipment. Accordingly, the property held for own use, previously recognised as investment properties, has been classified as property, plant and equipment under HKAS 16 "Property, Plant and Equipment". These changes in accounting policies have been applied retrospectively (see Note 3 for the financial impact).

(d) Business Combinations

In the current period, the Group has applied HKFRS 3 “Business Combinations”, which is effective from business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill was presented as a deduction from assets or included in interest in associates and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill as at 1st January, 2005, with a corresponding increase to retained profits (see Note 3 for the financial impact).

(e) Hotel Properties

HKAS Interpretation 2 “The Appropriate Accounting Policies for Hotel Properties” clarifies the accounting policy for owner-operated hotel properties. In previous periods, an associate of the Group’s self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. HKAS Interpretation 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16 “Property, plant and equipment”, and therefore be accounted for either using the cost model or the revaluation model. The associate of the Group has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HKAS Interpretation 2, the new accounting policy has been applied retrospectively. Comparative figures of the interests in associates and share of result of associates have been restated (see Note 3 for the financial impact).

(f) Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 “Income Taxes – Recovery of Revalued Non-Depreciable Assets” which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

3. Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies described in Note 2 on the results for the current and prior periods are as follows:

	HKAS 32 &		HKAS 40	HKFRS 3	HKAS	HKAS	Total effect
	HKAS 1	HKAS 17			HKAS 39	INT 2	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 2)	(Note 2a)	(Note 2b)	(Note 2c)	(Note 2d)	(Note 2e)	(Note 2f)
For the six months ended 30th June, 2005 (unaudited)							
Increase in depreciation arising from reclassification from investment properties to property and other fixed assets	-	-	-	(3,791)	-	-	(3,791)
Increase in deferred tax on accelerated tax depreciation	-	-	-	-	-	(23)	(23)
Decrease in amortisation of negative goodwill	-	-	-	(5,791)	-	-	(5,791)
Increase in imputed interest income from advances to associates	-	-	18,696	-	-	-	18,696
Increase in imputed interest income from loans receivable	-	-	148	-	-	-	148
Increase in imputed interest expense on amounts due to associates	-	-	(242)	-	-	-	(242)
Increase in imputed interest expense on amounts due to minority shareholders	-	-	(7,828)	-	-	-	(7,828)
Increase in imputed interest expense on convertible bonds	-	-	(9,792)	-	-	-	(9,792)
(Decrease) increase in share of results of associates	(18,846)	-	(18,454)	103,799	-	(1,756)	35,973
Decrease in income tax expenses	18,846	-	-	-	-	-	18,846
Increase in amortisation of prepaid lease payments	-	(7)	-	-	-	-	(7)
Increase in fair value changes on investment properties	-	-	-	1,611,930	-	-	1,611,930
Increase in deferred tax on revaluation of investment properties	-	-	-	-	-	(282,960)	(282,960)
	<u>-</u>	<u>(7)</u>	<u>(17,472)</u>	<u>1,711,938</u>	<u>(5,791)</u>	<u>(1,756)</u>	<u>1,375,159</u>
(Decrease) increase in profit for the period	-	(7)	(17,472)	1,711,938	(5,791)	(1,756)	1,375,159
	HKAS 1	HKAS 17	HKAS 40	HKAS INT 2	HKAS INT 21	Total effect	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 2)	(Note 2a)	(Note 2c)	(Note 2e)	(Note 2f)		
For the six months ended 30th June, 2004 (unaudited)							
Increase in depreciation arising from reclassification from investment properties to property and other fixed assets	-	-	(3,791)	-	-	-	(3,791)
Increase in deferred tax on accelerated tax depreciation	-	-	-	-	(23)	-	(23)
(Decrease) increase in share of results of associates	(5,036)	-	-	(1,915)	1,361	-	(5,590)
Decrease in income tax expenses	5,036	-	-	-	-	-	5,036
Increase in amortisation of prepaid lease payments	-	(7)	-	-	-	-	(7)
	<u>-</u>	<u>(7)</u>	<u>(3,791)</u>	<u>(1,915)</u>	<u>1,338</u>	<u>(4,375)</u>	
(Decrease) increase in profit for the period	-	(7)	(3,791)	(1,915)	1,338	(4,375)	

3. Summary of the Effects of the Changes in Accounting Policies (cont'd)

The cumulative effects of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004						As at 31st December, 2004					As at 1st January, 2005	
	(originally stated) HK\$'000	Retrospective adjustments					(restated) HK\$'000	Adjustments on 1st January, 2005					(restated) HK\$'000
		HKAS 1 & HKAS 27	HKAS 17	HKAS 40	HKAS INT 2	HKAS INT 21		HKAS 32 & HKAS 39	HKAS 40	HKFRS 3	HKAS INT 21		
		(Note 2)	(Note 2a)	(Note 2c)	(Note 2e)	(Note 2f)		(Note 2b)	(Note 2c)	(Note 2d)	(Note 2f)		
Balance sheet items													
Investment properties	19,687,480	-	-	(344,000)	-	-	19,343,480	-	15,600	-	-	19,359,080	
Properties and other fixed assets	32,939	-	-	263,750	-	-	296,689	-	(2,004)	-	-	294,685	
Properties under development	10,250	-	(9,500)	-	-	-	750	-	-	-	-	750	
Prepaid lease payments	-	-	9,473	-	-	-	9,473	-	-	-	-	9,473	
Intangible assets	1,131	-	-	-	-	-	1,131	-	-	-	-	1,131	
Goodwill	7,702	-	-	-	-	-	7,702	-	-	-	-	7,702	
Negative goodwill	(191,028)	-	-	-	-	-	(191,028)	-	-	191,028	-	-	
Loans receivable	13,964	-	-	-	-	-	13,964	(295)	-	-	-	13,669	
Interests in associates	1,814,058	-	-	-	(205,694)	(32,561)	1,575,803	(242)	-	75,909	-	1,651,470	
Investments in securities	1,940,109	-	-	-	-	-	1,940,109	(1,940,109)	-	-	-	-	
Available-for-sale investments	-	-	-	-	-	-	-	1,291,824	-	-	-	1,291,824	
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-	667,803	-	-	-	667,803	
Deferred tax assets	73,425	-	-	-	-	11,456	84,881	-	-	-	-	84,881	
Amounts due to associates	(26,646)	-	-	-	-	-	(26,646)	242	-	-	-	(26,404)	
Amounts due to minority shareholders	(373,878)	-	-	-	-	-	(373,878)	84,606	-	-	-	(289,272)	
Deferred tax liabilities	(42,437)	-	-	(723)	-	(2,000,452)	(2,043,612)	-	-	-	(2,379)	(2,045,991)	
Other assets and liabilities	(4,545,830)	-	-	-	-	-	(4,545,830)	-	-	-	-	(4,545,830)	
Total effects on assets and liabilities	18,401,239	-	(27)	(80,973)	(205,694)	(2,021,557)	16,092,988	103,829	13,596	266,937	(2,379)	16,474,971	
Minority interests	84,539	(84,539)	-	-	-	-	-	-	-	-	-	-	
	18,485,778	(84,539)	(27)	(80,973)	(205,694)	(2,021,557)	16,092,988	103,829	13,596	266,937	(2,379)	16,474,971	
Share capital	203,021	-	-	-	-	-	203,021	-	-	-	-	203,021	
Investment property revaluation reserve	11,130,696	-	-	(40,700)	-	(2,016,581)	9,073,415	-	(9,071,942)	-	(1,473)	-	
Hotel property revaluation reserve	7,813	-	-	-	(7,813)	-	-	-	-	-	-	-	
Retained profits	2,972,774	-	(27)	(40,273)	(197,881)	-	2,734,593	19,223	9,080,362	266,937	-	12,101,115	
Other reserves	4,171,474	-	-	-	-	-	4,171,474	-	-	-	-	4,171,474	
Equity holders of the parent	18,485,778	-	(27)	(80,973)	(205,694)	(2,016,581)	16,182,503	19,223	8,420	266,937	(1,473)	16,475,610	
Minority interests	-	(84,539)	-	-	-	(4,976)	(89,515)	84,606	5,176	-	(906)	(639)	
Total effects on total equity	18,485,778	(84,539)	(27)	(80,973)	(205,694)	(2,021,557)	16,092,988	103,829	13,596	266,937	(2,379)	16,474,971	

3. Summary of the Effects of the Changes in Accounting Policies (cont'd)

The financial effects of the application of the new HKFRSs to the Group's equity at 1st January, 2004 are summarised below:

	As originally stated HK\$'000	HKAS 1 & HKAS 27 HK\$'000 (Note 2)	HKAS 17 HK\$'000 (Note 2a)	HKAS 40 HK\$'000 (Note 2c)	HKAS INT 2 HK\$'000 (Note 2e)	HKAS INT 21 HK\$'000 (Note 2f)	As restated HK\$'000
Share capital	216,390	-	-	-	-	-	216,390
Investment properties revaluation reserve	7,701,857	-	-	23,300	-	(1,462,015)	6,263,142
Hotel property revaluation reserve	28,018	-	-	-	(28,018)	-	-
Retained profits	1,771,154	-	(13)	(31,968)	(194,384)	(676)	1,544,113
Other reserves	4,650,197	-	-	-	-	-	4,650,197
Equity holders of the parent	14,367,616	-	(13)	(8,668)	(222,402)	(1,462,691)	12,673,842
Minority interests	-	(153,069)	-	-	-	(2,606)	(155,675)
Total effects on total equity	14,367,616	(153,069)	(13)	(8,668)	(222,402)	(1,465,297)	12,518,167

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS – INT 4	Determining whether an Arrangement Contains a Lease
HKFRS – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option

4. Turnover

Turnover represents the aggregate of amounts received and receivable from the sales of securities investment, sales of properties held for sale, property rental income, commission from brokerage, settlement charges from brokerage and interest income from loan financing.

5. Segment Information

Business segments

The Group's primary format for reporting segment information is business segments.

For the six months ended 30th June, 2005

	Property development and trading <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Listed securities investment <i>HK\$'000</i>	Unlisted securities investment, holding and brokerage <i>HK\$'000</i>	Other operations/ unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External customers	<u>3,900</u>	<u>348,267</u>	<u>5,370</u>	<u>68,466</u>	<u>3,704</u>	<u>-</u>	<u>429,707</u>
RESULT							
Segment result	<u>51,764</u>	<u>1,956,990</u>	<u>5,370</u>	<u>79,440</u>	<u>101,624</u>	<u>-</u>	<u>2,195,188</u>
Unallocated corporate income, net							24,863
Imputed interest expense							(17,862)
Other finance costs	-	-	-	3,054	-	(83,084)	(80,030)
Other losses, net							(1,927)
Share of results of associates	15,517	103,179	358	-	-	82,231	201,285
Profit before taxation							2,321,517
Taxation							(320,199)
Profit for the period							<u>2,001,318</u>

For the six months ended 30th June, 2004

	Property development and trading <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Listed securities investment <i>HK\$'000</i>	Unlisted securities investment, holding and brokerage <i>HK\$'000</i>	Other operations/ unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (restated)
REVENUE							
External customers	<u>298,645</u>	<u>345,737</u>	<u>213</u>	<u>2,906,840</u>	<u>7,328</u>	<u>-</u>	<u>3,558,763</u>
RESULT							
Segment result	<u>(21,652)</u>	<u>337,966</u>	<u>213</u>	<u>161,274</u>	<u>168,737</u>	<u>-</u>	<u>646,538</u>
Unallocated corporate expenses, net							(30,299)
Other finance costs	-	-	-	6,128	-	(22,157)	(16,029)
Other income, net							4,980
Share of results of jointly controlled entities							(768)
Share of results of associates	5,311	12,252	469	-	171	(691)	17,512
Profit before taxation							621,934
Taxation							(34,918)
Profit for the period							<u>587,016</u>

6. Other Operating Income

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Net building management fee income	10,343	11,479
Share of profit arising from the sale by a related party of certain properties acquired from the Group (<i>Note</i>)	50,160	–
Release of negative goodwill	–	6,447
Sundry income	4,348	2,010
	<u>64,851</u>	<u>19,936</u>

Note: Pursuant to a sale and purchase agreement dated 27th August, 2004 in relation to the disposal of several properties (“Properties”) by a wholly-owned subsidiary of the Company with a company wholly-owned by a discretionary trust set up by Mr. Joseph Lau, Luen-hung, an executive director and a substantial shareholder of the Company, the Group is entitled to 80% profit sharing on the Properties when the Properties are subsequently sold by the discretionary trust. During the period, certain properties have been sold and HK\$50,160,000 representing 80% of the total profit arising from the sale of the Properties was recognised in the income statement.

7. Investment Income

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Unrealised holding gain on:		
Unlisted securities investments	–	138,953
Increase in market price of listed securities investments	–	120,326
	–	259,279
Exchange gain on translation of listed securities investments	–	1,603
Total unrealised holding gain	–	260,882
Fair value changes on financial instruments	(55,426)	–
Realised gain on derivative financial instruments	64,125	3,825
Other investment income	5,303	2,772
Dividend income on:		
Listed investments	7,619	23,211
Unlisted investments	78,646	13,889
Interest income	59,456	15,542
Imputed interest on:		
Advances to associates	18,696	–
Loans receivable	148	–
	<u>178,567</u>	<u>320,121</u>

8. Other Operating Expenses

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Write-off of goodwill	7,702	–
Write-off of intangible assets	1,131	–
Amortisation of goodwill	–	1,284
Amortisation of intangible assets	–	189
	<u>8,833</u>	<u>1,473</u>

9. Profit before taxation for the Period

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
Profit before taxation for the period has been arrived at after (charging) crediting the following items:		
Staff costs:		
Staff costs, including Directors' emoluments	(36,964)	(32,006)
Retirement benefit scheme contributions	(1,755)	(375)
	<u>(38,719)</u>	<u>(32,381)</u>
Depreciation	<u>(8,402)</u>	<u>(9,583)</u>
Gain on disposal of listed securities investments:		
Increase in market value of listed securities investments	380	25,729
Realised exchange loss on translation of listed securities investments	–	(20,427)
	<u>380</u>	<u>5,302</u>
Gross rental income from investment properties	348,267	345,737
Less: Outgoings	<u>(13,657)</u>	<u>(16,184)</u>
	<u>334,610</u>	<u>329,553</u>

10. Finance Costs

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	78,770	20,507
Other loans wholly repayable within five years	9,358	8,308
	<u>88,128</u>	<u>28,815</u>
Imputed interest on:		
Amounts due to associates	242	–
Amounts due to minority shareholders	7,828	–
Convertible bonds	9,792	–
	<u>17,862</u>	<u>–</u>
Total interest	105,990	28,815
Realised exchange gain on translation of foreign currency loans	(12,412)	(20,427)
Unrealised exchange loss on translation of foreign currency loans	–	5,991
Other finance costs	11,498	3,648
	<u>105,076</u>	<u>18,027</u>
Less: Interest capitalised to properties under development	<u>(7,184)</u>	<u>(1,998)</u>
	<u>97,892</u>	<u>16,029</u>

11. Other (Losses) Income, Net

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Included in other (losses) income, net are:		
Net loss on deemed disposals of subsidiaries	(3,513)	–
Allowance for amounts due from an associate	(4,398)	–
Reversal of allowance for amounts due from associates	2,244	–
Gain on disposals of subsidiaries	–	3,819
Release of negative goodwill arising from investment in an associate	–	1,460
	<u> </u>	<u> </u>

12. Taxation

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	17,977	16,321
Other than Hong Kong	1,395	2,179
	<u> </u>	<u> </u>
	19,372	18,500
Deferred tax	300,827	16,418
	<u> </u>	<u> </u>
	<u>320,199</u>	<u>34,918</u>

Hong Kong Profits Tax have been provided for at the rate of 17.5% of the estimated assessable profits for the period. Taxation on profits outside Hong Kong has been provided for in accordance with the relevant local jurisdictions.

Included in deferred tax represents fair value changes on investment properties of approximately HK\$282,960,000 (2004: Nil) for the period.

13. Dividend*(a) Interim dividend declared after the interim period end*

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Interim dividend of HK9 cents (2004: HK8.5 cents) per share	<u>186,754</u>	<u>172,858</u>

(b) The final dividend of HK11 cents (2004: HK12 cents) per share, totalling HK\$223,324,000 (2004: HK\$253,200,000) for the year ended 31st December, 2004 has been paid to shareholders on 25th May, 2005.

14. 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 30th June,	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
Earnings:		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to equity holders of the parent)	1,962,323	<u>584,134</u>
Effect of dilutive potential ordinary shares:		
Imputed interest on convertible bonds (net of tax)	<u>8,284</u>	
Earnings for the purposes of diluted earnings per share	<u>1,970,607</u>	
	Number of shares	
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,030,214,000	<u>2,110,479,824</u>
Effect of dilutive potential ordinary shares:		
Convertible bonds	<u>249,655,172</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,279,869,172</u>	

Impact of changes in accounting policy

Changes in the Group's accounting policies during the period are described in details in note 2. To the extent that those changes have had an impact on results reported for the period ended 30th June, 2004, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on the basic earnings per share:

	Impact on basic earnings per share 30/6/2004 HK cents
Increase in depreciation on office building	(0.18)
Decrease in share of results of associates	(0.27)
Decrease in tax	<u>0.24</u>
	<u><u>(0.21)</u></u>

15. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
At 31st December, 2004	
As originally stated	19,687,480
Transfer to land and buildings	<u>(344,000)</u>
As restated on 31st December, 2004	19,343,480
Transfer from land and buildings	<u>15,600</u>
As restated on 1st January, 2005	19,359,080
Additions	35,645
Disposals	(249,955)
Change in fair value	<u>1,611,930</u>
At 30th June, 2005	<u><u>20,756,700</u></u>

The investment properties of the Group were revalued at 30th June, 2005 by directors on an open market value basis with reference to a review report of the Group's properties (the "Report") prepared by an independent professional properties surveyors. The Report was prepared on a similar basis as the valuation report of the Group as at 31st December, 2004. The net increase gave rise in fair value gain of approximately HK\$1,611,930,000 which has been credited to the income statement for the period.

16. PROPERTIES UNDER DEVELOPMENT

	<i>HK\$'000</i>
At 1st January, 2005	
As originally stated	887,262
Transfer to prepaid lease payments	<u>(9,500)</u>
As restated	877,762
Additions	<u>318,503</u>
At 30th June, 2005	1,196,265
Less: Amounts shown under current assets	<u>(1,194,986)</u>
Amounts shown under non-current assets	<u><u>1,279</u></u>

17. INTERESTS IN ASSOCIATES

	30th June, 2005 <i>HK\$'000</i>	31st December, 2004 <i>HK\$'000</i> (restated)
Share of net assets	753,202	707,580
Negative goodwill	<u>–</u>	<u>(75,909)</u>
	<u>753,202</u>	<u><u>631,671</u></u>

18. ADVANCES TO ASSOCIATES

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
Interest bearing advances to associates	232,747	257,503
Interest free advances to associates	954,620	686,629
	<u>1,187,367</u>	<u>944,132</u>

The advances to associates are unsecured. The Group will not demand repayment within one year from the balance sheet date and the amounts are therefore shown as non-current. The Directors estimate the fair value of interest free advances by discounting their future cash flow at the Group's market borrowing rate.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
ASSETS		
Financial assets, at fair value through profit and loss:		
Interest rate swaps	2,671	–
Stock option	1,251	–
Forward foreign exchange contracts	–	1,018
Total	<u>3,922</u>	<u>1,018</u>
LIABILITIES		
Financial liabilities, at fair value through profit and loss:		
Interest rate swap	28,317	–
Forward foreign exchange contracts	1,630	2,028
Total	<u>29,947</u>	<u>2,028</u>

20. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade receivables of approximately HK\$24,756,000 (at 31st December, 2004: HK\$28,825,000) comprising mainly rental receivables which are billed in advance and settlements are expected upon receipts of billings.

The following is an aged analysis of trade receivables at the balance sheet date:

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
0 – 30 days	4,536	4,349
31 – 60 days	1,743	1,380
61 – 90 days	1,439	530
Over 90 days	17,038	22,566
	<u>24,756</u>	<u>28,825</u>

21. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade payables of approximately HK\$7,646,000 (at 31st December, 2004: HK\$7,376,000).

The following is an aged analysis of trade payables at the balance sheet date:

	30th June, 2005	31st December, 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	352	71
Over 90 days	<u>7,294</u>	<u>7,305</u>
	<u>7,646</u>	<u>7,376</u>

22. BORROWINGS

	30th June, 2005	31st December, 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans, secured	7,199,222	6,115,588
Other loans, secured	<u>1,103,151</u>	<u>937,221</u>
	8,302,373	7,052,809
<i>Less:</i> Amounts due within one year and shown under current liabilities	<u>(2,858,108)</u>	<u>(2,283,161)</u>
Amounts due after one year	<u>5,444,265</u>	<u>4,769,648</u>

23. CONVERTIBLE BONDS

In April and May 2005, the Company has issued zero coupon Convertible Bonds (the “Bonds”) with a maturity date on 2010 in principal amount of HK\$1,750,000,000 and a further principal amount of HK\$60,000,000.

The Bonds are convertible on or after 20th May, 2005 up to and including 20th March, 2010 into fully paid ordinary shares with a par value of HK\$0.1 each of the Company at the initial price of HK\$7.37 per share, subject to adjustment. Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 100 per cent of their principal amount on 20th April, 2010.

The net proceeds received from the issue of the Bonds have been split between the liability component and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company, as follows:

	<i>HK\$'000</i>
Nominal value of the Bonds issued (net of transaction costs)	1,771,915
Equity component	<u>(230,775)</u>
	1,541,140
Deferred tax liability	<u>(48,952)</u>
Liability component at date of issue	1,492,188
Imputed interest expense for the period	<u>9,792</u>
Liability component at 30th June, 2005	<u>1,501,980</u>

The Directors estimate the fair value of the liability component of the Bonds at 30th June, 2005 to be approximately HK\$1,501,980,000. The fair value has been calculated by discounting the future cash flows at the Group’s market borrowing rate.

24. AMOUNTS DUE TO ASSOCIATES AND MINORITY SHAREHOLDERS

The amounts are unsecured and interest free. The amounts are not repayable within one year from the balance sheet date and are therefore shown as non-current. The Directors estimate the fair value of the amounts by discounting their future cash flow at the Group's market borrowing rate.

25. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2004	3,100,000	310,000
Increase	<u>1,900,000</u>	<u>190,000</u>
At 31st December, 2004 and 30th June, 2005	<u><u>5,000,000</u></u>	<u><u>500,000</u></u>
Issued and fully paid:		
At 1st January, 2004	2,163,900	216,390
Repurchased and cancelled	<u>(133,686)</u>	<u>(13,369)</u>
At 31st December, 2004 and 30th June, 2005	<u><u>2,030,214</u></u>	<u><u>203,021</u></u>

26. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following commitments:

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
Authorised and contracted for:		
Development expenditure of properties in Hong Kong	387,913	501,568
Acquisition of land	<u>–</u>	<u>169,000</u>
	<u><u>387,913</u></u>	<u><u>670,568</u></u>
Authorised but not contracted for:		
Development expenditure of properties in Hong Kong	<u><u>244,580</u></u>	<u><u>184,221</u></u>

27. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities not provided for in the financial statements.

	30th June, 2005 HK\$'000	31st December, 2004 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by associates	829,252	706,433
Guarantees given to third parties in respect of rent of disposed properties previously held by a subsidiary	8,008	–
Guarantee given to a third party in respect of acquisition of land by a subsidiary	<u>–</u>	<u>169,000</u>
	<u><u>837,260</u></u>	<u><u>875,433</u></u>

28. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Income received from associates:		
Office and shop rental	294	222
Building management fee	85	85
Interest income	3,796	3,544
Management fee	60	78
Guarantee fee	100	–
Accountancy fee	60	60
Rental expenses paid to an associate	181	189
Income received from a public company of which two Directors are substantial shareholders:		
Retail rental	20,018	20,018
Building management fee	1,788	1,788
Proceed from disposal of properties and assets to private companies owned by a discretionary trust set up by a Director and a substantial shareholder	<u>261,026</u>	<u>–</u>

Office and retail rental and building management fee were determined on terms similar to those applicable to transactions with unrelated parties. Management fee was charged at the terms agreed by both parties. Interest income was charged at prevailing market rate based on outstanding balance during the period. Proceeds from disposal of properties held for sale was reference to open market value.

Details of the balances with related parties as at the balance sheet date are set out in notes 18 and 24.

29. POST BALANCE SHEET EVENT

Subsequent to 30th June, 2005, certain bond holders exercised their options to convert the Bonds into shares. Up to 29th August, 2005, the Company allotted 44,827,579 ordinary shares to the bond holders and the number of issued shares of the Company as at 29th August, 2005 was increased to 2,075,041,579.

30. COMPARATIVE FIGURES

Certain comparative figures presented in these unaudited condensed consolidated financial statements have been restated to comply with the relevant new HKFRSs as set out in Note 2.

INTERIM DIVIDEND

The board of Directors of the Company (the “Board”) has declared an interim dividend of HK9 cents per share (period ended 30th June, 2004: HK8.5 cents) for the six months ended 30th June, 2005.

The register of members will be closed from 14th September, 2005 to 22nd September, 2005 both days inclusive and those persons whose names are registered as shareholders of the Company on 22nd September, 2005 will be entitled to receive the interim dividend. In order to qualify for the interim dividend, all transfers must be lodged with the Company’s Branch Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 13th September, 2005.

It is expected that the relevant dividend will be payable to those entitled on or about 23rd September, 2005.

FINANCIAL OPERATION REVIEW

Results

Turnover for the period ended 30th June, 2005 (the “Period”) amounted to HK\$429.7 million (period ended 30th June, 2004: HK\$3,558.8 million), a 87.9% decrease over the same period last year. It was mainly due to the decrease in turnover of securities investment and the turnover for sales of development properties.

For property leasing, the Period recorded an increase of 0.7% in rental income as compared with the corresponding period in 2004, amounting HK\$348.3 million (2004: HK\$345.7 million).

Gross profit for the Period amounted to HK\$344.1 million, an 8.1% increase as compared with the same period last year.

In relation to property development, sale of Parc Palais in King’s Park (10% interest) has been satisfactory again. The sale recognised in the Period had generated a contribution of HK\$34.8 million (period ended 30th June, 2004: HK\$138.9 million) which was included in investment income. Furthermore, 80% profit sharing from subsequent re-sale of 2 houses at Barker Road had generated a profit of HK\$50.2 million and was recorded in the Period.

In respect of the performance of listed securities investment and structured products, gain of HK\$83 million (period ended 30th June, 2004: HK\$167 million) was recorded, which included gross profit of HK\$0.4 million (period ended 30th June, 2004: HK\$5.3 million) and fair value losses on financial assets at fair value through profit and loss of HK\$25.2 million (period ended 30th June, 2004: unrealised holding gain of HK\$125.8 million) and exchange gain, dividend and interest of HK\$107.3 million (period ended 30th June, 2004: HK\$36.3 million) for the Period.

Results (*cont'd*)

Other operating income recorded an increase of 2.3 times to HK\$64.9 million when compared with the same period last year. Administrative expenses increased by 14.1% to HK\$69.4 million as compared with the same period last year. Finance costs recorded an increase of 5.1 times to HK\$97.9 million as compared with the same period last year.

The share of result of associates for the Period increased by 10.5 times to HK\$201.3 million as compared with the same period last year (period ended 30th June, 2004 restated: HK\$17.5 million), including share of gain on privatisation of The Kwong Sang Hong International Limited (the “Kwong Sang Hong”) and fair value changes on investment properties. Profit on completed sales on Miami Crescent were booked in the Period.

Profit attributable to equity holders of the parent for the Period was HK\$1,962 million as compared to HK\$584 million (restated) for the same period last year. Earnings per share was HK96.7 cents (period ended 30th June, 2004 restated: HK27.7 cents).

If the major non-cash items of HK\$1,361 million (see below) are excluded, profit attributable to equity holders of the parent for the Period will become HK\$601 million and earnings per share will become HK29.6 cents, an increase of 2.9% and 6.9% over 2004 respectively.

A final dividend of HK11 cents per share for the year ended 31st December, 2004 (year ended 31st December, 2003: HK12 cents) was paid during the Period.

An interim dividend of HK9 cents (2004: HK8.5 cents) per share for the Period is declared, representing a cash dividend payout of 9.3% for the Period. If the major non-cash items of HK\$1,361 million are excluded, the dividend payout will become 30.4%. The major non-cash items are revaluation gain on investment properties and their deferred tax expenses.

Net Asset Value

As at 30th June, 2005, the Group’s total net asset to equity holders of the parent amounted to approximately HK\$18,260 million (31st December, 2004 restated: HK\$16,183 million), an increase of HK\$2,077 million or 12.8% when compared with 31st December, 2004. With the total number of ordinary shares in issue of 2,030,214,000 as at 30th June, 2005, the net asset value per share to equity holders of the parent was HK\$8.99, an increase of 12.8% over 31st December, 2004 (HK\$7.97 restated). The increase in net asset value per share was mainly due to the profit retained for the Period.

Included in total net asset is deferred tax liabilities of HK\$2,322 million on fair value gain on investment properties. If the deferred tax liabilities are excluded, the total net asset to equity holders of parent will become HK\$20,582 million or HK\$10.14 per share.

During the period, the Group had made payment for the grant of the right to develop the Reclamation Street project and acquired certain residential properties, bought and sold listed securities investment. Other than the existing projects and those disclosed in the this report, the Group did not have any future plans for material investment or capital assets.

Securities Investment

At 30th June, 2005, listed securities investment, which formed part of the Group's cash management activities, amounted to HK\$1,961.6 million (31st December, 2004: HK\$1,633.4 million), representing 6.24% (31st December, 2004 restated: 6.29%) of the total assets at the period end, which mainly comprise blue chips listed shares in Hong Kong and overseas and listed debt securities.

It should be noted that the performance of securities investments for the year ending 31st December, 2005 depends on the transactions transacted in the whole year of 2005 and to a significant extent on the closing market value at the year end date. The whole year result may be higher or lower than the interim figures.

Risk Management

The Group has established adequate risk management procedures that enable it to identify, measure, monitor and control the various types of risk it faces. This is supplemented by active management involvement, effective internal controls and adequate internal audits in the best interests of the Group.

Equity

Both of the number of issued ordinary shares as at 30th June, 2005 and 31st December, 2004 were 2,030,214,000.

Debt and Gearing

As at 30th June, 2005, the Group's bank and other borrowings amounted to HK\$9,804 million (31st December, 2004: HK\$7,053 million). Cash, deposit at bank and United States currency treasury bills amounted to HK\$4,584 million (31st December, 2004: HK\$1,852 million) and net borrowings amounted to HK\$5,220 million (31st December, 2004: HK\$5,201 million).

Total debt to equity ratio was 53.3% (31st December, 2004 restated: 43.8%) and net debt to equity ratio was 28.4% (31st December, 2004 restated: 32.3%), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total equity of HK\$18,381 million (31st December, 2004 restated: HK\$16,093 million).

The increase of the total debt to equity ratio and the decrease of the net debt to equity ratio were mainly due to an increase in bank borrowings and the issuance of convertible bonds. The increase in cash level was for general working capital of the Group and enabled the Group to increase its investment in property in future.

Excluding outstanding convertible bonds, at the balance sheet date, the Group's bank and other borrowings were wholly denominated in Hong Kong dollars (98.2%), US dollars (1.6%) and Japanese Yen (0.2%). Of the Group's bank and other borrowings HK\$8,302 million, 34.4%, 8.9%, 56.5% and 0.2% were repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group's bank and other borrowings carrying interest rates were calculated mainly with reference to HIBOR and LIBOR. No hedging for interest rate was subsisted at the end of the Period.

Pledge of Assets

As at 30th June, 2005, the Group's investment properties, development properties, securities investment and time deposits with their respective book value of approximately HK\$19,850.0 million (31st December, 2004 restated: HK\$18,936.4 million), HK\$1,019.5 million (31st December, 2004: HK\$877.0 million), HK\$2,553.0 million (31st December, 2004: HK\$2,160.0 million) and HK\$112.8 million (31st December, 2004: HK\$129.5 million) were pledged to secure general banking facilities and other loan facilities of the Group.

Financial and Interest Income/Expenses

Interest income was included in turnover and investment income. Finance costs included interest expenses on bank and other loans, arrangement, facility and commitment fee expenses. Interest income for the Period was HK\$59.5 million, representing an increase of 2.8 times from that of 30th June, 2004 (HK\$15.5 million). Interest capitalized for the Period was HK\$7.2 million as compared to HK\$2.0 million for the same period last year. Excluding imputed interest, interest expenses for the Period amounted to HK\$80.9 million, representing a 2 times increase over the interest expenses of HK\$26.8 million recorded for the same period last year. An exchange gain on translation of foreign currency loans of HK\$12.4 million (period ended 30th June, 2004: HK\$14.4 million) was recorded during the period. The increase in interest expenses was due to increase in interest rate during the period. The average interest rate over the period under review was 2.38% (2004: 0.74%), which was expressed as a percentage of total interest expenses over the average total borrowings.

Remuneration Policies and Share Option Scheme

During the period under review, the Group employed a total of 243 (period ended 30th June, 2004: 228) staff (excluding about a total of 220 (period ended 30th June, 2004: 207) estate management staff employed under the Group's estate management company, Perfect World Company Limited).

Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration packages comprised salary and period-end discretionary bonus based on market conditions and individual performance. The Executive Directors continued to review employees' contributions and to provide them with necessary incentives and flexibility for their better commitment and performance. No share option scheme was adopted for the Period.

PRC

Profit contribution from the Group's investment in the People's Republic of China (the "PRC") (including operating profit and share of results of associates) for the Period amounted to HK\$76.5 million representing 3.9% of the profits attributable to equity holders of the parent (period ended 30th June, 2004 restated: HK\$26.4 million). The Group's China investment as at 30th June, 2005 amounted to HK\$1,189.8 million representing approximate 3.8% of the Group's total asset value (31st December, 2004 restated: HK\$850.3 million).

Listed Subsidiaries

At the period end date, the Group owned 61.93% interest in Chi Cheung Investment Company, Limited and 50.1% interest in G-Prop (Holdings) Limited.

The Kwong Sang Hong International Limited

In November 2004, Power Jade Capital Limited, a 50% associate of the Group, had proposed privatisation of Kwong Sang Hong by way of a scheme of arrangement. The scheme was approved by shareholders of Kwong Sang Hong in the Special General Meeting held on 5th January, 2005. Kwong Sang Hong withdrew its listed status and has become a 50% associate of the Group effective from 2nd February, 2005. The Group has utilized HK\$187.7 million cash in acquiring the additional 15.64% interest in Kwong Sang Hong.

BUSINESS REVIEW

Hong Kong Property Investment

Rental from property investment continued to be one of the main sources of the Group's income. The gross rental income has increased by 0.7% to HK\$348.3 million for the six months ended 30th June, 2005, as compared with the corresponding period last year.

The overall occupancy rate of the Group's retail portfolio remained at a high level of 95% during the period under review. The retail property market continued to improve during the 1st half of 2005. Such sustainable high occupancy rate was attributable to the prime locations of the majority of the Group's retail properties such as Causeway Bay, Wan Chai and Tsim Sha Tsui. The increase of retail rents was also attributable to the rise in tenants' business turnover resulting from increased tourists spending and improved local consumption.

During the period under review, the average occupancy rates of the offices at Windsor House, MassMutual Tower, Harcourt House and Tung Ying Building were 99%, 95%, 94% and 87% respectively, bringing the overall occupancy rate of office portfolio to 94%.

The Group will benefit from the expected improvement in occupancy rates and rental in Hong Kong's retail and office property markets.

Hong Kong Property Development

The Group's development projects have been progressing well in general.

The residential development project, Parc Palais in King's Park, Kowloon (10% interest) was completed in July 2004. As of June 2005, around 92% of the units had been sold.

Indihome in Tsuen Wan (50% interest ^{Note 1}) is a 56-storey development which comprises 960 serviced apartment units with a restaurant, shops, car parking spaces and full clubhouse facilities including a swimming pool. The property was under construction and scheduled to be completed in the fourth quarter of 2005. As of June 2005, about 67% of the units representing gross floor area of approximately 380,000 square feet had been sold.

Construction works of the residential villa complex, Miami Crescent in Sheung Shui (50% interest ^{Note 1}) comprising 78 3-storey detached/semi-detached houses were completed, with occupation permit and certificate of compliance issued in January 2005 and May 2005 respectively. Pre-sale of the property commenced in April 2005. As of June 2005, about 13% of the houses representing gross floor area of approximately 30,500 square feet had been sold.

Hong Kong Property Development (cont'd)

Superstructure works for the development project, Mount Beacon at the junction of Cornwall Street and Tat Chee Avenue (33 1/3% interest) commenced in August 2004. The project was scheduled for completion in early 2006. Pre-sale of the property commenced in July 2005.

For the Tai Yuen Street/Wanchai Road redevelopment project undertaken with the Urban Renewal Authority (87.5% interest ^{Note 2}), superstructure works of Phase 1 were in progress. Upon completion, Phase 1 of the project will comprise 3 high-rise residential towers with about 652 residential units and commercial portion with a total gross floor area of about 443,000 square feet. Occupation permit for Site B of Phase 1 was issued in June 2005. Application for lease modification to change the use of Phase 2 from office to residential is being processed by the Lands Department. Under the proposed residential scheme of Phase 2, there will be a high-rise residential tower of about 252 residential units and a total gross floor area of about 159,727 square feet. Construction works of Phase 1 was scheduled for completion in early 2006. It is planned that Phase 1 will be offered for pre-sale at the end of 2005 pending issuance of the pre-sale consent.

Site formation and foundation works for the development at No. 55 Conduit Road (70% interest) commenced in February 2003. This residential project has a total gross floor area of around 87,800 square feet.

The Group's tender for the Urban Renewal Authority redevelopment project at Reclamation Street and Arran Street in Western Kowloon (100% interest) was accepted in December 2004. The composite development has a total gross floor area of approximately 56,000 square feet and its completion is targeted in 2007.

PRC Property Investment

Hong Kong New World Tower, Shanghai (34.65% interest) comprises approximately 1,468,000 square feet of office and retail spaces. The average occupancy rates of the office section and retail section were 91% and 81% respectively for the period ended 30th June, 2005.

Hilton Beijing (50% interest) maintained an average occupancy rate of 89% and a gross operating profit of HK\$17.7 million for the period ended 30th June, 2005. Renovation works to all the guest-rooms are to be completed in August 2005. Renovation works of the common areas will commence in December 2005 and are expected to be completed in April 2006. The detailed drawing of the hotel extension building, which includes executive rooms and other ancillary hotel facilities, has been approved by the relevant governmental authorities. The Construction Planning Permit is expected to be issued by the Beijing Municipal Commission of Urban Planning by September 2005.

Oriental Place (50% interest), a 10-storey office building next to Hilton Beijing, maintained an average occupancy rate of 99% during the period under review.

The 79 retail outlets in Lowu Commercial Plaza, Shenzhen (100% interest), with approximately 29,000 square feet, was fully let during the period under review.

Peregrine Plaza, Shanghai (50% interest ^{Note 1}) located at Huaihai Road Central, Xuhui District, one of the most prestigious commercial districts in Shanghai, is a 23-storey office/shopping complex and has a total gross floor area of 267,100 square feet. Apart from 3,369 square feet of office space, which had been sold, the remaining portion of the property is for leasing purpose as a long-term investment. The average occupancy rates of the office and retail spaces stood high at 90% and 97% respectively for the period ended 30th June, 2005.

PRC Property Investment (cont'd)

Notes:–

Note 1: The Group's interest in each of the project and the property has increased from 34.36% to 50% upon the completion of privatization of The Kwong Sang Hong International Limited in February 2005 (the "Privatization").

Note 2: The Group's interest in the project has increased to 87.5% upon the completion of the Privatization.

CORPORATE INFORMATION

On 27th August, 2004, Paul Y. Holdings Company Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with a company wholly-owned by a discretionary trust set up by Mr. Joseph Lau, Luen-hung ("Mr. Lau"), an executive director and a substantial shareholder of the Company, for the benefit of certain of his family members, relating to, among other things, the disposal of a group of wholly-owned subsidiaries of the Company, which hold indirect interests in various properties including a development at No. 31 Barker Road, Hong Kong and the 7 residential units. The disposal of the development at No. 31 Barker Road, Hong Kong and the 7 residential units were completed in December 2004 and March 2005 respectively.

The Company also entered into a sale and purchase agreement on 27th August, 2004 with another company wholly-owned by a discretionary trust set up by Mr. Lau, for the benefit of certain of his family members, relating to the disposal of Jade Wall Limited ("Jade Wall"), a wholly-owned subsidiary of the Company which holds direct interests in certain works of art including Chinese ceramics, furniture and paintings. The disposal of Jade Wall was completed in March 2005.

SUBSEQUENT EVENT

On 9th March, 2005, the Company entered into a subscription agreement in relation to the issue of Zero Coupon Convertible Bonds due 2010 of an aggregate principal amount of up to HK\$2,000,000,000 (the "Bonds"), which are convertible into shares of the Company at the option of their holder(s) from time to time, in accordance to the terms of the Bonds. Details of the issue of the Bonds were disclosed in an announcement dated 10th March, 2005. Following the issue by the Company of the Bonds with an aggregate principal amount of HK\$1,810,000,000, the Company had received requests from certain holders of the Bonds for conversion. As at 29th August, 2005, 44,827,579 shares of the Company were allotted to the holders of Bonds. As at 29th August, 2005, the no. of issued share of the Company was 2,075,041,579.

PROSPECT

To take full advantage of the rising retail market, the Group has decided to redevelop the 40-year-old Tung Ying Building at the heart of Tsim Sha Tsui into a retail-predominant and entertainment complex in early 2006. The redevelopment will take approximately three years to complete.

The Group plans to carry out a series of repackaging programmes for its landmark shopping arcades to maximize property value and strengthen returns. The ground floor and basement of Windsor House will be renovated and converted into miniature shops, works scheduled to commence in July 2006. Commercialization of the basement of Silvercord, Tsim Sha Tsui and the ground to second floors of Excelsior Plaza, Causeway Bay will commence in September and November 2005 respectively. It is expected that the Group will enjoy a substantial growth of rental from the new leases.

In addition, the Group will continue to capture opportunities for replenishing its land bank for development projects in the Greater China region.

INDEPENDENT REVIEW

The interim results for the Period are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA, by Deloitte Touche Tohmatsu, whose independent review report is included in this report. The audit committee of the Company (the “Audit Committee”), comprised Mr. Koon, Wing-yee (“Mr. Koon”), Mr. Cheng, Kwee (“Mr. Cheng”) and Mr. Chan, Kwok-wai (“Mr. Chan”), the Independent Non-executive Directors, has reviewed with management the accounting principles and practices adopted by the Group and the unaudited interim financial statements for the Period.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30th June, 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”) as recorded in the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange are as follows:-

I The Company

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	275,143,456	(1)	Other Interests	
	<u>1,000,000,000</u>	(2)	Other Interests	
	<u><u>1,275,143,456</u></u>			62.81%
Thomas Lau, Luen-hung	<u><u>199,207,187</u></u>	(3)	Other Interests	9.81%

Notes:

- (1) These shares were indirectly owned by a discretionary trust of which Mr. Joseph Lau, Luen-hung was the founder and certain family members of Mr. Joseph Lau, Luen-hung were eligible beneficiaries.
- (2) These shares were held by a unit trust of which Mr. Joseph Lau, Luen-hung was one of the unit holders. The rest of the units in the unit trust were held by a discretionary trust of which Mr. Joseph Lau, Luen-hung was the founder and certain family members of Mr. Joseph Lau, Luen-hung were eligible beneficiaries.
- (3) These shares were indirectly owned by a discretionary trust of which Mr. Thomas Lau, Luen-hung and his certain family members were eligible beneficiaries.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS (*cont'd*)

II Associated Corporations of the Company

1. Chi Cheung Investment Company, Limited (“Chi Cheung”)

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	209,811,186	(a)	Interest in Controlled Corporation	61.93%

2. G-Prop (Holdings) Limited (“G-Prop”)

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	397,858,761	(b)	Interest in Controlled Corporation	50.10%

Notes:

- (a) Mr. Joseph Lau, Luen-hung by virtue of his 62.81% interest in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 209,811,186 shares of Chi Cheung held directly by Billion Up Limited, a wholly-owned subsidiary of Lucky Years Ltd. which in turn was the wholly-owned subsidiary of the Company.
- (b) Mr. Joseph Lau, Luen-hung, by virtue of his 62.81% interest in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 397,858,761 shares of G-Prop under the provisions of the SFO. The Company was interested in 397,858,761 shares of G-Prop of which 170,000,000 shares, 113,818,911 shares, 37,162,165 shares and 76,877,685 shares were issued shares respectively held by Million Point Limited (“Million Point”), Paul Y. Holdings Company Limited (“Paul Y.”), Great Empire International Ltd. (“Great Empire”) and Luckpoint Investment Limited (“Luckpoint”)

The Company was deemed to be interested in the 170,000,000 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Chinese Estates, Limited, which owned the entire issued share capital of Cosmos Success Limited which in turn owned the entire issued share capital of Million Point.

The Company was also deemed to be interested in the 113,818,911 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y.

The Company was also deemed to be interested in the 37,162,165 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y., which owned the entire issued share capital of Goldstance Group Limited, which in turn owned the entire issued share capital of Great Empire.

The Company was also deemed to be interested in the 76,877,685 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of China Entertainment and Land Investment Company, Limited, which in turn owned the entire issued share capital of Luckpoint.

All the interests stated above represent long positions. The percentage shown was the number of shares the relevant director of the Company was interested expressed as a percentage of the number of issued shares as at 30th June, 2005.

Saved as disclosed above, none of the other Directors and chief executives of the Company had or were deemed under the SFO to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within Part XV of the SFO) as at 30th June, 2005.

During the six months ended 30th June, 2005, none of the Directors and chief executive of the Company nor their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any securities of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30th June, 2005, so far as are known to the Directors, the following parties (other than Director or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name	Number of Shares (ordinary share)	Capacity	Percentage of Issued Share Capital
GZ Trust Corporation	1,275,143,456 <i>(notes 1 & 2)</i>	Trustee, Beneficiary of a Trust and Interest in Controlled Corporation	62.81%
Global King Ltd.	1,000,000,000 <i>(note 1)</i>	Trustee	49.26%
Joseph Lau Luen Hung Investments Limited	275,143,456 <i>(note 2)</i>	Beneficial Owner	13.55%
Ip, Sok-wun	199,207,187 <i>(note 3)</i>	Founder of Discretionary Trust	9.81%
J. P. Morgan Trust Company (Bahamas) Limited	199,207,187 <i>(note 4)</i>	Trustee and Interest in Controlled Corporation	9.81%
Sunny Trend Limited	199,207,187 <i>(note 4)</i>	Beneficial Owner	9.81%
Li Ka-shing	174,660,000 <i>(notes 5 & 6)</i>	Founder of Discretionary Trusts and Interest of Controlled Corporations	8.60%
Li Ka-Shing Unity Trustcorp Limited	174,660,000 <i>(notes 5 & 6)</i>	Trustee and Beneficiary of a Trust	8.60%
Li Ka-Shing Unity Trustee Corporation Limited	174,660,000 <i>(notes 5 & 6)</i>	Trustee and Beneficiary of a Trust	8.60%
Li Ka-Shing Unity Trustee Company Limited	174,660,000 <i>(notes 5 & 6)</i>	Trustee	8.60%
Cheung Kong (Holdings) Limited	174,660,000 <i>(notes 5 & 6)</i>	Interest of Controlled Corporations	8.60%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

(cont'd)

Name	Number of Shares (ordinary share)	Capacity	Percentage of Issued Share Capital
Hutchison Whampoa Limited	174,660,000 (note 5)	Interest of Controlled Corporations	8.60%
Hutchison International Limited	174,660,000 (note 5)	Interest of a Controlled Corporation	8.60%
Primetek Holdings Limited	174,660,000 (note 5)	Beneficial Owner	8.60%

Notes:

1. GZ Trust Corporation as trustee of a discretionary trust held units in a unit trust of which Global King Ltd. was the trustee and therefore was regarded as interested in the same parcel of shares held by Global King Ltd. These shares were the same parcel of 1,000,000,000 shares of the Company referred to in "Other Interests" of Mr. Joseph Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
2. GZ Trust Corporation as trustee of another discretionary trust held the entire issued share capital of Joseph Lau Luen Hung Investments Limited and therefore was regarded as interested in the same parcel of shares held by Joseph Lau Luen Hung Investments Limited. These shares were the same parcel of 275,143,456 shares of the Company referred to in "Other Interests" of Mr. Joseph Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
3. These shares were indirectly owned by a discretionary trust of which Ms. Ip, Sok-wun was the founder. These shares were the same parcel of the shares referred to in "Other Interests" of Mr. Thomas Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
4. J. P. Morgan Trust Company (Bahamas) Limited as trustee of a discretionary trust owned the entire issued share capital of Sunny Trend Limited. By virtue of the SFO, J. P. Morgan Trust Company (Bahamas) Limited was deemed to have interest in the 199,207,187 shares of the Company held by Sunny Trend Limited. These shares were the same parcel of shares referred to in "Other Interests" of Mr. Thomas Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above and in the above note 3.
5. Primetek Holdings Limited ("Primetek") is a wholly-owned subsidiary of Hutchison International Limited ("HIL"), which in turn is a wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL"). By virtue of the SFO, HWL and HIL are deemed to be interested in the 174,660,000 shares of the Company held by Primetek.
6. Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in the UT1.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1 and CKH was deemed to be interested in the 174,660,000 shares of the Company held by Primetek.

All the interests stated above represent long positions. As at 30th June, 2005, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

DISCLOSURE REQUIREMENTS UNDER CHAPTER 13 OF THE LISTING RULES

Advances To An Entity

Pursuant to Listing Rule 13.20, the Directors of the Company reported on the advances to and guarantees given to Power Jade Capital Limited (“Power Jade”), a 50% associate of the Company, and its subsidiaries by the Group as at 30th June, 2005. The total of aggregate advances to and guarantees given, exceeding 8% of the market capitalisation of the Company as at 30th June, 2005, is HK\$1,713,693,000, detailing as follows:

Name of associated companies	Attributable interest held by the Group %	Advance as at 30th June, 2005 HK\$'000	Guarantees given for banking facilities granted HK\$'000	Total advances plus guarantees given as at 30th June, 2005 HK\$'000
Power Jade Capital Limited	50%	723,693 (Note 1)	–	723,693
Healthy Sun Limited (Note 2)	50%	–	790,000 (Note 3)	790,000
Billion Universe Limited (Note 2)	50%	–	200,000 (Note 4)	200,000
		<u>723,693</u>	<u>990,000</u>	<u>1,713,693</u>

Notes:

- (1) The advance made by the Group as a shareholder’s loan, HK\$76,325,000 of which is interest bearing at HIBOR + 1.85% and the balance of HK\$647,368,000 is interest free, is unsecured and has no specific repayment terms.
- (2) Healthy Sun Limited and Billion Universe Limited are the indirect wholly-owned subsidiaries of Power Jade.
- (3) The Company together with Solar Chain Limited (“Solar Chain”), a 50% holding company of Power Jade provided an unconditional and irrevocable guarantee on a joint and several basis for securing the banking facility to Healthy Sun Limited for the development project located at nos. 124-142 Yeung Uk Road, Tsuen Wan, New Territories (currently known as “Indihome”).
- (4) The Company together with Solar Chain provided an unconditional and irrevocable guarantee on a joint and several basis for securing the banking facility to Billion Universe Limited for the development project located at Fan Kam Road, Ying Pun, Sheung Shui, New Territories (currently known as “Miami Crescent”).

Proforma Combined Balance Sheet of The Affiliated Companies

Pursuant to Listing Rule 13.22, a proforma combined balance sheet of the affiliated companies to which financial assistance and guarantees for their benefit have been given by the Group as at 30th June 2005 (the latest practicable date) is presented below:

	<i>(note)</i> Combined total <i>HK\$' million</i>	Interest attributable to the Group <i>HK\$' million</i>
Non-current assets	5,597	2,133
Current assets	4,611	2,165
Current liabilities	(2,742)	(1,333)
Non-current liabilities	(7,667)	(3,194)
Net liabilities	<u>(201)</u>	<u>(229)</u>

Note: Proforma combined balance sheet has been realigned with the Group's accounting policies.

CORPORATE GOVERNANCE

The remuneration committee of the Company comprised Mr. Koon, Mr. Cheng and Mr. Chan was established this year with written terms of reference in accordance with the requirements of the code provisions in the Code of Corporate Governance Practices set out in Appendix 14 (the "Code Provisions") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Board believed that the Company has complied with the Code Provisions to the Listing Rules, except that

1. the Independent Non-executive Directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws; and
2. the Directors have not been required by the Company's Bye-laws to retire by rotation at least once every three years. However, in accordance with the Company's Bye-laws, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation provided that no Director holding office as chairman, managing director or joint managing director shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire at each annual general meeting.

The Board will ensure the retirement of each Director by rotation at least once every three years in order to comply with the Code Provisions to the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). All Directors, after specific enquiries by the Company, confirmed they have complied with the required standard set out in the Model Code and the said code of conduct during the six months ended 30th June, 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June, 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

APPRECIATION

I would like to take this opportunity to thank the shareholders for their continuing support and all the staff for their dedication and hard work.

On behalf of the Board
Thomas Lau, Luen-hung
Chairman

Hong Kong, 29th August, 2005