

Hongkong Land Holdings Limited
Interim Report 2006



ONE RAFFLES QUAY



Hongkong Land is a leading property investment, management and development group with a major portfolio in Hong Kong, where it owns and manages some five million sq. ft of prime office and retail space in the heart of the Central business district. Established in 1889, the Company's business is built on partnership, integrity and excellence.

The Group also develops high quality commercial and residential property projects elsewhere in Asia and holds a 77% shareholding in Singapore-listed residential property developer, MCL Land. These assets are also managed from Hong Kong by Hongkong Land Limited, which provides services to Group companies.

Hongkong Land Holdings Limited is incorporated in Bermuda with its primary share listing in London. The Company's shares are also listed in Bermuda and Singapore. Hongkong Land is a member of the Jardine Matheson Group.

One Raffles Quay, a joint venture commercial development in the new financial district in Singapore (front cover).



Jardines

A member of the Jardine Matheson Group

Highlights

- Hong Kong office rents and values rise further, though at a slowing pace
- Adjusted net asset value per share[#] up 11%
- MCL Land becomes a 77%-owned subsidiary
- Interim dividend up 50% to US¢3.00 per share

Results

	(unaudited) Six months ended 30th June		Change %
	2006 US\$m	2005 US\$m	
Underlying profit attributable to shareholders	117	105	11
Profit attributable to shareholders	923	1,195	(23)
Shareholders' funds	8,005	7,215*	11
Adjusted shareholders' funds [#]	9,547	8,592*	11
	US¢	US¢	%
Underlying earnings per share	5.26	4.74	11
Earnings per share	41.49	53.68	(23)
Interim dividend per share	3.00	2.00	50
	US\$	US\$	%
Net asset value per share	3.60	3.24*	11
Adjusted net asset value per share [#]	4.29	3.86*	11

* At 31st December 2005

[#]In preparing the Group's financial statements under International Financial Reporting Standards ('IFRS'), the fair value model for investment properties has been adopted. In accordance with this model, the Group's investment properties have been included at their open market value as determined by independent valuers. As there is no capital gains tax in territories where the Group has significant leasehold investment properties, no tax would be payable if those properties were to be sold at the amounts included in the financial statements. In relation to leasehold investment properties, however, IFRS require deferred tax on any revaluation amount to be calculated using income tax rates. This is in contrast to the treatment for the revaluation element of freehold properties where IFRS require capital gains tax rates to be used.

As Management considers that the Group's long leasehold properties have very similar characteristics to freehold property, the adjusted shareholders' funds and adjusted net asset value per share information is presented on the basis that would be applicable if the leasehold properties were freeholds. The adjustments made add back the deferred tax provided in the financial statements that would not have been provided if the properties were freeholds, which in any event would not be payable on a sale of the properties.

Chairman's Statement

Overview

Firm demand for office space in Hong Kong continued in the first half of 2006. With diminishing vacancy both in the Central Business District and decentralised markets, leasing activity has decreased. The pace of growth in capital values has also slowed.

Performance

Underlying profit rose 11% to US\$117 million for the first half of the year as net rental income rose strongly on positive reversions. Residential profits in Hong Kong and China were lower on fewer completions, although this was more than compensated for by the first contribution from MCL Land, which included negative goodwill arising on acquisition. The overall result, however, also reflected the cost of higher net financing charges as interest rates increased and debt levels rose following the MCL Land investment in the first quarter.

The independent valuation of the Group's investment portfolio led to a surplus net of deferred tax of US\$759 million being taken to profit and loss account. This reflected a 10% increase in the portfolio's value, as the impact of rising rents was only partially offset by higher capitalisation rates. The reported profit of US\$923 million was 23% below the comparable period in 2005 because of the larger revaluation surplus booked a year ago.

In view of the positive outlook for cash flow and the wish of the Board to improve the balance between the interim and final distributions, the Directors have declared an interim dividend of US\$3.00 per share, up 50%.

Group Review

Commercial Property

As vacancy in Hong Kong's Central district fell to low levels, demand has been increasingly satisfied in decentralised districts which are now experiencing equally low vacancy. The resulting high citywide occupancy continues to underpin rents. At the end of June, the vacancy in the Group's Hong Kong office portfolio was 5%, while its retail portfolio was fully committed. York House, the Group's new commercial building on Queen's Road Central, received its temporary occupation permit just after the half year closed. The retail component is fully pre-let, while the office portion of the building is now being marketed ahead of an expected occupation permit in the fourth quarter of 2006.

In Singapore, One Raffles Quay, owned by a consortium in which the Group has a one-third interest, is now 99% committed. The South Tower received its temporary occupation permit in April, and tenants are currently fitting out, while the North Tower is expected to receive its permit in the fourth quarter of this year. The neighbouring Business and Financial Centre site, acquired by the same consortium group, has received approval of its masterplan and construction should begin before the year-end.

Residential Property

The Central Park development in Beijing is completing construction of its third phase of apartments. Profits from this phase, which was some 90% pre-sold in previous years, will be booked when the units are handed over to buyers in mid 2007. Phase IV is already under construction and will begin pre-selling later in the year. Physical completion is projected for 2008.

Activity in Hong Kong's residential market was subdued in the first half, except for the super-luxury sector. The Grosvenor Land property fund continued its disposal programme and sold its development on the Peak in the second quarter.

MCL Land, now a 77%-held subsidiary, made good progress in both sales and site acquisitions during the half year. Its portfolio of developments under construction in Singapore was some 93% pre-sold at the end of June, while six new sites have been acquired comprising more than 100,000 sq. m. of developable gross floor area. The profit contribution from MCL Land, which did not complete any developments in the first half, arose predominantly from the sale of a site in Malaysia and the booking of the negative goodwill on acquisition, which reflected the excess of the valuation of the MCL Land shares over the acquisition cost.

In Macau, the Group's joint venture with Shun Tak has begun construction on its site at Nam Van Lake. The first phase of apartments is expected to be launched within the next 12 months. Completion of the residential and commercial components is projected for 2008/2009.

Finance

In June, the Group completed a substantial financing, when it signed a 7-year committed HK\$7.5 billion syndicated loan facility. The proceeds will be used largely to refinance more expensive existing funding lines. Financing charges rose however, because of higher debt levels and increased interest rates. The Group continues to hedge its exposure to rising rates, and at the half year 44% of its gross debt was at fixed rates.

People

On 1st April Anthony Nightingale took over as Managing Director from Percy Weatherall, who remains on the Board. I would like to express our thanks to him for his contribution to the Group. Mark Greenberg joined the Board in June.

Outlook

Although rental increases in Hong Kong's commercial market are slowing, the outlook continues to be underpinned by the lack of supply in Central. The continuing positive reversion cycle and our pipeline of development sites will produce further improvements in earnings next year.

Simon Keswick

Chairman
27th July 2006

Consolidated Profit and Loss Account

	Note	(unaudited)		Year ended
		Six months ended 30th June		31st December
		2006	2005	2005
		US\$m	US\$m	US\$m
Revenue	2	208.0	180.2	367.6
Cost of sales		(48.4)	(42.6)	(95.7)
Gross profit		159.6	137.6	271.9
Other income		21.1	–	–
Administrative and other expenses		(14.9)	(12.5)	(28.2)
		165.8	125.1	243.7
Increase in fair value of investment properties		914.4	1,306.1	2,367.9
Asset impairment reversals and disposals	3	(6.5)	1.0	11.1
Operating profit	4	1,073.7	1,432.2	2,622.7
Net financing charges		(37.4)	(11.5)	(39.3)
Share of results of joint ventures	5	56.0	7.8	10.0
Profit before tax		1,092.3	1,428.5	2,593.4
Tax	6	(167.5)	(233.8)	(532.6)
Profit for the period		924.8	1,194.7	2,060.8
Attributable to:				
Shareholders of the Company		923.4	1,194.6	2,060.5
Minority interests		1.4	0.1	0.3
		924.8	1,194.7	2,060.8
		US¢	US¢	US¢
Earnings per share	7			
– basic		41.49	53.68	92.58
– diluted		39.92	53.68	92.48

Consolidated Balance Sheet

		(unaudited)		At
		At 30th June		31st December
	Note	2006	2005	2005
		US\$m	US\$m	US\$m
Net operating assets				
Tangible assets	8			
Investment properties		10,752.8	8,652.1	9,778.7
Others		13.0	11.6	12.3
		10,765.8	8,663.7	9,791.0
Joint ventures		846.5	338.2	638.8
Other investments		13.4	0.3	49.5
Deferred tax assets		0.7	1.4	1.6
Pension assets		10.7	9.6	10.8
Other non-current assets		9.2	7.5	9.1
Non-current assets		11,646.3	9,020.7	10,500.8
Properties for sale		641.8	69.1	87.2
Debtors, prepayments and others		192.0	176.2	135.8
Bank balances		832.1	659.3	1,092.8
Current assets		1,665.9	904.6	1,315.8
Creditors and accruals		(384.3)	(204.6)	(243.1)
Current borrowings	9	(288.6)	(80.0)	(379.0)
Current tax liabilities		(19.2)	(14.8)	(8.6)
Current liabilities		(692.1)	(299.4)	(630.7)
Net current assets		973.8	605.2	685.1
Long-term borrowings	9	(2,956.4)	(2,209.2)	(2,568.6)
Deferred tax liabilities		(1,555.6)	(1,107.1)	(1,400.6)
Other non-current liabilities		(5.3)	–	–
		8,102.8	6,309.6	7,216.7
Total equity				
Share capital		229.5	229.5	229.5
Revenue and other reserves		7,853.5	6,156.6	7,063.5
Own shares held		(77.7)	(77.7)	(77.7)
Shareholders' funds	10	8,005.3	6,308.4	7,215.3
Minority interests		97.5	1.2	1.4
		8,102.8	6,309.6	7,216.7
		US\$	US\$	US\$
Net asset value per share	11	3.60	2.83	3.24
Adjusted net asset value per share	11	4.29	3.32	3.86

Consolidated Statement of Recognised Income and Expense

	(unaudited)		Year ended
	Six months ended 30th June	2005	31st December
	2006	2005	2005
	US\$m	US\$m	US\$m
Net exchange translation differences	6.2	(4.7)	11.0
Actuarial gains on defined benefit pension plans	–	–	1.4
Gain on revaluation of other investments	–	0.5	4.6
Reversal of loss on revaluation of other investments on business combination	0.6	–	–
(Losses)/gains on cash flow hedges	(13.4)	19.8	28.7
Equity component of convertible bonds	–	–	63.4
Tax on items taken directly to equity	1.6	–	(1.6)
Net (expense)/income recognised directly in equity	(5.0)	15.6	107.5
Transfer to profit and loss in respect of cash flow hedges	5.1	4.7	(1.7)
Profit for the period	924.8	1,194.7	2,060.8
Total recognised income and expense for the period	924.9	1,215.0	2,166.6
Attributable to:			
Shareholders of the Company	923.5	1,214.9	2,166.3
Minority interests	1.4	0.1	0.3
	924.9	1,215.0	2,166.6

Consolidated Cash Flow Statement

	Note	(unaudited)		Year ended
		Six months ended 30th June		31st December
		2006	2005	2005
		US\$m	US\$m	US\$m
Operating activities				
Operating profit		1,073.7	1,432.2	2,622.7
Depreciation		0.4	0.4	0.7
Negative goodwill on acquisition of a subsidiary		(14.1)	–	–
Increase in fair value of investment properties		(914.4)	(1,306.1)	(2,367.9)
Asset impairment reversals and disposals		6.5	(1.0)	(11.1)
Increase in working capital		(81.1)	(29.2)	(26.3)
Interest received		35.5	9.3	34.3
Interest and other financing charges paid		(59.6)	(28.5)	(76.4)
Tax paid		(5.4)	(5.4)	(22.6)
Dividends received		6.3	0.7	2.8
Cash flows from operating activities		47.8	72.4	156.2
Investing activities				
Major renovations expenditure		(10.9)	(5.1)	(14.5)
Development capital expenditure		(26.5)	(46.7)	(78.5)
Purchase of a subsidiary	13	(237.8)	–	–
Investments in and loans to joint ventures		(115.4)	(47.0)	(335.9)
Purchase of other investments		–	–	(47.4)
Disposal of joint ventures and other investments		0.7	–	10.1
Cash flows from investing activities		(389.9)	(98.8)	(466.2)
Financing activities				
Net proceeds from issue of bonds		–	–	411.7
Net proceeds from issue of convertible bonds		–	–	395.2
Drawdown of bank loans		425.7	52.1	223.4
Repayment of bank loans/notes		(218.8)	(5.9)	(224.4)
Dividends paid by the Company		(125.5)	(110.7)	(155.5)
Dividends paid to minority shareholders		(2.7)	–	–
Cash flows from financing activities		78.7	(64.5)	650.4
Effect of exchange rate changes		2.5	(0.2)	1.8
Net (decrease)/increase in cash and cash equivalents		(260.9)	(91.1)	342.2
Cash and cash equivalents at beginning of period		1,089.9	747.7	747.7
Cash and cash equivalents at end of period		829.0	656.6	1,089.9
		US¢	US¢	US¢
Cash flow per share	14	1.66	3.02	6.37

Notes

1 Accounting policies and basis of preparation

The unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting.

In 2006, the Group adopted the following amendments and interpretation to existing Standards which are relevant to its operations:

IAS 39 (amended 2005)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (amended 2005)	The Fair Value Option
IAS 39 and IFRS 4 (amended 2005)	Financial Guarantee Contracts
IFRIC 4	Determining whether an Arrangement contains a Lease

There have been no changes to the accounting policies described in the 2005 annual financial statements as a result of adoption of the above amendments and interpretation.

2 Revenue

	Six months ended 30th June	
	2006 US\$m	2005 US\$m
	<u> </u>	<u> </u>
By business		
Commercial property		
Rental income	159.9	134.1
Service and management charges	33.0	30.7
Other	14.0	–
	206.9	164.8
Residential property		
Rental income	1.1	0.8
Sales of residential properties	–	14.6
	1.1	15.4
	208.0	180.2

3 Asset impairment reversals and disposals

	Six months ended 30th June	
	2006 US\$m	2005 US\$m
Other asset impairment provision	(7.2)	–
Other asset impairment reversals	0.7	1.0
	(6.5)	1.0
By business		
Commercial property	(7.2)	–
Residential property	–	1.0
Corporate	0.7	–
	(6.5)	1.0

4 Operating profit

	Six months ended 30th June	
	2006 US\$m	2005 US\$m
By business		
Commercial property	158.7	126.6
Residential property	17.6	7.5
Corporate	(10.5)	(9.0)
	165.8	125.1
Increase in fair value of investment properties	914.4	1,306.1
Asset impairment reversals and disposals (see Note 3)	(6.5)	1.0
	1,073.7	1,432.2

Notes

5 Share of results of joint ventures

	Six months ended 30th June	
	2006 US\$m	2005 US\$m
By business		
Commercial property	50.2	(0.2)
Residential property	5.8	8.0
	56.0	7.8

Results are shown after tax and minority interests.

6 Tax

	Six months ended 30th June	
	2006 US\$m	2005 US\$m
Current tax	9.8	11.4
Deferred tax		
– changes in fair value of investment properties	155.6	220.5
– other temporary differences	2.1	1.9
	167.5	233.8

Tax on profits is provided at the rates of taxation prevailing in the territories in which the Group operates. The Group has no tax payable in the United Kingdom.

7 Earnings per share

Earnings per share are calculated on profit attributable to shareholders of US\$923.4 million (2005: US\$1,194.6 million) and on the weighted average number of 2,225.6 million (2005: 2,225.6 million) shares in issue during the period, which excludes 69.6 million shares in the Company held by a wholly-owned subsidiary.

Diluted earnings per share are calculated on profit attributable to shareholders of US\$930.0 million (2005: US\$1,194.6 million), which is after adjusting for the effects of the conversion of convertible bonds, and on the weighted average number of 2,329.6 million (2005: 2,225.6 million) shares in issue during the period. The number of shares for basic and diluted earnings per share is reconciled as follows:

	Ordinary shares in millions	
	2006	2005
Weighted average number of shares in issue	2,225.6	2,225.6
Adjustment for shares to be issued on conversion of convertible bonds	104.0	–
Weighted average number of shares for diluted earnings per share	2,329.6	2,225.6

Earnings per share are additionally calculated based on underlying profit attributable to shareholders. A reconciliation of profit is set out below:

	Six months ended 30th June					
	2006		2005			
	US\$m	Basic earnings per share US¢	Diluted earnings per share US¢	US\$m	Basic earnings per share US¢	Diluted earnings per share US¢
Underlying profit attributable to shareholders	117.1	5.26	5.31	105.4	4.74	4.74
Increase in fair value of investment properties	914.4			1,306.1		
Deferred tax on changes in fair value of investment properties	(155.6)			(220.5)		
Share of increase in fair value of investment properties of joint ventures	66.3			2.7		
Share of deferred tax on changes in fair value of investment properties of joint ventures	(11.8)			–		
Asset impairment reversals and disposals	(6.5)			1.0		
Share of asset disposals of joint ventures	(0.3)			–		
Minority interests	(0.2)			(0.1)		
Profit attributable to shareholders	923.4	41.49		1,194.6	53.68	
Interest expense on convertible bonds (net of tax)	6.6			–		
Profit for calculation of diluted earnings per share	930.0		39.92	1,194.6		53.68

Notes

8 Tangible assets

	Six months ended 30th June		Year ended
	2006	2005	31st December
	US\$m	US\$m	US\$m
Net book value at beginning of period	9,791.0	7,300.7	7,300.7
Exchange rate adjustments	(4.1)	(3.7)	20.4
New subsidiary	25.9	–	–
Additions	39.3	61.0	102.7
Depreciation	(0.4)	(0.4)	(0.7)
Disposals	(0.3)	–	–
Increase in fair value of investment properties	914.4	1,306.1	2,367.9
Net book value at end of period	10,765.8	8,663.7	9,791.0

9 Borrowings

	At 30th June		At 31st December
	2006	2005	2005
	US\$m	US\$m	US\$m
Current			
Bank overdrafts	3.1	2.7	2.9
Short-term borrowings	57.9	77.2	77.4
Current portion of long-term borrowings	227.6	0.1	298.7
	288.6	80.0	379.0
Long-term borrowings			
Bank loans	1,108.6	855.8	705.1
7% United States Dollar bonds due 2011	617.1	647.4	625.0
3% Hong Kong Dollar notes due 2006	–	192.4	–
5.5% United States Dollar bonds due 2014	467.1	513.6	493.1
3.01% Singapore Dollar notes due 2010	195.8	–	190.4
3.65% Singapore Dollar notes due 2015	231.4	–	222.9
2.75% United States Dollar convertible bonds due 2012	336.4	–	332.1
	2,956.4	2,209.2	2,568.6
	3,245.0	2,289.2	2,947.6
Secured	134.9	–	–
Unsecured	3,110.1	2,289.2	2,947.6
	3,245.0	2,289.2	2,947.6
Hong Kong Dollar	2,068.0	1,927.0	2,000.6
Singapore Dollar	837.3	293.7	611.4
United States Dollar	339.7	68.5	335.4
Vietnamese Dong	–	–	0.2
	3,245.0	2,289.2	2,947.6

10 Shareholders' funds

	Six months ended 30th June		Year ended
	2006	2005	31st December
	US\$m	US\$m	US\$m
At beginning of period	7,215.3	5,204.8	5,204.8
Recognised income and expense attributable to shareholders of the Company	923.5	1,214.9	2,166.3
Dividends (see Note 12)	(133.5)	(111.3)	(155.8)
At end of period	8,005.3	6,308.4	7,215.3

11 Net asset value per share

Net asset value per share is calculated on shareholders' funds of US\$8,005.3 million (2005: US\$6,308.4 million) and on 2,225.6 million (2005: 2,225.6 million) shares in issue at the period end, which excludes 69.6 million shares in the Company held by a wholly-owned subsidiary.

Net asset value per share is additionally calculated based on adjusted shareholders' funds. The difference between shareholders' funds and adjusted shareholders' funds is reconciled as follows:

	At 30th June		At 31st December
	2006	2005	2005
	US\$m	US\$m	US\$m
Shareholders' funds	8,005.3	6,308.4	7,215.3
Deferred tax on increase in fair value of investment properties	1,524.7	1,081.8	1,371.7
Share of deferred tax on increase in fair value of investment properties of joint ventures	17.3	6.4	5.2
Adjusted shareholders' funds	9,547.3	7,396.6	8,592.2

Notes

12 Dividends

	Six months ended 30th June	
	2006 US\$m	2005 US\$m
Final dividend in respect of 2005 of US\$6.00 (2004: US\$5.00) per share	137.7	114.8
Less dividends paid on the shares held by a wholly-owned subsidiary	(4.2)	(3.5)
	133.5	111.3

An interim dividend in respect of 2006 of US\$3.00 (2005: US\$2.00) per share amounting to a total of US\$68.9 million (2005: US\$45.9 million) is declared by the Board. The net amount after deducting the dividends payable on the shares held by a wholly-owned subsidiary of US\$2.1 million (2005: US\$1.4 million) will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2006.

13 Purchase of a subsidiary

	Six months ended 30th June 2006		
	Book value US\$m	Fair value adjustments US\$m	Fair value US\$m
Investment properties	24.3	–	24.3
Other tangible assets	1.6	–	1.6
Joint ventures	34.8	1.8	36.6
Current assets	568.8	13.7	582.5
Current liabilities	(129.5)	–	(129.5)
Long-term borrowings	(88.9)	–	(88.9)
Deferred tax liabilities	(1.0)	(1.4)	(2.4)
Other non-current liabilities	(2.0)	–	(2.0)
Net assets	408.1	14.1	422.2
Adjustment for minority interests			(95.4)
Net assets acquired			326.8
Excess of net assets acquired over consideration			(14.1)
Total consideration			312.7
Adjustment for carrying value of other investments			(40.6)
Cash and cash equivalents acquired			(34.3)
Net cash outflow			237.8

14 Cash flow per share

Cash flow per share is based on cash flows from operating activities less major renovations expenditure amounting to US\$36.9 million (2005: US\$67.3 million) and is calculated on the weighted average of 2,225.6 million (2005: 2,225.6 million) shares in issue during the period, which excludes 69.6 million shares in the Company held by a wholly-owned subsidiary.

15 Capital commitments and contingent liabilities

	At 30th June	At 31st December
	2006	2005
	US\$m	US\$m
Capital commitments	834.9	632.1
Contingent liabilities		
Guarantees in respect of facilities made available to joint ventures	4.9	17.2
Guarantees in respect of qualifying certificates for development properties	2.1	–
	7.0	8.0

Various Group companies are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the Directors are of the opinion that adequate provisions have been made in the financial statements.

Shareholder Information

Dividend

The interim dividend of US\$3.00 per share will be payable on 22nd November 2006 to shareholders on the register of members at the close of business on 18th August 2006. The ex-dividend date will be on 16th August 2006, and the share registers will be closed from 21st to 25th August 2006, inclusive. Shareholders will receive their dividends in United States Dollars, unless they are registered on the Jersey branch register where they will have the option to elect for Sterling. These shareholders may make new currency elections by notifying the United Kingdom transfer agent in writing by 3rd November 2006. The Sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 8th November 2006. Shareholders holding their shares through The Central Depository (Pte) Limited ('CDP') in Singapore will receive United States Dollars unless they elect, through CDP, to receive Singapore Dollars.

Press releases and other financial information of the Group can be accessed through the Internet at 'www.hkland.com'.

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