

## COMMENTARY ON INTERIM ACCOUNTS

### (A) Review of 2004/05 Interim Results and Segmental Performance

#### ***Profit attributable to shareholders***

The Group reported an unaudited profit attributable to Shareholders of HK\$2,057.4 million for the six-month period ended 30 September 2004 against HK\$766.7 million for the corresponding period last year. Earnings per share were 101.3 cents (2003/04: 37.7 cents).

The significant improvement in profit was largely due to the inclusion in the results for the period under review of a property provision write-back of HK\$1,327.0 million (HK\$983.7 million attributable to the Group) for the Bellagio project. Excluding this non-recurring item, the Group's net profit would be HK\$1,073.7 million. Moreover, the better results were attributable to the higher development profit of HK\$145.5 million (2003/04: HK\$17.2 million) being recognised by Wheelock Properties (Singapore) Limited group ("WPSL") in respect of its sale of Grange Residences units in Singapore and the increase in share of profit from the associates, including The Wharf (Holdings) Limited ("Wharf") and the associate participating in the Parc Palais project.

#### ***Group turnover***

The Group's turnover for the six-month period under review was HK\$1,482.0 million, a decrease of HK\$677.1 million or 31.4% from HK\$2,159.1 million achieved in the same period of 2003/04. Lower property revenue was recognised this period from the sale of Sorrento units, which contributed a turnover of HK\$1,323.7 million for the first half in 2003/04.

#### ***Property development***

Property sale for the period under review was HK\$1,218.3 million (2003/04: HK\$1,907.9 million), out of which HK\$842.7 million was recognised by WPSL for its sale of 56 Grange Residences units. Other property sales taken up during the period included residential units at Bellagio, Sorrento, Palm Cove and The Regalia, industrial units at Metro Loft and certain car parking spaces in Hong Kong.

Pre-sale of Bellagio Phases III and IV was first launched in September 2004 with an encouraging market response and 546 units had been pre-sold up to 30 September 2004. As these phases are still at their development stage and the related sale proceeds were mostly due in October 2004, only a small portion of these proceeds have been accounted for as revenue for the period under review according to the Group's accounting policy.

#### ***Property investment***

The office leasing market in Hong Kong remained very competitive though overall occupancy levels had become higher. The Property Investment segment maintained a rental revenue for the six-month period of HK\$161.2 million (2003/04: HK\$164.0 million). During the period, Wheelock House was approximately 90% occupied while Fitfort (a retail mall), Lane Crawford House and Wheelock Place in Singapore were approximately 95% leased at satisfactory rental rates.

### **Group operating profit**

The Group's operating profit before borrowing costs and property provision write-back was HK\$414.7 million, an increase of HK\$68.9 million or 19.9% from that reported in the same period in 2003/04.

#### *Property development*

The Property Development segment recorded a profit of HK\$157.6 million, a slight increase of HK\$4.6 million as compared to HK\$153.0 million achieved in the same period last year. Profit for the six months period under review was largely attributable to the profit from sale of Grange Residences units by WPSL as mentioned above whereas the sale of the Sorrento units made the major profit contribution in the corresponding period of the preceding year.

#### *Property investment*

The operating profit of the Property Investment segment decreased slightly by HK\$8.4 million to HK\$110.6 million for the period under review largely due to the reversionary impact of lower average rental rate achieved for the office areas in the past two years.

#### *Others*

The Investment and Others segment reported a profit of HK\$150.9 million (2003/04: HK\$79.7 million) for the six-month period under review, comprising mainly recurring dividend income, interest income and income from property management and other management services. Increase in profit of this segment is largely due to increase in revenue from property and other management services.

#### *Performance of the listed subsidiaries (already consolidated into the Group's results)*

Wheelock Properties Limited group ("WPL") reported an unaudited profit attributable to its shareholders of HK\$855.4 million for the six-month period ended 30 September 2004, compared to HK\$240.1 million achieved in corresponding period last year. The significant improvement in profit was largely due to the inclusion in the results for the period under review of an amount of HK\$442.3 million being WPL's share of the provision write-back in respect of the Bellagio project. Moreover, the aforesaid improvement was attributable to a higher profit contribution from WPSL and an increase in share of profit from sale of Parc Palais units through an associate.

WPSL reported an unaudited profit attributable to its shareholders of S\$75.5 million for the six-month period ended 30 September 2004, compared to S\$11.1 million achieved in corresponding period last year. The increase in WPSL's profit for the period was mainly attributable to the sale of 56 Grange Residences units.

Attributable profit for the six-month period ended 30 September 2004 to the Group from WPL (which owns 75% of WPSL), before property provision and dividend income from WPL's 7% holdings in Wharf, was HK\$229.3 million (2003/04: HK\$111.2 million). During the period under review, the Group received a cash dividend totalling HK\$76.9 million (2003/04: HK\$76.8 million) from WPL.

### ***Borrowing costs***

Borrowing costs charged to the profit and loss account for the period were HK\$36.4 million, a substantial decline of 56.8% from HK\$84.3 million reported in the previous year's corresponding period. This was mainly due to the persistent low interest rate environment. For the period under review, the Group's effective borrowing rate was approximately 1.0% per annum, against 1.7% per annum for the same period last year.

### ***Write-back of provision for properties***

Included in the Group's results is a property provision write-back of HK\$1,327.0 million (HK\$983.7 million attributable to the Group) in respect of the Bellagio project. Based on the current achieved average selling price for the Bellagio Phases III and IV units, which were launched in September 2004, and the prevailing residential property market conditions, the property provision of HK\$1,327.0 million made in previous years was considered no longer required and hence was fully written back in the financial period under review.

### ***Share of profits less losses of associates***

The share of profit of associates before taxation was HK\$1,120.2 million, substantially contributed by Wharf, against HK\$837.8 million for the corresponding period last year. Wharf, the major listed associate of and profit contributor to the Group, reported an unaudited profit attributable to shareholders of HK\$1,680 million for its six-month period ended 30 June 2004, compared to HK\$1,309 million achieved in the corresponding period of the preceding year. The resilient growth in profit was largely due to the increased profit of its hotel business (which was severely affected by the outbreak of SARS in the first half of 2003) and reduction in borrowing costs. Besides, Wharf's Communications, Media and Entertainment segment, mainly comprising i-CABLE and Wharf T&T, also reported satisfactory profit growth. Based on these results, Wharf's net profit contribution to the Group was HK\$808.4 million (2003/04: HK\$629.9 million). Aggregate cash dividends from Wharf amounted to HK\$743.3 million (2003/04: HK\$747.5 million, including scrip dividend in the form of shares in i-CABLE Communications Limited of HK\$253.9 million), of which HK\$342.6 million was received during the period under review and HK\$400.7 million was received in October 2004.

The share of associates' results also included the profit derived from sale of Parc Palais units undertaken by a 20%-owned associate of WPL.

### ***Other items***

#### *Income tax*

A taxation charge of HK\$260.4 million was reported for the first half in 2004/05 against HK\$224.8 million for last year's corresponding period.

#### *Minority interests*

For the period under review, profit shared by minority interests rose to HK\$507.7 million from HK\$101.7 million for previous corresponding period mainly due to the write-back of property provision for the Bellagio shared by the minority shareholders of the project holding company.

## (B) Liquidity and Financial Resources

### **Shareholders' funds**

At 30 September 2004, the Group's shareholders' funds totalled HK\$28,468.4 million or HK\$14.01 per share, against HK\$26,544.2 million or HK\$13.06 per share at 31 March 2004.

### **Net debt and gearing**

At 30 September 2004, the Group's net debt amounted to HK\$6,583.1 million, comprising total debts of HK\$8,673.1 million less deposits and cash of HK\$2,090.0 million, as compared with a net debt of HK\$6,114.5 million at 31 March 2004. The increase in net debt was partly due to additional borrowings for the acquisition of properties by WPSL, including the China Airlines apartments, Scotts Shopping Centre and The Ascott Singapore at No. 6 Scotts Road in Singapore, and Oakwood Residence in Japan. Excluding WPL's net debt of HK\$930.2 million, the Company together with its other subsidiaries had a net debt of HK\$5,652.9 million (31/3/2004: HK\$6,002.3 million). For the period under review, total cash dividends received from Wharf and WPL, being the Group's main sources of recurring cash flow, was HK\$419.5 million.

At 30 September 2004, the ratio of the Group's net debt to shareholders' equity was 23.1% (31/3/2004: 23.0%) while the ratio of net debt to total assets was 15.8% (31/3/2004: 15.7%).

### **Committed and uncommitted facilities**

- (a) The Group's committed and uncommitted loan facilities amounted to HK\$11.0 billion and HK\$1.7 billion respectively. The debt maturity profile of the Group at 30 September 2004 is analysed as follows:

	<b>30/9/2004</b>	31/3/2004
	<b>HK\$ Million</b>	HK\$ Million
Repayable within 1 year	<b>486.6</b>	2,267.6
Repayable after 1 year, but within 2 years	<b>1,300.0</b>	700.0
Repayable after 2 years, but within 5 years	<b>6,486.5</b>	5,164.1
Repayable after 5 years	<b>400.0</b>	—
	<b>8,673.1</b>	8,131.7
Undrawn facilities	<b>4,000.0</b>	4,400.0

- (b) The following assets of the Group have been pledged for securing bank loan facilities:

	<b>30/9/2004</b>	31/3/2004
	<b>HK\$ Million</b>	HK\$ Million
Investment properties	<b>395.5</b>	1,658.9
Properties under development for sale	<b>2,019.1</b>	1,827.1
	<b>2,414.6</b>	3,486.0

- (c) At 30 September 2004, the Group's borrowings are primarily denominated in Hong Kong dollars except that WPSL's borrowings for financing its properties in Singapore and Japan are primarily denominated in Singapore dollars and Japanese yens, respectively. Forward exchange contracts are entered into by WPSL for hedging its foreign currency deposits and investments. The Group has no other significant exposure to foreign exchange fluctuation except for its net investments in Singapore subsidiaries.

### ***Long-term investments***

At 30 September 2004, the Group maintained a portfolio of long-term investments with a value of HK\$1,195.0 million, which primarily comprised blue chip securities with a market value of HK\$1,134.8 million (31/3/2004: HK\$1,104.4 million).

In accordance with the Group's accounting policies, non-trading securities classified as long-term investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserves until the security is sold. At 30 September 2004, such reserves account had an attributable accumulated surplus of HK\$92.7 million, representing an increase of HK\$60.9 million from HK\$31.8 million at 31 March 2004. The performance of the investment portfolio is generally in line with the stock markets.

## **(C) Major Property Development Projects**

### ***Bellagio***

Pre-sale of Bellagio Phases III and IV was first launched in September 2004 with an encouraging market response. For the period under review, 18 units in Phases I and II were sold and 546 units in Phases III and IV were pre-sold. At 30 September 2004, cumulative sales reached 1,690 units (or 99%) for Phases I and II and 546 units (or 32%) for Phases III and IV.

Sale proceeds of approximately HK\$1.9 billion receivable from the pre-sale of the Bellagio Phases III and IV were mostly due in October 2004 and had been used by the project company for placing deposits in the stakeholders' account and meeting the outstanding construction costs of HK\$0.6 billion for completion of the project. Any surplus cash was distributed to the shareholders of the project company in proportion to their equity interests in the project. The project company did not have any external borrowings at 30 September 2004.

### ***Sorrento***

Sale of Sorrento was continuing with 18 units sold in the six months period under review. At 30 September 2004, the 1,272 Phase I units were all sold and 817 Phase II units or 95% were sold.

At 30 September 2004, the cash deposits in stakeholders' account amounted to HK\$0.3 billion, which would be sufficient to fully cover its outstanding construction costs for completion of the whole project. The project company did not have any external borrowings at 30 September 2004.

### **Parc Palais**

Sale of the Parc Palais, 20%-owned by WPL, was continuing with good progress. For the period under review, 81 units were sold. At 30 September 2004, sales accumulated to 572 units or 81% of the entire 700 units.

A sufficient balance of sale proceeds received by the project company was held as deposits in stakeholders' account for meeting the outstanding construction costs of the project. Surplus cash was distributed to the shareholders of the project company in proportion to their equity interests in the project. The project company did not have any borrowings at 30 September 2004.

### **Grange Residences**

Sale of Grange Residences undertaken by WPSL was continuing. For the first six months of 2004/05, 56 units were sold making the cumulative sale reached 117 units or 71% out of the total 164 units.

## **(D) Contingent Liabilities**

- (a) At 30 September 2004, there was no guarantee given by the Group in respect of banking facilities available to associates (31/3/2004: HK\$63.2 million).
- (b) The Company together with two non wholly-owned subsidiaries and two associates have jointly and severally guaranteed the performance and observance of the terms by another subsidiary under an agreement for the development of the Sorrento project.

## **(E) Acquisition/Disposal of Properties**

### **China Airlines apartments**

WPSL completed in May 2004 the acquisition in Singapore of 30 China Airlines apartments, which are adjacent to the Sea View Hotel site previously acquired by the company, for a consideration of S\$35 million (about HK\$160 million). This site will be amalgamated with the Sea View Hotel site for a proposed residential condominium development of 546 apartments, The Sea View.

### **Scotts Shopping Centre ("SSC") and The Ascott Singapore ("TAS")**

WPSL completed in September 2004 the acquisition of SSC and TAS in Singapore at a total consideration of S\$345 million (about HK\$1,576 million). The intention is to redevelop it when all prevailing leases and property management agreement expire towards the end of 2006.

### **Oakwood Residence Azabujuban ("Oakwood")**

WPSL completed in September 2004 the acquisition of the Oakwood in Japan for JPY5.5 billion (about HK\$383 million). WPSL intends to hold the property as investment till the expiry of the existing management contract in respect of the serviced apartment in year 2012.

### **Kim Realty Investment Pte Ltd ("KRI")**

WPSL completed in July 2004 the disposal of its 30% equity interest in KRI which owns a 50% interest in a 4-star hotel in Xiamen, The Marco Polo Xiamen, for a total consideration of S\$2.04 million (equal to HK\$9.4 million) to Wharf.

## (F) Employees

At 30 September 2004, the Group has approximately 713 employees. Employees are remunerated according to nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. The Group also sponsors external training programmes that are complementary to certain job functions. Total staff costs for the six-month period ended 30 September 2004 amounted to HK\$63.6 million.

## COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), at any time during the six-month period ended 30 September 2004.

## DIRECTORS' INTERESTS IN SHARES

At 30 September 2004, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company, of an associate of the Company, namely, The Wharf (Holdings) Limited ("Wharf"), and of two subsidiaries of the Company, namely, Wheelock Properties Limited ("WPL") and Wheelock Properties (Singapore) Limited ("WPSL"), and the percentages which the shares represented to the issued share capital of the Company, Wharf, WPL and WPSL respectively are also set out below:

	No. of Ordinary Shares (percentage of issued capital)	Nature of Interest
<b>The Company</b>		
Mr. Peter K. C. Woo	1,204,934,330 (59.3023%)	Personal Interest in 8,847,510 shares, Corporate Interest in 200,865,142 shares and Other Interest in 995,221,678 shares
Mr. B. M. Chang	8,629,575 (0.4247%)	Corporate Interest
Mr. G. W. J. Li	1,486,491 (0.0732%)	Personal Interest
Mr. S. T. H. Ng	300,000 (0.0148%)	Personal Interest
<b>Wharf</b>		
Mr. G. W. J. Li	686,549 (0.0281%)	Personal Interest
Mr. S. T. H. Ng	650,057 (0.0266%)	Personal Interest
<b>WPL</b>		
Mr. G. W. J. Li	2,900 (0.0001%)	Personal Interest
<b>WPSL</b>		
Mr. D. J. Lawrence	250,000 (0.0627%)	Personal Interest

Notes:

- (1) *The 995,221,678 shares of the Company stated above as "Other Interest" against the name of Mr. Peter K. C. Woo represented an interest comprised in certain trust properties in which Mr. Woo was taken, under certain provisions in Part XV of the Securities and Futures Ordinance (the "SFO") which are applicable to a director or chief executive of a listed company, to be interested.*
- (2) *The shareholdings classified as "Corporate Interest" in which the Directors concerned were taken to be interested as stated above were interests of corporations at respective general meetings of which the relevant Directors were respectively either entitled to exercise (or taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporations.*
- (3) *The shareholding interests stated above as "Personal Interest" and "Corporate Interest" against the name of Mr. Peter K. C. Woo totalling 209,712,652 shares of the Company represented the same block of shares as that of the shareholding interest of Mrs. Bessie P. Y. Woo stated below in the section headed "Substantial Shareholders' Interests".*
- (4) *The 995,221,678 shares of the Company as referred to under Note (1) above are entirely duplicated or included in the shareholding interest of Bermuda Trust (Guernsey) Limited stated below under the section headed "Substantial Shareholders' Interests".*

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Issuers:

- (i) there were no interests, both long and short positions, held as at 30 September 2004 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), and
- (ii) there existed during the financial period no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS**

Given below are the names of all parties, other than person(s) who is/are Director(s) of the Company, who/which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 30 September 2004 as recorded in the register kept by the Company under section 336 of the SFO and the percentages which the shares represented to the issued share capital of the Company:

<b>Names</b>	<b>No. of Ordinary Shares (percentage of issued capital)</b>
(i) Mrs. Bessie P. Y. Woo	209,712,652 (10.32%)
(ii) Bermuda Trust (Guernsey) Limited	1,095,300,362 (53.91%)
(iii) J. P. Morgan Chase & Co	101,832,000 (5.01%)

*Note: Duplication occurred in respect of the shareholding interests under (i) and (ii) above, as stated in Notes (3) and (4) under the section headed "Directors' Interests in Shares".*

All the interests stated above represented long positions and as at 30 September 2004, there were no short positions recorded in the abovementioned register.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial period under review.

## **BOOK CLOSURE**

The Register of Members will be closed from Monday, 3 January 2005 to Thursday, 6 January 2005, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 31 December 2004.

By Order of the Board

**Wilson W. S. Chan**

*Secretary*

Hong Kong, 30 November 2004

*As at the date of this interim report, the Board of Directors of the Company comprises of Mr. Peter K. C. Woo, Mr. Gonzaga W. J. Li, Mr. Stephen T. H. Ng, Mr. Paul Y. C. Tsui, Mr. David J. Lawrence, Mr. Alexander S. K. Au, Mr. B. M. Chang, Mr. Kenneth W. S. Ting and Mr. William Turnbull.*