

MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT REVIEW

Given below is a review of various business segments of the Group. Save as mentioned below, there have been no material changes in respect of the business of the Group since the publication of the Company's last annual report.

Property investment

Rental revenue for the six-month period increased by HK\$66.5 million or 41.3% to HK\$227.7 million (2004/05: HK\$161.2 million). Operating profit rose by HK\$32.3 million or 29.2% to HK\$142.9 million. The improvement was mainly due to additional rental income aggregating HK\$76.3 million generated from Oakwood Residence Azabujuban, serviced apartments in Japan, and The Ascotts and Scotts serviced apartments and retail area in Singapore, both acquired by Wheelock Properties (Singapore) group ("WPSL") in September 2004.

Property development

Property sales revenue for the six-month period under review was HK\$2,626.6 million (2004/05: HK\$1,218.3 million), an increase of HK\$1,408.3 million or 115.6%. Such revenue was mainly derived from the sales of 323 Bellagio units for the financial period under review, whereas the sales revenue for the same period last year was mainly contributed by WPSL from its sale of 56 Grange Residences units. For the six-month period under review, operating profit of Property Development segment rose by HK\$521.2 million or 330.7% to HK\$678.8 million as compared to the same period last year.

Bellagio (effectively 74%-owned by the Company)

Bellagio, in Sham Tseng on the western shore of New Territories overlooking the Tsing Ma Bridge, is a joint venture development equally-owned by Wheelock, Wheelock Properties and Wharf. Phases I and II, comprising a total of 1,704 units, were completed in December 2002. As at the end of September 2005, cumulative sales reached 1,699 units (99.7% sold), realising proceeds of about HK\$4.1 billion. Superstructure works for Phases III and IV, which provide a total of 1,641 residential units, are in progress, with target completion by early 2006. Pre-sale for Towers 1 and 3 (Total: 797 units) was launched in September 2005 and met with an enthusiastic market response. Cumulative sales reached 271 units as at the end of September 2005. For Phases III and IV (Towers 1, 2, 3 and 5), cumulative sales reached 1,067 units (62% sold) as at the end of September 2005, generating a total revenue of about HK\$4.1 billion. Occupancy permits for Phases III and IV were issued on 30 May 2005.

Sorrento (effectively 66%-owned by the Company)

Located above the Kowloon Station, Sorrento is a joint-venture project between MTRC and a five-member consortium equally-owned by Wheelock, Wheelock Properties, Wharf, Harbour Centre Development and a wholly-owned subsidiary of Wheelock Properties. As at the end of September 2005, cumulative sales of Phase II reached 850 units (99% sold), realizing proceeds of about HK\$5.9 billion.

Property agency

Hamptons, a UK-based estate agency firm, has become a wholly-owned subsidiary of WPSL since April 2005 and its results were consolidated into the Group's results for the period under review. Property Management and Agency segment reported revenue and operating profit of HK\$435.8 million and HK\$32.0 million respectively for the financial period under review.

Investment and others

Profit generated from Investment and Others segment for the financial period under review was HK\$397.2 million, a remarkable increase of HK\$262.2 million or 194.2% as compared to the same period last year. This mainly included profits arising from the disposal of certain long-term investments and Great Western Plaza units (investment property) of HK\$235.4 million and HK\$51.8 million respectively.

Wheelock Properties Limited (a 74%-owned listed subsidiary of the Company)

Wheelock Properties reported an unaudited profit attributable to its shareholders of HK\$1,036.9 million for the six-month period ended 30 September 2005, compared to HK\$855.4 million achieved in the corresponding period last year. The improvement in profit was largely due to higher contributions from the disposal of certain long-term investments and investment properties which was however partially offset by the reduction in development profit.

Sorrento and Bellagio are effectively 40%- and 33.33%-owned by Wheelock Properties respectively.

Parc Palais is owned by a five-member consortium comprising Wheelock Properties, New World Development, Sino Land, Chinese Estates and Manhattan Garments. This residential project in Homantin boasts 700 units or a gross floor area of about one million square feet. As at the end of September 2005, cumulative sales and proceeds reached 647 units (92% sold) and HK\$6.3 billion respectively.

Wheelock Properties (Singapore) Limited (a 75%-owned Singapore listed subsidiary of Wheelock Properties)

WPSL reported an unaudited profit attributable to its shareholders of S\$48.0 million (about HK\$223 million) for the six-month period ended 30 September 2005, compared to S\$75.5 million (about HK\$346 million) achieved in the corresponding period last year. The decrease in WPSL's profit was mainly due to fewer Grange Residences units sold during the financial period under review compared to the corresponding period in the previous year.

Development properties

Grange Residences

To date, 100% of the total 164 units have been sold.

The Cosmopolitan

The Cosmopolitan is a residential condominium development of 228 apartment units on the former Times House site. Piling works were completed in January 2005 and foundation works are in progress. A pre-launch campaign of The Cosmopolitan was organised in March 2005. As at the end of September 2005, 63 units or 27% of the total 228 apartments have been pre-sold.

The Sea View

The Sea View is a residential condominium development of six tower blocks with a total of 546 apartments on the amalgamated site of the former Sea View Hotel and the China Airlines House. Piling works were completed in May 2005 and to date foundation works were also completed for five blocks. The Sea View was officially launched in July 2005 with 276 units pre-sold as at the end of September 2005.

Ardmore View

Demolition of the building was completed in May 2005. This site will be amalgamated with the adjoining The Habitat II site for redevelopment into a prime residential condominium for sale.

Orchard View

Demolition of the building (formerly known as Angullia View) is in progress and piling works are expected to commence in the first quarter of 2006.

No. 6 Scotts Road

The Scotts Shopping Centre is currently 97% leased or committed and The Ascott Singapore is currently 97% leased at satisfactory rental rates.

Investment properties

Wheelock Place

Wheelock Place, a commercial building with a gross floor area of 465,000 square feet on Orchard Road in Singapore, is currently 95% leased or committed at higher rental rates.

Oakwood Residence Azabujuban

Oakwood Residence Azabujuban, a serviced apartment building in Tokyo, is currently 94% leased at satisfactory rental rates.

Attributable profit for the six-month period ended 30 September 2005 to the Group from Wheelock Properties (which owns 75% of WPSL), before increase in fair value of investment properties and property provision write-back and dividend income from Wheelock Properties' 7% holdings in Wharf, was HK\$459.3 million (2004/05: HK\$229.3 million). During the period under review, the Group received a cash dividend of HK\$92.3 million (2004/05: HK\$76.9 million) from Wheelock Properties.

Share of profits less losses of associates

The share of profit of associate (net of taxation) was HK\$4,555.9 million, substantially contributed by Wharf, against HK\$898.3 million for the same period last year. Wharf, the major listed associate of and profit contributor to the Group, reported an unaudited profit attributable to its shareholders of HK\$9,035 million for its six-month fiscal period ended 30 June 2005, compared to HK\$1,668 million achieved in the corresponding period of the preceding year. In compliance with the new Hong Kong Financial Reporting Standards, Wharf's investment properties were revalued with a net surplus after deferred tax of HK\$7,112 million included in the profit. Excluding this net surplus from revaluation, Wharf's profit attributable to shareholders would be HK\$1,923 million, an increase of HK\$255 million or 15% over the interim results of HK\$1,668 million in 2004. The growth in Wharf's profit was largely driven by the remarkable performance of its Property Investment segment and improved profitability of all of its three core business sectors: Property Investment, CME and Logistics sectors. Retail, office, apartments and hotel operations all reported favourable results for the six-month period ended 30 June 2005. Positive office rental reversion was attained during the period. In addition to Property Investment segment, Logistics and CME segments also recorded double-digit growth in their operating profit during the period. As such, Wharf's net profit contribution before increase in fair value of investment properties to the Group was HK\$925.6 million (2004/05: HK\$802.6 million).

The cash dividend received from Wharf by the Group during the financial period under review amounted to HK\$440.0 million (2004/05: HK\$342.6 million).

The Wharf (Holdings) Limited (a 48%-owned listed associate of the Company)

Harbour City

Harbour City, a core property investment asset of Wharf Estates Limited, generated a turnover of HK\$1,622 million during the first half of 2005, an increase of HK\$146 million or 9.9% as compared with the same period of 2004.

Underpinned by robust retail market and continuous improvement in local sentiment, retail occupancy was maintained at 99% during the first six months of 2005. **Harbour City** tenants achieved encouraging sales performance – 18% increase in average sales per square foot compared to the same period last year. All new leases and renewed tenancies recorded favourable rental growth. The occupancy for offices grew to 96.5% at the end of June 2005. On the back of strong take-up in the overall office market combined with limited supply, office rental continued to soar, resulting in positive rental reversion for most of the landlords in Hong Kong. Thanks to the ideal locations of the three Macro Polo Hotels at the heart of Tsim Sha Tsui hub, their consolidated occupancy at **Harbour City** stood at 88% – five percentage points higher than the overall industry average of 83%. In light of strong demand for serviced apartments during the first six months of 2005, the average occupancy of serviced apartments at **Harbour City** grew to 85% from the previous year's 75% amid keen competition.

Times Square

Times Square, another core investment property asset of Wharf Estates Limited, generated total revenue of HK\$437 million, an increase of HK\$32 million or 8% as compared to HK\$405 million during the first half of 2004.

As a landmark in Causeway Bay, the average occupancy of **Times Square** shopping complex was maintained at 99.6% during the first half of 2005. Most retail tenants registered double-digit year-on-year growth in sales performance, in light of continuous trade-mix enhancement and ongoing marketing and promotional efforts at **Times Square**. Office occupancy was maintained at 94% at the end of June 2005. Of the 152,320 square feet of office area due for renewals in the first half of 2005, 114,947 square feet were renewed, representing a retention rate of 75%.

i-CABLE (a 73%-owned listed subsidiary of Wharf)

On the back of continuous subscription growth in both Pay TV and Broadband segments, **i-CABLE's** total revenue recorded an increase of 6% to reach HK\$1,223 million for the first half of 2005 (2004: HK\$1,154 million). Net profit attributable to shareholders of **i-CABLE** increased by 5% to HK\$155 million.

Pay TV subscription grew by 5% to reach 718,000 at the end of June 2005, amid fierce competition in the marketplace. A variety of new marketing and programming initiatives, including the rolling out of smaller subscription packages at a low price point, have been implemented to fend off competition. On the back of higher subscription, the Pay TV division registered 3% growth in turnover. For the first half of 2005, the recovery trend for Internet and multimedia segment continued as a result of service upgrade, bundling strategies and continued introduction of value-added service. Internet and multimedia revenue increased by 20% to reach a new high of HK\$279 million, and a record operating profit of HK\$31 million was generated. The total number of Broadband subscribers grew by 14% to reach 301,000 at the end of June 2005.

Wharf T&T

For the first six months of 2005, **Wharf T&T's** revenue increased by 1% to HK\$684 million. Its operating profit increased three times to reach HK\$46 million.

The fixed line installed base grew by 52,000 to reach 500,000 lines, representing an overall market share of 12% as at the end of June 2005. Fixed line revenue, which represented 80% of the total revenue during the first half of 2005, grew by 5% to HK\$549 million while IDD revenue rose by 3% to HK\$135 million. For the first six months of 2005, 70% of the total revenue came from the business sector.

Modern Terminals (68%-owned by Wharf)

During the first half of 2005, **Modern Terminals'** total revenue and operating profit increased by 16% and 15% respectively, as compared to the same period last year, arising from significant throughput growth.

Modern Terminals' throughput for the first six months ended 30 June 2005 increased by 27% or 524,000 TEUs against that of the same period of 2004. The increase was mainly driven by feeder, transshipment and intra-Asia volume. Led by strong throughput growth in Shenzhen West during the first six months of 2005, **Modern Terminals'** earlier investments in China remained robust and gave rise to a higher profit contribution to the group. In March 2005, the first phase of Dachan Bay project, in which **Modern Terminals** holds an effective stake of 65%, was approved by the National Development and Reform Commission. The first phase of the project consists of five berths with a designed capacity of 2.5 million TEUs. It is scheduled to commence operation by end of 2007.

Wharf increased its stakeholdings in Modern Terminals from 55% to 68% in August 2005.

FINANCIAL REVIEW

(I) Results Review

Profit attributable to shareholders

The Group reported an unaudited profit attributable to Shareholders of HK\$6,302.9 million for the six-month period ended 30 September 2005, increased by HK\$4,251.3 million from HK\$2,051.6 million for the corresponding period last year. Earnings per share were HK\$3.10 (2004/05: HK\$1.01).

For the purpose of preparing the financial statements for the period under review, the Group has adopted the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), including all Hong Kong Accounting Standards and relevant Interpretations, which took effect on 1 January 2005. The resulting significant changes in accounting treatment and presentation are detailed in Note 1 to the accounts below.

In compliance with the new HKFRSs, the Group and its associates revalued their investment properties as at 30 September 2005 and 30 June 2005 respectively and accounted for a total net attributable surplus of HK\$4,553.4 million, representing revaluation surplus of HK\$1,481.1 million less related deferred tax and minority interests of HK\$351.0 million for the Group's investment properties and share of associates' net investment properties revaluation surplus of HK\$3,423.3 million, in the profit and loss account for the period under review. In prior years, property revaluation changes were dealt with in revaluation reserve. If the total of these reserves was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the profit and loss account. No revaluation of the investment property portfolio of the Group and its associates were carried out at 30 September 2004 and 30 June 2004 respectively and accordingly, there was no corresponding revaluation adjustment made for the same period last year.

Included in the results for the first half 2004/05 was a property provision write-back of HK\$1,327.0 million (HK\$983.7 million attributable to the Group) for the Bellagio project. Excluding these items in both periods, the Group's net profit attributable to shareholders would be HK\$1,749.5 million for the financial period under review, an increase of HK\$681.6 million or 63.8% compared to the interim results of HK\$1,067.9 million in 2004/05.

The improvement in profit was largely due to higher development profit of HK\$678.8 million (2004/05: HK\$157.6 million) generated mainly from sale of Bellagio units and contributions from disposal of certain long-term investments and investment properties of HK\$235.4 million and HK\$51.8 million respectively.

Group turnover

The Group's turnover for the period was HK\$3,387.7 million, an increase of HK\$1,905.7 million or 128.6%, from HK\$1,482.0 million recorded in the same period of 2004/05. The increase was chiefly attributable to increase in revenue from Property Development segment by HK\$1,408.3 million, benefiting mainly from sale of Bellagio units. Following Hamptons having become a wholly-owned subsidiary of WPSL since April 2005, its results were consolidated into the Group's results contributing property agency services income of HK\$409.9 million for the period. The results of Hamptons were equity accounted for as a 32.4%-owned associate of WPSL in the same period last year.

Operating profit before increase in fair value of investment properties and property provision write-back

The Group's operating profit before increase in fair value of investment properties and property provision write-back was HK\$1,240.8 million, an increase of HK\$826.1 million or 199.2% from HK\$414.7 million reported in the corresponding period last year. The increase was mainly attributable to higher property development profit from the sale of Bellagio units, and profit on sale of long-term investments and investment properties as mentioned above.

Borrowing costs

Borrowing costs charged to the profit and loss account increased to HK\$94.6 million (2004/05: HK\$36.4 million). This was mainly caused by the interest rate hikes. For the period under review, the Group's effective borrowing interest rate was approximately 2.9% (2004/05: 1.0%) per annum.

Share of profits less losses of associates

The share of profit of associates was HK\$4,555.9 million, substantially contributed by Wharf, against HK\$898.3 million for the corresponding period last year. The significant increase in the share of associates' profit was mainly due to Wharf having included the investment property revaluation surplus in its six months results ended 30 June 2005 according to the new HKFRS as mentioned above. Wharf's results are discussed in detail under the Segment Review section.

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

Taxation

A taxation charge of HK\$319.7 million (2004/05: HK\$44.5 million) was reported for the period, which included the deferred tax on net revaluation surplus of investment properties of HK\$259.2 million (2004/05: Nil).

Minority interests

Profit shared by minority interests increased to HK\$560.6 million (2004/05: HK\$507.5 million), which was attributable to the increased profit from Wheelock Properties.

(II) Liquidity and Financial Resources

Shareholders' equity

At 30 September 2005, the Group's shareholders' equity amounted to HK\$37,427.6 million, representing HK\$18.42 per share, against restated amount of HK\$31,434.7 million or HK\$15.47 per share at 31 March 2005. The improvement was chiefly due to the attributable appreciation in value of the investment properties portfolio of the Group and its associates of HK\$4,553.4 million (net of deferred tax).

Net debt and gearing

At 30 September 2005, the ratios of the Group's net debt to shareholders' equity and to total equity (including minority interests) were 8.7% (31/3/2005: 14.4%) and 7.6% (31/3/2005: 12.3%) respectively.

At 30 September 2005, the Group's net debt amounted to HK\$3,267.0 million, comprising total debts of HK\$7,175.7 million less deposits and cash of HK\$3,908.7 million, as compared with a net debt of HK\$4,520.4 million at 31 March 2005. The decrease in the Group's net debt was mainly due to the cash inflows from property sales (including sales of Bellagio and Sorrento units in Hong Kong and Grange Residences, The Sea View and The Cosmopolitan units in Singapore), and disposal of certain long-term investments and dividend income from Wharf. The major cash outflow for the six-month period resulted from WPSL's acquisitions of additional interests in Hamptons and the Orchard View site, and Wheelock Properties' acquisition of Heung Yip Road property and some office properties.

Excluding Wheelock Properties group's net cash of HK\$749.2 million, the Company together with its other subsidiaries had a net debt of HK\$4,016.2 million, reduced by HK\$873.8 million from HK\$4,890.0 million as at 31 March 2005. For the period under review, major inflow comprised the cash dividends received from Wharf and Wheelock Properties, being the Group's main sources of recurring cash inflow, totalling HK\$532.3 million (2004/05: HK\$419.5 million), and also proceeds from the sale of certain long-term investments.

Committed and uncommitted facilities

- (a) The Group's committed and uncommitted loan facilities amounted to HK\$9.1 billion and HK\$2.4 billion, respectively. The debt maturity profile of the Group at 30 September 2005 was analysed as follows:

	30/9/2005 HK\$ Million	31/3/2005 HK\$ Million
Repayable within 1 year	734.3	607.6
Repayable after 1 year, but within 2 years	2,436.8	300.0
Repayable after 2 years, but within 5 years	4,004.6	6,614.9
Repayable after 5 years	—	500.0
	7,175.7	8,022.5
Undrawn facilities	4,300.0	3,700.0

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

	30/9/2005 HK\$ Million	31/3/2005 HK\$ Million
Investment properties	448.9	474.5
Properties under development for sale	2,594.3	2,284.2
	3,043.2	2,758.7

- (c) At 30 September 2005, the Group's borrowings were primarily denominated in Hong Kong dollars except that WPSL's borrowings for financing its properties in Singapore and Japan were primarily denominated in local currency, i.e. Singapore dollars and Japanese yens, respectively. Forward exchange contracts are entered into by WPSL for hedging its foreign currency deposits and investments, including its investments in Hamptons. The Group has no other significant exposure to foreign exchange fluctuation except for its net investments in Singapore subsidiaries.

Available for sale investments

At 30 September 2005, the Group maintained a portfolio of available for sale investments with a market value of HK\$1,236.3 million (31/3/2005: HK\$1,488.0 million), which primarily comprised of blue chip securities.

In accordance with the Group's accounting policies, the non-trading securities classified as available for sale 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 2005, such reserves account had an attributable accumulated surplus of HK\$347.9 million compared to HK\$316.3 million at 31 March 2005. The performance of the portfolio was in line with the stock markets.

(III) Contingent Liabilities

At 31 March 2005 and 30 September 2005, there was no guarantee given by the Group in respect of banking facilities available to associates.

(IV) Acquisition of Property/Subsidiary

No. 2 Heung Yip Road/other property acquisitions in Hong Kong

Wheelock Properties completed in June 2005 the acquisition of the property, known as No. 2 Heung Yip Road, in Hong Kong at a consideration of HK\$455 million. During the six-month period under review, Wheelock Properties also completed the acquisition of some office properties in Hong Kong at a total consideration of HK\$220 million.

Hamptons Group Limited ("Hamptons")

WPSL completed the acquisition of the 67.6% remaining interests in Hamptons at a total consideration of approximately £23.8 million (about HK\$357 million) in April 2005, making Hamptons a 100%-owned subsidiary of WPSL. Accordingly, with effect from April 2005, the Group has consolidated Hamptons' results, assets and liabilities. Goodwill arising from the acquisition is currently estimated to be HK\$225 million. The amount of goodwill will be adjusted once the fair values of the identifiable assets and liabilities can be determined.

Orchard View (formerly known as Angullia View), Singapore

WPSL completed in April 2005 the acquisition of the Orchard View at a consideration of S\$43.8 million (about HK\$209 million). WPSL has planned to redevelop it into a luxury apartment.

The Habitat II, Singapore

WPSL has entered into a conditional agreement to acquire The Habitat II at a consideration of S\$103.9 million (about HK\$480 million) in September 2005. A 5% deposit of S\$5.2 million (about HK\$24 million) has been paid. WPSL plans to amalgamate this site with the Ardmore View site for redevelopment into a prime residential condominium for sale.

(V) Changes in Accounting Policies

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs including all Hong Kong Accounting Standards which are effective for accounting periods beginning on or after 1 January 2005. The resulting significant changes in accounting treatment and presentation are detailed in Note 1 to the accounts below.

(VI) Human Resources

The Group has 1,658 employees at 30 September 2005 (31/3/2005: 693). The increase of 965 employees is mainly due to the inclusion of Hamptons' employees after it became a subsidiary of the Group in April 2005. 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 period ended 30 September 2005 amounted to HK\$248.8 million.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the financial period under review, the Company has complied with all those code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which became applicable to the Company in respect of the period under review, except for one code provision with respect to the roles of chairman and chief executive officer to be performed by different individuals. The deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals.