The Hong Kong economy has returned to a robust growth mode. Real GDP grew by a faster-than-expected rate of 6.8% last year, underpinned by stepped up consumer spending, capital investment and exports. The buoyant local stock market, the increase in employment opportunities as well as salary levels, and the increasing number of overseas visitors resulted in a big boost to the local retail market. These favourable factors, coupled with the popularity of our Group's retail properties owing to their high qualities and first class management, resulted in a very strong performance by these properties last year. Strong economic fundamentals also propelled the local office market. Continued expansion of the financial sector and professional corporations sparked Grade A office demand, which resulted in a steady pace of growth in office rents. Prices for luxury residential units, due to limited supply, increased at a staggering rate last year.

In Singapore, the economy was strong with a 7.7% GDP growth in 2006, on the back of increased exports, stronger manufacturing growth and recovery in the construction industry. Real estate market was buoyant in 2006. Strong demand for high end residential homes spurred considerable growth in residential prices. Office rents rose beyond the last peak in 2001, underpinned by strong demand.

The Group, through Wheelock Properties (Singapore) Limited, acquired a 20.97% stake in Hotel Properties Limited, listed in Singapore, for S$171.4 million in March 2006. The market price of those shares had increased substantially during the financial year over the Group's acquisition cost. In addition, the Group also made successful pre-sales of various properties in Singapore including The Cosmopolitan (100%), The Sea View (100%) and Ardmore II (94%) by the end of March 2007. Relevant profits, however, will not be recognised until project completion, which resulted in a decrease of the Group's property development profit for the financial year over a year earlier.

Including a one-off gain from the disposal of Hamptons Group Limited ("Hamptons") but excluding the unrealised surplus from the revaluation of investment properties and property write-backs, Group profit decreased by 6% to HK$2,995 million for the year ended 31 March 2007 (2006: HK$3,203 million). Including the lower unrealised surplus from the revaluation of investment properties and property write-backs, Group profit was HK$6,310 million (2006: HK$10,316 million). Earnings per share were HK$3.11 (2006: HK$5.08).

At 31 March 2007, consolidated net asset value per share was HK$24.02, 19% higher than a year earlier. The financial position of the Group remained strong, with net cash amounting to HK$1.3 billion compared to a net debt of HK$2.7 billion in the preceding year.

A final dividend of 10.0 cents per share has been recommended to bring the total dividend for the year to 12.5 cents per share (2006: 12.5 cents per share). Total dividend received in cash from the publicly-listed associate The Wharf (Holdings) Limited and subsidiary Wheelock Properties Limited amounted to HK$1,116 million during the financial year (2006: HK$1,003 million).

BUSINESS PERFORMANCE

Properties

93% of the total units of Bellagio have been sold by March 2007. The office portion of Crawford House (formerly known as Lane Crawford House) was 74% leased at satisfactory rental rates. Hennes & Mauritz AB (H&M), a reputable international retailer, leased the majority of the retail podium.

Wheelock Properties Limited

All owned and joint-venture residential projects, including Bellagio and Parc Palais, contributed favourably during the year but fewer units were sold by comparison to the preceding year. Wheelock House and Fitfort were 98% and 96% leased respectively at satisfactory rental rates at the end of March 2007. The group disposed of its entire interest in the single shop at Wheelock House for HK$225 million in December 2006. In February 2007, the group also successfully acquired a 50% interest in a site for property development in Foshan of Guangdong Province in a public auction through a joint venture, which committed a price of RMB950 million.

Wheelock Properties (Singapore) Limited

The company sold its entire interest in Hamptons for £82 million in August 2006 and its entire interest in Oakwood Residence Azabujuban for ¥9.9 billion in January 2007. In addition, the company acquired The Habitat One for S$180 million in February 2007. It will be an international and stylish development for sale in the prestigious Ardmore Park and will be re-named Ardmore III. All units at The Sea View and The Cosmopolitan and 94% of units at Ardmore II have been pre-sold by the end of March 2007. The Scotts Shopping Centre and the Ascott Serviced Apartment will be re-developed into a prime residential condominium development, to be known as Scotts Square. Wheelock Place was 100% committed at satisfactory rental rates at the end of March 2007.

The Wharf (Holdings) Limited

Harbour City and Times Square, the core assets of the group representing close to 60% of total assets, recorded solid double-digit growth in both turnover and operating profit. Expansion and commitments to the property sector in the Mainland continued. With the acquisition of three development sites in Chengdu, Suzhou and Wuxi in late 2006 and early 2007, the land bank in China (including existing investment properties) is now over 50 million square feet. Modern Terminals' expansion into the Mainland also continued. It entered into a contract in December 2006 to increase its investment in the Shekou Container Terminals. Phase 2 of the Taicang terminal opened for business in 2006 and the first two berths of the Dachan Bay terminal will open towards the end of 2007. A framework agreement on strategic cooperation for the development of Dayaowan terminals in Dalian was also signed recently.

A full report on each business unit's performance is included in the Segment Review section.

OUTLOOK

Asia will continue to be the world's growth spot, with China taking the lead. Hong Kong, being a hub for China-related business and a platform for the "bringing in, going out" process for Mainland enterprises, will continue to benefit from the robust economic growth of China. The economic partnership between the Mainland and Hong Kong through four stages of CEPA and the expansion of the Individual Visit Scheme will continue to support Hong Kong.

The Group will strive for further growth on the back of numerous investment opportunities in Hong Kong and China and is confident of a promising future.

On behalf of Shareholders and my fellow Directors, I wish to express our heartfelt gratitude to all staff for their dedication and contribution throughout the year.

Peter K C Woo
Chairman

Hong Kong, 14 June 2007