



WHEELOCK PROPERTIES

**W H E E L O C K   P R O P E R T I E S   L I M I T E D**

---

**會 德 豐 地 產 有 限 公 司**

Stock Code 股份代號 : 0049

Annual Report 2005/06 二零零五至零六年年報

---

## CONTENTS

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Corporate Governance Report	12
Report of the Directors	18
Consolidated Profit and Loss Account	28
Consolidated Balance Sheet	29
Company Balance Sheet	30
Consolidated Statement of Changes in Equity	31
Consolidated Cash Flow Statement	33
Notes to the Financial Statements	36
Principal Accounting Policies	66
Principal Subsidiaries and Associates	79
Report of the Auditors	81
Schedule of Principal Properties	82
Five-year Financial Summary	84

---

## CORPORATE INFORMATION

### **Board of Directors**

Peter K. C. Woo, *GBS, JP (Chairman)*

Joseph M. K. Chow, *OBE, JP*

Herald L. F. Lau\*

Gonzaga W. J. Li

David T. C. Lie-A-Cheong, *JP\**

T. Y. Ng

Paul Y. C. Tsui

Ricky K. Y. Wong

Glenn S. Yee\*

\* *Independent Non-executive Directors*

### **Secretary**

Wilson W. S. Chan, *F.C.I.S.*

### **General Managers**

Wheelock Corporate Services Limited

### **Registered Office**

23rd Floor, Wheelock House,

20 Pedder Street,

Hong Kong

### **Registrars**

Tengis Limited

26th Floor, Tesbury Centre,

28 Queen's Road East,

Wanchai,

Hong Kong

### **Principal Bankers**

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

### **Auditors**

KPMG

---

## CHAIRMAN'S STATEMENT

Thriving exports, vibrant tourism and surging consumer spending have propelled Hong Kong economy with an enviable growth of 7.3% during 2005. This exceeded general expectations and was achieved despite the record high oil prices and interest rate hikes.

Rentals growth as a result of tightening supply and growing demand has led to rising valuation for the Group's investment properties. The property market was fully revitalised during 2005.

Prices across all residential sectors, in particular the luxury segment, grew solidly during the first half of 2005. A mild consolidation on price took place in the second half as Hong Kong interest rates gradually stepped up. This timely adjustment helped sustain a healthy marketplace.

In Singapore, the strong manufacturing and services industries drove real GDP to a better-than-expected 6.4% growth in 2005, and further accelerated to a 10.6% annual growth in the first quarter of 2006. Retail sales saw robust growth and property prices steadily rose as a result.

The Company performed well during the financial year.

### RESULTS

Despite an 18.3% drop in Group turnover to HK\$1,788.5 million (2005: HK\$2,188.7 million), Group profit rose by 21.3% to HK\$2,234.2 million during the year under review (2005: HK\$1,841.6 million). Earnings per share were HK\$1.08 (2005: HK\$0.89). Excluding the unrealised surplus from the revaluation of investment properties and property write-back, Group profit rose by 11.5% to HK\$1,017.0 million (2005: HK\$912.4 million).

Consolidated net asset value per share rose 21.1% to HK\$8.77 as at 31 March 2006, compared to HK\$7.24 for the preceding year.

Your Directors have recommended a final dividend of 7.0 cents per share to make a full year distribution of 9.0 cents per share (2005: 8.0 cents per share).

### BOARD

I would like to give a special note of thanks to Mr. Gonzaga W. J. Li for his able stewardship as Chairman during the past 8 years, when substantial value was created. My heartfelt gratitude also goes to Mr. David J. Lawrence, who left the Board effective 1 January 2006, for his invaluable contributions to the Group. Furthermore, I would welcome Mr. Ricky K. Y. Wong on his joining the Company's Board and I am sure the Group will benefit from his extensive experience and wisdom.

---

## CHAIRMAN'S STATEMENT

### OUTLOOK

The outlook of Hong Kong economy for 2006 remains positive. Sustainable growth in the Mainland's trade flow, continuing tourism boom, and strong consumer spending will continue to strengthen the economy and benefit the property market.

The Closer Economic Partnership Arrangement (CEPA), coupled with China's WTO accession, will continue to provide tremendous business opportunities for Hong Kong and China corporate, in particular the small- to medium-sized enterprises. The Mainland and Hong Kong tie will further strengthen upon CEPA III. The Group will continue exploring high potential business opportunities in Hong Kong and the Asia Pacific region to further create value for Shareholders.

**Peter K. C. Woo**

*Chairman*

Hong Kong, 12 June 2006

---

## MANAGEMENT DISCUSSION AND ANALYSIS

### SEGMENT REVIEW

Given below is a review of the various business segments of the Group.

#### Overview

##### *Property development*

Property sales revenue dropped 82.1% to HK\$298.3 million during the year (2005: HK\$1,669.7 million). Operating profit correspondingly dropped 73.5% to HK\$93.6 million (2005: HK\$353.2 million). The decrease was attributable to sale of the remaining 11 Grange Residences units in Singapore by Wheelock Properties (Singapore) group ("WPSL"), whereas 92 units were sold last year. Other property sales for the year included units at Metro Loft, My Loft and Palm Cove and one shop at Bailey Garden.

##### *Property investment*

Rental revenue increased by 19.5% to HK\$405.1 million (2005: HK\$339.1 million). Operating profit increased by 12.0% to HK\$252.4 million (2005: HK\$225.4 million). The improvement reflected the first full-year rental contribution from the Oakwood Residence Azabujuban serviced apartments in Japan and the Ascott serviced apartments and the Scotts retail complex in Singapore, both acquired by WPSL in September 2004.

##### *Property agency*

The UK-based estate agency, Hamptons, became a wholly-owned subsidiary of WPSL in April 2005. Its results were consolidated into the Group's results in 2005/06. Property agency revenue and operating profit were HK\$800.3 million and HK\$19.9 million respectively for the year.

##### *Investment and others*

Investment revenue, which comprised mainly dividends from the Group's long-term investment portfolio and interest earned, increased by 58.3% to HK\$284.8 million (2005: HK\$179.9 million). Operating profit for the year was HK\$522.8 million, which included profits of HK\$168.3 million from the sale of certain long-term investments and HK\$98.2 million from the sale of Great Western Plaza units.

#### **WPSL, a 75.8%-owned Singapore listed subsidiary**

WPSL reported a profit attributable to shareholders of S\$183.7 million (about HK\$859 million) for the year under review, a decrease of 7.3% as compared to S\$198.1 million (about HK\$925 million) achieved in 2004/05. The decrease was mainly due to less Grange Residences units sold during the year, but was partially compensated by profits on pre-sale of certain units of The Sea View and The Cosmopolitan.

WPSL recognises profits on development pre-sales using the percentage of completion method in accordance with generally accepted accounting principles adopted in Singapore. Under the Hong Kong Financial Reporting Standards, the Group adopts the "completion method" and does not recognise any profit on development pre-sales until completion of the properties. Accordingly, the pre-sale profits recognised by WPSL were reversed in the Group's consolidated financial statements.

In March 2006, WPSL acquired a 20.97% interest in the Singapore listed Hotel Properties Limited ("HPL") for S\$171.4 million (about HK\$823 million). The principal activities of HPL are those of a hotelier and investment holdings.

---

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Development properties***

As at the financial year end, all 164 units of *Grange Residences* were sold. 11 of them were sold during the year under review.

*The Sea View* is a residential condominium development with 546 apartments on the amalgamated site of the former Sea View Hotel and the China Airlines House. Foundation works were completed in September 2005. Pre-sale was launched in July 2005 and 79% of the total 546 apartments were pre-sold by March 2006.

*The Cosmopolitan* is a residential condominium development of 228 apartments on the former Times House site. Foundation works were completed in August 2005. Pre-sale was launched in October 2005 and 70% of the total 228 apartments were pre-sold by March 2006.

WPSL acquired *The Habitat II* at 2 Ardmore Park, Singapore for S\$103.9 million (about HK\$499 million) in March 2006. It will be amalgamated with the adjoining site, *Ardmore View*, to redevelop into a prime residential condominium development, to be known as *Ardmore II*, for sale. Planning of the sales gallery and show flat is underway, with targeted completion by September 2006.

Demolition of *Orchard View* (formerly known as *Angullia View*) was completed in November 2005 and piling work has started in May 2006.

The *Scotts Shopping Centre* and the *Ascott Serviced Apartment* were 97% and 87% leased respectively during the year at satisfactory rental rates. The property will be redeveloped into a residential and commercial complex when all existing leases and property management agreement expire by the end of 2006. Demolition of the building is expected to commence in the first half of 2007.

### ***Investment properties***

*Wheelock Place*, a commercial development at Orchard Road, Singapore, and *Oakwood Residence Azabujuban*, a serviced apartment development in Tokyo, are 95% and 93% leased respectively at satisfactory rental rates.

### ***Property agency***

Hamptons' principal activities include residential agency, lettings and management, investment and development sales. Hamptons generated revenue and profit of £58.8 million (about HK\$800 million) and £3.2 million (about HK\$43 million) respectively during the year under review, compared to £55.8 million (about HK\$756 million) and £4.0 million (about HK\$54 million) in the previous year.

### **Associates**

#### ***Bellagio (1/3 owned by the Group)***

*Bellagio*, in Sham Tseng on the western shore of the New Territories overlooking the Tsing Ma Bridge, is a joint-venture development equally owned by Wheelock Properties, Wheelock and Wharf. Virtually all of the 1,704 units in Towers 6, 7, 8 and 9 have been sold, realising proceeds of about HK\$4.1 billion.

Occupation permits and certificate of compliance for Towers 1, 2, 3 and 5 (total: 1,641 residential units) were issued in May 2005 and February 2006 respectively. 329 units were sold during the year under review, and cumulative sales reached 1,048 units (or 61%) at the end of March 2006 to realise HK\$4.1 billion of proceeds.

### ***Sorrento (40% owned by the Group)***

*Sorrento* is a joint-venture project with MTRC above the Kowloon Station, owned by a consortium comprising 40% by Wheelock Properties, and 20% each by Wheelock, Wharf and Harbour Centre Development. Virtually all of the 854 units in Phase II have been sold by the end of March 2006 to realise HK\$5.9 billion of proceeds.

### ***Parc Palais (20% owned by the Group)***

*Parc Palais* is a one million square feet GFA residential development in Homantin owned by a five-member consortium comprising Wheelock Properties (20%), New World Development (30%), Sino Land (30%), Chinese Estates (10%) and Manhattan Garments (10%). 92% of the 700 units (652 units) have been sold by the end of March 2006 to realise HK\$6.4 billion of proceeds.

## **FINANCIAL REVIEW**

### **(I) Results Review**

In preparing the financial statements for the year ended 31 March 2006, the Group has adopted the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), including all Hong Kong Accounting Standards ("HKASs") and relevant Interpretations, which took effect on 1 January 2005. Applicable prior year adjustments have also been made to 2004/05's financial statements. The resulting effects of the changes in accounting treatment and presentation are detailed in Note 11 to the Financial Statements.

#### ***Profit attributable to Shareholders***

The Group reported a profit attributable to Shareholders of HK\$2,234.2 million for the year ended 31 March 2006, an increase of HK\$392.6 million or 21.3% over HK\$1,841.6 million in the previous year. Earnings per share were HK\$1.08 (2005: HK\$0.89).

In accordance with the new HKFRSs, the Group revalued its investment properties as at 31 March 2006 and accounted for a net attributable surplus of HK\$1,073.0 million, representing revaluation surplus of HK\$1,384.4 million less deferred tax and minority interests of HK\$260.7 million and HK\$50.7 million respectively, in its profit and loss account for the year under review. The 2004/05 results included a net attributable surplus of HK\$465.2 million.

Included in the results for the year was an attributable property write-back of HK\$144.2 million mainly in respect of Ardmore View in Singapore, whereas for the preceding year, the write-back attributed to the Group was HK\$464.0 million mainly for Bellagio, a joint-venture development project held through an associate.

Excluding the above net revaluation surplus and write-back for properties, the Group's net profit attributable to Shareholders would have been HK\$1,017.0 million for the year under review, an increase of HK\$104.6 million or 11.5% compared to HK\$912.4 million in 2004/05. This profit increase was largely due to the contributions from disposals of certain long-term investments of HK\$168.3 million and investment properties of HK\$98.2 million. The year under review also saw an increase in share of profit from sale of Bellagio units. The favourable results were partially offset by lower development profit from sale of Grange Residences units held by WPSL.

---

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Group turnover*

The Group's turnover decreased by HK\$400.2 million or 18.3% to HK\$1,788.5 million (2005: HK\$2,188.7 million). The decrease was chiefly attributable to decrease in revenue from Property Development segment by HK\$1,371.4 million, resulting mainly from less Grange Residences units sold by WPSL. During the year under review, the remaining 11 Grange Residences units were sold. In addition, Hamptons results contributing property agency income of HK\$800.3 million were consolidated into the Group's results since April 2005 when it became a wholly-owned subsidiary of WPSL. The results of Hamptons were previously equity accounted for as a 32.4%-owned associate of WPSL.

### *Operating profit*

The Group's operating profit increased by HK\$35.9 million or 4.3% to HK\$873.2 million (2005: HK\$837.3 million). The increase in profit was mainly attributable to the profit on sale of certain long-term investments and investment properties totalled HK\$266.5 million, but substantially offset by lower profit on property sale recorded by WPSL as mentioned above. The Group's operating profit for the year also benefited from increase in property rental income and the inclusion of Hamptons' property agency income.

### *Borrowing costs*

Borrowing costs charged to the profit and loss account increased to HK\$52.8 million (2005: HK\$37.9 million), which was mainly incurred by WPSL. Borrowing costs before capitalisation was HK\$96.0 million (2005: HK\$58.3 million). For the year under review, the Group's effective borrowing interest rate was approximately 2.9% (2005: 2.2%) per annum.

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

The share of profit of associates was HK\$325.0 million against HK\$732.3 million for the previous year. Included in the share of associates' profit for 2004/05 is an attributable property write-back of HK\$442.3 million in respect of the Group's one-third interest in the Bellagio project. The share of associates' results for the year under review mainly came from profit on sales of Bellagio units and Parc Palais units undertaken by other associates.

### *Income tax*

The taxation charge of HK\$322.7 million (2005: HK\$186.4 million) included the deferred tax of HK\$246.1 million (2005: HK\$137.6 million) provided against the net revaluation surplus of investment properties in accordance with the new accounting standards.

### *Minority interests*

Profit shared by minority interests was HK\$163.0 million (2005: HK\$175.2 million), which mainly related to WPSL.

## **(II) Liquidity and Financial Resources**

### *Equity*

At 31 March 2006, the Group's Shareholders' equity amounted to HK\$18,159.1 million or HK\$8.77 per share, against the restated amount of HK\$14,978.3 million or HK\$7.24 per share at 31 March 2005. The increase was chiefly due to the attributable appreciation in value of the Group's long-term investments and investment property portfolio by HK\$1,034.9 million and HK\$1,073.0 million (net of deferred tax and minority interests), respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

At 31 March 2006, the Group's total equity, including minority interests, was HK\$19,858.0 million (2005: HK\$16,530.2 million).

### *Net cash*

At 31 March 2006, the Group's net cash amounted to HK\$589.1 million, which was made up of deposits and cash of HK\$4,498.1 million and total debts of HK\$3,909.0 million, as compared to a net cash of HK\$369.6 million at 31 March 2005.

Excluding WPSL, the Company and its subsidiaries together had a net cash of HK\$1,824.1 million (2005: HK\$1,098.9 million). The major cash inflows for the year resulted from the sale of certain long-term investments and sale of investment and other properties. In addition, proceeds from sale of Bellagio, Sorrento and Parc Palais units were distributed by the project companies among their shareholders in proportion to their equity interests in the respective projects and the Group had received HK\$0.9 billion from those associates. During the year under review, the Group paid HK\$0.9 billion for the acquisition of Heung Yip Road property, Babington Path property and some office properties in Hong Kong.

WPSL's net debt increased to HK\$1,235.0 million at 31 March 2006 compared to HK\$729.3 million at 31 March 2005, resulting from its acquisition of 20.97% of Hotel Properties Limited and additional interests in Hamptons, and the Orchard View and The Habitat II sites. This was in part offset by proceeds received from purchasers of Grange Residences units, The Sea View units and The Cosmopolitan units.

### *Committed and uncommitted facilities*

- (a) The Group had committed and uncommitted loan facilities of HK\$6.4 billion and HK\$0.3 billion respectively. The debt maturity profile of the Group at 31 March 2006 was analysed as follows:

	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Repayable within 1 year	<b>840.0</b>	–
Repayable after 1 year, but within 2 years	<b>1,538.8</b>	–
Repayable after 2 years, but within 5 years	<b>1,530.2</b>	3,114.9
	<b>3,909.0</b>	3,114.9
Undrawn facilities	<b>2,800.6</b>	1,600.0

## MANAGEMENT DISCUSSION AND ANALYSIS

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

	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Investment properties	<b>493.4</b>	474.5
Properties under development for sale	<b>4,014.3</b>	2,284.2
	<b>4,507.7</b>	2,758.7

(c) At 31 March 2006, WPSL's borrowings for financing its investment in Hamptons and properties in Singapore and Japan were primarily denominated in respective local currencies i.e. pound sterling, Singapore dollar and Japanese yen, respectively. Forward exchange contracts were entered into by WPSL for hedging its net investment in a foreign subsidiary. The Group has no other significant exposure to foreign exchange fluctuation except for its net investments in Singapore subsidiaries.

### *Available-for-sale investments*

At 31 March 2006, the Group maintained a portfolio of long-term investments with market value of HK\$7,079.4 million (2005: HK\$5,701.2 million), which primarily comprised a 7% interest in Wharf and other blue chip securities.

In accordance with the Group's accounting policies, the long-term investments 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 investment is sold. At 31 March 2006, such reserves had an attributable accumulated surplus of HK\$2,419.7 million compared to HK\$1,504.6 million at 31 March 2005. The performance of the portfolio was in line with the stock markets.

### **(III) Contingent Liabilities**

At 31 March 2006 and 31 March 2005, there was no guarantee given by the Group in respect of banking facilities available to associates.

### **(IV) Acquisition of Properties/Subsidiary/Investments**

#### *Properties*

##### **2 Heung Yip Road**

The Group completed in June 2005 the acquisition of the property, known as 2 Heung Yip Road, in Hong Kong at a consideration of HK\$455 million.

##### **6D-6E Babington Path**

The Group completed in March 2006 the acquisition of the property, known as 6D-6E Babington Path, Mid-Levels, Hong Kong at a consideration of HK\$240 million. Redevelopment of the property will commence in 2006/07.

**Other properties acquisition in Hong Kong**

During the year, the Group also acquired some office properties at a total consideration of HK\$220 million.

**Orchard 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 completed in March 2006 the acquisition of The Habitat II, 2 Ardmore Park, Singapore at a consideration of S\$103.9 million (about HK\$499 million). WPSL plans to amalgamate this site with the Ardmore View site for redevelopment into a prime residential condominium known as Ardmore II for sale.

*Subsidiary*

**Hamptons Group Limited (“Hamptons”)**

WPSL completed in April 2005 the acquisition of the remaining interests of 67.6% in Hamptons at a total consideration of approximately £23.8 million (about HK\$357 million), making Hamptons a 100% owned subsidiary of WPSL. Accordingly, with effect from April 2005, the Group has consolidated Hamptons’ results, assets and liabilities.

*Investments*

**Hotel Properties Limited (“HPL”) (20.97%)**

WPSL acquired 20.97% interest or 95,230,000 shares in HPL for S\$171.4 million (about HK\$823 million) on 21 March 2006. Since the Group does not have significant influence over the financial and operating policy decision of HPL, the 20.97% interest in HPL is accounted for as available-for-sale investment instead of an associate in the financial statements. HPL is a listed company in Singapore and its businesses include hotel operations, development properties, investment properties and restaurants.

**(V) Human Resources**

The Group has 1,046 employees at 31 March 2006 (2005: 95). The increase of 951 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. Total staff costs for the year ended 31 March 2006 amounted to HK\$363.1 million.

---

## CORPORATE GOVERNANCE REPORT

### (A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 March 2006, all those principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Code"), which became applicable to the Company in respect of the year under review, were applied by the Company, and the relevant Code provisions in the Code were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

### (B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company who were in office during the financial year ended 31 March 2006, they have confirmed that they have complied with the Model Code during the financial year.

### (C) BOARD OF DIRECTORS

#### (i) Composition of the Board, number of Board meetings and Directors' attendance

The Company's Board has a balance of skills and experience and a balance composition of executive and non-executive directors. Five Board meetings were held during the financial year ended 31 March 2006. The composition of the Board and attendance of the Directors are set out below:

<b>Directors</b>	<b>Attendance at Meetings</b>
<i>Chairman</i>	
Peter K. C. Woo ( <i>appointed on 26 May 2006</i> )	N/A
<i>Non-executive Directors</i>	
Joseph M. K. Chow	2
Gonzaga W. J. Li	5
T. Y. Ng	4
Paul Y. C. Tsui	5
Ricky K. Y. Wong ( <i>appointed on 1 March 2006</i> )	0
David J. Lawrence ( <i>resigned on 1 January 2006</i> )	0
<i>Independent Non-executive Directors</i>	
Herald L. F. Lau	5
David T. C. Lie-A-Cheong	3
Glenn S. Yee	5

Each Director of the Company has been appointed on the strength of his calibre, experience and stature, and his potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring board approval were arranged by means of circulation of written resolutions.

**(ii) Operation of the Board**

The Company is headed by an effective Board which takes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group. Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

**(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Mr. Gonzaga W. J. Li served as the Chairman of the Company during the financial year ended 31 March 2006 and also as the *de facto* chief executive officer of the Company during the year under review. This is a deviation from the Code provision with respect to the roles of Chairman and chief executive officer to be performed by different individuals. Such 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 believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals.

**(E) NON-EXECUTIVE DIRECTORS**

All those existing Directors of the Company who do not hold any executive office of the Company have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous Annual General Meetings) their last re-election as Directors.

**(F) REMUNERATION OF DIRECTORS**

The Company has set up a Remuneration Committee consisting of the Chairman of the Company and two other independent Non-executive Directors.

---

## CORPORATE GOVERNANCE REPORT

One Remuneration Committee meeting was held during the financial year ended 31 March 2006. Attendance of the Members is set out below:

<b>Members</b>	<b>Attendance at Meeting</b>
Peter K. C. Woo, <i>Chairman (appointed on 5 June 2006)</i>	N/A
Gonzaga W. J. Li <i>(resigned on 5 June 2006 as Chairman and member)</i>	1
David T. C. Lie-A-Cheong	0
Glenn S. Yee	1

The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code. Given below are the main duties of the Remuneration Committee:

- (a) to consider the Company's policy and structure for all remuneration of Directors and senior management;
- (b) to determine the specific remuneration packages of all executive Directors and senior management;
- (c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (d) to review the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment; and
- (e) to review compensation arrangements relating to dismissal or removal of Directors for misconduct.

The work performed by the Remuneration Committee for the financial year ended 31 March 2006 was summarised below:

- (a) review of the Company's policy and structure for all remuneration of Directors and senior management;
- (b) consideration of the emoluments for all Directors and senior management; and
- (c) review of the level of fees for Directors and Audit Committee Members.

The basis of determining the emoluments payable to its Directors and senior management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the Directors' fees, currently at the rate of HK\$30,000 per annum per Director, payable to Directors of the Company, and the Audit Committee Members' fees, currently at the rate of HK\$15,000 per annum per Member, payable to those Directors of the Company who are also Members of the Audit Committee of the Company is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

### (G) NOMINATION OF DIRECTORS

The Company does not have a nomination committee as the role and function of such committee are performed by the Board.

The Board is responsible for the formulation of the nomination policies, making recommendations to Shareholders on Directors standing for re-election, providing sufficient biographical details of Directors to enable Shareholders to make an informed decision on the re-election, and where necessary, nominate Directors to fill casual vacancies. The Chairman from time to time reviews the composition of the Board with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of management. He also identifies and nominates qualified individuals for appointment as new Directors of the Company. New Directors of the Company will be appointed by Board. Any and all new Directors are subject to retirement from the Board at the Annual General Meeting of the Company immediately following his or her appointment and may stand for re-election at the Annual General Meeting.

### (H) AUDITORS' REMUNERATION

The fees in relation to the audit and other services provided by KPMG, the external auditors of the Group, amounted to HK\$3.1 million and HK\$1.7 million respectively.

### (I) AUDIT COMMITTEE

The Audit Committee of the Company consists of one Non-executive Director and two independent Non-executive Directors.

All Members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Mr. Herald L. F. Lau has the appropriate professional qualifications and experience in financial matters.

Two Audit Committee meetings were held during the financial year ended 31 March 2006. Attendance of the Members is set out below:

<b>Members</b>	<b>Attendance at Meetings</b>
Glenn S. Yee, <i>Chairman</i>	2
Joseph M. K. Chow	1
Herald L. F. Lau	2

(i) The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of the Audit Committee:

- (a) to consider the appointment of the external auditors and any questions of resignation or dismissal;
- (b) to discuss with the external auditors before the audit commences, the nature and scope of the audit;

---

## CORPORATE GOVERNANCE REPORT

- (c) to review the half-year and annual financial statements before submission to the Board, focusing particularly on:
    - (1) any changes in accounting policies and practices;
    - (2) major judgmental areas;
    - (3) significant adjustments resulting from the audit;
    - (4) the going concern assumption;
    - (5) compliance with accounting standards; and
    - (6) compliance with stock exchange and legal requirements;
  - (d) to discuss problems and reservations arising from the audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary); and
  - (e) to review the audit programme, and ensure co-ordination with external auditors, of the internal audit function.
- (ii) The work performed by the Audit Committee for the financial year ended 31 March 2006 is summarised below:
- (a) approval of the remuneration and terms of engagement of the external auditors;
  - (b) review of the external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards;
  - (c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(c) above regarding the duties of the Audit Committee;
  - (d) discussion with the external auditors before the audit commences, the nature and scope of the audit;
  - (e) review of the audit programme and co-ordination between the external auditors and the internal audit function;
  - (f) review of the Group's financial controls, internal control and risk management systems; and
  - (g) meeting with the external auditors without executive Board members present.

## **(J) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 March 2006, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flows for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 March 2006:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- (ii) prudent and reasonable judgements and estimates are made; and
- (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

## **(K) COMMUNICATION WITH SHAREHOLDERS**

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performances and activities. Annual and interim reports are printed and sent to all Shareholders. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The Company encourages its Shareholders to attend Annual General Meetings to ensure a high level of accountability and to stay informed of the Group's strategy and goals.

The Company keeps Shareholders informed of the procedure for voting by poll in all circulars to Shareholders which are from time to time despatched to Shareholders together with notices of general meetings of the Company.

## **(L) SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING**

Pursuant to the Hong Kong Companies Ordinance, on requisition of one or more Shareholders in aggregate holding not less than 5% of the paid-up capital of the Company carrying the right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

---

## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 March 2006.

### **PRINCIPAL ACTIVITIES AND TRADING OPERATIONS**

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on page 79.

An analysis of the principal activities and geographical locations of trading operations of the Company and its subsidiaries during the financial year is set out in Note 1 to the Financial Statements on pages 36 and 37.

### **RESULTS, APPROPRIATIONS AND RESERVES**

The results of the Group for the financial year ended 31 March 2006 are set out in the Consolidated Profit and Loss Account on page 28.

Appropriations of profits and movements in reserves during the financial year are set out in Note 26 to the Financial Statements on pages 59 and 60.

### **DIVIDENDS**

An interim dividend of 2.0 cents per share was paid on 30 December 2005. The Directors have now recommended for adoption at the Annual General Meeting to be held on Monday, 21 August 2006 the payment on 28 August 2006 to Shareholders on record as at 21 August 2006 of a final dividend of 7.0 cents per share in respect of the financial year ended 31 March 2006. This recommendation has been disclosed in the Financial Statements.

### **FIXED ASSETS**

Movements in fixed assets during the financial year are set out in Note 12 to the Financial Statements on page 48.

### **DONATIONS**

The Group made donations during the financial year totalling HK\$1.2 million.

### **DIRECTORS**

The Directors of the Company during the financial year were Dr. J. M. K. Chow, Mr. H. L. F. Lau, Mr. D. J. Lawrence (resigned on 1 January 2006), Mr. G. W. J. Li, Mr. D. T. C. Lie-A-Cheong, Mr. T. Y. Ng, Mr. P. Y. C. Tsui, Mr. R. K. Y. Wong (appointed on 1 March 2006) and Mr. G. S. Yee.

Subsequent to the financial year end, Mr. P. K. C. Woo was appointed an additional Director and elected as the Chairman of the Company in place of Mr. G. W. J. Li, who remains as a Director of the Company, with effect from 26 May 2006.

---

## REPORT OF THE DIRECTORS

Messrs. P. K. C. Woo and R. K. Y. Wong, being appointed as Directors of the Company after the last Annual General Meeting, are due to retire from the Board in accordance with Article 94 of the Company's Articles of Association, and Messrs. G. W. J. Li and G. S. Yee are also due to retire from the Board by rotation in accordance with Article 103(A), at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

### INTERESTS IN CONTRACTS

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

### MANAGEMENT CONTRACTS

There was in existence during the financial year an agreement dated 31 March 1992 between the Company and Wheelock Corporate Services Limited ("WCSL"), whereby WCSL were appointed the General Managers of the Company. The said appointment has become effective since 31 March 1992 and shall continue in force until it is terminated by WCSL by the giving of six months' prior notice in writing. Messrs. P. Y. C. Tsui and T. Y. Ng are directors of WCSL and are accordingly regarded as interested in the said agreement.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

### AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board  
**Wilson W. S. Chan**  
*Secretary*

Hong Kong, 12 June 2006

## SUPPLEMENTARY CORPORATE INFORMATION

### (A) Biographical Details of Directors and Senior Managers

#### (I) *Directors*

**Peter K. C. WOO**, *GBS, JP, Chairman* (Age: 59)

Mr. Woo has resumed the role of Chairman of the Company since 26 May 2006 after having formerly served as the Company's Chairman during the period from 16 March 1985 to 10 January 1990. He also serves as a member and the chairman of the Company's Remuneration Committee. He is the chairman and a substantial shareholder of the Company's parent company, namely, Wheelock and Company Limited ("Wheelock") and also the chairman of The Wharf (Holdings) Limited ("Wharf") and Wheelock Properties (Singapore) Limited ("WPSL").

Mr. Woo was appointed a Justice of the Peace in 1993 and awarded the Gold Bauhinia Star in 1998 by the Hong Kong SAR Government. He has for many years been actively engaged in community and related services, both locally and in the international arena, and has held various Government appointments. He has been the Government-appointed chairman of the Hong Kong Trade Development Council since October 2000 and had served as the chairman of Hospital Authority from 1995 to 2000 and the council chairman of Hong Kong Polytechnic University from 1993 to 1997. He is currently the chairman of the Hong Kong Environment and Conservation Fund Committee set up in 1994 which he co-funded with the Government. He also served as a deputy chairman in 1991 to Prince of Wales Business Leaders Forum, and as a member of the International Advisory Council of JPMorgan Chase & Co., National Westminster Bank, Banca Nazionale del Lavoro, Elf Aquitaine of France and General Electric of America. He has received Honorary Doctorates from various universities in the USA, Australia and Hong Kong.

**Joseph M. K. CHOW**, *OBE, JP, Director* (Age: 65)

Dr. Chow has been a Director of the Company since 2003. He also serves as a member of the Company's Audit Committee. Dr. Chow is a professional civil and structural engineer. He is also a fellow of the Hong Kong Institution of Engineers, the Institution of Civil Engineers and the Institution of Structural Engineers. He is a member of CPPCC of Shanghai and a Hon. Senior Superintendent of the Hong Kong Auxiliary Police Force. Dr. Chow is the chairman of Joseph Chow & Partners Limited, Construction Workers Registration Authority as well as an independent non-executive director of the publicly-listed Chevalier International Holdings Limited, Build King Holdings Ltd. and PYI Corporation Ltd.

**Herald L. F. LAU**, *Director* (Age: 65)

Mr. Lau has been an independent Non-executive Director of the Company since 2004. He also serves as a member of the Company's Audit Committee. Mr. Lau has been practicing as a certified public accountant in Hong Kong for over 30 years and has extensive experience in auditing, finance, taxation and management. He was formerly a partner of a professional accountants firm PricewaterhouseCoopers, Hong Kong, until his retirement from the firm in June 2001. He is also an independent non-executive director of Fairwood Holdings Limited, Kerry Properties Limited and China World Trade Center Company Limited (Beijing). Mr. Lau is a fellow member of The Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants ("HKICPA").

---

## REPORT OF THE DIRECTORS

**Gonzaga W. J. LI**, *Director (Age: 77)*

Mr. Li has been appointed a Director of the Company since 1997. He was elected the Chairman of the Company in 1997 and stepped down as the Chairman on 26 May 2006. He is also the senior deputy chairman of Wheelock and Wharf, the chairman of Harbour Centre Development Limited (“HCDL”) and Modern Terminals Limited as well as the chief executive officer and a director of Wharf China Limited. Furthermore, he is a director of Joyce Boutique Holdings Limited (“Joyce”).

**David T. C. LIE-A-CHEONG**, *JP, Director (Age: 46)*

Mr. Lie has been an independent Non-executive Director of the Company since 2004. He also serves as a member of the Company’s Remuneration Committee. Mr. Lie is the executive chairman of Newpower International (Holdings) Company, Limited and China Concept Consulting Limited. He has been selected as a Member of the National Committee of the 8th, 9th and 10th Chinese People’s Political Consultative Conference since 1993. He is currently the Honorary Consul of the Hashemite Kingdom of Jordan in Hong Kong SAR, a member of the Commission on Strategic Development of Hong Kong SAR, a member of The Greater Pearl River Delta Business Council, a board member of Hospital Authority, a member of the China Overseas Friendship Association, a general committee member of the Hong Kong General Chamber of Commerce, Hong Kong Chair of Hong Kong Trade Development Council – Hong Kong/France Business Partnership. Mr. Lie is also an independent non-executive director of Herald Holdings Limited, a company whose securities are listed on the Stock Exchange.

**T. Y. NG**, *Director (Age: 58)*

Mr. Ng has been a Director of the Company since 1998. He is also a director of Wharf, HCDL, Joyce and Wheelock Corporate Services Limited (“WCSL”). Mr. Ng is an associate member of both HKICPA and the Chartered Institute of Management Accountants (“CIMA”).

**Paul Y. C. TSUI**, *Director (Age: 59)*

Mr. Tsui has been a Director of the Company since January 2005. He is also an executive director of Wheelock and a director of Joyce and WPSL. Furthermore, he is the senior deputy managing director of WCSL and a director of Myers Investments Limited (“Myers”). Mr. Tsui is a fellow member of HKICPA, The Association of Chartered Certified Accountants and CIMA.

**Ricky K. Y. WONG**, *Director (Age: 41)*

Mr. Wong has been a Director of the Company since 1 March 2006. He joined Wharf group in 1989. He has been in continuous employment of the Wheelock and Wharf group since 1989 and has been responsible for various property-related matters of the Wheelock and Wharf group. He is currently the property development & sales director of Wheelock Properties (Hong Kong) Limited, which is a wholly-owned subsidiary of Wheelock, and is presently responsible for overseeing the property development and related business of the Wheelock and Wharf group. Mr. Wong graduated from University of Wisconsin in the United States with a Master Degree in Business Administration.

**Glenn S. YEE**, *Director (Age: 55)*

Mr. Yee has been an independent Non-executive Director of the Company since 2003. He also serves as a member and the chairman of the Company’s Audit Committee and a member of the Company’s Remuneration Committee. Mr. Yee is the managing director of Pacific Can Company Limited.

## REPORT OF THE DIRECTORS

### Notes:

- (1) *Wheelock, WCSL and Myers (of which Mr. P. K. C. Woo, Mr. G. W. J. Li, Mr. T. Y. Ng and/or Mr. P. Y. C. Tsui is/are director(s)) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.*
- (2) *The Company confirms that it has received written confirmation from each independent Non-executive Director confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and the Company still considers the independent Non-executive Directors to be independent.*

### (II) Senior Managers

During the financial year, the senior management responsibilities of the Group were vested with the General Managers of the Company, namely, Wheelock Corporate Services Limited (as referred to in the Report of the Directors under the section headed "Management Contracts" on page 19), and none of the employees of the Group are regarded as Senior Managers.

### (B) Directors' Interests in Shares

At 31 March 2006, Directors of the Company had the following personal beneficial interests, all being long positions, in the share capitals of the Company, the Company's parent company, namely, Wheelock, and an associate of Wheelock, namely, Wharf, and the percentages which the relevant shares represented to the issued share capitals of the three companies respectively are also set out below:

**No. of Ordinary Shares**  
(percentage of issued capital)

#### The Company

G. W. J. Li 2,900 (0.0001%)

#### Wheelock

G. W. J. Li 1,486,491 (0.0732%)  
T. Y. Ng 70,000 (0.0034%)

#### Wharf

G. W. J. Li 686,549 (0.0280%)  
T. Y. Ng 178,016 (0.0073%)

---

## REPORT OF THE DIRECTORS

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (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 31 March 2006 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 year 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 year of any such rights by any of them.

### (C) Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at 31 March 2006, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

Names	No. of Ordinary Shares (percentage of issued capital)
(i) Myers Investments Limited	1,536,058,277 (74.22%)
(ii) Wheelock Corporate Services Limited	1,536,058,277 (74.22%)
(iii) Wheelock and Company Limited	1,536,058,277 (74.22%)
(iv) HSBC Trustee (Guernsey) Limited	1,536,058,277 (74.22%)

*Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against parties (i) to (iv) above represent the same block of shares.*

All the interests stated above represented long positions and as at 31 March 2006, there were no short position interests recorded in the Register.

### (D) Pension Schemes

Set out below are certain particulars regarding the pension scheme operated by the Group (the "Pension Scheme") :

#### (I) Nature of the Pension Scheme

The Pension Scheme is a defined contribution scheme. The assets of the Pension Scheme are held separately by an independently administered fund.

---

## REPORT OF THE DIRECTORS

### **(II) Funding of the Pension Scheme**

The Pension Scheme is funded by contributions from employees and employers. The employees and employers contribute respectively to the Pension Scheme sums which represent percentages of their salaries as defined under the relevant trust deed.

### **(III) Forfeited Contributions**

The contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who have left the Pension Scheme prior to vesting fully in the contributions.

### **(IV) Cost of the Pension Scheme**

The employer's cost charged to the profit and loss account during the year ended 31 March 2006 in respect of the Pension Scheme amounted to HK\$3.9 million. During the year, no forfeiture of employer's contribution was used to reduce current year's contribution.

Note: The total employers' pension cost in respect of all pension schemes of the Group, including the cost related to the various mandatory retirement schemes which are not operated by the Group, charged to the profit and loss account during the financial year ended 31 March 2006 amounted to HK\$26.6 million.

## **(E) Directors' Interests in Competing Business**

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules.

Five Directors of the Company, namely, Messrs. P. K. C. Woo, G. W. J. Li, T. Y. Ng, P. Y. C. Tsui and R. K. Y. Wong, being also directors of the Company's parent company, namely, Wheelock, and/or certain subsidiaries of Wheelock, are considered as having an interest in Wheelock under Rule 8.10 of the Listing Rules.

The ownership of commercial premises by Wheelock group for rental purposes is considered as competing with the commercial premises owned by the Group for letting. Since the Group's commercial premises are not in close proximity to those owned by the Wheelock group and the customers and tenants for the Group's properties are somewhat different from those for the properties owned by the Wheelock group, the Group considers that its interest regarding the business of owning and letting of commercial premises is adequately safeguarded.

For safeguarding the interests of the Group, the independent Non-executive Directors and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's property leasing business is and continues to be run on the basis that it is independent of, and at arm's length from, that of the Wheelock group.

---

## REPORT OF THE DIRECTORS

### **(F) Major Customers & Suppliers**

For the financial year ended 31 March 2006:

- (a) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented 66% of the Group's total purchases;
- (b) the largest supplier accounted for 21% of the Group's total purchases;
- (c) none of the Directors of the Company or their associates holds, nor does any Shareholder owning (to the knowledge of the Directors) more than 5% of the Company's equity capital hold, any interests in any of the Group's five largest suppliers; and
- (d) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

### **(G) Bank Loans, Overdrafts and Other Borrowings**

Particulars of any and all bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 March 2006 which are repayable on demand or within a period not exceeding one year or after one year are set out in Note 22 to the Financial Statements on page 56.

### **(H) Interest Capitalised**

The amount of interest capitalised by the Group during the financial year is set out in Note 5 to the Financial Statements on page 41.

### **(I) 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 year.

### **(J) Public Float**

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 March 2006.

**(K) Disclosure of Connected Transactions**

Set out below is information in relation to certain connected transactions involving the Company and/or its subsidiaries which were substantially disclosed in the press announcements of the Company dated 30 August 2004, 22 December 2004 and 29 June 2005 respectively and were required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

**(i) Disposal of shares in i-CABLE Communications Limited**

On 28 June 2005, Lynchpin Limited ("Lynchpin"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Wharf Communications Limited, a wholly-owned subsidiary of Wharf, for the disposal of 17,619,827 shares in i-CABLE Communications Limited ("i-CABLE") (representing 0.9% of the issued share capital of i-CABLE), at a consideration of HK\$45.4 million. The consideration was paid in cash and the transaction was completed on 30 June 2005.

Since the Company is a 74%-owned subsidiary of Wheelock and Wharf is a 48%-owned associate of Wheelock, the abovementioned transaction constituted a connected transaction for the Company under the Listing Rules.

The above disposal represented a good opportunity to the Group to divest itself, at a reasonable price level, of its entire interest, being only a minority interest, in i-CABLE whose principal activities are somewhat unrelated to the Group's own principal activities.

**(ii) Master Services Agreement with Wheelock and Company Limited**

Under various agreements previously entered into, the Company together with some of its wholly-owned subsidiaries have appointed certain subsidiaries of Wheelock for the provision by the latter of general managerial and/or administrative services, including legal, secretarial, human resources, accounting and financial and information technology services (the "General Management Services"), and property management and/or leasing and other property related services (the "Property Services") (collectively, the "Services").

On 22 December 2004, a master services agreement (the "Master Services Agreement") was entered into between the Company and Wheelock to, among other things, provide for an annual aggregate maximum amount payable by the Group for the Services provided and to govern the entry into of any further individual agreements separately between members of the Group with members of Wheelock group in respect of the provision of the Services.

As the Company is a 74%-owned subsidiary of Wheelock, the transaction constitutes a continuing connected transaction for the Company under the Listing Rules.

Under the Master Services Agreement, the aggregate amount of remuneration payable by the Group for the General Management Services will be subject to an annual cap amount of HK\$40.0 million in respect of each of the three financial years of the Company from 1 April 2004 to 31 March 2007. Furthermore, the aggregate amount of remuneration payable by the Group for the Property Services will be subject to annual cap amounts of HK\$10.0 million, HK\$11.5 million and HK\$13.2 million respectively for those three financial years.

***(iii) Tenancy Agreement with Wheelock Properties (Hong Kong) Limited***

On 30 August 2004, a tenancy agreement (the "Tenancy Agreement") in respect of the whole of 5th Floor, Wheelock House, 20 Pedder Street, Hong Kong for the period from 1 September 2004 to 31 August 2007 was entered into between Marnav Holdings Limited ("Marnav"), a wholly-owned subsidiary of the Company as the landlord, and Wheelock Properties (Hong Kong) Limited ("WPHK"), a wholly-owned subsidiary of Wheelock as the tenant.

As the Company is a 74%-owned subsidiary of Wheelock, the transaction constitutes a continuing connected transaction for the Company under the Listing Rules.

The rental receivable by Marnav from WPHK under the Tenancy Agreement for each of the four financial years ending 31 March 2008 would range from HK\$0.8 million to HK\$2.0 million.

With ownership of properties for letting being one of the Group's principal business activities, rental income is an important recurrent income source of the Group. The stable and satisfactory rental revenue to be generated from the tenancy under the Tenancy Agreement is therefore beneficial to the Group.

***(iv) Confirmation from Directors Etc.***

The Directors, including the independent Non-executive Directors, of the Company have reviewed the continuing connected transactions mentioned under Section K(ii) and K(iii) above (the "Transactions") and confirmed that the Transactions were entered into:

- (a) by the Group in the ordinary and usual course of its business;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements governing such Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Furthermore, the auditors of the Company have advised the following:

- (1) the Transactions had been approved by the Company's Board of Directors;
- (2) nothing came to the attention of the auditors of the Company that caused them to believe that the Transactions were not entered into in accordance with the terms of the related agreements governing the Transactions; or, where there was no agreement, on terms no less favourable than those for similar transactions undertaken by the Group with independent third parties where available; and
- (3) the relevant cap amounts have not been exceeded during the financial year ended 31 March 2006.

# CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 31 March 2006

	Note	2006 HK\$ Million	2005 HK\$ Million (restated)
Turnover	2	<b>1,788.5</b>	2,188.7
Other net income	3	<b>303.1</b>	113.3
		<b>2,091.6</b>	2,302.0
Direct costs and operating expenses		<b>(665.4)</b>	(1,348.2)
Selling and marketing expenses		<b>(238.4)</b>	(28.9)
Administrative and corporate expenses		<b>(314.6)</b>	(87.6)
Operating profit	2	<b>873.2</b>	837.3
Increase in fair value of investment properties	12	<b>1,384.4</b>	657.3
Write back of provision for properties	4	<b>190.1</b>	14.2
		<b>2,447.7</b>	1,508.8
Borrowing costs	5	<b>(52.8)</b>	(37.9)
Share of profits less losses of associates	6	<b>325.0</b>	732.3
Profit before taxation		<b>2,719.9</b>	2,203.2
Income tax	7(a)	<b>(322.7)</b>	(186.4)
Profit for the year		<b>2,397.2</b>	2,016.8
Attributable to:			
Shareholders	8	<b>2,234.2</b>	1,841.6
Minority interests		<b>163.0</b>	175.2
		<b>2,397.2</b>	2,016.8
Dividends attributable to the year	9		
Interim dividend declared during the year		<b>41.4</b>	41.4
Final dividend proposed after the balance sheet date		<b>144.9</b>	124.2
		<b>186.3</b>	165.6
Earnings per share	10	<b>HK\$1.08</b>	HK\$0.89

The notes and principal accounting policies on pages 36 to 80 form part of these financial statements.

CONSOLIDATED BALANCE SHEET At 31 March 2006

	Note	2006 HK\$ Million	2005 HK\$ Million (restated)
<b>Non-current assets</b>			
Fixed assets	12		
Investment properties		5,554.4	4,357.1
Other property, plant and equipment		101.0	8.4
		<u>5,655.4</u>	<u>4,365.5</u>
Goodwill and other intangible assets	14	305.8	–
Associates	15	957.2	1,550.0
Available-for-sale investments	16	7,079.4	5,701.2
Deferred debtors	17	35.5	59.8
		<u>14,033.3</u>	<u>11,676.5</u>
<b>Current assets</b>			
Properties under development for sale	18	6,627.3	4,499.3
Properties held for sale	18	433.3	390.8
Trade and other receivables	19	339.6	360.5
Bank balances and deposits	20	4,498.1	3,484.5
		<u>11,898.3</u>	<u>8,735.1</u>
<b>Current liabilities</b>			
Trade and other payables	21	(530.8)	(379.6)
Bank loans	22	(840.0)	–
Deposits from sale of properties		(1,040.8)	–
Amounts due to fellow subsidiaries		(36.6)	(44.9)
Current tax	7(c)	(159.3)	(108.0)
		<u>(2,607.5)</u>	<u>(532.5)</u>
<b>Net current assets</b>		<u>9,290.8</u>	<u>8,202.6</u>
<b>Total assets less current liabilities</b>		<u>23,324.1</u>	<u>19,879.1</u>
<b>Non-current liabilities</b>			
Long-term loans	22	(3,069.0)	(3,114.9)
Deferred tax	23	(397.1)	(88.0)
Deferred item	24	–	(146.0)
		<u>(3,466.1)</u>	<u>(3,348.9)</u>
<b>NET ASSETS</b>		<u>19,858.0</u>	<u>16,530.2</u>
<b>Capital and reserves</b>			
Share capital	25	413.9	413.9
Reserves		17,745.2	14,564.4
<b>Shareholders' equity</b>	26(a)	<u>18,159.1</u>	<u>14,978.3</u>
<b>Minority interests</b>	26(a)	<u>1,698.9</u>	<u>1,551.9</u>
<b>TOTAL EQUITY</b>	26(a)	<u>19,858.0</u>	<u>16,530.2</u>

The notes and principal accounting policies on pages 36 to 80 form part of these financial statements.

**Peter K. C. Woo**  
Chairman

**Paul Y. C. Tsui**  
Director

COMPANY BALANCE SHEET At 31 March 2006

	Note	2006 HK\$ Million	2005 HK\$ Million
<b>Non-current assets</b>			
Subsidiaries	13	<b>2,165.8</b>	2,164.1
<b>Current assets</b>			
Amount due from a fellow subsidiary		<b>3.0</b>	–
Trade and other receivables		<b>0.2</b>	0.2
Bank balances		<b>0.1</b>	0.1
		<u>3.3</u>	<u>0.3</u>
<b>Current liabilities</b>			
Trade and other payables		<b>(2.7)</b>	(2.4)
Amount due to a fellow subsidiary		<b>(1.0)</b>	–
		<u>(3.7)</u>	<u>(2.4)</u>
<b>Net current liabilities</b>		<b>(0.4)</b>	(2.1)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,165.4</b>	2,162.0
<b>Capital and reserves</b>			
Share capital	25	<b>413.9</b>	413.9
Reserves		<b>1,751.5</b>	1,748.1
<b>SHAREHOLDERS' EQUITY</b>	26(b)	<b>2,165.4</b>	2,162.0

The notes and principal accounting policies on pages 36 to 80 form part of these financial statements.

**Peter K. C. Woo**  
Chairman

**Paul Y. C. Tsui**  
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 31 March 2006

	Note	2006 HK\$ Million	2005 HK\$ Million (restated)
Total equity at 1 April			
As previously reported:			
Shareholders' equity		15,005.8	12,543.4
Minority interests (previously presented separately from liabilities and equity)		1,537.3	1,355.4
Total equity		16,543.1	13,898.8
Prior year adjustments arising from changes in accounting policies	11	(12.9)	106.3
As restated, before opening balance adjustment		16,530.2	14,005.1
Opening balance adjustment arising from change in accounting policy for goodwill	11	146.0	–
At 1 April, after prior year and opening balance adjustments		16,676.2	14,005.1
Surplus on revaluation of investment properties			
As previously reported		–	203.3
Prior year adjustment	11	–	(203.3)
		–	–
Surplus on revaluation of available-for-sale investments		1,043.8	619.0
Intangible assets arising from assets previously held		53.3	–
Acquisition of additional interest in subsidiaries		(36.4)	–
Exchange difference on translation of financial statements of foreign entities/others		24.8	88.5
Net gains not recognised in the consolidated profit and loss account (2005: as restated)		1,085.5	707.5
Profit for the year as previously reported			1,932.9
Prior year adjustments	11		83.9
Profit for the year (2005: as restated)		2,397.2	2,016.8
Reserves transferred to the consolidated profit and loss account on disposal of:			
Available-for-sale investments		(119.9)	(30.7)
Properties		–	(1.3)
Total recognised income for the year (2005: as restated)		3,362.8	2,692.3
Shareholders		3,200.4	2,502.8
Minority interests		162.4	189.5
		3,362.8	2,692.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 31 March 2006

	Note	2006 HK\$ Million	2005 HK\$ Million (restated)
Final dividend approved in respect of the previous year	9(b)	(124.2)	(103.5)
Interim dividend declared in respect of the current year	9(a)	(41.4)	(41.4)
Dividends paid to minority interests	26(a)	(793.9)	(22.3)
Rights issue of a subsidiary attributable to minority interests	26(a)	775.7	–
Minority interests through acquisition of subsidiaries	26(a)	2.8	–
Total equity at 31 March		<b>19,858.0</b>	16,530.2
Attributable to:			
Shareholders		<b>18,159.1</b>	14,978.3
Minority interests		<b>1,698.9</b>	1,551.9
		<b>19,858.0</b>	16,530.2

The notes and principal accounting policies on pages 36 to 80 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2006

	Note	2006 HK\$ Million	2005 HK\$ Million
<b>Cash used in operations</b>	a	<b>(255.0)</b>	(184.7)
Interest received		130.2	34.5
Interest paid		(91.3)	(42.1)
Dividends received from listed investments		157.7	140.2
Dividends received from associates		181.2	223.5
Hong Kong profits tax paid		(13.5)	(8.4)
Overseas profits tax (paid)/refunded		(19.5)	0.2
<b>Net cash inflow from operating activities</b>		<b>89.8</b>	163.2
<b>Investing activities</b>			
Proceeds from disposal of available-for-sale investments		685.0	322.7
Proceeds from disposal of investment properties		293.2	–
Proceeds from disposal of fixed assets		0.8	0.1
Proceeds from disposal of an associate		–	9.5
Purchase of available-for-sale investments		(915.7)	(189.0)
Purchase of additional interests in subsidiaries		(36.4)	–
Purchase of fixed assets		(94.1)	(406.8)
Acquisition of subsidiaries	b	(349.0)	–
Decrease in deferred debtors		24.3	30.6
Decrease in net investment in associates		682.8	718.7
<b>Net cash generated from investing activities</b>		<b>290.9</b>	485.8
<b>Financing activities</b>			
Drawdown of long-term loans		857.2	2,119.2
Repayment of long-term loans		(72.0)	(898.1)
Net repayment of short-term bank loans		–	(230.0)
Dividends paid to Shareholders		(165.6)	(144.9)
Dividends paid to minority shareholders		(793.9)	(22.3)
Issuance of rights shares to minority shareholders		771.9	–
<b>Net cash generated from financing activities</b>		<b>597.6</b>	823.9
<b>Net increase in cash and cash equivalents</b>		<b>978.3</b>	1,472.9
Cash and cash equivalents at 1 April		3,484.5	1,981.9
Effect of foreign exchange rate changes		35.3	29.7
<b>Cash and cash equivalents at 31 March</b>		<b>4,498.1</b>	3,484.5
<b>Analysis of the balances of cash and cash equivalents at 31 March</b>			
Bank balances and deposits		4,498.1	3,484.5

**Notes to the consolidated cash flow statement**

**(a) Reconciliation of profit before taxation to cash used in operations**

	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million (restated)
Profit before taxation	<b>2,719.9</b>	2,203.2
Adjustments for:		
Share of profits less losses of associates	<b>(325.0)</b>	(732.3)
Interest income	<b>(129.9)</b>	(35.9)
Interest expenses	<b>50.7</b>	24.1
Depreciation	<b>15.9</b>	1.2
Dividend income from listed investments	<b>(154.9)</b>	(144.0)
Profit on disposal of available-for-sale investments	<b>(168.3)</b>	(89.3)
Increase in fair value of investment properties	<b>(1,384.4)</b>	(657.3)
Write back of provision for properties	<b>(190.1)</b>	(14.2)
Profit on disposal of investment properties	<b>(98.2)</b>	–
Loss on disposal of fixed assets	<b>9.4</b>	0.3
Profit on sale of an associate	–	(9.5)
Amortisation of negative goodwill	–	(12.9)
Amortisation of intangible assets	<b>0.5</b>	–
Exchange differences	<b>50.5</b>	55.1
<b>Operating profit before working capital changes</b>	<b>396.1</b>	588.5
Decrease in short-term investments	–	79.8
Increase in properties under development for sale	<b>(1,896.3)</b>	(2,160.0)
(Increase)/decrease in properties held for sale	<b>(42.5)</b>	1,225.7
Decrease in trade and other receivables	<b>261.9</b>	72.0
(Decrease)/increase in amounts due to fellow subsidiaries	<b>(8.3)</b>	27.1
Decrease in trade and other payables	<b>(6.7)</b>	(17.8)
Increase in deposits from sale of properties	<b>1,040.8</b>	–
<b>Cash used in operations</b>	<b>(255.0)</b>	(184.7)

**(b)** Acquisition of subsidiaries

On 21 April 2005, the Group acquired 67.6% of the shares in Hamptons Group Limited for HK\$362.9 million in cash. The company is engaged in estate agency services in the residential property market. In the period to 31 March 2006, Hamptons Group Limited contributed HK\$810.5 million to the Group's turnover and HK\$14.5 million to the profit attributable to Shareholders of the Company. The acquisition has been accounted for using the purchase method.

If the acquisition had occurred on 1 April 2005, Hamptons Group Limited's revenue and net profit contributed to the Group would not be significantly different to that reported above.

The cash flow and the net assets of subsidiaries acquired are provided below:

	HK\$ Million
Non-current assets	256.1
Current assets	212.5
Current liabilities	(149.3)
Minority interests	(2.8)
	<hr/>
	316.5
Amount previously accounted for as an associate	(57.0)
	<hr/>
Net assets acquired	259.5
Goodwill arising on acquisition	103.4
	<hr/>
Total purchase price paid, satisfied in cash	362.9
Less: Cash of subsidiaries acquired	(13.9)
	<hr/>
Net cash outflow in respect of the acquisition of subsidiaries	<u>349.0</u>

The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise after the Group's acquisition of Hamptons Group Limited.

There were no acquisitions in the year ended 31 March 2005.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SEGMENT INFORMATION

#### (a) Business segments

##### (i) Revenue and results

	Segment Revenue		Segment Results	
	2006 HK\$ Million	2005 HK\$ Million (restated)	2006 HK\$ Million	2005 HK\$ Million (restated)
Property development	298.3	1,669.7	93.6	353.2
Property investment	405.1	339.1	252.4	225.4
Property agency	800.3	–	19.9	–
Investment and others	284.8	179.9	522.8	267.5
	<b>1,788.5</b>	<b>2,188.7</b>	<b>888.7</b>	<b>846.1</b>
Unallocated expenses			(15.5)	(8.8)
Operating profit			873.2	837.3
Increase in fair value of investment properties			1,384.4	657.3
Write back of provision for properties			190.1	14.2
			<b>2,447.7</b>	<b>1,508.8</b>
Borrowing costs			(52.8)	(37.9)
Share of profits less losses of associates				
Property development			322.2	265.6
Investment and others			2.8	1.3
Property agency			–	18.7
Write back of provision for properties			–	446.7
Profit before taxation			<b>2,719.9</b>	<b>2,203.2</b>

##### (ii) Assets and liabilities

	Assets		Liabilities	
	2006 HK\$ Million	2005 HK\$ Million (restated)	2006 HK\$ Million	2005 HK\$ Million (restated)
Property development	7,113.6	5,202.0	1,191.4	256.9
Property investment	5,604.4	4,384.4	184.2	102.0
Property agency	604.6	–	132.5	–
Investment and others	7,153.6	5,784.8	63.4	6.8
Segment assets and liabilities	<b>20,476.2</b>	<b>15,371.2</b>	<b>1,571.5</b>	<b>365.7</b>
Associates				
Property development	947.6	1,475.7	–	–
Investment and others	9.6	18.2	–	–
Property agency	–	56.1	–	–
Unallocated items	4,498.2	3,490.4	4,502.1	3,515.7
Total assets and liabilities	<b>25,931.6</b>	<b>20,411.6</b>	<b>6,073.6</b>	<b>3,881.4</b>

## NOTES TO THE FINANCIAL STATEMENTS

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings and corporate and financing expenses.

During the year, the Group incurred capital expenditure of HK\$138.1 million (2005: HK\$406.8 million) mainly in respect of the acquisition of properties and other fixed assets in United Kingdom (2005: acquisition of an investment property in Japan). The Group has no significant depreciation and amortisation.

### (b) Geographical segments

#### (i) Revenue and results

	Segment Revenue		Segment Results (Operating profit)	
	2006 HK\$ Million	2005 HK\$ Million (restated)	2006 HK\$ Million	2005 HK\$ Million (restated)
Hong Kong	407.5	500.5	311.7	249.1
Singapore	520.9	1,665.4	469.6	576.4
United Kingdom	788.5	–	47.9	–
Others	71.6	22.8	44.0	11.8
	<b>1,788.5</b>	<b>2,188.7</b>	<b>873.2</b>	<b>837.3</b>

#### (ii) Assets

	Assets	
	2006 HK\$ Million	2005 HK\$ Million (restated)
Hong Kong	9,249.0	6,811.6
Singapore	10,116.2	8,003.4
United Kingdom	604.6	–
Others	506.4	556.2
	<b>20,476.2</b>	<b>15,371.2</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 2. TURNOVER AND OPERATING PROFIT

#### (a) Turnover

The principal activities of the Group are property development, property investment, property agency, treasury management and investment holding. An analysis of the Group's turnover is as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million (restated)
Property development	<b>298.3</b>	1,669.7
Property investment	<b>405.1</b>	339.1
Property agency	<b>800.3</b>	–
Investment and others	<b>284.8</b>	179.9
	<b>1,788.5</b>	2,188.7

#### (b) Operating profit

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million (restated)
Operating profit is arrived at:		
after charging:		
Staff costs	<b>348.4</b>	27.5
– including contributions to defined contribution retirement schemes of HK\$26.6 million (2005: HK\$1.9 million)		
Cost of properties for sale sold	<b>165.7</b>	1,251.1
Operating lease charges: minimum lease payments		
properties	<b>36.9</b>	–
others	<b>12.6</b>	–
Depreciation	<b>15.9</b>	1.2
Amortisation of intangible assets	<b>0.5</b>	–
Loss on disposal of fixed assets	<b>9.4</b>	0.3
Auditors' remuneration		
audit services	<b>3.1</b>	2.0
other services	<b>1.7</b>	0.7
and crediting:		
Rental income from operating leases less outgoings	<b>278.9</b>	241.8
– including gross rental income from investment properties of HK\$272.9 million (2005: HK\$265.4 million) of which HK\$0.2 million (2005: HK\$0.6 million) is contingent rentals		
Dividend income from listed investments	<b>154.9</b>	144.0
Interest income	<b>129.9</b>	35.9

In addition to the above staff costs charged directly to the profit and loss account, staff costs of HK\$14.7 million (2005: HK\$14.6 million) were capitalised as part of the costs of properties under development for sale.

## NOTES TO THE FINANCIAL STATEMENTS

### (c) Directors' emoluments

	Basic salaries, housing and other allowances, and benefits Fees HK\$'000	in kind HK\$'000	Discretionary bonuses and/or performance related bonuses HK\$'000	Contributions to pension schemes HK\$'000	Compensation for loss of office/ inducement for joining the Group HK\$'000	2006 Total emoluments HK\$'000	2005 Total emoluments HK\$'000
<b>Board of Directors</b>							
Gonzaga W. J. Li	44	-	-	-	-	44	37
Paul Y. C. Tsui	44	-	-	-	-	44	7
T. Y. Ng	44	-	-	-	-	44	37
Joseph M. K. Chow	45*	-	-	-	-	45	26
Ricky K. Y. Wong	3	-	-	-	-	3	-
<b>Independent Non-executive Directors</b>							
Glenn S. Yee	45*	-	-	-	-	45	26
Herald L. F. Lau	45*	-	-	-	-	45	18
David T. C. Lie-A-Cheong	30	-	-	-	-	30	12
<b>Past Director</b>							
David J. Lawrence	33	2,803	1,141	19	-	3,996	691
	<b>333</b>	<b>2,803</b>	<b>1,141</b>	<b>19</b>	<b>-</b>	<b>4,296</b>	<b>854</b>
Total for 2005	170	475	206	3	-		854

\* Includes Audit Committee Member's fee of HK\$15,000 (2005: HK\$3,709) received by each of relevant Directors.

## NOTES TO THE FINANCIAL STATEMENTS

### (d) Five highest paid employees

Set out below are analysis of the emoluments (excluding amounts paid or payable by way of commissions on sales generated by the employees concerned) for the year ended 31 March 2006 of the five highest paid employees of the Group.

#### (i) Aggregate emoluments

	2006 HK\$ Million	2005 HK\$ Million
Basic salaries, housing and other allowances, and benefits in kind	16.9	6.5
Retirement scheme contributions	0.7	0.3
Discretionary bonuses and/or performance related bonuses	1.3	2.1
Compensation for loss of office	3.2	–
Inducement for joining the Group	–	–
	22.1	8.9

#### (ii) Bandings

Bands (in HK\$)	2006 Number	2005 Number
\$1,000,001 – \$1,500,000	–	4
\$2,500,001 – \$3,000,000	1	–
\$3,500,001 – \$4,000,000	1	1
\$4,000,001 – \$4,500,000	1	–
\$5,000,001 – \$5,500,000	1	–
\$6,500,001 – \$7,000,000	1	–
	5	5

### 3. OTHER NET INCOME

	Group	
	2006 HK\$ Million	2005 HK\$ Million (restated)
Net profit on disposal of available-for-sale investments	168.3	89.3
Net profit on disposal of investment properties	98.2	–
Amortisation of negative goodwill	–	12.9
Profit on sale of an associate	–	9.5
Exchange gain/others	36.6	1.6
	303.1	113.3

Included in the net profit on disposal of available-for-sale investments is a net revaluation surplus, before deduction of minority interests, of HK\$117.7 million (2005: HK\$30.6 million) transferred from the investment revaluation reserves.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. WRITE BACK OF PROVISION FOR PROPERTIES

Following a review based on the property market conditions prevailing at 31 March 2006, net provision of HK\$190.1 million (2005: HK\$14.2 million) charged to the consolidated profit and loss account in prior years for properties under development for sale and held for sale was written back as a result of the increase in net realisable value of certain properties.

### 5. BORROWING COSTS

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million (restated)
Interest on bank loans, bonds and overdrafts	<b>92.3</b>	43.5
Other borrowing costs	<b>3.7</b>	14.8
	<b>96.0</b>	58.3
Less: Amount capitalised	<b>(43.2)</b>	(20.4)
	<b>52.8</b>	37.9

The Group's effective borrowing interest rate for the year was approximately 2.9% (2005: 2.2%).

### 6. SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for the year ended 31 March 2006 amounted to HK\$325.0 million (2005: HK\$732.3 million), comprising mainly attributable profits from sale of Bellagio and Parc Palais units undertaken by associates. Included in the share of profits of associates in last financial year is an amount of HK\$446.7 million arising from the Group's share of a provision write-back for the Bellagio development project.

## NOTES TO THE FINANCIAL STATEMENTS

### 7. INCOME TAX

- (a) The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5% (2005: 17.5%). Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax. The taxation charge is made up as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million (restated)
<i>Current tax</i>		
Hong Kong profits tax for the year	<b>8.7</b>	12.5
Overseas taxation for the year	<b>57.5</b>	44.1
Under/(over) provision in prior years	<b>8.7</b>	(0.6)
	<b>74.9</b>	56.0
<i>Deferred tax (Note 23)</i>		
Change in fair value of investment properties	<b>260.7</b>	137.6
Reversal on disposal of investment properties	<b>(14.6)</b>	–
Origination and reversal of temporary differences	<b>1.7</b>	(7.2)
	<b>247.8</b>	130.4
	<b>322.7</b>	186.4

- (b) Reconciliation between the actual total tax charge and accounting profit at applicable tax rates

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million (restated)
Profit before taxation	<b>2,719.9</b>	2,203.2
Notional tax on accounting profit calculated at applicable tax rates	<b>511.6</b>	403.1
Share of profits less losses of associates	<b>(56.9)</b>	(130.1)
Tax effect of non-deductible expenses	<b>27.0</b>	10.8
Tax effect of non-taxable revenue	<b>(158.4)</b>	(81.3)
Tax effect of unused tax losses not recognised	<b>1.0</b>	0.1
Tax effect of prior year's tax losses utilised this year	<b>(10.3)</b>	(15.4)
Under/(over) provision in prior years	<b>8.7</b>	(0.6)
Others	<b>–</b>	(0.2)
Actual total tax charge	<b>322.7</b>	186.4

- (c) None of the taxation payable in the consolidated balance sheet is expected to be settled after more than one year.
- (d) Share of associates' tax for the year ended 31 March 2006 of HK\$25.8 million (2005: HK\$33.3 million) is included in the share of profits less losses of associates.

## NOTES TO THE FINANCIAL STATEMENTS

### 8. GROUP PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group profit attributable to Shareholders is dealt with in the financial statements of the Company to the extent of a profit of HK\$169.0 million (2005: HK\$147.7 million).

### 9. DIVIDENDS

#### (a) Dividends attributable to the year

	2006 HK\$ Million	2005 HK\$ Million
Interim dividend approved and paid of 2.0 cents (2005: 2.0 cents) per share	41.4	41.4
Final dividend proposed after the balance sheet date of 7.0 cents (2005: 6.0 cents) per share	144.9	124.2
	<u>186.3</u>	<u>165.6</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

#### (b) Dividends attributable to the previous financial year, approved and paid during the year

	2006 HK\$ Million	2005 HK\$ Million
Final dividend in respect of the previous financial year, approved and paid during the year, of 6.0 cents (2005: 5.0 cents) per share	124.2	103.5

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to Shareholders for the year of HK\$2,234.2 million (2005 restated: HK\$1,841.6 million) and 2,069.6 million ordinary shares in issue throughout the financial year ended 31 March 2006 and the previous year.

### 11. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in the section headed "Principal Accounting Policies" set out on pages 66 to 78. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

**(a) HKAS 40 “Investment property”**

In prior years, the Group’s investment properties were stated at fair value with the changes in the value of investment properties dealt with as movements in the investment properties revaluation reserves. Deficits arising on revaluation on a portfolio basis were set off against previous revaluation surpluses and thereafter charged to the consolidated profit and loss account.

With effect from 1 April 2005, upon the adoption of HKAS 40, all the Group’s investment properties are stated at fair value with all the changes in fair value recognised directly in the consolidated profit and loss account. This new accounting policy has been applied retrospectively. Revenue reserves as at 1 April 2005 was increased by HK\$203.3 million (1 April 2004: HK\$Nil), representing the transfer of accumulated attributable revaluation surplus previously recorded in the investment properties revaluation reserves.

The effect of the change has been to increase the Group’s profit attributable to Shareholders and minority interests for the year ended 31 March 2006 by HK\$1,317.4 million (2005: HK\$203.3 million) and HK\$67.0 million (2005: HK\$Nil) respectively.

**(b) HK(SIC)-INT 21 “Income taxes – recovery of revalued non-depreciable assets”**

In prior years, deferred taxation was recognised on revaluation changes of the Group’s investment properties on the basis that the recovery of the carrying amount of the investment properties would be through sales and no deferred taxation was provided on the revaluation changes of the investment properties, principally located in Hong Kong and Singapore, as the capital gain tax rate was nil.

With effect from 1 April 2005, HK(SIC)-INT 21 requires deferred taxation to be recognised on any revaluation changes on investment properties on the basis that the recovery of the carrying amount of the investment properties would be through use and calculated at the applicable profits tax rate and charged to the profit and loss account. This new accounting policy has been applied retrospectively. Shareholders’ equity as at 1 April 2005 was restated and decreased by HK\$41.4 million (1 April 2004: increased by HK\$77.0 million) whereas minority interests as at 1 April 2005 was restated and increased by HK\$10.1 million (1 April 2004: HK\$29.3 million). The adjustment represented deferred tax liabilities/assets on the revaluation of the Group’s investment properties.

As a result of this change, deferred tax charge for the year ended 31 March 2006 increased by HK\$260.7 million (2005: HK\$137.6 million). The amounts attributable to Shareholders and minority interests are HK\$244.4 million (2005: HK\$118.4 million) and HK\$16.3 million (2005: HK\$19.2 million) respectively.

**(c) HKFRS 3 “Business Combinations”**

In prior years, the Group recognised negative goodwill arising on acquisition of a subsidiary or an associate after 1 April 2001 as deferred item and this was released to the profit and loss account on a proportional basis, when the relevant assets acquired were sold or otherwise realised. For negative goodwill arising on acquisition prior to 1 April 2001, the Group relied upon the transitional provisions set out in Statement of Standard Accounting Practice 30 “Business Combinations” such that negative goodwill was taken to capital reserves in the period in which it arose and has not been restated. It was the Group’s policy to recognise positive goodwill as an asset and to amortise it to the profit and loss account on a straight line basis over its estimated useful life, subject to impairment testing when there were indications of impairment. As at 31 March 2005, the Group did not have any positive goodwill.

---

## NOTES TO THE FINANCIAL STATEMENTS

With effect from 1 April 2005, in accordance with HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets”, the Group no longer amortises goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating units to which the goodwill has been allocated exceeds its recoverable amount.

Negative goodwill must be now recognised in the profit and loss account immediately. Under the transitional arrangements of HKFRS 3, the existing negative goodwill classified as deferred item or taken to capital reserves is derecognised by way of an adjustment to the revenue reserves at 1 April 2005. The change in accounting policy has been adopted prospectively from 1 April 2005 with no comparative figures being restated.

As a result, the Group’s net assets and revenue reserves as at 1 April 2005 were increased by HK\$146.0 million and HK\$322.1 million respectively while the Group’s other capital reserves as at 1 April 2005 were decreased by HK\$176.1 million.

### **(d) HKAS 16 “Property, Plant and Equipment”**

In prior years, the rental income earned while the property is still under its development stage, was capitalised to the development cost of the property.

With effect from 1 April 2005, upon the adoption of HKAS 16, capitalisation of such rental income is no longer allowed and the rental income is required to be recognised in the profit and loss account. As a result of this change, the Shareholders’ equity as at 1 April 2005 was increased by HK\$13.9 million (1 April 2004: HK\$Nil) whereas minority interests as at 1 April 2005 was restated and increased by HK\$4.5 million (1 April 2004: HK\$Nil). Attributable net rental earned from property held for redevelopment for the year ended 31 March 2006 was HK\$32.6 million (2005: HK\$18.2 million). The amounts attributable to Shareholders and minority interests were HK\$24.6 million (2005: HK\$13.7 million) and HK\$8.0 million (2005: HK\$4.5 million) respectively.

### **(e) HKAS 32 “Financial instruments: Disclosure and Presentation”, and HKAS 39 “Financial instruments: Recognition and Measurement”**

In prior years, derivative financial instruments entered by the Group to hedge the interest rate risk of a recognised asset or liability were not recorded on the balance sheet. Interest flows arising from the derivatives were accounted for on an accrual basis in previous years. Transactions hedged by foreign exchange contracts were recorded at the forward rate specified in the contracts.

The application of HKASs 32 and 39 has resulted in a change in accounting policy relating to the classification of financial assets and liabilities and their measurement. The principal effects of the change on the Group are summarised as below:

**(i) Classification and measurement of financial assets and financial liabilities**

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “loans and receivables”, “held-to-maturity financial assets” or “available-for-sale financial assets”. Financial assets at fair value through profit and loss are initially recognised at fair value and subsequently remeasured at fair value with any changes therein being recognised in the profit and loss account. Other financial assets are generally measured at amortised cost using the effective interest method. Available-for-sale financial assets are carried at fair value and any revaluation movements are transferred to the investment revaluation reserves.

The change has resulted in reclassifications of certain financial assets and liabilities together with the corresponding comparatives but has no significant impact on the Group’s results and equity.

**(ii) Derivatives and hedging**

From 1 April 2005 onwards, all derivatives are initially recognised at fair value on the date of entering the derivative contract and are subsequently remeasured at fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account. Further details of new policies are set out in note (i) of principal accounting policies.

There are no material adjustments arising from the adoption of the new policies for derivatives and hedging.

**(f) Presentational changes**

The application of the new and revised HKFRSs has also resulted in changes in the presentation of the financial statements retrospectively with comparatives restated to conform with the current period’s presentation, in particular of below:

- (i)** In prior years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Financial results shared by minority interests were separately presented in the consolidated profit and loss account as a deduction before arriving at the profit attributable to Shareholders.

With effect from 1 April 2005, in order to comply with HKAS 1 “Presentation of Financial Statements” and HKAS 27 “Consolidated and Separate Financial Statements”, minority interests are presented in the consolidated balance sheet as an element of total equity, separately from the equity attributable to Shareholders of the Company, and the results shared by minority interests are presented on the face of the consolidated profit and loss account as an allocation of the attributable profit between the minority interests and the Shareholders of the Company.

- (ii)** In prior years, share of associates’ tax was presented as a component of taxation in the profit and loss account. On adoption of the HKAS 1, share of associates’ tax is presented net of the share of associates’ profits.

## NOTES TO THE FINANCIAL STATEMENTS

### (g) Summary of the effect of changes in accounting policies

#### (i) Effect on opening balance of total equity at 1 April 2005 and 1 April 2004 (as adjusted)

	Shareholders' equity			Minority interests HK\$ Million	Total equity HK\$ Million
	Revenue reserves	Other reserves	Total		
	HK\$ Million	HK\$ Million	HK\$ Million		
At 1 April 2005					
Prior year adjustments					
HKAS 40	203.3	(203.3)	–	–	–
HK(SIC)-INT 21	(41.4)	–	(41.4)	10.1	(31.3)
HKAS 16	13.7	0.2	13.9	4.5	18.4
	175.6	(203.1)	(27.5)	14.6	(12.9)
Opening balance adjustment					
HKFRS 3	322.1	(176.1)	146.0	–	146.0
Increase/(decrease) in total equity	497.7	(379.2)	118.5	14.6	133.1
At 1 April 2004					
Prior year adjustment					
HK(SIC)-INT 21	77.0	–	77.0	29.3	106.3

#### (ii) Effect on profit after taxation

	Attributable to Shareholders	Minority interests	Total
	HK\$ Million	HK\$ Million	HK\$ Million
For the year ended 31 March 2006			
HKAS 40	1,317.4	67.0	1,384.4
HK(SIC)-INT 21	(244.4)	(16.3)	(260.7)
HKAS 16	24.6	8.0	32.6
Increase in profit after taxation	1,097.6	58.7	1,156.3
For the year ended 31 March 2005			
HKAS 40	203.3	–	203.3
HK(SIC)-INT 21	(118.4)	(19.2)	(137.6)
HKAS 16	13.7	4.5	18.2
Increase/(decrease) in profit after taxation	98.6	(14.7)	83.9

## NOTES TO THE FINANCIAL STATEMENTS

### 12. FIXED ASSETS

	Investment properties HK\$ Million	Other properties HK\$ Million	Other fixed assets HK\$ Million	Total HK\$ Million
<b>Group</b>				
<b>2006</b>				
<b>Cost or valuation</b>				
At 1 April 2005	4,357.1	–	15.4	4,372.5
Exchange differences	(12.4)	(1.3)	(4.5)	(18.2)
Additions				
– Others	13.6	54.4	26.1	94.1
– Through acquisition of subsidiaries	–	0.3	43.7	44.0
Disposals	(188.3)	–	(13.2)	(201.5)
Revaluation surplus	1,384.4	–	–	1,384.4
At 31 March 2006	<u>5,554.4</u>	<u>53.4</u>	<u>67.5</u>	<u>5,675.3</u>
<b>Accumulated depreciation</b>				
At 1 April 2005	–	–	7.0	7.0
Charge for the year	–	–	15.9	15.9
Written back on disposals	–	–	(3.0)	(3.0)
At 31 March 2006	<u>–</u>	<u>–</u>	<u>19.9</u>	<u>19.9</u>
<b>Net book value</b>				
At 31 March 2006	<u>5,554.4</u>	<u>53.4</u>	<u>47.6</u>	<u>5,655.4</u>
<b>2005</b>				
<b>Cost or valuation</b>				
At 1 April 2004	3,272.2	–	8.2	3,280.4
Exchange differences	29.4	–	(0.1)	29.3
Additions	398.5	–	8.3	406.8
Disposals	(0.3)	–	(1.0)	(1.3)
Revaluation surplus	657.3	–	–	657.3
At 31 March 2005	<u>4,357.1</u>	<u>–</u>	<u>15.4</u>	<u>4,372.5</u>
<b>Accumulated depreciation</b>				
At 1 April 2004	–	–	6.6	6.6
Exchange differences	–	–	0.1	0.1
Charge for the year	–	–	1.2	1.2
Written back on disposals	–	–	(0.9)	(0.9)
At 31 March 2005	<u>–</u>	<u>–</u>	<u>7.0</u>	<u>7.0</u>
<b>Net book value</b>				
At 31 March 2005	<u>4,357.1</u>	<u>–</u>	<u>8.4</u>	<u>4,365.5</u>

## NOTES TO THE FINANCIAL STATEMENTS

(a) The analysis of cost or valuation of the above assets is as follows:

	Investment properties HK\$ Million	Other properties HK\$ Million	Other fixed assets HK\$ Million	Total HK\$ Million
Balance at 31 March 2006				
2006 valuation	5,554.4	–	–	5,554.4
At cost	–	53.4	67.5	120.9
	<b>5,554.4</b>	<b>53.4</b>	<b>67.5</b>	<b>5,675.3</b>
Balance at 31 March 2005				
2005 valuation	4,357.1	–	–	4,357.1
At cost	–	–	15.4	15.4
	<b>4,357.1</b>	<b>–</b>	<b>15.4</b>	<b>4,372.5</b>

(b) Tenure of title to properties:

	2006 HK\$ Million	2005 HK\$ Million
Investment properties		
Held in Hong Kong		
Long lease	2,901.0	1,967.0
Held outside Hong Kong		
Freehold	493.4	474.5
Long lease	2,160.0	1,915.6
	<b>5,554.4</b>	<b>4,357.1</b>
Other properties held outside Hong Kong – Long lease	53.4	–

(c) Properties revaluation

The Group's investment properties in Hong Kong, Singapore and Japan have been revalued as at 31 March 2006 by Wheelock Properties (Hong Kong) Limited, a fellow subsidiary company engaged in professional valuation, CB Richard Ellis (Pte) Ltd and Ikoma CB Richard Ellis KK, independent firms of property consultants, who have appropriate qualifications and experience in the valuation of properties in the relevant locations, on an open market value basis, after taking into consideration the net rental income allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

The surplus arising on revaluation is dealt with in the consolidated profit and loss account in accordance with the Group's accounting policies.

## NOTES TO THE FINANCIAL STATEMENTS

- (d) The gross amount of fixed assets of the Group held for use in operating leases was HK\$5,554.4 million (2005: HK\$4,357.1 million).
- (e) The Group leases out properties under operating leases, which generally run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease income may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.
- (f) The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Within 1 year	<b>225.7</b>	224.6
After 1 year but within 5 years	<b>228.9</b>	139.3
After 5 years	<b>2.4</b>	–
	<b>457.0</b>	363.9

### 13. SUBSIDIARIES

	<b>Company</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Unlisted shares, at cost	<b>2,544.9</b>	2,544.9
Amounts due to subsidiaries	<b>(379.1)</b>	(380.8)
	<b>2,165.8</b>	2,164.1

Details of principal subsidiaries at 31 March 2006 are shown on page 79.

Amounts due to subsidiaries are unsecured, non-interest bearing and classified as non-current items as these are not expected to be payable within the next twelve months.

**14. GOODWILL AND OTHER INTANGIBLE ASSETS**

	<b>Goodwill on consolidation HK\$ Million</b>	<b>Trade name HK\$ Million</b>	<b>Customer relationships HK\$ Million</b>	<b>Total HK\$ Million</b>
<b>Group</b>				
<b>Cost</b>				
At 1 April 2005	–	–	–	–
Through acquisition of subsidiaries	<b>103.4</b>	<b>153.1</b>	<b>5.9</b>	<b>262.4</b>
Arising from assets previously held	–	<b>73.4</b>	<b>2.9</b>	<b>76.3</b>
Exchange differences	<b>(9.8)</b>	<b>(21.8)</b>	<b>(0.8)</b>	<b>(32.4)</b>
	<b>93.6</b>	<b>204.7</b>	<b>8.0</b>	<b>306.3</b>
At 31 March 2006				
<b>Accumulated amortisation</b>				
At 1 April 2005	–	–	–	–
Charge for the year	–	–	<b>0.5</b>	<b>0.5</b>
	–	–	<b>0.5</b>	<b>0.5</b>
At 31 March 2006				
<b>Carrying amount</b>				
At 31 March 2006	<b>93.6</b>	<b>204.7</b>	<b>7.5</b>	<b>305.8</b>

The amortisation charge for the year was included in “administrative and corporate expenses” in the consolidated profit and loss account.

**Intangible assets with indefinite useful lives**

The trade name of “Hamptons”, identified as an intangible asset on acquisition of Hamptons Group Limited by Wheelock Properties (Singapore) Limited (“WPSL”), a subsidiary of the Group, is assumed to have indefinite useful life on the basis that the “Hamptons” trade name has been in existence for more than one hundred years, and the WPSL group intends to continue to use the “Hamptons” trade name.

**Impairment test for cash-generating units containing goodwill**

Goodwill is allocated to the WPSL group’s cash-generating units (“CGU”) acquired during the year. Only 1 CGU, Hamptons Group Limited, is identified.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecast approved by WPSL management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimate rates stated below. No impairment was recorded.

## NOTES TO THE FINANCIAL STATEMENTS

### Impairment test for intangible asset with indefinite useful lives

The recoverable amount of intangible assets is determined based on value-in-use calculations. These calculations use cash flow projections based on royalty income forecast derived from the intangible assets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimate rates stated below. No impairment was recorded.

### Key assumptions used for value-in-use calculations

	CGU %	Intangible assets %
Gross margin	13.6	–
Growth rate	2.0	2.0
Discount rate	9.1	11.1

Management determined the forecast gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant business environment.

## 15. ASSOCIATES

	Group 2006 HK\$ Million	2005 HK\$ Million
Share of net assets	<b>128.6</b>	101.7
Amounts due from associates	<b>911.4</b>	1,508.4
Amounts due to associates	<b>(82.8)</b>	(60.1)
	<b>957.2</b>	1,550.0

- (a) Included in the amounts due from associates is a loan made by the Group to an associate involved in the Bellagio project of HK\$881.6 million (2005: loans and advances of HK\$1,467.4 million to associates involved in the Sorrento and the Bellagio projects). Such loan is in proportion to the Group's equity interest in the associate. The loan bears interest at rates as determined by shareholders of the associate with reference to the prevailing market rates which were between 4.7% to 4.9% (2005: interest free) per annum for the current financial year. Interest income in respect of the loan to the associate for the year ended 31 March 2006 amounted to HK\$12.4 million (2005: HK\$Nil). The loan is unsecured and has no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS

### (b) Summary of financial information on associates

	2006		2005	
	Total HK\$ Million	Attributable interest HK\$ Million	Total HK\$ Million	Attributable interest HK\$ Million
<b>Balance Sheets</b>				
Assets	3,962.8	1,268.2	8,697.1	2,737.2
Liabilities	(3,387.4)	(1,139.6)	(8,007.1)	(2,635.5)
Equity	575.4	128.6	690.0	101.7
<b>Profit and loss accounts</b>				
Revenue	3,071.6	949.2	4,595.6	1,347.8
Profit before taxation	1,175.3	350.8	2,574.5	765.6
Income tax	(99.2)	(25.8)	(146.7)	(33.3)
Profit after taxation	1,076.1	325.0	2,427.8	732.3

(c) Details of principal associates at 31 March 2006 are shown on page 80.

### 16. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006 HK\$ Million	2005 HK\$ Million
Equity securities, at market value		
Listed in Hong Kong	4,960.0	4,288.9
Listed outside Hong Kong	2,119.4	1,352.8
Unlisted investments, at market value	7,079.4	5,641.7
	–	59.5
	7,079.4	5,701.2

Included in the above equity securities are investments in a listed company the carrying value of which constituted more than 10% of the Group's total assets at 31 March 2006. Details of this listed company are shown as follows:

Name of company	Place of incorporation	Percentage of total issued ordinary shares held
The Wharf (Holdings) Limited	Hong Kong	7.0

## NOTES TO THE FINANCIAL STATEMENTS

Equity securities listed outside Hong Kong include the Group's 20.97% interest in Hotel Properties Limited ("HPL"), a company incorporated and listed in Singapore. This equity interest is not classified as an associate as the Group does not have significant influence in HPL. The Group does not have representation on the board of directors and does not participate in the policy-making processes of HPL.

### 17. DEFERRED DEBTORS

Deferred debtors represent receivables due after more than one year.

### 18. PROPERTIES UNDER DEVELOPMENT FOR SALE AND PROPERTIES HELD FOR SALE

- (a) The amount of properties under development for sale and held for sale carried at net realisable value is HK\$785.3 million (2005: HK\$661.3 million).
- (b) Properties under development for sale in the amount of HK\$6,627.3 million (2005 restated: HK\$4,499.3 million) are expected to be substantially completed and recovered after more than one year.
- (c) Properties under development for sale with a carrying value of HK\$4,014.3 million (2005: HK\$2,284.2 million) are pledged as security for banking facilities made available to the Group.
- (d) The carrying amount of properties under development for sale of the Group temporarily held for use in operating leases, which run for a period of one to two years with no option to renew upon expiry, is HK\$2,202.0 million (2005 restated: HK\$1,682.8 million). No provision for diminution in value of these properties is made (2005: HK\$Nil).
- (e) The carrying value of leasehold land and freehold land included in properties under development for sale and held for sale is summarised as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Held in Hong Kong		
Long lease	<b>899.2</b>	–
Medium lease	<b>201.6</b>	202.2
	<b>1,100.8</b>	202.2
Held outside Hong Kong		
Freehold	<b>5,005.6</b>	4,107.9
	<b>6,106.4</b>	4,310.1

## NOTES TO THE FINANCIAL STATEMENTS

### 19. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (net of impairment losses for bad and doubtful debts) with an ageing analysis as at 31 March 2006 as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Current	<b>173.8</b>	212.3
31 – 60 days	<b>7.4</b>	2.7
61 – 90 days	<b>6.2</b>	0.3
Over 90 days	<b>20.8</b>	3.2
	<b>208.2</b>	218.5
Other receivables	<b>131.4</b>	142.0
	<b>339.6</b>	360.5

The Group maintains and closely monitors defined credit policies for its businesses and trade receivables in order to control the credit risk associated with trade receivables. Included in trade and other receivables are amounts mainly denominated in the functional currency of the entity to which they relate.

### 20. BANK BALANCES AND DEPOSITS

Included in bank balances and deposits is an amount of HK\$709.3 million (2005: HK\$135.4 million) in respect of certain proceeds received from the pre-sale of properties in Singapore held under the "Project Account Rules-1997 Ed", withdrawals from which are designated for payments for expenditure incurred on projects.

### 21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an ageing analysis as at 31 March 2006 as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Amounts payable in the next:		
0 – 30 days	<b>206.9</b>	157.6
31 – 60 days	<b>2.1</b>	7.9
61 – 90 days	<b>0.5</b>	13.3
Over 90 days	<b>4.1</b>	30.3
	<b>213.6</b>	209.1
Other payables	<b>317.2</b>	170.5
	<b>530.8</b>	379.6

Included in trade and other payables are amounts mainly denominated in the functional currency of the entity to which they relate.

## NOTES TO THE FINANCIAL STATEMENTS

### 22. LOANS

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Secured bank loans		
Repayment after 1 year, but within 2 years	<b>1,211.5</b>	–
Repayment after 2 years, but within 5 years	<b>401.5</b>	1,171.3
	<b>1,613.0</b>	1,171.3
Unsecured bank loans		
Repayment within 1 year	<b>840.0</b>	–
Repayment after 1 year, but within 2 years	<b>76.2</b>	–
Repayment after 2 years, but within 5 years	<b>1,128.7</b>	1,668.0
	<b>2,044.9</b>	1,668.0
Secured bonds (Note)		
	<b>3,657.9</b>	2,839.3
	<b>251.1</b>	275.6
Total loans	<b>3,909.0</b>	3,114.9
Less: Amounts repayable within 1 year	<b>(840.0)</b>	–
Total long-term loans	<b>3,069.0</b>	3,114.9

Included in loans are amounts mainly denominated in the functional currency of the entity to which they relate.

Note: The secured bonds bear interest at 1.14% per annum and will mature on 30 September 2007.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. DEFERRED TAX

(a) The components of deferred tax assets and liabilities and the movements during the year are as follows:

	Revaluation of investment properties HK\$ Million	Depreciation allowances in excess of the related depreciation HK\$ Million	Intangible assets HK\$ Million	Others HK\$ Million	Total HK\$ Million
<b>Group</b>					
Balance at 1 April 2004					
as previously reported	–	54.6	–	17.0	71.6
prior year adjustment (HK(SIC)-INT 21)	(106.3)	–	–	–	(106.3)
	<u>(106.3)</u>	<u>54.6</u>	<u>–</u>	<u>17.0</u>	<u>(34.7)</u>
as restated	(106.3)	54.6	–	17.0	(34.7)
Exchange differences	–	0.6	–	0.2	0.8
Charged/(credited) to the profit and loss account	137.6	2.6	–	(9.8)	130.4
Credited to reserves	–	–	–	(8.5)	(8.5)
	<u>31.3</u>	<u>57.8</u>	<u>–</u>	<u>(1.1)</u>	<u>88.0</u>
Balance at 31 March 2005					
Balance at 1 April 2005					
as previously reported	–	57.8	–	(1.1)	56.7
prior year adjustment (HK(SIC)-INT 21)	31.3	–	–	–	31.3
	<u>31.3</u>	<u>57.8</u>	<u>–</u>	<u>(1.1)</u>	<u>88.0</u>
as restated	31.3	57.8	–	(1.1)	88.0
Exchange differences	(0.6)	0.6	–	–	–
Charged to the profit and loss account	246.1	1.7	–	–	247.8
Charged to reserves	–	–	22.9	–	22.9
Through acquisition of subsidiaries	–	–	40.7	(2.3)	38.4
	<u>276.8</u>	<u>60.1</u>	<u>63.6</u>	<u>(3.4)</u>	<u>397.1</u>
<b>Balance at 31 March 2006</b>					

## NOTES TO THE FINANCIAL STATEMENTS

### (b) Deferred tax assets unrecognised

Deferred tax assets have not been recognised in respect of the following items:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Deductible temporary differences	<b>19.3</b>	13.5
Future benefit of tax losses	<b>106.4</b>	113.8
	<b>125.7</b>	127.3

Deferred tax assets have not been recognised as the Directors consider it is not probable that taxable profits will be available against which the tax losses and the deductible temporary differences can be utilised. The deductible temporary differences and tax losses do not expire under current tax legislation.

## 24. DEFERRED ITEM

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Negative goodwill, at cost		
Balance at 1 April		
as previously reported	<b>146.0</b>	158.9
opening balance adjustment	<b>(146.0)</b>	–
as restated	–	158.9
Realised on disposal of the relevant assets acquired	–	(12.9)
Balance at 31 March	–	146.0

Negative goodwill mainly arising from the privatisation of Realty Development Corporation Limited completed in 2003, represents the excess of the Group's interest in fair values of the net assets acquired over the cost of the acquisition. The assets acquired mainly comprise investment properties, interests in associates, long-term investments and properties under development/held for sale.

The opening balance adjustment is to derecognise the negative goodwill classified as deferred item to revenue reserves in compliance with HKFRS 3.

## 25. SHARE CAPITAL

	<b>2006</b>	2005	<b>2006</b>	2005
	<b>No. of shares</b>	No. of shares	<b>HK\$ Million</b>	HK\$ Million
	<b>Million</b>	Million		
<b>Authorised:</b>				
Ordinary shares of HK\$0.2 each	<b>3,000.0</b>	3,000.0	<b>600.0</b>	600.0
<b>Issued and fully paid:</b>				
Ordinary shares of HK\$0.2 each	<b>2,069.6</b>	2,069.6	<b>413.9</b>	413.9

## NOTES TO THE FINANCIAL STATEMENTS

### 26. TOTAL EQUITY

	Share capital HK\$ Million	Capital redemption reserve HK\$ Million	Investment property revaluation reserves HK\$ Million	Investment revaluation reserves HK\$ Million	Other capital reserves HK\$ Million	Revenue reserves HK\$ Million	Shareholders' equity HK\$ Million	Minority interests HK\$ Million	Total equity HK\$ Million
<b>(a) Group</b>									
<b>Company and subsidiaries</b>									
Balance at 1 April 2005									
As previously reported	413.9	4.9	203.3	1,502.4	281.1	12,536.5	14,942.1	1,524.5	16,466.6
Prior year adjustments in respect of:									
Investment properties (HKAS 40)	-	-	(203.3)	-	-	203.3	-	-	-
Deferred tax on investment properties revaluation surplus (HK(SIC)-INT 21)	-	-	-	-	-	(41.4)	(41.4)	10.1	(31.3)
Net rental earned for property under development for sale (HKAS 16)	-	-	-	-	0.2	13.7	13.9	4.5	18.4
As restated	413.9	4.9	-	1,502.4	281.3	12,712.1	14,914.6	1,539.1	16,453.7
Opening balance adjustment in respect of negative goodwill derecognised to revenue reserves (HKFRS 3)	-	-	-	-	(176.1)	322.1	146.0	-	146.0
	413.9	4.9	-	1,502.4	105.2	13,034.2	15,060.6	1,539.1	16,599.7
Final dividend approved in respect of the previous year (Note 9b)	-	-	-	-	-	(124.2)	(124.2)	-	(124.2)
Dividends paid to minority interests	-	-	-	-	-	-	-	(793.9)	(793.9)
Revaluation surplus	-	-	-	1,034.9	40.2	-	1,075.1	22.0	1,097.1
Realised on disposal	-	-	-	(117.6)	-	-	(117.6)	(0.1)	(117.7)
Rights issue of a subsidiary attributable to minority interests	-	-	-	-	-	-	-	775.7	775.7
Acquisition of additional interests in subsidiaries	-	-	-	-	-	(5.9)	(5.9)	(30.5)	(36.4)
Others	-	-	-	-	-	(3.8)	(3.8)	-	(3.8)
Through acquisition of subsidiaries	-	-	-	-	-	-	-	2.8	2.8
Reclassification from associates	-	-	-	-	6.7	28.1	34.8	12.8	47.6
Exchange differences	-	-	-	-	20.6	-	20.6	8.0	28.6
Profit for the year retained	-	-	-	-	-	2,090.6	2,090.6	163.0	2,253.6
Interim dividend declared in respect of the current year (Note 9a)	-	-	-	-	-	(41.4)	(41.4)	-	(41.4)
Balance at 31 March 2006	413.9	4.9	-	2,419.7	172.7	14,977.6	17,988.8	1,698.9	19,687.7
<b>Associates</b>									
Balance at 1 April 2005	-	-	-	2.2	6.7	54.8	63.7	12.8	76.5
Realised on disposal	-	-	-	(2.2)	-	-	(2.2)	-	(2.2)
Reclassification to subsidiaries	-	-	-	-	(6.7)	(28.1)	(34.8)	(12.8)	(47.6)
Profit for the year retained	-	-	-	-	-	143.6	143.6	-	143.6
Balance at 31 March 2006	-	-	-	-	-	170.3	170.3	-	170.3
<b>Total equity at 31 March 2006</b>	<b>413.9</b>	<b>4.9</b>	<b>-</b>	<b>2,419.7</b>	<b>172.7</b>	<b>15,147.9</b>	<b>18,159.1</b>	<b>1,698.9</b>	<b>19,858.0</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Share capital HK\$ Million	Capital redemption reserve HK\$ Million	Investment property revaluation reserves HK\$ Million	Investment revaluation reserves HK\$ Million	Other capital reserves HK\$ Million	Revenue reserves HK\$ Million	Shareholders' equity HK\$ Million	Minority interests HK\$ Million	Total equity HK\$ Million
<b>Company and subsidiaries</b>									
Balance at 1 April 2004									
As previously reported	413.9	4.9	-	906.0	217.0	11,450.5	12,992.3	1,346.3	14,338.6
Prior year adjustment in respect of:									
Deferred tax on investment properties revaluation deficit (HK(SIC)-INT 21)	-	-	-	-	-	77.0	77.0	29.3	106.3
As restated	413.9	4.9	-	906.0	217.0	11,527.5	13,069.3	1,375.6	14,444.9
Final dividend approved in respect of the previous year (Note 9b)	-	-	-	-	-	(103.5)	(103.5)	-	(103.5)
Dividends paid to minority interests	-	-	-	-	-	-	-	(22.3)	(22.3)
Revaluation surplus	-	-	-	618.9	-	-	618.9	(0.1)	618.8
Realised on disposal	-	-	-	(22.5)	(1.3)	-	(23.8)	(8.2)	(32.0)
Exchange differences	-	-	-	-	65.6	-	65.6	23.4	89.0
Profit for the year retained	-	-	-	-	-	1,329.5	1,329.5	170.7	1,500.2
Interim dividend declared in respect of the current year (Note 9a)	-	-	-	-	-	(41.4)	(41.4)	-	(41.4)
Balance at 31 March 2005	413.9	4.9	-	1,502.4	281.3	12,712.1	14,914.6	1,539.1	16,453.7
<b>Associates</b>									
Balance at 1 April 2004	-	-	-	2.0	6.4	(457.3)	(448.9)	9.1	(439.8)
Revaluation surplus	-	-	-	0.2	-	-	0.2	-	0.2
Exchange differences	-	-	-	-	0.3	-	0.3	(0.8)	(0.5)
Profit for the year retained	-	-	-	-	-	512.1	512.1	4.5	516.6
Balance at 31 March 2005	-	-	-	2.2	6.7	54.8	63.7	12.8	76.5
<b>Total equity at 31 March 2005</b>	<b>413.9</b>	<b>4.9</b>	<b>-</b>	<b>1,504.6</b>	<b>288.0</b>	<b>12,766.9</b>	<b>14,978.3</b>	<b>1,551.9</b>	<b>16,530.2</b>
<b>(b) Company</b>									
Balance at 1 April 2005	413.9	4.9	-	-	50.6	1,692.6	2,162.0	-	2,162.0
Final dividend approved in respect of the previous year (Note 9b)	-	-	-	-	-	(124.2)	(124.2)	-	(124.2)
Profit for the year retained	-	-	-	-	-	169.0	169.0	-	169.0
Interim dividend declared in respect of the current year (Note 9a)	-	-	-	-	-	(41.4)	(41.4)	-	(41.4)
<b>Shareholders' equity at 31 March 2006</b>	<b>413.9</b>	<b>4.9</b>	<b>-</b>	<b>-</b>	<b>50.6</b>	<b>1,696.0</b>	<b>2,165.4</b>	<b>-</b>	<b>2,165.4</b>
Balance at 1 April 2004	413.9	4.9	-	-	50.6	1,689.8	2,159.2	-	2,159.2
Final dividend approved in respect of the previous year (Note 9b)	-	-	-	-	-	(103.5)	(103.5)	-	(103.5)
Profit for the year retained	-	-	-	-	-	147.7	147.7	-	147.7
Interim dividend declared in respect of the current year (Note 9a)	-	-	-	-	-	(41.4)	(41.4)	-	(41.4)
<b>Shareholders' equity at 31 March 2005</b>	<b>413.9</b>	<b>4.9</b>	<b>-</b>	<b>-</b>	<b>50.6</b>	<b>1,692.6</b>	<b>2,162.0</b>	<b>-</b>	<b>2,162.0</b>

Reserves of the Company available for distribution to Shareholders amount to HK\$1,696.0 million (2005: HK\$1,692.6 million). The application of the capital redemption reserve account is governed by section 49H of the Hong Kong Companies Ordinance. The revaluation reserves and other capital reserves have been set up and will be dealt with in accordance with the accounting policies adopted by the Group.

## NOTES TO THE FINANCIAL STATEMENTS

### 27. FINANCIAL INSTRUMENTS

Exposure to interest rate, foreign currency, liquidity and credit risks arises in the normal course of the Group's business. These risks are managed by the Group's financial management policies and practices described below:

#### (a) Interest rate risk

The Group's exposure to market risk for changes in interest rates primarily relates to the Group's debt obligations with financial institutions which are denominated in Singapore Dollar, Japanese Yen and Pound Sterling. Interest rates on borrowings are determined based on prevailing market rates. The Group does not use derivative financial instruments to hedge interest rate risks.

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2006			2005		
	Effective interest rates %	Within 1 year HK\$ Million	After 1 year but within 5 years HK\$ Million	Effective interest rates %	Within 1 year HK\$ Million	After 1 year but within 5 years HK\$ Million
Group						
Financial assets						
Bank balances and deposits	1.50 – 4.69	4,498.1	–	1.72 – 2.38	3,484.5	–
Financial liabilities						
Bank loans						
secured	4.02 – 4.32	(1,613.0)	–	2.55 – 2.82	(1,171.3)	–
unsecured	0.61 – 4.97	(2,044.9)	–	0.60 – 2.42	(1,668.0)	–
Secured bonds	1.14	–	(251.1)	1.14	–	(275.6)
		(3,657.9)	(251.1)		(2,839.3)	(275.6)
Total		840.2	(251.1)		645.2	(275.6)

#### (b) Foreign currency risk

The Group has exposure to foreign currency risk as a result of its investments in subsidiaries operating overseas. The currencies giving rise to this risk are primarily Singapore Dollar, Japanese Yen and Pound Sterling.

The Group uses forward exchange contracts and local currency borrowings to hedge its foreign currency risk except its net investments in Singapore subsidiaries. Most of the forward exchange contracts have maturities of less than three months after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

## NOTES TO THE FINANCIAL STATEMENTS

### (c) Liquidity risk

Cash management of the Company and wholly-owned subsidiaries of the Group are centralised at the Group level. The non-wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the Company. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

### (d) Credit risk

The Group's credit risk is primarily attributable to rental, other trade and service receivables. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies in each of its core businesses.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. There are no significant concentrations of credit risk within the Group.

### (e) Fair values

Listed investments are stated at market prices. Unlisted investments for which fair values cannot be reliably measured are stated at cost.

The fair values of debtors, bank balances and other liquid funds, creditors and accruals, current borrowings, and provisions are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

## 28. CONTINGENT LIABILITIES

	Group		Company	
	2006	2005	2006	2005
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Guarantees given in respect of banking facilities available to subsidiaries	<u>–</u>	<u>–</u>	<u>1,017.0</u>	<u>425.0</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 29. COMMITMENTS

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
(a) Acquisition of and future development expenditure relating to properties: Contracted but not provided for	<b>765.8</b>	1,350.4
(b) At 31 March 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:		

	<b>Group</b>			
	<b>2006</b>		2005	
	<b>Properties</b>	<b>Others</b>	Properties	Others
	<b>HK\$ Million</b>	<b>HK\$ Million</b>	HK\$ Million	HK\$ Million
Within 1 year	<b>31.2</b>	<b>8.2</b>	–	–
After 1 year but within 5 years	<b>95.2</b>	<b>4.6</b>	–	–
After 5 years	<b>73.9</b>	–	–	–
	<b>200.3</b>	<b>12.8</b>	–	–

### 30. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transactions during the year ended 31 March 2006:

#### (a) Bellagio project

Included in interest in associates is a loan of HK\$881.6 million (2005: HK\$1,387.6 million) made by the Group to an associate involved in the Bellagio project. The loan bears interest at rates as determined by shareholders of the associate with reference to prevailing market rates which were between 4.7% and 4.9% (2005: interest free) per annum for the current financial year. Interest income in respect of the loan to the associate for the year ended 31 March 2006 amounted to HK\$12.4 million (2005: HK\$Nil). The loan is unsecured and has no fixed terms of repayment.

The above is considered to be a related party transaction and also constitutes a connected transaction as defined under the Listing Rules. A waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1994.

---

## NOTES TO THE FINANCIAL STATEMENTS

- (b) The Group paid to a related party General Managers' Commission of HK\$32.5 million (2005: HK\$35.3 million) for the provision of management services to the Group during the year under review. The payment of such an amount to the General Managers was in accordance with an agreement dated 31 March 1992.

The above is considered to be a related party transaction and also constitutes a continuing connected transaction as defined under the Listing Rules.

- (c) The Group paid to certain related parties property managing and agency fees totalling HK\$6.2 million (2005: HK\$6.8 million) for the provision of property management and property leasing and related services to the Group during the year under review. The payment of such property managing and agency fees were in accordance with various agreements previously entered into between the Group and certain related companies.

The above are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

- (d) The Group received dividend income in the amount of HK\$123.9 million (2005: HK\$104.5 million) during the year ended 31 March 2006 in respect of its 7% interest in The Wharf (Holdings) Limited.

- (e) The Group disposed of its interest in 17,619,827 shares of i-CABLE Communications Limited at a consideration of HK\$45.4 million to The Wharf (Holdings) Limited in June 2005. Profits recognised by the Group amounted to HK\$5.2 million.

The above is considered to be a related party transaction and also constitutes a connected transaction as defined under the Listing Rules.

### 31. POST BALANCE SHEET EVENTS

After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in note 9 to the financial statements.

### 32. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details of which are disclosed in note 11.

In addition, the presentation of certain comparative figures in the segment reporting as disclosed in note 1 to the financial statements has been reclassified to conform with the current year's presentation which management considered would give a better indication of the results of the Group for the year.

---

## NOTES TO THE FINANCIAL STATEMENTS

### 33. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations that may impact the Group's financial statements. These new standards have not been adopted since they are only effective after 31 March 2006:

	<b>Effective for accounting periods beginning on or after</b>
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1 January 2006
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 21, Net investment in a foreign operation	1 January 2006
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	
Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
The fair value option	1 January 2006
Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
HKAS 1, Presentation of financial statements	1 January 2006
HKAS 27, Consolidated and separate financial statements	1 January 2006
HKFRS 3, Business combinations	1 January 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
Revised guidance on implementing HKFRS 4	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 April 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of the new standards and interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

### 34. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 March 2006 to be Wheelock and Company Limited, incorporated in Hong Kong. Wheelock and Company Limited produces financial statements available for public use.

### 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 12 June 2006.

---

## PRINCIPAL ACCOUNTING POLICIES

### (a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 11.

### (b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 March 2006 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note (y).

### (c) BASIS OF CONSOLIDATION

#### (i) Subsidiaries and controlled companies

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

---

## PRINCIPAL ACCOUNTING POLICIES

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity Shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity Shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

### **(ii) Associates**

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment of goodwill relating to the investment in associates recognised for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is evidence of impairment in value of the assets transferred, the unrealised losses will be recognised immediately in the consolidated profit and loss account.

---

## PRINCIPAL ACCOUNTING POLICIES

### **(iii) Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the consolidated profit and loss account.

On disposal of a cash-generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## **(d) PROPERTIES**

### **(i) Investment properties**

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated profit and loss account. Rental income from investment properties is accounted for as described in note (r)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note (k).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property and recognised at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated profit and loss account.

### **(ii) Other properties held for own use**

Other properties held for own use are stated at cost less accumulated depreciation and impairment losses.

---

## PRINCIPAL ACCOUNTING POLICIES

### **(iii) Properties under development for sale**

Properties under development for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost includes the aggregate cost of development, borrowing costs capitalised and other direct expenses. Net realisable value is estimated by the management, taking into account the expected selling price ultimately to be achieved, based on prevailing market conditions and the anticipated costs to completion.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

### **(iv) Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is estimated by management, based on prevailing market conditions.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

## **(e) OTHER FIXED ASSETS**

Other fixed assets are stated at cost less accumulated depreciation and impairment losses.

## **(f) DEPRECIATION OF FIXED ASSETS**

### **(i) Investment properties**

No depreciation is provided on investment properties.

### **(ii) Other properties held for own use**

Depreciation is provided on the cost of other properties held for own use over the unexpired period of the lease of 51 years.

### **(iii) Other fixed assets**

Depreciation is provided on a straight line basis on the cost of other fixed assets at rates determined by the estimated useful lives of these assets of between 3 to 10 years.

## **(g) INVESTMENTS IN DEBT AND EQUITY SECURITIES**

(i) Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated profit and loss account.

---

## PRINCIPAL ACCOUNTING POLICIES

- (ii) Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses.
- (iii) Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.
- (iv) Other investments in securities are classified as available-for-sale investments and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in the investment revaluation reserves in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in the consolidated profit and loss account. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated profit and loss account. When these investments are derecognised, the cumulative gain or loss previously recognised directly in the investment revaluation reserves in equity is recognised in the consolidated profit and loss account.
- (v) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (h) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated profit and loss account. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

### (i) HEDGING

#### (i) Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the consolidated profit and loss account. The gain or loss from remeasuring the hedging instrument at fair value together with the gain or loss on the hedged item attributable to the hedged risk are recorded in the consolidated profit and loss account.

#### (ii) Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the consolidated profit and loss account.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

---

## PRINCIPAL ACCOUNTING POLICIES

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the consolidated profit and loss account in the same period or periods during which the asset acquired or liability assumed affects the consolidated profit and loss account (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in the consolidated profit and loss account in the same period or periods during which the hedged forecast transaction affects the consolidated profit and loss account.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the consolidated profit and loss account.

### **(j) INTANGIBLE ASSETS (OTHER THAN GOODWILL)**

Other intangible assets with finite lives are stated at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis from the date the asset is available for use and over its estimated useful lives of 3 to 5 years.

Intangible assets that have indefinite lives are stated at cost less impairment losses. Such intangible assets are tested for impairment annually as described in note (l)(ii).

### **(k) LEASED ASSETS**

#### **(i) Classification of leased assets**

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

---

## PRINCIPAL ACCOUNTING POLICIES

### (ii) Assets held under operating leases

- Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.
- The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property. Information on accounting policies for land held under operating leases for development for sale is provided in note (d).

### (iii) Assets held under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note (f). Impairment losses are accounted for in accordance with the accounting policy as set out in note (l)(ii). Finance charges implicit in the lease payments are charged to the consolidated profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

## (I) IMPAIRMENT OF ASSETS

### (i) Impairment of financial assets

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses arising on current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses arising on equity securities are not reversed.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

---

## PRINCIPAL ACCOUNTING POLICIES

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated profit and loss account. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale investments, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated profit and loss account. The amount of the cumulative loss that is recognised in the consolidated profit and loss account is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated profit and loss account.

Impairment losses recognised in the consolidated profit and loss account in respect of available-for-sale equity investments are not reversed through the consolidated profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in the investment revaluation reserves in equity.

### (ii) Impairment of other assets

The carrying amounts of non-current assets, other than properties carried at revalued amounts and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

- **Recoverable amount**

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- **Recognition of impairment losses**

An impairment loss is recognised as an expense in the consolidated profit and loss account whenever the carrying amount exceeds the recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

---

## PRINCIPAL ACCOUNTING POLICIES

### **(m) TRADE AND OTHER RECEIVABLES**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

### **(n) INTEREST-BEARING BORROWINGS**

Interest-bearing borrowings for which there is a hedging relationship with a derivative financial instrument, which does not qualify for hedge accounting are initially recognised at fair value less transaction costs. At each balance sheet date the fair value is remeasured and any change in fair value is recognised in the consolidated profit and loss account.

### **(o) TRADE AND OTHER PAYABLES**

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### **(p) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### **(q) FOREIGN CURRENCIES**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the balance sheets of overseas subsidiaries and associates are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The profit and loss accounts of overseas subsidiaries or associates are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Differences arising from the translation of the financial statements of overseas subsidiaries or associates, and those arising from foreign currency borrowings used to hedge a net investment in a foreign operation, are dealt with in other capital reserves. All other exchange differences are dealt with in the consolidated profit and loss account. On disposal of an overseas subsidiary or associate, the cumulative amount of the exchange differences recognised in other capital reserves which relate to that overseas subsidiary or associate is included in the calculation of the profit or loss on disposal.

---

## PRINCIPAL ACCOUNTING POLICIES

### **(r) RECOGNITION OF REVENUE**

- (i)** Rental income under operating leases is recognised in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- (ii)** Income from sale of properties held for sale is recognised upon the execution of the formal sale and purchase agreement or the issue of occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under deposits from sale of properties.
- (iii)** Residential agency income comprises fees and commissions which are brought into account on the exchange of contracts for the property to which they relate. Lettings income relates to fees for finding and renewing tenants for landlord of properties and are recognised on the commencement of the tenancy.
- (iv)** Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (v)** Interest income is recognised as it accrues using the effective interest method.

### **(s) INCOME TAXES**

- (i)** Income tax for the year comprises current tax and deferred tax. Income tax is recognised in the consolidated profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
- (ii)** Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii)** Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax is provided, using the balance sheet liability method, in respect of all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions. Deferred tax liabilities are provided in full on all temporary differences while deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

---

## PRINCIPAL ACCOUNTING POLICIES

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

### **(t) BORROWING COSTS**

Borrowing costs are expensed in the consolidated profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### **(u) RELATED PARTIES**

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or *vice versa*, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

### **(v) PROVISIONS**

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **(w) SEGMENT REPORTING**

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products, or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

---

## PRINCIPAL ACCOUNTING POLICIES

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group companies within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, corporate and financing expenses.

### (x) EMPLOYEE BENEFITS

#### (i) Defined contribution retirement schemes

Contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

#### (ii) Central Provident Fund in Singapore

Contributions to the Central Provident Fund in Singapore as required under the Central Provident Fund Act are charged to the consolidated profit and loss account when incurred.

(iii) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

### (y) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

#### Key sources of estimation uncertainty

Note 27 contains information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

#### – Valuation of investment properties

Investment properties are included in the balance sheet at their open market value, which is assessed annually by qualified valuers, after taking into consideration the net income allowing for reversionary potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

---

## PRINCIPAL ACCOUNTING POLICIES

### – ***Business combination and allocation of purchase price amongst intangible assets***

The Group accounted for the business combination in accordance with HKFRS 3 “Business Combinations”. The Group is required to recognise separately, at the acquisition date, the acquiree’s identifiable assets, including tangible and intangible assets that satisfy the recognition criteria regardless of whether they had been previously recognised in the acquiree’s financial statements.

The valuation in respect of the intangible assets recognised upon the acquisition was performed by an independent valuer by reference to the future economic benefits to be derived from these assets based on fair value assessment. The assumptions adopted in the valuation include the revenue growth, expected percentage of recurring business and the general market conditions.

### – ***Assessment of impairment of non-current assets***

The Group has non-current assets, including properties, goodwill and other intangible assets. Assets that have an indefinite useful life are tested for impairment annually. Assets that are subject to depreciation and amortisation are assessed on an annual basis as to whether there is any indication of impairment loss which suggests that the carrying value of these asset may not be recoverable. Management assess the recoverable amount of each non-current asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the assets. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts approved by management.

### – ***Assessment of provision for properties held under development and for sale***

Management determines the net realisable value of properties held for sale by using (1) prevailing market data such as most recent sale transactions and market survey reports available from property valuers; and (2) internal estimates of costs based on quotes by suppliers.

Management’s assessment of net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development for sale. These estimates requires judgment as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The Group’s estimates may be inaccurate, and estimates may need to be adjusted in later periods.

### – ***Recognition of deferred tax assets***

The recognition of deferred tax assets requires formal assessment by the Group in respect of the future profitability of the operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in the operational and financing cashflows.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES At 31 March 2006

Subsidiaries	Place of incorporation/ operation	Issue share capital (all being ordinary shares and fully paid up except otherwise stated)	Percentage of equity attributable to the Group	Principal activities
Actbilt Pte Limited	Singapore	1,000,000 S\$1 shares	76	Property
Belgravia Properties Pte. Ltd.	Singapore	1,000,000 S\$1 shares	76	Property
Bestbilt Pte. Ltd.	Singapore	1,000,000 S\$1 shares	76	Property
Everbilt Developers Pte Ltd	Singapore	160,000,000 S\$1 shares	76	Property
Grannis Limited	Hong Kong	2 HK\$10 shares	100	Property
Hamptons Group Limited	United Kingdom	11,170,014 £0.01 shares & 50 £0.01 "A" shares	76	Holding company
Hamptons Estates Limited	United Kingdom	2,667,787 £0.01 shares	76	Estates agency
Janeworth Company Limited	Hong Kong	550,000,000 HK\$1 shares	100	Property
Keevil Company Limited	Hong Kong	2 HK\$1 shares	100	Property
Lynchpin Limited	British Virgin Islands/ International	500 US\$1 shares	100	Investment
Marnav Holdings Limited	Hong Kong	1,000,000 HK\$1 shares	100	Property
Mer Vue Developments Pte. Ltd.	Singapore	1,000,000 S\$1 shares	76	Property
NART Finance Limited	Hong Kong	3 HK\$10 shares	100	Finance
Nassim Developments Pte. Ltd.	Singapore	2 S\$1 shares	76	Investment
Pachino Limited	Hong Kong	2 HK\$10 shares	100	Property
Pizzicato Limited	Hong Kong	2 HK\$10 shares	100	Property
Python Company Limited	Hong Kong	2 HK\$1 shares	100	Property
Realty Development Corporation Limited (held directly)	Hong Kong	1,151,389,640 HK\$0.2 shares	100	Holding company
Rusticana Limited	Hong Kong	2 HK\$10 shares	100	Property
Samover Company Limited	Hong Kong	2 HK\$1 shares	100	Property
Sandsprings Limited	Hong Kong	2 HK\$10 shares	100	Property
Titano Limited	Hong Kong	2 HK\$1 shares	100	Property
Warhol Company Limited	Hong Kong	2 HK\$1 shares	100	Property
Wavatah Company Limited	Hong Kong	2 HK\$1 shares	100	Property
Wheelock Azabujuban Tokutei Mokuteki Kaisha	Japan	38,687 ¥50,000 shares	76	Property
Wheelock Properties (Singapore) Limited	Singapore	398,853,292 S\$1 shares & 797,706,584 shares issued at S\$0.825 per share	76	Holding company/ Property
Whole Result Limited	Hong Kong	2 HK\$1 shares	100	Property
Zarow Limited	Hong Kong	2 HK\$10 shares	100	Property

PRINCIPAL SUBSIDIARIES AND ASSOCIATES At 31 March 2006

<b>Associates</b>	<b>Place of incorporation/ operation</b>	<b>Percentage of share capital (of the class of shares stated below) held by subsidiary(ies) of the Company</b>	<b>Percentage of equity attributable to the Group</b>	<b>Principal activities</b>
Diamond Hill Development Holdings Limited	British Virgin Islands	33 (ordinary shares)	33	Holding company
Dramstar Company Limited (Note a)	Hong Kong	100 ("B" shares)	44	Property
Grace Sign Limited (Note a)	Hong Kong	20 (ordinary shares)	20	Property
Parc Palais Finance Limited (Note a)	Hong Kong	20 (ordinary shares)	20	Finance
Parc Palais Property Management Limited (Note a)	Hong Kong	20 (ordinary shares)	20	Property management
Hopfield Holdings Limited	British Virgin Islands	40 (ordinary shares)	40	Holding company
Kowloon Properties Company Limited	Hong Kong	40 (ordinary shares)	40	Property
Salisbury Company Limited	Hong Kong	33 (ordinary shares)	33	Property

Notes:

- (a) The financial statements of these associates have been audited by a firm of accountants other than KPMG.
- (b) Unless otherwise stated, the subsidiaries and associates were held indirectly by the Company.
- (c) The above list gives the principal subsidiaries and associates of the Group which, in the opinion of the Directors, principally affected the profit and assets of the Group.
- (d) The associates are unlisted corporate entities.

---

## REPORT OF THE AUDITORS



### **To the Shareholders of Wheelock Properties Limited**

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 28 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**KPMG**

*Certified Public Accountants*

Hong Kong, 12 June 2006

## SCHEDULE OF PRINCIPAL PROPERTIES At 31 March 2006

<b>Investment properties/other properties held for own use</b>	<b>Lot number</b>	<b>Lease expiry</b>	<b>Approx. gross floor area (sq.ft.)</b>	<b>Attributable % owned</b>	<b>Year of completion</b>	<b>Type/usage</b>
<b>Investment properties</b>						
Shop C, G/F & 3/F-24/F, Wheelock House, 20 Pedder Street, Central	ML99 Sec. A,C, R.P. & ML 100 Sec. A,B, R.P.	2854	214,400	100	1984	Office & shop
Fitfort, Basement – 3/F, Healthy Gardens Podium, 560 King’s Road, North Point	IL 3546	2086	125,300 & 353 car parks	100	1979	Shopping arcade & car parks
Various shops at Great Western Plaza, 100-142 Belcher’s Street, Kennedy Town	IL 906 Sec. J,L,M & R.P.	2882	32,000	100	1960s & 70s	Shops
Wheelock Place, 501 Orchard Road, Singapore	–	2089	465,000	76	1993	Office & shopping arcade
Oakwood Residence Azabujuban, 2-4-9 Azabujuban, Minato-ku, Tokyo, Japan	–	Freehold	83,700	76	2002	Serviced apartments
<b>Other properties held for own use</b>						
32 Grosvenor Square London, England	–	2057	5,100	76	–	Office

SCHEDULE OF PRINCIPAL PROPERTIES At 31 March 2006

Properties under development/ completed properties for sale	Lot number	Site area (sq.ft.)	Approx. gross floor area (sq.ft.)	Attributable % owned	Expected year of completion	Type/usage	Stage of completion
<b>Properties under/held for development</b>							
6D-6E Babington Path, Mid-Levels	IL609C R.P. & Sec. D R.P.	5,837	46,700	100	2009	Residential	Planning
2 Heung Yip Road, Wong Chuk Hang, Aberdeen	AIL 374	49,000	735,000	100	–	Industrial/ office	Planning
The Sea View, Amber Close, Singapore	–	381,800	796,100 (627,100 s.f. pre-sold)	76	2007	Residential	Superstructure in progress
The Cosmopolitan, Kim Seng Road/River Vally Road, Singapore	–	112,862	316,000 (219,700 s.f. pre-sold)	76	2007	Residential	Superstructure in progress
Orchard View, 29 Anguilla Park, Singapore	–	29,074	81,400	76	2009	Residential	Demolition completed
Ardmore II, 2 & 2B Ardmore Park, Singapore	–	89,632	251,000	76	2010	Residential	Planning
Scotts Shopping Centre & The Ascott Singapore, 6 Scotts Road, Singapore	–	71,137	438,200	76	2010	Residential & commercial	Planning
<b>Completed properties for sale</b>							
Various units of World Tech Centre, 95 How Ming Street, Kwun Tong	KTIL 195 R.P.	37,341	67,400	100	–	Industrial	Completed
Various units of My Loft, 9 Hoi Wing Road, Tuen Mun	TMTL 379	40,946	45,600	100	–	Godown	Completed
4/F South Seas Centre, Tower 1, 75 Mody Road, Tsimshatsui	KIL 10549	–	14,500	100	–	Office	Completed
12/F Wing On Plaza, 62 Mody Road, Tsimshatsui	KIL 10586	–	19,900	100	–	Office	Completed
<b>Major property projects undertaken by associates</b>							
Various units of Bellagio, 33 Castle Peak Road, Sham Tseng	Lot No. 269 R.P. in DD 390	566,090	626,100	33	–	Residential	Completed
Various units of Parc Palais, 18 Wylie Road, King's Park, Homantin	KIL 11118	387,569	88,800	20	–	Residential	Completed

Notes:

- (1) All the above properties are in Hong Kong except otherwise stated.
- (2) The gross floor area of completed properties for sale represents unsold area of the respective properties.

## FIVE-YEAR FINANCIAL SUMMARY

<b>HK\$ Million</b>		(Restated)		(Restated)	
Financial year ended 31 March	2002	2003	2004	2005	2006
<b>Consolidated Profit and Loss Account</b>					
Turnover (Note 2)	3,330	1,999	1,602	2,189	<b>1,789</b>
Group profit/(loss) attributable to Shareholders (Notes 1 & 2)	86	(793)	1,054	1,842	<b>2,234</b>
Dividends attributable to the year	145	145	145	166	<b>186</b>
<b>Consolidated Balance Sheet</b>					
Fixed assets	3,912	3,163	3,274	4,365	<b>5,655</b>
Goodwill and other intangible assets	–	–	–	–	<b>306</b>
Associates	4,314	3,443	1,758	1,550	<b>957</b>
Available-for-sale investments	4,468	3,307	5,166	5,701	<b>7,079</b>
Deferred debtors	44	103	90	60	<b>36</b>
Current assets (Note 2)	6,826	5,669	6,407	8,735	<b>11,898</b>
Current liabilities	(1,802)	(2,161)	(702)	(532)	<b>(2,607)</b>
Long-term loans	(3,329)	(2,336)	(1,864)	(3,115)	<b>(3,069)</b>
Deferred tax (Notes 1 & 2)	(103)	(54)	(72)	(88)	<b>(397)</b>
Deferred item	–	(223)	(159)	(146)	<b>–</b>
	<b>14,330</b>	<b>10,911</b>	<b>13,898</b>	<b>16,530</b>	<b>19,858</b>
Share capital	414	414	414	414	<b>414</b>
Reserves (Notes 1 & 2)	11,070	9,259	12,129	14,564	<b>17,745</b>
Shareholders' equity	11,484	9,673	12,543	14,978	<b>18,159</b>
Minority interests (Notes 1 & 2)	2,846	1,238	1,355	1,552	<b>1,699</b>
Total equity	<b>14,330</b>	<b>10,911</b>	<b>13,898</b>	<b>16,530</b>	<b>19,858</b>
<b>Financial Data</b> (Notes 1 & 2)					
Earnings/(loss) per share (Cents)	4.2	(38.3)	50.9	89.0	<b>108.0</b>
Dividend per share (Cents)	7.0	7.0	7.0	8.0	<b>9.0</b>
Dividend cover (Times)	0.6	N/A	7.3	11.1	<b>12.0</b>
Net assets per share (HK\$)	5.55	4.67	6.06	7.24	<b>8.77</b>

Notes:

Pursuant to the adoption of all applicable Hong Kong Financial Reporting Standards ("HKFRSs") in 2006 and the revised Statement of Standard Accounting Practice 12 ("SSAP 12") "Income taxes" in 2004, certain figures have been reclassified or restated as set out below:

- (1) These figures for the year 2003 have been restated pursuant to the adoption of SSAP 12 as explained in note 11 to the 2004 financial statements. Figures for 2002 have not been restated as it would involve delays and expenses out of proportion to the benefit to Shareholders.
- (2) These figures for the year 2005 have been restated pursuant to the adoption of all applicable HKFRSs as explained in note 11 to the 2006 financial statements. Figures for 2004 and prior years have not been restated as it would involve delays and expenses out of proportion to the benefit to Shareholders.