Hong Kong had a prosperous year in 2005. Robust exports and rising consumer and investment spending propelled the economy to grow at a better-than-expected annual rate of 7.3% in calendar year 2005, and 8.2% in the first quarter of 2006. Consumer Price Index, rising at 1.6% per annum, remained healthy and benign. The booming tourism, as well as the steady rise in employment and wage rates, further improved local sentiments. This backdrop was achieved despite the runaway oil price and rising interest rate.

The gradual roll-out of the Individual Traveller Scheme brought more Mainland tourists to Hong Kong. Tourist arrival exceeded 23 million in 2005 to set a new record, and total tourism receipts exceeded HK$100 billion. This nourished the local retail sector, which benefited the Group's retail properties. Office rentals rose in the wake of the better economy and tight Grade A supply. Residential prices also rose considerably during the first half of 2005, in particular in the luxury segment, but have since mildly consolidated to sustain a healthy marketplace.

Overseas, Singapore saw a robust 6.4% GDP growth in 2005, and 10.6% in the first quarter of 2006. Retail sales were strong and property prices steadily rose as a result. Japan's economy grew by 2.3% in 2005 and saw an end to the continual price deflation over a period of more than 10 years, which paves the way for renewed economic growth.

The Group benefited from the favourable macro economic environment and performed well during the financial year under review.

Group profit rose by 24% to HK$10,316 million for the year ended 31 March 2006 (2005: HK$8,337 million). Earnings per share were HK$5.08 (2005: HK$4.10). Excluding the unrealised surplus from the revaluation of investment properties to comply with prevailing accounting standards and the property write-back, Group profit rose by 28% to HK$3,203 million (2005: HK$2,498 million).

At 31 March 2006, consolidated net asset value per share was HK$20.17, 30% higher than the HK$15.47 a year earlier. Net debt decreased to HK$2.7 billion (2005: HK$4.5 billion). Gearing ratio was 6.6% (2005: 14.4%).

The Directors have recommended a final dividend of 10.0 cents per share to bring a full year distribution of 12.5 cents per share (2005: 11.0 cents per share). Total dividend received in cash from the publicly-listed associate Wharf and subsidiary Wheelock Properties amounted to HK$1,003 million during the financial year (2005: HK$851 million).

BUSINESS PERFORMANCE

All segments recorded solid performance during the financial year.

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

Properties

Virtually all the units of Sorrento and Towers 6, 7, 8 and 9 of Bellagio have been sold by March 2006. 61% of Towers 1, 2, 3 and 5 of Bellagio have also been sold. The office tower of Lane Crawford House was 92% leased at satisfactory rental rates while a large and reputable international retailer has already committed to lease the majority of the retail podium.

Wheelock Properties Limited

All owned and joint-venture residential projects, including Bellagio, Sorrento and Parc Palais, contributed favourably during the year.

Wheelock Properties (Singapore) Limited

A 21% stake in the listed hotelier and investment company Hotel Properties Limited was purchased in March 2006. The company also acquired The Habitat II, which will be amalgamated with the adjoining Ardmore View site and redeveloped into a prime residential condominium to be known as Ardmore II.

Pre-sales of The Sea View and The Cosmopolitan have made good progress, with 79% and 70% sold respectively by March 2006. All units of Grange Residences have been sold. All rental properties, including Scotts Shopping Centre & The Ascott Singapore and Wheelock Place in Singapore, and the Oakwood Residence Azabujuban in Tokyo, were substantially leased at satisfactory rates.

The Wharf (Holdings) Limited

All three core business segments, Property, China and CME (Communication, Media and Entertainment), achieved solid performance. Rentals firmed across all property sectors with corresponding valuation increases. Expansion continued in China in property investments and developments, as well as in container terminal projects through Modern Terminals. Despite the competitive challenge, the CME sector achieved steady market position, profitability and cash flow.

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

OUTLOOK

Hong Kong's economic fundamentals remain solid, supported by booming external trades and rising domestic demand. The outlook for 2006 is positive.

The Closer Economic Partnership Arrangement provides an ideal platform to facilitate the "going out" policy of Mainland private enterprises, and the "bringing in" policy of international investment and expertise. The ongoing economic integration with Pearl River Delta strengthens Hong Kong's position as the gateway to China. Further, the extension of the Individual Traveller Scheme to additional Mainland cities boosts local tourism.

Despite prevailing risks caused by high oil price and rising US interest rate, Hong Kong is in good shape. The Group is well positioned to benefit from, and grow with, Hong Kong's economy.

Peter K C Woo
Chairman

Hong Kong, 27 June 2006