

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT REVIEW

Property

Bellagio (74% attributable)

Bellagio is a property development in Sham Tseng overlooking the Tsing Ma Bridge. Virtually all of the 1,704 units in Towers 6, 7, 8 and 9 have been sold. Towers 1, 2, 3 and 5 with a total of 1,641 units were completed in early 2006 and cumulative sales have reached 81% by September 2006.

Sorrento (66% attributable)

Sorrento is a joint-venture development with MTRC above the Kowloon Station. Virtually all of the units of the development have been sold by September 2006.

Lane Crawford House (wholly-owned)

The office tower was 82% leased. The majority of the retail podium has been leased to H&M Hennes & Mauritz AB, an international retailer, on favourable terms.

Wheelock Properties Limited (a 74%-attributable listed subsidiary)

Unaudited profit for Wheelock Properties Limited (“WPL”) amounted to HK\$812 million for the six months ended 30 September 2006 (2005: HK\$1,037 million). Excluding the investment property revaluation surplus net of deferred tax, unaudited profit for the period under review was HK\$771 million (2005: HK\$680 million).

During the financial period under review, the Group received a cash dividend of HK\$108 million (2005: HK\$92 million) from WPL.

WPL effectively owns 40% and 33.3% of Sorrento and Bellagio respectively.

Parc Palais is a one-million-square-foot GFA residential development in Homantin with 700 apartments, which WPL owns 20% of the joint venture. 94% of the development have been sold by September 2006.

Wheelock House and Fitfort were 87% and 95% leased respectively.

Wheelock Properties (Singapore) Limited (a 76%-attributable listed subsidiary of WPL)

Profit for Wheelock Properties (Singapore) Limited (“WPSL”) amounted to S\$162.6 million for the period (2005: S\$47.9 million).

In August 2006, WPSL sold its 100% equity interest in Hamptons Group Limited and realised a gain on disposal amounting to S\$115.7 million.

Development Properties

Pre-sales of the residential condominium development The Sea View (546 apartments) and The Cosmopolitan (228 apartments) have reached 93% and 79% respectively by September 2006. Both developments are scheduled for completion in the second half of 2007.

Ardmore II is a prime residential condominium development with 118 apartments. Demolition of the previous development is in progress. Pre-sales was launched in September 2006 and met with enthusiastic response. 64% of the total units have been pre-sold by end of September 2006.

Development of Orchard View (formerly known as Angullia View) is underway with scheduled completion in 2008.

Scotts Shopping Centre and The Ascott Singapore were 99% and 86% leased respectively. The property will be demolished and redeveloped into a residential and commercial complex in the first half of 2007.

Investment Properties

Wheelock Place, a commercial development in Singapore, and Oakwood Residence Azabujuban, a serviced apartment development in Tokyo, were 93% and 95% leased respectively.

The Wharf (Holdings) Limited (a 48%-attributable listed associate)

Wharf reported an unaudited profit attributable to shareholders of HK\$6,259 million for the six-month period ended 30 June 2006 (2005: HK\$9,035 million). Excluding the net investment property revaluation surplus, unaudited profit amounted to HK\$1,900 million (2005: HK\$1,923 million).

For the financial period under review, total cash dividends received by the Group from Wharf amounted to HK\$538 million (2005: HK\$440 million).

Harbour City (wholly-owned by Wharf)

Harbour City, the core investment property asset of Wharf, turned over HK\$1,789 million during the six months to 30 June 2006, for an increase of 10% over the same period in 2005.

Retail revenue grew by 11% to HK\$709 million, with average occupancy maintained at 99% and favourable rental growth on new leases and renewals. Retail tenants at Harbour City reported an 18% increase in average sales per square foot during the period. Phase I of the Ocean Centre car park conversion (GFA: 45,000 square feet) was completed in June 2006.

Turnover for the office sector rose by 7% to HK\$526 million with positive rental growth for new leases and renewals. Average occupancy was 95%.

Turnover for the serviced apartments sector slightly decreased by 4% to HK\$103 million, attributable to lower average occupancy of 75% (2005: 85%). The three hotels at Harbour City performed strongly during the period, with consolidated occupancy of 90% and double-digit growth in average room rate.

Times Square (wholly-owned by Wharf)

Times Square, another core asset of Wharf, turned over HK\$473 million during the first half of 2006 for an increase of 8% over the same period in 2005.

The retail sector registered a turnover growth of 8% to reach HK\$334 million, with average occupancy maintained at virtually 100% and favourable rental growth. Trade-mix revamp on Basement 2 level to capture the shopper's traffic from MTR is continuing.

The office sector recorded turnover growth of 8% to HK\$139 million during the period with significant rental reversion growth. Occupancy stood at 93% at the end of June 2006.

Modern Terminals (a 68%-owned subsidiary of Wharf)

Modern Terminals' turnover and operating profit reduced by 10% and 16% respectively during the six-month period ended 30 June 2006, mainly due to revenue drop arising from box mix shift in favour of transshipment and feeder cargos and increasing competition in Hong Kong and South China.

Throughput at Modern Terminals (Hong Kong operations) grew by 0.7% to 2.51 million TEUs during the period.

For Modern Terminals' investments in China, Chiwan Container Terminals and Shekou Container Terminals handled 1.6 million TEUs and 875,000 TEUs respectively during the period. Phase I of Taicang handled 225,000 TEUs, 121% higher than the same period in 2005. The first berth of Phase II of Taicang commenced operation in July 2006. Phase I of Dachan Bay in Shenzhen West will commence operation in phases starting from late 2007.

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

Turnover rose by 4% to HK\$1,274 million and net profit after tax declined by 59% to HK\$64 million for the six-month period ended 30 June 2006, partly due to non-recurring distortions.

Turnover from Pay TV grew by 2% to HK\$966 million. However, operating profit fell by 50% to HK\$98 million; partly due to revenue and expense timing mismatch relating to FIFA World Cup 2006, the enhancement of the movie platform and other content enrichment initiatives.

Subscription grew by 4% to 770,000 at the end of June 2006 on the back of World Cup. CABLE TV's locally produced channels and programmes continued to gain acclaim and viewership. i-CABLE's first theatrical release "49 Days" bagged the Grand Prize in the Fukuoka Film Festival in Japan.

Turnover from Internet & Multimedia rose by 6% to HK\$296 million, with record operating profit of HK\$68 million. Network enhancement and introduction of more value-added services, amid a maturing market, were only able to maintain Broadband subscription at 321,000 at the end of June 2006.

Wharf T&T (wholly-owned by Wharf)

Turnover from the Wharf T&T group decreased by 5% to HK\$681 million during the first half of 2006, primarily due to price erosion. Operating profit accordingly declined by HK\$43 million, resulting in a HK\$4 million operating loss.

Despite yield decline, the fixed line installed base grew by 16,000 to reach 539,000, representing an overall market share of 13%. Total outgoing IDD volume grew by 16% for the period to 308 million minutes. The new integrated business model of Wharf T&T and COL created value and gained customer reception.

FINANCIAL REVIEW

(I) Results Review

Discontinued operation

During the period under review, WPSL sold its 100% interest in Hamptons for £82 million (about HK\$1,182 million) and recorded a profit of HK\$585 million (HK\$330 million attributable to the Group). Because of the disposal, the results of Hamptons, which formed a significant business segment of the Group, were reported as a discontinued operation and presented separately on the profit and loss account in accordance with Hong Kong Financial Reporting Standard 5 "Non-current assets held for sale and discontinued operations".

Continuing operations

Turnover

Group turnover from continuing operations for the six-month period fell by 37% to HK\$1,870 million (2005: HK\$2,978 million), reflecting lower sales revenue recognised by the Property Development segment.

Operating profit

Group operating profit from continuing operations fell by 53% to HK\$577 million (2005: HK\$1,222 million) mainly due to the unfavourable operating results recorded by the Property Development and the Investment and Others segment.

Property Investment

Revenue from the Property Investment segment rose by 2% to HK\$232 million (2005: HK\$228 million) but operating profit was down by 7% to HK\$133 million (2005: HK\$143 million).

Higher average rental rates were achieved by the Group for its investment properties but this favourable result was partly offset by lower rental contribution from Lane Crawford House due to a major renovation of the retail area vacated by Lane Crawford. Higher operating expenses and administrative expenses incurred by WPSL for its investment properties also adversely impacted the corresponding operating profit of the Property Investment segment.

Property Development

Revenue of the Property Development segment fell by 45% to HK\$1,456 million (2005: HK\$2,627 million) and operating profit dropped by 44% to HK\$380 million (2005: HK\$679 million).

The decrease was mainly attributable to lower revenue and operating profit contributed from the sales of Bellagio units, and profit from the sale of the remaining 11 Grange Residences units by WPSL recorded last year.

WPSL recognises profits on pre-sales of properties under development by stages using the percentage of completion method in accordance with generally accepted accounting principles in Singapore. The Group prepares its consolidated financial statements under Hong Kong Financial Reporting Standards which recognises revenue and profit on pre-sales of properties upon the completion of properties. Accordingly, profits recognised by WPSL in respect of its pre-sale of The Sea View and The Cosmopolitan units were reversed and excluded in the Group's consolidated financial statements. The cumulative attributable profits so reversed amounted to approximately HK\$220 million at 30 September 2006.

Investment and Others

Investment revenue, comprising mainly dividends from the Group's long-term investment portfolio and interest income, increased by 19% to HK\$218 million (2005: HK\$183 million). However, operating profit fell by 81% to HK\$78 million (2005: HK\$410 million) due to the inclusion last year of a one-off profit of HK\$235 million on sale of long-term investments and HK\$52 million from the sale of some Great Western Plaza units.

Increase in fair value of investment properties

Included in the interim results was a revaluation surplus, before share of associates' surplus, of HK\$83 million (2005: HK\$1,481 million) on revaluation of the Group's investment properties in accordance with current accounting standards.

Borrowing costs

Borrowing costs charged to the profit and loss account rose to HK\$130 million (2005: HK\$94 million). Borrowing costs capitalised for properties under development for sale amounted to HK\$36 million (2005: HK\$18 million). For the period under review, the Group's effective borrowing interest rate was approximately 4.3% per annum (2005: 2.9% per annum).

Share of profits less losses of associates

Share of profits of associates, substantially contributed by Wharf, was HK\$3,156 million (2005: HK\$4,556 million). Included in the share of Wharf's results was an attributable investment property revaluation surplus (net of deferred tax) of HK\$2,098 million (2005: HK\$3,423 million). Excluding the attributable revaluation surplus, share of associates' profits would be HK\$1,058 million (2005: HK\$1,133 million).

Wharf's Property Investment segment continued to gain momentum with improved revenue and operating profit. This was partly offset by lower-than-expected results of both Modern Terminals and the Communications, Media and Entertainment segments as well as the increase in borrowing costs.

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

Income tax

Taxation charge of HK\$83 million (2005: HK\$308 million) included deferred tax of HK\$15 million (2005: HK\$259 million) provided against the net revaluation surplus of investment properties.

Minority interests

Profit shared by minority interests was HK\$509 million (2005: HK\$561 million), which was mainly related to the profit of WPL, including the profit on disposal of Hamptons.

Profit attributable to Shareholders

The Group's unaudited profit attributable to Shareholders was HK\$3,735 million for the six-month period ended 30 September 2006 (2005: HK\$6,303 million). Earnings per share were HK\$1.84 (2005: HK\$3.10).

Included in the six months results was an attributable surplus of HK\$2,156 million (2005: HK\$4,553 million), comprising the Group's revaluation surplus of HK\$83 million (2005: HK\$1,481 million) less related deferred tax and minority interests of HK\$25 million (2005: HK\$351 million) and the net surplus of HK\$2,098 million (2005: HK\$3,423 million) attributable to associates, including principally Wharf.

Excluding the above net revaluation surplus, the Group's net profit attributable to Shareholders was HK\$1,579 million (2005: HK\$1,750 million). The decrease was largely attributable to lower profit contribution from property sales and disposal of certain long-term investments, which was partly offset by the profit on disposal of Hamptons.

(II) Liquidity and Financial Resources

Equity

As at 30 September 2006, Shareholders' equity amounted to HK\$44,877 million or HK\$22.09 per share, against the restated amount of HK\$41,016 million or HK\$20.19 per share as at 31 March 2006.

In compliance with the new accounting requirements in respect of the amendment to HKAS 19, the Group's Shareholders' equity as at 1 April 2006 was restated to HK\$41,016 million from HK\$40,987 million. The increase was attributable to the recognition of all unrecognised actuarial gains by the Group's associate for its defined benefit pension schemes as at 31 December 2005.

As at 30 September 2006, the Group's total equity, including minority interests, was HK\$51,756 million (31/3/2006: HK\$47,368 million).

Supplemental Information on Net Asset Value

To better reflect its underlying net asset value (“NAV”) attributable to its shareholders, Wharf had made certain adjustments on the book NAV that was based on HKFRSs and disclosed as supplemental information in the Financial Review section of its Interim Report for the six-month period ended 30 June 2006. On the same basis, the adjusted underlying NAV attributable to the Group’s Shareholders is summarised below for additional information:

	Per share HK\$
Book NAV (based on HKFRSs) as at 30 September 2006	22.09
Share of Wharf’s adjustments:	5.45
Modern Terminals	1.93
– based on the latest transaction price	
i-CABLE	0.22
– based on market value as at 30 June 2006 (@HK\$1.73 p.s.)	
Hotel properties	
– based on the valuation as at 30 June 2006 conducted by an independent valuer	0.87
Deferred tax on investment property revaluation surplus	*2.43
Wheelock’s deferred tax on investment property revaluation surplus	*0.31
Adjusted underlying NAV as at 30 September 2006	<u>27.85</u>
Adjusted underlying NAV as at 31 March 2006	<u>25.75</u>

* As there is no capital gains tax on the sale of investment properties in Hong Kong and Singapore, the deferred tax liability (attributable to the Group HK\$5.6 billion or about HK\$2.74 per share) as provided and included in the consolidated balance sheet of the Group and its associate would not be payable if the above-mentioned investment properties were to be sold at the revalued amounts under the respective current tax regime. Accordingly, such deferred tax as provided under HKAS 40 and HK(SIC)-INT 21 has been excluded for the above calculation in order to provide a better understanding of the NAV attributable to Shareholders.

Net debt and gearing

As at 30 September 2006, the ratio of the Group’s net debt to Shareholders’ equity was 0.2% (31/3/2006: 6.6%).

As at 30 September 2006, the Group’s net debt amounted to HK\$108 million which was made up of total debts of HK\$5,950 million less deposits and cash of HK\$5,842 million. This compared favourably against a net debt of HK\$2,687 million as at 31 March 2006. Net cash generated from the Group’s operating activities was HK\$2,339 million, which included net cash inflows from sales of Bellagio units and dividend income from Wharf. Net cash of HK\$593 million from investing activities was mainly related to the proceeds on sale of Hamptons.

Excluding WPL group's net cash of HK\$2,305 million, the Company together with its other subsidiaries had a net debt of HK\$2,413 million, reduced by HK\$863 million from HK\$3,276 million as at 31 March 2006. For the period under review, total cash dividends received from Wharf and WPL, being the Group's main sources of recurring cash inflow, totalled HK\$646 million (2005: HK\$532 million). The Company also received distributions from the sale of Bellagio amounted to HK\$499 million.

Committed and uncommitted facilities

- (a) The Group's available loan facilities totalled HK\$9.4 billion, comprising committed and uncommitted loan facilities of HK\$7.6 billion and HK\$1.8 billion, respectively.

The debt maturity profile of the Group as at 30 September 2006

	30/9/2006 HK\$ Million	31/3/2006 HK\$ Million
Repayable within 1 year	2,537	1,976
Repayable after 1 year, but within 2 years	990	2,038
Repayable after 2 years, but within 3 years	824	1,733
Repayable after 3 years, but within 4 years	1,049	1,458
Repayable after 4 years, but within 5 years	550	—
	5,950	7,205
Undrawn facilities	3,444	5,375
Total loan facilities	9,394	12,580

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

	30/9/2006 HK\$ Million	31/3/2006 HK\$ Million
Investment properties	488	493
Properties under development for sale	4,474	4,014
	4,962	4,507

- (c) As at 30 September 2006, the Group's borrowings were primarily denominated in Hong Kong dollars except that WPSL's borrowings for financing its properties in Singapore and Japan were primarily denominated in respective local currencies i.e. Singapore Dollar and Japanese Yen. Forward exchange contracts were entered into by WPSL mainly for hedging purpose. After the disposal of Hamptons, the Group has no other significant exposure to foreign exchange fluctuation except for its net investments in Singapore subsidiaries and certain pound sterling bank deposits held by WPSL.

Available-for-sale investments

As at 30 September 2006, the Group maintained a portfolio of available-for-sale investments with a market value of HK\$2,491 million (31/3/2006: HK\$2,187 million), which primarily comprised blue chip securities.

In accordance with the Group's accounting policies, 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. As at 30 September 2006, such reserves had an attributable accumulated surplus of HK\$562 million compared to HK\$502 million at 31 March 2006. Performance of the portfolio was in line with the stock markets.

Contingent liabilities

As at 30 September 2006 and 31 March 2006, there was no guarantee given by the Group in respect of banking facilities available to associates.

(III) Acquisition of Property / Disposal of Subsidiary

The Habitat One, Singapore

On 14 July 2006, WPSL acquired The Habitat One for S\$180 million (about HK\$882 million). The acquisition is scheduled to complete in 2007.

Disposal of Hamptons

On 24 August 2006, WPSL completed the disposal of its 100% interest in Hamptons for £82 million (about HK\$1,182 million) at a profit of HK\$585 million. The profit attributable to the Group (net of minority interests) resulted from the disposal amounted to HK\$330 million.

(IV) Human Resources

The Group has 773 employees as at 30 September 2006 (31/3/2006: 1,712). The decrease of 939 employees is mainly due to the exclusion of Hamptons' employees after it was disposed of by WPSL in August 2006. Employees are remunerated according to the nature of their jobs 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 six-month period ended 30 September 2006 amounted to HK\$294 million.

CODE ON CORPORATE GOVERNANCE PRACTICES

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