GENERAL OVERVIEW

An unprecedented combination of events in 2003, including terrorism overseas, SARS, the Central Government's policy initiatives favourable to Hong Kong, and the economic upturn had caused not only extreme volatility in Hong Kong's business environment during the year but also a profound change in local sentiment. As the prolonged deflation phenomenon is slowly coming to an end soon, we are pleased to see strong recovery in consumer and investment confidence for the first time since the Asian Financial Crisis hit us in 1997.

Wheelock and Company Limited's consolidated profit attributable to shareholders for the year ended 31 March 2004 was HK$2,302.6 million, compared to HK$34.7 million for the previous year. Earnings per share were 113.3 cents, up from 1.7 cents, or 66 times that of last year.

The local economy had been depressed well before the appearance of SARS. The Central Government stepped in with a variety of measures towards the end of this epidemic. A V-shaped recovery followed – valuations have returned to the pre-SARS level or climbed even higher. The Group's net asset value as a result also increased from HK$11.22 per share to HK$13.06 per share within the past financial year.

An interim dividend of 2.5 cents per share was paid in January 2004, and the Directors recommend a final dividend of 6.5 cents per share to be approved at the forthcoming Annual General Meeting. The total dividend distribution for the year will be 9.0 cents per share or HK$182.9 million. Total cash dividend received from New Asia Realty and Wharf amounted to HK$601.1 million during the financial year under review, as compared to HK$1,075.8 million a year ago.

The Group's net debt had been reduced from HK$8.8 billion to HK$6.1 billion during the year under review. While there remain uncertainties regarding the coming interest rate upcycle, our effort in further reducing debt will continue.

UNIT PERFORMANCE

All units recorded healthy progress and remained financially viable, despite the extremely severe operating environment:

Property

Phases I and II of both Sorrento and Bellagio have been almost completely sold out (overall 98 per cent sold as at the end of March 2004, raising a total of HK$15.4 billion in proceeds on a cumulative basis).

New Asia Realty and Trust Company, Limited

All current selling residential development projects including Sorrento, Bellagio, Parc Palais and Grange Residences are contributing positively to the Company's underlying profit.

Proposed Name Changes

It is proposed to re-name New Asia Realty and Trust Company, Limited and Marco Polo Developments Limited as Wheelock Properties Limited and Wheelock Properties (Singapore) Limited respectively.

These name changes will be subject to approval by shareholders of the two companies at the Extraordinary General Meeting of Marco Polo Developments and Annual General Meeting of New Asia Realty to be held in July 2004 and August 2004 respectively. I and my fellow board members firmly support such proposals since the new titles are a better reflection of the principal business activities of both companies, as well as their close association with Wheelock and Company Limited, the ultimate holding company. This will certainly enhance the brand equity of the Group and give it a higher level of clarity.

The Wharf (Holdings) Limited

All five core businesses, namely **Harbour City**, **Times Square**, **i-CABLE, Wharf T&T** and **Modern Terminals**, recorded growth and vastly improved operating data, as reflected in higher occupancy for the Investment Property business, expanded subscriber base for the Communication, Media and Entertainment (CME) business, and higher volume of freight throughput in our Logistics business.

BOARD

Mr David J Lawrence has been appointed Executive Director of Wheelock and Company Limited, effective 1 July 2004. Mr Lawrence is currently Chief Executive Officer and Managing Director of Marco Polo Developments Limited (to be named Wheelock Properties (Singapore) Limited).

OUTLOOK

To quote Mr Liu Jiang, the Vice Director of the State Development and Reform Council, "Hong Kong is unique with many competitive edges, including a free economy, its legal system and a comprehensive international business network... By further expanding the hinterland, Hong Kong can better fulfil its role as the international logistics, financial and services centre for Asian-Pacific, and to be China's window on the world...". Underpinned by swift growth in the Pearl River Delta area, Hong Kong has been playing a pivotal role in being the region's leading business platform, with established and growing critical mass. With the recent signing of the Pan-PRD Cooperation Agreement (9 provinces + 2 special administrative regions), Hong Kong's official role and positioning have certainly been further clarified and strengthened. As declared by Mr An Min, the Vice Minister of Commerce, "Hong Kong equals to business platform for mainland enterprises in developing overseas market". The 9+2 Agreement obviously does not limit Hong Kong's ability to outreach to other mainland markets. The Yangtze River Delta, the Bohai Region and the three provinces in the North East are all arenas for Hong Kong's services to connect and contribute toward their future development.

Now that the Central Government has begun to implement measures targeted at strengthening the three pillars of the Hong Kong economy – Trade and Commerce (CEPA), Tourism (relaxation of travel restrictions on individuals) and Finance (allowing banks in Hong Kong to transact RMB business) – the domestic outlook for business has also turned positive. Based on the latest retail sales figure, which has accelerated into the region of positive twenty-plus per cent in terms of year-on-year improvement and the improving trends of GDP growth and employment, it would not be very difficult for one to foresee that deflation will soon be a thing of the past, and that a refreshing new economic scene is emerging in Hong Kong.

Let me conclude with a word or two on the likely impact of the Central Government's macro-economic measures, and the expected tightening of interest rates in the United States. We must not forget that we have been operating our businesses in an all-time-low interest rate environment for some time, so that any tightening of interest rates – be they sectoral, as on the mainland, or general, as expected in the US – should come as no surprise. We should not, indeed we cannot afford to, over-react. The expected corrections and their short-term impact on the cost of doing business should be seen as means of achieving sustainable growth without over-heating the business environment. When all is said and done, if China's GDP can continue to grow annually at seven per cent and the US's at five per cent, without sharp increases in prices, business prospects must be good.

Peter K C Woo
Chairman

Hong Kong, 14 June 2004