

WHEELOCK AND COMPANY LIMITED

Interim Report to Shareholders
for the half-year period ended 30 September 2004



WHEELOCK

Founded 1857

www.wheellockcompany.com

HIGHLIGHTS OF GROUP RESULTS

- Unaudited profit was HK\$2,057.4 million (2003/04: HK\$766.7 million).
- Earnings per share were 101.3 cents (2003/04: 37.7 cents).
- An interim cash dividend of 2.5 cents per share will be paid (2003/04: 2.5 cents), totalling HK\$50.8 million.
- Dividends received from publicly listed associate Wharf and subsidiary Wheelock Properties are HK\$419.5 million in total.
- Profit improvement was largely due to a property provision write-back of HK\$1,327.0 million (HK\$983.7 million attributable to the Group) for the Bellagio project.
- Better results were also attributable to the higher development profit of HK\$145.5 million (2003/04: HK\$17.2 million) being recognised by Wheelock Properties (Singapore) Limited.
- Turnover was HK\$1,482.0 million (2003/04: HK\$2,159.1 million) due to lower property revenue from the sale of Sorrento units.
- Group operating profit before borrowing costs and property provision write-back was HK\$414.7 million, an increase of HK\$68.9 million or 19.9% from that reported in the same period in 2003/04.
- Substantial reduction in borrowing costs by 56.8% to HK\$36.4 million. Effective borrowing rate was approximately 1.0% per annum (2003/04: 1.7% per annum). Net debt amounted to HK\$6.6 billion.
- Group shareholders' funds totalled HK\$28,468.4 million or HK\$14.01 per share (31/3/2004: HK\$26,544.2 million or HK\$13.06 per share).

GROUP RESULTS

The Group reported an unaudited profit attributable to Shareholders of HK\$2,057.4 million for the half-year period ended 30 September 2004, compared to the HK\$766.7 million recorded in the same period last year. Earnings per share were 101.3 cents (2003/04: 37.7 cents).

Included in the profit for the period under review is a property provision write-back of HK\$1,327.0 million (HK\$983.7 million attributable to the Group) in respect of the Bellagio project.

INTERIM DIVIDEND

The Board has declared an interim dividend of 2.5 cents (2003/04: 2.5 cents) per share in respect of the half-year period ended 30 September 2004, payable on Friday, 7 January 2005 to Shareholders on record as at 6 January 2005.

INVESTMENTS REVIEW

Properties

Bellagio (effectively 74%-owned)

Bellagio in Sham Tseng, located on the western shore of New Territories overlooking the Tsing Ma Bridge, is a joint-venture development equally owned by Wheelock, Wheelock Properties and Wharf. Pre-sales for Tower 2 and Tower 5 commenced in early September 2004 with markedly good market response. Within the month of September, up to 546 units had been sold, generating a total revenue of about HK\$1.9 billion. Superstructure works for Phase III (Towers 3 and 5) and Phase IV (Towers 1 and 2) are in progress. Completion for this total of 1,641 units is targeted towards the end of 2005.

With respect to Phases I and II consisting of Towers 6, 7, 8 and 9, which were first launched in September 2002 for pre-sale, cumulative sales and proceeds reached 1,690 units (99 per cent sold) and HK\$4.1 billion as at the end of September 2004.

Sorrento (effectively 66%-owned)

Sorrento is an MTRC joint-venture project located above the Kowloon Station, equally owned by a five-member consortium comprising Wheelock, Wheelock Properties, a wholly-owned subsidiary of Wheelock Properties, Wharf, and Harbour Centre Development. While Phase I has been completely sold out, Phase II is also almost fully taken up. As at the end of September 2004, cumulative sales and proceeds for Phase II reached 817 units (95 per cent sold) and HK\$5.5 billion. Consent to Assign had been obtained in February 2004 for all 854 units under Phase II.

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

Sorrento and Bellagio are effectively 40 and 33.33 per cent owned by Wheelock Properties.

Parc Palais is owned by a five-member consortium comprising Wheelock Properties, New World Development, Sino Land, Chinese Estates and Manhattan Garments. This project in Homantin has been developed into 700 residential units with a gross floor area of about one million square feet. As at the end of September 2004, cumulative sales and proceeds reached 572 units (81 per cent sold) and HK\$5.3 billion.

Wheelock Properties (Singapore) Limited (a 75%-owned listed subsidiary)

The company has recently completed the acquisition of Oakwood Residence in Azabujuban in Tokyo, a serviced apartment complex in Japan with 83 units. The property is currently 92 per cent leased at satisfactory rental rates.

Further to the two major acquisitions made in the previous financial year, namely, The Sea View Hotel site and Cosmopolitan (formerly known as the Times House site), the company again acquired a property known as No. 6 Scotts Road during the six-month period under review. The intention is to redevelop it when all prevailing leases and property management agreement expire towards the end of 2006.

The Grange Residences obtained its Temporary Occupation Permit on 12 March 2004 and the official launch of all units took place within the same month. To date, 80 per cent of the total 164 units have been sold.

All tenancies at Ardmore View will expire by December 2004 and the existing building will then be demolished. A residential condominium development of about 166 apartments has been proposed. Target launch date is some time near mid-2005.

Wheelock Place, a commercial building with 464,900 square feet in GFA on Orchard Road in Singapore, is currently 95 per cent leased at satisfactory rental rates.

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

Harbour City (wholly-owned)

Retail occupancy was maintained at 98 per cent during the first six months of 2004. Most new leases showed favourable rental growth. While the Ocean Terminal revamp was recently completed with the latest openings of the SportX and KidX areas, the brand new Audio/ Visual/ Electronics “cluster” at Ocean Centre has also become an attractive draw. The occupancy for offices increased to about 93 per cent at the end of June 2004. The consolidated occupancy for the three Marco Polo Hotels rebounded strongly to exceed 88 per cent. Underpinned by the remarkable increase in total visitor arrivals and the Individual Traveller Scheme implemented by the Central Government, average room rate also fully recovered. The occupancy for Gateway Apartments was maintained at around 80 per cent.

Times Square (wholly-owned)

On the back of **Times Square**’s increasing traffic, most retail tenants registered double-digit year-on-year growth in sales performance. Retail occupancy was maintained at 98 per cent during the first half of 2004. With the anchor commitment of 93,648 square feet by MLC (Hong Kong) Limited, the office occupancy of **Times Square** has improved to approximately 93 per cent.

i-CABLE (a 67%-owned listed subsidiary)

Pay TV subscription rose to 682,000 at the end of June 2004. **i-CABLE** operated in a mixed environment during the first half – an improving economy instilled greater demand-side consumer confidence on the one hand, while supply-side competition heightened on the other. On the back of higher subscription and strong airtime sales, the division's financial performance improved further in spite of the increase in content costs. The Broadband segment continued its recovery with successful service enhancement through network upgrade and the introduction of value-added services. **i-CABLE's** Broadband subscription grew to 263,000 by the end of June.

Wharf T&T (a wholly-owned subsidiary)

The fixed line installed base grew by 15,000 to reach 448,000, representing an overall market share of 12 per cent. With the composition of 298,000 business lines and 150,000 residential lines, **Wharf T&T** held an 18 per cent share in the business market and a seven per cent share in the residential market as at the end of June 2004. Fixed line revenue grew by 12 per cent to HK\$525 million (2003: HK\$468 million).

Modern Terminals (a 55%-owned subsidiary)

Modern Terminals handled 1.6 per cent more boxes in Kwai Chung at 1.96 million TEUs during the first half of 2004, as compared to the 1.93 million recorded same time a year ago. The unit's market share in Kwai Chung stood at 32 per cent. Chiwan Container Terminals, in which **Modern Terminals** holds an effective stake of eight per cent, recorded a throughput growth of 55 per cent to 1.12 million TEUs during the first half. At another location right next to Chiwan, Berth 4 of Shekou Container Terminals (Phase II) came on stream in February this year.

OUTLOOK

Besides the China theme, the Asia story has been re-vitalized. There are marked economic improvements in several Asian countries including Singapore and Japan. During the past 18 months, the Group succeeded in identifying as well as securing a number of projects in both countries.

With the signing of the Pan-PRD Cooperation Agreement (nine provinces + two special administrative regions), Hong Kong's role and positioning have been further clarified and strengthened. The extension of the Individual Traveller Scheme to more China provinces and cities which became effective in July and also the Stage II of the CEPA arrangements are together nurturing an ample supply of business opportunities throughout the whole Southern China region. Business outlook is positive.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2004

		Unaudited 30/9/2004 HK\$ Million	Unaudited 30/9/2003 HK\$ Million
	Note		
Turnover	3	1,482.0	2,159.1
Other net income	4	6.4	31.9
		1,488.4	2,191.0
Direct costs and operating expenses		(1,004.2)	(1,763.6)
Selling and marketing expenses		(40.9)	(58.0)
Administrative expenses		(28.6)	(23.6)
Operating profit	3	414.7	345.8
Borrowing costs	5	(36.4)	(84.3)
Net operating profit before property provision		378.3	261.5
Write back of provision/(provision) for properties	6	1,327.0	(6.1)
Share of profits less losses of associates	2	1,120.2	837.8
Profit before taxation		2,825.5	1,093.2
Income tax	7	(260.4)	(224.8)
Profit after taxation		2,565.1	868.4
Minority interests		(507.7)	(101.7)
Group profit attributable to shareholders		2,057.4	766.7
Interim dividend proposed after the balance sheet date	8	50.8	50.8
Earnings per share	9	101.3 cents	37.7 cents

CONSOLIDATED BALANCE SHEET

At 30 September 2004

	Note	Unaudited 30/9/2004 HK\$ Million	Audited 31/3/2004 HK\$ Million
Non-current assets			
Fixed assets		4,390.6	4,010.8
Associates		24,867.1	24,528.3
Long-term investments		1,195.0	1,166.5
Deferred debtors		388.7	496.3
		<u>30,841.4</u>	<u>30,201.9</u>
Current assets			
Properties under development for sale		8,652.7	5,205.3
Properties held for sale		1,203.1	2,045.6
Short-term investments		–	79.8
Trade and other receivables	10	1,084.7	1,328.8
Bank balances and deposits		2,090.0	2,017.2
		<u>13,030.5</u>	<u>10,676.7</u>
Current liabilities			
Bank loans and overdrafts		486.6	2,267.6
Trade and other payables	11	1,378.3	1,443.5
Deposits from sale of properties		95.5	–
Current tax		156.6	118.5
		<u>2,117.0</u>	<u>3,829.6</u>
Net current assets		<u>10,913.5</u>	<u>6,847.1</u>
Total assets less current liabilities		<u>41,754.9</u>	<u>37,049.0</u>
Capital and reserves			
Share capital		1,015.9	1,015.9
Reserves	12	27,452.5	25,528.3
		<u>28,468.4</u>	<u>26,544.2</u>
Minority interests		4,552.1	4,093.4
Non-current liabilities			
Long-term loans		8,186.5	5,864.1
Deferred tax		76.4	71.7
Deferred items		471.5	475.6
		<u>8,734.4</u>	<u>6,411.4</u>
Total equity and non-current liabilities		<u>41,754.9</u>	<u>37,049.0</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	Unaudited 30/9/2004 HK\$ Million	Unaudited 30/9/2003 HK\$ Million
Total equity at 1 April	26,544.2	22,790.3
Company and subsidiaries		
Surplus on revaluation of non-trading securities	59.2	201.3
Exchange difference on translation of financial statements of foreign entities	(20.0)	4.6
Associates		
(Deficit)/surplus on revaluation of non-trading securities	(30.2)	31.0
Others	(0.3)	2.5
Net gain not recognised in the profit and loss account	8.7	239.4
Company and subsidiaries		
Group profit attributable to shareholders	2,057.4	766.7
Final dividend approved in respect of the previous year	(132.1)	(101.6)
Reserves transferred to the profit and loss account on:		
Disposal of non-trading securities	1.7	11.6
Disposal of other property	(0.9)	—
Associates		
Reserves transferred to the profit and loss account on disposal of non-trading securities	(10.6)	(2.2)
	1,915.5	674.5
Total equity at 30 September	28,468.4	23,704.2

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	Unaudited 30/9/2004 HK\$ Million	Unaudited 30/9/2003 HK\$ Million
Net cash (outflow)/inflow relating to operating activities	(168.5)	2,423.4
Net cash outflow relating to investing activities	(104.1)	(543.8)
Net cash inflow/(outflow) relating to financing activities	358.1	(2,555.0)
Net drawdown/(repayment) of loans	553.2	(2,411.3)
Others	(195.1)	(143.7)
Net increase/(decrease) in cash and cash equivalents	85.5	(675.4)
Cash and cash equivalents at 1 April	2,017.2	3,182.7
Effect of foreign exchange rate changes	(12.7)	42.4
Cash and cash equivalents at 30 September	2,090.0	2,549.7
Analysis of the balances of cash and cash equivalents		
Bank balances and deposits	2,090.0	2,549.7

NOTES TO INTERIM ACCOUNTS

1. BASIS OF PREPARATION OF THE ACCOUNTS

The unaudited consolidated interim accounts have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice 25 “Interim Financial Reporting” and Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2004.

2. SEGMENT INFORMATION

a) Business segments

	Segment Revenue		Segment Results	
	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Property investment	161.2	164.0	110.6	119.0
Property development	1,218.3	1,907.9	157.6	153.0
Investment and others	192.9	127.8	150.9	79.7
	1,572.4	2,199.7	419.1	351.7
Inter-segment revenue (Note i)	(90.4)	(40.6)	—	—
	1,482.0	2,159.1	419.1	351.7
Unallocated expenses			(4.4)	(5.9)
Operating profit			414.7	345.8
Borrowing costs			(36.4)	(84.3)
Write back of provision/(provision) for properties			1,327.0	(6.1)
Share of results of associates (Note ii)			1,120.2	837.8
Profit before taxation			2,825.5	1,093.2
Income tax			(260.4)	(224.8)
Minority interests			(507.7)	(101.7)
Group profit attributable to shareholders			2,057.4	766.7

Notes:

(i) Inter-segment revenue eliminated on consolidation includes:

	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Investment and others	90.4	40.6

(ii) Share of results of associates

	Segment Results	
	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Property investment	775.9	723.0
Property development	111.6	(5.6)
Communications, media and entertainment	111.3	99.4
Pay television	117.3	104.9
Internet and multimedia	(13.5)	(24.0)
Telecommunications	5.5	9.5
Others	2.0	9.0
Logistics	431.5	426.3
Terminals	403.0	409.3
Other logistics business	28.5	17.0
Investment and others	37.3	19.1
Unallocated expenses and other items	(282.0)	(272.1)
Borrowing costs	(65.4)	(152.3)
	<u>1,120.2</u>	<u>837.8</u>

b) Geographical segments

	Segment Revenue		Segment Results (Operating Profit)	
	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Hong Kong	552.3	2,066.2	189.1	257.6
Singapore	929.7	92.9	225.6	88.2
	<u>1,482.0</u>	<u>2,159.1</u>	<u>414.7</u>	<u>345.8</u>

3. TURNOVER AND OPERATING PROFIT

a) Turnover

The principal activities of the Group are property investment, property development and investment holding. Analysis of the Group's turnover is as follows:

	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Property investment	161.2	164.0
Property development	1,218.3	1,907.9
Investment and others	102.5	87.2
	<u>1,482.0</u>	<u>2,159.1</u>

b) Operating profit

	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Operating profit is arrived at:		
after charging:		
Staff costs	59.8	70.3
– including contributions to defined contribution retirement schemes of HK\$3.6 million (2003/04: HK\$3.7 million)		
Cost of properties sold	926.5	1,658.5
Depreciation	<u>0.8</u>	<u>1.6</u>
and after crediting:		
Dividend income from listed investments	15.2	11.5
Amortisation of negative goodwill	<u>4.1</u>	<u>19.8</u>

Staff costs of HK\$3.8 million (2003/04: HK\$5.0 million) were capitalised in costs of properties under development for sale.

4. OTHER NET INCOME

	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Net profit on disposal of non-trading securities	0.5	21.3
Amortisation of negative goodwill	4.1	19.8
Others	1.8	(9.2)
	<u>6.4</u>	<u>31.9</u>

5. BORROWING COSTS

	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Interest payable on		
Bank loans and overdrafts	33.6	91.0
Other loans repayable within 5 years	0.4	13.9
Other borrowing costs	14.5	9.8
	<u>48.5</u>	<u>114.7</u>
Less: Amount capitalised	(12.1)	(30.4)
	<u>36.4</u>	<u>84.3</u>

The Group's effective borrowing rate for the six-month period was approximately 1.0% (2003/04: 1.7%) per annum.

6. WRITE BACK OF PROVISION/(PROVISION) FOR PROPERTIES

Based on the current achieved average selling price for the Bellagio Phases III and IV units and the prevailing residential property market conditions, the property provision of HK\$1,327.0 million made for the project in previous years was considered no longer required and hence was fully written back in the financial period under review.

7. INCOME TAX

The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 17.5% (2003/04: 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:

	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Company and subsidiaries		
<i>Current tax</i>		
Hong Kong profits tax for the period	32.8	12.8
Overseas taxation for the period	9.1	16.5
	41.9	29.3
<i>Deferred tax</i>		
Origination and reversal of temporary differences	2.6	(3.6)
	44.5	25.7
Associates		
<i>Current tax</i>		
Hong Kong profits tax for the period	155.8	150.3
Overseas taxation for the period	6.3	2.9
Underprovision in prior years	28.5	9.0
	190.6	162.2
<i>Deferred tax</i>		
Origination and reversal of temporary differences	25.3	(12.5)
Effect of change in tax rates	–	49.4
	215.9	199.1
	260.4	224.8

8. DIVIDENDS

a) Dividends attributable to the period

	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Interim dividend proposed after the balance sheet date of 2.5 cents (2003/04: 2.5 cents) per share	<u>50.8</u>	<u>50.8</u>

The interim 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 period

	30/9/2004 HK\$ Million	30/9/2003 HK\$ Million
Final dividend in respect of the previous financial year, approved and paid during the period, of 6.5 cents (2003/04: 5.0 cents) per share	<u>132.1</u>	<u>101.6</u>

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on earnings for the period of HK\$2,057.4 million (2003/04: HK\$766.7 million) and 2,031.8 million ordinary shares in issue throughout the financial period ended 30 September 2004 and the previous year's corresponding period.

10. TRADE AND OTHER RECEIVABLES

The Group maintains and closely monitors defined credit policies for its businesses and trade debtors in order to control the credit risk associated with trade debtors.

Included in trade and other receivables are stakeholders' deposits in the amount of HK\$433.1 million (31/3/2004: HK\$435.6 million) in respect of pre-sale of properties and trade debtors of HK\$429.8 million (31/3/2004: HK\$732.1 million). The ageing analysis of the Group's trade debtors as at 30 September 2004 is as follows:

	30/9/2004 HK\$ Million	31/3/2004 HK\$ Million
Current	318.8	526.7
31 – 60 days	13.0	82.5
61 – 90 days	11.6	17.0
Over 90 days	86.4	105.9
	<u>429.8</u>	<u>732.1</u>

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with an ageing analysis as at 30 September 2004 as follows:

	30/9/2004 HK\$ Million	31/3/2004 HK\$ Million
Amounts payable in the next:		
0 – 30 days	172.2	216.9
31 – 60 days	120.2	125.3
61 – 90 days	238.4	303.0
Over 90 days	538.8	497.2
	1,069.6	1,142.4

12. RESERVES

	Share premium 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	Total HK\$ Million
Company and subsidiaries							
Balance at 1 April 2004	1,913.6	19.5	–	31.8	278.0	8,732.3	10,975.2
Final dividend approved in respect of the previous year (Note 8b)	–	–	–	–	–	(132.1)	(132.1)
Revaluation surplus	–	–	–	59.2	–	–	59.2
Transferred to the profit and loss account on:							
Disposal of non-trading securities	–	–	–	1.7	–	–	1.7
Disposal of other property	–	–	–	–	(0.9)	–	(0.9)
Exchange differences	–	–	–	–	(20.0)	–	(20.0)
Profit for the period retained	–	–	–	–	–	1,973.0	1,973.0
Balance at 30 September 2004	1,913.6	19.5	–	92.7	257.1	10,573.2	12,856.1
Associates							
Balance at 1 April 2004	–	–	10,671.0	122.6	(301.1)	4,060.6	14,553.1
Revaluation deficit	–	–	–	(30.2)	–	–	(30.2)
Transferred to the profit and loss account on disposal of non-trading securities	–	–	–	(10.6)	–	–	(10.6)
Others	–	–	–	–	(0.3)	–	(0.3)
Profit for the period retained	–	–	–	–	–	84.4	84.4
Balance at 30 September 2004	–	–	10,671.0	81.8	(301.4)	4,145.0	14,596.4
Total reserves at 30 September 2004	1,913.6	19.5	10,671.0	174.5	(44.3)	14,718.2	27,452.5
Total reserves at 31 March 2004	1,913.6	19.5	10,671.0	154.4	(23.1)	12,792.9	25,528.3

13. CONTINGENT LIABILITIES

At 30 September 2004

- a) There was no guarantees given by the Group in respect of banking facilities available to associates (31/3/2004: HK\$63.2 million).
- b) The Company together with two non wholly-owned subsidiaries and two associates have jointly and severally guaranteed the performance and observance of the terms by another subsidiary under an agreement for the development of the Sorrento project.

14. COMMITMENTS

a) Commitments in respect of property developments and capital expenditures

	30/9/2004 HK\$ Million	31/3/2004 HK\$ Million
Contracted but not provided for	740.4	1,103.5

b) Forward exchange contracts

	30/9/2004 HK\$ Million	31/3/2004 HK\$ Million
Forward exchange contracts outstanding	331.2	1,421.3

15. RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group has not been a party to any material related party transactions during the six-month period ended 30 September 2004:

- a) Included in interest in associates are loans of HK\$83.0 million (31/3/2004: HK\$215.6 million) contributed by associates in proportion to their equity interests in the Sorrento property development project. The loans from associates are interest bearing at rates as determined with reference to prevailing market rates. Interest expenses in respect of loans from associates for the six-month period ended 30 September 2004 amounted to HK\$0.4 million (2003/04: HK\$13.8 million). The loans are unsecured and have no fixed terms of repayment.
- b) Included in interest in associates is an advance of HK\$1,807.7 million (31/3/2004: HK\$1,773.6 million) contributed by an associate in proportion to its equity interest in the Bellagio property development project. The advance bears interest at such rate as may from time to time be agreed by the shareholders of the property holding company. For the current financial period, the advance is unsecured and interest free.
- c) As disclosed in note 13(b), the Company together with two non wholly-owned subsidiaries and two associates have jointly and severally guaranteed the performance and observance of the terms by another subsidiary under an agreement for the development of the Sorrento project.

- d) In respect of the six-month period ended 30 September 2004, the Group earned rental income totalling HK\$17.1 million (2003/04: HK\$17.7 million) from the Lane Crawford group, which are wholly owned by a trust of which the chairman of the Company is the settlor, in respect of the leasing of the Group's certain retail premises at Shop C, Wheelock House and the Basement, Ground Floor to Fourth Floor, a portion of the Sixth floor and Rooms 706-8A of Lane Crawford House. These transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.

16. REVIEW OF UNAUDITED INTERIM ACCOUNTS

The unaudited interim accounts for the six months ended 30 September 2004 have been reviewed by the audit committee of the Company.

COMMENTARY ON INTERIM ACCOUNTS

(A) Review of 2004/05 Interim Results and Segmental Performance

Profit attributable to shareholders

The Group reported an unaudited profit attributable to Shareholders of HK\$2,057.4 million for the six-month period ended 30 September 2004 against HK\$766.7 million for the corresponding period last year. Earnings per share were 101.3 cents (2003/04: 37.7 cents).

The significant improvement in profit was largely due to the inclusion in the results for the period under review of a property provision write-back of HK\$1,327.0 million (HK\$983.7 million attributable to the Group) for the Bellagio project. Excluding this non-recurring item, the Group's net profit would be HK\$1,073.7 million. Moreover, the better results were attributable to the higher development profit of HK\$145.5 million (2003/04: HK\$17.2 million) being recognised by Wheelock Properties (Singapore) Limited group ("WPSL") in respect of its sale of Grange Residences units in Singapore and the increase in share of profit from the associates, including The Wharf (Holdings) Limited ("Wharf") and the associate participating in the Parc Palais project.

Group turnover

The Group's turnover for the six-month period under review was HK\$1,482.0 million, a decrease of HK\$677.1 million or 31.4% from HK\$2,159.1 million achieved in the same period of 2003/04. Lower property revenue was recognised this period from the sale of Sorrento units, which contributed a turnover of HK\$1,323.7 million for the first half in 2003/04.

Property development

Property sale for the period under review was HK\$1,218.3 million (2003/04: HK\$1,907.9 million), out of which HK\$842.7 million was recognised by WPSL for its sale of 56 Grange Residences units. Other property sales taken up during the period included residential units at Bellagio, Sorrento, Palm Cove and The Regalia, industrial units at Metro Loft and certain car parking spaces in Hong Kong.

Pre-sale of Bellagio Phases III and IV was first launched in September 2004 with an encouraging market response and 546 units had been pre-sold up to 30 September 2004. As these phases are still at their development stage and the related sale proceeds were mostly due in October 2004, only a small portion of these proceeds have been accounted for as revenue for the period under review according to the Group's accounting policy.

Property investment

The office leasing market in Hong Kong remained very competitive though overall occupancy levels had become higher. The Property Investment segment maintained a rental revenue for the six-month period of HK\$161.2 million (2003/04: HK\$164.0 million). During the period, Wheelock House was approximately 90% occupied while Fitfort (a retail mall), Lane Crawford House and Wheelock Place in Singapore were approximately 95% leased at satisfactory rental rates.

Group operating profit

The Group's operating profit before borrowing costs and property provision write-back was HK\$414.7 million, an increase of HK\$68.9 million or 19.9% from that reported in the same period in 2003/04.

Property development

The Property Development segment recorded a profit of HK\$157.6 million, a slight increase of HK\$4.6 million as compared to HK\$153.0 million achieved in the same period last year. Profit for the six months period under review was largely attributable to the profit from sale of Grange Residences units by WPSL as mentioned above whereas the sale of the Sorrento units made the major profit contribution in the corresponding period of the preceding year.

Property investment

The operating profit of the Property Investment segment decreased slightly by HK\$8.4 million to HK\$110.6 million for the period under review largely due to the reversionary impact of lower average rental rate achieved for the office areas in the past two years.

Others

The Investment and Others segment reported a profit of HK\$150.9 million (2003/04: HK\$79.7 million) for the six-month period under review, comprising mainly recurring dividend income, interest income and income from property management and other management services. Increase in profit of this segment is largely due to increase in revenue from property and other management services.

Performance of the listed subsidiaries (already consolidated into the Group's results)

Wheelock Properties Limited group ("WPL") reported an unaudited profit attributable to its shareholders of HK\$855.4 million for the six-month period ended 30 September 2004, compared to HK\$240.1 million achieved in corresponding period last year. The significant improvement in profit was largely due to the inclusion in the results for the period under review of an amount of HK\$442.3 million being WPL's share of the provision write-back in respect of the Bellagio project. Moreover, the aforesaid improvement was attributable to a higher profit contribution from WPSL and an increase in share of profit from sale of Parc Palais units through an associate.

WPSL reported an unaudited profit attributable to its shareholders of S\$75.5 million for the six-month period ended 30 September 2004, compared to S\$11.1 million achieved in corresponding period last year. The increase in WPSL's profit for the period was mainly attributable to the sale of 56 Grange Residences units.

Attributable profit for the six-month period ended 30 September 2004 to the Group from WPL (which owns 75% of WPSL), before property provision and dividend income from WPL's 7% holdings in Wharf, was HK\$229.3 million (2003/04: HK\$111.2 million). During the period under review, the Group received a cash dividend totalling HK\$76.9 million (2003/04: HK\$76.8 million) from WPL.

Borrowing costs

Borrowing costs charged to the profit and loss account for the period were HK\$36.4 million, a substantial decline of 56.8% from HK\$84.3 million reported in the previous year's corresponding period. This was mainly due to the persistent low interest rate environment. For the period under review, the Group's effective borrowing rate was approximately 1.0% per annum, against 1.7% per annum for the same period last year.

Write-back of provision for properties

Included in the Group's results is a property provision write-back of HK\$1,327.0 million (HK\$983.7 million attributable to the Group) in respect of the Bellagio project. Based on the current achieved average selling price for the Bellagio Phases III and IV units, which were launched in September 2004, and the prevailing residential property market conditions, the property provision of HK\$1,327.0 million made in previous years was considered no longer required and hence was fully written back in the financial period under review.

Share of profits less losses of associates

The share of profit of associates before taxation was HK\$1,120.2 million, substantially contributed by Wharf, against HK\$837.8 million for the corresponding period last year. Wharf, the major listed associate of and profit contributor to the Group, reported an unaudited profit attributable to shareholders of HK\$1,680 million for its six-month period ended 30 June 2004, compared to HK\$1,309 million achieved in the corresponding period of the preceding year. The resilient growth in profit was largely due to the increased profit of its hotel business (which was severely affected by the outbreak of SARS in the first half of 2003) and reduction in borrowing costs. Besides, Wharf's Communications, Media and Entertainment segment, mainly comprising i-CABLE and Wharf T&T, also reported satisfactory profit growth. Based on these results, Wharf's net profit contribution to the Group was HK\$808.4 million (2003/04: HK\$629.9 million). Aggregate cash dividends from Wharf amounted to HK\$743.3 million (2003/04: HK\$747.5 million, including scrip dividend in the form of shares in i-CABLE Communications Limited of HK\$253.9 million), of which HK\$342.6 million was received during the period under review and HK\$400.7 million was received in October 2004.

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

Other items

Income tax

A taxation charge of HK\$260.4 million was reported for the first half in 2004/05 against HK\$224.8 million for last year's corresponding period.

Minority interests

For the period under review, profit shared by minority interests rose to HK\$507.7 million from HK\$101.7 million for previous corresponding period mainly due to the write-back of property provision for the Bellagio shared by the minority shareholders of the project holding company.

(B) Liquidity and Financial Resources

Shareholders' funds

At 30 September 2004, the Group's shareholders' funds totalled HK\$28,468.4 million or HK\$14.01 per share, against HK\$26,544.2 million or HK\$13.06 per share at 31 March 2004.

Net debt and gearing

At 30 September 2004, the Group's net debt amounted to HK\$6,583.1 million, comprising total debts of HK\$8,673.1 million less deposits and cash of HK\$2,090.0 million, as compared with a net debt of HK\$6,114.5 million at 31 March 2004. The increase in net debt was partly due to additional borrowings for the acquisition of properties by WPSL, including the China Airlines apartments, Scotts Shopping Centre and The Ascott Singapore at No. 6 Scotts Road in Singapore, and Oakwood Residence in Japan. Excluding WPL's net debt of HK\$930.2 million, the Company together with its other subsidiaries had a net debt of HK\$5,652.9 million (31/3/2004: HK\$6,002.3 million). For the period under review, total cash dividends received from Wharf and WPL, being the Group's main sources of recurring cash flow, was HK\$419.5 million.

At 30 September 2004, the ratio of the Group's net debt to shareholders' equity was 23.1% (31/3/2004: 23.0%) while the ratio of net debt to total assets was 15.8% (31/3/2004: 15.7%).

Committed and uncommitted facilities

- (a) The Group's committed and uncommitted loan facilities amounted to HK\$11.0 billion and HK\$1.7 billion respectively. The debt maturity profile of the Group at 30 September 2004 is analysed as follows:

	30/9/2004 HK\$ Million	31/3/2004 HK\$ Million
Repayable within 1 year	486.6	2,267.6
Repayable after 1 year, but within 2 years	1,300.0	700.0
Repayable after 2 years, but within 5 years	6,486.5	5,164.1
Repayable after 5 years	400.0	—
	8,673.1	8,131.7
Undrawn facilities	4,000.0	4,400.0

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

	30/9/2004 HK\$ Million	31/3/2004 HK\$ Million
Investment properties	395.5	1,658.9
Properties under development for sale	2,019.1	1,827.1
	2,414.6	3,486.0

- (c) At 30 September 2004, the Group's borrowings are primarily denominated in Hong Kong dollars except that WPSL's borrowings for financing its properties in Singapore and Japan are primarily denominated in Singapore dollars and Japanese yens, respectively. Forward exchange contracts are entered into by WPSL for hedging its foreign currency deposits and investments. The Group has no other significant exposure to foreign exchange fluctuation except for its net investments in Singapore subsidiaries.

Long-term investments

At 30 September 2004, the Group maintained a portfolio of long-term investments with a value of HK\$1,195.0 million, which primarily comprised blue chip securities with a market value of HK\$1,134.8 million (31/3/2004: HK\$1,104.4 million).

In accordance with the Group's accounting policies, non-trading securities classified as long-term investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserves until the security is sold. At 30 September 2004, such reserves account had an attributable accumulated surplus of HK\$92.7 million, representing an increase of HK\$60.9 million from HK\$31.8 million at 31 March 2004. The performance of the investment portfolio is generally in line with the stock markets.

(C) Major Property Development Projects

Bellagio

Pre-sale of Bellagio Phases III and IV was first launched in September 2004 with an encouraging market response. For the period under review, 18 units in Phases I and II were sold and 546 units in Phases III and IV were pre-sold. At 30 September 2004, cumulative sales reached 1,690 units (or 99%) for Phases I and II and 546 units (or 32%) for Phases III and IV.

Sale proceeds of approximately HK\$1.9 billion receivable from the pre-sale of the Bellagio Phases III and IV were mostly due in October 2004 and had been used by the project company for placing deposits in the stakeholders' account and meeting the outstanding construction costs of HK\$0.6 billion for completion of the project. Any surplus cash was distributed to the shareholders of the project company in proportion to their equity interests in the project. The project company did not have any external borrowings at 30 September 2004.

Sorrento

Sale of Sorrento was continuing with 18 units sold in the six months period under review. At 30 September 2004, the 1,272 Phase I units were all sold and 817 Phase II units or 95% were sold.

At 30 September 2004, the cash deposits in stakeholders' account amounted to HK\$0.3 billion, which would be sufficient to fully cover its outstanding construction costs for completion of the whole project. The project company did not have any external borrowings at 30 September 2004.

Parc Palais

Sale of the Parc Palais, 20%-owned by WPL, was continuing with good progress. For the period under review, 81 units were sold. At 30 September 2004, sales accumulated to 572 units or 81% of the entire 700 units.

A sufficient balance of sale proceeds received by the project company was held as deposits in stakeholders' account for meeting the outstanding construction costs of the project. Surplus cash was distributed to the shareholders of the project company in proportion to their equity interests in the project. The project company did not have any borrowings at 30 September 2004.

Grange Residences

Sale of Grange Residences undertaken by WPSL was continuing. For the first six months of 2004/05, 56 units were sold making the cumulative sale reached 117 units or 71% out of the total 164 units.

(D) Contingent Liabilities

- (a) At 30 September 2004, there was no guarantee given by the Group in respect of banking facilities available to associates (31/3/2004: HK\$63.2 million).
- (b) The Company together with two non wholly-owned subsidiaries and two associates have jointly and severally guaranteed the performance and observance of the terms by another subsidiary under an agreement for the development of the Sorrento project.

(E) Acquisition/Disposal of Properties

China Airlines apartments

WPSL completed in May 2004 the acquisition in Singapore of 30 China Airlines apartments, which are adjacent to the Sea View Hotel site previously acquired by the company, for a consideration of S\$35 million (about HK\$160 million). This site will be amalgamated with the Sea View Hotel site for a proposed residential condominium development of 546 apartments, The Sea View.

Scotts Shopping Centre ("SSC") and The Ascott Singapore ("TAS")

WPSL completed in September 2004 the acquisition of SSC and TAS in Singapore at a total consideration of S\$345 million (about HK\$1,576 million). The intention is to redevelop it when all prevailing leases and property management agreement expire towards the end of 2006.

Oakwood Residence Azabujuban ("Oakwood")

WPSL completed in September 2004 the acquisition of the Oakwood in Japan for JPY5.5 billion (about HK\$383 million). WPSL intends to hold the property as investment till the expiry of the existing management contract in respect of the serviced apartment in year 2012.

Kim Realty Investment Pte Ltd ("KRI")

WPSL completed in July 2004 the disposal of its 30% equity interest in KRI which owns a 50% interest in a 4-star hotel in Xiamen, The Marco Polo Xiamen, for a total consideration of S\$2.04 million (equal to HK\$9.4 million) to Wharf.

(F) Employees

At 30 September 2004, the Group has approximately 713 employees. 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. The Group also sponsors external training programmes that are complementary to certain job functions. Total staff costs for the six-month period ended 30 September 2004 amounted to HK\$63.6 million.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), at any time during the six-month period ended 30 September 2004.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2004, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company, of an associate of the Company, namely, The Wharf (Holdings) Limited ("Wharf"), and of two subsidiaries of the Company, namely, Wheelock Properties Limited ("WPL") and Wheelock Properties (Singapore) Limited ("WPSL"), and the percentages which the shares represented to the issued share capital of the Company, Wharf, WPL and WPSL respectively are also set out below:

	No. of Ordinary Shares (percentage of issued capital)	Nature of Interest
The Company		
Mr. Peter K. C. Woo	1,204,934,330 (59.3023%)	Personal Interest in 8,847,510 shares, Corporate Interest in 200,865,142 shares and Other Interest in 995,221,678 shares
Mr. B. M. Chang	8,629,575 (0.4247%)	Corporate Interest
Mr. G. W. J. Li	1,486,491 (0.0732%)	Personal Interest
Mr. S. T. H. Ng	300,000 (0.0148%)	Personal Interest
Wharf		
Mr. G. W. J. Li	686,549 (0.0281%)	Personal Interest
Mr. S. T. H. Ng	650,057 (0.0266%)	Personal Interest
WPL		
Mr. G. W. J. Li	2,900 (0.0001%)	Personal Interest
WPSL		
Mr. D. J. Lawrence	250,000 (0.0627%)	Personal Interest

Notes:

- (1) The 995,221,678 shares of the Company stated above as "Other Interest" against the name of Mr. Peter K. C. Woo represented an interest comprised in certain trust properties in which Mr. Woo was taken, under certain provisions in Part XV of the Securities and Futures Ordinance (the "SFO") which are applicable to a director or chief executive of a listed company, to be interested.
- (2) The shareholdings classified as "Corporate Interest" in which the Directors concerned were taken to be interested as stated above were interests of corporations at respective general meetings of which the relevant Directors were respectively either entitled to exercise (or taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporations.
- (3) The shareholding interests stated above as "Personal Interest" and "Corporate Interest" against the name of Mr. Peter K. C. Woo totalling 209,712,652 shares of the Company represented the same block of shares as that of the shareholding interest of Mrs. Bessie P. Y. Woo stated below in the section headed "Substantial Shareholders' Interests".
- (4) The 995,221,678 shares of the Company as referred to under Note (1) above are entirely duplicated or included in the shareholding interest of Bermuda Trust (Guernsey) Limited stated below under the section headed "Substantial Shareholders' Interests".

Except as disclosed above, as recorded in the register kept by the Company under section 352 of 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 30 September 2004 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 period 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 period of any such rights by any of them.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties, other than person(s) who is/are Director(s) of the Company, who/which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 30 September 2004 as recorded in the register kept by the Company under section 336 of the SFO 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) Mrs. Bessie P. Y. Woo	209,712,652 (10.32%)
(ii) Bermuda Trust (Guernsey) Limited	1,095,300,362 (53.91%)
(iii) J. P. Morgan Chase & Co	101,832,000 (5.01%)

Note: Duplication occurred in respect of the shareholding interests under (i) and (ii) above, as stated in Notes (3) and (4) under the section headed "Directors' Interests in Shares".

All the interests stated above represented long positions and as at 30 September 2004, there were no short positions recorded in the abovementioned register.

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 period under review.

BOOK CLOSURE

The Register of Members will be closed from Monday, 3 January 2005 to Thursday, 6 January 2005, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 31 December 2004.

By Order of the Board

Wilson W. S. Chan

Secretary

Hong Kong, 30 November 2004

As at the date of this interim report, the Board of Directors of the Company comprises of Mr. Peter K. C. Woo, Mr. Gonzaga W. J. Li, Mr. Stephen T. H. Ng, Mr. Paul Y. C. Tsui, Mr. David J. Lawrence, Mr. Alexander S. K. Au, Mr. B. M. Chang, Mr. Kenneth W. S. Ting and Mr. William Turnbull.