CHAIRMAN'S STATEMENT

GENERAL OVERVIEW

During 2004, following the progressive extension of the Individual Traveller Scheme (ITS) in the second half of 2003, the local retail market made a swift rebound that boosted both retail rentals and capital values. Meanwhile, rentals for office space also soared on the back of strong demand as a result of acceleration of business activities brought by the CEPA effect and China's continued vibrant economic development. In addition, the labour market continued to show signs of improvement with the unemployment rate gradually declining. All in all, the Hong Kong economy experienced a solid, broad-based upturn. Last year, Hong Kong's GDP increased by 8.1 per cent, the highest year-on-year growth since 2002.

The 68 consecutive months of continuous deflation ended in July last year and moderate signs of inflation have crept in. The overall improvement in domestic spending, sentiment and confidence helped boost the property market and had a favourable impact on property value. The Group's attributable property provision write-back for the year under review was HK$1,666.5 million, an increase of HK$1,639.4 million from HK$27.1 million reported in 2003/2004. Its net asset value also increased from HK$13.06 per share to HK$17.86 per share at the financial year-end under review.

The Group's consolidated profit attributable to shareholders for the year ended 31 March 2005 was HK$4,167.3 million, compared to HK$2,302.6 million for the previous year. Earnings per share were HK$2.05, up from HK$1.13 a year ago. Due to the substantial write-back of property provision mentioned above, the results may be deemed distorted. By excluding this non-recurring write-back in the year under review and the previous year, the Group's profit would be HK$2,500.8 million for the year ended 31 March 2005, an increase of 9.9 per cent compared to the previous year.

An interim dividend of 2.5 cents per share was paid in January 2005, and the Directors recommend a final dividend of 8.5 cents per share to be approved at the forthcoming Annual General Meeting. The total dividend distribution for the year will be 11.0 cents per share, or HK$223.5 million. Total cash dividend received from publicly listed associate Wharf and subsidiary Wheelock Properties amounted to HK$851.0 million in total during the financial year under review, as compared to HK$601.1 million a year ago.

The Group's net debt was reduced from HK$6.1 billion to HK$4.5 billion during the financial year under review. The gearing ratio on shareholders' equity has decreased to 12.5 per cent.

BUSINESS PERFORMANCE

Under the favourable operating environment during the financial year under review, all units recorded good progress and showed robust performance.

Property

Almost all units of Phase I and Phase II of both Sorrento and Bellagio have been sold out, realising total cumulative proceeds of HK$16 billion as at end of March 2005. Meanwhile, pre-sales for Tower 2 and Tower 5 of Bellagio were launched in September of 2004 and almost 90 per cent had been sold as at the end of March 2005, realising proceeds of HK$2.7 billion.

Wheelock Properties Limited

All current residential projects, including Bellagio, Sorrento and Parc Palais made favourable contributions to the company's underlying profit during the financial year under review.

Wheelock Properties (Singapore) Limited

Three significant acquisitions were made during the financial year under review, namely, Scotts Shopping Centre/ The Ascott Singapore, the previous China Airlines apartments site located right next to the Sea View Hotel site and Oakwood Residence Azabujuban in Tokyo. In April 2005, Wheelock Properties (Singapore) completed two additional acquisitions – purchase of Angullia View and acquisition of all other shares in Hamptons Group Limited in the UK not previously held by the group. Grange Residences obtained strata titles subdivisions in March 2005. To date, 97 per cent of the total 164 units have been sold.

The Wharf (Holdings) Limited

All five core businesses, namely, **Harbour City**, **Times Square**, **i-CABLE**, **Wharf T&T** and **Modern Terminals**, made good progress during the year. The Investment Property business, in particular **Harbour City** and **Times Square**, showed encouraging performance, as evidenced in the improvement of traffic, occupancy rates and average sales revenue per square foot during 2004. For the Communication, Media and Entertainment (CME) segment, the listed **i-CABLE** rose by 29 per cent in its consolidated net profit which surpassed all previous records while **Wharf T&T** achieved the milestone of free cash flow during 2004. Moreover, the timely introduction of triple-play offers followed the launch of the VoIP service enhanced the competitiveness of the Group's CME products. On the Logistics front, **Modern Terminals** handled 4.35 million TEUs in 2004, nine per cent higher than the record four million TEUs achieved in 2003.

OUTLOOK

With progressive extension of the ITS as well as the opening of Hong Kong Disneyland, the retail sector will continue to benefit. The second stage of CEPA, which encourages Chinese private enterprises to make fuller use of the comprehensive trading services platform in Hong Kong, is expected to accelerate the process of "bringing in, going out" for mainland enterprises, further facilitating economic development in China and thus giving a boost to Hong Kong's business activities.

This economic vibrancy, together with the subsequent increase in job opportunities and growth in personal income, will continue to foster domestic sentiment and thus benefit the local market.

Peter K C Woo
Chairman

Hong Kong, 14 June 2005