MANAGEMENT DISCUSSION AND ANALYSIS

(I) REVIEW OF 2004/05 RESULTS AND SEGMENTAL PERFORMANCE

Profit attributable to shareholders

The Group reported a profit attributable to Shareholders of HK$4,167.3 million for the year ended 31 March 2005, increased by HK$1,864.7 million from HK$2,302.6 million for the previous year. Earnings per share were HK$2.05 (2004: HK$1.13).

The significant improvement in profit was primarily due to the inclusion in the results of a write-back of attributable provisions totalling HK$1,666.5 million (2004: HK$27.1 million) for the Group's certain investment properties located in both Hong Kong and Singapore, and Bellagio, a property development project in Hong Kong. With the non-recurring write-back in both years excluded, the Group's net profit would be HK$2,500.8 million for the financial year under review, an increase of HK$225.3 million or 9.9% compared to HK$2,275.5 million in 2003/04. This resulted from the increase in profit contribution from The Wharf (Holdings) Limited ("Wharf") and a reduction in borrowing costs.

Though Wheelock Properties (Singapore) Limited group ("WPSL") contributed a higher property development profit from the sale of Grange Residences units in Singapore, this gain was neutralised by lower property development profit recognised in Hong Kong from the sale of Sorrento units and Parc Palais units undertaken by an associate.

Group turnover

The Group's turnover for the year was HK$4,461.1 million, a significant decrease of HK$2,654.8 million or 37.3% from HK$7,115.9 million achieved in 2003/04. The decrease was mainly a result of lower property revenue recognised from the sale of Sorrento units, which contributed a turnover of HK$4,294.0 million in the previous financial year.

Property development

Property sales for the year was HK$3,900.4 million (2004: HK$6,522.4 million), derived mostly from the pre-sale of Bellagio units and the sale of Grange Residences units. In the year under review, 766 units at Bellagio and 92 units at Grange Residences were sold. Other property sales covered residential units at Sorrento, The Astrid, Palm Cove and The Regalia, and industrial units at Metro Loft.

Property investment

The Property Investment segment reported an increase in rental revenue of HK$12.3 million to HK$343.0 million (2004: HK$330.7 million) largely because of rental revenue generated from Oakwood Residence, a serviced apartment building in Japan newly acquired by WPSL during the year. Wheelock House, Lane Crawford House and Fitfort (a retail mall) in Hong Kong as well as Wheelock Place in Singapore were approximately 95% leased at satisfactory rental rates, while Oakwood Residence in Japan was over 90% occupied.

Group operating profit

The Group's operating profit before borrowing costs and write-back of property provision was HK$1,372.7 million, a decrease of HK$50.7 million or 3.6% from that reported in 2003/04.

Property development

The Property Development segment recorded a profit of HK$861.2 million, a decrease of HK$119.1 million from HK$980.3 million achieved in 2003/04. Profit for the year under review was largely attributable to the profit from sale of residential units at Grange Residences and Bellagio whereas the sale of Sorrento units was the major profit contributor in the preceding year.

Property investment

The operating profit of the Property Investment segment for the year under review was HK$237.2 million against HK$235.8 million earned in 2003/04. Both the Group's retail and office areas performed satisfactorily.

Others

The Investment and Others segment reported a profit of HK$287.0 million (2004: HK$215.0 million), comprising mainly recurring dividend income, interest income and income from property management and other management services. Included in the Investment and Others segment results was a profit of HK$89.3 million on disposal of certain non-trading listed securities by WPSL.

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

Wheelock Properties Limited group ("WPL") reported a profit attributable to its shareholders of HK$1,743.0 million for the year ended 31 March 2005, compared to HK$1,053.7 million achieved in the previous year. The significant improvement in profit was largely due to the inclusion in its results a write-back of attributable provisions totalling HK$844.3 million mainly for its investment properties and its one-third interest in the Bellagio project notwithstanding lower development profit contribution from the sale of Parc Palais and Sorrento units by its associates.

WPSL reported a profit attributable to its shareholders of S$198.1 million (approximately HK$925 million) for the year ended 31 March 2005, compared to S$89.8 million (approximately HK$406 million) achieved in the previous year. The increase in WPSL's profit for the year was mainly attributable to the sale of 92 Grange Residences units and a write-back of property provision charged to the profit and loss account in prior years in respect of Wheelock Place. At 31 March 2005, cumulative sales of Grange Residences reached 153 units or 93% of the total 164 units.

Attributable profit for the year to the Group from WPL (which owns 75% of WPSL), before write-back of property provision and dividend income from WPL's 7% holdings in Wharf, was HK$590.4 million (2004: HK$694.0 million). During the year under review, the Group received a cash dividend totalling HK$107.7 million (2004: HK$107.5 million) from WPL.

Borrowing costs

Borrowing costs charged to the profit and loss account for the year were HK$78.9 million, a substantial decline of 42.4% from HK$137.0 million in the previous year. This was mainly caused by the persistent low interest rate environment coupled with the Group's declining net debt level. For the year under review, the Group's effective borrowing interest rate was approximately 1.4% per annum, against 1.8% per annum for the preceding year.

Write back of provision for properties

Following a valuation review based on the property market conditions prevailing at 31 March 2005, the Group had written back an aggregate property provision of HK$2,237.9 million – HK$885.8 million for the Group's investment properties in respect of the revaluation deficits charged to the profit and loss account in prior years and HK$1,352.1 million for other properties, in accordance with the Group's accounting policies. Out of the aggregate provision written back, HK$1,327.0 million was for Bellagio and the balance for the Group's investment and other properties.

Share of profits less losses of associates

The share of profit of associates before taxation was HK$2,167.9 million, substantially contributed by Wharf, against HK$2,047.3 million for the previous year. Wharf, the major listed associate of and profit contributor to the Group, reported a profit attributable to shareholders of HK$3,767 million for its financial year ended 31 December 2004, compared to HK$3,043 million achieved in 2003. The growth in Wharf's profit was largely driven by the steady growth in retail rental income, recovery in its hotel operations from the low base result in 2003, improved profitability of i-CABLE Communications Limited ("i-CABLE") and reduction in borrowing costs.

Included in Wharf's results for the year was an amount of HK$442 million being its one-third share of the provision write-back in respect of the Bellagio project, whereas for the preceding year, a deemed profit of HK$312 million was recognised by Wharf in respect of its distribution of scrip dividend in the form of shares in i-CABLE as part of the 2003 interim dividend payment of Wharf. Since the distribution effectively did no change to the Group's attributable interest in i-CABLE, the said deemed profit was not recognised by the Group and was fully eliminated in accordance with the Group's accounting policies.

Excluding the above-mentioned non-recurring item in both years, Wharf's net profit contribution to the Group was HK$1,600.1 million (2004: HK$1,314.2 million) representing a growth of 21.8%. Aggregate cash dividends received from Wharf amounted to HK$743.3 million (2004: HK$747.5 million, including scrip dividend in the form of shares in i-CABLE of HK$253.9 million).

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$506.0 million was provided for the year against HK$536.8 million for the previous year.

Minority interests

For the year under review, profit accrued to minority interests rose to HK$1,026.3 million from HK$534.3 million in the previous year mainly due to the write-back of property provision for the Bellagio project attributable to the minority shareholders of the project company and due to WPL's profit increase.

(II) LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' funds

At 31 March 2005, the Group's shareholders' funds totalled HK$36,279.9 million or HK$17.86 per share, against HK$26,544.2 million or HK$13.06 per share at 31 March 2004. The improvement largely reflected the upward revaluation of investment property portfolio of the Group's major associate, namely, Wharf.

Net debt and gearing

At 31 March 2005, the ratio of the Group's net debt to shareholders' equity was 12.5% (2004: 23.0%) while the ratio of net debt to total assets was 9.0% (2004: 15.7%).

The Group's net debt amounted to HK$4,520.4 million, comprising total debts of HK$8,022.5 million less deposits and cash of HK$3,502.1 million, as compared to a net debt of HK$6,114.5 million at 31 March 2004. The decrease in the Group's net debt was mainly due to net cash generated from the Group's operating activities of an amount of HK$2,361.4 million, which included net cash inflow from sale of Bellagio and Sorrento units. For the year under review, net cash inflow of HK$1.7 billion generated from the sale of Bellagio and Sorrento units were distributed by the project companies among their shareholders in proportion to their equity interests in the respective projects and the Group including WPL hence had received HK$1.1 billion. The major cash outflows for the year resulted from WPSL's acquisition of properties – the China Airlines apartments, Scotts Shopping Centre and The Ascott Singapore at No. 6 Scotts Road in Singapore and Oakwood Residence in Japan, for a total of approximately HK$2.1 billion.

Excluding WPL's net cash of HK$369.6 million, the Company together with its other subsidiaries had a net debt of HK$4,890.0 million, reduced by HK$1,112.3 million from HK$6,002.3 million as at 31 March 2004. For the year under review, total cash dividend received from Wharf and WPL, being the Group's main sources of recurring cash inflow, was HK$851.0 million (2004: HK$601.1 million).

Committed and uncommitted facilities

(a) The Group's committed and uncommitted loan facilities amounted to HK$9.8 billion and HK$1.9 billion respectively. The debt maturity profile of the Group at 31 March 2005 is analysed as follows:

	2005	2004
	HK$ Million	HK$ Million
Repayable within 1 year	**607.6**	2,267.6
Repayable after 1 year, but within 2 years	**300.0**	700.0
Repayable after 2 years, but within 5 years	**6,614.9**	5,164.1
Repayable after 5 years	**500.0**	–
	8,022.5	8,131.7
Undrawn facilities	**3,700.0**	4,400.0

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

	2005	2004
	HK$ Million	HK$ Million
Investment properties	**474.5**	1,658.9
Properties under development for sale	**2,284.2**	1,827.1
	2,758.7	3,486.0

(c) At 31 March 2005, 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 31 March 2005, the Group maintained a portfolio of long-term investments with a value of HK$1,488.0 million, which primarily comprised blue chip securities with a market value of HK$1,421.6 million (2004: HK$1,104.4 million).

In accordance with the Group's accounting policies, the 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 31 March 2005, such reserves account had an attributable accumulated surplus of HK$316.3 million, representing an increase of HK$284.5 million from HK$31.8 million at 31 March 2004. The performance of the portfolio was in line with the stock markets.

(III) MAJOR PROPERTY DEVELOPMENT PROJECTS

Development projects in Hong Kong

Bellagio

Pre-sale of Bellagio Phases III and IV was first launched in September 2004 with an encouraging market response. For the year under review, 14 units in Phases I and II were sold while 752 units in Phases III and IV were pre-sold. At 31 March 2005, cumulative sales reached 1,691 units (or 99%) for Phases I and II and 752 units (or 44%) for Phases III and IV, generating total revenue of about HK$6.8 billion.

At 31 March 2005, the cash deposits in stakeholders' account of Bellagio amounted to HK$0.4 billion, which would be sufficient to fully cover its outstanding construction costs for completion of the project. The project company did not have any external borrowings at 31 March 2005.

Sorrento

Sale of Sorrento was continuing with 40 Phase II units sold in 2004/05. At 31 March 2005, cumulative sales reached 2,111 units (all 1,272 Phase I units and 839 (98%) Phase II units), generating a total revenue of approximately HK$12.0 billion.

At 31 March 2005, the cash deposits in stakeholders' account of Sorrento for meeting the outstanding construction costs amounted to HK$0.3 billion. The project company did not have any external borrowings at 31 March 2005.

Parc Palais

Sale of the Parc Palais project, 20%-owned by WPL, was continuing with good progress. For the year under review, 116 units were sold. At 31 March 2005, cumulative sales reached 607 units or 86% of the entire 700 units, generating a total revenue of approximately HK$5.8 billion.

A sufficient balance of sale proceeds received by the project company was held as deposits in stakeholders' account for meeting the outstanding construction costs and other liabilities of the project. The project company did not have any borrowings at 31 March 2005.

Development projects in Singapore

Grange Residences

Sale of Grange Residences undertaken by WPSL was continuing with good progress. For the year under review, 92 units were sold, making cumulative sales up to 31 March 2005 reach 153 units or 93% of the total 164 units.

The Cosmopolitan/The Sea View/Ardmore Vue

The redevelopment of other projects undertaken by WPSL, including The Cosmopolitan, The Sea View and Ardmore Vue, are progressing according to plan. A private pre-launch for The Cosmopolitan was organised in March 2005 with encouraging market response. The Sea View is expected to be marketed in 2005.

(IV) CONTINGENT LIABILITIES

At 31 March 2005, there was no guarantee given by the Group in respect of banking facilities available to associates (2004: HK$63.2 million).

(V) ACQUISITION/DISPOSAL OF PROPERTIES/SUBSIDIARIES

China Airlines apartments

WPSL completed in May 2004 the acquisition in Singapore of China Airlines apartments comprising 30 units, which are adjacent to the Sea View Hotel site previously acquired by WPSL, at a consideration of S$35 million (about HK$160 million). This site is amalgamated with the Sea View Hotel site for a 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 the property management agreement expire towards the end of 2006.

Oakwood Residence Azabujuban ("Oakwood")

WPSL completed in September 2004 the acquisition of 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.

Angullia View

WPSL completed in April 2005 the acquisition of the Angullia View at a consideration of S$43.8 million (about HK$209 million). WPSL has planned to redevelop it into a luxury apartment.

No. 2 Heung Yip Road/other property acquisitions in Hong Kong

In May 2005, WPL entered into an agreement to acquire a property, known as No. 2 Heung Yip Road, in Hong Kong through a private tender at a total consideration of HK$455 million. The acquisition is expected to be completed by June 2005.

WPL also acquired some office properties in Hong Kong at a total consideration of approximately HK$220 million.

Kim Realty Investment Pte Ltd ("KRI")

WPSL completed in July 2004 the disposal to Wharf 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 (about HK$9.5 million).

Hamptons Group Limited ("Hamptons")

On 14 March 2005, WPSL entered into an agreement to acquire 2,424,310 shares in Hamptons, a UK-based estate agency company which was originally an associate of WPSL, at a purchase price of £3.12 per share payable by cash. The acquisition of such Hamptons shares was completed in April 2005. As this increased WPSL's shareholding interest in Hamptons beyond 35%, it triggered a general offer (described as a tag along offer under the articles of association of Hamptons), to all other shareholders of Hamptons who subsequently accepted the offer with the result that Hamptons has now become a wholly-owned subsidiary of WPSL. The total consideration paid by WPSL amounted to £23.8 million (about HK$357 million).

(VI) NEW ACCOUNTING INTERPRETATION FOR THE RECOGNITION OF REVENUE ARISING FROM PRE-SALE OF PROPERTIES

Prior to 1 January 2005, profit on pre-sale of properties is recognised over the course of development and is calculated each year as a proportion of the total estimated profit to completion. With the introduction of HK Interpretation ("HK-INT") 3 "Revenue – Pre-Completion contracts for the sale of development properties" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Group now recognises revenue arising from pre-sale of properties upon completion of development of the property. The Group has relied on the transitional provision set out in the Interpretation such that the Group will continue to adopt the stage of completion method to recognise revenue arising from pre-sale contracts entered into before 1 January 2005 while the completion method is adopted for pre-sale contracts entered into on or after 1 January 2005. This change has no significant financial impact on the Group.

(VII) FUTURE CHANGES IN ACCOUNTING POLICIES

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively, "new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005 and has made a preliminary assessment of the impact of these new HKFRSs. The Group has so far concluded that the adoption of Hong Kong Accounting Standards 40 "Investment Property", HK-INT 2 "The appropriate policies for hotel properties", Hong Kong Financial Reporting Standards ("HKFRS") 3 "Business Combinations" and HK(SIC) Interpretation ("HK(SIC)-INT") 21 "Income taxes – recovery of revalued non-depreciable assets" will have a significant impact on its consolidated accounts as detailed in Note 30 to the Accounts.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

(VIII) EMPLOYEES

The Group has approximately 693 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 year ended 31 March 2005 amounted to HK$148.8 million.