

RESULTS REVIEW

In preparing the financial statements for the year ended 31 March 2006, the Group has adopted the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), including all Hong Kong Accounting Standards (“HKASs”) and relevant Interpretations, which took effect on 1 January 2005. Applicable prior year adjustments have also been made to 2004/05’s financial statements. The resulting effects of the changes in accounting treatment and presentation are detailed in Note 10 to the Financial Statements.

Profit attributable to shareholders

The Group reported a profit attributable to Shareholders of HK\$10,316.1 million for the year ended 31 March 2006, representing an increase of HK\$1,978.7 million or 23.7% from the HK\$8,337.4 million for the previous year. Earnings per share were HK\$5.08 (2005: HK\$4.10).

In accordance with the new HKFRSs, the Group and its associates revalued their investment properties as at 31 March 2006 and 31 December 2005, respectively. This accounted for a total attributable surplus of HK\$7,003.6 million (2005: HK\$4,834.6 million) in the profit and loss account. This total attributable surplus included the Group’s revaluation surplus of HK\$3,428.9 million (2005: HK\$885.8 million) less related deferred tax and minority interests of HK\$944.6 million (2005: HK\$352.5 million) and the net surplus of HK\$4,519.3 million (2005: HK\$4,301.3 million) attributable to associates, including principally the Wharf group.

Included in 2005/06’s results was a property write-back of HK\$192.6 million (HK\$109.7 million attributable to the Group) mainly in respect of the Ardmore View development in Singapore, whereas the write-back in the preceding year was HK\$1,352.1 million (HK\$1,004.8 million attributable to the Group), mainly for the Bellagio project.

Excluding the above net revaluation surplus and write-back for properties, the Group’s net profit attributable to Shareholders was HK\$3,202.8 million (2005: HK\$2,498.0 million), for an increase of HK\$704.8 million or 28.2%. This increase was largely attributable to the profits realised from disposal of certain long-term investments and investment properties in the respective amounts of HK\$261.9 million and HK\$98.2 million, and an increase in profit contribution from Wharf. This year also saw a higher development profit realised from the sale of Bellagio units. The favourable results were partially offset by lower development profit from the sale of Grange Residences units in Singapore.

Group turnover

The Group's turnover for the year decreased by HK\$285.6 million or 6.3% to HK\$4,235.4 million (2005: HK\$4,521.0 million). The decrease was mainly attributable to a decrease in revenue from the Property Development segment, partly offset by Hamptons' property agency income which was newly consolidated in the Group's turnover in the year under review.

The Property Development segment recorded total revenue of HK\$2,688.8 million, down by HK\$1,211.6 million or 31.1%. The decrease was mainly attributable to fewer Grange Residences units sold in Singapore, whereas property sales recorded in Hong Kong were not significantly different from 2004/05. According to current HKFRSs, the Group is required to adopt the "completion method" and does not recognise any revenue and profit on pre-sale of properties until the completion of development of the respective properties.

Property Investment segment recorded an increase of HK\$46.3 million to HK\$449.0 million (2005: HK\$402.7 million). The improvement reflected the first full-year rental contribution from the Oakwood Residence Azabujuban serviced apartments in Japan and Scotts Shopping Centre & The Ascott Singapore in Singapore, both acquired in September 2004. This was partly offset by lower rental contribution from Lane Crawford House upon expiry of the lease with Lane Crawford Department Store in June 2005.

During the year under review, Hamptons' property agency income of HK\$800.3 million were consolidated into the Group's results since April 2005 when it became a wholly-owned subsidiary of WPSL. The results of Hamptons were previously equity accounted for as a 32.4%-owned associate.

Operating profit

The Group's operating profit increased by HK\$437.0 million or 31.0% to HK\$1,844.6 million (2005: HK\$1,407.6 million), mainly due to profit realised on sale of long-term investments and investment properties with details below.

The operating profit of the Property Development segment increased by HK\$27.7 million to HK\$888.9 million (2005: HK\$861.2 million), which resulted from an increase in profit from the sale of Bellagio units at a higher profit margin, offset by lower profit contribution from Grange Residences as fewer units were sold.

The Property Investment segment recorded a profit of HK\$278.6 million (2005: HK\$271.8 million), a slight increase of 2.5%. The increase was mainly due to higher rental profit contributed from Singapore but was offset by lower rental from Lane Crawford House as explained above.

For the year under review, the Property Management and Agency segment reported an operating profit of HK\$48.8 million (2005: HK\$28.6 million) of which HK\$19.9 million was Hamptons' contribution.

The Investment and Others segment profit for the year under review grew by HK\$390.1 million or 150.8% to HK\$648.8 million, which included profits of HK\$261.9 million from the sale of certain long-term investments and HK\$98.2 million from the sale of Great Western Plaza units.

Borrowing costs

Borrowing costs charged to the profit and loss account increased to HK\$217.8 million (2005: HK\$90.4 million) as a result of interest rate rises in 2005. Borrowing costs capitalised for properties under development for sale in the year under review amounted to HK\$43.3 million (2005: HK\$20.4 million). The Group's effective borrowing interest rate was approximately 3.4% per annum (2005: 1.4% per annum).

Share of profits less losses of associates

The share of profit of associates, substantially contributed by Wharf, was HK\$6,870.6 million, against HK\$6,191.6 million for the previous year. Included in the share of Wharf's results was an attributable investment property revaluation surplus (net of deferred tax) of HK\$4,519.3 million (2005: HK\$4,301.3 million). Excluding the attributable revaluation surplus in both years for comparison purpose, the share of associates' profits would be HK\$2,351.3 million (2005: HK\$1,890.3 million), representing an increase of HK\$461.0 million mainly due to the growth in Wharf's profit. The profit growth was driven mainly by the solid performance of Wharf's Property Investment segment, which resumed to attain accretive office rental reversion and sustained its continued growth in retail rental income. This also reflects the overall steady growth in the operating profits of its Logistics segment and its Communications, Media and Entertainment segment during 2005. However, this strong operating performance was offset in part by the increase in Wharf's borrowing costs caused mainly by interest rate rises in 2005 and the absence of attributable provision write-back in respect of Bellagio project, which amounted to HK\$442 million in 2004. Wharf's results are discussed in detail under the Investment Review section.

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

Income tax

A taxation charge of HK\$702.4 million (2005: HK\$264.0 million) was reported for the year which included the deferred tax on net revaluation surplus of investment properties of HK\$603.9 million (2005: HK\$178.0 million).

Minority interests

Profit shared by minority interests was HK\$1,100.4 million (2005: HK\$1,145.3 million), which mainly related to WPL.

LIQUIDITY AND FINANCIAL RESOURCES

Equity

At 31 March 2006, the Group's shareholders' equity amounted to HK\$40,986.7 million, representing HK\$20.17 per share, against the restated amount of HK\$31,434.7 million or HK\$15.47 per share at 31 March 2005. The improvement was primarily due to the attributable appreciation in value of the investment properties portfolio of the Group and its associates of HK\$7,003.6 million (net of deferred tax and minority interests).

In compliance with the new and revised HKFRSs, the Group's shareholders' equity as at 31 March 2005 was restated to HK\$31,434.7 million from the HK\$36,279.9 million as previously reported and the Group's net asset value attributable to Shareholders hence dropped by HK\$2.39 to HK\$15.47 per share from HK\$17.86. The reduction resulted mainly from the Group's share of HK\$3,551.9 million in respect of associate's provision for deferred tax on investment property revaluation surplus and of HK\$1,206.6 million in respect of the reversal of revaluation reserve, by restating its hotel properties at cost, and provision for accumulated depreciation for hotel properties by associates. Details of these adjustments are given in Note 10 to the Financial Statements.

As at 31 March 2006, the Group's total equity, including minority interests, was HK\$47,338.0 million (2005: HK\$36,665.6 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 annual report 2005. 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) at 31 March 2006	20.17
Share of Wharf’s adjustments:	5.25
Modern Terminals	1.97
– based on the latest transaction price	
i-CABLE	0.27
– based on market value at 31 December 2005 (@HK\$1.90p.s.)	
Hotel properties	0.80
– based on the valuation conducted by an independent valuer	
Deferred tax on investment properties revaluation surplus	2.21*
Wheelock’s deferred tax on investment property revaluation surplus	0.31*
Adjusted underlying NAV at 31 March 2006	25.73

* As there is no capital gains tax on sales of investment properties in Hong Kong and Singapore, the deferred tax liability (attributable to the Group of HK\$5.1 billion or about HK\$2.52 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

At 31 March 2006, the ratio of the Group’s net debt to shareholders’ equity and total equity was 6.6% (2005: 14.4%) and 5.7% (2005: 12.3%) respectively.

At 31 March 2006, the Group’s net debt amounted to HK\$2,687.5 million, which was made up of total debts of HK\$7,205.1 million less deposits and cash of HK\$4,517.6 million. This compared favourably against a net debt of HK\$4,520.4 million at 31 March 2005. Net cash generated from the Group’s operating activities was HK\$2,733.1 million, which included net cash inflows from property sales (including sales of Bellagio and Sorrento units in Hong Kong and Grange Residences, The Sea View and The Cosmopolitan units in Singapore) and dividend income from Wharf. The major cash outflow for the year resulted from WPSL’s acquisitions of a 20.97% interest in Hotel Properties Limited, additional interests in Hamptons, and the Orchard View and The Habitat II sites and WPL’s acquisitions of Heung Yip Road property, Babington Path property, and two small office properties in Hong Kong.

Excluding WPL group's net cash of HK\$589.1 million, the Company together with its other subsidiaries had a net debt of HK\$3,276.6 million, reduced by HK\$1,613.4 million from HK\$4,890.0 million as at 31 March 2005. For the year under review, total cash dividends received from Wharf and WPL, being the Group's main sources of recurring cash inflow, totalled HK\$1,003.1 million (2005: HK\$851.0 million). Besides, proceeds from the sale of Bellagio and Sorrento units were distributed by the project companies among their shareholders. The Company's share of such distribution amounted to HK\$600.0 million.

Committed and uncommitted facilities

- (a) The Group's committed and uncommitted loan facilities amounted to HK\$10.8 billion and HK\$1.8 billion, respectively. Listed below is the debt maturity profile of the Group at 31 March 2006:

	2006 HK\$ Million	2005 HK\$ Million
Repayable within 1 year	1,976.1	607.6
Repayable after 1 year, but within 2 years	2,038.7	300.0
Repayable after 2 years, but within 5 years	3,190.3	6,614.9
Repayable after 5 years	–	500.0
	7,205.1	8,022.5
Undrawn facilities	5,400.0	3,700.0

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

	2006 HK\$ Million	2005 HK\$ Million
Investment properties	493.4	474.5
Properties under development for sale	4,014.3	2,284.2
	4,507.7	2,758.7

- (c) At 31 March 2006, the Group's borrowings are primarily denominated in Hong Kong dollars except that WPSL's borrowings for financing its investment in Hamptons and properties in Singapore and Japan were primarily denominated in local currencies, i.e. Pound Sterling, Singapore Dollar and Japanese Yen, respectively. Forward exchange contracts were entered into by WPSL mainly for hedging its net investment in a foreign subsidiary. The Group has no other significant exposure to foreign exchange fluctuation except for its net investments in the Singapore subsidiaries.

Available-for-sale investments

At 31 March 2006, the Group maintained a portfolio of available-for-sale investments with a market value of HK\$2,186.5 million (2005: HK\$1,488.0 million), which primarily comprised blue chip securities.

In accordance with the Group's accounting policies, the 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 security is sold. At 31 March 2006, such reserves account had an attributable accumulated surplus of HK\$501.9 million compared to HK\$316.3 million at 31 March 2005. The performance of the portfolio was in line with the stock markets.

CONTINGENT LIABILITIES

At 31 March 2006 and 31 March 2005, there was no guarantee given by the Group in respect of banking facilities available to associates.

ACQUISITION OF PROPERTY/SUBSIDIARY/INVESTMENTS

Properties

2 Heung Yip Road

WPL completed in June 2005 the acquisition of the property known as 2 Heung Yip Road in Hong Kong at a consideration of HK\$455 million.

6D-6E Babington Path

WPL completed in March 2006 the acquisition of the property known as 6D-6E Babington Path, Mid-Levels, Hong Kong at a consideration of HK\$240 million. Redevelopment of the property will commence in 2006/07.

Other properties acquisition in Hong Kong

During the year, WPL acquired some office properties in Hong Kong at a total consideration of HK\$220 million.

Orchard View, Singapore

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

The Habitat II, Singapore

WPSL completed in March 2006 the acquisition of The Habitat II, 2 Ardmore Park, Singapore at a consideration of S\$103.9 million (about HK\$499 million). WPSL plans to amalgamate this site with the Ardmore View site for redevelopment into a prime residential condominium known as Ardmore II for sale.

Subsidiary

Hamptons Group Limited ("Hamptons")

WPSL completed in April 2005 the acquisition of the remaining interests of 67.6% in Hamptons at a total consideration of approximately £23.8 million (about HK\$357 million), making Hamptons a 100% owned subsidiary of WPSL. Accordingly, with effect from April 2005, the Group has consolidated Hamptons' results, assets and liabilities.

Available-for-sale investments

Hotel Properties Limited ("HPL") (20.97%)

WPSL acquired 20.97% interest or 95,230,000 shares in HPL for S\$171.4 million (about HK\$823 million) on 21 March 2006. Since the Group does not have significant influence over the financial and operating policy decision of HPL, the 20.97% interest in HPL is accounted for as available-for-sale investment instead of an investment in associate in the financial statements. HPL is a listed company in Singapore and its businesses include hotel operations, development properties, investment properties and restaurants.

HUMAN RESOURCES

The Group has approximately 1,712 employees at 31 March 2006 (2005: 693). The increase of 1,019 employees mainly resulted from the inclusion of Hamptons' employees after it became a subsidiary of the Group in April 2005. Employees are remunerated according to the nature of the job 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 year ended 31 March 2006 amounted to HK\$485.3 million (2005: HK\$148.8 million).