MANAGEMENT DISCUSSION AND ANALYSIS

SEGMENT REVIEW

Property

Bellagio (effectively 74%-owned)
Bellagio is a residential development in Sham Tseng overlooking the Tsing Ma Bridge. Out of the total of 3,345 units in the development, cumulative sales have reached 3,240 units (or 97%) by the end of September 2007.

Crawford House (wholly-owned) (formerly known as Lane Crawford House)
The office and retail portion of Crawford House was 77% and 90% leased respectively at satisfactory rental rates. In May 2007, Natural Beauty Bio-Technology (HK) Ltd took up an area of over 4,500 square feet plus flat roof of over 2,300 square feet in the retail area.

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

Excluding the unrealised surplus from the revaluation of investment properties, Wheelock Properties Limited's ("WPL") profit for the period under review was HK$325 million (2006: HK$771 million, which included a one-off gain from the disposal of Hamptons Group Limited ("Hamptons")). Including the surplus from the revaluation of investment properties, WPL's profit for the six-month period ended 30 September 2007 was HK$483 million (2006: HK$812 million).

Parc Palais is a one-million-square-foot GFA residential development in Homantin. 98% (or 684 units) of the 700 units have been sold by September 2007.

Re-development of 6D-6E Babington Path, Mid-levels and 2 Heung Yip Road, Aberdeen, is underway. The former will comprise 47 deluxe apartments and the latter will be re-developed into a high rise industrial building. Foundation works of both projects are in progress and both projects are scheduled for completion in the fourth quarter of 2009.

By the end of September 2007, the WPL group has acquired up to 96% interest in the residential units at 211–215C Prince Edward Road West. Application for a compulsory order for outstanding units has been filed to Lands Tribunal. This project is planned for residential re-development.

Wheelock House and Fitfort performed well with average occupancy reaching 96% and 97% respectively during the period. Both properties were leased at satisfactory rental rates.

Following the 50:50 joint venture with the China Merchants Property group set up for the acquisition in February 2007 of a site in Xincheng District (新城區), Foshan of Guangdong Province, the WPL group, through another 50:50 joint venture with the same joint venture partner, successfully acquired in October 2007 at a public auction a land in Chancheng (禪城), Foshan, at RMB1,505 million. The Chancheng land has a total site area of more than 1.15 million square feet and offers plot ratio GFA of 1.5 million square feet attributable to WPL. Planning is underway to develop the site into a residential project.

During the period, WPL contributed a cash dividend of HK$123 million (2006: HK$108 million) to the Group.

Wheelock Properties (Singapore) Limited (a 76%-owned Singapore listed subsidiary of WPL)

Profit for Wheelock Properties (Singapore) Limited ("WPSL") amounted to S$55.9 million for the period under review (2006: S$162.6 million which included a one-off gain from the disposal of Hamptons).

In June 2007, WPSL completed the acquisition of 18.7 million shares in SC Global Developments Ltd ("SC Global"), which is listed in Singapore, for S$112.1 million. Upon subsequent acquisition of additional shares, WPSL owned a total of 20.6 million shares, representing 10% interest, in SC Global as at September 2007.

Development Properties

The Sea View is a residential condominium development of six tower blocks with 546 apartments. Construction is in progress and development completion is scheduled in the first half of 2008. All of the 546 units have been pre-sold at satisfactory prices.

The Cosmopolitan is a residential condominium development with 228 apartments on the former Times House site. Construction is in progress and the project is scheduled for completion in the first half of 2008. All of the 228 units have been pre-sold at satisfactory prices.

Ardmore II is a prime residential condominium development with 118 apartments. Main building works have commenced in June 2007 and development completion is scheduled in 2010. All of the 118 units have been pre-sold by September 2007.

Orchard View is a luxury 36-storey residential development, with 30 units of four-bedroom apartments, located in the tree-lined serene enclave of Angullia Park, just off Orchard Turn. Main building works for the project have commenced in December 2006 and the project is scheduled for completion by 2009.

Scotts Square is a prime residential condominium development with 338 apartments, plus a retail annex. Retail podium is held for long term investment purposes. Pre-sales of apartments was met with favourable response and has reached 54% by September 2007. Development completion is scheduled in 2010.

Ardmore 3 is planned for redevelopment and sale. Demolition work of the previous building, The Habitat One, has commenced and is expected to be completed by December 2007. The project is scheduled for completion by 2011.

Investment Properties

Wheelock Place, a commercial development at Orchard Road, Singapore was 100% committed at satisfactory rental rates at the end of September 2007.

The Wharf (Holdings) Limited (a 50%-owned listed subsidiary)

With Wharf having become a subsidiary of the Group during the period under review, Wharf's financial statements for the period from 1 January to 30 September 2007 were fully consolidated into the Group's.

Wharf's group turnover for the first nine months of 2007 grew by HK$2,700 million or 27% to HK$12,573 million (2006: HK$9,873 million) and operating profit increased by HK$1,671 million or 35% to HK$6,413 million (2006: HK$4,742 million). Net profit attributable to shareholders excluding the net revaluation surplus surged by 30% or HK$938 million to $4,020 million (2006: HK$3,082 million). Including the lower unrealised surplus from the revaluation of investment properties, net profit attributable to shareholders was HK$7,547 million (2006: HK$7,465 million).

Harbour City (wholly-owned by Wharf)

Harbour City, the Wharf group's core investment property asset, turned over HK$3,116 million during the first nine months of 2007, for an increase of 16% over the same period of 2006, while its operating profit grew by 21% to HK$2,242 million.

Turnover of Harbour City's retail sector surged by 20% to HK$1,283 million. Average retail occupancy at Harbour City was maintained at 98% with favourable rental growth. Impressive sales performance continued to be achieved by tenants at Harbour City, who recorded a 23% growth in average sales per square foot during the period. Conversion of Level 4 of Ocean Centre into 37,000 square feet of lettable space (retail and restaurants) is underway and scheduled for completion in the fourth quarter of 2007. The restaurant spaces, with lease commitments of three stylish restaurants (*House of Jasmine, Kikuzen Yakiniku* and *Spasso*), will offer terrace dining with panoramic seaview. In addition to the food and beverage outlets, two brands on beauty facilities (*HH Hair & Nail* and *Mu-lan Spa*) have also been recruited in the vicinity.

On the back of strong rental reversion, turnover from the office sector grew by 21% to HK$983 million. Office occupancy at Harbour City was maintained at 94% at the end of September 2007.

Turnover for the serviced apartments grew by 19% to HK$179 million, mainly driven by a rise in occupancy and rental rates during the period. At the end of September 2007, occupancy at Gateway Apartments soared to 94%, a record high since its opening in 1999.

Times Square (wholly-owned by Wharf)

Times Square, another core investment property asset of the Wharf group, turned over HK$815 million during the first nine months of 2007, for an increase of 13% over the same period of 2006.

Turnover from Times Square's retail sector increased by 8% to HK$545 million. Average retail occupancy was maintained at 99%, with favourable rental growth. Leasing activities remained robust during the period. Gucci's commitment of over 3,500-square-foot retail space on the second floor will also boost excitement and traffic at the mall.

Turnover for the office sector edged up by 24% to HK$270 million, underpinned by strong rental reversion. Committed office occupancy stood high at 98% at the end of September 2007. Lease renewal retention rate was maintained at 81% during the period, with renewals including *NCR*, *Vision Century* and *Boston Consulting*.

China Properties

All three completed investment properties, namely, Beijing Capital Times Square, Shanghai Times Square and the retail podium of Chongqing Times Square, performed satisfactorily. Rental revenue was up by 29% and operating profit by 61% during the period.

Underpinned by encouraging results from the disposal of residential units, development profit from China properties jumped considerably to HK$688 million during the period. Wellington Garden, a high-end residential development in Shanghai, has sold 100% of its units launched by the end of September 2007. Sales launch of selected towers of Wuhan Times Square performed strongly, with 93% of the units launched being sold by the end of September 2007. All residential towers are scheduled for completion by the end of 2007. The rest of the project, comprising retail, apartments and a hotel, is scheduled for completion in 2008. Tian Fu Times Square (No.11 Dongda Jie (東大街)) in Chengdu launched its pre-sale of selected residential towers in September 2007 and such launch was met with overwhelming responses. The mixed-use development has pre-sold 95% of its units launched by the end of September 2007. Construction work of the rest of the project comprising retail, office, hotel and residential is underway and development completion is scheduled in 2009–2011.

All other projects under development, comprising Dalian Times Square, Shanghai Wheelock Square (Lot 1717, Nanjing Xi Lu 南京西路, Shanghai), No.1 Xinhua Lu (新華路) (Shanghai), Jingan Garden (Shanghai), No. 10 Gaoxin District (高新區) (Chengdu), Shuangliu Development Zone (雙流發展區) (Chengdu), two parcels of land in the Nanchang District (南長區), Wuxi and the Wharf group's first lot in Suzhou (between Jinji Lake 金雞湖 and Dushu Lake 獨墅湖), are progressing according to plan.

The Wharf group's second lot in Suzhou was acquired in July 2007, through a joint venture, which committed a price of RMB1,010 million at a public auction. The Group and the China Merchants Property group will jointly develop the site on a 50:50 ownership basis. The site was ideally located in the Qingjian Lake, Suzhou Industrial Park (蘇州工業園區青劍湖) next to SunIsland Golf & Resorts, Weiting District (唯亭區太陽島高爾夫度假村). The project will be a residential development with attributable plot ratio GFA of 0.9 million square feet. Planning is well underway.

In late August 2007, the Wharf group acquired four land parcels in Xihu District (西湖區) of Hangzhou through a joint-venture company at a public auction for RMB3,091 million. Wharf and Jindu group, a leading developer in Hangzhou, will each take a 50% stake in the joint-venture company. These connected sites have a total site area of more than 2.0 million square feet and offer attributable plot ratio GFA of 2.0 million square feet. The land parcels were superbly situated in a prime area in the Xihu District of Hangzhou and are in the proximity of Songcheng (宋城) next to Westlake International Golf & Country Club (西湖國際高爾夫鄉村俱樂部). The project will be developed into a first-class residential development.

In September 2007, the Wharf group acquired through public auction a land parcel in Chengdu for RMB7,242 million. Superbly situated in a prime area in the Jinjiang District (錦江區) of Chengdu, the site lies in the heart of Chengdu's vibrant business centre. Located on Hongxing Lu (紅星路), the parcel has a total site area of more than 590,000 square feet, and offers attributable plot ratio GFA of 4.7 million square feet. It will be developed into a mixed-use project comprising Grade A offices, a five-star hotel and a high-end retail complex, with the retail portion commanding about one-third of the total floor area.

In November 2007, the Wharf group acquired a land parcel in Nanan District (南岸區), Chongqing at a public auction through a joint-venture company for RMB7.5 billion. Wharf and China Overseas group will jointly develop the site on a 40:60 ownership basis. The parcel boasts a total site area of about 6.1 million square feet and offers attributable plot ratio GFA of 9.0 million square feet. It will be developed into a high-end residential and commercial project.

The Wharf group through its subsidiary Harbour Centre Development Limited ("HCDL"), also acquired four excellent sites in the cities of Chongqing, Suzhou and Hangzhou through joint ventures during the period under review. These acquisitions were made through partnering with strong local property companies. Brief descriptions of these three projects are as follows:

In September 2007, HCDL acquired, through public auction, a land lot in zone B of Jiangbei City (江北城) of Jiangbei District (江北區), Chongqing, through a joint-venture company for RMB2.54 billion. HCDL and the China Overseas group will jointly develop the land, on a 55:45 ownership basis. The land lot has a total site area of about one million square feet and offers plot ratio GFA of 2.5 million square feet attributable to HCDL. It will be developed into a high-end residential project.

Following the acquisition of the Chongqing site, HCDL acquired through public auction two land parcels on Xinghu Jie (星湖街) and Xiandai Da Dao (現代大道) in Suzhou Industrial Park (蘇州園區) respectively for a total of RMB3.073 billion in early October 2007 through a joint-venture company between HCDL and Zhong Xin Suzhou Industrial on a 80:20 ownership basis. The parcels command a total site area of about 5,650,000 square feet and offer plot ratio GFA of 10.8 million square feet attributable to HCDL. The sites are planned for commercial and residential developments. It is the current intention of the parties that approximately 86% of the area of the sites will be developed into residential properties for sales, with the remaining portion intended to be held for investment purposes. A skyscraper landmark which will be the tallest building in Suzhou will be built at the site of Xinghu Jie.

In mid October 2007, HCDL entered into an agreement with Greentown China Holdings Limited for the joint development of a land parcel in Hangzhou. HCDL and Greentown China Holdings Limited will take respectively 40% and 60% stake in the joint-venture company. The site is superbly situated in the new Hangzhou Central Business District (錢江新城) of Shangcheng District (上城區), Hangzhou. The land parcel, at a total consideration of RMB3.49 billion, boasts a total site area of about 906,913 square feet and offers plot ratio GFA of 1.3 million square feet attributable to HCDL. It is planned for commercial and residential development.

Modern Terminals (a 68%-owned subsidiary of Wharf)

Modern Terminals' revenue and operating profit were both up by 4% during the first nine months of 2007.

In Hong Kong, throughput at Modern Terminals grew by 6% to 4.24 million TEUs during the period, driven by an increase in Intra-Asia services. Modern Terminals' market share in Kwai Chung was maintained at 32.8% at the end of September 2007. In South China, Chiwan Container Terminals, in which Modern Terminals effectively holds an 8% stake, handled 2.93 million TEUs during the period. Throughput at Mega Shekou Container Terminals, in which Modern Terminals effectively holds a 30% stake (to be eventually diluted to 20% with the completion of the remainder of the entire facilities) after the completion of Shekou Container Terminals rationalisation in February 2007, reached 2.28 million TEUs during the period.

At Taicang, where Modern Terminals holds 51% and 70% equity stake in its Phases I and II respectively, handled 587,000 TEUs during the period, 66% higher than the throughput volume of the same period in 2006.

Phase I of Da Chan Bay Terminal One in Western Shenzhen, 65%-owned by Modern Terminals, is progressing according to plan. Construction of the terminal area and associated buildings, as well as procurement of equipment is progressing as scheduled. The first two berths of Da Chan Bay will commence operation towards the end of 2007.

Other Businesses

Other Hong Kong Properties

Plaza Hollywood recorded a turnover growth of 9% to HK$226 million, thanks to favourable rental growth during the period. Average occupancy was maintained at nearly 99% throughout the first nine months of 2007.

Leasing activities for the Peak Portfolio during the period remained robust. Chelsea Court was fully let at the end of September 2007. Occupancy at Mountain Court and No. 1 Plantation Road was maintained at 91% and 93% respectively.

Following the satisfactory disposal of Wharf's remaining stock in Grandtech Centre, a godown building in Shatin, to a property fund in May 2007, the Wharf group continues to look for opportunities actively to dispose of its non-core properties.

Marco Polo Hotels

Marco Polo Hotels currently has a portfolio of nine operating hotels in the Asia Pacific Region. The three hotels in Harbour City performed solidly during the period. Total hotel and club revenue was HK$671 million, and a 7.5% growth in average room rate was achieved. Despite a steady growth in average room rates, consolidated occupancy during the period reached 88%, slightly below 90% achieved in the same period of 2006.

i-CABLE

In spite of a decrease of total revenue by 8% to HK$1,748 million, net profit grew by 6% to HK$155 million, mainly due to effective control of both capital and operating expenditures. Aided by package unbundling, CABLE TV withstood aggressive competitive marketing to report a 7% growth in subscriber base during the nine-month period, albeit partly at the expense of lower yield. In spite of subscriber growth, turnover and operating profit declined by 16% and 30% to HK$1,212 million and HK$132 million respectively. Broadband subscription and turnover decreased marginally as the market further consolidated during the period. Broadband subscribers decreased by 3% to 316,000 and turnover by 1% to HK$442 million. Operating profit, however, increased by 25% to HK$132 million, attributable to decrease of operating costs and growth of wholesales voice service.

Wharf T&T

Turnover from the Wharf T&T group grew by 4% to HK$1,075 million during the period. Operating profit improved to HK$14 million from a loss of HK$17 million. Positive cash flow of HK$35 million was generated during the period (2006: HK$17 million). The fixed line installed base grew by 36,000 to 598,000, representing an overall market share of 13%. Total outgoing IDD volume (including both wholesale and retail) surged by 13% to 527 million minutes (2006: 468 million minutes).

FINANCIAL REVIEW

(I) Results Review

Note of importance to the consolidation of Wharf's financial statements

Following the increase of the Group's controlling interest in Wharf to 50.00003% and as a result of the change in accounting policy on consolidation as explained in the Notes to the financial statements, the Group's financial statements under review have consolidated Wharf's financial statements for the nine-month period from 1 January 2007 to 30 September 2007 (2006: six-month period from 1 January 2006 to 30 June 2006) with the comparative figures reclassified to conform to the current period's presentation.

In the previous year, the Group equity accounted for its interest in Wharf and shared Wharf's results up to 31 December 2006 in the Group's financial statements for the year ended 31 March 2007.

Profit attributable to Shareholders

The Group's unaudited profit attributable to Shareholders was HK$4,030 million for the six months period ended 30 September 2007 (2006: HK$3,735 million). Earnings per share were HK$1.98 (2006: HK$1.84).

Excluding the net investment property revaluation surplus of HK$1,816 million, represented by revaluation surplus of HK$4,991 million less related deferred tax and minority interests of HK$3,175 million, the Group's net profit was HK$2,214 million (2006: HK$1,579 million), an increase of HK$635 million or 40% over 2006.

As explained in the above, this interim results included Wharf's nine-month profit to 30 September 2007 (2006: six-month profit to 30 June 2006), which contributed an additional three-month profit from Wharf of HK$669 million in respect of its accounting period from July to September 2007. Excluding this additional profit and the net revaluation surplus, the Group's net profit was HK$1,545 million, an increase of 27% as compared to that of HK$1,218 million, after excluding the one-off profit of HK$361 million from sale of Hamptons and net revaluation surplus, for the last corresponding period.

Turnover

Group turnover from continuing operations was HK$13,856 million (2006: HK$8,302 million), substantially contributed by Wharf. Wharf's turnover for its nine months ended 30 September 2007 was HK$12,573 million (six months to 30 June 2006: HK$6,449 million). Wharf reported a remarkable revenue growth of 27% in the first three quarters of 2007, which was mainly underpinned by the achievement of double-digit revenue increase by the Property Investment segment and higher property sales, both in Hong Kong and China, recognised by the Property Development segment.

Operating profit

Group operating profit from continuing operations was HK$6,962 million (2006: HK$3,579 million). Wharf's nine-month operating profit was HK$6,413 million (six months to 30 June 2006: HK$3,018 million).

Property Investment

Revenue and operating profit from Property Investment segment were HK$4,937 million (2006: HK$2,950 million) and HK$3,603 million (2006: HK$2,048 million) respectively. Wharf recorded rental and related income growth in all sectors, including its property investments in China which recorded double-digit revenue growth. Other investment properties of Wheelock Group, mainly office and retail podium, also achieved higher rental rates.

Property Development

Revenue and operating profit from Property Development segment were HK$3,099 million (2006: HK$1,634 million) and HK$1,286 million (2006: HK$370 million) respectively, mainly attributable to the property sales recognised by Wharf for its residential units sold at Wellington Garden and Wuhan Times Square in China upon their completions and the sales of three luxury units at Gough Hill Residences, as well as the sale of Bellagio units by Wheelock.

WPSL recognises profits on pre-sales of properties under development by stages using the percentage of completion method in accordance with generally accepted accounting principles in Singapore. The Group prepares its consolidated financial statements under Hong Kong Financial Reporting Standards which recognises revenue and profit on pre-sales of properties upon the completion. Accordingly, profits recognised by WPSL in respect of its pre-sales of The Sea View and The Cosmopolitan units were reversed and excluded in the Group's consolidated results. The cumulative attributable profits to the Group so reversed amounted to approximately HK$491 million as at 30 September 2007.

As at 30 September 2007, WPSL has sold all the units at The Sea View, The Cosmopolitan and Ardmore II. In addition, WPSL has also pre-sold 183 residential units (54% sold) at Scotts Square. No profit from pre-sale of Ardmore II and Scotts Square was recognised by WPSL as both projects are still in their initial stage of constructions, in accordance with its accounting policies.

Logistics

Logistics segment reported aggregate revenue and operating profit of HK$2,656 million and HK$1,383 million (six months to 30 June 2006: HK$1,609 million and HK$830 million) respectively. Modern Terminals recorded a 6% increase in throughput for its nine months financial period under review.

CME

CME segment reported revenue and operating profit of HK$2,844 million and HK$257 million (six months to 30 June 2006: HK$1,959 million and HK$141 million) respectively. Its Pay TV business recorded a decrease in revenue for the nine months period, resulting from severe competition in the marketplace and non-recurring revenue in 2006. This was partly mitigated by increase in revenue from other CME businesses. The operating profit of CME businesses comprised mainly, Internet and Multimedia of HK$132 million, telecommunication unit of HK$14 million and Pay TV business of HK$132 million.

Investment and Others

Investment revenue and operating profit were HK$590 million and HK$662 million (2006: HK$349 million and HK$336 million) respectively, comprising mainly dividends from the Group's long-term investment portfolio and interest income. In addition, included in the Investment and Others segment was profit on disposal of investments of HK$113 million (2006: HK$54 million).

Increase in fair value of investment properties

Included in the interim results was a revaluation surplus of HK$4,991 million (2006: HK$5,411 million) on revaluation of the Group's investment properties.

Borrowing costs

Borrowing costs charged to the profit and loss account was HK$766 million (2006: HK$525 million). Borrowing costs capitalised for the Group's related assets amounted to HK$208 million (2006: HK$54 million). The Group's effective borrowing interest rate was approximately 4.8% per annum (2006: 4.6% per annum).

Share of profits less losses of associates and jointly controlled entities

Share of profits of associates and jointly controlled entities was HK$211 million (2006: HK$68 million), which covered the profit contribution from Modern Terminal's associates (including its additional port investment in Mega SCT) and the sale of Parc Palais units undertaken by an associate of WPL.

Income tax

Taxation charge for the period was HK$2,750 million (2006: HK$1,497 million). Excluding the deferred tax of HK$1,280 million provided against the net revaluation surplus of investment properties, taxation charge was HK$1,470 million (2006: HK$541 million), mainly incurred by Wharf. Wharf's current taxation charge for the nine-month period was HK$1,388 million, which included income tax and land appreciation tax totalling HK$370 million provided against the profit from sale of properties in China and an additional provision of HK$236 million for certain tax cases concerning interest deductibility under dispute with the Inland Revenue Department.

Discontinued operation

Hamptons was disposed of by WPSL in August 2006. The results of Hamptons, which formed a significant business segment of the Group, were reported as a discontinued operation. The profit on the disposal recognised by WPSL was HK$585 million.

Minority interests

Profit shared by minority interests was HK$4,618 million (2006: HK$3,942 million), which was mainly related to the profit of Wharf and WPL.

(II) Liquidity and Financial Resources

Equity

The Shareholders' equity amounted to HK$53,043 million or HK$26.11 per share as at 30 September 2007, compared to HK$48,816 million or HK$24.02 per share as at 31 March 2007. The Group's total equity, including minority interests, was HK$107,847 million as at 30 September 2007 (31/3/2007: HK$99,096 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 Financial Report for the third quarter ended 30 September 2007. 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) as at 30 September 2007	26.11
Share of Wharf's adjustments:	5.56
Modern Terminals	
– based on the latest transaction price in 2005	1.75
i-CABLE	
– based on market value as at 30 September 2007 (@HK$1.62 p.s.)	0.17
Hotel properties	
– based on the valuation as at 30 September 2007 conducted by an independent valuer	0.95
Deferred tax on investment property revaluation surplus	*2.69
Wheelock's deferred tax on investment property revaluation surplus	*0.33
Adjusted underlying NAV as at 30 September 2007	32.00
Adjusted underlying NAV as at 31 March 2007	29.78

* 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 HK$6.1 billion or about HK$3.02 per share) as provided and included in the consolidated balance sheet of the Group 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 cash generated from/used in the Group's operating and investing activities

Net cash generated from the Group's operating activities was HK$4,291 million, which included net cash inflows from sales of properties, mainly Wellington Garden and Wuhan Times Square in China, and three Gough Hill Residences luxury units and certain Bellagio units in Hong Kong. The major cash outflows attributed to the acquisition of various sites in China by Wharf and Prince Edward Road West properties by WPL. Net cash of HK$10,407 million used in investing activities mainly consisted of MTL's payment of HK$3.2 billion for rationalisation of its interest in Mega SCT and HK$5.0 billion for certain long-term listed investments.

Capital expenditure

The Group's total capital commitments as at 30 September 2007 amounted to HK$6,941 million, which were mainly incurred by Wharf for its core businesses and are analysed as follows:

		Capital Commitments as at 30 September 2007	
	Capital Expenditure for 1-9/2007 HK$ Million	**Authorised and Contracted for HK $ Million**	**Authorised but not Contracted for HK$ Million**
Property Investments/others			
China	103	892	114
Harbour City	156	124	9
Other properties/others	60	18	–
	319	1,034	123
Wharf T&T	156	89	112
	475	1,123	235
Modern Terminals (67.6%-owned)	1,991	3,491	1,982
i-CABLE (73.6%-owned)	131	21	89
	2,597	4,635	2,306

The above capital expenditure incurred by Wharf for its Property Investment segment was mainly related to certain refurbishment and renovation work for enhancing the quality and value of the Group's investment properties, in particular for Harbour City. For i-CABLE and Wharf T&T, the capital expenditures were incurred substantially for procurement of production and broadcasting equipment while that for Modern Terminals was mainly incurred for construction of the Dachan Bay Phase I and Taicang Phase II ports. i-CABLE and Modern Terminals, respectively 73.6% and 67.6% owned by Wharf, funded their own capital expenditure programmes.

In addition to the above, Wharf also incurred HK$3.2 billion for its trading properties under development in China, including those undertaken through joint ventures, during the first three quarters of 2007. In February 2007, Modern Terminals paid HK$3.2 billion in cash on completion of the rationalisation of the interests in Shekou container terminals under an agreement signed in December 2006 with China Merchants Holdings (International) Company Limited ("China Merchants"). Pursuant to this agreement, Modern Terminals and China Merchants injected their respective equity interests in Shekou containers terminals into a newly setup joint venture, Mega SCT, in which Modern Terminals holds 30% equity interests.

As at 30 September 2007, the Group had planned expenditure and other commitments of approximately HK$35.6 billion for Wharf's trading properties under development mainly in China (HK$33.1 billion) and for WPL's property projects in Hong Kong and Singapore (HK$2.5 billion), HK$0.8 billion mainly for i-CABLE's own programming expenditures and HK$0.2 billion mainly for CME's lease commitment of certain properties and telecommunication network facilities.

Net debt and gearing

The Group's net debt was HK$22,603 million as at 30 September 2007, which was made up of debts of HK$30,782 million and bank deposits and cash of HK$8,179 million. Included in the total debts were loans borrowed by Wharf and WPSL of HK$26,550 million and HK$2,731 million respectively, which are without recourse to the Company and its wholly-owned subsidiaries. Analysis of the net debt by group as below:

Net debt/(cash)	**30/9/2007 HK$ Million**	31/3/2007 HK$ Million
Wheelock/wholly-owned subsidiaries	**1,445**	1,966
WPL	**(2,758)**	(2,919)
WPSL	**(34)**	(377)
	(1,347)	(1,330)
Wharf	**23,950**	16,901
	22,603	15,571

As at 30 September 2007, the ratios of net debt to shareholders' equity and total equity were 42.6% and 21% respectively.

Finance and availability of facilities

The Group's available loan facilities and debt securities totalled HK$52.2 billion, comprising committed and uncommitted facilities of HK$47.2 billion and HK$5.0 billion respectively, of which HK$30.8 billion were outstanding at 30 September 2007 with details below:

	Available Facility HK$ Billion	**Total Debts HK$ Billion**	**%**	**Undrawn Facility HK$ Billion**
Wheelock/wholly-owned subsidiaries	3.6	1.5	5%	2.1
WPL group	0.2	–	0%	0.2
WPSL group	4.9	2.8	9%	2.1
	8.7	4.3	14%	4.4
Wharf group	43.5	26.5	86%	17.0
Wharf/wholly-owned subsidiaries	24.5	16.7	54%	7.8
Modern Terminals (67.6%-owned)	16.9	9.4	31%	7.5
i-CABLE (73.6%-owned)	0.6	–	0%	0.6
Others	1.5	0.4	1%	1.1
	52.2	30.8	100%	21.4

Subsequent to the period under review, additional committed banking facilities amounted to approximately HK$5 billion have been secured.

As at 30 September 2007, the Group's debts of HK$3,921 million were secured by mortgage over certain properties under development and fixed assets with a carrying value of HK$11,409 million.

The Group's debts were primarily denominated in Hong Kong dollar, US dollar, Renminbi and Singapore dollar. All US dollar loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts while the Renminbi and Singapore dollar loans were borrowed mainly for financing the properties in China and Singapore respectively.

The use of derivative financial instruments was strictly controlled. The majority of the derivative financial instruments entered into by the Group were primarily used for management of the Group's interest rate exposures.

The Group maintained a reasonable level of surplus cash, which was denominated principally in Hong Kong dollar, US dollar, Renminbi and Singapore dollar to facilitate the Group's business and investment activities. The Group also maintained a portfolio of available-for-sale investments, primarily in blue-chip securities, with an aggregate market value of HK$12.4 billion, which is immediately available for liquidation to meet the Group's future investment commitments. The accumulated attributable surplus of the investments amounted to HK$2.2 billion (31 March 2007: HK$2.0 billion) and is retained in reserves until the related investment is sold. Performance of the portfolio was satisfactory.

Contingent liabilities

There were no material contingent liabilities as at 30 September 2007 and 31 March 2007.

(III) Human Resources

The Group has approximately 12,935 employees as at 30 September 2007. Employees are remunerated according to nature of the job and market trend, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the period under review amounted to HK$1,836 million.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the financial period under review, all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were met by the Company, except in respect of one code provision providing for the roles of chairman and chief executive officer to be performed by different individuals. The deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals with a substantial proportion thereof being independent Non-executive Directors.