

FINANCIAL REVIEW

(I) REVIEW OF 2011 INTERIM RESULTS

Wholly-owned WPL helped the Group to a record first half with the completion of the very successful One Island South. Profit attributable to shareholders increased by 56% to HK\$10,219 million (2010: HK\$6,533 million). Exclusive of the net investment property revaluation surplus and Wharf's exceptional gains in 2010 comprising a one-off tax write back and a surplus from revaluation of the interest in an associate, underlying profit increased by 72% to HK\$3,825 million (2010: HK\$2,225 million).

Turnover and Operating Profit

Group turnover increased by 10% to HK\$13,755 million (2010: HK\$12,516 million). All business segments reported an increase.

Group operating profit increased by 25% to HK\$7,501 million (2010: HK\$6,020 million), with HK\$4,980 million (2010: HK\$4,516 million) contributed by Wharf, HK\$216 million (2010: HK\$1,301 million) by WPSL, and HK\$2,305 million (2010: HK\$203 million) by Wheelock and its other subsidiaries, primarily WPL.

Property Investment

Revenue and operating profit both increased by 13% to HK\$5,050 million (2010: HK\$4,483 million) and HK\$3,927 million (2010: HK\$3,467 million) respectively. This reflects the outstanding underlying retail sales achieved by the retail tenants and recovery of office rents. Revenue from the Mainland increased by 34% to HK\$317 million as benefited from the newly completed Shanghai Wheelock Square and favourable rental reversion for other properties. Hotels also recorded favourable results with average room rate much improved.

Property Development

Revenue and operating profit increased by 8% and 53% to HK\$4,893 million (2010: HK\$4,548 million) and HK\$2,765 million (2010: HK\$1,813 million) respectively.

In Hong Kong, One Island South was completed with all the office units sold enabling the recognition of revenue of HK\$3,335 million and operating profit of HK\$2,084 million.

Revenue and operating profit from the Mainland increased by 31% and 1% to HK\$1,343 million and HK\$568 million respectively, with phased completions at Chengdu Crystal Park and Chengdu Tian Fu Times Square.

Inclusive of joint ventures on an attributable basis, new sales and pre-sales of HK\$11,860 million (2010: HK\$2,670 million) were contracted in the period to increase cumulative pre-sales pending recognition as at 30 June 2011 to HK\$23,840 million, whereof about 75% in the Mainland and the balance in Singapore.

Logistics

Revenue increased by 5% to HK\$1,673 million (2010: HK\$1,596 million), reflecting higher throughput handled by Modern Terminals. Operating profit however decreased by 16% to HK\$682 million (2010: HK\$811 million) mainly due to higher operating expenses that exceeded the increased revenue of Modern Terminals.

Communications, Media and Entertainment (“CME”)

Revenue increased by 8% to HK\$1,930 million (2010: HK\$1,795 million) and CME returned to profitability with an operating profit of HK\$50 million (2010: loss of HK\$15 million). Wharf T&T’s operating profit increased by 8% to HK\$103 million, while i-CABLE’s operating loss reduced by half to HK\$53 million.

Investment and Others

Investment and other operating profit increased to HK\$333 million (2010: HK\$169 million), mainly due to an increase in dividend and interest income.

Increase in Fair Value of Investment Properties

The book value of the Group’s investment property portfolio as at 30 June 2011 totalled HK\$184.1 billion, with HK\$169.8 billion thereof stated at fair value based on an independent valuation as at that date. That resulted in a revaluation surplus of HK\$12,496 million (2010: HK\$8,030 million), reflecting the continuous strong performance of the Group’s investment properties. The attributable net revaluation surplus of HK\$6,394 million (2010: HK\$3,707 million), after deducting related deferred tax and non-controlling interests in total of HK\$6,102 million (2010: HK\$4,323 million), was credited to the consolidated income statement.

Investment properties in the amount of HK\$14.3 billion, which had not been revalued were all under development and will not be carried at fair value until the earlier of their fair values first becoming reliably measurable or the dates of their respective completion.

Other Net Income

Other net income decreased by 43% to HK\$304 million (2010: HK\$537 million) in the absence of one-off surplus from revaluation of the interests in Hong Kong Air Cargo Terminals Limited (“Hactl”) in 2010 when it became an associate of Wharf.

Finance Costs

Finance costs charged to the consolidated income statement were HK\$878 million (2010: HK\$569 million), which included an unrealised mark-to-market loss of HK\$369 million (2010: HK\$318 million) on the cross currency/interest rate swaps as measured in compliance with the prevailing accounting standard.

Excluding the said unrealised mark-to-market loss, finance cost after capitalisation of HK\$185 million (2010: HK\$154 million) was HK\$509 million (2010: HK\$251 million), representing an increase of HK\$258 million mainly as a result of the increase in gross borrowings.

Share of Results after Tax of Associates and Jointly Controlled Entities

Share of profits of associates increased by 47% to HK\$209 million (2010: HK\$142 million), mainly due to contribution from Hactl. Share of results of jointly controlled entities ("JCEs") reported a net loss of HK\$9 million (2010: profit of HK\$7 million) in the absence of major property completion in the Mainland.

Income Tax

Taxation charge was HK\$1,906 million (2010: HK\$1,108 million), which included deferred taxation of HK\$518 million (2010: HK\$692 million) provided for the revaluation surplus of investment properties located in the Mainland.

Excluding the above deferred tax, the tax charge increased to HK\$1,388 million (2010: HK\$416 million) in the absence of a tax write back of HK\$809 million by Wharf in 2010 upon reaching a settlement with the Inland Revenue Department on various tax disagreements.

Non-controlling Interests

Profit attributable to non-controlling interests was HK\$7,498 million (2010: HK\$6,526 million), which was mainly attributable to profit of Wharf and WPSL.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 56% to HK\$10,219 million (2010: HK\$6,533 million). Earnings per share were HK\$5.03 (2010: HK\$3.22).

Excluding the net investment property revaluation surplus after the associated deferred tax of HK\$6,394 million (2010: HK\$3,707 million), the Group's profit attributable to shareholders for the period was HK\$3,825 million (2010: HK\$2,826 million), representing an increase of 35% over 2010.

Further stripping out the exceptional attributable tax write back and surplus from revaluation of an associate in 2010, the Group's profit attributable to equity shareholders would rise by 72% over 2010.

Set out below is an analysis of the Group's profit before exceptionals and investment property surplus attributable to the equity shareholders as contributed by each of Wharf, WPSL and the Company together with its other subsidiaries.

Profit attributable to	Six months ended 30 June	
	2011 HK\$ Million	2010 HK\$ Million
Wharf group	1,642	1,426
WPSL group	137	623
Wheelock and other subsidiaries	2,046	176
Profit before exceptionals and investment property surplus	3,825	2,225
Attributable tax write back	–	390
Attributable surplus on revaluation of an associate	–	211
Profit before investment property surplus	3,825	2,826
Investment property surplus (after deferred tax)	6,394	3,707
Profit attributable to equity shareholders	10,219	6,533

Wharf's profit for the first half of 2011 increased year-on-year by 31% to HK\$14,302 million (2010: HK\$10,892 million). Excluding the net investment property surplus and exceptionals, Wharf's net profit was HK\$3,283 million (2010: HK\$2,958 million), representing an increase of 11% over 2010.

WPSL's reported profit for the first half of 2011 was S\$89.4 million (2010: S\$133.9 million), based on the accounting standards accepted in Singapore. In accordance with Hong Kong Financial Reporting Standards, WPSL's contributed profit to the Group was HK\$181 million (2010: HK\$1,106 million) in the absence of major property completion.

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

The Group's shareholders' equity increased by HK\$10.5 billion or 10% to HK\$110.9 billion (2010: HK\$100.4 billion), or HK\$54.58 per share (2010: HK\$49.40 per share) as at 30 June 2011.

Including the non-controlling interests, the Group's total equity increased by 11% to HK\$215.2 billion (2010: HK\$193.1 billion).

Total Assets

The Group's total assets increased by 13% to HK\$321.8 billion (2010: HK\$285.1 billion). Total business assets, excluding bank deposits and cash, financial investments, deferred tax assets and other derivative financial assets, increased by 14% to HK\$280.5 billion (2010: HK\$245.0 billion).

The Group's Investment Property portfolio was HK\$184.1 billion, representing 66% of total business assets. Together, Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK\$119.1 billion, representing 65% of the value of the portfolio.

Other major business assets included other properties and fixed assets of HK\$18.5 billion, interest in JCEs and associates (mainly for the Mainland property development and port projects) of HK\$25.8 billion and properties under development and held for sale of HK\$48.4 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, increased to HK\$100.1 billion (2010: HK\$76.6 billion), representing 36% of the Group's total business assets.

Debts and Gearing

The Group's net debt increased by HK\$8.6 billion to HK\$46.7 billion (2010: HK\$38.1 billion) as at 30 June 2011, which was made up of HK\$76.3 billion in debts and HK\$29.6 billion in bank deposits and cash. Excluding Wharf's net debt of HK\$42.5 billion, which is non-recourse to the Company and its other subsidiaries, and WPSL's net cash of HK\$3.2 billion, Wheelock's net debt was HK\$7.4 billion (2010: HK\$10.0 billion). Analysis of the net debt by group is as below:

Net debt/(cash)	2011 HK\$ Million	2010 HK\$ Million
Wharf (excludes below subsidiaries)	33,503	23,376
Modern Terminals	11,054	9,932
Harbour Centre Development Ltd.	(1,694)	(172)
i-CABLE	(369)	(447)
Wharf group	42,494	32,689
WPSL group	(3,215)	(4,571)
Wheelock and other subsidiaries	7,432	10,024
Group	46,711	38,142

The ratio of net debt to total equity was 21.7% (2010: 19.8%) as at 30 June 2011.

Finance and Availability of Facilities

The Group's available loan facilities and debt securities amounting to HK\$102.1 billion (2010: HK\$87.0 billion), of which HK\$76.3 billion were drawn, as at 30 June 2011 are analysed as below:

	Available Facility HK\$ Billion	Total Debts HK\$ Billion	Undrawn Facility HK\$ Billion
Wharf (excludes below subsidiaries)	66.0	47.8	18.2
Modern Terminals	14.4	11.6	2.8
Harbour Centre Development Ltd.	4.6	3.0	1.6
i-CABLE	0.3	–	0.3
Wharf group	85.3	62.4	22.9
WPSL group	1.6	0.6	1.0
Wheelock and other subsidiaries	15.2	13.3	1.9
Group	102.1	76.3	25.8

In March 2011, Wharf completed a rights issue and received net proceeds of HK\$10.0 billion, of which HK\$5.0 billion was paid by Wheelock for its subscription.

In June 2011, Wharf issued guaranteed convertible bonds with a term of 3 years for an aggregate principal amount of HK\$6.2 billion. Assuming full conversion of the bonds, the Group's interest in Wharf would fall from 50.02% to 48.91%.

Of the above debts, HK\$25.5 billion (2010: HK\$24.3 billion) was secured by mortgage over certain properties under development, fixed assets and investments with total carrying value of HK\$76.5 billion (2010: HK\$80.7 billion).

The Group's debts were primarily denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Renminbi ("RMB") and Singapore dollars ("SGD"). RMB and SGD borrowings were used to fund the Group's property development and port investments in the Mainland, and the properties in Singapore respectively.

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

The Group maintained a strong financial position with ample surplus cash denominated principally in HKD, RMB and SGD and undrawn committed facilities to facilitate the Group's expanding business and investment activities. The Group also maintained a portfolio of financial investments, primarily in blue-chip securities, with an aggregate market value as at 30 June 2011 of HK\$8.9 billion (2010: HK\$10.7 billion), which is immediately available for liquidation for the Group's use.

Cash Flows for the Group's Operating and Investing Activities

For the period under review, the Group's operating cash inflow before changes in working capital increased to HK\$7.8 billion (2010: HK\$6.5 billion). The changes in working capital resulted in net cash outflow from operating activities to HK\$1.8 billion (2010: inflow of HK\$1.0 billion), primarily due to payment for land and construction cost for trading properties under development which was partly compensated by the increase in deposits received from sale of properties in the Mainland. For investing activities, the Group reported a net cash outflow of HK\$10.3 billion (2010: inflow of HK\$2.3 billion), mainly for additions to investment properties and investments in JCEs involved in property development projects in the Mainland.

Major Expenditure and Commitments

The major expenditure, substantially incurred by Wharf's core businesses, during the period and related commitments as at 30 June 2011 are analysed as follows:

Business Unit/Company	Expenditure for 1-6/2011 HK\$ Million	Commitments as at 30 June 2011	
		Authorised and Contracted for HK\$ Million	Authorised but not Contracted for HK\$ Million
(a) Capital expenditure			
Wharf group	9,324	11,300	24,877
Property Investments	8,918	10,444	23,415
Wharf T&T	226	222	158
i-CABLE	88	36	132
Modern Terminals	92	598	1,172
WPSL group	62	18	–
Wheelock and other subsidiaries	12	7	–
	9,398	11,325	24,877
(b) Trading properties under development			
Wharf group	12,920	11,693	58,273
Subsidiaries	10,518	8,122	40,428
JCEs and associates	2,402	3,571	17,845
WPSL group			
Subsidiaries	1,196	1,507	2,389
Wheelock and other subsidiaries	622	681	2,337
Subsidiaries	560	394	614
JCEs and associates	62	287	1,723
	14,738	13,881	62,999
(c) Programming and others	35	1,448	109

The capital expenditure incurred for Wharf's Property Investment segment was mainly for land cost of Changsha IFC and construction cost of Chengdu IFC. For i-CABLE and Wharf T&T, the capital expenditures were incurred substantially for procurement of production and broadcasting equipment, network rollout and internet service equipment while those for Modern Terminals were mainly for construction of the Dachan Bay project in the Mainland and addition of other fixed assets.

In addition to the capital expenditure, the Group also incurred HK\$14.7 billion of expenditures for the development of its trading properties in the Mainland, Hong Kong and Singapore, mainly including Wharf's expenditure of HK\$12.9 billion that has excluded the intra-group acquisition by Wharf of the four Foshan joint venture projects from Wheelock.

As at 30 June 2011, the Group's authorised and contracted commitments were mainly for development properties for investment of HK\$11.3 billion and for trading of HK\$13.9 billion, respectively, among these including attributable land costs of HK\$9.4 billion payable by installment from 2011 to 2013. Apart from that, the Group intends to invest HK\$24.9 billion for investment properties and HK\$63.0 billion for trading properties mainly on construction cost to complete the Group's development projects in the Mainland, Hong Kong and Singapore, which will be carried out by stages in the forthcoming years.

The above commitments will be funded by the respective groups' own internal financial resources including surplus cash, cash flow from operation as well as bank and other financings with the construction costs self-financed mainly by pre-sale proceeds and project loans. Other available resources include financial investments.

(III) TRANSFER OF FOSHAN PROPERTY PROJECTS TO WHARF

Wheelock completed the transfer of its 50% interests in four Foshan property joint ventures to Wharf for a total consideration of HK\$3,388 million in June 2011. The major assets that the four joint ventures hold are the four residential property development projects in Chancheng, Guicheng, Shishan and Xincheng, Foshan in the Mainland. Being a disposal to its subsidiary, Wheelock has deferred the recognition of the relevant profit of about HK\$1,300 million resulting from the transaction until the completion and sale of the property units to parties not under Wheelock's control by the Foshan joint ventures.

(IV) HUMAN RESOURCES

The Group had approximately 14,000 employees as at 30 June 2011, including about 2,200 employed by managed operations. Employees are remunerated according to their job responsibilities and the market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the respective group's achievement and results.