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Financial Review

(I) REVIEW OF 2008 RESULTS

Turnover

Strong growth in recurrent rental income substantially covered the decline in property sales in the year. As a result, Group turnover for 2008 slipped by 2% to HK$15,940 million (2007: HK$16,208 million).

Property Investment reported a 16% growth to another record high at HK$7,606 million. Turnover from Hong Kong properties (excluding hotels) increased by HK$887 million or 17% to HK$6,038 million while that from China properties increased by HK$98 million or 24% to HK$514 million.

Property Development declined by HK$1,626 million or 70% to HK$710 million, which was mainly derived from the sales of residential units at Wellington Garden in Shanghai and Wuhan Times Square in China.

Logistics increased by 7% to HK$3,875 million, mainly reflecting the increase in throughput handled in Hong Kong and China by Modern Terminals.

CME slipped by 1% to HK$3,751 million. A strong performance from Wharf T&T nearly fully compensated for the decline reported by i-CABLE.

Operating Profit

The Group's operating profit decreased by HK$1,877 million or 20% to HK$7,639 million (2007: HK$9,516 million), of which HK$1,399 million decrease was attributable to the Investment segment which had reported an exceptionally large profit in 2007.

Property Investment benefited from the continuing strong rental reversion and high occupancy and reported a robust increase in operating profit of 18% to a record high at HK$5,551 million.

Property Development reported a significantly lower HK$84 million (2007: HK$1,127 million), primarily due to the decrease in property sales recognised in both Hong Kong and China.

Logistics' operating profit dropped by 8% to HK$1,763 million, primarily due to start-up losses reported by Modern Terminals for its China subsidiaries. However, together with the contribution from its joint-ventures in the Mainland, Modern Terminals' net profit was virtually unchanged from last year.

CME reported a 33% decrease in operating profit before unallocated expenses at HK$244 million. Wharf T&T reported a 198% increase to HK$140 million while i-CABLE reported a decline of 57% to HK$154 million, partly due to non-recurring charges booked in the year.

Investment and Others reported a significant decrease to HK$407 million (2007: HK$1,806 million). This was mainly due to exceptionally large profit recognised on disposal of certain available-for-sale investments in 2007.

Increase in Fair Value of Investment Properties

The Group's investment properties were revalued by an independent valuer as at the end of the year, which produced a revaluation surplus of HK$1,793 million (2007: HK$9,352 million).

The attributable net revaluation surplus of HK$1,363 million (2007: HK$7,196 million), after deducting related deferred tax and minority interests, was credited to the profit and loss account of the Group.

Net Other (Charge)/Credit
Net other charge for the year amounted to HK$145 million against net other credit of HK$134 million in 2007. Net other charge in 2008 represented impairment loss on available-for-sale investments. Included in the net other credit in 2007 was a write-back of provision for properties of HK$184 million.

Finance Costs
Finance costs charged to the consolidated profit and loss account were HK$1,521 million for the year under review (2007: HK$1,142 million). The charge was after capitalisation of HK$200 million (2007: HK$187 million) for the Group's related assets.

Included in finance costs was a mark-to-market unrealised loss of HK$508 million (2007: HK$96 million), which mainly related to the cross-currency-interest rate swaps entered into to effectively convert the US$400 million fixed-rate notes issued in 2007 into a Japanese yen obligation to finance the Group's RMB assets in the Mainland. Under this arrangement, an interest saving of about 3% per annum will be achieved over the tenure of the ten-year notes.

Share of Results (after tax) of Associates and Jointly Controlled Entities
The share of results of associates decreased to HK$136 million (2007: HK$322 million). Profit contribution from Modern Terminals' investment in Shekou increased. However, the share of losses in China property development increased after impairment provisions.

Taxation
Taxation charge for the year was HK$1,189 million (2007: HK$4,247 million), which included deferred taxation of HK$433 million (2007: HK$2,259 million) provided for the current year's investment properties revaluation surplus and a downward adjustment of HK$768 million in respect of the Group's previous years' deferred tax liabilities with HK$690 million related to net investment properties revaluation surplus, resulting from the 1% reduction in Hong Kong profits tax rate.

Excluding the above deferred tax charge and tax credit, the tax charge was HK$1,524 million, which included a provision of HK$292 million (2007: HK$336 million) made for certain tax cases primarily relating to interest deductibility under discussion with the Inland Revenue Department.

Minority Interests
Minority interests decreased by HK$348 million to HK$471 million reflecting the decrease in net profits of certain non-wholly-owned subsidiaries, including Harbour Centre Development Limited and i-CABLE.

Profit Attributable to Equity Shareholders
The Group's profit attributable to equity shareholders decreased by 52% to HK$6,247 million (2007: HK$13,143 million). Earnings per share were HK$2.28, based on weighted average of 2,745 million shares after taking the effect of the Rights Issue (2007: HK$5.17 based on 2,543 million shares as restated for the Rights Issue).

Excluding the net investment property revaluation surplus after deferred tax of HK$1,363 million (2007: HK$7,196 million) and the credit adjustment of HK$690 million resulting from the 1% reduction in Hong Kong profits tax rate, the Group's net profit attributable to equity shareholders would be HK$4,194 million (2007: HK$5,947 million), a decrease of 29% over 2007.

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Rights Issue

In January 2008, the Company completed an issue of 306 million new ordinary shares at HK$30.00 each by way of rights to raise net proceeds of HK$9.1 billion.

Shareholders' and Total Equity

As at 31 December 2008, the Group's shareholders' equity increased by HK$13,130 million or 15% to HK$99,494 million, equivalent to an increase of 2% to HK$36.13 per share, based on 2,754 million shares after the Rights Issue (2007: HK$35.28 per share, based on 2,448 million shares).

Including the minority interests, the Group's total equity increased by 15% to HK$105,857 million (2007: HK$92,002 million).

Total Assets

The Group's total assets increased by 15% to HK$168.6 billion (2007: HK$146.2 billion), which included HK$5.0 billion for investment properties and container terminals assets, HK$11.6 billion for China property projects undertaken solely or through joint ventures, and HK$8.2 billion of bank deposits and cash.

Included in the Group's total fixed assets is the Investment Property portfolio valued at HK$98.4 billion, representing 58% of total assets. The core assets in this portfolio are Harbour City and Times Square in Hong Kong, which are valued at HK$56.3 billion (excluding the 3 hotels) and HK$22.0 billion, respectively. Together, they represent 80% of the value of the Investment Property portfolio and 46% of total assets. Other major assets included other properties and fixed assets of HK$21.2 billion, interest in jointly controlled entities and associates (mainly for China property and port projects) of HK$12.0 billion and bank deposits and cash of HK$15.9 billion.

Debts and Gearing

The Group's net debt decreased by HK$1.5 billion to HK$22.1 billion as at 31 December 2008 (2007: HK$23.6 billion), which was made up of HK$38.0 billion in debts and HK$15.9 billion in bank deposits and cash. Included in the Group's net debts were HK$10.6 billion and HK$1.8 billion (2007: HK$9.6 billion and HK$1.3 billion respectively) attributable to its non-wholly-owned subsidiaries, Modern Terminals and Harbour Centre Development Limited respectively, which are without recourse to the Company and other subsidiaries of the Group. Excluding these non-recourse debts, the Group's net debt was HK$9.7 billion (2007: HK$12.7 billion).

As at 31 December 2008, the ratio of net debt to total equity was 20.9% (2007: 25.6%).

Finance and Availability of Facilities

During the year, the Group took advantage of market opportunities before the devastating financial tsunami and increased its available loan facilities and debt securities aggregating to HK$56.5 billion, of which HK$38.0 billion were drawn and the undrawn facilities as at 31 December 2008 are analysed as below:

	31 December 2008			
	Available Facility *HK$ Billion*	Total Debts *HK$ Billion*		Undrawn Facility *HK$ Billion*
Company/wholly-owned subsidiaries				
Committed facilities	31.9	22.7	60%	9.2
Uncommitted facilities	1.7	0.5	1%	1.2
	33.6	23.2	61%	10.4
Non-wholly-owned subsidiaries				
Committed and uncommitted				
– Modern Terminals Limited	16.5	10.6	28%	5.9
– Harbour Centre Development Limited	4.1	3.1	8%	1.0
– i-CABLE Communications Limited	0.6	–	0%	0.6
– Others	1.7	1.1	3%	0.6
	56.5	38.0	100%	18.5

Of the above debts, HK$8,160 million (2007: HK$4,189 million) was secured by mortgage over certain properties under development, fixed assets, available-for-sale investments and bank deposits with total carrying value of HK$15,915 million (2007: HK$11,253 million).

The Group's debts were primarily denominated in Hong Kong dollar ("HKD"), United States dollar ("USD") and Renminbi ("RMB"). RMB borrowings were used to fund the Group's property development and port-related equity investments in China.

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 foreign currency exposures.

The Group maintained ample surplus cash, which was denominated principally in HKD and RMB and undrawn committed facilities to facilitate the Group's business and investment activities. As at 31 December 2008, the Group also maintained a portfolio of available-for-sale investments with an aggregate market value of HK$0.7 billion (2007: HK$2.9 billion), which is available for liquidation for the Group's use.

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group generated a net operating cash inflow before changes in working capital of HK$8.5 billion (2007: HK$8.7 billion). The changes in working capital for 2008 resulting in a net cash outflow of HK$6.9 billion (2007: HK$3.0 billion), primarily due to payment for land and construction cost for trading properties under development in China. For investing activities, the Group utilised a net cash of HK$5.7 billion, mainly consisting of HK$3.4 billion for investment in jointly controlled entities involved in property development projects in China, HK$3.6 billion for capital expenditure mainly for berth construction and purchase of operating equipment by Modern Terminals for its China port projects and HK$1.2 billion proceeds from disposal of available-for-sale investments.

Major Expenditure and Commitments

The major expenditure incurred by the Group's core businesses during the year and related commitment as at 31 December 2008 are analysed as follows:

Business Unit/Company		Expenditure for 2008 *HK$ Million*	Commitments as at 31 December 2008: Authorised and Contracted for *HK$ Million*	Commitments as at 31 December 2008: Authorised but not Contracted for *HK$ Million*
a.	**Capital expenditure**			
	Property Investments/Others	961	803	679
	Wharf T&T	324	57	142
	Modern Terminals (67.6%-owned)	2,216	1,356	1,583
	i-CABLE (73.8%-owned)	144	56	44
		3,645	2,272	2,448
b.	**Programming and others**	103	783	71
c.	**Properties under development**			
	Subsidiaries (China/Hong Kong)	8,243	10,600	35,090
	Jointly controlled entities/associates (China)	3,543	3,538	8,178
		11,786	14,138	43,268

For the Property Investment segment, the capital expenditure incurred mainly related to the construction cost of Shanghai Wheelock Square, Wuhan Times Square and Dalian Times Square, and certain refurbishment and renovation work for Harbour City and others. 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 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 73.8% and 67.6%-owned by the Group, independently funded their own capital expenditure programmes.

In addition to the capital expenditure, the Group also incurred HK$11.8 billion in respect of its trading properties under development in China, including projects undertaken through associates and jointly controlled entities.

As at 31 December 2008, commitments to properties under development by the Group's subsidiaries, associates and jointly controlled entities included land cost of HK$11.6 billion payable by installments mainly in 2009 and 2010. These developments will be executed in stages in the forthcoming years and funded by the Group's internal financial resources including its surplus cash of HK$15.9 billion, as well as bank and other financings. Other available resources include proceeds from sales and pre-sales of properties.

(III) HUMAN RESOURCES

The Group had approximately 12,900 employees as at 31 December 2008 (2007: 12,600). 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 groups' achievement and results. Total staff costs for the year ended 31 December 2008 amounted to HK$2,553 million, compared to HK$2,408 million for 2007.