Financial Review

(I) Review of 2010 Results

The Group achieved robust financial results in 2010 in a stronger global economy. Benefitting largely from its unique investment property portfolio in Hong Kong and a rising asset base in the Mainland, the Group continued to grow revenue and profits. A substantial surplus arose on the revaluation of investment properties and helped to produce record earnings of HK$35,750 million for an 86% increase over 2009. Both Group turnover and operating profit reached new height. Underlying profit before the revaluation gain increased by only 1% due to an exceptional profit of HK$1,393 million in 2009 on disposal of the Beijing Capital Times Square.

Turnover

Group turnover increased by 10% to a record high of HK$19,380 million (2009: HK$17,553 million) as higher Mainland property sales were recognised apart from the continuous growth in rental revenue and the rebound in income from Modern Terminals and CME.

Investment Property revenue from Hong Kong increased by 6% to HK$7,043 million despite a fall in office revenue, reflecting the strong underlying retail sales recorded by the Group's shopping malls. Revenue from the Mainland decreased by 21% to HK$470 million following the disposal of Beijing Capital Times Square in late 2009 and while the newly completed Shanghai Wheelock Square was still not yet generating significant rental income. Hotel revenue increased by 20% to HK$1,156 million. In aggregate, the Property Investment segment reported a net increase in turnover of 6% to HK$8,669 million.

Property Development contracted new sales of HK$10.3 billion (2009: HK$5.3 billion), including attributable shares of joint ventures. Reporting sales increased by 18% to HK$3,609 million on recognition of completed projects, mainly including Chengdu Tian Fu Times Square, No. 1 Xin Hua Road in Shanghai, Wuxi Times City, Chengdu Crystal Park and Dalian Times No. 1 & 8.

Logistics revenue recorded an increase of 11% to HK$3,426 million. Modern Terminals' revenue improved by 15%, reflecting a strong rebound in consolidated throughput by 21% due partly to the gradual recovery of the global market and partly to the building up of the Group's port business in the Mainland.

CME revenue increased by 8% to HK$3,682 million, chiefly due to a 14% revenue increase reported by i-CABLE with its Pay TV subscriber base expanding by 10%. Wharf T&T also reported a small growth in total revenue.

Operating Profit

Group operating profit increased by 10% to HK$9,372 million, a record high.

Property Investment remained the core profit contributor with a 6% increase to HK$6,545 million. Contributions from Harbour City (excluding hotels) and Times Square increased by 7% and 8%, respectively, despite the pressure on office rental and occupancy between late 2008 and mid-2010. Profit contribution from the Mainland decreased by 30%, chiefly due to the disposal of Beijing Capital Times Square in late 2009.

Hotel contribution increased by 37% to HK$331 million with overall occupancy and average room rates both much improved.

Property Development's operating profit increased by 22% to HK$1,235 million as more Mainland property sales were recognised at respectable margins upon phased completion.

Logistics' contribution rose by 26% to HK$1,792 million, primarily reflecting the strong recovery of Modern Terminals' operating results.

CME reported an operating loss of HK$62 million (2009: profit of HK$163 million). Wharf T&T's operating profit decreased by 6% to HK$201 million in the absence of an exceptional gain booked in 2009, while i-CABLE's loss widened due to the substantial cost of mega sports events in 2010 including 2010 FIFA World Cup, 2010 Winter Olympics and 2010 Asian Games, as well as Barclays Premier League.

Investment and others operating profit increased to HK$188 million (2009: HK$90 million), mainly due to an increase in interest income.

Increase in Fair Value of Investment Properties

The book value of the Group's investment property portfolio as at 31 December 2010 totalled HK$148.2 billion, with HK$142.2 billion thereof stated at fair value based on an independent valuation as at that date. That resulted in a revaluation surplus of HK$29,249 million (2009: HK$12,204 million), reflecting the strong performance and improving quality of the Group's investment properties against the backdrop of a low interest rate and stronger economic environment. The attributable net revaluation surplus of HK$27,845 million (2009: HK$11,439 million as restated), after deducting related deferred tax and non-controlling interests, was credited to the consolidated income statement.

Investment properties in the amount of HK$6.0 billion which were not revalued were all under development and not carried at fair value until the earlier of when their fair values first become reliably measurable or the dates of their respective completion.

Other Net Income

Other net income for the year amounted to HK$813 million (2009: HK$175 million), including a one-off surplus of HK$437 million from revaluation of the interests in Hactl in accordance with prevailing accounting standard on its becoming an associate. Others mainly included profit on disposal of available-for-sale investments and a write-back of property provision.

Finance Costs

Finance costs charged to the consolidated income statement were HK$996 million (2009: HK$338 million). That included an unrealised mark-to-market loss of HK$448 million (2009: unrealised gain of HK$46 million) on the cross currency/interest rate swaps in compliance with prevailing accounting standard.

Excluding the unrealised mark-to-market impact on the swaps, finance cost after capitalisation was HK$548 million (2009: HK$384 million), representing an increase of HK$164 million mainly as a result of the increase in gross borrowings.

Finance cost was stated after capitalisation of HK$279 million (2009: HK$212 million) in respect of the Group's related assets.

Share of Results (after tax) of Associates and Jointly Controlled Entities

The share of profit of associates increased by 34% to HK$376 million (2009: HK$281 million), mainly due to contribution from Hactl, which became an associate in the year under review. Profit from the jointly controlled entities decreased to HK$9 million (2009: HK$75 million), reflecting lower contribution from property development undertaken through joint-ventures in the Mainland in the absence of any major property completion.

Income Tax

Taxation charge for the year was HK$2,358 million (2009: HK$2,207 million as restated), which included deferred taxation of HK$1,158 million (2009: HK$683 million as restated) provided for the current year's revaluation gain mainly attributable to investment properties in the Mainland.

Excluding the above deferred tax, the tax charge decreased to HK$1,200 million (2009: HK$1,524 million as restated) after a tax write back of HK$809 million upon reaching a settlement on various prolonged tax disagreements with the Inland Revenue Department.

Non-controlling Interests

Profit attributable to non-controlling interests increased by HK$117 million to HK$715 million, reflecting the increase in net profits of certain non-wholly-owned subsidiaries.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year ended 31 December 2010 amounted to HK$35,750 million (2009: HK$19,256 million as restated), representing an increase of HK$16,494 million or 86%. Earnings per share were HK$12.98 (2009: HK$6.99 as restated), based on 2,754 million issued shares.

Excluding the net investment property revaluation surplus of HK$27,845 million (2009: HK$11,439 million as restated), the Group's profit attributable to shareholders for the year was HK$7,905 million (2009: HK$7,817 million), representing an increase of 1% over last year.

Early Adoption of the Amendments to HKAS 12, Income Taxes

The Group has early adopted the amendments to HKAS 12, Income taxes as detailed in the Note 33 to the financial statements. As a result of this change in accounting policy, deferred tax of HK$4,513 million on investment properties revaluation gain was not required in the current year's results. Apart from this, the relevant accumulated deferred tax in the amount of HK$13,424 million, including HK$1,766 million provided for in 2009, was written back as prior year adjustments with certain comparatives restated. Shareholders' equity as at 31 December 2009 has also been adjusted and restated with an increase of HK$13,336 million or HK$4.84 per share.

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 31 December 2010, the Group's shareholders' equity increased by HK$34,543 million to HK$163,089 million, equivalent to an increase of 27% to HK$59.22 per share (2009: HK$46.68 per share as restated).

Including the non-controlling interests, the Group's total equity increased by 26% to HK$170,649 million (2009: HK$135,588 million as restated).

Rights Issue

On 10 February 2011, the Company announced that it proposed to issue about 275 million new ordinary shares of HK$1.0 each by way of a rights issue in the proportion of one rights share for every ten existing ordinary shares then held by qualifying shareholders at a subscription price of HK$36.5 per rights share ("Rights Issue"). The Rights Issue has been completed in March 2011 with net proceeds of approximately HK$9,980 million received, which will be used by the Group to finance additional property and related investment in the Mainland.

Total Assets

The Group's total assets increased by 27% to HK$242.2 billion (2009: HK$190.5 billion). Total business assets, excluding bank deposit and cash, held-to-maturity investment, available-for-sale investments, deferred tax assets and other derivative financial assets, increased by 31% to HK$220.2 billion (2009: HK$168.6 billion).

Included in the Group's total assets is the Investment Property portfolio of HK$148.2 billion, representing 67% of total business assets. The core assets in this portfolio are Harbour City and Times Square in Hong Kong, which are valued at HK$80.3 billion (excluding the 3 hotels) and HK$29.8 billion, respectively. Together, they represent 74% of the total value of the portfolio.

Other major business assets included other properties and fixed assets of HK$18.4 billion, interest in jointly controlled entities and associates (mainly for Mainland property and port projects) of HK$20.3 billion and properties under development and held for sale (mainly in the Mainland) of HK$29.7 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, increased to HK$74.8 billion (2009: HK$53.4 billion), representing 34% of the Group's total business assets.

Debts and Gearing

The Group's net debt increased by HK$11.3 billion to HK$32.7 billion as at 31 December 2010 (2009: HK$21.4 billion), which was made up of HK$49.6 billion in debts and HK$16.9 billion in bank deposits and cash. Included in the Group's net debt were HK$9.3 billion (2009: HK$12.0 billion) attributable to Modern Terminals, Harbour Centre Development Limited ("HCDL") and other subsidiaries, which are without recourse to the Company and its other subsidiaries. Excluding these non-recourse debts, the Group's net debt was HK$23.4 billion (2009: HK$9.4 billion). Analysis of the net debt is as below:

Net debt/(cash)	**31 December 2010** ***HK$ Million***	31 December 2009 *HK$ Million*
Wharf (excluding below subsidiaries)	**23,376**	9,392
Modern Terminals	**9,932**	10,742
HCDL	**(172)**	1,829
i-CABLE	**(447)**	(531)
	32,689	21,432

As at 31 December 2010, the ratio of net debt to total equity was 19.2% (2009: 15.8% as restated).

Finance and Availability of Facilities

The Group's total available loan facilities and debt securities as at 31 December 2010 amounting to HK$67.6 billion, of which HK$49.6 billion were drawn, are analysed as below:

	31 December 2010		
	Available Facility ***HK$ Billion***	**Total Debts** ***HK$ Billion***	**Undrawn Facility** ***HK$ Billion***
Company/wholly-owned subsidiaries			
Committed facilities	**44.4**	**32.7**	**11.7**
Uncommitted facilities	**0.5**	**—**	**0.5**
	44.9	**32.7**	**12.2**
Non-wholly-owned subsidiaries			
Committed and uncommitted			
— Modern Terminals	**14.9**	**10.1**	**4.8**
— HCDL	**4.1**	**3.4**	**0.7**
— i-CABLE	**0.3**	**—**	**0.3**
— Others	**3.4**	**3.4**	**—**
	67.6	**49.6**	**18.0**

Of the above debts, HK$18,137 million (2009: HK$8,996 million) was secured by mortgage over certain properties under development, fixed assets and shares with total carrying value of HK$18,360 million (2009: HK$22,474 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 investments in the Mainland.

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 continued to maintain a strong financial position with ample surplus cash denominated principally in HKD and RMB and undrawn committed facilities to facilitate the Group's expanding business and investment activities. As at 31 December 2010, the Group also maintained a portfolio of available-for-sale investments with an aggregate market value of HK$3.4 billion (2009: HK$1.3 billion), which is immediately 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's net cash inflow before change in working capital increased to HK$10.4 billion (2009: HK$9.7 billion). The changes in working capital resulted in net cash outflow of HK$7.2 billion (2009: HK$2.1 billion), primarily due to payment for land and construction cost for trading properties under development in the Mainland. For investing activities, the Group recorded a net cash outflow of HK$7.0 billion (2009: HK$5.4 billion), mainly for additions to investment properties and investments in jointly controlled entities involved in property development projects in Hong Kong and the Mainland, which was partly compensated by the balance of the proceeds received from the disposal of Beijing Capital Times Square in 2009.

Major Expenditure and Commitments

The major expenditure incurred by the Group's core businesses during the year and related commitments at 31 December 2010 are analysed as follows:

		Commitments as at 31 December 2010	
Business Unit/Company	**Expenditure for 2010** *HK$ Million*	**Authorised and Contracted for** *HK$ Million*	**Authorised but not Contracted for** *HK$ Million*
a. Capital expenditure			
Property Investments	2,830	6,071	15,352
Wharf T&T	352	237	173
i-CABLE (73.8%-owned)	251	8	112
Modern Terminals (67.6%-owned)	260	474	1,344
	3,693	6,790	16,981
b. Programming and others	93	1,761	142
c. Trading properties under development			
Subsidiaries (Mainland/Hong Kong)	13,394	10,980	37,060
Jointly controlled entities/associates (Mainland/Hong Kong)	7,736	4,591	17,002
	21,130	15,571	54,062

For the Property Investment segment, the capital expenditure incurred during the year under review was mainly for the construction of Shanghai Wheelock Square and Chengdu International Finance Centre. 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 the construction of the Dachan Bay project in Mainland. 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$21.1 billion of expenditures for the development of its trading properties in Hong Kong and the Mainland, either wholly-owned or undertaken through associates or jointly controlled entities.

As at 31 December 2010, the total outstanding commitment for the development of properties for investment or trading purposes was about HK$91.1 billion, including attributable land cost of HK$15.2 billion payable by installment mainly from 2011 to 2013. 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$16.9 billion, cashflow from operation, as well as bank and other financings. Other available resources include proceeds from sales and pre-sales of properties and the proceeds of HK$10.0 billion from the Rights Issue completed in March 2011.

Subsequent to 31 December 2010, the Group acquired another five sites for development of four projects in Changsha, Suzhou and Hangzhou for a total attributable land cost of HK$12.2 billion.

(III) Human Resources

The Group had approximately 13,100 employees as at 31 December 2010, 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.