Financial Review

(I) Review of 2011 Results

The Group keeps on its growth momentum and achieved robust operating results with the consolidated turnover and operating profit for the year rising by 24% and 22% respectively to new heights, principally from its continuous strong rental growth and increase in recognition of property sales.

Group core profit is HK$8,083 million (2010: HK$7,088 million), representing a 14% increase over 2010, on the basis of excluding the net revaluation surplus of HK$23,841 million (2010: HK$27,845 million), attributable mark-to-market accounting loss on swaps of HK$1,356 million (2010: HK$429 million) and the exceptional gains totaling HK$1,246 million in 2010, comprising a one-off tax write back and a surplus from revaluation of the interest in an associate.

Group profit attributable to shareholders decreased by 14% to HK$30,568 million (2010: HK$35,750 million), simply adversely affected by the lower revaluation gains and one-off exceptionals.

Turnover

Group turnover increased by 24% to another record high of HK$24,004 million (2010: HK$19,380 million) with all business segments recording revenue increases.

Property Investment revenue from Hong Kong increased by 14% to HK$8,012 million, primarily attributable to retail rental growth accelerated by the remarkable sales achieved by the retail tenants and the continuous positive rental reversions for office areas in particular in Harbour City and Times Square. In the Mainland, rental revenue increased substantially by 69% to HK$796 million as benefited from the new source of revenue generated by the brand new Shanghai Wheelock Square, as well as the reopened Chongqing Times Square, and solid rental reversions of other investment properties. Hotel reported revenue increase by 10% to HK$1,277 million as sustained by substantial increase in room rates with occupancy remained at high level. In aggregate, the segment recorded an increase in revenue of 16% to HK$10,085 million.

Property Development recognised property sales of HK$6,343 million, a year-on-year increase of 76%. The increase was mainly attributable to project completions at Chengdu Tian Fu Times Square, Crystal Park, Suzhou Ambassador Villa, Changzhou Times Palace and Wuxi Glory of Time in the Mainland.

During the year, inclusive of joint ventures on an attributable basis, the Group recorded contracted property sales totally HK$15.7 billion (2010: HK$10.3 billion) in more than ten cities in the Mainland, increasing its net order book to HK$16.7 billion by year end 2011 pending for recognition on completion of the respective properties by stages.

Logistics revenue rose by 3% to HK$3,520 million with Modern Terminals' revenue increased marginally for higher throughput handled.

CME revenue increased by 5% to HK$3,863 million, resulting from a 5% increase reported by i-CABLE and a 4% increase reported by Wharf T&T.

Operating Profit

Group operating profit for the year increased by 22% to HK$11,388 million with all segments reporting an increase except for Logistics.

Property Investment remained the largest profit contributor with a 18% increase in operating profit to HK$7,694 million. Contributions from Harbour City (excluding hotels) and Times Square increased by 15% and 13%, respectively. Operating profit from the Mainland increased by 121%, benefited from its expanding portfolio particularly Shanghai Wheelock Square.

Hotels operating profit increased by 13% to HK$374 million due to improved room rates with solid occupancies.

Property Development's operating profit increased impressively by 84% to HK$2,274 million as more Mainland property sales were recognised with respectable margins upon phased completions of various projects.

Logistics' profit contribution dropped by 13% to HK$1,563 million, mainly due to higher operating expenses were incurred for the expanding port activities and the lack of one-off gains that exceeded the increased revenue of Modern Terminals.

CME turned around from an operating loss to a profit of HK$45 million. Wharf T&T's operating profit increased by 14% to HK$230 million while i-CABLE's operating loss reduced by 26% to HK$186 million.

Profit contribution from Investment and Others increased by 53% to HK$288 million, primarily due to increase in interest income and dividend income.

Increase in Fair Value of Investment Properties

The book value of the Group's investment property portfolio as at 31 December 2011 increased to HK$184.1 billion (2010: HK$148.2 billion), with HK$168.0 billion thereof stated at fair value based on an independent valuation as at that date, which produced a revaluation surplus of HK$24,968 million (2010: HK$29,249 million). The attributable net revaluation surplus of HK$23,841 million (2010: HK$27,845 million), after deducting related deferred tax and non-controlling interests, was credited to the consolidated income statement.

Investment properties in the amount of HK$16.1 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 completion.

Other Net Income

Other net income for the year decreased by 44% to HK$457 million mainly due to the inclusion in 2010 a one-off surplus of HK$437 million from revaluation of the interests in Hong Kong Air Cargo Terminals Limited ("Hactl") on its becoming the Group's associate.

Finance Costs

Finance costs charged to the consolidated income statement were HK$2,567 million (2010: HK$996 million). That included an unrealised mark-to-market loss of HK$1,387 million (2010: HK$448 million) on the cross currency/interest rate swaps in accordance with prevailing accounting standard. Net of non-controlling interests, the loss is HK$1,356 million (2010: HK$429 million).

Excluding the unrealised mark-to-market loss, finance cost after capitalisation was HK$1,180 million (2010: HK$548 million), representing an increase of HK$632 million mainly as a result of the increase in gross borrowings and rise in effective borrowing rates.

Finance cost was stated after capitalisation of HK$447 million (2010: HK$279 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 for the year amounted to HK$361 million (2010: HK$376 million) with contribution mainly from Hactl, which became an associate in May 2010. Share of profit of jointly controlled entities increased by HK$25 million to HK$34 million (2010: HK$9 million), reflecting the increased profit contributions from Modern Terminals' port investment in the Mainland.

Income Tax

Taxation charge for the year was HK$3,304 million (2010: HK$2,358 million), which included deferred taxation of HK$901 million (2010: HK$1,158 million) provided for the current year's revaluation gain attributable to investment properties in the Mainland.

Excluding the above deferred tax, the tax charge was HK$2,403 million (2010: HK$1,200 million). The tax charge in 2010 was exceptionally lower mainly due to the inclusion of 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$54 million to HK$769 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 2011 amounted to HK$30,568 million (2010: HK$35,750 million), representing a decrease of 14%. Basic earnings per share were HK$10.22, based on weighted average of 2,991 million shares after taking the effect of the Rights Issue (2010: HK$12.64 based on 2,829 million shares as restated for the Rights Issue).

Excluding the net investment property revaluation surplus of HK$23,841 million (2010: HK$27,845 million), Group profit attributable to shareholders for the year was HK$6,727 million (2010: HK$7,905 million), representing a decrease of 15%, as a result of the absence of 2010's exceptional income amounting to HK$1,246 million on tax write back and surplus from revaluation of Hactl and the current year's attributable mark-to-market loss of HK$1,356 million on cross currency/interest rate swaps. Excluding the net investment property revaluation surplus and exceptionals, the core profit rose by 14% to HK$8,083 million (2010: HK$7,088 million). Core earnings per share were HK$2.70 (2010: HK$2.51).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 31 December 2011, the Group's shareholders' equity increased by HK$40,168 million or 25% to HK$203,257 million, equivalent to HK$67.10 per share based on 3,029 million issued shares after the rights issue completed in March 2011 (2010: HK$59.22 per share based on 2,754 million issued shares).

Including the non-controlling interests, the Group's total equity increased by 24% to HK$210,874 million (2010: HK$170,649 million).

Rights Issue

In March 2011, the Company strengthened its equity base by completion of an issue of 275 million new ordinary shares at HK$36.5 each by way of rights with net proceeds of HK$10.0 billion received.

Total Assets

The Group's total assets increased by 31% to HK$318.0 billion (2010: HK$242.8 billion). Total business assets, excluding bank deposit and cash, available-for-sale investments, deferred tax assets and other derivative financial assets, increased by 27% to HK$280.8 billion (2010: HK$220.8 billion).

Included in the Group's total assets is the investment property portfolio of HK$184.1 billion, representing 66% of total business assets. The core assets in this portfolio are Harbour City and Times Square in Hong Kong, which are valued at HK$93.6 billion (excluding the 3 hotels) and HK$37.0 billion, respectively. Together, they represent 71% of the total value of the portfolio.

Other major business assets included other properties and fixed assets of HK$19.0 billion, interests in jointly controlled entities and associates (mainly for Mainland property and port projects) of HK$27.1 billion and properties under development and held for sale (mainly in the Mainland) of HK$47.5 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, increased to HK$110.6 billion (2010: HK$74.8 billion), representing close to 40% of the Group's total business assets.

Debts and Gearing

Principally due to the increase in investments in China properties, the Group's net debt increased by HK$10.8 billion to HK$43.5 billion as at 31 December 2011 (2010: HK$32.7 billion), which was made up of HK$76.0 billion in debts and HK$32.5 billion in bank deposits and cash. Included in the Group's net debt were HK$8.1 billion (2010: HK$9.3 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$35.4 billion (2010: HK$23.4 billion). Analysis of the net debt is as below:

Net debt/(cash)	**31 December 2011** ***HK$ Million***	31 December 2010 *HK$ Million*
Wharf (excluding below subsidiaries)	**35,348**	23,376
Modern Terminals	**11,155**	9,932
HCDL	**(2,700)**	(172)
i-CABLE	**(338)**	(447)
	43,465	32,689

As at 31 December 2011, the ratio of net debt to total equity was 20.6% (2010: 19.2%).

Finance and Availability of Facilities

The Group's total available loan facilities and issued debt securities as at 31 December 2011 amounting to HK$92.9 billion, of which HK$76.0 billion were utilised, are analysed as below:

	31 December 2011		
	Available Facility ***HK$ Billion***	**Total Debts** ***HK$ Billion***	**Undrawn Facility** ***HK$ Billion***
Company/wholly-owned subsidiaries			
Committed bank facilities	**51.3**	**37.7**	**13.6**
Uncommitted bank facilities	**0.4**	**–**	**0.4**
Debt securities	**18.9**	**18.9**	**–**
	70.6	**56.6**	**14.0**
Non-wholly-owned subsidiaries			
Committed and uncommitted			
– Modern Terminals	**14.0**	**12.8**	**1.2**
– HCDL	**4.6**	**3.2**	**1.4**
– i-CABLE	**0.3**	**–**	**0.3**
– Others	**3.4**	**3.4**	**–**
	92.9	**76.0**	**16.9**

Of the above debts, HK$20,056 million (2010: HK$18,137 million) was secured by mortgage over certain properties under development, fixed assets and shares with total carrying value of HK$27,348 million (2010: HK$18,360 million).

In June 2011, the Group issued guaranteed convertible bonds with a term of 3 years for an aggregate principal amount of HK$6,220 million. The initial conversion price of the bonds is HK$90 per share and full conversion of the bonds will increase the Group's issued capital by 69.11 million shares or 2.28%.

The Group diversified the debt portfolio across a bundle of currency including primarily Hong Kong dollar ("HKD"), United States dollar ("USD") and Renminbi ("RMB"). The funding sourced from such debt portfolio was mainly used to finance 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 2011, the Group also maintained a portfolio of available-for-sale investments with an aggregate market value of HK$2.7 billion (2010: HK$3.4 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$12.5 billion (2010: HK$10.4 billion). The changes in working capital resulted in net cash outflow of HK$9.6 billion (2010: HK$7.2 billion), chiefly due to the payments 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$18.4 billion (2010: HK$7.0 billion), mainly for additions to investment properties and investments in associates and jointly controlled entities involved in property development projects in the Mainland.

Major Expenditure and Commitments

The major expenditure incurred by the Group's core businesses during the year and related commitments at 31 December 2011 are analysed as follows:

			Commitments as at 31 December 2011	
Business Unit/Company		**Expenditure for 2011** *HK$ Million*	**Authorised and Contracted for** *HK$ Million*	**Authorised but not Contracted for** *HK$ Million*
a.	**Capital expenditure**			
	Property Investments	**10,930**	**10,353**	**22,502**
	Wharf T&T	**467**	**245**	**165**
	i-CABLE (73.8%-owned)	**187**	**31**	**175**
	Modern Terminals (67.6%-owned)	**350**	**820**	**720**
		11,934	**11,449**	**23,562**
b.	**Trading properties under development**			
	Subsidiaries	**18,442**	**5,897**	**41,074**
	Jointly controlled entities/ associates	**6,352**	**4,238**	**14,901**
		24,794	**10,135**	**55,975**
c.	**Programming and others**	**80**	**1,077**	**80**

For the Property Investment segment, the capital expenditure incurred during the year under review was mainly for the land cost and construction cost of Chengdu IFC and Changsha 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 the construction of the Dachan Bay port project in the Mainland and addition of other fixed assets. 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$24.8 billion of expenditures for the development of its trading properties in the Mainland, either wholly-owned or undertaken through associates or jointly controlled entities. This included the amount of HK$3,388 million paid for the 50% interests in the four Foshan property joint ventures acquired from Wheelock and Company Limited during the year.

As at 31 December 2011, the Group's authorised and contracted commitments were mainly for development properties for investment of HK$11.4 billion and for trading of HK$10.1 billion, respectively, among these including attributable land cost of HK$5.3 billion payable by installments from 2012 to 2013. Apart from that, the Group intends to invest HK$23.6 billion for investment properties and HK$56.0 billion for trading properties, mainly on construction cost to complete the Group's China and Hong Kong development projects, which will be carried out by stages in the forthcoming years.

The above commitments and planned expenditures will be funded by Group's internal financial resources including its surplus cash of HK$32.5 billion, 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 available-for-sale investments.

(III) Human Resources

The Group had approximately 14,000 employees as at 31 December 2011, including about 2,400 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.