FINANCIAL REVIEW

(I) REVIEW OF 2011 INTERIM RESULTS

The Group continued to deliver robust performance, with consolidated turnover and operating profit both achieving double-digit growth. Inclusive of the surplus arising on the revaluation of investment properties, Group profit increased by 31% to HK$14,302 million (2010: HK$10,892 million). Exclusive of the revaluation surplus, and the exceptional gains in 2010 comprising a one-off tax write back and a surplus from revaluation of the interest in an associate totalling HK$1,246 million, underlying profit increased by 11% to HK$3,283 million (2010: HK$2,958 million).

Turnover

Group turnover increased by 13% to HK$9,745 million (2010: HK$8,622 million), with all business segments reporting an increase.

Property Investment revenue from Hong Kong increased by 12% to HK$3,856 million, underpinned by the outstanding sales achieved by the retail tenants and recovery of office rents. Revenue from the Mainland increased by 34% to HK$317 million due to the newly completed Shanghai Wheelock Square and favourable rental reversion for other properties. Hotel revenue increased by 11% to HK$593 million. In aggregate, the segment reported an increase in revenue of 13% to HK$4,766 million.

Property Development reported a 31% increase in turnover to HK$1,343 million, with completions at Chengdu Crystal Park and Chengdu Tian Fu Times Square. Inclusive of joint ventures on an attributable basis, new sales and presales of HK$7,610 million were contracted (2010: HK$1,957 million) to increase cumulative presales pending recognition to HK$17,960 million.

Logistics revenue reported an increase of 5% to HK$1,673 million. Modern Terminals' revenue improved by 6% mainly due to higher throughput handled in both Hong Kong and the Mainland.

CME revenue increased by 8% to HK$1,930 million, resulting from a 9% increase reported by i-CABLE and a 6% increase reported by Wharf T&T.

Operating Profit

Group operating profit increased by 10% to HK$4,980 million with all segments reporting an increase except for Logistics.

Property Investment remained the largest contributor with a 14% increase to HK$3,712 million. Contributions from Harbour City (excluding hotels) and Times Square increased by 13% and 11%, respectively. Operating profit from the Mainland increased by 39%, mainly due to Shanghai Wheelock Square.

Hotels contribution increased by 30% to HK$187 million due to improved room rates.

Property Development's operating profit increased by only 1% to HK$568 million, as a result of the project completion schedule.

Logistics' contribution dropped by 16% to HK$682 million, mainly due to higher operating expenses that exceeded the increased revenue of Modern Terminals.

CME turned around from an operating loss to a profit of HK$50 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.

Contribution from Investment and Others increased by 90% to HK$171 million, mainly 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 30 June 2011 totalled HK$169.1 billion, with HK$154.8 billion thereof stated at fair value based on an independent valuation as at that date. That resulted in a revaluation surplus of HK$11,614 million (2010: HK$7,447 million), reflecting the continuous strong performance of the Group's investment properties. The attributable net revaluation surplus of HK$11,019 million (2010: HK$6,688 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$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 completion.

Other Net Income

Other net income decreased by 77% to HK$122 million mainly due to the absence of a one-off surplus from revaluation of the interests in Hong Kong Air Cargo Terminals Limited ("Hactl") in 2010 on its became an associate.

Finance Costs

Finance costs charged to the consolidated income statement were HK$775 million (2010: HK$544 million). That included an unrealised mark-to-market loss of HK$369 million (2010: HK$319 million) on the cross currency/interest rate swaps in accordance with prevailing accounting standard.

Excluding the said unrealised mark-to-market loss, finance cost after capitalisation was HK$406 million (2010: HK$225 million), representing an increase of HK$181 million mainly as a result of the increase in gross borrowings.

Finance cost was stated after capitalisation of HK$175 million (2010: HK$145 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 88% to HK$188 million, mainly due to contribution from Hactl, which became an associate in May 2010. Share of results of jointly controlled entities reported a net loss of HK$9 million (2010: profit of HK$7 million) in the absence of any major property completion in the Mainland.

Income Tax

Taxation charge for the period was HK$1,511 million (2010: HK$889 million as restated), which included deferred taxation of HK$518 million (2010: HK$692 million as restated) provided for the current period's revaluation gain attributable to investment properties in the Mainland.

Excluding the above deferred tax, the tax charge was HK$993 million (2010: HK$197 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$40 million to HK$307 million.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the period ended 30 June 2011 amounted to HK$14,302 million (2010: HK$10,892 million as restated), representing an increase of 31%. Basic earnings per share were HK$4.84, based on weighted average of 2,952 million shares after taking the effect of the Rights Issue (2010: HK$3.85 based on 2,829 million shares as restated for the Rights Issue).

Excluding the net investment property revaluation surplus of HK$11,019 million (2010: HK$6,688 million as restated), Group underlying profit attributable to shareholders for the period was HK$3,283 million (2010: HK$4,204 million), representing a decrease of 22%, as a result of the exceptional income in 2010 amounting to HK$1,246 million on tax write back and surplus from revaluation of Hactl. Before the exceptionals, the underlying profit rose by 11%. Underlying earnings per share were HK$1.11.

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

As at 30 June 2011, the Group's shareholders' equity increased by 14% or HK$23,465 million to HK$186,554 million, equivalent to HK$61.59 per share based on 3,029 million issued shares after the rights issue completed in March 2011 (31 December 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 14% to HK$193,961 million (31 December 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 16% to HK$281.8 billion (31 December 2010: HK$242.2 billion). Total business assets, excluding bank deposit and cash, available-for-sale investments, deferred tax assets and other derivative financial assets, increased by 17% to HK$257.1 billion (31 December 2010: HK$220.2 billion).

Included in the Group's total assets is the investment property portfolio of HK$169.1 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$87.1 billion (excluding the 3 hotels) and HK$32.0 billion, respectively. Together, they represent 70% of the total value of the portfolio.

Other major business assets included other properties and fixed assets of HK$18.5 billion, interests in jointly controlled entities and associates (mainly for Mainland property and port projects) of HK$25.9 billion and properties under development and held for sale (mainly in the Mainland) of HK$40.3 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, increased to HK$100.1 billion (31 December 2010: HK$74.8 billion), representing 39% 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$9.8 billion to HK$42.5 billion as at 30 June 2011 (31 December 2010: HK$32.7 billion), which was made up of HK$62.4 billion in debts and HK$19.9 billion in bank deposits and cash. Included in the Group's net debt were HK$9.0 billion (31 December 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$33.5 billion (31 December 2010: HK$23.4 billion). Analysis of the net debt is as below:

Net debt/(cash)	**30 June 2011** *HK$ Million*	31 December 2010 *HK$ Million*
Wharf (excluding below subsidiaries)	**33,503**	23,376
Modern Terminals	**11,054**	9,932
HCDL	**(1,694)**	(172)
i-CABLE	**(369)**	(447)
	42,494	32,689

As at 30 June 2011, the ratio of net debt to total equity was 21.9% (31 December 2010: 19.2%).

Finance and Availability of Facilities

The Group's total available loan facilities and debt securities as at 30 June 2011 amounting to HK$85.3 billion, of which HK$62.4 billion were drawn, are analysed as below:

	30 June 2011		
	Available Facility *HK$ Billion*	**Total Debts** *HK$ Billion*	**Undrawn Facility** *HK$ Billion*
Company/wholly-owned subsidiaries			
Committed facilities	62.2	44.4	17.8
Uncommitted facilities	0.4	–	0.4
	62.6	44.4	18.2
Non-wholly-owned subsidiaries			
Committed and uncommitted			
– Modern Terminals	14.4	11.6	2.8
– HCDL	4.6	3.0	1.6
– i-CABLE	0.3	–	0.3
– Others	3.4	3.4	–
	85.3	62.4	22.9

Of the above debts, HK$19,324 million (31 December 2010: HK$18,137 million) was secured by mortgage over certain properties under development, fixed assets and shares with total carrying value of HK$19,918 million (31 December 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'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 30 June 2011, the Group also maintained a portfolio of available-for-sale investments with an aggregate market value of HK$3.2 billion (31 December 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 period under review, the Group recorded net cash inflow before change in working capital of HK$5.4 billion (2010: HK$5.0 billion). The changes in working capital resulted in net cash outflow of HK$3.2 billion (2010: inflow of HK$0.5 billion), chiefly due to the payments 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 recorded a net cash outflow of HK$14.3 billion (2010: inflow of HK$2.3 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 period and related commitments 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*	Commitments as at 30 June 2011 Authorised but not Contracted for *HK$ Million*
a. Capital expenditure			
Property Investments	8,918	10,444	23,415
Wharf T&T	226	222	158
i-CABLE (73.8%-owned)	88	36	132
Modern Terminals (67.6%-owned)	92	598	1,172
	9,324	11,300	24,877
b. Trading properties under development			
Subsidiaries	10,518	8,122	40,428
Jointly controlled entities/associates	5,606	3,571	17,845
	16,124	11,693	58,273
c. Programming and others	35	1,448	109

For the Property Investment segment, the capital expenditure incurred during the period under review was mainly for the 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 the construction of the Dachan Bay 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$16.1 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.

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$11.7 billion, respectively, among these including attributable land cost of HK$8.5 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$58.3 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 will be funded by Group's internal financial resources including its surplus cash of HK$19.9 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 13,300 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.