WHEELOCK

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# WHEELOCK & COMPANY LIMITED

# INTERIM REPORT 2010

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# CONTENTS

# Wheelock Properties Privatisation Sharpens the Group's Focus on Hong Kong Development Properties

## HIGHLIGHTS

- Privatisation of Wheelock Properties has enabled 50.02% of Wharf to be consolidated in one block under Wheelock since July.

- Wheelock Properties, now wholly-owned, will spearhead the Group's development projects in Hong Kong with the full backing of the Group's capital base and starting with a current attributable land bank of 1.6 million square feet. Douglas Woo has been appointed vice chairman and managing director and Ricky Wong as managing director.

- In Singapore, 75.8%-owned Wheelock Properties (Singapore) contributed HK$3.4 billion of turnover and HK$1.2 billion of operating profit on completion of Ardmore II and Orchard View. Two other projects (Scotts Square and Ardmore Three with a total of 0.6 million square feet) are due for completion in 2011 and 2014, respectively.

- Subject to legal compliances, suitable consideration may be given to consolidating under Wharf the non-Wharf China projects (all of them led by joint venture partners and currently held under Wheelock directly) as well.

- Funding for the privatisation of Wheelock Properties in 2010 and Wharf's rights issue in 2008 has raised the Group's net debt (excluding non-wholly owned subsidiaries) from HK$0.9 billion in 2008 to HK$8.2 billion.

## GROUP RESULTS

The unaudited profit attributable to equity shareholders for the six months ended 30 June 2010 increased by 66% to HK$5,969 million (2009: HK$3,599 million). Earnings per share were HK$2.94 (2009: HK$1.77).

Excluding the net investment property revaluation surplus of HK$3,143 million (2009: HK$1,845 million), Group profit attributable to equity shareholders would be HK$2,826 million (2009: HK$1,754 million), an increase of 61% over 2009.

## INTERIM DIVIDEND

The Board has declared an interim dividend of 2.5 cents (2009: 2.5 cents) per share, payable on 30 September 2010 to shareholders on record as at 22 September 2010.

# BUSINESS REVIEW

***Wheelock Properties Limited ("WPL"), previously a 74%-owned listed subsidiary, became wholly owned on 22 July 2010 by way of a scheme of arrangement.***

***Wheelock Properties (Singapore) Limited ("WPSL"), a 75.8%-owned listed subsidiary of WPL, contributed a profit attributable to shareholders of HK$1,106 million for the financial period under review (2009: loss of HK$38 million).***

***The Wharf (Holdings) Limited ("Wharf"), a 50.02%-owned listed subsidiary of the Group, reported a profit attributable to shareholders of HK$9,888 million (2009: HK$6,975 million). Excluding the net investment property surplus and related deferred tax, Wharf's net profit was HK$4,204 million (2009: HK$3,292 million), an increase of 28% over 2009.***

## *PROPERTY DEVELOPMENT*

### Hong Kong

In March 2010, the Group acquired the development right of two land parcels atop the MTR Austin Station at the heart of Tsim Sha Tsui West, through a 50:50 joint venture with New World Development, for a luxury residential development. It is within close proximity to the Airport Express Line and the terminus for the high-speed train services to Guangzhou under development. The combined site area is 295,000 square feet, with 641,000 square feet of GFA attributable to the Group. The land premium of HK$11.7 billion, equivalent to an accommodation value of approximately HK$9,100 per square foot, will be borne two-third by the joint venture and one-third by MTR Corporation, owner of the land, who will also take a share of the development profit. Construction cost will be borne by the joint venture. Master layout plan for the development is underway, and the project is scheduled for completion by 2014.

The Group acquired the entire interest in the property situated at 46 Belcher's Street, Western District, in May for residential redevelopment. The development envisages a total GFA of 91,400 square feet.

For other developments, 87% of The Babington in the Mid-Levels, with a total of 47 luxury apartments, has been sold to realise proceeds of HK$570 million.

The redevelopment of 2 Heung Yip Road, Aberdeen, into a high-rise commercial building is underway. The development offers a total GFA of 737,200 square feet, of which about 224,900 square feet has been pre-sold. Premium for the lease modification has been paid and the accommodation value of the development is approximately HK$1,050 per square foot. The development will be completed in the fourth quarter of 2010.

Foundation work for a residential development at 211-215C Prince Edward Road West, Ho Man Tin, is underway. The development offers a total GFA of 91,700 square feet.

## Singapore

Ardmore II, a prime residential development with 118 apartments, was completed in June. All of the 118 units have been sold at an average price of over S$2,300 per square foot.

Orchard View, a luxury residential development located in the serene enclave of Angullia Park and within walking distance to the MRT Orchard Station, comprises 30 units of four-bedroom apartments with private lift lobbies, was completed in May. As at 30 June 2010, six units have been sold at an average price of over S$3,200 per square foot.

Scotts Square, strategically located in the main shopping belt of Orchard Road, is a prime residential development with 338 international quality apartments, plus a retail annex. The retail podium will be held for long term investment. 77% of the apartments have been pre-sold at an average price of close to S$4,000 per square foot. Main construction work for the development is underway and is scheduled for completion by 2011.

Ardmore Three, another luxury project along Ardmore Park, is planned for redevelopment and sale. It will be an international-standard luxury residential development in the prestigious Ardmore Park, next to Ardmore II. Piling work is scheduled to commence in the third quarter of 2010.

## Southern China

The Group further acquired two prime sites in Foshan in July through public auction for a combined residential development, boosting its presence in Foshan to four projects, all undertaken through 50:50 joint ventures with China Merchants.

The two sites, acquired for RMB1.1 billion, are well-located at the western side of the First Ring Road in Nanhai, and offer a combined attributable GFA of 112,400 square metres. The development is under planning, with completion scheduled by 2014 in phases.

The Group's first project with China Merchants in Foshan, Evian Town (依雲水岸), is located in Xincheng District (新城區) facing the Dong Ping River (東平河). 86% of 360 high-rise residential units launched between January and June has so far been sold for over RMB580 million, at an average price of RMB12,200 per square metre of GFA. The development is scheduled for completion in phases by 2014.

The second development, Evian Uptown (依雲上城) in Chancheng District (禪城區), launched its 2nd to 4th residential towers (340 units) during 2010, of which 76% has so far been sold for RMB206 million, at an average price of close to RMB9,000 per square metre. The development is expected to be completed in phases by 2013.

The third development is in Shishan Town (獅山鎮), 15km from the centre of Chancheng District. It offers an attributable GFA of 155,000 square metres and is planned for an upscale residential project to be completed in phases by 2015.

## *PROPERTY INVESTMENT*

### Hong Kong

The office and retail area of Crawford House, 70 Queen's Road Central, was 96% and 100% leased respectively at satisfactory rental rates. Hennes & Mauritz AB (H&M), the anchor retail tenant which occupies the majority of the retail podium is performing well.

Wheelock House, situated right above the MTR Central Station, was 97% leased at satisfactory rental rates as at the end of June 2010.

### Singapore

Wheelock Place, a prime commercial development in Orchard Road, achieved 100% tenant commitment as at the end of June 2010.

## *THE WHARF (HOLDINGS) LIMITED (A 50.02%-OWNED LISTED SUBSIDIARY)*

Wharf's profit attributable to shareholders excluding net investment property revaluation surplus increased by 28% to HK$4,204 million (2009: HK$3,292 million). Including the net revaluation surplus, profit attributable to shareholders increased by 42% to HK$9,888 million (2009: HK$6,975 million). Earnings per share were HK$3.59 (2009: HK$2.53).

### Property Investment

Property Investment posted a 9% rise in operating profit to HK$3,258 million. Landmarks Harbour City and Times Square combined account for an exceptional 8% share of Hong Kong's total retail sales, substantially outperforming the rest of Hong Kong.

#### *Harbour City*

Turnover increased by 10% to HK$2,831 million during the period, while operating profit rose by 12% to HK$2,190 million.

Harbour City accounts for close to 6% of total Hong Kong retail sales in the first half of 2010. Total retail sales grew by 34% year on year, over 16 percentage points better than the market. Retail turnover rose by 20% to HK$1,437 million.

Turnover of Harbour City's office sector dropped by 8% to HK$774 million, reflecting the market softness since the second half of 2008, which has now started to firm again. Occupancy was maintained at 92% at the end of June 2010.

### *Times Square*

Times Square turned over HK$738 million during the period, for an increase of 8% over the same period in 2009. Operating profit rose by 10% to HK$655 million.

Times Square registered a strong retail sales growth during the period, with a 24% year-on-year rise, outperforming the market by over six percentage points. Retail turnover increased by 13% to HK$512 million.

Turnover of the office sector dropped by 2% to HK$226 million reflecting the softness of the market earlier. Occupancy was maintained at 93% at the end of the period.

### *China*

Excluding Beijing Capital Times Square which was disposed of in late 2009, turnover and operating profit grew by 11% and 18% during the period.

Shanghai Wheelock Square, the tallest building in Puxi commercial hub, is the group's new landmark property. The development was completed in May 2010. The low zones, representing 54% of the total GFA, have been launched for lease; and 65% of the launched area has been committed at satisfactory rents.

Chengdu International Finance Centre is the group's next flagship development and single largest commercial complex across China. It will comprise a mega retail complex, Grade A offices, a five-star hotel and luxury residences. Main construction commenced in June and phase one of the project is targeted for completion by the first half of 2013.

Chongqing International Finance Centre is a joint development with China Overseas Land & Investment ("COLI") on a 50:50 basis. The development targets to become the new landmark of Chongqing, a city recently branded "Chicago on the Yangtze", with an iconic 300-metre tower and four other towers atop a retail podium, comprising up-market retail space, Grade A offices, a five-star hotel and serviced apartments.

## China Property Development

As at the end of June 2010, total land bank attributable to Wharf was 9.9 million square metres, spanning across 10 cities.

With fewer projects completed during the period, turnover dropped by 36% to HK$1,024 million and operating profit slightly reduced by 5% to HK$560 million.

### *Sales*

Sales continued to meet with encouraging responses in take-up rates and prices, reflecting the superb location, quality of the properties and the group's reputable brand strength.

A total of 161,000 square metres of residential properties were sold or pre-sold in the first half of 2010, generating proceeds of over RMB1.7 billion (HK$2.0 billion).

Changzhou Times Palace (formerly known as Changzhou Dinosaur Park Project) sold 97% of the units launched between March and June to realise total sales proceeds of over RMB610 million.

Pre-sales of the first seven high-end medium-rise residential towers of Shanghai Xiyuan (formerly known as Xinjiangwancheng development) commenced in late July, with 74% of the units sold so far, generating total sales proceeds of over RMB900 million.

Wuxi Times City sold 64% of the units launched in 2010 for total sales proceeds of over RMB460 million.

Chengdu Crystal Park sold 70% of the units launched in 2010 for total sales proceeds of over RMB300 million. The residential and office units of Chengdu Times Residences at Tian Fu Times Square sold during 2010 realised sales proceeds of over RMB320 million.

In Chongqing, the CBD International Community project in Danzishi (彈子石), developed by Wharf and COLI on a 40:60 basis, sold 70% of the units offered for RMB190 million.

### *New Acquisitions and Existing Developments*

Four new prime sites were acquired in the cities of Chengdu, Tianjin, Hangzhou and Wuxi in the first half of 2010.

In Chengdu, a new site was acquired in Chenghua District (成華區) with established community facilities nearby. It offers a GFA of 321,000 square metres and will be developed into upscale residences.

In Tianjin, a site in He Bei Qu (河北區) was acquired on the north eastern side of Tianjin. The project is being developed with COLI on a 50:50 basis. It is developable into attributable GFA of 244,000 square metres of residential and commercial space.

Wharf acquired its third project in Hangzhou in Xiacheng District (下城區), next to a future metro line station to be completed by 2011. The project is developable into 82,000 square metres of GFA.

A new residential project in the Nanchang District (南長區) of Wuxi, of which Wharf owns 40%, was acquired through a joint venture with Shanghai Forte and Shanghai Greenland. The development offers an attributable GFA of 98,000 square metres.

All other projects under development in the cities of Chengdu, Chongqing, Wuxi, Suzhou, Hangzhou, Shanghai and Tianjin are progressing according to plan.

## Hong Kong Property Development

In July 2010, Wharf won an auction in a joint bid with Nan Fung Group on a 50:50 basis for a unique development at 103 Mount Nicholson Road at a consideration of HK$10.4 billion. Mount Nicholson is itself a 'location brand name', of breathless panoramic view, with its private half-mile road access offering ultimate privacy. The land parcel offers an attributable GFA of 162,000 square feet and will be developed into exclusive and super deluxe residences, unmatched even by the Peak properties.

Cable TV Tower South, Kowloon Godown, Yau Tong Godown and Yau Tong joint venture projects are progressing on schedule.

## Other Businesses

### *Modern Terminals*

Modern Terminals' consolidated revenue and operating profit grew by 13% to HK$1,533 million and 36% to HK$793 million respectively.

Modern Terminals' throughput in Hong Kong grew by 8% to 2.65 million TEUs, alongside a gradual revival in trade demand. Container volume at Taicang International Gateway in Suzhou and Da Chan Bay Terminal One in Shenzhen grew strongly by 57% and over five folds respectively during the period.

### *Marco Polo Hotels*

Total revenue for the Marco Polo hotels and club in Harbour City rose by 21% to HK$533 million. Consolidated occupancy in Hong Kong improved and reached 82%, and a 19% increase in average room rates was registered during the period.

### *i-CABLE Communications ("i-CABLE")*

Stoked by 2010 FIFA World Cup, turnover increased by 12% to HK$962 million. An operating loss of HK$107 million was however reported due to the recognition timing mismatch for Pay TV. In addition, a one-off investment loss of HK$39 million in a film fund was booked.

The World Cup was a major draw card to rebuild business momentum. Pay TV subscribers increased by 9% to 1,086,000, which represented the largest half-yearly net gain ever. Post-World Cup subscriber retention has also been very satisfactory. Broadband competition heightened in the period, where subscribers decreased by 6% to 234,000.

### *Wharf T&T*

The Information and Communications Technology business side-stepped the worst of the global financial crisis on the back of pent-up demand. Turnover slightly rose to HK$833 million and a net profit of HK$95 million was reported.

## FINANCIAL REVIEW

### (I) *REVIEW OF 2010 INTERIM RESULTS*

#### Turnover and Operating Profit

Group turnover rose by 38% to HK$12,516 million (2009: HK$9,082 million), largely due to the substantial increase in recognition of property sales on completion of two projects in Singapore. In addition, modest increases were reported for all other segments.

Group operating profit increased by 31% to HK$6,020 million (2009: HK$4,612 million), with HK$4,516 million (2009: HK$4,211 million) contributed by Wharf and HK$1,301 million (2009: HK$83 million) by WPSL.

*Property Investment*

Revenue and operating profit increased by 6% and 8% to HK$4,483 million (2009: HK$4,226 million) and HK$3,467 million (2009: HK$3,197 million) respectively. This reflects the underlying solid rental reversion and consistently high occupancy for the retail areas. In addition, the hotel segment also recorded favourable results with both occupancy and average room rate much improved.

*Property Development*

Revenue and operating profit increased by HK$2,798 million and HK$1,062 million to HK$4,548 million (2009: HK$1,750 million) and HK$1,813 million (2009: HK$751 million) respectively. The Ardmore II and Orchard View projects in Singapore were completed in the second quarter of 2010 to enable revenue of HK$3,394 million and operating profit of HK$1,190 million be recognised by the Group during the period under review.

WPSL recognises revenue and profit on pre-sales of properties under development by stages using the percentage of completion method in accordance with generally accepted accounting principles in Singapore. However, under Hong Kong Financial Reporting Standards, the Group recognises revenue and profit on pre-sales of properties upon their completion. Accordingly, revenue and profit from WPSL's Ardmore II (100% sold) and Orchard View (20% sold) projects were not recognised until they were completed during the period under review, which gave rise to an attributable net profit of HK$566 million in the first half of 2010. On the same basis, profit recognised by WPSL in the first half of 2010 in respect of its pre-sale of Scotts Square units (still under development) was reversed and excluded from the Group's consolidated results. Up to 30 June 2010, WPSL has cumulatively pre-sold 237 units (77% pre-sold) at Scotts Square. The accumulated sales revenue of HK$2,420 million and profit attributable to the Group of HK$723 million were reversed and excluded from the Group's consolidated results.

Property sales revenue from China in the first half of 2010 fell by 36% to HK$1,024 million, which was mainly derived from No. 1 Xin Hua Road in Shanghai and Dalian Times No. 1 & 8.

### *Logistics*

Revenue and operating profit of HK$1,596 million (2009: HK$1,483 million) and HK$811 million (2009: HK$626 million) were reported respectively. This mainly reflected a 24% increase in volume throughput handled by Modern Terminals under the recovering global economic environment together with its successful implemented cost control initiatives.

### *Communications, Media and Entertainment ("CME")*

Revenue increased by 6% to HK$1,795 million (2009: HK$1,693 million). An operating loss of HK$15 million (2009: profit of HK$129 million) was reported as Wharf T&T's operating profit was extinguished by i-CABLE's loss, mainly due to the mismatch in timing of recognition between the substantial non-recurrent costs on premium programming and the recurrent revenue from the long term subscriber commitments.

### *Investment and Others*

Investment operating profit was HK$169 million (2009: HK$88 million), mainly comprising dividend and interest income.

## Increase in Fair Value of Investment Properties

The Group's investment property portfolio was HK$136.2 billion with HK$131.8 billion stated at fair value, based on independent valuation as at 30 June 2010, which produced a revaluation surplus of HK$8,030 million (2009: HK$4,565 million). The attributable net revaluation surplus of HK$3,143 million (2009: HK$1,845 million), after deducting related deferred tax and non-controlling interests in total of HK$4,887 million (2009: HK$2,720 million), was credited to the consolidated income statement.

Investment properties in the amount of HK$4.4 billion not revalued were all under development and not carried at fair value until at the earlier of when their fair values first become reliably measurable and the dates of their respective completion.

## Other Net Income

Other net income of HK$537 million (2009: HK$202 million) comprised a one-off surplus from revaluation of the interests in Hong Kong Air Cargo Terminals Limited ("Hactl") on its becoming an associate of Wharf and profit on disposal of available-for-sale investments.

## Net Other Charge

There was no net other charge for the first half of 2010 against the impairment provision of HK$121 million made by WPSL on its investments in SC Global Developments Ltd and Hotel Properties Limited in 2009.

## Finance Costs

Finance costs charged to the consolidated income statement were HK$569 million (2009: HK$20 million), which included an unrealised mark-to-market loss of HK$318 million (2009: gain of HK$196 million) on the cross currency/interest rate swaps as measured in compliance with the prevailing accounting standard.

Excluding the unrealised mark-to-market impact on the swaps, finance costs, after capitalisation of HK$154 million (2009: HK$97 million), were HK$251 million (2009: HK$216 million).

## Share of Results after Tax of Associates and Jointly Controlled Entities

Share of profits of associates increased by 58% to HK$142 million (2009: HK$90 million), mainly attributable to profit recognised by an associate for property units sold in Foshan. Contribution from jointly controlled entities ("JCEs") was HK$7 million (2009: HK$27 million).

## Income Tax

Taxation charge was HK$2,217 million (2009: HK$1,842 million), which included deferred taxation of HK$1,801 million (2009: HK$771 million) provided for the investment property revaluation surplus.

Excluding the above deferred tax, the tax charge decreased to HK$416 million (2009: HK$1,071 million), resulting from a net tax provision write back of HK$809 million by Wharf upon reaching a settlement with the Inland Revenue Department on various tax disagreements.

## Non-controlling Interests

Profit attributable to non-controlling interests was HK$5,981 million (2009: HK$3,914 million), which was mainly attributable to profit of Wharf.

## Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 66% to HK$5,969 million (2009: HK$3,599 million). Earnings per share were HK$2.94 (2009: HK$1.77).

Excluding the net investment property revaluation surplus after the associated deferred tax of HK$3,143 million (2009: HK$1,845 million), the Group's profit attributable to shareholders for the period was HK$2,826 million (2009: HK$1,754 million), for an increase of 61% over the corresponding period in 2009.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| *Profit/(loss) attributable to* | **HK$ Million** | HK$ Million |
| Wharf group | **2,027** | 1,587 |
| WPSL | **623** | (32) |
| Wheelock and other subsidiaries | **176** | 199 |
| Profit before investment property surplus | **2,826** | 1,754 |
| Investment property surplus (after deferred tax) | **3,143** | 1,845 |
| Profit attributable to equity shareholders | **5,969** | 3,599 |

Wharf's profit for the first half of 2010 was HK$9,888 million (2009: HK$6,975 million). Excluding the net investment property surplus and related deferred tax, Wharf's net profit was HK$4,204 million (2009: HK$3,292 million), for an increase of 28% over 2009.

WPSL's reported profit for the first half of 2010 was S$133.9 million (2009: S$38.7 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$1,106 million (2009: loss of HK$38 million), including the profits on pre-sales of Ardmore II and Orchard View recognised on their completion for the period under review.

## *(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS*

### Shareholders' and Total Equity

The Group's shareholders' equity increased by HK$6.0 billion or 9% to HK$75.7 billion (2009: HK$69.7 billion), or HK$37.25 per share (2009: HK$34.30 per share) as at 30 June 2010.

Including the non-controlling interests, the Group's total equity increased by 8% to HK$155.1 billion (2009: HK$144.1 billion).

## Total Assets

The Group's total assets increased by 6% to HK$238.0 billion (2009: HK$224.8 billion). Total business assets, excluding bank deposits and cash, held-to-maturity investments and available-for-sale investments, increased by 8% to HK$205.7 billion (2009: HK$191.3 billion).

The Group's Investment Property portfolio was HK$136.2 billion, representing 66% of total business assets, which included Harbour City and Times Square in Hong Kong together valued at HK$91.7 billion, representing 67% of the value of the portfolio.

Other major business assets included other properties and fixed assets of HK$18.3 billion, interest in JCEs and associates (mainly for China property and port projects) of HK$17.0 billion and properties under development and held for sale of HK$28.6 billion.

Geographically, the Group's business assets in Mainland China, mainly properties and terminals, increased to HK$61.9 billion (2009: HK$54.9 billion), representing 30% of the Group's business assets.

## Debts and Gearing

The Group's net debt increased by HK$2.4 billion to HK$21.3 billion (2009: HK$18.9 billion) as at 30 June 2010, which was made up of HK$47.6 billion in debts and HK$26.3 billion in bank deposits and cash. Excluding Wharf's net debt of HK$23.4 billion, which is non-recourse to the Company and its other subsidiaries, and WPSL's net cash of HK$3.4 billion, Wheelock's net debt was HK$1.3 billion (2009: HK$0.3 billion).

Analysis of the net debt by group is as below:

| Net debt/(cash) | **30 June 2010 HK$ Million** | 31 December 2009 HK$ Million |
|---|---|---|
| Wheelock Group (excludes Wharf) | **(2,120)** | (2,554) |
| Wheelock and other subsidiaries | **1,328** | 348 |
| WPSL | **(3,448)** | (2,902) |
| Wharf group | **23,370** | 21,432 |
| Wharf (excludes below subsidiaries) | **11,887** | 9,392 |
| Modern Terminals | **10,570** | 10,742 |
| Harbour Centre Development Ltd. | **1,452** | 1,829 |
| i-CABLE | **(539)** | (531) |
| Group | **21,250** | 18,878 |

The ratio of net debt to total equity was 13.7% (2009: 13.1%) as at 30 June 2010.

Subsequent to the reporting date, the privatisation of WPL became effective and the total consideration of HK$6.9 billion financed by the available banking facility as at 30 June 2010 was paid by the Company on 30 July 2010.

## Finance and Availability of Facilities

The Group's available loan facilities and debt securities amounting to HK$82.5 billion (2009: HK$67.7 billion), of which HK$47.6 billion were drawn, as at 30 June 2010 are analysed as below:

| | 30 June 2010 | | |
|---|---|---|---|
| | Available Facility HK$ Billion | Total Debts HK$ Billion | Undrawn Facility HK$ Billion |
| Wheelock Group (excludes Wharf) | 14.6 | 6.6 | 8.0 |
| Wheelock and other subsidiaries | 13.4 | 6.0 | 7.4 |
| WPSL | 1.2 | 0.6 | 0.6 |
| Wharf group | 67.9 | 41.0 | 26.9 |
| Wharf (excludes below subsidiaries) | 46.9 | 26.7 | 20.2 |
| Modern Terminals | 16.1 | 11.2 | 4.9 |
| Harbour Centre Development Ltd. | 4.6 | 3.1 | 1.5 |
| i-CABLE | 0.3 | – | 0.3 |
| | **82.5** | **47.6** | **34.9** |

Of the above debts, HK$15.9 billion (2009: HK$15.8 billion) was secured by mortgage over certain properties under development, fixed assets and investments with total carrying value of HK$64.0 billion (2009: HK$72.6 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-related investments in Mainland China, 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 very strong financial position with ample surplus cash denominated principally in HKD, RMB and SGD and undrawn committed facilities to facilitate the Group's business and investment activities. The Group also maintained a portfolio of available-for-sale investments, primarily in blue-chip securities, with an aggregate market value as at 30 June 2010 of HK$6.0 billion (2009: HK$4.9 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 net cash inflow from operating activities was HK$1.0 billion (2009: HK$4.0 billion), which was mainly derived from sale proceeds of properties offset by Wharf's payment for land and construction cost for properties under development. For investing activities, the Group reported a net cash inflow of HK$2.3 billion (2009: HK$261 million), which mainly included the balance of proceeds from disposal of Beijing Capital Times Square and bank deposits with maturity over three months of HK$4.2 billion matured in the first half of 2010 and cash outflow of HK$3.0 billion for net investments in JCEs and associates.

## Major Expenditure and Commitments

The major expenditure, substantially incurred by Wharf's core businesses, during the period under review and related commitments as at 30 June 2010 are analysed as follows:

| | | | Commitments as at 30 June 2010 | |
|---|---|---|---|---|
| *Business Unit/Company* | | **Expenditure for 1-6/2010 HK$ Million** | **Authorised and Contracted for HK$ Million** | **Authorised but not Contracted for HK$ Million** |
| **(a)** | **Capital expenditure** | | | |
| | (including investment properties) | | | |
| | Wharf group | | | |
| | Property Investments | 833 | 7,131 | 13,111 |
| | Wharf T&T | 119 | 135 | 203 |
| | i-CABLE (73.8%-owned) | 120 | 33 | 105 |
| | Modern Terminals (67.6%-owned) | 79 | 636 | 1,275 |
| | | 1,151 | 7,935 | 14,694 |
| | Wheelock Group (excludes Wharf) | 55 | 157 | – |
| | **Total** | **1,206** | **8,092** | **14,694** |
| **(b)** | **Programming and others** | **38** | **2,111** | **124** |
| **(c)** | **Properties under development** | | | |
| | (other than investment properties) | | | |
| | Wharf group | 6,088 | 12,587 | 38,333 |
| | Subsidiaries (China/Hong Kong) | 4,352 | 7,941 | 25,180 |
| | JCEs and associates (China) | 1,736 | 4,646 | 13,153 |
| | Wheelock Group (excludes Wharf) | 2,461 | 835 | 4,102 |
| | Subsidiaries (Singapore/Hong Kong) | 948 | 635 | 706 |
| | JCEs and associates (China/Hong Kong) | 1,513 | 200 | 3,396 |
| | **Total** | **8,549** | **13,422** | **42,435** |

The capital expenditure for Wharf's Property Investment segment was mainly for the construction of its Shanghai Wheelock Square, Chengdu International Finance Centre and certain refurbishment and renovation work, in particular for Harbour City. 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 addition to the capital expenditure, the Group also incurred HK$8.5 billion for properties under development, of which HK$6.1 billion was incurred by Wharf.

As at 30 June 2010, Wharf's total commitments to properties under development for investment or trading purposes was about HK$71.2 billion, including attributable land cost of HK$13.9 billion payable by instalments mainly from 2010 to 2013. These developments will be executed by stages in the forthcoming years. Excluding Wharf's, the Group's commitments to properties under development was about HK$5.1 billion, mainly related to property development projects in Singapore, Hong Kong and Mainland China.

The above commitments will be funded by the respective groups' own internal financial resources including surplus cash, as well as bank and other financings. Other available resources include available-for-sale investments and proceeds from sales and pre-sales of properties.

## *(III) EVENTS AFTER THE REPORTING DATE*

### Privatisation of WPL

The privatisation of WPL, at a cancellation price of HK$13 per share by way of a scheme of arrangement under Section 166 of the Companies Ordinance, became effective on 22 July 2010 and the total consideration of HK$6,905 million financed by a bank loan was paid.

### Acquisition of Property

On 28 July 2010, Wharf together with Nan Fung group succeeded in bidding for a piece of land at Mount Nicholson Road, The Peak, at a consideration of HK$10.4 billion, and will jointly develop the land into residential properties on a 50:50 ownership basis.

## *(IV) HUMAN RESOURCES*

The Group had approximately 13,600 employees as at 30 June 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.

# CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010 – Unaudited

| | Note | Six months ended 30 June 2010 HK$ Million | 2009 HK$ Million |
|---|---|---|---|
| **Turnover** | 2 | **12,516** | 9,082 |
| Direct costs and operating expenses | | **(4,950)** | (2,936) |
| Selling and marketing expenses | | **(404)** | (359) |
| Administrative and corporate expenses | | **(491)** | (529) |
| Operating profit before depreciation, amortisation, interest and tax | | **6,671** | 5,258 |
| Depreciation and amortisation | | **(651)** | (646) |
| **Operating profit** | 2 & 3 | **6,020** | 4,612 |
| Increase in fair value of investment properties | | **8,030** | 4,565 |
| Other net income | 4 | **537** | 202 |
| Net other charge | 5 | **–** | (121) |
| | | **14,587** | 9,258 |
| Finance costs | 6 | **(569)** | (20) |
| Share of results after tax of: | | | |
| Associates | | **142** | 90 |
| Jointly controlled entities | | **7** | 27 |
| Profit before taxation | | **14,167** | 9,355 |
| Income tax | 7 | **(2,217)** | (1,842) |
| **Profit for the period** | | **11,950** | 7,513 |
| **Profit attributable to:** | | | |
| Equity shareholders | | **5,969** | 3,599 |
| Non-controlling interests | | **5,981** | 3,914 |
| | | **11,950** | 7,513 |
| **Earnings per share** | 8 | **HK$2.94** | HK$1.77 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 – Unaudited

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$ Million** | HK$ Million |
| **Profit for the period** | **11,950** | 7,513 |
| **Other comprehensive income** | | |
| Exchange difference | **353** | (141) |
| Available-for-sale investments: | | |
| Net movement in the investments revaluation reserves | **34** | 1,252 |
| Surplus on revaluation | **118** | 1,140 |
| Transferred to consolidated income statement: | | |
| Disposal | **(84)** | (9) |
| Impairment | **–** | 121 |
| Share of other comprehensive income of associates/jointly controlled entities | **81** | (4) |
| Others | **(23)** | (6) |
| **Other comprehensive income for the period** | **445** | 1,101 |
| **Total comprehensive income for the period** | **12,395** | 8,614 |
| **Total comprehensive income attributable to:** | | |
| Equity shareholders | **6,187** | 4,256 |
| Non-controlling interests | **6,208** | 4,358 |
| | **12,395** | 8,614 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010 – Unaudited

| | Note | 30 June 2010 HK$ Million | 31 December 2009 HK$ Million |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **136,162** | 126,789 |
| Other property, plant and equipment | | **14,605** | 14,734 |
| Leasehold land | | **3,747** | 3,788 |
| Total fixed assets | | **154,514** | 145,311 |
| Goodwill and other intangible assets | | **297** | 297 |
| Interest in associates | | **6,687** | 5,513 |
| Interest in jointly controlled entities | | **10,296** | 7,551 |
| Available-for-sale investments | | **5,986** | 4,885 |
| Long term receivables | | **34** | 284 |
| Programming library | | **108** | 113 |
| Employee retirement benefit assets | | **138** | 139 |
| Deferred tax assets | | **440** | 432 |
| Derivative financial assets | | **147** | 318 |
| | | **178,647** | 164,843 |
| **Current assets** | | | |
| Properties for sale | | **28,588** | 25,824 |
| Inventories | | **110** | 107 |
| Held-to-maturity investments | | **–** | 824 |
| Trade and other receivables | 10 | **4,134** | 5,243 |
| Derivative financial assets | | **200** | 209 |
| Bank deposits and cash | | **26,307** | 27,756 |
| | | **59,339** | 59,963 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **(6,109)** | (6,457) |
| Deposits from sale of properties | | **(5,771)** | (6,225) |
| Derivative financial liabilities | | **(186)** | (101) |
| Taxation payable | | **(1,652)** | (1,653) |
| Bank loans and other borrowings | | **(8,698)** | (9,049) |
| | | **(22,416)** | (23,485) |
| **Net current assets** | | **36,923** | 36,478 |
| **Total assets less current liabilities** | | **215,570** | 201,321 |
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | | **(38,859)** | (37,585) |
| Deferred tax liabilities | | **(20,257)** | (18,270) |
| Other deferred liabilities | | **(274)** | (262) |
| Derivative financial liabilities | | **(1,069)** | (1,055) |
| | | **(60,459)** | (57,172) |
| **NET ASSETS** | | **155,111** | 144,149 |
| **Capital and reserves** | | | |
| Share capital | | **1,016** | 1,016 |
| Reserves | | **74,659** | 68,675 |
| **Shareholders' equity** | | **75,675** | 69,691 |
| **Non-controlling interests** | | **79,436** | 74,458 |
| **TOTAL EQUITY** | | **155,111** | 144,149 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 – Unaudited

| | Shareholders' equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital HK$ Million | Share premium HK$ Million | Investments revaluation reserves HK$ Million | Exchange and other reserves HK$ Million | Revenue reserves HK$ Million | Total shareholders' equity HK$ Million | Non-controlling interests HK$ Million | Total equity HK$ Million |
| **At 1 January 2010** | **1,016** | **1,914** | **1,583** | **1,804** | **63,374** | **69,691** | **74,458** | **144,149** |
| Profit for the period | – | – | – | – | **5,969** | **5,969** | **5,981** | **11,950** |
| Other comprehensive income for the period | – | – | **16** | **202** | – | **218** | **227** | **445** |
| Total comprehensive income for the period | – | – | **16** | **202** | **5,969** | **6,187** | **6,208** | **12,395** |
| Shares issued by subsidiaries | – | – | – | – | – | – | **11** | **11** |
| Final dividend paid in respect of 2009 (note 9b) | – | – | – | – | **(203)** | **(203)** | – | **(203)** |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | **(1,241)** | **(1,241)** |
| **At 30 June 2010** | **1,016** | **1,914** | **1,599** | **2,006** | **69,140** | **75,675** | **79,436** | **155,111** |
| At 1 January 2009 | 1,016 | 1,914 | 159 | 1,738 | 53,906 | 58,733 | 64,510 | 123,243 |
| Profit for the period | – | – | – | – | 3,599 | 3,599 | 3,914 | 7,513 |
| Other comprehensive income for the period | – | – | 721 | (64) | – | 657 | 444 | 1,101 |
| Total comprehensive income for the period | – | – | 721 | (64) | 3,599 | 4,256 | 4,358 | 8,614 |
| Shares issued by subsidiaries | – | – | – | – | – | – | 277 | 277 |
| Final dividend paid in respect of 2008 (note 9b) | – | – | – | – | (203) | (203) | – | (203) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | (894) | (894) |
| At 30 June 2009 | 1,016 | 1,914 | 880 | 1,674 | 57,302 | 62,786 | 68,251 | 131,037 |

*Included in exchange and other reserves is capital redemption reserve of HK$19 million (2009: HK$19 million).*

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010 – Unaudited

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$ Million** | HK$ Million |
| Net cash generated from operating activities | **1,048** | 3,998 |
| Net cash generated from investing activities | **2,286** | 261 |
| Net cash used in financing activities | **(662)** | (2,554) |
| **Net increase in cash and cash equivalents** | **2,672** | 1,705 |
| Cash and cash equivalents at 1 January | **23,474** | 22,242 |
| Effect of exchange rate change | **79** | (37) |
| **Cash and cash equivalents at 30 June** | **26,225** | 23,910 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank deposits and cash in the consolidated statement of financial position | **26,307** | 23,989 |
| Less: Pledged bank deposits | **(82)** | (79) |
| Cash and cash equivalents in the condensed consolidated statement of cash flows | **26,225** | 23,910 |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

These unaudited interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants and applicable discloseable provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009 except the changes mentioned below.

With effect from 1 January 2010, the Group has adopted the below relevant new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and amendments, which are relevant to the Group's financial statements:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKAS 27 (Revised) | Consolidated and separate financial statements |
| HKAS 39 (Amendment) | Eligible hedged items |
| HKFRS 3 (Revised) | Business combinations |

The improvements to HKFRSs 2009 consist of further amendments to existing standards, including amendments to HKAS 17 Leases. The amendment to HKAS 17 requires the land element of long term leases to be classified as a finance lease rather than an operating lease if it transfers substantially all the risks and rewards of ownership. It is not expected that these amendments will have a significant effect on the Group's results or net assets.

The revised HKAS 27 will affect the accounting for future transactions with non-controlling interests (previously known as "minority interests"). It requires changes in a parent company's interest in subsidiaries that do not result in changes of control to be accounted for within equity, with no gain or loss recognised and no remeasurement of goodwill. A gain or loss on disposal will be recognised in the consolidated income statement only if the disposal results in a loss of control.

The amendment to HKAS 39 provides additional guidance on when a financial item can be designated as a hedged item and on assessing hedge effectiveness. It is not expected that this amendment will have a significant effect on the Group's results or net assets.

The revised HKFRS 3 introduces a number of changes to the accounting for business combinations, including the requirement that where a business combination is achieved in stages, the existing interest in the acquiree should be re-measured at fair value at acquisition date and any resulting gain or loss recognised in the consolidated income statement. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition. The acquisition of additional interest in Hactl during the period (as set out in note 4) has been accounted for in accordance with the revised HKFRS 3 and the revised HKAS 27. This has resulted in the remeasurement of the previously held interest in Hactl to fair value and the recognition of a gain of HK$437 million in the consolidated income statement.

## 2. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined five reportable operating segments for measuring performance and allocating resources. The segments are property investment, property development, CME, logistics and investment and others. No operating segments have been aggregated to form the following reportable segments.

Property investment segment primarily includes property leasing and hotel operations. Currently, the Group's properties portfolio, which consists of retail, office, serviced apartment and hotels, is primarily located in Hong Kong, China and Singapore.

Property development segment encompasses activities relating to the acquisition, development, design, construction, sale and marketing of the Group's trading properties primarily in Hong Kong, China and Singapore.

CME segment comprises pay television, internet and multimedia and other businesses operated by the Group's non-wholly owned subsidiary, i-CABLE. It also includes the telecommunication businesses operated by Wharf T&T Limited.

Logistics segment mainly includes the container terminal operations of Modern Terminals Limited and other public transport operations.

Investment and others segment includes activities for managing the Group's corporate assets and liabilities, available-for-sale investments, financial instruments and other treasury operations.

Management evaluates performance primarily based on operating profit as well as the equity share of results of associates and jointly controlled entities of each segment. Inter-segment pricing is generally determined at arm's length basis.

## (a) Analysis of segment revenue and results

| Six months ended | Turnover HK$ Million | Operating profit/ (loss) HK$ Million | Increase in fair value of investment properties HK$ Million | Other net income/ (charge) HK$ Million | Finance costs HK$ Million | Associates HK$ Million | Jointly controlled entities HK$ Million | Profit before taxation HK$ Million |
|---|---|---|---|---|---|---|---|---|
| 30 June 2010 | | | | | | | | |
| Property investment | 4,483 | 3,467 | 8,030 | – | (185) | – | – | 11,312 |
| Hong Kong | 3,583 | 3,079 | 6,572 | – | (147) | – | – | 9,504 |
| China | 236 | 139 | 1,458 | – | (35) | – | – | 1,562 |
| Singapore | 131 | 105 | – | – | – | – | – | 105 |
| Hotels | 533 | 144 | – | – | (3) | – | – | 141 |
| Property development | 4,548 | 1,813 | – | 20 | (43) | 51 | (10) | 1,831 |
| Hong Kong | 130 | 56 | – | – | – | 8 | – | 64 |
| China | 1,024 | 560 | – | 20 | (43) | 43 | (10) | 570 |
| Singapore | 3,394 | 1,197 | – | – | – | – | – | 1,197 |
| CME | 1,795 | (15) | – | – | – | (39) | – | (54) |
| i-CABLE | 962 | (107) | – | – | – | (39) | – | (146) |
| Telecommunications | 833 | 95 | – | – | – | – | – | 95 |
| Others | – | (3) | – | – | – | – | – | (3) |
| Logistics | 1,596 | 811 | – | 438 | (139) | 130 | 17 | 1,257 |
| Terminals | 1,533 | 793 | – | 1 | (139) | 111 | 17 | 783 |
| Others | 63 | 18 | – | 437 | – | 19 | – | 474 |
| Investment and others | 305 | 169 | – | 79 | (202) | – | – | 46 |
| Inter-segment revenue | (211) | – | – | – | – | – | – | – |
| Segment total | 12,516 | 6,245 | 8,030 | 537 | (569) | 142 | 7 | 14,392 |
| Corporate expenses | – | (225) | – | – | – | – | – | (225) |
| Group total | 12,516 | 6,020 | 8,030 | 537 | (569) | 142 | 7 | 14,167 |

| Six months ended | Turnover HK$ Million | Operating profit/ (loss) HK$ Million | Increase in fair value of investment properties HK$ Million | Other net income/ (charge) HK$ Million | Finance costs HK$ Million | Associates HK$ Million | Jointly controlled entities HK$ Million | Profit before taxation HK$ Million |
|---|---|---|---|---|---|---|---|---|
| 30 June 2009 | | | | | | | | |
| Property investment | 4,226 | 3,197 | 4,565 | 10 | (171) | – | – | 7,601 |
| Hong Kong | 3,387 | 2,882 | 4,563 | 10 | (145) | – | – | 7,310 |
| China | 285 | 147 | 2 | – | (17) | – | – | 132 |
| Singapore | 114 | 88 | – | – | (3) | – | – | 85 |
| Hotels | 440 | 80 | – | – | (6) | – | – | 74 |
| Property development | 1,750 | 751 | – | – | (12) | (7) | 8 | 740 |
| Hong Kong | 138 | 162 | – | – | – | (2) | – | 160 |
| China | 1,612 | 589 | – | – | (12) | (5) | 8 | 580 |
| Singapore | – | – | – | – | – | – | – | – |
| CME | 1,693 | 129 | – | – | – | 1 | – | 130 |
| i-CABLE | 862 | (1) | – | – | – | 1 | – | – |
| Telecommunications | 831 | 132 | – | – | – | – | – | 132 |
| Others | – | (2) | – | – | – | – | – | (2) |
| Logistics | 1,483 | 626 | – | – | 51 | 96 | 19 | 792 |
| Terminals | 1,353 | 583 | – | – | 51 | 96 | 19 | 749 |
| Others | 130 | 43 | – | – | – | – | – | 43 |
| Investment and others | 169 | 88 | – | 71 | 112 | – | – | 271 |
| Inter-segment revenue | (239) | – | – | – | – | – | – | – |
| Segment total | 9,082 | 4,791 | 4,565 | 81 | (20) | 90 | 27 | 9,534 |
| Corporate expenses | – | (179) | – | – | – | – | – | (179) |
| Group total | 9,082 | 4,612 | 4,565 | 81 | (20) | 90 | 27 | 9,355 |

## (b) Analysis of inter-segment revenue

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| Six months ended 30 June | **Total Revenue HK$ Million** | **Inter-segment revenue HK$ Million** | **Group Revenue HK$ Million** | Total Revenue HK$ Million | Inter-segment revenue HK$ Million | Group Revenue HK$ Million |
| Property investment | **4,483** | **(81)** | **4,402** | 4,226 | (95) | 4,131 |
| Property development | **4,548** | **–** | **4,548** | 1,750 | – | 1,750 |
| CME | **1,795** | **(76)** | **1,719** | 1,693 | (84) | 1,609 |
| Logistics | **1,596** | **–** | **1,596** | 1,483 | – | 1,483 |
| Investment and others | **305** | **(54)** | **251** | 169 | (60) | 109 |
| | **12,727** | **(211)** | **12,516** | 9,321 | (239) | 9,082 |

### (c) Geographical information

| | Revenue | | Operating Profit | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Six months ended 30 June | **HK$ Million** | HK$ Million | **HK$ Million** | HK$ Million |
| Hong Kong | **7,382** | 6,922 | **4,145** | 3,817 |
| China | **1,540** | 1,996 | **530** | 674 |
| Singapore | **3,594** | 164 | **1,345** | 121 |
| Group total | **12,516** | 9,082 | **6,020** | 4,612 |

## 3. OPERATING PROFIT

### Operating profit is arrived at:

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$ Million** | HK$ Million |
| **After charging/(crediting):** | | |
| Depreciation: | | |
| – assets held for use under operating leases | **57** | 63 |
| – other fixed assets | **505** | 492 |
| | **562** | 555 |
| Amortisation: | | |
| – programming library | **43** | 47 |
| – leasehold land | **46** | 44 |
| Total depreciation and amortisation | **651** | 646 |
| Staff costs (note a) | **1,402** | 1,333 |
| Cost of trading properties sold | **2,680** | 984 |
| Rental income less direct outgoings (note b) | **(3,387)** | (3,165) |
| Interest income | **(92)** | (25) |
| Dividend income from listed investments | **(72)** | (46) |
| Dividend income from unlisted investments | **(16)** | (29) |
| Profit on disposal of fixed assets | **(7)** | (13) |

Notes:

(a) Staff costs included retirement scheme costs of HK$57 million (2009: HK$59 million).

(b) Rental income included contingent rentals of HK$550 million (2009: HK$339 million).

## 4. OTHER NET INCOME

Other net income included a one-off surplus of HK$437 million on revaluation of the interest in Hactl on its becoming an associate of Wharf, net profit on disposal of available-for-sale investments of HK$160 million (2009: net loss of HK$4 million) and net foreign exchange loss of HK$60 million (2009: gain of HK$107 million).

## 5. NET OTHER CHARGE

The net other charge of HK$121 million in the first half of 2009 represented the further impairment provision for investments in SC Global Developments Ltd and Hotel Properties Limited made by WPSL.

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$ Million** | HK$ Million |
| Interest charged on: | | |
| Bank loans and overdrafts repayable within five years | **209** | 189 |
| Other borrowings repayable within five years | **–** | 6 |
| Bank loans repayable after five years | **64** | 36 |
| Other borrowings repayable after five years | **30** | 55 |
| Total interest charge | **303** | 286 |
| Other finance costs | **102** | 27 |
| Less: Amount capitalised | **(154)** | (97) |
| | **251** | 216 |
| Fair value cost/(gain): | | |
| Cross currency interest rate swaps | **29** | 96 |
| Interest rate swaps | **289** | (292) |
| | **569** | 20 |

The Group's average effective borrowing rate for the period was approximately 1.8% (2009 : 1.4%) per annum.

## 7. INCOME TAX

Taxation charged to the consolidated income statement represents:

| | Six months ended 30 June 2010 HK$ Million | 2009 HK$ Million |
|---|---|---|
| **Current income tax** | | |
| Hong Kong | | |
| – provision for the period | **614** | 559 |
| – (over)/underprovision in respect of prior years | **(809)** | 186 |
| Outside Hong Kong | | |
| – provision for the period | **266** | 142 |
| – underprovision in respect of prior years | **21** | – |
| | **92** | 887 |
| **Land appreciation tax ("LAT") in Mainland China** | **167** | 140 |
| **Deferred tax** | | |
| Change in fair value of investment properties | **1,801** | 790 |
| Origination and reversal of temporary differences | **157** | 44 |
| Effect on reduction in tax rate on deferred tax balances | **–** | (19) |
| | **1,958** | 815 |
| | **2,217** | 1,842 |

**(a)** The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 16.5% (2009 : 16.5%).

**(b)** Income tax on profits assessable outside Hong Kong is mainly China corporate income tax calculated at a rate of 25%, China withholding income tax at a rate of 10% and Singapore income tax at a rate of 17%.

**(c)** Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.

**(d)** Tax attributable to associates and jointly controlled entities for the six months ended 30 June 2010 of HK$55 million (2009: HK$19 million) is included in the share of results after tax of associates and jointly controlled entities.

**(e)** During the period under review, Wharf reached a compromise settlement with the Inland Revenue Department on various tax disagreements in respect of the deductibility of interest expenses and the concerned over-provision made in previous years totalling HK$809 million was written back.

## 8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on profit attributable to equity shareholders for the period of HK$5,969 million (2009: HK$3,599 million) and 2,032 million ordinary shares in issue throughout the six months ended 30 June 2010 and 2009.

## 9. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

**(a)** The below interim dividends were proposed after the end of the reporting dates, which have not been recognised as liabilities at the end of the reporting dates:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$ Million** | HK$ Million |
| Interim dividend of 2.5 cents (2009: 2.5 cents) per share proposed after the end of the reporting date | **51** | 51 |

**(b)** Dividends recognised as distribution during the period:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$ Million** | HK$ Million |
| 2009 Final dividend paid of 10.0 cents per share | **203** | – |
| 2008 Final dividend paid of 10.0 cents per share | **–** | 203 |
| | **203** | 203 |

## 10. TRADE AND OTHER RECEIVABLES

Included in this item are trade receivables (net of allowance for bad and doubtful debts) with an ageing analysis based on invoice dates as at 30 June 2010 as follows:

| | 30 June 2010 HK$ Million | 31 December 2009 HK$ Million |
|---|---|---|
| Trade receivables | | |
| 0 – 30 days | **1,056** | 421 |
| 31 – 60 days | **128** | 174 |
| 61 – 90 days | **67** | 43 |
| Over 90 days | **117** | 110 |
| | **1,368** | 748 |
| Accrued sales receivables | **658** | 467 |
| Other receivables | **2,108** | 4,028 |
| | **4,134** | 5,243 |

Accrued sales receivables mainly represent property sales consideration to be billed or received after the reporting date. In accordance with the Group's accounting policy, upon receipt of the Temporary Occupation Permit or architect's completion certificate, the balance of sales consideration to be billed is included as accrued sales receivables.

Other receivables at 31 December 2009 included the remaining instalments of proceeds in total amount of HK$2.5 billion in respect of the disposal of Beijing Capital Times Square, which was received during the period under review.

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for sale of properties the proceeds from which are receivable pursuant to the terms of the agreements. All the receivables are expected to be virtually recoverable within one year.

## 11. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis as at 30 June 2010 as follows:

| | **30 June 2010 HK$ Million** | 31 December 2009 HK$ Million |
|---|---|---|
| Amounts payable in the next: | | |
| 0 – 30 days | **271** | 229 |
| 31 – 60 days | **107** | 63 |
| 61 – 90 days | **46** | 31 |
| Over 90 days | **55** | 80 |
| | **479** | 403 |
| Rental and customer deposits | **1,733** | 1,771 |
| Construction costs payable | **1,368** | 1,512 |
| Other payables | **2,529** | 2,771 |
| | **6,109** | 6,457 |

## 12. MATERIAL RELATED PARTY TRANSACTIONS

The Group has not been a party to any material related party transactions during the period ended 30 June 2010 except for the rental income totalling HK$254 million (2009: HK$228 million) earned from various tenants, which are companies whose controlling shareholder is a trust the settlor of which is the Chairman of the Company. Such transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.

## 13. CONTINGENT LIABILITIES

As at 30 June 2010, there were contingent liabilities in respect of guarantees given by the Group on behalf of a jointly controlled entity of HK$4.5 billion (2009: HK$Nil), of which HK$3.0 billion (2009: HK$Nil) had been drawn.

WPL, formerly a non-wholly owned subsidiary of the Company, and New World Development Company Limited as guarantors (on a several basis) have provided a guarantee in favour of MTR Corporation Limited to guarantee the performance and fulfilment of all obligations of Fast New Limited, a 50%-owned jointly controlled entity, under or arising out of or in connection with an agreement dated 23 March 2010 for the development of Site C and Site D of the Austin Station Property Development project.

## 14. COMMITMENTS

The Group's outstanding commitments on expenditures as at 30 June 2010 included below:

| | | 30 June 2010 | | | | 31 December 2009 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Hong Kong HK$ Million | China HK$ Million | Singapore HK$ Million | Total HK$ Million | Hong Kong HK$ Million | China HK$ Million | Singapore HK$ Million | Total HK$ Million |
| (a) | **Capital expenditure** (including investment properties) | | | | | | | | |
| | Authorised and contracted for | 1,052 | 6,884 | 156 | 8,092 | 333 | 6,624 | 193 | 7,150 |
| | Authorised but not contracted for | 671 | 14,023 | – | 14,694 | 1,148 | 11,711 | – | 12,859 |
| | | 1,723 | 20,907 | 156 | 22,786 | 1,481 | 18,335 | 193 | 20,009 |
| (b) | **Programming and others** | | | | | | | | |
| | Authorised and contracted for | 2,111 | – | – | 2,111 | 2,226 | – | – | 2,226 |
| | Authorised but not contracted for | 124 | – | – | 124 | 139 | – | – | 139 |
| | | 2,235 | – | – | 2,235 | 2,365 | – | – | 2,365 |
| (c) | **Properties under development** (other than investment properties) | | | | | | | | |
| | Authorised and contracted for | 220 | 7,935 | 421 | 8,576 | 396 | 8,022 | 663 | 9,081 |
| | Authorised but not contracted for | 404 | 25,482 | – | 25,886 | 220 | 20,747 | – | 20,967 |
| | | 624 | 33,417 | 421 | 34,462 | 616 | 28,769 | 663 | 30,048 |
| (d) | **Properties under development undertaken by jointly controlled entities and associates** | | | | | | | | |
| | Authorised and contracted for | – | 4,846 | – | 4,846 | – | 4,567 | – | 4,567 |
| | Authorised but not contracted for | 1,666 | 14,883 | – | 16,549 | – | 11,530 | – | 11,530 |
| | | 1,666 | 19,729 | – | 21,395 | – | 16,097 | – | 16,097 |
| (e) | **Expenditure for operating leases** | | | | | | | | |
| | Within one year | 27 | – | – | 27 | 29 | – | – | 29 |
| | After one year but within five years | 35 | – | – | 35 | 41 | – | – | 41 |
| | Over five years | 53 | – | – | 53 | 58 | – | – | 58 |
| | | 115 | – | – | 115 | 128 | – | – | 128 |

(i) Commitments for capital expenditure in Mainland China are mainly related to land and construction cost for investment properties under development and Modern Terminal's port expenditure for the Dachan Bay and Taicang projects.

(ii) Commitments for properties under development by the Group's subsidiaries or through jointly controlled entities included outstanding land cost attributable to the Group of HK$13.9 billion payable by instalments from 2010 to 2013. Other commitments under the categories are mainly construction cost for the forthcoming years.

(iii) The Group leases a number of properties and telecommunication network facilities under operating leases. The leases typically run for an initial period of two to fifteen years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

(iv) The above commitments are attributable to Wharf group, apart from HK$5.1 billion mainly related to property development projects undertaken by Wheelock and its other subsidiaries.

## 15. EVENTS AFTER THE REPORTING DATE

### (a) Privatisation of WPL

The privatisation of WPL, at a cancellation price of HK$13 per share by way of a scheme of arrangement under Section 166 of the Companies Ordinance, became effective on 22 July 2010 and the total consideration of HK$6,905 million financed by a bank loan was paid.

### (b) Acquisition of Property

On 28 July 2010, Wharf together with Nan Fung group succeeded in bidding for a piece of land at Mount Nicholson Road, The Peak, at a consideration of HK$10.4 billion, and will jointly develop the land into residential properties on a 50:50 ownership basis.

## 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period's presentation.

## 17. REVIEW OF UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited interim financial statements for the six months ended 30 June 2010 have been reviewed with no disagreement by the Audit Committee of the Company.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the financial period under review, all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were met by the Company, except in respect of one code provision providing for the roles of chairman and chief executive officer to be performed by different individuals. The deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, a substantial proportion thereof being Independent Non-executive Directors.

## MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

## DIRECTORS' INTERESTS IN SHARES

At 30 June 2010, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company, and of two subsidiaries of the Company, namely, The Wharf (Holdings) Limited ("Wharf") and i-CABLE Communications Limited ("i-CABLE"), and the percentages which the relevant shares represented to the issued share capitals of the three companies respectively are also set out below:

| | **No. of Ordinary Shares** (percentage of issued capital) | **Nature of Interest** |
|---|---|---|
| **The Company** | | |
| Peter K C Woo | 1,204,934,330 (59.3023%) | Personal Interest in 8,847,510 shares, Corporate Interest in 200,865,142 shares and Other Interest in 995,221,678 shares |
| Stephen T H Ng | 300,000 (0.0148%) | Personal Interest |
| B M Chang | 8,629,575 (0.4247%) | Corporate Interest |
| **Wharf** | | |
| Stephen T H Ng | 731,314 (0.0266%) | Personal Interest |
| Kenneth W S Ting | 194,000 (0.0070%) | Personal Interest |
| **i-CABLE** | | |
| Stephen T H Ng | 1,265,005 (0.0629%) | Personal Interest |

*Notes:*

(1) *The 995,221,678 shares of the Company stated above as "Other Interest" against the name of Mr Peter K C Woo represented an interest comprised in certain trust properties in which Mr Woo was taken, under certain provisions in Part XV of the Securities and Futures Ordinance (the "SFO") which are applicable to a director or chief executive of a listed company, to be interested.*

(2) *The shareholdings classified as "Corporate Interest" in which the Directors concerned were taken to be interested as stated above were interests of corporations at respective general meetings of which the relevant Directors were respectively either entitled to exercise (or taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporations.*

(3) *The shareholding interests stated above as "Personal Interest" and "Corporate Interest" against the name of Mr Peter K C Woo totalling 209,712,652 shares of the Company represented the same block of shares as that of the shareholding interest of Mrs Bessie P Y Woo stated under the section headed "Substantial Shareholders' Interests" below.*

(4) *The 995,221,678 shares of the Company as referred to under Note (1) above are entirely duplicated or included in the shareholding interest of HSBC Trustee (Guernsey) Limited stated under the section headed "Substantial Shareholders' Interests" below.*

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code, there were no interests, both long and short positions, held as at 30 June 2010 by any Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any rights to subscribe for any shares, underlying shares or debentures of the Company held by any of them at any time during the financial period.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties, other than person(s) who is/are Director(s) of the Company, who/which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at 30 June 2010, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

| | **Names** | **No. of Ordinary Shares** (percentage of issued capital) |
|---|---|---|
| (i) | Third Avenue Management LLC | 141,779,000 (6.98%) |
| (ii) | Mrs Bessie P Y Woo | 209,712,652 (10.32%) |
| (iii) | HSBC Trustee (Guernsey) Limited | 1,095,300,362 (53.91%) |

*Note: Duplication occurred in respect of the shareholding interests under (ii) and (iii) above, as set out in Notes (3) and (4) under the section headed "Directors' Interests in Shares" above.*

All the interests stated above represented long positions and as at 30 June 2010, there were no short position interests recorded in the Register.

## CHANGES OF INFORMATION OF DIRECTORS

**(I)** Given below is the latest information regarding annual emoluments (all covered by service contracts) for the year 2010 of all those Directors of the Company for whom there have been changes of amounts of emoluments since the publication of the last annual report of the Company:

| **Directors** | **#Salary and various allowances (calculated on annualised basis) HK$'000** | **##Discretionary annual bonus in cash HK$'000** |
|---|---|---|
| Peter K C Woo | 15,904 *(2009: 15,056)* | 16,000 *(2009: 10,500)* |
| Stephen T H Ng | 4,646 *(2009: 4,489)* | 9,000 *(2009: 6,750)* |
| Paul Y C Tsui | 2,968 *(2009: 2,600)* | 3,500 *(2009: 2,000)* |

# *Not including the Chairman's fee of HK$75,000 per annum to Mr Peter K C Woo and the Director's fee of HK$60,000 per annum to each of the other Directors of the Company which are payable by the Company.*

## *Paid during the six-month period ended 30 June 2010, with the amounts of such discretionary annual bonuses fixed/decided unilaterally by the employers.*

**(II)** Given below is the latest information regarding the directorships held at present and/or former directorship(s) (if any) held within the past three years in other listed public company(ies) in respect of any and all Director(s) of the Company for whom there has/have been change(s) in the relevant information since the publication of the last annual report of the Company.

| **Director** | **Present/*(Former)* directorship(s) in other listed public company(ies)** |
|---|---|
| Alexander S K Au | Henderson Land Development Company Limited; Hong Kong Ferry (Holdings) Company Limited; Miramar Hotel and Investment Company, Limited; Sunlight Real Estate Investment Trust (appointed in June 2010) |

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial period under review.

## BOOK CLOSURE

The Register of Members will be closed from Monday, 20 September 2010 to Wednesday, 22 September 2010, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 17 September 2010.

By Order of the Board
**Wilson W S Chan**
*Company Secretary*

Hong Kong, 30 August 2010

*As at 1 September 2010, the Board of Directors of the Company comprises Mr Peter K C Woo, Mr Stephen T H Ng, Mr Paul Y C Tsui and Mr Ricky K Y Wong, together with five Independent Non-executive Directors, namely, Mr Alexander S K Au, Mr B M Chang, Mr Herald L F Lau, Mr Kenneth W S Ting and Mr Glenn S Yee.*