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# WHEELOCK
## AND COMPANY LIMITED

INTERIM REPORT 2011

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Stock code: 20

# CONTENTS

# Wheelock Properties contributed to a record first half

## HIGHLIGHTS

- With its completion of the highly successful One Island South in Hong Kong, Wheelock Properties became the largest contributor to a record first half for the Group.

- Wheelock Properties' interest in China property development in Foshan, Guangdong was sold to Wharf in June at a consideration of HK$3.4 billion to increase Wharf's China landbank to 12.4 million square metres. A total profit of about HK$1.3 billion will be recognised upon the staged completion and sales of the respective properties.

- Attributable non-recurrent items accounted for HK$601 million of net profit in 2010. Excluding non-recurrent items, underlying profit increased by 72% to HK$3.8 billion. Attributable profit increased by 56% to HK$10.2 billion.

- Interim dividend increases by 60% to 4.0 cents per share.

- Net debt (excluding debts of non-wholly owned subsidiaries) decreased by HK$2.6 billion in the first half to HK$7.4 billion, after subscribing HK$5.0 billion to Wharf's rights issue in March.

- In separate government tenders subsequent to the period end, Wheelock Properties acquired two prime sites in Kowloon East for commercial development, with a total GFA of 1.5 million square feet, at a total cost of HK$7.6 billion. This increased its attributable landbank to 2.7 million square feet.

## GROUP RESULTS

Unaudited Group profit attributable to equity shareholders increased by 56% to HK$10,219 million (2010: HK$6,533 million). Earnings per share were HK$5.03 (2010: HK$3.22).

Excluding the net investment property revaluation surplus and Wharf's one-off exceptional gains recorded in 2010, the Group's underlying recurrent profit increased by 72% to HK$3,825 million (2010: HK$2,225 million).

## INTERIM DIVIDEND

An interim dividend of 4.0 cents (2010: 2.5 cents) per share will be paid on 30 September 2011 to Shareholders on record as at 22 September 2011, absorbing a total amount of HK$81 million (2010: HK$51 million).

# BUSINESS REVIEW

## *WHEELOCK PROPERTIES LIMITED (“WPL”, A 100%-OWNED SUBSIDIARY)*

### Hong Kong

WPL’s development landbank was partly depleted by the completion of the highly successful One Island South but reverted to 2.7 million square feet (attributable) following the recent acquisition of two commercial sites in Kowloon East.

One Island South in Aberdeen is a Grade A commercial building with a GFA of 812,800 square feet. The project was completed in June 2011, all the office floors of a total GFA of 722,300 square feet, pre-sold for total proceeds of HK$3.3 billion to generate a profit of HK$2.1 billion for the Group. The 90,500-square-foot retail podium will be held for investment pending the completion of the MTR South Island Line, which will include a station opposite to One Island South (target opening 2015).

The MTR Austin Station project is a prime residential development in Kowloon West being developed with New World Development on a 50:50 basis, with an attributable GFA of 641,000 square feet. It is located on top of the MTR station, next to the future High Speed Rail terminus to the Mainland (target opening 2015) and borders the West Kowloon Cultural District. The master layout plan and general building plan have been approved. Foundation work is underway.

Superstructure work for the residential development at 211-215C Prince Edward Road West, Homantin is underway. The development offers a total GFA of 91,700 square feet. Premium for the lease modification was paid in March 2011. The project is targeted for pre-sale in late 2011 subject to the pre-sale consent application process.

Foundation work for the residential development at 46 Belcher’s Street, Western District is underway. The development offers a total GFA of 89,000 square feet. The project is scheduled for pre-sale in late 2011.

In July, WPL won a tender for a 76,200-square-foot commercial site at the junction of Wai Yip Street, Shun Yip Street and Hoi Bun Road along the Kwun Tong waterfront for HK$3.53 billion, or HK$3,856 per square foot. The development, with a GFA of 914,900 square feet, will comprise two Grade A office buildings overlooking the Victoria Harbour and the future Kai Tak Cruise Terminal, with easy access to the Ngau Tau Kok MTR station.

In August, WPL won another tender for a 147,500-square-foot commercial site at the junction of Hung Luen Road and Kin Wan Street, within the core commercial hub of Hung Hom, for HK$4.03 billion, or HK$6,827 per square foot. The development, with a total GFA of 590,000 square feet, will comprise two Grade A office buildings overlooking the Victoria Harbour, with easy access to MTR East and West Rails, through-train services to Guangzhou and the future Sha Tin-to-Central cross-harbour train service (target opening 2020).

## South China

In June, WPL sold its 50% stakes in the joint ventures of four residential projects in Foshan, Guangdong to Wharf at a consideration of HK$3,388 million based on a property valuation of HK$5,138 million.

In accordance with the prevailing accounting standard, the estimated profit of HK$1.3 billion from this sale will be recognised between the second half of 2011 and 2015 upon the staged completion and sales of the respective properties.

## *WHEELOCK PROPERTIES (SINGAPORE) LIMITED ("WPSL", A 75.8%-OWNED LISTED SUBSIDIARY)*

In accordance with Hong Kong Financial Reporting Standards, WPSL's profit contribution to the Group for the period was HK$181 million (2010: HK$1,106 million).

Wheelock Place, a prime commercial development in Orchard Road, continued to generate steady recurrent income with full occupancy at the end of June.

Orchard View, a luxury residential development, was completed in 2010. It comprises 30 four-bedroom apartments with private lift lobbies. 40% of the units were sold by June at an average price of over S$3,200 per square foot.

79% of the apartments at Scotts Square, a prime residential development atop a retail complex located in the heart of the Orchard Road shopping belt, have been pre-sold at an average price of close to S$4,000 per square foot. Pre-leasing of the retail podium is underway. Main construction is in progress with full completion scheduled in the second half of 2011.

Construction work for Ardmore Three, a 36-storey luxury development along Ardmore Park, has commenced with full completion expected in 2014. A show flat will be completed on site in late 2011.

In February, WPSL acquired five sites for a high-end residential development in Fuyang District, 22 kilometres from the city centre of Hangzhou, China. The project offers a developable GFA of 358,000 square metres and the residence will command a nice mountain view. The development is scheduled for full completion in 2018.

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

Wharf’s profit attributable to shareholders for the period rose by 31% to HK$14,302 million. Earnings per share were HK$4.84. Excluding the investment property revaluation surplus and one-off exceptional gains recorded in 2010, underlying recurrent profit increased by 11% to HK$3,283 million.

### Hong Kong

Retail sales conducted in Harbour City and Times Square during the period accounted for an unmatched 8.3% share of Hong Kong’s total retail sales, up from 7.9% a year earlier.

#### *Harbour City*

Turnover (excluding hotels) increased by 13% to HK$2,655 million and operating profit by 13% to HK$2,313 million.

Harbour City’s retail sales performance continued to outpace the market with a 33% year-on-year growth, nine percentage points higher than the market average. Turnover from Harbour City’s retail sector increased by 20% to HK$1,723 million.

Turnover from the office sector increased by 2% to HK$787 million. Office rental rates for new commitments trended up strongly during the period, with 95% occupancy at the end of June and lease renewal retention rate held up solidly at 73%.

Turnover from the serviced apartments increased by 10% to HK$145 million with 94% occupancy and favourable rental growth.

#### *Times Square*

Times Square turned over HK$815 million for an increase of 10%. Operating profit grew by 11% to HK$727 million.

Times Square remains the most successful vertical shopping mall in Hong Kong. Retail revenue grew by 15% to HK$587 million with full occupancy during the period.

Turnover from the office sector increased marginally to HK$228 million with occupancy climbing to 96% at the end of June and strong growth in spot rents.

### *Other Hong Kong Properties*

Leasing of the Peak portfolio remained active with average occupancy maintained at over 90% and strong rental growth.

Plaza Hollywood posted a 7% growth in turnover to HK$186 million with favourable rental growth. Average occupancy stood at 99%.

The master layout plan and general building plan of the exclusive Mount Nicholson residential development have been submitted for approval. One Midtown (formerly identified as Cable TV Tower South Project) in Tsuen Wan is scheduled for completion in the second half of 2012.

## China

Wharf is on course with its strategy to increase Mainland assets to 50% of Wharf's business assets, with 39% of business assets in China at the end of June.

### *Property Development*

Turnover for China property development increased by 31% to HK$1,343 million and operating profit reached HK$568 million.

*Sales*

During the period, four new projects were launched for sales. Together with further sales from projects previously launched, a total of 437,000 square metres of properties were sold to generate attributable sales proceeds of RMB6.3 billion, 271% higher than last year. Net order book increased to RMB14.9 billion at the end of June.

Suzhou Times City (formerly identified as Suzhou Industrial Park Xiandai Da Dao Project) was launched in May to realise proceeds of RMB410 million. The U World in Chongqing (formerly identified as Chongqing Jiangbei City Zone B Project) was launched in April to realise attributable proceeds of RMB715 million.

In Tianjin, Peaceland Cove was launched in February, and Magnificent (formerly identified as Tianjin Jinjiang Road Project) was launched in May. They generated a combined attributable proceeds of RMB896 million during the period.

In July, Wharf launched another new project, Wuxi Xiyuan (formerly identified as Wuxi Old Canal No. 71 Project), which generated sales proceeds of RMB113 million.

For projects previously launched including Times Palace in Changzhou, Tian Fu Times Square and Crystal Park in Chengdu, Shanghai Xiyuan and No. 1 Xin Hua Road in Shanghai, and Ambassador Villa in Suzhou, more units were released for sales during the period and were met with good demand.

*Acquisitions and Development Progress*

During the first half, Wharf acquired sites in Changsha, Foshan, Hangzhou and Suzhou with an attributable GFA of 2.0 million square metres for RMB13 billion. Wharf's landbank increased by 17% to 12.4 million square metres at the end of June, spanning across 13 cities and is on track to the next milestone of 15 million square metres.

In January and March, Wharf acquired two sites in Wuzhong District in Suzhou, a site in Changsha for the development of Changsha IFC, and two sites in Fuyang District and Yuhang District in Hangzhou.

In June, Wharf acquired from WPL the 50% shares in the joint ventures of four residential projects in Foshan, Guangdong at a consideration of HK$3,388 million. The projects acquired included Evian Town, Evian Uptown, Shishan Town Project and Nanhai Guicheng Project, with total attributable uncompleted GFA of 564,200 square metres. All projects are undertaken through 50:50 joint ventures with China Merchants Property.

All projects under development are progressing in accordance with plan.

### *Property Investment*

Turnover and operating profit increased as a result of contribution from Wheelock Square in Shanghai completed in 2010. The completed investment properties were valued at HK$13 billion at the end of June.

Over 70% of the office area of Wheelock Square has been committed with the latest monthly rental rates at over RMB400 per square metre. This premier-grade development continues to attract multinationals and major corporations.

Dalian Times Square produced a 38% growth in unit retail sales at full occupancy. Chongqing Times Square completed its premises transformation into a modern and stylish shopping mall with a soft re-opening in July. Shanghai Times Square continued to perform satisfactorily.

In January, Wharf acquired a prime site in the city centre of Changsha for the development of Changsha IFC. The development will provide upscale retail, Grade A offices, a five-star hotel and luxury apartments, with a total GFA of 700,000 square metres. Construction will start in late 2011 for full completion in 2016.

Construction of phase one of Chengdu IFC, which includes the retail complex and an office tower, is scheduled for completion in 2013. Development of Chongqing IFC, Wuxi IFC and Suzhou IFC is progressing as planned.

## Marco Polo Hotels

Total revenue from the Marco Polo hotels and club grew by 11% to HK$593 million. Consolidated occupancy of the three Marco Polo hotels in Hong Kong was 81% with a 21% increase in average room rates. Other Marco Polo hotels performed strongly in their respective locations.

## Modern Terminals

Modern Terminals' consolidated revenue increased by 6% to HK$1,620 million during the period. However, operating profit decreased by 15% to HK$675 million as a result of one-off items and rising operating costs.

Throughput in Hong Kong grew modestly to 2.7 million TEUs. In China, throughput at Taicang International Gateway in Suzhou grew by 9% to 685,000 TEUs while Da Chan Bay Terminal One in Shenzhen handled 343,000 TEUs, 19% higher than last year.

## Other Businesses

### *i-CABLE*

Turnover increased by 9% to HK$1,051 million while a net loss of HK$55 million for the period represented a 62% improvement. The financial position remains solid with net cash of HK$369 million.

### *Wharf T&T*

The ICT industry benefited from the rally of IT and telecom spending to cope with business demand during the period. Wharf T&T's revenue rose by 6% to HK$879 million and net profit by 8% to HK$103 million with stable net cash inflow.

# FINANCIAL REVIEW

## (I) REVIEW OF 2011 INTERIM RESULTS

Wholly-owned WPL helped the Group to a record first half with the completion of the very successful One Island South. Profit attributable to shareholders increased by 56% to HK$10,219 million (2010: HK$6,533 million). Exclusive of the net investment property revaluation surplus and Wharf's exceptional gains in 2010 comprising a one-off tax write back and a surplus from revaluation of the interest in an associate, underlying profit increased by 72% to HK$3,825 million (2010: HK$2,225 million).

### Turnover and Operating Profit

Group turnover increased by 10% to HK$13,755 million (2010: HK$12,516 million). All business segments reported an increase.

Group operating profit increased by 25% to HK$7,501 million (2010: HK$6,020 million), with HK$4,980 million (2010: HK$4,516 million) contributed by Wharf, HK$216 million (2010: HK$1,301 million) by WPSL, and HK$2,305 million (2010: HK$203 million) by Wheelock and its other subsidiaries, primarily WPL.

#### *Property Investment*

Revenue and operating profit both increased by 13% to HK$5,050 million (2010: HK$4,483 million) and HK$3,927 million (2010: HK$3,467 million) respectively. This reflects the outstanding underlying retail sales achieved by the retail tenants and recovery of office rents. Revenue from the Mainland increased by 34% to HK$317 million as benefited from the newly completed Shanghai Wheelock Square and favourable rental reversion for other properties. Hotels also recorded favourable results with average room rate much improved.

#### *Property Development*

Revenue and operating profit increased by 8% and 53% to HK$4,893 million (2010: HK$4,548 million) and HK$2,765 million (2010: HK$1,813 million) respectively.

In Hong Kong, One Island South was completed with all the office units sold enabling the recognition of revenue of HK$3,335 million and operating profit of HK$2,084 million.

Revenue and operating profit from the Mainland increased by 31% and 1% to HK$1,343 million and HK$568 million respectively, with phased completions at Chengdu Crystal Park and Chengdu Tian Fu Times Square.

Inclusive of joint ventures on an attributable basis, new sales and pre-sales of HK$11,860 million (2010: HK$2,670 million) were contracted in the period to increase cumulative pre-sales pending recognition as at 30 June 2011 to HK$23,840 million, whereof about 75% in the Mainland and the balance in Singapore.

### *Logistics*

Revenue increased by 5% to HK$1,673 million (2010: HK$1,596 million), reflecting higher throughput handled by Modern Terminals. Operating profit however decreased by 16% to HK$682 million (2010: HK$811 million) mainly due to higher operating expenses that exceeded the increased revenue of Modern Terminals.

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

Revenue increased by 8% to HK$1,930 million (2010: HK$1,795 million) and CME returned to profitability with an operating profit of HK$50 million (2010: loss of HK$15 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.

### *Investment and Others*

Investment and other operating profit increased to HK$333 million (2010: HK$169 million), mainly due to an increase in dividend and interest 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$184.1 billion, with HK$169.8 billion thereof stated at fair value based on an independent valuation as at that date. That resulted in a revaluation surplus of HK$12,496 million (2010: HK$8,030 million), reflecting the continuous strong performance of the Group's investment properties. The attributable net revaluation surplus of HK$6,394 million (2010: HK$3,707 million), after deducting related deferred tax and non-controlling interests in total of HK$6,102 million (2010: HK$4,323 million), 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 their respective completion.

## Other Net Income

Other net income decreased by 43% to HK$304 million (2010: HK$537 million) in the absence of one-off surplus from revaluation of the interests in Hong Kong Air Cargo Terminals Limited ("Hactl") in 2010 when it became an associate of Wharf.

## Finance Costs

Finance costs charged to the consolidated income statement were HK$878 million (2010: HK$569 million), which included an unrealised mark-to-market loss of HK$369 million (2010: HK$318 million) on the cross currency/interest rate swaps as measured in compliance with the prevailing accounting standard.

Excluding the said unrealised mark-to-market loss, finance cost after capitalisation of HK$185 million (2010: HK$154 million) was HK$509 million (2010: HK$251 million), representing an increase of HK$258 million mainly as a result of the increase in gross borrowings.

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

Share of profits of associates increased by 47% to HK$209 million (2010: HK$142 million), mainly due to contribution from Hactl. Share of results of jointly controlled entities ("JCEs") reported a net loss of HK$9 million (2010: profit of HK$7 million) in the absence of major property completion in the Mainland.

## Income Tax

Taxation charge was HK$1,906 million (2010: HK$1,108 million), which included deferred taxation of HK$518 million (2010: HK$692 million) provided for the revaluation surplus of investment properties located in the Mainland.

Excluding the above deferred tax, the tax charge increased to HK$1,388 million (2010: HK$416 million) in the absence of a tax write back of HK$809 million by Wharf in 2010 upon reaching a settlement with the Inland Revenue Department on various tax disagreements.

## Non-controlling Interests

Profit attributable to non-controlling interests was HK$7,498 million (2010: HK$6,526 million), which was mainly attributable to profit of Wharf and WPSL.

## Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 56% to HK$10,219 million (2010: HK$6,533 million). Earnings per share were HK$5.03 (2010: HK$3.22).

Excluding the net investment property revaluation surplus after the associated deferred tax of HK$6,394 million (2010: HK$3,707 million), the Group's profit attributable to shareholders for the period was HK$3,825 million (2010: HK$2,826 million), representing an increase of 35% over 2010.

Further stripping out the exceptional attributable tax write back and surplus from revaluation of an associate in 2010, the Group's profit attributable to equity shareholders would rise by 72% over 2010.

Set out below is an analysis of the Group's profit before exceptionals and 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** | |
|---|---|---|
| | **2011** | 2010 |
| Profit attributable to | **HK$ Million** | HK$ Million |
| Wharf group | **1,642** | 1,426 |
| WPSL group | **137** | 623 |
| Wheelock and other subsidiaries | **2,046** | 176 |
| Profit before exceptionals and investment property surplus | **3,825** | 2,225 |
| Attributable tax write back | **–** | 390 |
| Attributable surplus on revaluation of an associate | **–** | 211 |
| Profit before investment property surplus | **3,825** | 2,826 |
| Investment property surplus (after deferred tax) | **6,394** | 3,707 |
| Profit attributable to equity shareholders | **10,219** | 6,533 |

Wharf's profit for the first half of 2011 increased year-on-year by 31% to HK$14,302 million (2010: HK$10,892 million). Excluding the net investment property surplus and exceptionals, Wharf's net profit was HK$3,283 million (2010: HK$2,958 million), representing an increase of 11% over 2010.

WPSL's reported profit for the first half of 2011 was S$89.4 million (2010: S$133.9 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$181 million (2010: HK$1,106 million) in the absence of major property completion.

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

### Shareholders' and Total Equity

The Group's shareholders' equity increased by HK$10.5 billion or 10% to HK$110.9 billion (2010: HK$100.4 billion), or HK$54.58 per share (2010: HK$49.40 per share) as at 30 June 2011.

Including the non-controlling interests, the Group's total equity increased by 11% to HK$215.2 billion (2010: HK$193.1 billion).

## Total Assets

The Group's total assets increased by 13% to HK$321.8 billion (2010: HK$285.1 billion). Total business assets, excluding bank deposits and cash, financial investments, deferred tax assets and other derivative financial assets, increased by 14% to HK$280.5 billion (2010: HK$245.0 billion).

The Group's Investment Property portfolio was HK$184.1 billion, representing 66% of total business assets. Together, Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK$119.1 billion, representing 65% of the value of the portfolio.

Other major business assets included other properties and fixed assets of HK$18.5 billion, interest in JCEs and associates (mainly for the Mainland property development and port projects) of HK$25.8 billion and properties under development and held for sale of HK$48.4 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, increased to HK$100.1 billion (2010: HK$76.6 billion), representing 36% of the Group's total business assets.

## Debts and Gearing

The Group's net debt increased by HK$8.6 billion to HK$46.7 billion (2010: HK$38.1 billion) as at 30 June 2011, which was made up of HK$76.3 billion in debts and HK$29.6 billion in bank deposits and cash. Excluding Wharf's net debt of HK$42.5 billion, which is non-recourse to the Company and its other subsidiaries, and WPSL's net cash of HK$3.2 billion, Wheelock's net debt was HK$7.4 billion (2010: HK$10.0 billion). Analysis of the net debt by group is as below:

| Net debt/(cash) | **2011 HK$ Million** | 2010 HK$ Million |
|---|---|---|
| Wharf (excludes below subsidiaries) | **33,503** | 23,376 |
| Modern Terminals | **11,054** | 9,932 |
| Harbour Centre Development Ltd. | **(1,694)** | (172) |
| i-CABLE | **(369)** | (447) |
| Wharf group | **42,494** | 32,689 |
| WPSL group | **(3,215)** | (4,571) |
| Wheelock and other subsidiaries | **7,432** | 10,024 |
| Group | **46,711** | 38,142 |

The ratio of net debt to total equity was 21.7% (2010: 19.8%) as at 30 June 2011.

## Finance and Availability of Facilities

The Group's available loan facilities and debt securities amounting to HK$102.1 billion (2010: HK$87.0 billion), of which HK$76.3 billion were drawn, as at 30 June 2011 are analysed as below:

| | Available Facility HK$ Billion | Total Debts HK$ Billion | Undrawn Facility HK$ Billion |
|---|---|---|---|
| Wharf (excludes below subsidiaries) | 66.0 | 47.8 | 18.2 |
| Modern Terminals | 14.4 | 11.6 | 2.8 |
| Harbour Centre Development Ltd. | 4.6 | 3.0 | 1.6 |
| i-CABLE | 0.3 | – | 0.3 |
| Wharf group | 85.3 | 62.4 | 22.9 |
| WPSL group | 1.6 | 0.6 | 1.0 |
| Wheelock and other subsidiaries | 15.2 | 13.3 | 1.9 |
| Group | 102.1 | 76.3 | 25.8 |

In March 2011, Wharf completed a rights issue and received net proceeds of HK$10.0 billion, of which HK$5.0 billion was paid by Wheelock for its subscription.

In June 2011, Wharf issued guaranteed convertible bonds with a term of 3 years for an aggregate principal amount of HK$6.2 billion. Assuming full conversion of the bonds, the Group's interest in Wharf would fall from 50.02% to 48.91%.

Of the above debts, HK$25.5 billion (2010: HK$24.3 billion) was secured by mortgage over certain properties under development, fixed assets and investments with total carrying value of HK$76.5 billion (2010: HK$80.7 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 investments in the Mainland, 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 strong financial position with ample surplus cash denominated principally in HKD, RMB and SGD and undrawn committed facilities to facilitate the Group's expanding business and investment activities. The Group also maintained a portfolio of financial investments, primarily in blue-chip securities, with an aggregate market value as at 30 June 2011 of HK$8.9 billion (2010: HK$10.7 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 operating cash inflow before changes in working capital increased to HK$7.8 billion (2010: HK$6.5 billion). The changes in working capital resulted in net cash outflow from operating activities to HK$1.8 billion (2010: inflow of HK$1.0 billion), primarily due to payment 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 reported a net cash outflow of HK$10.3 billion (2010: inflow of HK$2.3 billion), mainly for additions to investment properties and investments in JCEs involved in property development projects in the Mainland.

## Major Expenditure and Commitments

The major expenditure, substantially incurred by Wharf's core businesses, during the period and related commitments as at 30 June 2011 are analysed as follows:

| | | | Commitments as at 30 June 2011 | |
|---|---|---|---|---|
| Business Unit/Company | | Expenditure for 1-6/2011 HK$ Million | Authorised and Contracted for HK$ Million | Authorised but not Contracted for HK$ Million |
| **(a)** | **Capital expenditure** | | | |
| | Wharf group | 9,324 | 11,300 | 24,877 |
| | Property Investments | 8,918 | 10,444 | 23,415 |
| | Wharf T&T | 226 | 222 | 158 |
| | i-CABLE | 88 | 36 | 132 |
| | Modern Terminals | 92 | 598 | 1,172 |
| | WPSL group | 62 | 18 | – |
| | Wheelock and other subsidiaries | 12 | 7 | – |
| | | 9,398 | 11,325 | 24,877 |
| **(b)** | **Trading properties under development** | | | |
| | Wharf group | 12,920 | 11,693 | 58,273 |
| | Subsidiaries | 10,518 | 8,122 | 40,428 |
| | JCEs and associates | 2,402 | 3,571 | 17,845 |
| | WPSL group | | | |
| | Subsidiaries | 1,196 | 1,507 | 2,389 |
| | Wheelock and other subsidiaries | 622 | 681 | 2,337 |
| | Subsidiaries | 560 | 394 | 614 |
| | JCEs and associates | 62 | 287 | 1,723 |
| | | 14,738 | 13,881 | 62,999 |
| **(c)** | **Programming and others** | 35 | 1,448 | 109 |

The capital expenditure incurred for Wharf's Property Investment segment was mainly for 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 construction of the Dachan Bay project in the Mainland and addition of other fixed assets.

In addition to the capital expenditure, the Group also incurred HK$14.7 billion of expenditures for the development of its trading properties in the Mainland, Hong Kong and Singapore, mainly including Wharf's expenditure of HK$12.9 billion that has excluded the intra-group acquisition by Wharf of the four Foshan joint venture projects 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$13.9 billion, respectively, among these including attributable land costs of HK$9.4 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$63.0 billion for trading properties mainly on construction cost to complete the Group's development projects in the Mainland, Hong Kong and Singapore, which will be carried out by stages in the forthcoming years.

The above commitments will be funded by the respective groups' own internal financial resources including surplus cash, 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 financial investments.

## *(III) TRANSFER OF FOSHAN PROPERTY PROJECTS TO WHARF*

Wheelock completed the transfer of its 50% interests in four Foshan property joint ventures to Wharf for a total consideration of HK$3,388 million in June 2011. The major assets that the four joint ventures hold are the four residential property development projects in Chancheng, Guicheng, Shishan and Xincheng, Foshan in the Mainland. Being a disposal to its subsidiary, Wheelock has deferred the recognition of the relevant profit of about HK$1,300 million resulting from the transaction until the completion and sale of the property units to parties not under Wheelock's control by the Foshan joint ventures.

## *(IV) HUMAN RESOURCES*

The Group had approximately 14,000 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.

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011 – Unaudited

| | Note | Six months ended 30 June<br>2011<br>HK$ Million | 2010<br>HK$ Million<br>(restated) |
|---|---|---|---|
| **Turnover** | 2 | **13,755** | 12,516 |
| Direct costs and operating expenses | | **(4,513)** | (4,950) |
| Selling and marketing expenses | | **(476)** | (404) |
| Administrative and corporate expenses | | **(601)** | (491) |
| Operating profit before depreciation, amortisation, interest and tax | | **8,165** | 6,671 |
| Depreciation and amortisation | 3 | **(664)** | (651) |
| **Operating profit** | 2 & 3 | **7,501** | 6,020 |
| Increase in fair value of investment properties | | **12,496** | 8,030 |
| Other net income | 4 | **304** | 537 |
| | | **20,301** | 14,587 |
| Finance costs | 5 | **(878)** | (569) |
| Share of results after tax of: | | | |
| Associates | | **209** | 142 |
| Jointly controlled entities | | **(9)** | 7 |
| Profit before taxation | | **19,623** | 14,167 |
| Income tax | 6 | **(1,906)** | (1,108) |
| **Profit for the period** | | **17,717** | 13,059 |
| **Profit attributable to:** | | | |
| Equity shareholders | | **10,219** | 6,533 |
| Non-controlling interests | | **7,498** | 6,526 |
| | | **17,717** | 13,059 |
| **Earnings per share** | 7 | | |
| Basic | | **HK$5.03** | HK$3.22 |
| Diluted | | **HK$5.03** | HK$3.22 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011 – Unaudited

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$ Million** | HK$ Million (restated) |
| **Profit for the period** | **17,717** | 13,059 |
| **Other comprehensive income** | | |
| Exchange gain on translation of foreign operations | **1,936** | 353 |
| Net revaluation reserves of available-for-sale investments: | **(1,057)** | 34 |
| (Deficit)/surplus on revaluation | **(900)** | 118 |
| Transferred to consolidated income statement on disposal | **(157)** | (84) |
| Share of other comprehensive income of associates/jointly controlled entities | **245** | 81 |
| Others | **24** | (23) |
| **Other comprehensive income for the period** | **1,148** | 445 |
| **Total comprehensive income for the period** | **18,865** | 13,504 |
| **Total comprehensive income attributable to:** | | |
| Equity shareholders | **10,671** | 6,751 |
| Non-controlling interests | **8,194** | 6,753 |
| | **18,865** | 13,504 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011 – Unaudited

| | Note | **30 June 2011 HK$ Million** | 31 December 2010 HK$ Million |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **184,114** | 161,953 |
| Other property, plant and equipment | | **14,734** | 14,692 |
| Leasehold land | | **3,731** | 3,718 |
| Total fixed assets | | **202,579** | 180,363 |
| Goodwill and other intangible assets | | **297** | 297 |
| Interest in associates | | **6,821** | 6,574 |
| Interest in jointly controlled entities | | **18,974** | 16,485 |
| Available-for-sale investments | | **8,497** | 10,676 |
| Held-to-maturity investments | | **390** | – |
| Long term receivables | | **21** | 27 |
| Programming library | | **110** | 113 |
| Employee retirement benefit assets | | **17** | 17 |
| Deferred tax assets | | **515** | 550 |
| Derivative financial assets | | **284** | 587 |
| | | **238,505** | 215,689 |
| **Current assets** | | | |
| Properties for sale | | **48,368** | 37,233 |
| Inventories | | **119** | 113 |
| Trade and other receivables | 9 | **4,973** | 4,344 |
| Derivative financial assets | | **209** | 166 |
| Bank deposits and cash | | **29,584** | 27,540 |
| | | **83,253** | 69,396 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **(6,665)** | (7,449) |
| Deposits from sale of properties | | **(13,648)** | (9,928) |
| Derivative financial liabilities | | **(215)** | (244) |
| Taxation payable | | **(1,926)** | (1,423) |
| Bank loans and other borrowings | 11 | **(6,908)** | (16,362) |
| | | **(29,362)** | (35,406) |
| **Net current assets** | | **53,891** | 33,990 |
| **Total assets less current liabilities** | | **292,396** | 249,679 |
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | 11 | **(69,387)** | (49,320) |
| Deferred tax liabilities | | **(5,967)** | (5,413) |
| Other deferred liabilities | | **(279)** | (283) |
| Derivative financial liabilities | | **(1,584)** | (1,587) |
| | | **(77,217)** | (56,603) |
| **NET ASSETS** | | **215,179** | 193,076 |
| **Capital and reserves** | | | |
| Share capital | | **1,016** | 1,016 |
| Reserves | | **109,874** | 99,356 |
| **Shareholders' equity** | | **110,890** | 100,372 |
| **Non-controlling interests** | | **104,289** | 92,704 |
| **TOTAL EQUITY** | | **215,179** | 193,076 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011 – 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 2011 | **1,016** | **1,914** | **2,369** | **2,834** | **92,239** | **100,372** | **92,704** | **193,076** |
| Changes in equity for the period: | | | | | | | | |
| Profit | **–** | **–** | **–** | **–** | **10,219** | **10,219** | **7,498** | **17,717** |
| Other comprehensive income | **–** | **–** | **(802)** | **1,234** | **20** | **452** | **696** | **1,148** |
| Total comprehensive income | **–** | **–** | **(802)** | **1,234** | **10,239** | **10,671** | **8,194** | **18,865** |
| Shares issued by subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **5,002** | **5,002** |
| Convertible bonds issued by a subsidiary | **–** | **–** | **–** | **50** | **–** | **50** | **49** | **99** |
| Final dividend paid for 2010 (Note 8b) | **–** | **–** | **–** | **–** | **(203)** | **(203)** | **–** | **(203)** |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **(1,660)** | **(1,660)** |
| **At 30 June 2011** | **1,016** | **1,914** | **1,567** | **4,118** | **102,275** | **110,890** | **104,289** | **215,179** |
| At 1 January 2010 | 1,016 | 1,914 | 1,583 | 1,808 | 70,577 | 76,898 | 81,653 | 158,551 |
| Changes in equity for the period: | | | | | | | | |
| Profit | – | – | – | – | 6,533 | 6,533 | 6,526 | 13,059 |
| Other comprehensive income | – | – | 16 | 202 | – | 218 | 227 | 445 |
| Total comprehensive income | – | – | 16 | 202 | 6,533 | 6,751 | 6,753 | 13,504 |
| Shares issued by subsidiaries | – | – | – | – | – | – | 11 | 11 |
| Final dividend paid for 2009 (Note 8b) | – | – | – | – | (203) | (203) | – | (203) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | (1,241) | (1,241) |
| At 30 June 2010 | 1,016 | 1,914 | 1,599 | 2,010 | 76,907 | 83,446 | 87,176 | 170,622 |

* Included in exchange and other reserves is capital redemption reserve of HK$19 million (2010: HK$19 million).

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011 – Unaudited

| | Six months ended 30 June 2011 HK$ Million | 2010 HK$ Million |
|---|---|---|
| Net cash (used in)/generated from operating activities | **(1,800)** | 1,048 |
| Net cash (used in)/generated from investing activities | **(10,326)** | 2,286 |
| Net cash generated from/(used in) financing activities | **13,629** | (662) |
| **Net increase in cash and cash equivalents** | **1,503** | 2,672 |
| Cash and cash equivalents at 1 January | **27,514** | 23,474 |
| Effect of exchange rate changes | **539** | 79 |
| **Cash and cash equivalents at 30 June** | **29,556** | 26,225 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank deposits and cash in the consolidated statement of financial position | **29,584** | 26,307 |
| Less: Pledged bank deposits | **(28)** | (82) |
| Cash and cash equivalents in the condensed consolidated statement of cash flows | **29,556** | 26,225 |

# NOTES TO THE 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.

During the year ended 31 December 2010, the Group early adopted the amendments to HKAS 12 "Income taxes" ("HKAS 12"), in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40 "Investment property". The Group applied HKAS 12 retrospectively and the comparative amounts were restated, where appropriate. As a result of this change, the Group's income tax for the six months ended 30 June 2010 decreased by HK$1,109 million, while the profit attributable to equity shareholders and non-controlling interests for the six months ended 30 June 2010 increased by HK$564 million and HK$545 million respectively.

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 2010 except the changes mentioned below.

With effect from 1 January 2011, the Group has adopted the below revised and amendment to Hong Kong Financial Reporting Standards ("HKFRSs"), which are relevant to the Group's financial statements:

| | |
|---|---|
| Revised HKAS 24 | Related party disclosures |
| Improvements to HKFRSs 2010 | |

The improvements to HKFRSs 2010 consists of amendments to existing standards, including an amendment to HKAS 34. HKAS 34 (amendment) provides for further disclosures in interim financial report. It has had no financial impact on the Group's interim financial report.

The other developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

## 2. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined four reportable operating segments for measuring performance and allocating resources. The segments are property investment, property development, logistics, and communications, media and entertainment ("CME"). 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, service apartments and hotels, is primarily located in Hong Kong, Mainland 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, Mainland China and Singapore.

Logistics segment mainly includes the container terminal operations of Modern Terminals Limited ("Modern Terminals"), Hong Kong Air Cargo Terminals Limited ("Hactl") and other public transport operations.

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

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.

Segment business assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, financial investments, deferred tax assets and other derivative financial assets.

Revenue and expenses are allocated with reference to sales generated by those segments and expenses incurred by those segments or which arise from the depreciation of assets attributable to those segments.

## (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 HK$ Million | Finance costs HK$ Million | Associates HK$ Million | Jointly controlled entities HK$ Million | Profit before taxation HK$ Million |
|---|---|---|---|---|---|---|---|---|
| 30 June 2011 | | | | | | | | |
| Property investment | 5,050 | 3,927 | 12,496 | – | (298) | – | – | 16,125 |
| Hong Kong | 3,996 | 3,444 | 11,567 | – | (206) | – | – | 14,805 |
| Mainland China | 317 | 193 | 929 | – | (88) | – | – | 1,034 |
| Singapore | 144 | 103 | – | – | – | – | – | 103 |
| Hotels | 593 | 187 | – | – | (4) | – | – | 183 |
| Property development | 4,893 | 2,765 | – | 36 | (42) | 20 | (30) | 2,749 |
| Hong Kong | 3,402 | 2,118 | – | – | (7) | 22 | – | 2,133 |
| Mainland China | 1,343 | 568 | – | 36 | (35) | (2) | (30) | 537 |
| Singapore | 148 | 79 | – | – | – | – | – | 79 |
| Logistics | 1,673 | 682 | – | 97 | (124) | 189 | 21 | 865 |
| Terminals | 1,620 | 675 | – | 108 | (124) | 97 | 21 | 777 |
| Others | 53 | 7 | – | (11) | – | 92 | – | 88 |
| CME | 1,930 | 50 | – | 2 | – | – | – | 52 |
| i-CABLE | 1,051 | (53) | – | 2 | – | – | – | (51) |
| Telecommunications | 879 | 103 | – | – | – | – | – | 103 |
| Others | – | – | – | – | – | – | – | – |
| Inter-segment revenue | (207) | – | – | – | – | – | – | – |
| Segment total | 13,339 | 7,424 | 12,496 | 135 | (464) | 209 | (9) | 19,791 |
| Investment and others | 416 | 333 | – | 169 | (414) | – | – | 88 |
| Corporate expenses | – | (256) | – | – | – | – | – | (256) |
| Group total | 13,755 | 7,501 | 12,496 | 304 | (878) | 209 | (9) | 19,623 |

| Six months ended | Turnover HK$ Million | Operating profit/ (loss) HK$ Million | Increase in fair value of investment properties HK$ Million | Other net income 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 |
| Mainland 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 |
| Mainland China | 1,024 | 560 | – | 20 | (43) | 43 | (10) | 570 |
| Singapore | 3,394 | 1,197 | – | – | – | – | – | 1,197 |
| 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 |
| CME | 1,795 | (15) | – | – | – | (39) | – | (54) |
| i-CABLE | 962 | (107) | – | – | – | (39) | – | (146) |
| Telecommunications | 833 | 95 | – | – | – | – | – | 95 |
| Others | – | (3) | – | – | – | – | – | (3) |
| Inter-segment revenue | (211) | – | – | – | – | – | – | – |
| Segment total | 12,211 | 6,076 | 8,030 | 458 | (367) | 142 | 7 | 14,346 |
| Investment and others | 305 | 169 | – | 79 | (202) | – | – | 46 |
| Corporate expenses | – | (225) | – | – | – | – | – | (225) |
| Group total | 12,516 | 6,020 | 8,030 | 537 | (569) | 142 | 7 | 14,167 |

## (b) Analysis of inter-segment revenue

| Six months ended 30 June | **2011 Total Revenue HK$ Million** | **2011 Inter-segment revenue HK$ Million** | **2011 Group Revenue HK$ Million** | 2010 Total Revenue HK$ Million | 2010 Inter-segment revenue HK$ Million | 2010 Group Revenue HK$ Million |
|---|---|---|---|---|---|---|
| Property investment | **5,050** | **(80)** | **4,970** | 4,483 | (81) | 4,402 |
| Property development | **4,893** | **–** | **4,893** | 4,548 | – | 4,548 |
| Logistics | **1,673** | **–** | **1,673** | 1,596 | – | 1,596 |
| CME | **1,930** | **(95)** | **1,835** | 1,795 | (76) | 1,719 |
| Investment and others | **416** | **(32)** | **384** | 305 | (54) | 251 |
| | **13,962** | **(207)** | **13,755** | 12,727 | (211) | 12,516 |

### (c) Geographical information

| | Revenue | | Operating Profit | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Six months ended 30 June | **HK$ Million** | HK$ Million | **HK$ Million** | HK$ Million |
| Hong Kong | **11,320** | 7,382 | **6,612** | 4,145 |
| Mainland China | **2,024** | 1,540 | **612** | 530 |
| Singapore | **411** | 3,594 | **277** | 1,345 |
| Group total | **13,755** | 12,516 | **7,501** | 6,020 |

## 3. OPERATING PROFIT

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$ Million** | HK$ Million |
| Operating profit is arrived at after charging/(crediting): | | |
| Depreciation and amortisation on | | |
| – assets held for use under operating leases | **65** | 57 |
| – other fixed assets | **514** | 505 |
| – leasehold land | **46** | 46 |
| – programming library | **39** | 43 |
| Total depreciation and amortisation | **664** | 651 |
| Staff costs (Note a) | **1,477** | 1,402 |
| Cost of trading properties sold | **1,955** | 2,680 |
| Rental income less direct outgoings (Note b) | **(3,751)** | (3,387) |
| Interest income | **(136)** | (92) |
| Dividend income from listed investments | **(162)** | (72) |
| Dividend income from unlisted investments | **(3)** | (16) |
| Loss/(profit) on disposal of fixed assets | **3** | (7) |

Notes:

(a) Staff costs included retirement scheme costs of HK$71 million (2010: HK$57 million).

(b) Rental income included contingent rentals of HK$778 million (2010: HK$550 million).

## 4. OTHER NET INCOME

Other net income for the six months ended 30 June 2011 amounted to HK$304 million (2010: HK$537 million), mainly including:

**(a)** Net profit on disposal of available-for-sale investments of HK$189 million (2010: HK$160 million).

**(b)** Net foreign exchange gain of HK$126 million (2010: loss of HK$60 million) which included the impact of forward foreign exchange contracts.

**(c)** A one-off surplus of HK$437 million on revaluation of the interests in Hactl in 2010 on its becoming an associate of The Wharf (Holdings) Limited ("Wharf").

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$ Million** | HK$ Million |
| Interest charged on: | | |
| Bank loans and overdrafts | | |
| – repayable within five years | **374** | 209 |
| – repayable after five years | **153** | 64 |
| Other borrowings | | |
| – repayable within five years | **7** | – |
| – repayable after five years | **70** | 30 |
| Total interest charge | **604** | 303 |
| Other finance costs | **90** | 102 |
| Less: Amount capitalised | **(185)** | (154) |
| | **509** | 251 |
| Fair value (gain)/cost: | | |
| Cross currency interest rate swaps | **(41)** | 29 |
| Interest rate swaps | **410** | 289 |
| | **878** | 569 |

**(a)** The Group's average effective borrowing rate for the period was approximately 1.8% (2010: 1.8%) per annum.

**(b)** The above interest charge has taken into account the interest paid/received in respect of interest rate swaps and cross currency interest rate swaps.

## 6. INCOME TAX

Taxation charged to the consolidated income statement represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$ Million** | HK$ Million (restated) |
| **Current income tax** | | |
| Hong Kong | | |
| – provision for the period | **990** | 614 |
| – overprovision in respect of prior years (Note 6e) | **(6)** | (809) |
| Outside Hong Kong | | |
| – provision for the period | **224** | 266 |
| – underprovision in respect of prior years | **–** | 21 |
| | **1,208** | 92 |
| **Land appreciation tax ("LAT")** (Note 6c) | **175** | 167 |
| **Deferred tax** | | |
| Change in fair value of investment properties | **518** | 692 |
| Origination and reversal of temporary differences | **5** | 157 |
| | **523** | 849 |
| | **1,906** | 1,108 |

**(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% (2010: 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 up to 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 2011 of HK$46 million (2010: HK$55 million) is included in the share of results after tax of associates and jointly controlled entities.

**(e)** During the six months ended 30 June 2010, Wharf reached a settlement with the Inland Revenue Department of HKSAR on various tax disagreement in respect of the deductibility of interest expenses and the concerned overprovisions made in previous years totalling HK$809 million was written back.

## 7. EARNINGS PER SHARE

The calculation of earnings per share is based on profit attributable to equity shareholders for the period of HK$10,219 million (2010: HK$6,533 million) and 2,032 million ordinary shares in issue throughout the six months ended 30 June 2011 and 2010.

There were no potential diluted ordinary shares in existence during the six months ended 30 June 2011 and 2010.

## 8. 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** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$ Million** | HK$ Million |
| Interim dividend of 4.0 cents (2010: 2.5 cents) per share proposed after the end of the reporting date | **81** | 51 |

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$ Million** | HK$ Million |
| 2010 Final dividend paid of 10.0 cents per share | **203** | – |
| 2009 Final dividend paid of 10.0 cents per share | **–** | 203 |
| | **203** | 203 |

## 9. 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 2011 as follows:

| | **30 June 2011 HK$ Million** | 31 December 2010 HK$ Million |
|---|---|---|
| Trade receivables | | |
| 0 – 30 days | **722** | 592 |
| 31 – 60 days | **79** | 113 |
| 61 – 90 days | **84** | 52 |
| Over 90 days | **85** | 61 |
| | **970** | 818 |
| Accrued sales receivables | **275** | 655 |
| Other receivables | **3,728** | 2,871 |
| | **4,973** | 4,344 |

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.

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.

## 10. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis as at 30 June 2011 as follows:

| | **30 June 2011 HK$ Million** | 31 December 2010 HK$ Million |
|---|---|---|
| Amounts payable in the next: | | |
| 0 – 30 days | **248** | 260 |
| 31 – 60 days | **179** | 139 |
| 61 – 90 days | **38** | 45 |
| Over 90 days | **92** | 147 |
| | **557** | 591 |
| Rental and customer deposits | **2,105** | 1,943 |
| Construction costs payable | **1,505** | 2,197 |
| Other payables | **2,498** | 2,718 |
| | **6,665** | 7,449 |

## 11. BANK LOANS AND OTHER BORROWINGS

| | **30 June 2011 HK$ Million** | 31 December 2010 HK$ Million |
|---|---|---|
| Bonds and notes (unsecured) | **6,063** | 6,170 |
| Convertible bonds (unsecured) | **6,159** | – |
| Bank loans (secured) | **25,475** | 24,265 |
| Bank loans (unsecured) | **38,598** | 35,247 |
| **Total bank loans and other borrowings** | **76,295** | 65,682 |
| **Analysis of maturities of the above borrowings:** | | |
| **Current borrowings** | | |
| Due within 1 year | **6,908** | 16,362 |
| **Non-current borrowings** | | |
| Due after 1 year but within 5 years | **59,616** | 39,097 |
| Due after 5 years | **9,771** | 10,223 |
| | **69,387** | 49,320 |
| **Total bank loans and other borrowings** | **76,295** | 65,682 |

The guaranteed convertible bonds issued by Wharf at an initial conversion price of HK$90 per share are due on 7 June 2014.

## 12. MATERIAL RELATED PARTY TRANSACTIONS

The Group has not been a party to any material related party transactions during the period ended 30 June 2011 except for the rental income totalling HK$288 million (2010: HK$254 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

**(a)** As at 30 June 2011, there were contingent liabilities in respect of guarantees given by the Group on behalf of certain jointly controlled entities of HK$9,038 million (2010: HK$8,100 million), of which HK$6,258 million (2010: HK$5,607 million) had been drawn.

**(b)** Wheelock Properties Limited ("WPL"), a wholly-owned subsidiary, 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 2011 included below:

| | | 30 June 2011 | | | | 31 December 2010 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Hong Kong HK$ Million | Mainland China HK$ Million | Singapore HK$ Million | Total HK$ Million | Hong Kong HK$ Million | Mainland China HK$ Million | Singapore HK$ Million | Total HK$ Million |
| (a) | **Capital expenditure** (including investment properties) | | | | | | | | |
| | Authorised and contracted for | **1,207** | **10,100** | **18** | **11,325** | 939 | 5,853 | 51 | 6,843 |
| | Authorised but not contracted for | **667** | **24,210** | **–** | **24,877** | 739 | 16,242 | – | 16,981 |
| | | **1,874** | **34,310** | **18** | **36,202** | 1,678 | 22,095 | 51 | 23,824 |
| (b) | **Programming and others** | | | | | | | | |
| | Authorised and contracted for | **1,448** | **–** | **–** | **1,448** | 1,761 | – | – | 1,761 |
| | Authorised but not contracted for | **109** | **–** | **–** | **109** | 142 | – | – | 142 |
| | | **1,557** | **–** | **–** | **1,557** | 1,903 | – | – | 1,903 |
| (c) | **Properties under development** (other than investment properties) | | | | | | | | |
| | Authorised and contracted for | **283** | **9,101** | **639** | **10,023** | 337 | 10,976 | 221 | 11,534 |
| | Authorised but not contracted for | **419** | **43,012** | **–** | **43,431** | 706 | 37,396 | – | 38,102 |
| | | **702** | **52,113** | **639** | **53,454** | 1,043 | 48,372 | 221 | 49,636 |
| (d) | **Properties under development undertaken by jointly controlled entities and associates** | | | | | | | | |
| | Authorised and contracted for | **318** | **3,540** | **–** | **3,858** | 92 | 5,271 | – | 5,363 |
| | Authorised but not contracted for | **2,571** | **16,997** | **–** | **19,568** | 2,813 | 17,966 | – | 20,779 |
| | | **2,889** | **20,537** | **–** | **23,426** | 2,905 | 23,237 | – | 26,142 |
| (e) | **Expenditure for operating leases** | | | | | | | | |
| | Within one year | **22** | **–** | **–** | **22** | 24 | – | – | 24 |
| | After one year but within five years | **43** | **–** | **–** | **43** | 33 | – | – | 33 |
| | Over five years | **57** | **–** | **–** | **57** | 59 | – | – | 59 |
| | | **122** | **–** | **–** | **122** | 116 | – | – | 116 |

(i) 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$9.4 billion. Other commitments under the categories are mainly construction cost for the forthcoming years.

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

(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, apart from HK$6.9 billion mainly related to properties under development undertaken by Wheelock and its other subsidiaries or through its associates and WPSL group, are substantially attributable to Wharf group.

## 15. EVENTS AFTER THE REPORTING DATE

In July 2011, WPL succeeded in a government tender for a commercial site at the junction of Wai Yip Street, Shun Yip Street and Hoi Bun Road along the Kwun Tong waterfront at a consideration of HK$3,528 million. The site will be developed into two Grade A office buildings.

In August 2011, WPL succeeded in another government tender for a commercial site at the junction of Hung Luen Road and Kin Wan Street within the core commercial hub of Hung Hom at a consideration of HK$4,028 million. The site will be developed into two Grade A office buildings.

## 16. COMPARATIVE FIGURES

As a result of the adoption of the amendments to HKAS 12, "Income taxes", during the financial year ended 31 December 2010, certain comparative figures have been adjusted to reflect the decrease in accrual of deferred tax liabilities related to investment properties carried at fair value. Further details are disclosed in note 1.

## 17. REVIEW OF UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited interim financial statements for the six months ended 30 June 2011 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 the code of conduct adopted by the Company regarding directors' securities transactions during the period under review.

## DIRECTORS' INTERESTS IN SHARES

At 30 June 2011, 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 | 804,445 (0.0266%) | Personal Interest |
| Kenneth W S Ting | 9,600 (0.0003%) | 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 2011 by any of the 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 2011, 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) | Mrs Bessie P Y Woo | 209,712,652 (10.32%) |
| (ii) | HSBC Trustee (Guernsey) Limited | 1,095,300,362 (53.91%) |

*Note: Duplication occurred in respect of the shareholding interests under (i) and (ii) 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 2011, there were no short position interests recorded in the Register.

## CHANGES OF INFORMATION OF DIRECTORS

Given below is the latest information regarding annual emoluments, calculated on an annualised basis, 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 HK$'000** | **##Discretionary annual bonus in cash HK$'000** |
|---|---|---|
| Peter K C Woo | 16,423 *(2010: 15,906)* | 18,000 *(2010: 16,000)* |
| Stephen T H Ng | 5,604 *(2010: 4,646)* | 10,000 *(2010: 9,000)* |
| Paul Y C Tsui | 3,089 *(2010: 2,967)* | 4,500 *(2010: 3,500)* |
| Ricky K Y Wong | 3,201 *(2010: 2,967)* | 3,000 *(2010: 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 payable by the Company.*

## *Paid during the six-month period ended 30 June 2011, with the amounts of such discretionary annual bonuses fixed/decided unilaterally by the employers.*

## 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 Tuesday, 20 September 2011 to Thursday, 22 September 2011, both days inclusive, during which period no share transfers 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 Monday, 19 September 2011.

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

Hong Kong, 25 August 2011

*As at the date of this interim report, 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.*

*Notwithstanding any choice of language or means for the receipt of corporate communications (viz. annual report, interim report, etc.) previously made by Shareholder(s) and communicated to the Company, Shareholder(s) is/are given the option (which may be exercised at any time by giving reasonable prior notice to the Company) of changing his/her/their choice of printed language version(s) to English only, Chinese only or both English and Chinese for receiving future corporate communications, or changing the choice of receiving future corporate communications to using electronic means instead of in printed version (or vice versa). Such notice of change of choice should contain the full name(s) in English, address and contact telephone number of the relevant Shareholder(s), together with the relevant words regarding the request for the change of choice, and should be sent to the Company, c/o the Company's Registrars, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by post or by hand delivery, or via email to wheelockcompany-ecom@hk.tricorglobal.com.*