BUSINESS REVIEW

HONG KONG INVESTMENT PROPERTIES ("IP")

Revenue from this core contributor to Group earnings increased by 9% to HK$6,053 million and operating profit by 8% to HK$5,305 million.

Harbour City

Revenue (excluding hotels) increased by 8% to HK$4,284 million and operating profit by 7% to HK$3,779 million.

Retail

Against the backdrop of a challenging market, retail revenue increased by 7% to HK$2,993 million. Occupancy rate was maintained at virtually 100%.

Harbour City remains an international retail landmark and is one of the most coveted destinations for the world’s best brands. Its market-leading position is strengthened by its critical mass (two million square feet of contiguous space), comprehensive retail offer and global showcase in the region for celebrated international retailers. At the core of the six-million-square-feet “Greater Harbour City” cluster in Tsim Sha Tsui covering high-traffic shopping, entertainment, dining and lifestyle, it enlivens the vibrant retail district. The mall continued to attract sought-after retailers.

New openings or commitments including kikki.K, Lladro, Roberto Cavalli and Samantha Thavasa further enhanced the diverse tenant mix. A spate of Hong Kong / Kowloon debuts at Harbour City across various categories including Issey Miyake, Lady M, Maison Margiela, MM6, Pleats Please, Rebecca Minkoff and The Royal Touch was introduced to enrich the shopping and dining experience.

Demand from renowned fashion brands for expansion also remained solid. Committed expansions included Bottega Veneta, Giuseppe Zanotti, Prada and Roger Vivier. Some lifestyle brands were proven winners, among which LOG-ON was committed to expanding alongside a few others.

Good progress was made with Ocean Terminal’s (“OT”) enhancement works, which generates future value creation. New retail and F&B attractions (including Alma Portuguese Grill Bar, Ballin, Leonard Paris, MM6, Pleats Please and Vivienne Westwood Café) on the third floor were created. Construction of the extension building, designed by Foster & Partners, is underway, with opening targeted for the second half of 2017. New culinary options with a stunning view over the harbour and city skyline will be offered at the building to generate extra patronage.

Powerful marketing also underpins the success of Harbour City. An array of sales-driven events including “HAPPY@hongkong Super JETSO” program with Hong Kong Tourism Board giving shoppers extra privileges and discounts, “Double Happiness” designed to celebrate the Chinese New Year and Valentine’s Day, the 6th annual signature event “Chocolate Trail”, the first ever large-scale Sake Festival, and the transformation of OT Forecourt into a 3D illustration swimming pool with six beautiful hyperrealist sculptures were conducted to draw crowds and media frenzy.
**Office**

Positive rental reversion lifted revenue by 11% to HK$1,145 million. Rents for new commitments remained stable while occupancy rate was 98% at 30 June 2015. Demand from banking and financial sector and PRC companies increased. Lease renewal retention rate was 65%.

**Times Square**

Notwithstanding the temporary closure of about 8% of retail area for renovation, revenue increased by 7% to HK$1,319 million and operating profit by 6% to HK$1,178 million.

**Retail**

Times Square, among the most successful vertical malls across the globe, performed solidly. Retail revenue increased by 9% to HK$990 million with occupancy rate maintained at 99%. Its unique 17-level mall design, expertly-managed trade mix, direct connection to Mass Transit Railway and iconic Open Piazza are instrumental to its success. Similar to Harbour City, Times Square is the core of a “Greater Times Square” cluster in Causeway Bay and has established itself as a unique shopping landmark in town.

New commitments or openings including AMOREPACIFIC, Burberry Beauty, Celine, J. Crew, Jimmy Choo, Kurt Geiger, Laura Mercier and Sportmax added excitement. Relocation of some tenants at the atrium including Adidas, Marks & Spencer, Max & Co. and Tory Burch with new images is underway. The opening of Haagen-Dazs dessert café and commitment of Greenhouse by Gaia Group further enhanced the culinary offering.

A new zone “Kids Square” was created on the 13A floor with recruitment of Kingkow, Marks & Spencer Baby and Watsons Baby to bring surprises to customers.

Conversion of the 9th floor into a lifestyle hub and creation of a duplex store connecting 9th and 10th floors (the previous Superstar Restaurant space) to house two lifestyle brands and a café is underway. Broadway and Fortress were relocated to the 9th floor. Various new lifestyle brands including Donguri Republic, LABO Hair & Nail by IL COLPO, Lenscrafters, OSIM, OTO, Sugarman, Tic Tac Time and Tissot were introduced, with openings targeted for the third quarter of 2015. The duplex store and other new shops will be opened in late 2015.

Innovative marketing plays a pivotal role in securing flow of shoppers for the mall. The TV advertisement for “HAPPY@hongkong Super JETSO” program was exclusively staged at Times Square. Apart from ‘JETSO’, Times Square also launched “Living Room Museum” at the Open Piazza, the first ever museum-in-a-mall, which briskly became our center stage of exhibitions. “The Legend of Lion Dance” exhibition was presented at the Museum during the Chinese New Year to echo the festive theme.

**Office**

Revenue increased by 2% to HK$329 million as a result of positive rental reversion. Occupancy rate was 92% at the end of June. Lease renewal retention was maintained at 60%.
Plaza Hollywood

Plaza Hollywood, a leading shopping mall in Kowloon East, performed satisfactorily. Revenue increased by 3% to HK$263 million and operating profit was maintained at HK$206 million. Occupancy rate was 98% at the end of June. Tenant mix refinement continued to drive future growth.

Plaza Hollywood is not only situated atop Diamond Hill MTR Station, the future interchange hub for the new Shatin-Central link with the existing MTR network, but it is also located at the entrance to Tate’s Cairn tunnel, a vehicular artery linking Kowloon East with the New Territories and beyond to Shenzhen, and directly linked to the Diamond Hill bus terminus. Its coveted location in Kowloon East, a vibrant CBD2, alongside excellent transport connections creates an attractive catchment area for the mall. These, alongside various adjacent cultural landmarks and tourist attractions set it apart from others in the region.

A unique design without towers enables Plaza Hollywood to maximize planning flexibility. Its competitive advantages lie in its highly efficient layout (65% of GFAs is lettable) and good critical mass for shoppers and retailers (over 250 retail outlets, 20 restaurants, and a purposely-built stadium seating six-screen cinema multiplex with 1,614 seats).

CHINA INVESTMENT PROPERTIES

Higher contribution from Chengdu International Finance Square (“IFS”) increased revenue for China IP by 34% to HK$1,121 million and operating profit by 39% to HK$589 million.

In Operation

Chengdu IFS

Retail

Retail revenue increased by 85% to RMB304 million. Occupancy rate was virtually 100%.

Opened in January 2014, the mega mall has become a one-stop lifestyle shopping landmark in Western China, underpinned by its enviable location, critical mass, world-class management and services. Nearly 300 of the world’s premium brands (including over 100 debut stores of coveted brands in Western China) were attracted to the mall, reflecting their trust and confidence in the Group’s value creation capability. The 15-metre-tall outdoor giant panda has become a hugely appealing draw for local residents and tourists.

New tenant commitments and openings including Creemee J, Ed Hardy, Hollys Coffee, Hublot, Kiton, Roberto Cavalli Junior, Shiseido SPA, Zenith, 皇城老媽 and 南小館 have refined the trade-mix and culinary offerings. Various marketing events including “Sweet As One” Chengdu IFS’ first anniversary campaign with thematic exhibition of 40 art pieces from 15 international artists, Ju Ming Art Exhibition “When Art Meets Shopping Mall” China Tour and Vintage Cars Riding Day for VIP attracted phenomenal traffic. In recognition of its top-quality management, Chengdu IFS garnered various prestigious awards including “2014 Top Ten Trendy Commercial Landmark” by Sichuan Online, “2014 Commercial Innovation Award”, “2014 Top Ten Shopping Mall” and other awards by Chengdu Retailers Business Association, as well as Gold Award of “ICSC China Shopping Center Awards 2015 (Design & Development)”.

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Office

Chengdu IFS features three premier Grade A office towers with world-class architecture and management services. It raises the bar to stay ahead of the competition in Western China. Its most-preferred location for multinationals, financial and major corporations makes it the marketplace for tenants to conduct seamless business interaction. 30% of total GFA (over 81,000 square metres) have been leased and another 15% are under offer or discussion. Such leasing status is well comparable to that of our Shanghai Wheelock Square, one of the best office addresses in Shanghai, at a similar stage (85,000 square metres committed in the first 1.5 years). Rental rates achieved (RMB130-170 per square metre per month) are among the highest in the city.

Hotel

Niccolo Chengdu, the first “Sophisticated Urban Chic” hotel under this new luxury brand by Marco Polo, features 230 luxurious guest rooms and suites, a range of exceptional dining experiences, and The Conservatory, a unique oval-shaped venue for business events and celebrations, as well as a Ballroom overlooking the stunning IFS Sculpture Garden. Soon after its soft opening in April 2015, Niccolo Chengdu already garnered its first award — “Best New Hotel Brand — Ultra Luxury” at the 5th China Hotel Awards by Lifestyle Magazine. Room revenue has exceeded the Group’s expectation, placing it among the top hotels in the city. Grand opening is planned for later this year.

Shanghai Wheelock Square

The tallest landmark tower at 270 metres and the finest premium office address in Puxi, it is located next to the Yan’an elevated expressway, right opposite to Jingan Temple Metro Station from where frequent trains commute to Pudong International Airport. It also sits between the Bund and Zhong Shan Xi Road with Hongqiao International Airport further to the west. Top-notch services and management have made it the preferred location for multinationals and major corporations.

Occupancy rate was 95% at the end of June. Lease renewal retention rate was 79% with solid rental reversion (15%). In recognition of its building security excellence, Wheelock Square garnered various awards including “The Safe Unit in Jing’an District 2014” by the Shanghai Jing’an District Security Governed Committee and “The Integrated Security Access Liability 2014 — Excellence Class” by the Jing’an Roads & Street Governed Committee.

Shanghai Times Square

Located on Huaihai Road, it is a high-end retail destination with the largest Lane Crawford store in China and a mega lifestyle specialty store CitySuper. The mall was nearly 100% occupied. Tenant mix was further refined to enhance the shopping experience. Innovative marketing events including the creation of a seven-metre-tall Kaws art installation (a popular photo-shooting spot) and various exhibitions held at the kid zones were conducted to boost traffic and sales. The offices were fully let at the end of June. Lease renewal retention rate was 92%.
**Chengdu Times Outlet**

Outlet mall is currently among the most thriving commercial segments in China as it offers international luxury brands at discounted prices, attracting the growing middle class in the Mainland. Since its opening in late 2009, Chengdu Times Outlet has been among the most visited outlet destinations. With over 250 top international brands spreading across the 63,000-square-metre mall, it registered a 22% growth in sales during the period.

**Under Development**

A total of five IFSs and two Times Outlets is progressing to plan. The first IFS opened in January 2014 and the first Times Outlet in 2009, both in Chengdu. Wuxi IFS also opened in 2014 and the others in Chongqing, Changsha and Suzhou are to follow.

Notably, Chengdu IFS and Changsha IFS are designed to surpass Harbour City and Times Square in Hong Kong not only in scale but also in local market positioning. They are located at the heart of these cities’ respective core CBD.

<table>
<thead>
<tr>
<th>Multi-use developments</th>
<th>Chengdu IFS</th>
<th>Changsha IFS</th>
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<tbody>
<tr>
<td>Total development area</td>
<td>8.2M sq.ft., comprising a 2.2M-sq-ft mall designed by Benoy, two premium Grade A office towers designed by Kohn Pedersen Fox Associates, a luxurious residential tower and a Niccolo hotel</td>
<td>11M sq.ft., featuring a 2.5M-sq-ft mall designed by Benoy, an iconic 452-metre tower and a 315-metre tower above the mall — offering upscale retail, Grade A offices and a Niccolo hotel</td>
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<tr>
<td>Retail Street frontage</td>
<td>530-metre</td>
<td>700-metre</td>
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<tr>
<td>Comparable to Harbour City’s Canton Road 530-metre frontage</td>
<td>At the intersection of Hongxing Road, Dacisi Road and Beishamao Street, the busiest pedestrian shopping area</td>
<td>In Furong District’s Jiefang Road, in close proximity to Huangxhing Road, one of the busiest pedestrian streets. Flanked by financial institutions (incl. The People’s Bank of China) and a traditional shopping cluster on the other</td>
</tr>
<tr>
<td>Location</td>
<td>Atrily dubbed as a combination of Hong Kong’s Central CBD, Causeway Bay and Tsim Sha Tsui. Put the IFSs in an unparalleled position to attract mainstream customers in the western / central China metropolis</td>
<td></td>
</tr>
<tr>
<td>MTR Station</td>
<td>Directly connected to MTR station (Lines 2 and 3 intersect)</td>
<td>Underground linkage to future Wuyi Plaza Station Line 1 (under construction) and 2</td>
</tr>
<tr>
<td>Completion</td>
<td>Full completion: 2015</td>
<td>In phases from 2016. Mall opening is targeted for the third quarter of 2017</td>
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Changsha IFS
Changsha IFS is the largest-scale multi-use development. Powered by its unparalleled geographical advantages and critical mass, the 230,000-square-metre mega mall is set to become an exceptional shopping, dining, lifestyle and leisure destination in Hunan province. Pre-leasing has just commenced, with over 30% of total retail area under offer to tenants or discussion.

Raising the benchmark for tomorrow's office, the premier office towers will be among the top choices for a myriad of financial institutions based in the province.

The third Niccolo luxury hotel is poised to open at Changsha IFS.

Chongqing IFS
Chongqing IFS, a 50:50 joint venture development (with China Overseas Development) featuring an iconic 300-metre landmark tower (topping-off ceremony was held in April 2015) and four other towers above a 102,000-square-metre retail podium, is the largest mixed-use development located in Jiangbei District, Chongqing's new CBD. Positioned to be a boutique-sized Harbour City, it will provide a shopping mall with a broad trade-mix, Grade A offices and the second Niccolo luxury hotel. Currently, over 60% of the retail floor plates were under offer to tenants including the key anchors and various major players under serious negotiations. Over 80% of office Tower Two and Three was sold. Full completion is scheduled for 2016. The mall is set to open in early 2017.

Suzhou IFS
Suzhou IFS is a 450-metre landmark commercial development located in the CBD overlooking Jinji Lake. The development (total GFA: 278,000 square metres), adjacent to Xinghu Street MTR Station (Line 1), features international Grade A offices, luxury apartments and a 147-room Niccolo luxury hotel with full scenery of Suzhou. Full completion is scheduled for 2017.

Changsha Times Outlet
Changsha Times Outlet is located at the northwest area of Changsha. The 70,000-square-metre development has direct access to multiple major motorways (including metro and high-speed expressway) connecting Changsha to various popular tourist attractions nationwide including Zhangjiajie and Dongting Lake. Construction work is scheduled for commencement later this year with completion scheduled for 2016.
CHINA DEVELOPMENT PROPERTIES ("DP")

This business benefited from increased completions, with a 26% increase in consolidated revenue to HK$6,562 million. Consolidated operating profit increased by 35% to HK$1,134 million. Inclusive of joint ventures and associates on an attributable basis, operating profit increased by 14% to HK$1,508 million and 605,000 square metres of GFA were recognised during the period (2014: 626,000 square metres).

Amid the current market environment, the Group’s attributable interest in contracted sales in the first half increased by 16% to RMB10.3 billion (626,000 square metres sold), representing 47% of the full-year target. A total of 50 development projects spanning 14 cities were offered for sale or pre-sale. The net order book (net of business tax) increased to RMB24 billion for 1.6 million square metres at the end of June.

The Group acquired five DP sites in Beijing, Hangzhou and Foshan directly or through joint ventures (attributable GFA: 0.23 million square metres) during the period for RMB3.9 billion. Inclusive of China IP, the current landbank is maintained at 9.6 million square metres, spanning 15 cities.

The Group will take a measured approach to further land purchases.

Eastern China

27 projects were on sale across six cities and three new projects in three cities launched for pre-sale. They generally received overwhelming responses, particularly in Shanghai, Suzhou and Hangzhou. In Shanghai, Zhoupu and Songjiang Xianhe Road projects, in aggregate, sold a further 41,600 square metres for RMB1.3 billion. On an attributable basis, South Station and Magnolia Mansion sold a further 20,200 square metres for combined proceeds of RMB800 million. In Suzhou, Times City and Ambassador Villa, in aggregate, sold a further 100,700 square metres for RMB1.9 billion. In Hangzhou, Palazzo Pitti and Royal Seal sold a further 37,900 square metres for combined proceeds of RMB1.2 billion.

Western / Southern / Central / Northern China

There are 10 projects on sale in Chengdu and Chongqing, seven projects on sale in Foshan and Guangzhou as well as six projects for sale in Beijing, Dalian, Tianjin and Wuhan.

THE PEAK PORTFOLIO & OTHER HONG KONG PROPERTIES

The Peak Portfolio

Wharf’s Peak Portfolio showcases an exclusive collection of the most luxurious residences nestled on the Peak. The combined value of these prestigious developments (attributable GFA: at least 397,000 square feet) is estimated to be HK$28 billion (or about HK$71,000 per square foot of GFA).

Mount Nicholson, a 50:50 joint venture development with Nan Fung group (attributable GFA: 162,000 square feet), is being developed into top-notch residences boasting a stunning view towards Victoria Harbour. Full completion is scheduled for 2015. Pre-sale preparation is underway, with launch of the first phase possibly later in 2015.
Superstructure / Foundation works for the re-development of the Peak Portfolio including 1 Plantation Road (20 houses), 11 Plantation Road (7 houses) and 77 Peak Road (8 houses) are underway.

**Other Hong Kong Properties**

The Group’s exceptional “Waterfront Portfolio” at the heart of Kowloon East, a vibrant CBD2, is poised to benefit from the untapped potential in the region. The portfolio spanning a 500-metre coastline with a panoramic Harbour view comprises Kowloon Godown, Wharf T&T Square and Wheelock’s One Bay East. Good progress was made with the re-development of Wharf T&T Square.

The re-development of Yau Tong Godown into a residential and commercial property is making good headway. Superstructure works are underway. Launched in April 2015, Peninsula East (256 units), in close proximity to Yau Tong MTR station, was promptly sold out in just two days. Total proceeds amounted to HK$2.0 billion.

The 15%-owned Yau Tong joint venture project will feature 12 blocks of residential and commercial buildings (GFA: approximately four million square feet). The general building plan is under preparation.

**HOTELS**

The Group currently operates 14 Marco Polo hotels in the Asia Pacific region, six of which are owned by the Group.

Expanding its Marco Polo hotel portfolio in Asia Pacific remains the Group’s strategic vision. There will be a solid portfolio of 12 owned hotels (including five new hotels in the Mainland) in four years’ time, destined to offer superb design and impeccable hospitality for business and leisure travelers. Four of the new hotels are “Sophisticated Urban Chic” hotels under the luxury brand Niccolo, which raises the bar in style, taste and hospitality for the Group’s hotel portfolio. As an integral part of the Group’s multi-purpose IFS complexes, the first Niccolo was opened in Chengdu IFS in April 2015 and a further three Niccolo hotels will be opened in the IFS complexes in Chongqing, Changsha and Suzhou.

In Hong Kong, the three hotels in Harbour City experienced extra challenges as the hospitality sector faced intense pressure. Though Niccolo Chengdu got off to a good start since opening, its initial operating losses weighed on the hotel segment. Total revenue decreased to HK$718 million (2014: HK$760 million) while operating profit slid to HK$115 million (2014: HK$189 million).

**Murray Building**

Murray Building, a prominent 50-year-old iconic landmark with majestic arches, is being converted into a unique urban chic hotel (total investment: over HK$7 billion). It will feature 336 luxury guestrooms overlooking the heart of Central. The Main Contract was awarded in May and hotel opening is targeted for the second half of 2017.
MODERN TERMINALS

Global trade flows continued to be hindered by the uncertain economies in Europe and the U.S., while China looks to domestic demand to drive growth. South China’s container throughput declined marginally by 1%. Shenzhen’s throughput increased by 7%, which was offset by the 11% drop in Kwai Tsing’s throughput. The market shares of Shenzhen and Kwai Tsing were 58% and 42% respectively.

Modern Terminals’ throughput in Hong Kong decreased to 2.0 million TEUs (2014: 2.9 million TEUs) and reduced consolidated revenue to HK$1,382 million (2014: HK$1,618 million) in the face of the market downturn and a shift in core shipping alliance volumes. Operating profit decreased to HK$327 million (2014: HK$508 million).

In the Mainland, throughput at Da-Chan Bay Terminals in Shenzhen posted a 5% growth to 596,000 TEUs, while throughput at Taicang International Gateway in Suzhou grew by 11% to 931,000 TEUs. Throughput at Shekou Container Terminals in Shenzhen, in which Modern Terminals holds a 20% stake, increased by 6% to 2.4 million TEUs. Chiwan Container Terminal in Shenzhen, in which Modern Terminals holds an 8% attributable stake, handled 1.2 million TEUs.

In July 2015, Modern Terminals sold 50% of its indirect equity interest in its Taicang container port businesses to Ningbo Port Co. Ltd. A profit will be recognised in the second half of 2015.

COMMUNICATIONS, MEDIA & ENTERTAINMENT

i-CABLE

An abundant supply of free channels, pay channels and streaming content further weakened the demand for Pay TV subscription service and henceforth i-CABLE’s operating results. In a bid to attract and retain its subscribers, i-CABLE will provide customers with distinctive and premium content by continuously enriching its programmes. A gain in market share by rival broadband operators from i-CABLE due to faster connectivity heaped further pressure on the segment. i-CABLE will capitalise on new product initiatives and investments to strengthen its customer base and to boost revenue across segments. Free TV licensing process is underway.

Wharf T&T

2015 marks the 20th Anniversary of Wharf T&T. Established itself as a leading ICT services provider in Hong Kong, Wharf T&T is determined to grow to the next level, pioneering public cloud services. Notwithstanding the weakened demand, Wharf T&T further gained ground in its core business, attributable to its continuous effort in growing the customer base. Total revenue increased by 5% to HK$990 million and operating profit by 5% to HK$173 million. Data business delivered solid growth, as the extensive Fibre-to-the-Desk (FTTD) infrastructure continued to bear fruit, while core fixed line revenue registered a stable rise. Free cash flow substantially improved to HK$222 million.