FINANCIAL REVIEW

(I) Review of 2013 Results

Wheelock & Company (before consolidation of listed subsidiaries WPSL and Wharf)

Wheelock's own net profit decreased by 39% to HK$1,572 million (2012: HK$2,596 million) due to a lower IP revaluation surplus. Excluding the IP revaluation surplus of HK$320 million (2012: HK$1,474 million) and the mark-to-market loss of HK$51 million (2012: HK$Nil) on swaps, core profit increased by 16% to HK$1,303 million (2012: HK$1,122 million), mainly attributable to the completion of and successful property sales from Kadoorie Hill and higher profit contribution from associates.

Wheelock Group

The Group continued to deliver solid financial results in 2013 with its core profit increased by 8% to HK$7,822 million (2012: HK$7,267 million). The favourable results were mainly attributable to continuous rental revenue growth, higher profit contribution from associates and from sale of available-for-sale investments, which was partly offset by a lower DP contribution.

Group profit attributable to equity shareholders, however, decreased by 37% to HK$16,954 million (2012: HK$26,935 million), due to a lower IP revaluation surplus, provision for diminution in value for properties and the absence of one off accounting gain recognised on the acquisition of Greentown China Holdings Limited ("Greentown") as compared to 2012.

Revenue and Operating Profit

Group revenue increased by 6% to HK$35,071 million (2012: HK$33,124 million) attributable to the double-digit rental revenue increase.

Group operating profit decreased by 4% to HK$14,938 million (2012: HK$15,570 million), of which HK$1,187 million (2012: HK$666 million) was contributed by Wheelock, HK$471 million (2012: HK$734 million) by WPSL, and HK$13,280 million (2012: HK$14,170 million) by Wharf.

Investment Property

Revenue and operating profit both increased by 13% to HK$11,949 million (2012: HK$10,613 million) and HK$9,891 million (2012: HK$8,731 million) respectively, attributable to higher retail rental income through better sales performance achieved by retail tenants and the continuous positive rental reversions for office areas particularly in Harbour City and Times Square. Revenue from the Mainland increased by 25% to HK$1,261 million (2012: HK$1,005 million), mainly due to the escalating revenue generated by Shanghai Wheelock Square and Chengdu Times Outlet.

Development Property

Revenue virtually remained unchanged at HK$13,430 million (2012: HK$13,370 million) but operating profit decreased by 39% to HK$3,341 million (2012: HK$5,458 million) in the absence of the exceptionally large profit contribution recognised from the Shanghai Xiyuan and Hong Kong One Midtown in 2012.

In Hong Kong, recognised property sales and operating profit decreased to HK$1,972 million (2012: HK$3,019 million) and HK$790 million (2012: HK$1,536 million) respectively. Kadoorie Hill was completed with 97% residential units sold enabling the recognition of revenue of HK$1,894 million and operating profit of HK$728 million.

In the Mainland, recognised property sales increased by 20% to HK$11,442 million (2012: HK$9,573 million), mainly derived from Chengdu Tian Fu Times Square, Suzhou Times City and Changzhou Times Palace on completion. However, operating profit decreased by 28% to HK$2,565 million (2012: HK$3,562 million) with tighter operating profit margins.

In Singapore, recognised property sales were HK$16 million (2012: HK$778 million) with an operating loss of HK$14 million (2012: operating profit of HK$360 million), mainly from the sale of miscellaneous stock in Singapore.

Inclusive of associates and joint ventures (other than Greentown) on an attributable basis, the Group's contracted property sales in 2013 increased to HK$36.6 billion (2012: HK$26.2 billion), increasing its net order book to HK$37.4 billion (December 2012: HK$22.5 billion), as at 31 December 2013 of which about 70% is in the Mainland and the balance is in Hong Kong pending recognition on completion.

Hotels

Revenue increased by 8% to HK$1,498 million (2012: HK$1,391 million) through improved rooms rates but operating profit decreased by 4% to HK$377 million (2012: HK$391 million) adversely affected by pre-operating expenses incurred for the Changzhou Marco Polo Hotel and operating loss from the Marco Polo Wuhan Hotel.

Logistics

Revenue increased by 5% to HK$3,226 million (2012: HK$3,070 million) but operating profit decreased by 16% to HK$974 million (2012: HK$1,161 million), mainly due to higher operating costs.

Communications, Media and Entertainment ("CME")

Revenue decreased by 4% to HK$3,789 million (2012: HK$3,953 million), whereas an operating profit of HK$212 million (2012: operating loss of HK$22 million) was reported. Wharf T&T's operating profit increased by 20% to HK$300 million (2012: HK$250 million) while i-CABLE's operating loss narrowed to HK$88 million (2012: HK$271 million).

Investment and Others

Operating profit increased to HK$1,177 million (2012: HK$456 million) with higher dividend and interest income.

Increase in Fair Value of Investment Properties

The book value of the Group's investment property portfolio as at 31 December 2013 increased to HK$282.0 billion (2012: HK$250.7 billion), with HK$260.8 billion thereof stated at fair value based on independent valuations as at that date. That resulted in a revaluation surplus of HK$19,089 million (2012: HK$35,924 million). The attributable net revaluation surplus of HK$9,230 million (2012: HK$18,201 million), after deducting related deferred tax and non-controlling interests in total of HK$9,859 million (2012: HK$17,723 million), was credited to the consolidated income statement.

IP under development of HK$21.2 billion is carried at cost and will not be carried at fair value until the earlier of when the fair values first become reliably measurable or the dates of their respective completion.

Other Net Income

Other net income amounted to HK$337 million (2012: HK$3,116 million), comprising mainly profit on disposal of available-for-sale investments of HK$1,094 million (2012: HK$492 million), which included WPSL's profit on disposal of SC Global shares of HK$573 million, and net exchange gain of HK$335 million (2012: HK$274 million). The profit was partially offset by provision for diminution in value of HK$681 million made by WPSL for its Ang Mo Kio project (The Panorama) and HK$543 million by Harbour Centre Development Limited for its Changzhou Marco Polo Hotel project. In 2012, a non-recurrent accounting gain of HK$2,233 million arising from Wharf's acquisition of the equity interest in Greentown was recognised.

Finance Costs

Finance costs charged to the consolidated income statement were HK$899 million (2012: HK$1,162 million), which included an unrealised mark-to-market gain of HK$1,205 million (2012: HK$573 million) on the cross currency/interest rate swaps. Net of non-controlling interests, the attributable gain is HK$587 million (2012: HK$334 million).

Excluding the unrealised mark-to-market gain, finance costs were HK$3,586 million (2012: HK$2,757 million) before capitalisation of HK$1,482 million (2012: HK$1,022 million), and HK$2,104 million (2012: HK$1,735 million) after capitalisation. The increase in finance costs was mainly due to an increase in borrowings and higher borrowing rates. The Group's effective borrowing rate for the year was 3.1% (2012: 2.8%) per annum.

Share of Results of Associates and Joint Ventures

Share of profits of associates increased by 62% to HK$2,631 million (2012: HK$1,621 million) mainly due to inclusion of attributable full year profit of HK$1,497 million (2012: HK$893 million for the period from June to December 2012) from Greentown and an increase in profit contribution from DP projects in the Mainland undertaken by associates.

Share of profits of joint ventures decreased by 27% to HK$461 million (2012: HK$634 million), reflecting a lower profit contribution from DP projects in the Mainland.

Income Tax

The taxation charge was HK$4,539 million (2012: HK$4,347 million), which included deferred taxation of HK$1,459 million (2012: HK$1,087 million) provided for the revaluation surplus of IP located in the Mainland.

Excluding deferred tax, the tax charge decreased to HK$3,080 million (2012: HK$3,260 million), mainly due to lower profits recognised by the DP segment.

Non-controlling Interests

Profit attributable to non-controlling interests decreased by HK$9,357 million to HK$15,064 million (2012: HK$24,421 million), which was mainly attributable to the reduction in profits of WPSL and Wharf.

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Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders decreased by 37% to HK$16,954 million (2012: HK$26,935 million). Earnings per share were HK$8.34 (2012: HK$13.26).

Excluding the net IP revaluation surplus of HK$9,230 million (2012: HK$18,201 million), Group profit attributable to equity shareholders decreased by 12% to HK$7,724 million (2012: HK$8,734 million).

Further stripping out the attributable mark-to-market gain of HK$587 million (2012: HK$334 million) on swaps and other financial assets, attributable provision for diminution in value of properties of HK$685 million (2012: HK$Nil) and the exceptional attributable accounting gain arising from the acquisition of equity interest in Greentown of HK$1,133 million in 2012, core profit increased by 8% to HK$7,822 million (2012: HK$7,267 million). Core earnings per share were HK$3.85 (2012: HK$3.58).

Set out below is an analysis of the Group profit attributable to the equity shareholders as contributed by each of Wheelock, WPSL and Wharf.

Profit attributable to	2013 HK$ Million	2012 HK$ Million
Wheelock	1,303	1,122
WPSL group	665	528
Wharf group	5,854	5,617
Core profit	7,822	7,267
Attributable mark-to-market gain on swaps and other financial assets	587	334
Attributable provision for diminution in value of properties	(685)	–
Attributable accounting gain arising from the acquisition of equity interest in Greentown	–	1,133
Profit before IP surplus	7,724	8,734
IP surplus (after deferred tax)	9,230	18,201
Profit attributable to equity shareholders	16,954	26,935

WPSL's profit for the year ended 31 December 2013 was S$40.0 million (2012: S$63.3 million) according to the accounting standards adopted in Singapore. In accordance with Hong Kong Financial Reporting Standards, WPSL's contributed profit to the Group was HK$227 million (2012: HK$396 million).

Wharf's profit for the year ended 31 December 2013 decreased by 38% to HK$29,380 million (2012: HK$47,263 million). Excluding the net IP revaluation surplus, Wharf's net profit decreased by 12% to HK$12,206 million (2012: HK$13,927 million). Before the IP revaluation surplus and the abovementioned exceptionals, Wharf's core profit increased by 2% to HK$11,298 million (2012: HK$11,040 million).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

The Group's Shareholders' equity increased by 10% to HK$166.6 billion (2012: HK$152.0 billion), or HK$81.99 per share (2012: HK$74.83 per share) as at 31 December 2013.

Including the non-controlling interests, the Group's total equity increased by 9% to HK$311.6 billion (2012: HK$285.9 billion).

Total Assets

The Group's total assets increased by 13% to HK$486.8 billion (2012: HK$429.8 billion). Total business assets, i.e. excluding bank deposits and cash, certain financial investments, deferred tax assets and other derivative financial assets, increased by 16% to HK$444.8 billion (2012: HK$381.9 billion).

The Group's IP portfolio was HK$282.0 billion, representing 63% of total business assets. Together, Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK$184.0 billion, representing 65% of the value of the portfolio. Wharf's IP in the Mainland amounted to HK$50.6 billion, including those under development of HK$22.5 billion.

Other major business assets included properties under development and held for sale of HK$87.2 billion, interests in associates and joint ventures (mainly for the Mainland DP and port projects) of HK$40.6 billion and other fixed assets of HK$24.2 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, increased to HK$158.0 billion (2012: HK$134.6 billion), representing 36% of the Group's total business assets.

Debt and Gearing

The Group's net debt increased by HK$21.1 billion to HK$94.3 billion (2012: HK$73.2 billion) as at 31 December 2013, comprising debt of HK$123.6 billion less bank deposits and cash of HK$29.3 billion. The increase in net debt was mainly due to payment of land and construction costs for DP and IP (mainly Chengdu IFS), and the acquisition of the Murray Building. Excluding WPSL's net debt of HK$1.1 billion and Wharf's net debt of HK$58.1 billion, which are non-recourse to the Company and its other subsidiaries, Wheelock's own net debt was HK$35.1 billion (2012: HK$20.4 billion). An analysis of the net debt by group is as below:

Net debt/(cash)	2013 HK$ Million	2012 HK$ Million
Wheelock	35,153	20,417
WPSL group	1,070	(2,801)
Wharf group	58,072	55,625
Group	94,295	73,241

As at 31 December 2013, the ratio of net debt to total equity (on a consolidated basis) was 30.3% (2012: 25.6%). Excluding the net debt of WPSL and Wharf, Wheelock's own net debt to Shareholders' equity (on an attributable net asset value basis) was 21.1% (2012: 13.4%).

Finance and Availability of Facilities

The Group's available loan facilities and issued debt securities amounting to HK$157.4 billion (2012: HK$127.9 billion), of which HK$123.6 billion were drawn, as at 31 December 2013 are analysed as below:

	Available Facilities HK$ Billion	Total Debts HK$ Billion	Undrawn Facilities HK$ Billion
Wheelock	47.9	37.1	10.8
WPSL group	6.5	3.9	2.6
Wharf group	103.0	82.6	20.4
Group	157.4	123.6	33.8

Of the above debts, HK$24.3 billion (2012: HK$19.4 billion) was secured by mortgage over certain DP, IP and fixed assets with total carrying value of HK$57.9 billion (2012: HK$31.7 billion).

The Group's debts were primarily denominated in United States dollars ("USD"), Hong Kong dollars ("HKD"), Renminbi ("RMB") and Singapore dollars ("SGD"). The borrowings were mainly used to fund the Group's IP, DP and port investments in the Mainland, and DP projects in Singapore and Hong Kong.

The use of derivative financial instruments is strictly monitored and controlled. The majority of the derivative financial instruments entered into by the Group were primarily used for management of the Group's interest rate and foreign currency exposures.

The Group continued to maintain a strong financial position with ample surplus cash denominated principally in RMB, HKD, USD 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 of HK$13.2 billion (2012: HK$14.8 billion) as at 31 December 2013, which is immediately available for liquidation for the Group's use.

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group's operating cash inflow before changes in working capital was HK$15.3 billion (2012: HK$16.2 billion). The changes in working capital and others of HK$15.5 billion (2012: HK$4.6 billion) resulted in a net cash outflow from operating activities of HK$0.2 billion (2012: inflow of HK$11.6 billion), chiefly due to payment of land costs for DP projects. For investing activities, the Group recorded a net cash outflow of HK$15.2 billion (2012: HK$28.3 billion), mainly for additions to IP in the Mainland, including the land and construction costs for Chengdu IFS, and payment for the acquisition of the Murray Building in Hong Kong.

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Major Capital and Development Expenditure and Commitments

The Group's major capital and development expenditure incurred in 2013 is analysed as follows:

A. *Major capital and development expenditure*

	Hong Kong/ Singapore HK$ Million	Mainland China HK$ Million	Total HK$ Million
Wheelock			
IP	1,724	–	1,724
DP	14,295	86	14,381
	16,019	86	16,105
WPSL group			
IP	5	–	5
DP	3,985	281	4,266
	3,990	281	4,271
Wharf group			
IP	1,063	8,669	9,732
DP	56	12,830	12,886
Hotels / Others	5,433	277	5,710
	6,552	21,776	28,328
Analysis by segment:			
IP	2,792	8,669	11,461
DP	18,336	13,197	31,533
Hotels / Others	5,433	277	5,710
Group total	26,561	22,143	48,704

i. Wheelock's own expenditure for IP and DP amounted to HK$16.1 billion, mainly attributable to land cost payments for its Hong Kong DP projects.

ii. WPSL's expenditure of HK$4.3 billion is mainly for land cost payments for Ang Mo Kio project.

iii. Wharf's expenditure totalled HK$28.3 billion, comprising expenditure of HK$9.7 billion for IP (mainly land and construction costs for Chengdu IFS), HK$12.9 billion for DP (mainly related to Mainland projects) and HK$5.7 billion for Hotels, Modern Terminals, Wharf T&T and i-CABLE (including HK$4.4 billion for the acquisition of the Murray Building).

B. *Commitments to capital and development expenditure*

As at 31 December 2013, the Group's major commitments to capital and development expenditure that are expected to be incurred in the forthcoming years was estimated at HK$100.3 billion, of which HK$35.4 billion was authorised and contracted for. By segment, the commitments are analysed as below:

	As at 31 December 2013 Authorised and contracted for HK$ Million	Authorised but not contracted for HK$ Million	Total HK$ Million
Wheelock			
IP	2	–	2
DP	6,345	11,651	17,996
	6,347	11,651	17,998
WPSL group			
IP	7	–	7
DP	473	3,349	3,822
	480	3,349	3,829
Wharf group			
IP	9,717	11,793	21,510
DP	18,058	35,043	53,101
Hotels / Others	777	3,125	3,902
	28,552	49,961	78,513
Analysis by segment:			
IP	9,726	11,793	21,519
DP	24,876	50,043	74,919
Hotels / Others	777	3,125	3,902
Group total	35,379	64,961	100,340
Analysis by geographical location:			
Hong Kong	8,134	11,867	20,001
Mainland China	26,357	48,438	74,795
Singapore	111	1,531	1,642
Properties total	34,602	61,836	96,438
Hotels / Others	777	3,125	3,902
	35,379	64,961	100,340

i. Wheelock's own commitments of HK$18.0 billion are mainly related to construction costs for DP in Hong Kong.

ii. WPSL's commitments of HK$3.8 billion are mainly related to construction costs of HK$1.6 billion for DP in Singapore and of HK$2.2 billion in the Mainland.

iii. Wharf's commitments of HK$78.5 billion mainly comprised expenditure of HK$21.5 billion for IP, HK$53.1 billion for DP mainly land and construction costs in the Mainland (which included attributable land costs of HK$5.2 billion payable in 2014) and HK$3.9 billion for Hotels, Modern Terminals, Wharf T&T and i-CABLE.

iv. The above commitments and planned expenditure will be funded by the respective groups' own internal financial resources including surplus cash, cash flow from operations 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.

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(III) Human Resources

The Group had approximately 16,500 employees as at 31 December 2013, including about 2,600 employed by managed operations. Employees are remunerated according to their job responsibilities and the market pay trends with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the respective group's achievement and results.

(IV) Business Model

Wheelock is a property company with focus on Hong Kong, China and Singapore. The Group's prized portfolio of IP has a book value of over HK$282 billion. Its attributable land bank exceeds 167 million square feet for development and 40 million square feet for investment.

The solid cash flow and asset backing from listed subsidiaries Wharf and WPSL provide the financial capacity for wholly-owned subsidiary WPL to focus on the core business of DP in Hong Kong. The Hong Kong land bank currently under management amounts to 7.9 million square feet. It includes one of the largest collections of top end Peak residential properties, new low-density harbourfront Tseung Kwan O South residential development, a significant share of both commercial and residential in Kowloon East, and urban portfolio Kowloon South.

In 2013, contracted Hong Kong sales totalled HK$10 billion for 0.8 million square feet. The Group will maintain momentum in 2014 with property sales target at HK$10 billion with projects Phase 2 of The Austin (a luxury residential development in Kowloon West), High Street (a luxury residential redevelopment in Western District) and One Bay East – East Tower (a prime office development in Kowloon East).

Wharf is Wheelock's core investment in the form of a listed company focuses on prime IP in Hong Kong and the Mainland and owns one of the world's most prized portfolios, with a book value of HK$261 billion as at the end of 2013. It includes Harbour City and Times Square, which house the two most successful shopping malls in Hong Kong that together account for 9% of total Hong Kong retail sales. Wharf is also one of the most active Hong Kong developers in the Mainland. Inclusive of associated company Greentown, its attributable land bank comprises 16.9 million square metres across more than 40 cities. 2013 contracted sales totalled RMB20.9 billion for 1.5 million square metres.

Development in Singapore is spearheaded by WPSL, renowned for luxury residences. The current land bank in Singapore is 0.8 million square feet, all residential. It also operates prime commercial properties on Orchard Road, the retail heart of the city.

(V) Business Strategy

For the Group's core business, Wheelock endeavours to continuously enhance its competitiveness and drive sustainable growth through:

1. Building and maintaining a diversified land bank with timely acquisitions and constant turning of assets;
2. Selective joint ventures for mega-size projects to achieve de-concentration;
3. Competence in selection and acquisition, planning and design, execution, sales and marketing;
4. Building organisation and focusing professional team efforts in building brand; and
5. Exercising prudent and disciplined financial management to ensure sustainability at all times.