FINANCIAL REVIEW

(I) REVIEW OF 2016 INTERIM RESULTS

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

Wheelock's own core profit, HK$1,372 million (2015: HK$3,238 million), was lower than last year since 2015's profit was mainly driven by the significant contribution from One Bay East.

Wheelock Group

Despite higher China DP contribution, the Group's core profit, HK$5,126 million (2015: HK$6,329 million), was reduced due to lower Hong Kong DP profit for the reason mentioned above.

Group profit attributable to equity shareholders dropped by 29% to HK$5,662 million (2015: HK$8,006 million).

Revenue and Operating Profit

Group revenue and operating profit decreased by 5% and 12% to HK$27,196 million (2015: HK$28,648 million) and HK$10,059 million (2015: HK$11,377 million) respectively, mainly due to higher revenue and operating profit from DP in 2015.

Investment Property

Revenue and operating profit increased by 6% and 7% to HK$7,889 million (2015: HK$7,472 million) and HK$6,537 million (2015: HK$6,111 million) respectively. Revenue from the Mainland increased by 7% to HK$1,197 million (2015: HK$1,121 million).

Development Property

In the Mainland, recognised property sales and operating profit increased by 28% and 15% to HK$8,409 million (2015: HK$6,562 million) and HK$1,307 million (2015: HK$1,134 million) respectively.

In Hong Kong, recognised property sales and operating profit decreased by 43% and 54% to HK$5,858 million (2015: HK$10,217 million) and HK$1,617 million (2015: HK$3,546 million) respectively, since 2015's profit was mainly driven by the significant contribution from One Bay East. One HarbourGate was completed with the West Tower sold, enabling a revenue recognition of HK$5,850 million.

As a result, revenue and operating profit were lowered by 10% and 35% to HK$15,232 million (2015: HK$16,866 million) and HK$3,056 million (2015: HK$4,703 million) respectively.

Hotels

Revenue increased by 3% to HK$740 million (2015: HK$718 million). Operating profit decreased by 10% to HK$104 million (2015: HK$115 million). Hong Kong was adversely impacted by the weak market while the newly opened hotels in the Mainland have started to contribute.

Logistics

Revenue and operating profit decreased by 10% and 12% to HK$1,286 million (2015: HK$1,434 million) and HK$293 million (2015: HK$333 million) respectively, mainly due to lower profit from Modern Terminals.

Communications, Media and Entertainment ("CME")

Revenue decreased by 2% to HK$1,715 million (2015: HK$1,750 million). Operating profit increased by 105% to HK$78 million (2015: HK$38 million). Wharf T&T's operating profit increased by 24% to HK$214 million (2015: HK$173 million), while i-CABLE's operating loss widened to HK$133 million (2015: HK$129 million).

Investment and Others

Operating profit amounted to HK$321 million (2015: HK$396 million), comprising largely dividend and interest income.

Fair Value Gain of IP

The book value of the Group's IP portfolio as at 30 June 2016 slightly increased to HK$328.7 billion (2015: HK$325.0 billion), with HK$310.7 billion thereof stated at fair value based on independent valuation. That resulted in a revaluation gain of HK$495 million (2015: HK$4,190 million), which was credited to the consolidated income statement.

IP under development of HK$18.0 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.

Finance Costs

Finance costs charged to the consolidated income statement were HK$331 million (2015: HK$831 million). Excluding the unrealised mark-to-market gain of HK$449 million (2015: loss of HK$30 million) on swaps, finance costs decreased by 5% to HK$1,533 million (2015: HK$1,613 million) before capitalisation of HK$753 million (2015: HK$812 million), and HK$780 million (2015: HK$801 million) after capitalisation. The Group's effective borrowing rate for the period was 2.9% (2015: 2.8%) per annum.

Share of Results of Associates and Joint Ventures

Share of profits of associates increased by 18% to HK$536 million (2015: HK$454 million), mainly due to increase in profit contribution from DP in the Mainland.

Share of profits of joint ventures increased to HK$489 million (2015: loss of HK$201 million), mainly attributable to the initial profit contribution from Mount Nicholson and higher profit contribution from DP in the Mainland.

Income Tax

The taxation charge was HK$2,032 million (2015: HK$2,515 million), which included deferred taxation credit of HK$12 million (2015: charge of HK$315 million) provided for the fair value gain of IP located in the Mainland.

Excluding the above deferred taxation, the taxation charge decreased by 7% to HK$2,044 million (2015: HK$2,200 million), mainly due to lower profit recognised by the DP segment.

Non-controlling Interests ("NCI")

Profit attributable to NCI decreased by 12% to HK$2,986 million (2015: HK$3,384 million), mainly due to decrease in NCI shareholding in a subsidiary.

Profit attributable to Equity Shareholders

Group profit attributable to equity shareholders decreased by 29% to HK$5,662 million (2015: HK$8,006 million). Earnings per share were HK$2.79 (2015: HK$3.94).

Excluding the attributable IP revaluation gain (after deducting related deferred tax and NCI) of HK$313 million (2015: HK$2,488 million), Group profit attributable to equity shareholders decreased by 3% to HK$5,349 million (2015: HK$5,518 million).

Further stripping out the exceptional items, core profit decreased by 19% to HK$5,126 million (2015: HK$6,329 million). Core earnings per share were HK$2.52 (2015: HK$3.11).

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

	2016 **HK$ Million**	2015 HK$ Million
Profit attributable to		
Wheelock	**1,372**	3,238
WPSL group	**190**	127
Wharf group	**3,564**	2,964
Core profit	**5,126**	6,329
Attributable net mark-to-market gain and exchange on certain financial instruments	**223**	29
Attributable loss arising from the deemed disposal of Greentown	**–**	(840)
Profit before IP revaluation gain	**5,349**	5,518
IP revaluation gain (after deferred tax)	**313**	2,488
Profit attributable to equity shareholders	**5,662**	8,006

WPSL's profit for the first half of 2016 was S$46.4 million (2015: S$30.0 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$250 million (2015: HK$168 million).

Wharf's profit for the first half of 2016 decreased by 3% to HK$6,725 million (2015: HK$6,958 million). Excluding the exceptional items, Wharf's core profit increased by 14% to HK$5,972 million (2015: HK$5,258 million).

Early adoption of HKFRS 9 "Financial Instruments"

The Group has early adopted the complete version of HKFRS 9 "Financial Instruments" in its consolidated financial statements with effect from 1 January 2016. As a result, the investments in equity securities of HK$9,682 million that were previously classified as available-for-sale investments under HKAS 39 have been re-designated as equity investments measured at fair value through other comprehensive income. Accordingly, loss on disposal of equity securities of HK$141 million in the period was recognised through other comprehensive income instead of the income statement as previously accounted for (2015: profit of HK$239 million through the income statement).

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

Shareholders' equity increased by 2% to HK$206.3 billion (2015: HK$201.7 billion), or HK$101.52 per share (2015: HK$99.26 per share) as at 30 June 2016.

Including the NCI, the Group's total equity increased to HK$341.7 billion (2015: HK$340.9 billion).

Assets and Liabilities

The Group's total assets amounted to HK$510.5 billion (2015: HK$512.8 billion). Total business assets, i.e. excluding bank deposits and cash, certain equity and bond investments, deferred tax assets and derivative financial assets, amounted to HK$473.3 billion (2015: HK$475.0 billion).

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, amounted to HK$134.8 billion (2015: HK$141.7 billion), representing 29% (2015: 30%) of the Group's total business assets.

Investment properties

The Group's IP portfolio, included in the Group's total assets, increased by 1% to HK$328.7 billion (2015: HK$325.0 billion), representing 69% of total business assets. Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK$217.6 billion, representing 66% of the value of the portfolio. Wharf's IP in the Mainland amounted to HK$59.3 billion, including IP under development at a cost of HK$15.4 billion.

Properties for sale

DP amounted to HK$71.7 billion (2015: HK$76.2 billion), mainly comprised of properties in Hong Kong of HK$33.8 billion, in China of HK$32.7 billion and in Singapore of HK$5.2 billion, which were held for sale as at 30 June 2016.

Interests in associates and joint ventures

Interests in associates and joint ventures amounted to HK$37.0 billion (2015: HK$39.3 billion), mainly represented by various DP projects undertaken through associates and joint ventures in the Mainland and Hong Kong.

Deposits from sale of properties

Deposits from sale of properties increased by 28% to HK$29.6 billion (2015: HK$23.1 billion), reflecting the increase in contracted sales in the Mainland pending revenue recognition.

Debt and Gearing

The Group's net debt decreased by HK$5.8 billion or 7% to HK$73.1 billion (2015: HK$78.9 billion) as at 30 June 2016, comprising debt of HK$99.7 billion less bank deposits and cash of HK$26.6 billion. Excluding WPSL's net cash of HK$1.3 billion and Wharf's net debt of HK$48.2 billion, which were non-recourse to the Company and its wholly-owned subsidiaries, Wheelock's own net debt decreased by HK$6.0 billion to HK$26.2 billion (2015: HK$32.2 billion). An analysis of the net debt by group is shown below:

Net debt/(cash)	**2016** **HK$ Million**	2015 HK$ Million
Wheelock	**26,169**	32,258
WPSL group	**(1,250)**	(528)
Wharf group	**48,150**	47,197
Group	**73,069**	78,927

As at 30 June 2016, the ratio of net debt to total equity (on a consolidated basis) was reduced to 21.4% (2015: 23.2%). Excluding the net cash of WPSL and net debt of Wharf, Wheelock's own net debt to shareholders' equity (on an attributable net asset value basis) declined to 12.7% (2015: 16.0%).

Finance and Availability of Facilities

As at 30 June 2016, the Group's available loan facilities and issued debt securities amounted to HK$159.2 billion (2015: HK$153.5 billion), of which HK$99.7 billion were utilised. An analysis is shown below:

	Available Facilities HK$ Billion	Total Debt HK$ Billion	Undrawn Facilities HK$ Billion
Wheelock	68.4	30.3	38.1
WPSL group	3.7	2.7	1.0
Wharf group	87.1	66.7	20.4
Group	159.2	99.7	59.5

Of the above debt, HK$13.3 billion (2015: HK$15.1 billion) was secured by mortgages over certain DP, IP and property, plant and equipment with a total carrying value of HK$48.6 billion (2015: HK$51.8 billion).

The Group's debt was 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.

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 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 business and investment activities. The Group also maintained a portfolio of equity and bond investments, primarily in blue-chip securities, with an aggregate market value of HK$10.5 billion (2015: HK$12.5 billion) as at 30 June 2016, which is immediately available for liquidation for the Group's use when in need.

Cash Flows from the Group's Operating and Investing Activities

For the period under review, the Group's operating cash inflow before changes in working capital was HK$10.4 billion (2015: HK$11.8 billion). The changes in working capital and others of HK$4.6 billion (2015: HK$1.6 billion) increased/decreased the net cash inflow from operating activities to HK$15.0 billion (2015: HK$10.2 billion), supported by the favourable increase from DP sales. For investing activities, the Group recorded a net cash outflow of HK$8.0 billion (2015: HK$9.5 billion), mainly for construction costs for IP projects in the Mainland and increase in interest in Wharf.

Major Capital and Development Expenditure and Commitments

The Group's major capital and development expenditure incurred in the first half of 2016 is analysed as follows:

A. Major capital and development expenditure

	Hong Kong/ Singapore HK$ Million	Mainland China HK$ Million	Total HK$ Million
Wheelock			
IP	227	–	227
DP	4,640	–	4,640
	4,867	–	4,867
WPSL group			
IP	7	–	7
DP	345	36	381
	352	36	388
Wharf group			
IP	1,929	2,031	3,960
DP	307	7,896	8,203
Non property and others	750	46	796
	2,986	9,973	12,959
Analysis by segment:			
IP	2,163	2,031	4,194
DP	5,292	7,932	13,224
Non property and others	750	46	796
Group total	8,205	10,009	18,214

i. Wheelock's own expenditure for IP and DP amounted to HK$4.9 billion, mainly attributable to the land cost payment for the LOHAS Park Phase 9 project, and construction cost payments for its Hong Kong DP projects.

ii. WPSL's expenditure of HK$0.4 billion was mainly for construction cost payments for its Singapore and China DP projects.

iii. Wharf's expenditure totalled HK$13.0 billion, comprising expenditure of HK$4.0 billion for IP (mainly construction costs of the IFS projects in the Mainland), HK$8.2 billion for DP (mainly related to China projects) and HK$0.8 billion for Hotels, Modern Terminals, Wharf T&T and i-CABLE. Wharf's expenditure has excluded the intra-group acquisition of Wheelock House from Wheelock during the period.

B. *Commitments to capital and development expenditure*

As at 30 June 2016, the Group's major commitments to capital and development expenditure to be incurred in the forthcoming years were estimated at HK$70.2 billion, of which HK$31.1 billion was committed. By segment, the commitments are analysed as follows:

	As at 30 June 2016		
	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million
Wheelock			
IP	–	–	–
DP	8,815	16,944	25,759
	8,815	16,944	25,759
WPSL group			
IP	5	–	5
DP	652	1,642	2,294
	657	1,642	2,299
Wharf group			
IP	9,290	4,666	13,956
DP	9,997	15,319	25,316
Non property and others	2,357	554	2,911
	21,644	20,539	42,183
Analysis by segment:			
IP	9,295	4,666	13,961
DP	19,464	33,905	53,369
Non property and others	2,357	554	2,911
Group total	31,116	39,125	70,241
Analysis by geographical location:			
Hong Kong IP	1,632	458	2,090
Hong Kong DP	8,954	16,944	25,898
China IP	7,658	4,208	11,866
China DP	10,066	16,743	26,809
Singapore	449	218	667
Properties total	28,759	38,571	67,330
Non property and others	2,357	554	2,911
Group total	31,116	39,125	70,241

i. Wheelock's own commitments of HK$25.8 billion mainly relate to construction costs for DP in Hong Kong.

ii. WPSL's commitments of HK$2.3 billion mainly relate to construction costs of HK$0.7 billion for DP in Singapore and HK$1.6 billion for DP in the Mainland.

iii. Wharf's commitments of HK$42.2 billion mainly comprise of expenditure of HK$14.0 billion for IP, HK$25.3 billion land and construction costs for DP and HK$2.9 billion for Hotels, Modern Terminals, Wharf T&T and i-CABLE.

iv. The above commitments and planned expenditure will be funded by the respective group's own internal financial resources including surplus cash, cash flow from operations as well as bank and other financing, with construction costs self-financed mainly by pre-sale proceeds and project loans. Other available resources include equity and bond investments.

(III) HUMAN RESOURCES

The Group had approximately 16,000 employees as at 30 June 2016, including about 2,300 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.