

# CHAIRMAN'S STATEMENT

2013 was a year full of challenges.

By the year's end, the global economy had improved slightly but the recovery has been slow with continued uncertainty from US monetary and fiscal matters, ongoing woes in emerging markets and a nascent and fragile Eurozone recovery. The China economy has slowed for sound reasons to a 7-7.5% GDP growth rate for the foreseeable future.

The property markets in Hong Kong, Singapore and China in which we are focused have been subject to the governments' aggressive cooling policies. It is not expected that this policy framework will change in the near to medium term and a downward biased expectation has been built into the markets.

The fundamentals of Hong Kong, Singapore and China, despite a variety of headwinds, remained solid as evidenced by steady economic growth of 2.9%, 3.7% and 7.7% respectively in 2013.

## BUSINESS PERFORMANCE

Despite the challenging environment, our core business, Hong Kong Development Properties ("DP") reported solid results. Sales were on the right track with an increase of 45% over 2012 to HK\$10 billion. The HK\$4.5 billion office sale of One Bay East West Tower to Manulife in March was Hong Kong's single largest transaction in the past 18 months. And in October, in just three weeks, 100% of The Austin Phase One's 576 residential units were sold for HK\$10 billion (with HK\$5 billion attributable to the Group). The sales success of The Austin and the timely handover of Kadoorie Hill further proved our execution capabilities and enhanced the brand value of Wheelock.

On the back of HK\$10 billion and 0.8 million square feet of sales, we replenished our land bank with 2.2 million square feet for HK\$11.7 billion during the year. These acquisitions are mainly focused in city centre and unique locations. At an average cost of HK\$5,300 per square foot, the land replenishment has built up the DP land bank under management up to 7.9 million square feet, of which 5.1 million square feet is directly owned by wholly-owned Wheelock Properties Limited ("WPL") while 2.8 million square feet is managed on behalf of listed subsidiary The Wharf (Holdings) Limited ("Wharf"). Our quality DP land bank, 95% is in city centre locations and 66% on Victoria Harbour, is adequate to fill our development need.

We maintain a gearing at 21% before consolidation of Wharf and Wheelock Properties (Singapore) Limited ("WPSL"), backed by a solid balance sheet and cash flow. HK\$7.1 billion of gross debt will mature in the next two years while DP receivables at HK\$5.6 billion are scheduled to be recouped in two years. In addition, a stable dividend stream of HK\$3.0 billion from Wharf and WPSL during the year, coupled with recurring rental income generated from two core Central assets, namely, Wheelock House and Crawford House, provided income stability. This strong financial position will enable Wheelock to meet the challenges of the market.

Pressure on the property market is expected to continue with the sharply increasing construction costs in Hong Kong coupled with government controls, but our seasoned management team are no strangers to market fluctuations. Not including our Peak Portfolio, a competitive land cost at an average of HK\$4,600 per square foot of our 7.4-million-square-foot land bank and minimal non-performing stock stands us in good position. We will strive to actively trade our land bank in order to generate fast asset turn while building long-term value for the Group.

### Wharf

Wharf, our major listed subsidiary with a weighting of 85% to total balance sheet has a dedicated management team which has produced consistent, quality growth over the years. The stock's turnover on the Hong Kong Stock Exchange is among the top local blue chip companies with attractive liquidity.

Book value of its Investment Properties ("IP") portfolio was HK\$261 billion as at 31 December 2013, which ranks among top five in the world that are publicly held. This result underscored its competence and execution capabilities on the IP front. IP accounted for 58% of Wharf's core profit in 2013 and all of its asset revaluation surplus.

IP is led by Harbour City and Times Square in Hong Kong, with a combined value of HK\$192 billion at the end of 2013, representing 49% of Wharf's business assets. Harbour City remains one of the world's leading shopping destinations. Retail sales in 2013 rose to over HK\$2,800 per square foot per month. Ocean Terminal's renovation is an important part of further value-accretive initiatives. Times Square, among the most successful vertical malls in the world, has completed its 18-month major revamp. This even-better new Times Square offers the most extensive product range, entertainment and culinary choices.

In the Mainland, Chengdu IFS's 210,000-square-metre retail mall, the new city landmark in Western China, officially opened in January 2014 with over 95% of it leased at well-above-budget rental rates. The other IFS retail malls in Changsha and Chongqing, with an aggregate retail area of 332,000 square metres are scheduled for completion in 2016 and 2015. Looking ahead, Wharf's retail area in Hong Kong and China will multiply in the next three years, significantly strengthen its recurrent income base.

### Wheelock Properties Singapore

We also adopt a prudent approach in Singapore given the challenges resulting from stringent government policies and the tightening of mortgage lending practices. A residential development site in Ang Mo Kio was acquired in January prior to the introduction of additional cooling measures in June and December. We expect these policies to impact sales and margin. In light of these challenging circumstances, WPSL has made an accounting provision for this development. However, recurring rental revenue generated from Wheelock Place and Scotts Square Retail enabled WPSL to maintain dividend distribution despite unfavourable market circumstances.

## FINANCIAL RESULTS

Revenue increased by 6% to HK\$35.1 billion with strong recurrent rental revenue. Operating profit declined by 4% to HK\$14.9 billion.

Core profit i.e. profit before net investment property revaluation surplus and exceptional items, increased by 8% to HK\$7.8 billion. 75% of that was attributable to Wharf, 17% to Wheelock and 8% to WPSL. Core earnings per share were HK\$3.85. Including net revaluation surplus and exceptional items, profit attributable to Shareholders, amounted to HK\$17.0 billion (2012: HK\$26.9 billion). Net asset value increased to HK\$81.99 per share.

Consolidated net debt of HK\$94.3 billion represented a gearing ratio of 30.3%. Excluding debts of non-wholly owned subsidiaries which are without recourse to Wheelock, net debt was HK\$35.1 billion (2012: HK\$20.4 billion) resulting in a gearing of 21.1% as at 31 December 2013 for the Company.

In lieu of a final dividend, the Board has approved the payment of a second interim dividend of 65 cents per share. Total distribution for 2013 amounted to HK\$1 per share.

## CORPORATE SOCIAL RESPONSIBILITY

Only about 18% of secondary school students go to government funded universities in Hong Kong, based on 2013 figures. The question is, what about the other 82% who do not? What about the bottom 40%? How well are students prepared by our schools to join our community on the completion of their secondary school studies?

This was the impetus for us to start Project *WeCan*, a pioneer 360-degree school improvement programme to assist students who have great potential to contribute to Hong Kong's society and success, but have few opportunities. We were of the view that money alone cannot effect the change we would like to see, so three years ago when we launched this pillar of our Business-in-Community project, we pledged a six-year programme valued at HK\$150 million comprising financial resources, software and our staff as volunteer mentors and coaches, and collaborators with the schools to devise activities to achieve our goals.

At the beginning, we focused on 10 participating secondary schools with a high percentage of students disadvantaged in learning in Hong Kong. We have now extended to 14 such schools. More than 12,000 deserving students in Hong Kong have benefited from the programme, as have the Group's more than 400 staff who found their enthusiasm rewarded with the positive change they are making in these young people's lives.

Wheelock, specifically, has been working closely with two partner schools, Fung Kai No. 1 Secondary School and Ng Yuk Secondary School, through financial commitment, teaching and learning software from the Quality School Improvement Project of The Chinese University of Hong Kong and employee volunteering. Career workshops, Outward Bound event, company visits and other activities were carried out during the year. A job tasting programme was commemorated by a ceremony officiated by Financial Secretary Mr John Tsang. In the Group's results announcement in August 2013 and March 2014, special sessions were arranged for both schools' finance students to raise questions and interact with the management team.

We have recently launched Project *WeCan 2* which aims to support up to 150 or one-third of Hong Kong secondary schools with a high percentage of students who are disadvantaged in learning. The Group's funding commitment would therefore increase substantially, amounting to HK\$100 million per year for five years, reaching HK\$500 million in total. Many more volunteers will be involved. We hope to see other companies, professionals, retirees and capable people join this open platform and help the youth in need of our society.

We are also supporting environmental protection through the Woo Wheelock Green Fund ("WWGF") which was established in 1994 in collaboration with the government's Environment and Conservation Fund aiming to support environmental research and technology projects. In the past six years, WWGF funded 14 projects. WPL has taken part in the World Wide Fund (WWF) Hong Kong's Low-carbon Office Operation Programme for three consecutive years and in 2013 was bestowed with the Gold Label Award. The Corporate Social Responsibility Report 2012 was also published by WPL for the second year in August 2013. This Report is prepared in accordance with the Global Reporting Initiative Guidelines (GRI) and addresses the sustainability challenges and achievements in corporate governance, sustainability approach, environment, people, customers and community. It is a self-checked application "B level" Report in accordance with GRI G3.1 Sustainability Reporting Environment.

In 2013, more than 60% of WPL's staff were involved in community and volunteer activities, with accumulated volunteer service hours of 678.5 hours. We supported a number of community activities including Swim for a Million organised by The Community Chest and Wheelock, Christmas E-card Design Competition with the Hong Chi Association, Green Riders by The Conservancy Association, Hike for Hospice by Society for the Promotion of Hospice Care and Wu Zhi Qiao (Bridge to China). In March 2014, WPL was awarded the RICS Social Responsibility Award of the Year 2014, recognising our contribution to community.

Continuing to support for art and culture, and specifically talented local artists, the winning art works of the Hong Kong Art Prize 2013 were exhibited at Wheelock Gallery for public viewing. We also supported Christie's Hong Kong Auction Highlights in Spring and Autumn, and organised an Art Talk with The Royal Academy of Arts (UK), and the Nature on The Peak – Edward Stokes Photo Exhibition.

## CLOSING

As my chairmanship of Wheelock came to an end after a total of 21 years, Douglas Woo was appointed Chairman on 1 January 2014. I remain the Senior Director of Wheelock, and continue as the Chairman of Wharf.

I would like to express my heartfelt gratitude to my fellow Directors, senior colleagues and all staff for their unwavering support, enthusiasm, commitment and contribution over the past three decades. We have been witness to many historic milestones, the most memorable for me being the Sino-British negotiation on the future of Hong Kong in 1983. With more changes to come from both within Hong Kong and as a consequence of external conditions, Wheelock will continue to face challenges head on. But I am confident it is in a sound investment and financial position, Hong Kong continues to be a great city to operate in, and that the business is in good hands after the succession transition.

Finally and most importantly, I thank our shareholders for their confidence and support over the years and I invite them to continue to support the Company as they have in the past.

**Peter K C Woo**  
*Chairman (2013)*

Hong Kong, 28 March 2014

## MESSAGE FROM THE NEW CHAIRMAN

It is my honour and privilege to serve as the Chairman of Wheelock and Company.

First and foremost, on behalf of all our stakeholders, I would like to thank Mr Peter Woo for his stewardship and vision throughout the years. We receive from him a business with great heritage which sits at the centre of one of Hong Kong's pillar sectors and has been integral to the city's development. We also receive from him a Group that prioritises the long-term sustainability of its business not only through the investment in new opportunities but also investment into the community, believing that to have a good business we must do good through our business. We are well set up for the future, despite the current challenges of the market. I would like to take this opportunity to thank the management team and all colleagues for their hard work and commitment to have built the Group to where we are today.

## OUTLOOK

2014 will be a challenging year as major global economies continue to work through fiscal and monetary issues as they undertake further steps for recovery, while closer to home the property markets of Hong Kong, Singapore and China will continue to be impacted by the governments' cooling policies and increasing construction costs.

However, each of our markets of operation should continue to report solid steady economic growth. We remain confident in the Hong Kong economy, which has the benefit of a low unemployment rate, positive business sentiment, ongoing large-scale infrastructure works and inbound tourism, and should continue to grow. Additionally, the role of Hong Kong as a service platform for international and China's corporations will stimulate economic activities. All these point to stable demand for both residential and commercial properties.

Our core business is in Hong Kong Development Properties and this remains our steadfast focus for 2014. Our portfolio will target the city's urban areas and we will pursue an active turnover approach, maintaining minimal inventory. Practicing prudent financial management will be our anchor.

**Douglas C K Woo**  
*Chairman*

Hong Kong, 28 March 2014