FINANCIAL REVIEW

(I) Review of 2014 Results

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

Wheelock's own net profit increased by 45% to HK$2,272 million (2013: HK$1,572 million). Excluding the IP revaluation gain of HK$109 million (2013: HK$320 million) and the mark-to-market loss of HK$34 million (2013: HK$51 million) on swaps, underlying profit increased by 69% to HK$2,197 million (2013: HK$1,303 million). This was mainly attributable to the profit contribution from the Austin joint venture on completion of The Austin (Phase I) and Grand Austin (Phase II).

Wheelock Group

The Group continued to deliver solid financial results in 2014 with its underlying profit increasing by 4% to HK$8,103 million (2013: HK$7,822 million). This was mainly attributable to continuous rental revenue growth, which was partly offset by lower DP profit, decrease in profit contribution from associates and lower investment disposal profit as compared to 2013.

Group profit attributable to equity shareholders increased by 30% to HK$22,009 million (2013: HK$16,954 million), due to a higher IP revaluation gain.

Revenue and Operating Profit

Group revenue increased by 17% to HK$40,953 million (2013: HK$35,071 million), mainly attributable to higher property sales recognised in the Mainland and increase in rental revenue. Operating profit increased by 5% to HK$15,729 million (2013: HK$14,938 million) as impacted by lower operating profit from China DP.

Investment Property

Revenue and operating profit increased by 19% and 16% to HK$14,198 million (2013: HK$11,949 million) and HK$11,503 million (2013: HK$9,891 million) respectively, attributable to firm retail base rent achieved from previous lease commitments and stable positive rental reversions for offices. Revenue from the Mainland increased by 57% to HK$1,984 million (2013: HK$1,261 million) due to the renovated mall at Shanghai Times Square and the newly-opened Chengdu IFS.

Development Property

Revenue increased by 28% to HK$17,198 million (2013: HK$13,430 million) but operating profit decreased by 29% to HK$2,367 million (2013: HK$3,341 million).

In Hong Kong, recognised property sales decreased by 15% to HK$1,669 million (2013: HK$1,972 million) with lower recognition from Lexington Hill as compared to Kadoorie Hill in 2013. Operating profit decreased by 9% to HK$718 million (2013: HK$790 million) with higher margin for Lexington Hill. Lexington Hill was completed with all residential units sold, enabling the recognition of revenue of HK$1,381 million and operating profit of HK$657 million.

In the Mainland, recognised property sales increased by 35% to HK$15,426 million (2013: HK$11,442 million). However, operating profit decreased by 35% to HK$1,669 million (2013: HK$2,565 million) with tighter margins.

Hotels

Revenue increased by 5% to HK$1,600 million (2013: HK$1,526 million), due to the Gateway Hotel after its renovation in 2013. However, operating profit decreased by 4% to HK$387 million (2013: HK$404 million), partly due to operating losses from Marco Polo Changzhou since its soft opening in August 2014.

Logistics

Revenue and operating profit increased by 3% and 8% to HK$3,319 million (2013: HK$3,226 million) and HK$1,051 million (2013: HK$974 million) respectively, mainly due to the increase in throughput handled by Modern Terminals.

Communications, Media and Entertainment ("CME")

Revenue decreased by 5% to HK$3,616 million (2013: HK$3,789 million) but operating profit stabilised at HK$211 million (2013: HK$212 million). Wharf T&T's operating profit increased by 17% to HK$352 million (2013: HK$300 million), while i-CABLE's operating loss widened to HK$140 million (2013: HK$88 million).

Investment and Others

Operating profit amounted to HK$1,039 million (2013: HK$1,150 million), comprising largely dividend and interest income.

FINANCIAL REVIEW (CONTINUED)

Fair Value Gain of IP

The book value of the Group's IP portfolio as at 31 December 2014 increased to HK$316.9 billion (2013: HK$282.0 billion), with HK$298.4 billion thereof stated at fair value based on independent valuation as at that date. That resulted in a revaluation gain of HK$28,087 million (2013: HK$19,089 million), mainly reflecting the continuous rental growth of the IP portfolio, which was credited to the consolidated income statement.

IP under development of HK$18.5 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 (Charge)/Income

Other net charge amounted to HK$1,758 million (2013: income of HK$337 million), comprising mainly impairment provision of HK$1,812 million made by Wharf and HK$458 million by WPSL for certain DP projects in the Mainland, and profit on disposal of a China DP project of HK$319 million. Included in the 2013 results were impairment provisions of HK$543 million made by Harbour Centre Development Limited for its Changzhou Marco Polo Hotel project and HK$681 million by WPSL for The Panorama project, and profit on disposal of available-for-sale investments of HK$1,094 million.

Finance Costs

Finance costs charged to the consolidated income statement were HK$2,195 million (2013: HK$899 million). Excluding the unrealised mark-to-market loss of HK$264 million (2013: gain of HK$1,205 million), finance costs were HK$3,776 million (2013: HK$3,586 million) before capitalisation of HK$1,845 million (2013: HK$1,482 million), and HK$1,931 million (2013: HK$2,104 million) after capitalisation. The Group's effective borrowing rate for the year remained at 3.1% (2013: 3.1%) per annum.

Share of Results of Associates and Joint Ventures

Share of profits of associates was HK$2,203 million (2013: HK$2,631 million), including the share of negative goodwill arising on the acquisition of HPL of HK$707 million (attributable to Wheelock Group is HK$536 million), which became an associate of WPSL in May 2014, as detailed in note 12d to the financial statements. Excluding the negative goodwill, the share of profits of associates decreased by 43% to HK$1,496 million, mainly due to lower profit contribution from DP projects in the Mainland.

Share of profits of joint ventures increased by 99% to HK$918 million (2013: HK$461 million), mainly due to profit contribution from the Austin joint venture, which was partly offset by lower profit contribution from DP projects in the Mainland.

Income Tax

The taxation charge was HK$4,015 million (2013: HK$4,539 million), which included deferred taxation of HK$543 million (2013: HK$1,459 million) provided for the fair value gain of IP located in the Mainland.

Excluding deferred taxation, the taxation charge increased by 13% to HK$3,472 million (2013: HK$3,080 million), mainly due to higher profit recognised by the IP segment.

Non-controlling Interests

Profit attributable to non-controlling interests increased by 13% to HK$16,960 million (2013: HK$15,064 million), which was mainly attributable to the increase in Wharf's profit.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 30% to HK$22,009 million (2013: HK$16,954 million). Earnings per share were HK$10.83 (2013: HK$8.34).

Excluding the attributable IP revaluation gain (after deducting related deferred tax and non-controlling interests) of HK$14,974 million (2013: HK$9,230 million), Group profit attributable to equity shareholders decreased by 9% to HK$7,035 million (2013: HK$7,724 million).

Further stripping out the exceptional items, underlying profit increased by 4% to HK$8,103 million (2013: HK$7,822 million). Underlying earnings per share were HK$3.99 (2013: HK$3.85).

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

Profit attributable to	2014 HK$ Million	2013 HK$ Million
Wheelock	**2,197**	1,303
WPSL group	**250**	665
Wharf group	**5,656**	5,854
Underlying profit	**8,103**	7,822
Attributable negative goodwill on HPL	**536**	–
Attributable mark-to-market (loss)/gain on swaps	**(156)**	587
Attributable provision for impairment of properties	**(1,448)**	(685)
Profit before IP revaluation gain	**7,035**	7,724
IP revaluation gain (after deferred tax)	**14,974**	9,230
Profit attributable to equity shareholders	**22,009**	16,954

WPSL's profit for the year ended 31 December 2014 was S$43.1 million (2013: S$40.0 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$272 million (2013: HK$227 million).

Wharf's profit for the year ended 31 December 2014 increased by 22% to HK$35,930 million (2013: HK$29,380 million). Excluding the net IP revaluation gain and exceptional items, Wharf's underlying profit decreased by 7% to HK$10,474 million (2013: HK$11,298 million).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

The Group's shareholders' equity increased by 15% to HK$191.2 billion (2013: HK$166.6 billion), or HK$94.11 per share (2013: HK$81.99 per share) as at 31 December 2014.

Including the non-controlling interests, the Group's total equity increased by 9% to HK$339.9 billion (2013: HK$311.6 billion).

Total Assets

The Group's total assets increased by 6% to HK$517.6 billion (2013: HK$486.8 billion). Total business assets, i.e. excluding bank deposits and cash, certain available-for-sale investments, deferred tax assets and other derivative financial assets, increased by 9% to HK$484.7 billion (2013: HK$444.8 billion).

The Group's IP portfolio was HK$316.9 billion, representing 65% of total business assets. Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK$211.8 billion, representing 67% of the value of the portfolio. Wharf's IP in the Mainland amounted to HK$56.8 billion, including IP under development of HK$15.5 billion.

Other major business assets included properties under development and held for sale of HK$88.1 billion, interests in associates and joint ventures (mainly for China DP and port projects) of HK$45.6 billion and other fixed assets of HK$25.1 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, amounted to HK$156.9 billion (2013: HK$158.0 billion), representing 32% (2013: 36%) of the Group's total business assets.

Debt and Gearing

The Group's net debt increased by HK$2.3 billion to HK$96.6 billion (2013: HK$94.3 billion) as at 31 December 2014, comprising debt of HK$117.9 billion less bank deposits and cash of HK$21.3 billion. Excluding WPSL's net debt of HK$1.4 billion and Wharf's net debt of HK$59.3 billion, which are non-recourse to the Company and its wholly-owned subsidiaries, Wheelock's own net debt was HK$35.9 billion (2013: HK$35.1 billion). An analysis of the net debt by group is shown below:

Net debt	**2014 HK$ Million**	2013 HK$ Million
Wheelock	**35,870**	35,153
WPSL group	**1,470**	1,070
Wharf group	**59,259**	58,072
Group	**96,599**	94,295

As at 31 December 2014, the ratio of net debt to total equity (on a consolidated basis) reduced to 28.4% (2013: 30.3%). Excluding the net debt of WPSL and Wharf, Wheelock's own net debt to shareholders' equity (on an attributable net asset value basis) reduced to 18.8% (2013: 21.1%).

Finance and Availability of Facilities

As at 31 December 2014, the Group's available loan facilities and issued debt securities amounted to HK$160.2 billion (2013: HK$157.4 billion), of which HK$117.9 billion were drawn. An analysis is shown below:

	Available Facilities HK$ Billion	**Total Debt HK$ Billion**	**Undrawn Facilities HK$ Billion**
Wheelock	54.7	36.0	18.7
WPSL group	6.3	3.9	2.4
Wharf group	99.2	78.0	21.2
Group	160.2	117.9	42.3

Of the above debt, HK$19.2 billion (2013: HK$24.3 billion) was secured by mortgages over certain DP, IP and fixed assets with a total carrying value of HK$65.3 billion (2013: HK$57.9 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 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 available-for-sale investments, primarily in blue-chip securities, with an aggregate market value of HK$11.4 billion (2013: HK$13.2 billion) as at 31 December 2014, which is immediately available for liquidation for the Group's use.

Cash Flows from 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$16.3 billion (2013: HK$15.3 billion). The changes in working capital and others of HK$2.4 billion (2013: HK$15.5 billion) reduced the net cash inflow from operating activities to HK$13.9 billion (2013: outflow of HK$0.2 billion). For investing activities, the Group recorded a net cash outflow of HK$11.1 billion (2013: HK$15.2 billion), mainly for construction cost for various IP projects both in Hong Kong and the Mainland, and increase in interest in Wharf which was partly offset by the redemption proceeds of the convertible securities issued by Greentown to Wharf of HK$2.7 billion (2013: HK$Nil).

Major Capital and Development Expenditure and Commitments

The Group's major capital and development expenditure incurred in 2014 is analysed as follows:

A. Major Capital and Development Expenditure

	Hong Kong/ Singapore HK$ Million	Mainland China HK$ Million	Total HK$ Million
Wheelock			
IP	467	–	467
DP	7,646	–	7,646
	8,113	–	8,113
WPSL group			
IP	15	–	15
DP	20	139	159
	35	139	174
Wharf group			
IP	970	6,560	7,530
DP	317	16,109	16,426
Hotels/Others	1,169	530	1,699
	2,456	23,199	25,655
Analysis by segment:			
IP	1,452	6,560	8,012
DP	7,983	16,248	24,231
Hotels/Others	1,169	530	1,699
Group total	10,604	23,338	33,942

i. Wheelock's own expenditure for IP and DP amounted to HK$8.1 billion, mainly attributable to land cost payments for the Kai Tak and LOHAS Park Phase 5 projects, and construction cost payments for its Hong Kong DP projects.

ii. WPSL's expenditure of HK$0.2 billion was mainly for construction cost payments for its China and Singapore DP projects.

iii. Wharf's expenditure totalled HK$25.6 billion, comprising expenditure of HK$7.5 billion for IP (mainly renovation of Harbour City and construction of the IFS projects), HK$16.4 billion for DP (mainly related to China projects) and HK$1.7 billion for Hotels, Modern Terminals, Wharf T&T and i-CABLE. Wharf's expenditure has excluded the intra-group acquisition of Crawford House from Wheelock during the year.

B. Commitments to Capital and Development Expenditure

As at 31 December 2014, the Group's major commitments to capital and development expenditure to be incurred in the forthcoming years were estimated at HK$83.5 billion, of which HK$27.7 billion was authorised and contracted for. By segment, the commitments are analysed below:

	As at 31 December 2014		
	Authorised and contracted for HK$ Million	Authorised but not contracted for HK$ Million	Total HK$ Million
Wheelock			
IP	130	–	130
DP	4,200	15,159	19,359
	4,330	15,159	19,489
WPSL group			
IP	6	–	6
DP	1,302	2,104	3,406
	1,308	2,104	3,412
Wharf group			
IP	7,819	10,920	18,739
DP	13,643	25,325	38,968
Hotels/Others	561	2,375	2,936
	22,023	38,620	60,643
Analysis by segment:			
IP	7,955	10,920	18,875
DP	19,145	42,588	61,733
Hotels/Others	561	2,375	2,936
Group total	27,661	55,883	83,544
Analysis by geographical location:			
Hong Kong	7,051	16,170	23,221
Mainland China	18,921	37,113	56,034
Singapore	1,128	225	1,353
Properties total	27,100	53,508	80,608
Hotels/Others	561	2,375	2,936
Group total	27,661	55,883	83,544

i. Wheelock's own commitments of HK$19.5 billion are mainly related to construction costs for DP in Hong Kong.

ii. WPSL's commitments of HK$3.4 billion are mainly related to construction costs of HK$1.4 billion for DP in Singapore and HK$2.0 billion for DP in the Mainland.

iii. Wharf's commitments of HK$60.6 billion mainly comprised expenditure of HK$18.7 billion for IP, HK$39.0 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 financial investments.

(III) Human Resources

The Group had approximately 16,600 employees as at 31 December 2014, 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 investment properties has a book value of over HK$316 billion. Excluding Greentown, its attributable land bank is 93 million square feet for development and 41 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 development properties in Hong Kong. The Hong Kong land bank currently under management amounts to 7.8 million square feet. It includes one of the largest collections of top end Peak residential properties, new low-density harbourfront O'South residential development, a significant share of both commercial and residential projects in Kowloon East, and urban portfolio in Kowloon South.

In 2014, contracted Hong Kong sales totalled HK$18.8 billion for 1.2 million square feet of saleable area. In 2015, the Group will maintain the momentum with five projects planned to launch, which include four residential developments and one commercial development.

Wharf is Wheelock's core investment in the form of a listed company which focuses on prime investment properties in Hong Kong and the Mainland and owns one of the world's most prized portfolios, with a book value of HK$302 billion as at the end of 2014. It includes Harbour City and Times Square, which house the two most successful shopping malls in Hong Kong. Wharf is also one of the most active Hong Kong developers in the Mainland. Excluding Greentown, its attributable land bank in the Mainland comprises 10.2 million square metres across 15 cities. 2014 contracted sales totalled RMB21.5 billion for 1.5 million square metres.

Development in Singapore is spearheaded by WPSL. The current development land bank in Singapore is 0.8 million square feet. It also operates two 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 and competitive land bank with timely acquisitions and constant turning of assets;

2. Competence in selection and acquisition, planning and design, execution, sales and marketing;

3. Building organisation and focusing professional team efforts in building brand; and

4. Exercising prudent and disciplined financial management to ensure sustainability at all times.