FINANCIAL REVIEW

(I) Review of 2015 Results

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

Wheelock's own core profit increased by 83% to HK$4,012 million (2014: HK$2,197 million). This was mainly attributable to the profit contribution from One Bay East and The Parkside on completion.

Wheelock Group

The Group's core profit increased by 31% to HK$10,598 million (2014: HK$8,103 million). This was mainly attributable to higher DP profit and resilient rental revenue.

Group profit attributable to equity shareholders decreased by 35% to HK$14,232 million (2014: HK$22,009 million), due to a lower IP revaluation gain.

Revenue and Operating Profit

Group revenue increased by 40% to HK$57,431 million (2014: HK$40,953 million), mainly attributable to higher property sales recognised and increase in rental revenue. Operating profit increased by 27% to HK$20,053 million (2014: HK$15,729 million), mainly attributable to higher operating profit from Hong Kong and China DP.

Investment Property

Revenue and operating profit both grew at a slower pace than previous years but managed to increase by 6% to HK$15,054 million (2014: HK$14,198 million) and HK$12,163 million (2014: HK$11,503 million) respectively, attributable to the firm retail base rent achieved from lease commitments and stable positive rental reversions for offices. Revenue from the Mainland increased by 16% to HK$2,305 million (2014: HK$1,984 million), benefitting from the escalating revenue generated by Chengdu IFS.

Development Property

Revenue and operating profit increased by 96% and 188% to HK$33,718 million (2014: HK$17,198 million) and HK$6,810 million (2014: HK$2,367 million) respectively.

In Hong Kong, recognised property sales and operating profit increased by 826% and 523% to HK$15,459 million (2014: HK$1,669 million) and HK$4,470 million (2014: HK$718 million) respectively, mainly due to higher profit recognition on completion from One Bay East and The Parkside as compared to Lexington Hill in 2014. One Bay East and The Parkside were completed with all units sold, enabling the recognition of revenue of HK$9,925 million and HK$5,216 million respectively.

In the Mainland, recognised property sales and operating profit increased by 17% and 36% to HK$18,018 million (2014: HK$15,426 million) and HK$2,266 million (2014: HK$1,669 million) respectively, with more phased completion and revenue recognition for overall higher margin projects.

Hotels

Revenue and operating profit decreased by 3% and 28% to HK$1,549 million (2014: HK$1,600 million) and HK$278 million (2014: HK$387 million) respectively, partly affected by the decline in Hong Kong revenue and partly by pre-maturity operating losses from Marco Polo Changzhou and Niccolo Chengdu.

Logistics

Revenue and operating profit decreased by 14% and 34% to HK$2,848 million (2014: HK$3,319 million) and HK$689 million (2014: HK$1,051 million) respectively, mainly due to the lower throughput handled by Modern Terminals as a result of the sluggish global trade flows.

Communications, Media and Entertainment ("CME")

Revenue and operating profit decreased by 3% and 47% to HK$3,501 million (2014: HK$3,616 million) and HK$112 million (2014: HK$211 million) respectively. Wharf T&T's operating profit increased by 3% to HK$362 million (2014: HK$352 million), while i-CABLE's operating loss widened to HK$246 million (2014: HK$140 million).

Investment and Others

Operating profit amounted to HK$752 million (2014: HK$1,039 million), comprising largely dividend and interest income.

Fair Value Gain of IP

The book value of the Group's IP portfolio as at 31 December 2015 slightly increased to HK$325.0 billion (2014: HK$316.9 billion), with HK$305.3 billion thereof stated at fair value based on independent valuations as at that date. That resulted in a revaluation gain of HK$7,360 million (2014: HK$28,087 million), which was credited to the consolidated income statement.

IP under development of HK$19.7 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

Other net charge amounted to HK$240 million (2014: HK$1,758 million), comprising mainly a non-recurrent accounting loss of HK$1,620 million (the amount attributable to the Group is HK$916 million) as explained below and other miscellaneous charge of HK$30 million partly offset by a gain of HK$908 million (the amount attributable to the Group is HK$361 million) arising from the disposal of the equity interest in the Taicang container port businesses by Modern Terminals and net profit on disposal of available-for-sale investments of HK$502 million.

The accounting loss of HK$1,620 million was arising from the deemed disposal of Wharf's entire 24.3% interest in Greentown China Holdings Limited ("Greentown") at the prevailing market value upon reclassification of such interest as an available-for-sale investment instead of as an associate in June 2015. The Greentown interest was acquired in June 2012 at a cost of HK$2,729 million with an accounting gain representing the negative goodwill of HK$2,233 million when the equity-interest was accounted for as an associate.

Included in the 2014 results were impairment provisions of HK$2,270 million made for certain DP projects in the Mainland partly offset by profit on disposal of a DP project in the Mainland of HK$319 million, profit on disposal of available-for-sale investments of HK$43 million and other miscellaneous income of HK$150 million.

Finance Costs

Finance costs charged to the consolidated income statement were HK$2,092 million (2014: HK$2,195 million). Excluding the unrealised mark-to-market loss of HK$447 million (2014: HK$264 million) on swaps, finance costs decreased by 11% to HK$3,376 million (2014: HK$3,776 million) before capitalisation of HK$1,731 million (2014: HK$1,845 million), and HK$1,645 million (2014: HK$1,931 million) after capitalisation. The Group's effective borrowing rate for the year was reduced to 2.8% (2014: 3.1%) per annum.

Share of Results of Associates and Joint Ventures

Share of profits of associates decreased by 44% to HK$1,241 million (2014: HK$2,203 million), mainly due to the share of negative goodwill arising on the acquisition of Hotel Properties Limited ("HPL") of HK$707 million in 2014 and the decrease in share of associate's profit in the DP segment in the Mainland to HK$895 million (2014: HK$1,098 million) mainly due to non-equity-accounting of Greentown upon classification of the equity interest as an available-for-sale investment instead of an associate since June 2015.

Share of profits of joint ventures decreased by 76% to HK$222 million (2014: HK$918 million), mainly due to the Hong Kong DP profit decreasing from HK$906 million in 2014, which mainly arose from profit recognition from the Austin joint venture, to a loss of HK$71 million in 2015 but partially compensated by higher profit contribution from DP in the Mainland from a loss of HK$41 million in 2014 to a profit of HK$258 million in 2015.

Income Tax

The taxation charge was HK$4,710 million (2014: HK$4,015 million), which included deferred taxation of HK$488 million (2014: HK$543 million) provided for the fair value gain of IP located in the Mainland.

Excluding the above deferred taxation, the taxation charge increased by 22% to HK$4,222 million (2014: HK$3,472 million), mainly due to higher profit recognised by the IP and DP segments.

Non-controlling Interests

Profit attributable to non-controlling interests decreased by 55% to HK$7,602 million (2014: HK$16,960 million), mainly due to Wharf's lower net profit.

Profit attributable to Equity Shareholders

Group profit attributable to equity shareholders decreased by 35% to HK$14,232 million (2014: HK$22,009 million). Earnings per share were HK$7.00 (2014: HK$10.83).

Excluding the attributable IP revaluation gain (after deducting related deferred tax and non-controlling interests) of HK$4,258 million (2014: HK$14,974 million), Group profit attributable to equity shareholders increased by 42% to HK$9,974 million (2014: HK$7,035 million).

Further stripping out the exceptional items, core profit increased by 31% to HK$10,598 million (2014: HK$8,103 million). Core earnings per share were HK$5.22 (2014: HK$3.99).

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	**2015 HK$ Million**	2014 HK$ Million
Wheelock	**4,012**	2,197
WPSL group	**263**	250
Wharf group	**6,323**	5,656
Core profit	**10,598**	8,103
Attributable gain arising from the disposal of the Taicang container port businesses	**361**	–
Attributable loss arising from the deemed disposal of Greentown	**(916)**	–
Attributable net mark-to-market loss and exchange on certain financial instruments	**(69)**	(156)
Attributable negative goodwill on HPL acquisition	**–**	536
Attributable provision for impairment of properties	**–**	(1,448)
Profit before IP revaluation gain	**9,974**	7,035
IP revaluation gain (after deferred tax)	**4,258**	14,974
Profit attributable to equity shareholders	**14,232**	22,009

WPSL's profit for the year ended 31 December 2015 was S$40.3 million (2014: S$43.1 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$217 million (2014: HK$272 million).

Wharf's profit for the year ended 31 December 2015 decreased by 55% to HK$16,024 million (2014: HK$35,930 million). Excluding the net IP revaluation gain and exceptional items, Wharf's core profit increased by 5% to HK$10,969 million (2014: HK$10,474 million).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

Shareholders' equity increased by 5% to HK$201.7 billion (2014: HK$191.2 billion), or HK$99.26 per share (2014: HK$94.11 per share) as at 31 December 2015.

Including the non-controlling interests, the Group's total equity increased to HK$340.9 billion (2014: HK$339.9 billion).

Assets

The Group's total assets amounted to HK$512.8 billion (2014: HK$517.6 billion). Total business assets, i.e. excluding bank deposits and cash, certain available-for-sale investments, deferred tax assets and other derivative financial assets, amounted to HK$475.0 billion (2014: HK$484.7 billion).

The Group's IP portfolio was HK$325.0 billion, representing 68% of total business assets. Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK$217.4 billion, representing 67% of the value of the portfolio. Wharf's IP in the Mainland amounted to HK$58.1 billion, including IP under development at cost of HK$17.1 billion.

Other major business assets included properties under development and held for sale of HK$76.2 billion, interests in associates and joint ventures (mainly for China DP and port projects) of HK$39.3 billion and property, plant and equipment of HK$22.8 billion.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, amounted to HK$141.7 billion (2014: HK$156.9 billion), representing 30% (2014: 32%) of the Group's total business assets.

Debt and Gearing

The Group's net debt decreased by HK$17.7 billion or 18% to HK$78.9 billion (2014: HK$96.6 billion) as at 31 December 2015, comprising debt of HK$106.2 billion less bank deposits and cash of HK$27.3 billion. Excluding WPSL's net cash of HK$0.5 billion and Wharf's net debt of HK$47.2 billion, which were non-recourse to the Company and its wholly-owned subsidiaries, Wheelock's own net debt decreased by HK$3.7 billion to HK$32.2 billion (2014: HK$35.9 billion). An analysis of the net debt by group is shown below:

Net debt/(cash)	**2015 HK$ Million**	2014 HK$ Million
Wheelock	**32,258**	35,870
WPSL group	**(528)**	1,470
Wharf group	**47,197**	59,259
Group	**78,927**	96,599

As at 31 December 2015, the ratio of net debt to total equity (on a consolidated basis) declined to 23.2% (2014: 28.4%). 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 16.0% (2014: 18.8%).

Finance and Availability of Facilities

As at 31 December 2015, the Group's available loan facilities and issued debt securities amounted to HK$153.5 billion (2014: HK$160.2 billion), of which HK$106.2 billion were utilised. An analysis is shown below:

	Available Facilities HK$ Billion	Total Debt HK$ Billion	Undrawn Facilities HK$ Billion
Wheelock	56.3	32.7	23.6
WPSL group	3.9	2.8	1.1
Wharf group	93.3	70.7	22.6
Group	153.5	106.2	47.3

Of the above debt, HK$15.1 billion (2014: HK$19.2 billion) was secured by mortgages over certain DP, IP and property, plant and equipment with a total carrying value of HK$51.8 billion (2014: HK$65.3 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 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 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$12.5 billion (2014: HK$11.4 billion) as at 31 December 2015, 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 year under review, the Group's operating cash inflow before changes in working capital was HK$20.9 billion (2014: HK$16.3 billion). The changes in working capital and others of HK$11.8 billion (2014: HK$2.4 billion) increased/decreased the net cash inflow from operating activities to HK$32.7 billion (2014: HK$13.9 billion). For investing activities, the Group recorded a net cash outflow of HK$11.3 billion (2014: HK$11.1 billion), mainly for construction costs for IP projects in the Mainland, increase in interest in Wharf and investment in associates, which was compensated by net disposal proceeds of available-for-sale investments and disposal proceeds of the Taicang container port businesses by Modern Terminals.

Major Capital and Development Expenditure and Commitments

The Group's major capital and development expenditure incurred in 2015 is analysed as follows:

A. Major Capital and Development Expenditure

	Hong Kong/ Singapore HK$ Million	Mainland China HK$ Million	Total HK$ Million
Wheelock			
IP	674	–	674
DP	7,099	–	7,099
	7,773	–	7,773
WPSL group			
IP	18	–	18
DP	87	151	238
	105	151	256
Wharf group			
IP	1,218	4,137	5,355
DP	889	15,912	16,801
Non property and others	1,151	53	1,204
	3,258	20,102	23,360
Analysis by segment:			
IP	1,910	4,137	6,047
DP	8,075	16,063	24,138
Non property and others	1,151	53	1,204
Group total	11,136	20,253	31,389

i. Wheelock's own expenditure for IP and DP amounted to HK$7.8 billion, mainly attributable to the land cost payment for the LOHAS Park Phase 7 project, 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$23.4 billion, comprising expenditure of HK$5.4 billion for IP (mainly renovation of Harbour City and construction of the IFS projects in the Mainland), HK$16.8 billion for DP (mainly related to China projects) and HK$1.2 billion for Hotels, Modern Terminals, Wharf T&T and i-CABLE.

B. Commitments to Capital and Development Expenditure

As at 31 December 2015, the Group's major commitments to capital and development expenditure to be incurred in the forthcoming years were estimated at HK$76.0 billion, of which HK$38.9 billion was committed. By segment, the commitments are analysed as follows:

	As at 31 December 2015		
	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million
Wheelock			
IP	–	–	–
DP	12,765	12,833	25,598
	12,765	12,833	25,598
WPSL group			
IP	1	–	1
DP	841	1,810	2,651
	842	1,810	2,652
Wharf group			
IP	10,741	5,621	16,362
DP	12,259	16,289	28,548
Non property and others	2,293	554	2,847
	25,293	22,464	47,757
Analysis by segment:			
IP	10,742	5,621	16,363
DP	25,865	30,932	56,797
Non property and others	2,293	554	2,847
Group total	38,900	37,107	76,007
Analysis by geographical location:			
Hong Kong IP	2,027	477	2,504
Hong Kong DP	13,224	12,833	26,057
China IP	8,714	5,144	13,858
China DP	11,939	17,891	29,830
Singapore	703	208	911
Properties total	36,607	36,553	73,160
Non property and others	2,293	554	2,847
Group total	38,900	37,107	76,007

i. Wheelock's own commitments of HK$25.6 billion mainly relate to land and construction costs for DP in Hong Kong.

ii. WPSL's commitments of HK$2.6 billion mainly relate to construction costs of HK$0.9 billion for DP in Singapore and HK$1.7 billion for DP in the Mainland.

iii. Wharf's commitments of HK$47.8 billion mainly comprise expenditure of HK$16.4 billion for IP, HK$28.5 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 available-for-sale investments.

(III) Human Resources

The Group had approximately 15,500 employees as at 31 December 2015, including about 2,400 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$325 billion. Its attributable land bank is 75 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 8.7 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 in Kowloon East, and urban portfolio in Kowloon South.

In 2015, contracted Hong Kong sales totalled HK$12.9 billion for 1.0 million square feet. In 2016, 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$310 billion as at the end of 2015. 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. Its attributable land bank in the Mainland comprises 8.4 million square metres across 15 cities. 2015 contracted sales totalled RMB26.0 billion for 1.4 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.