

# FINANCIAL REVIEW

## (I) REVIEW OF 2016 RESULTS

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

Wheelock's own core profit, HK\$3,085 million (2015: HK\$4,012 million), was mainly due to smaller GFA completed and recognised in 2016.

### Wheelock Group

Group's record high core profit increased by 11% to HK\$11,811 million (2015: HK\$10,598 million). This was mainly attributable to higher China and Hong Kong DP profit and resilient rental revenue.

Group profit attributable to equity shareholders increased by 14% to HK\$16,294 million (2015: HK\$14,232 million), including the one-off attributable gain on disposal of Wharf's entire equity interest in Wharf T&T Limited ("Wharf T&T") of HK\$4,416 million though with a lower IP revaluation gain this year.

### Revenue and Operating Profit

Group revenue and operating profit both increased by 5% to HK\$60,579 million (2015: HK\$57,431 million) and HK\$21,135 million (2015: HK\$20,053 million) respectively.

#### *Investment Property*

Revenue and operating profit increased by 5% and 6% to HK\$15,736 million (2015: HK\$15,054 million) and HK\$12,837 million (2015: HK\$12,163 million) respectively. Hong Kong revenue and operating profit increased by 5% and 6% respectively, benefitting from firm retail base rent and stable positive office rental reversions. Mainland revenue and operating profit increased moderately by 2% and 1% respectively, or up by 9% and 7% in terms of RMB, which depreciated by 6% in 2016.

#### *Development Property*

Revenue and operating profit increased by 8% and 7% to HK\$36,539 million (2015: HK\$33,718 million) and HK\$7,253 million (2015: HK\$6,810 million) respectively.

In Hong Kong, recognised property sales and operating profit were HK\$13,497 million (2015: HK\$15,459 million) and HK\$3,772 million (2015: HK\$4,470 million) respectively. One HarbourGate was completed with all two towers sold, enabling a revenue recognition of HK\$10,350 million. Peninsula East and Kensington Hill were also completed with 100% and 93% residential units sold at year end and contributed revenue of HK\$1,985 million and HK\$1,145 million respectively.

In the Mainland, recognised property sales and operating profit increased by 20% and 43% to HK\$21,670 million (2015: HK\$18,018 million) and HK\$3,234 million (2015: HK\$2,266 million) respectively with more projects.

#### *Hotels*

Revenue and operating profit increased by 2% and 4% to HK\$1,587 million (2015: HK\$1,549 million) and HK\$289 million (2015: HK\$278 million) respectively. Hong Kong revenue was adversely impacted by the soft market while the newly opened hotels in the Mainland have started to contribute.

#### *Logistics*

Revenue decreased by 4% to HK\$2,748 million (2015: HK\$2,848 million). Operating profit increased by 4% to HK\$719 million (2015: HK\$689 million), mainly due to lower operating costs from Modern Terminals.

#### *Communications, Media and Entertainment*

Revenue and operating profit decreased by 10% and 47% to HK\$3,145 million (2015: HK\$3,501 million) and HK\$59 million (2015: HK\$112 million) respectively. Wharf disposed of Wharf T&T in November 2016, reducing its contributed revenue by 13% while operating profit increased by 3% to HK\$372 million (2015: HK\$362 million). i-CABLE's operating loss widened to HK\$313 million (2015: HK\$246 million).

### *Investment and Others*

Operating profit amounted to HK\$719 million (2015: HK\$752 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 2016 increased by 1% to HK\$329.1 billion (2015: HK\$325.0 billion), with HK\$309.6 billion thereof stated at fair value based on independent valuation as at that date. That resulted in a revaluation gain of HK\$597 million for the year (2015: HK\$7,360 million), which was credited to the consolidated income statement.

IP under development of HK\$19.5 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 Income/(Charge)

Other net income amounted to HK\$6,341 million (2015: charge of HK\$240 million), primarily included a gain of HK\$7,260 million arising from the disposal of Wharf's entire equity interest in Wharf T&T.

In 2015, the non-recurrent accounting loss of HK\$1,620 million arising from the deemed disposal of Wharf's entire 24.3% equity interest in Greentown China Holdings Limited ("Greentown") upon reclassification of such interest as financial investment instead of an associate and the gain of HK\$908 million arising from the disposal of 50% equity interest in the Taicang container port businesses by Modern Terminals were recognised.

### Finance Costs

Finance costs charged to the consolidated income statement were HK\$1,484 million (2015: HK\$2,092 million). Excluding the unrealised mark-to-market gain of HK\$261 million (2015: loss of HK\$447 million) on swaps, finance costs decreased by 3% to HK\$3,262 million (2015: HK\$3,376 million) before capitalisation of HK\$1,517 million (2015: HK\$1,731 million), and HK\$1,745 million (2015: HK\$1,645 million) after capitalisation. The Group's effective borrowing rate for the year was 3.2% (2015: 2.8%) per annum.

### Share of Results of Associates and Joint Ventures

Share of profits of associates decreased by 4% to HK\$1,190 million (2015: HK\$1,241 million) with lower profit contributions from Mainland DP.

Share of profits of joint ventures increased significantly to HK\$1,984 million (2015: HK\$222 million), mainly attributable to Mount Nicholson in Hong Kong and more completed Mainland DP projects.

### Income Tax

The taxation charge was HK\$4,691 million (2015: HK\$4,710 million), which included deferred taxation of HK\$23 million (2015: HK\$488 million) provided for the revaluation gain of IP located in the Mainland.

Excluding the above deferred taxation, the taxation charge increased by 11% to HK\$4,668 million (2015: HK\$4,222 million), mainly due to higher profit recognised by IP and China DP segments.

### Non-controlling Interests ("NCI")

Profit attributable to NCI increased by 15% to HK\$8,778 million (2015: HK\$7,602 million), mainly due to increase in net profit of Wharf.

## FINANCIAL REVIEW (CONTINUED)

### Profit attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 14% to HK\$16,294 million (2015: HK\$14,232 million). Earnings per share were HK\$8.02 based on weighted average of 2,033 million issued shares (2015: HK\$7.00 based on 2,032 million issued shares).

Excluding the attributable IP revaluation gain (after deducting related deferred tax and NCI) of HK\$307 million (2015: HK\$4,258 million), Group profit attributable to equity shareholders increased by 60% to HK\$15,987 million (2015: HK\$9,974 million).

Further stripping out the exceptional items, core profit increased by 11% to HK\$11,811 million (2015: HK\$10,598 million). Core earnings per share were HK\$5.81 (2015: HK\$5.22).

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

	<b>2016</b> <b>HK\$ Million</b>	2015 HK\$ Million
Profit attributable to		
Wheelock	<b>3,085</b>	4,012
WPSL group	<b>428</b>	263
Wharf group	<b>8,298</b>	6,323
Core profit	<b>11,811</b>	10,598
Attributable gain arising from the disposal of Wharf T&T	<b>4,416</b>	—
Attributable gain arising from the disposal of Taicang container port businesses	—	361
Attributable loss arising from the deemed disposal of Greentown	—	(916)
Others	<b>(240)</b>	(69)
Profit before IP revaluation gain	<b>15,987</b>	9,974
IP revaluation gain (after deferred tax)	<b>307</b>	4,258
Profit attributable to equity shareholders	<b>16,294</b>	14,232

WPSL's profit for the year ended 31 December 2016 was S\$58.3 million (2015: S\$40.3 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\$296 million (2015: HK\$217 million).

Wharf's profit for the year ended 31 December 2016 increased by 34% to HK\$21,440 million (2015: HK\$16,024 million). Excluding the exceptional items, Wharf's core profit increased by 25% to HK\$13,754 million (2015: HK\$10,969 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\$8,950 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\$154 million in the year was recognised through other comprehensive income instead of the income statement as previously accounted for (2015: profit of HK\$387 million through the income statement).

## **(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS**

### **Shareholders' and Total Equity**

Shareholders' equity increased by 7% to HK\$215.4 billion (2015: HK\$201.7 billion), or HK\$105.85 per share based on 2,035 million issued shares (2015: HK\$99.26 per share based on 2,032 million issued shares) as at 31 December 2016.

Including the NCI, the Group's total equity increased by 3% to HK\$349.5 billion (2015: HK\$340.9 billion).

### **Assets and Liabilities**

The Group's total assets increased by 1% to HK\$520.4 billion (2015: HK\$512.8 billion). Total business assets, i.e. excluding bank deposits and cash, financial and deferred tax assets, slightly decreased to HK\$468.1 billion (2015: HK\$475.0 billion), mainly due to selling down of DP but mitigating by IP increase.

Geographically, the Group's business assets in the Mainland, mainly properties and terminals, decreased to HK\$122.6 billion (2015: HK\$141.7 billion), representing 26% (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\$329.1 billion (2015: HK\$325.0 billion), representing 70% of total business assets. Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK\$219.0 billion, representing 67% of the value of the portfolio. Wharf's IP in the Mainland amounted to HK\$58.5 billion, including IP under development at a cost of HK\$16.7 billion.

#### *Properties for Sale*

DP amounted to HK\$70.1 billion (2015: HK\$76.2 billion), mainly comprised of properties in Hong Kong of HK\$39.7 billion, in China of HK\$25.5 billion and in Singapore of HK\$4.9 billion, which were held for sale as at 31 December 2016.

#### *Interests in Associates and Joint Ventures*

Interests in associates and joint ventures amounted to HK\$35.1 billion (2015: HK\$39.3 billion), mainly represented by various joint-venture DP projects undertaken in the Mainland and Hong Kong.

#### *Deposits from Sale of Properties*

Deposits from sale of properties increased by 33% to HK\$30.6 billion (2015: HK\$23.1 billion), reflecting the increase in contracted sales in the Mainland, Hong Kong and Singapore pending revenue recognition.

## FINANCIAL REVIEW (CONTINUED)

### Debt and Gearing

The Group's net debt was reduced by 35% or HK\$27.9 billion to HK\$51.0 billion (2015: HK\$78.9 billion) as at 31 December 2016, resulting from the Group's strong recurrent operating cash inflow, record DP sales and disposal of Wharf T&T. The net debt comprised debt of HK\$95.0 billion less bank deposits and cash of HK\$44.0 billion (including Wharf's deposits and cash of HK\$19.6 billion placed with banks in the Mainland and deposits of HK\$8.7 billion placed with banks in Hong Kong with maturity over three months). Excluding WPSL's net cash of HK\$2.5 billion and Wharf's net debt of HK\$23.8 billion, which were non-recourse to the Company and its wholly-owned subsidiaries, Wheelock's own net debt decreased by HK\$2.5 billion to HK\$29.7 billion (2015: HK\$32.2 billion). An analysis of the net debt by group is shown below:

Net debt/(cash)	<b>2016</b> <b>HK\$ Million</b>	2015 HK\$ Million
Wheelock	<b>29,674</b>	32,258
WPSL group	<b>(2,534)</b>	(528)
Wharf group	<b>23,837</b>	47,197
Group	<b>50,977</b>	78,927

As at 31 December 2016, the net debt to total equity (on a consolidated basis) was reduced to 14.6% (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 13.8% (2015: 16.0%).

### Finance and Availability of Facilities

As at 31 December 2016, the Group's available loan facilities and issued debt securities amounted to HK\$146.5 billion (2015: HK\$153.5 billion), of which HK\$95.0 billion were utilised. An analysis is shown below:

	<b>Available Facilities HK\$ Billion</b>	<b>Total Debt HK\$ Billion</b>	<b>Undrawn Facilities HK\$ Billion</b>
Wheelock	68.8	34.2	34.6
WPSL group	—	—	—
Wharf group	77.7	60.8	16.9
Group	146.5	95.0	51.5

Of the above debt, HK\$13.6 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\$43.5 billion (2015: HK\$51.8 billion).

The Group's debt was primarily denominated in United States dollars ("USD"), Hong Kong dollars ("HKD") and Renminbi ("RMB"). 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 Singapore dollars, and undrawn committed facilities to facilitate the Group's business and investment activities. The Group also maintained a portfolio of equity and bond investments with an aggregate market value of HK\$9.5 billion (2015: HK\$12.5 billion) as at 31 December 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 year under review, the Group's operating cash inflows was HK\$21.8 billion (2015: HK\$20.9 billion). The changes in working capital and others of HK\$9.8 billion (2015: HK\$11.8 billion) increased the net cash inflow from operating activities to HK\$31.6 billion (2015: HK\$32.7 billion), mainly attributable to increase in DP pre-sales. For investing activities, the Group recorded a net cash outflow of HK\$5.9 billion (2015: HK\$11.3 billion), mainly attributable to the construction costs for Mainland IP, placement of bank deposits with maturity over three months and increase in interest in Wharf but partly compensating by the net proceeds from disposal of Wharf T&T.

## Major Capital and Development Expenditure and Commitments

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

### A. Major Capital and Development Expenditure

	Hong Kong/ Singapore HK\$ Million	Mainland China HK\$ Million	Total HK\$ Million
<b>Wheelock</b>			
IP	652	—	652
DP	14,767	—	14,767
	15,419	—	15,419
<b>WPSL group</b>			
IP	9	—	9
DP	488	140	628
	497	140	637
<b>Wharf group</b>			
IP	2,862	4,465	7,327
DP	219	12,356	12,575
Non property and others	1,836	113	1,949
	4,917	16,934	21,851
Analysis by segment:			
IP	3,523	4,465	7,988
DP	15,474	12,496	27,970
Non property and others	1,836	113	1,949
<b>Group total</b>	20,833	17,074	37,907

- i. Wheelock's own expenditure for IP and DP amounted to HK\$15.4 billion, mainly attributable to the land cost payment for the LOHAS Park Phase 9 and Kwun Tong project, and construction cost payments for its Hong Kong DP projects.
- ii. WPSL's expenditure of HK\$0.6 billion was mainly for construction cost payments for its Singapore and China DP projects.
- iii. Wharf's expenditure totalled HK\$21.9 billion, comprising expenditure of HK\$7.3 billion for IP (mainly construction costs of the Mainland IFS projects), HK\$12.6 billion for DP and HK\$1.9 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 year.

## FINANCIAL REVIEW (CONTINUED)

### B. Commitments to Capital and Development Expenditure

As at 31 December 2016, the Group's major commitments to capital and development expenditure to be incurred in the forthcoming years were estimated at HK\$61.4 billion, of which HK\$25.5 billion was committed. By segment, the commitments are analysed as follows:

	As at 31 December 2016		Total HK\$ Million
	Committed HK\$ Million	Uncommitted HK\$ Million	
<b>Wheelock</b>			
IP	—	—	—
DP	10,603	14,138	24,741
	10,603	14,138	24,741
<b>WPSL group</b>			
IP	7	—	7
DP	255	1,572	1,827
	262	1,572	1,834
<b>Wharf group</b>			
IP	5,025	6,730	11,755
DP	7,959	12,729	20,688
Non property and others	1,644	749	2,393
	14,628	20,208	34,836
Analysis by segment:			
IP	5,032	6,730	11,762
DP	18,817	28,439	47,256
Non property and others	1,644	749	2,393
<b>Group total</b>	25,493	35,918	61,411
Hong Kong IP	990	429	1,419
Hong Kong DP	10,603	14,138	24,741
China IP	4,035	6,301	10,336
China DP	8,073	14,098	22,171
Singapore	148	203	351
Properties total	23,849	35,169	59,018
Non property and others	1,644	749	2,393
<b>Group total</b>	25,493	35,918	61,411

- i. Wheelock's own commitments of HK\$24.7 billion mainly relate to construction costs for DP in Hong Kong.
- ii. WPSL's commitments of HK\$1.8 billion mainly relate to construction costs of HK\$0.3 billion for DP in Singapore and HK\$1.5 billion for DP in the Mainland.
- iii. Wharf's commitments of HK\$34.8 billion mainly comprise of expenditure of HK\$11.7 billion for IP, HK\$20.7 billion construction costs for DP and HK\$2.4 billion mainly for Hotels, Modern Terminals and i-CABLE.
- iv. The commitments and planned expenditure will be funded by the respective group's own internal financial resources including surplus cash, cash flows from operations as well as bank and other borrowings and pre-sale proceeds. Other available resources include equity and bond investments.

### **(III) HUMAN RESOURCES**

The Group had approximately 14,400 employees as at 31 December 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.

### **(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\$329 billion. Its attributable land bank is 57 million square feet for development and 42 million square feet for investment.

The Group's core business is Hong Kong DP. Its urban-focused land bank currently under management amounts to 8.2 million square feet, including one of the largest collections of top end Peak residential properties, low-density and harbourfront O'South residential developments, MTR-linked residential developments in LOHAS, a significant share of residential properties in Kowloon East and urban portfolio in Kowloon South.

In 2016, contracted Hong Kong sales totalled HK\$22.1 billion. In 2017, the Group will maintain the momentum with four residential projects planned to launch.

Wharf is Wheelock's equity investment in the form of a listed company which 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\$319 billion as at the end of 2016. 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. Current portfolio of DP in the Mainland totals 4.2 million square metres. 2016 contracted sales totalled RMB31.4 billion for 1.5 million square metres.

Development in Singapore is spearheaded by WPSL. It currently 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.