(I) REVIEW OF 2014 RESULTS

The Group's Investment Properties ("IP") core profit continued growing strongly in 2014 and achieved a year-on-year increase of 16% to HK$7,624 million, representing 73% (2013: 58%) of the Group underlying core profit. Unlike previous years of having higher margin projects, Development Property ("DP") profit, including joint ventures, declined by 55% to HK$1,474 million. Consolidated underlying core profit before impairment provisions, as further impacted by the absence of non-operating and investment disposal gains, decreased by 7% to HK$10,474 million (2013: HK$11,298 million).

The profit attributable to shareholders was HK$35,930 million (2013: HK$29,380 million), increased by 22% mainly due to the higher investment property surplus arising from the year-end revaluation.

Revenue and Operating Profit

IP revenue increased by 20% to HK$13,397 million (2013: HK$11,133 million). Hong Kong increased by 16% to HK$11,413 million, attributable to firm retail base rent persistently achieved from lease commitments and stable positive rental reversion for offices in both Harbour City and Times Square. Mainland revenue increased by 57% to HK$1,984 million from the expanding portfolio, particularly benefitting from the re-opening of the renovated mall at Shanghai Times Square and the newly-opened Chengdu IFS. Operating profit increased by 18% to HK$10,896 million (2013: HK$9,268 million) with Hong Kong increasing by 16% to HK$9,905 million and Mainland by 30% to HK$991 million.

DP recorded HK$15,539 million (2013: HK$11,514 million) of revenue and HK$1,762 million (2013: HK$2,633 million) of operating profit with lower margin from various Mainland projects.

Hotel revenue increased by 5% to HK$1,600 million (2013: HK$1,526 million), benefitting from Gateway Hotel in Hong Kong after its renovation was completed last year. Operating profit decreased by 4% to HK$387 million (2013: HK$404 million) partly impacted by operating losses of Marco Polo Changzhou, which was still building up its business since the soft opening in August.

Logistics revenue increased by 3% to HK$3,319 million (2013: HK$3,226 million), reflecting mainly the increase in throughput handled by Modern Terminals. Operating profit increased by 8% to HK$1,051 million (2013: HK$974 million).

CME revenue fell by 5% to HK$3,616 million (2013: HK$3,789 million). Wharf T&T's revenue increased by 5% against i-CABLE's decrease by 14%. Operating profit stabilised at HK$211 million (2013: HK$212 million) as Wharf T&T's operating profit increased by 17% to HK$352 million while i-CABLE recorded an operating loss of HK$140 million.

Investment and Others revenue fell by 2% to HK$1,035 million (2013: HK$1,052 million) and operating profit fell by 1% to HK$714 million (2013: HK$723 million), primarily due to a decrease in interest income.

Consolidated revenue and operating profit increased by 20% and 8% to HK$38,136 million and HK$14,283 million, respectively.

Fair Value Gain of Investment Properties

The book value of the Group's IP portfolio as at 31 December 2014 increased to HK$301.9 billion (2013: HK$261.1 billion) with HK$286.2 billion thereof stated at fair value based on an independent valuation as at that date, which produced a revaluation gain of HK$28,293 million (2013: HK$18,739 million), mainly reflecting the continuous rental growth of the IP portfolio. The attributable net revaluation gain of HK$27,683 million (2013: HK$17,174 million), after deducting related deferred tax and non-controlling interests, was credited to the consolidated income statement.

IP under development in the amount of HK$15,684 million is carried at cost and will not be carried at fair value until the earlier of their fair values first becoming reliably measurable or the dates of completion.

Other Net (Charge)/Income

Other net charge of HK$1,743 million was reported due to the inclusion of a provision for diminution in value of HK$1,812 million for certain Mainland DP projects (2013: income HK$277 million after impairment provision of HK$543 million for Changzhou Marco Polo Hotel).

Finance Costs

Finance costs charged to the consolidated income statement amounted to HK$1,930 million (2013: HK$552 million), including an unrealised mark-to-market loss of HK$230 million (2013: gain of HK$1,256 million) on the cross currency/interest rate swaps in accordance with the prevailing accounting standards. Net of non-controlling interests, the mark-to-market loss is HK$229 million (2013: gain of HK$1,231 million).

Excluding the unrealised mark-to-market loss, finance costs before capitalisation were HK$2,604 million (2013: HK$2,555 million), representing an increase of HK$49 million. The Group's effective borrowing rate for the year was 3.2% (2013: 3.2%).

Excluding the unrealised mark-to-market loss, finance costs after capitalisation of HK$904 million (2013: HK$747 million) in respect of the Group's related assets were HK$1,700 million (2013: HK$1,808 million), representing a decrease of HK$108 million.

Share of Results (after tax) of Associates and Joint Ventures

The attributable profit from associates decreased by 43% to HK$1,262 million (2013: HK$2,207 million) as impacted by the decrease in profit contributions from the Mainland DP projects.

Joint ventures reported a small loss of HK$11 million (2013: profit of HK$509 million) as impacted by lower profit contributions and HK$186 million attributable impairment provision recognised for the Mainland DP projects.

Income Tax

Taxation charge for the period was HK$3,730 million (2013: HK$4,328 million), which included deferred taxation of HK$543 million (2013: HK$1,459 million) provided for the current period's revaluation gain attributable to investment properties in the Mainland.

Excluding the above deferred tax, the tax charge increased by 11% to HK$3,187 million (2013: HK$2,869 million) mainly due to higher profit from IP segment.

Non-controlling Interests

Group profit attributable to non-controlling interests decreased by 34% to HK$494 million (2013: HK$752 million), reflecting the decrease in net profits of certain non-wholly-owned subsidiaries.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year ended 31 December 2014 amounted to HK$35,930 million (2013: HK$29,380 million), representing an increase of 22%. Basic earnings per share were HK$11.86, based on weighted average of 3,030 million shares (2013: HK$9.70 based on 3,030 million shares).

Excluding the net IP revaluation gain of HK$27,683 million (2013: HK$17,174 million), Group profit attributable to shareholders for the year was HK$8,247 million (2013: HK$12,206 million), representing a decrease of 32%.

Excluding the net IP revaluation gain and exceptional items, which included the attributable net mark-to-market loss on certain financial instruments totalling HK$229 million (2013: gain of HK$1,231 million) and net provision for diminution in value for Mainland properties totalling HK$1,998 million (2013: HK$323 million) , the Group's underlying core profit dropped by 7% to HK$10,474 million (2013: HK$11,298 million). Underlying core earnings per share were HK$3.46 (2013: HK$3.73).

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

As at 31 December 2014, the Group's shareholders' equity increased by HK$29,938 million or 11% to HK$305,495 million (2013: HK$275,557 million), equivalent to HK$100.82 per share based on 3,030 million issued shares (2013: HK$90.94).

The Group's total equity including the non-controlling interests increased by HK$29,856 million to HK$314,111 million (2013: HK$284,255 million).

Assets

The Group's total assets as at 31 December 2014 amounted to HK$445 billion (2013: HK$415.1 billion). Total business assets, excluding bank deposit and cash, certain available-for-sale investments, deferred tax assets and other derivative financial assets, increased by 9% to HK$422.4 billion (2013: HK$387.7 billion).

Including in the Group's total assets is the IP portfolio of HK$301.9 billion, representing 71% of its total business assets. The core assets in this portfolio are Harbour City and Times Square in Hong Kong, which were valued at HK$159.7 billion (excluding the three Marco Polo hotels) and HK$52.1 billion, respectively as at 31 December 2014, together representing 70% of the IP portfolio. Mainland IP amounted to HK$56.8 billion, including those under development at a cost of HK$15.5 billion.

DP (mainly in the Mainland) decreased by 12% to HK$47.5 billion (2013: HK$53.8 billion). In addition, DP undertaken through associates and joint ventures amounted to HK$32.4 billion (2013: HK$33.5 billion). Other major business assets included other properties and fixed assets of HK$25 billion.

Geographically, the Mainland business assets, mainly comprising properties and terminals, amounted to HK$155 billion (2013: HK$155.6 billion), representing 37% (2013: 40%) of the Group's total business assets.

Debts and Gearing

The Group's net debt as at 31 December 2014 increased by HK$1.2 billion to HK$59.3 billion (2013: HK$58.1 billion), which was made up of HK$78.0 billion in debts and HK$18.7 billion in bank deposits and cash. Included in the net debt was HK$10.3 billion (2013: HK$11.4 billion) attributable to Modern Terminals, HCDL and other subsidiaries, which is without recourse to the Company and its other subsidiaries. Excluding this non-recourse debt, the Group's net debt was HK$49.0 billion (2013: HK$46.7 billion). An analysis of the net debt is set out below:

Net debt/(cash)	31 December 2014 *HK$ Million*	31 December 2013 *HK$ Million*
Wharf (excluding below subsidiaries)	48,965	46,656
Modern Terminals	11,023	11,185
HCDL	(767)	413
i-CABLE	38	(182)
	59,259	58,072

As at 31 December 2014, the ratio of net debt to total equity was 18.9% (2013: 20.4%).

Finance and Availability of Facilities

The Group's total available loan facilities and issued debt securities as at 31 December 2014 amounting to HK$99.2 billion, of which HK$78.0 billion was utilised, are analysed as set out below:

	31 December 2014		
	Available Facility *HK$ Billion*	Total Debts *HK$ Billion*	Undrawn Facility *HK$ Billion*
Company/wholly-owned subsidiaries			
Committed bank facilities	48.4	32.2	16.2
Debt securities	30.3	30.2	0.1
	78.7	62.4	16.3
Non-wholly-owned subsidiaries			
Committed and uncommitted			
— Modern Terminals	14.5	11.2	3.3
— HCDL	5.8	4.4	1.4
— i-CABLE	0.2	–	0.2
	99.2	78.0	21.2

Of the above debts, HK$7.8 billion (2013: HK$18.2 billion) was secured by a mortgage over certain fixed assets, IP and DP with total carrying value of HK$39.9 billion (2013: HK$44.0 billion).

The Group diversified the debt portfolio across a bundle of currencies including primarily United States dollar ("USD"), Hong Kong dollar ("HKD") and Renminbi ("RMB"). The funding sourced from such debt portfolio was mainly used to finance the Group's IP, DP and port investments in the Mainland.

The use of derivative financial instruments is strictly monitored and controlled. The majority of the derivative financial instruments entered into by the Group are 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 and USD and undrawn committed facilities to facilitate the Group's business and investment activities. In addition, the Group also maintained a portfolio of available-for-sale investments with an aggregate market value of HK$3.7 billion (2013: HK$3.7 billion), 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 recorded net cash inflows before changes in working capital of HK$15.1 billion (2013: HK$14.0 billion). The changes in working capital increased the net cash inflow from operating activities to HK$18.2 billion (2013: HK$15.8 billion). For investing activities, the Group recorded a cash outflow of HK$10.7 billion (2013: HK$12.0 billion), mainly for the acquisition of Crawford House and construction of various investment properties projects both in Hong Kong and Mainland and other fixed assets, which was partially offset by the proceeds received from redemption of the convertible securities issued by Greentown of HK$2.7 billion.

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 *HK$ Million*	Mainland China *HK$ Million*	Total *HK$ Million*
Properties	IP	6,760	6,560	13,320
	DP	317	16,109	16,426
		7,077	22,669	29,746
Others	Hotels	271	488	759
	Modern Terminals	359	42	401
	Wharf T&T	351	–	351
	i-CABLE	188	–	188
		1,169	530	1,699
Group total		8,246	23,199	31,445

i. IP expenditure incurred during the period was mainly for the renovation of Harbour City, acquisition of Crawford House and construction of the IFS projects.
ii. DP expenditure in 2014 included HK$8.8 billion attributable DP projects undertaken by associates and joint ventures.
iii. For Modern Terminals, the capital expenditure was mainly for the additions to fixed assets and terminal equipment while those for Wharf T&T and i-CABLE were incurred substantially for procurement of production and broadcasting equipment, network rollout and internet service equipment. Modern Terminals and i-CABLE, respectively 67.6% and 73.8% owned by the Group, independently funded their own capital expenditure programmes.

B. *Commitments to capital and development expenditure*

As at 31 December 2014, the Group's major commitments to capital and development expenditure that are to be incurred in the forthcoming years were estimated at HK$60.6 billion, of which HK$22.0 billion was authorised and contracted for. By segment, the commitments are analysed as set out below:

		As at 31 December 2014		
		Authorised and contracted for *HK$ Million*	Authorised but not contracted for *HK$ Million*	Total *HK$ Million*
IP	Hong Kong	1,598	1,011	2,609
	Mainland China	6,221	9,909	16,130
		7,819	10,920	18,739
DP	Hong Kong	1,123	–	1,123
	Mainland China	12,520	25,325	37,845
		13,643	25,325	38,968
Others	Hotels	173	2,042	2,215
	Modern Terminals	277	16	293
	Wharf T&T	106	109	215
	i-CABLE	5	208	213
		561	2,375	2,936
Group total		22,023	38,620	60,643

Properties commitments are mainly for land and construction costs, inclusive of attributable commitments to associates and joint ventures, to be incurred by stages in the forthcoming years.

The above commitments and planned expenditure will be funded by Group's internal financial resources including its surplus cash of HK$18.7 billion, cash flows from operations, as well as bank and other financings with the 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 15,800 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

Select investment properties form the backbone of Wharf's business model. The total value they generate combine rental yield growth with annual capital appreciation. Their recurrent cash flow underpins a stable and rising dividend to shareholders. The conservatively leveraged equity cushion offers ample financial capacity to seize new investment opportunities in a timely and selective manner.

Including capital appreciation, the investment properties in operation offered a total return of HK$38 billion in 2014 on an asset base of HK$251 billion at the beginning of 2014. Harbour City and Times Square lead this prized portfolio of select investment properties and accounted for about 10% of total Hong Kong retail sales. With a combined GFA of over 10 million square feet and a market value of HK$220 billion, they generated HK$12.1 billion of revenue and HK$9.8 billion of operating profit in 2014.

New select investment properties under development are led by International Finance Square (IFS) in the very heart of Chengdu and Changsha. At a combined development cost of HK$40 billion, each of them will be as large as Harbour City and designed to be just as dominant in their respective markets. The first phase of Chengdu IFS including a retail mall and two office towers was completed in late 2013 and 2014, respectively. Three other IFSs are also under development in Chongqing, Wuxi and Suzhou.

This prized portfolio of select investment properties has also provided the financial capacity to enable Wharf to build other businesses.

From nearly a standing start in 2007, Wharf has built itself into one of the most active Hong Kong developers in the Mainland. Excluded Greentown, its attributable land bank comprises 10.2 million square metres across 15 cities. In 2014, contracted sales totalled RMB21.5 billion for 1.5 million square metres. Including the investment in Sino-Ocean Land, Wharf's total RMB portfolio relating to property investment in the Mainland totaled RMB112 billion or HK$142 billion.

In Hong Kong, the development land bank has a different scale and with a much higher AV per square foot comprises 3.2 million square feet. To selectively turn over this portfolio with timely acquisitions is the plan. The peak portfolio is a unique collection of properties which is being redeveloped over the next few years.

Outside of properties, other main business interests include hotel operation, container terminals and communications. All are recurrent earning based and many are land based.

(V) BUSINESS STRATEGY

The Group endeavours to continuously enhance its competitiveness and drive sustainable growth through:

1. Product leadership on new development projects to lead the local markets and on existing premises replanning and improvement, tenant-mix refinement and effective marketing to maximise operating investment properties' rental growth and value;

2. Replicating the success of Harbour City and Times Square, location advantage, and our special relationship with leading tenants, soft power advantage, to expand the portfolio of select investment properties selectively in the Mainland to create substantial new value;

3. Applying core competencies in site selection and acquisition, development planning and design, construction, premium brand building and marketing to build up a young, fast growing and sustainable property development business in the Mainland to dovetail with the urbanisation programme locally;

4. Continuous development of sustainable and localised organisations in the different regions in the Mainland with local market know how and international standards and execution expertise; and

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