FINANCIAL REVIEW

(I) REVIEW OF 2015 RESULTS

Group core profit grew year-on-year by 5% to HK$10,969 million (2014: HK$10,474 million) in 2015. The increase reflected the resilience of Investment Properties ("IP") gaining 9% core profit growth to HK$8,346 million, representing 76% (2014: 73%) of the Group's core profit. Development Property ("DP") core profit, including joint ventures and associates but excluding Greentown, grew by 48% to HK$1,211 million with more phased completion and revenue recognition for higher margin projects.

Profit attributable to shareholders was HK$16,024 million (2014: HK$35,930 million), decreasing by 55% mainly as a result of lower IP revaluation surplus arising from the year end revaluation.

Revenue and Operating Profit

IP revenue grew at slower pace than previous years but managed to increase by 8% to HK$14,470 million (2014: HK$13,397 million). Hong Kong increased by 7% to HK$12,165 million, attributable to the firm retail base rent persistently achieved from lease commitments and stable positive rental reversion for offices in both Harbour City and Times Square. In Mainland, revenue increased by 16% to HK$2,305 million, benefitting from the escalating revenue from Chengdu IFS. Operating profit grew by 8% to HK$11,759 million (2014: HK$10,896 million) with Hong Kong increasing by 6% to HK$10,516 million and Mainland by 25% to HK$1,243 million.

DP reported 16% higher property sales recognition to HK$18,018 million (2014: HK$15,539 million). Operating profit increased by 27% to HK$2,241 million (2014: HK$1,762 million) with overall higher margins from Mainland projects. Including the attributable sales recognised by joint ventures and associates, total China DP sales recognition increased by 18% to HK$27,404 million (2014: HK$23,270 million) and operating profit increased by 51% to HK$4,200 million (2014: HK$2,779 million).

Hotel revenue dropped by 3% to HK$1,549 million (2014: HK$1,600 million). Revenue from Hong Kong was adversely impacted by the weak market but compensated by the new source of revenue from the hotels newly opened in Mainland China. Operating profit decreased by 28% to HK$278 million (2014: HK$387 million), partly affecting by the decline in Hong Kong revenue and partly by pre-maturity operating losses from Marco Polo Changzhou and Niccolo Chengdu.

Logistics revenue fell by 14% to HK$2,848 million (2014: HK$3,319 million) and operating profit by 34% to HK$689 million (2014: HK$1,051 million), principally reflecting lower throughput handled by Modern Terminals as a result of the sluggish global trade flows.

CME revenue fell by 3% to HK$3,501 million (2014: HK$3,616 million). Wharf T&T's revenue increased by 2% against i-CABLE's 9% decrease. Operating profit shrank by 47% to HK$112 million (2014: HK$211 million) as i-CABLE's operating loss widened to HK$246 million though Wharf T&T's operating profit increased by 3% to HK$362 million.

Investment and others revenue fell by 24% to HK$787 million (2014: HK$1,035 million) and operating profit by 35% to HK$464 million (2014: HK$714 million), primarily due to decrease in interest income.

Consolidated revenue and operating profit rose by 7% and 4% to HK$40,875 million and HK$14,853 million, respectively.

China DP Contracted Sales

Inclusive of joint ventures and associates (other than Greentown) on an attributable basis, the Group recorded a 21% increase in contracted property sales of RMB26,044 million (2014: RMB21,454 million). Net order book increased to RMB24,635 million (2014: RMB21,921 million), which is available for revenue recognition in stages on completion of relevant DP projects.

Fair Value Gain of Investment Properties

The book value of the Group's IP portfolio as at 31 December 2015 slightly increased to HK$310.2 billion (2014: HK$301.9 billion) with HK$292.9 billion thereof stated at fair value based on independent valuations as at that date, which produced a revaluation gain of HK$6,729 million (2014: HK$28,293 million). The attributable net revaluation gain of HK$6,231 million (2014: HK$27,683 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$17.3 billion 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

Other net charge of HK$460 million (2014: HK$1,743 million) mainly included a non-recurrent accounting loss of HK$1,620 million arising from the deemed disposal of the Group's entire 24.3% interest in Greentown at the prevailing market value upon classification of such interest as a financial investment instead of as an associate in June 2015. The Greentown interest was acquired in June 2012 at 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.

Partly offsetting the above charge is a gain of HK$908 million arising from Modern Terminals' partial disposal of its equity interests in the Taicang container port businesses and a net profit of HK$187 million from disposals of available-for-sale investment.

Included in the net charge of 2014 was a provision for diminution in value of certain Mainland DP projects of HK$1,812 million.

Finance Costs

Finance costs charged to the consolidated income statement amounted to HK$1,879 million (2014: HK$1,930 million), including an unrealised mark-to-market loss of HK$406 million (2014: HK$230 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$405 million (2014: HK$229 million).

Excluding the unrealised mark-to-market loss, finance costs before capitalisation were HK$2,151 million (2014: HK$2,604 million), representing a decrease of HK$453 million. The Group's effective borrowing rate for the year was 2.8% (2014: 3.2%).

Excluding the unrealised mark-to-market loss, finance costs after capitalisation of HK$678 million (2014: HK$904 million) in respect of the Group's related assets were HK$1,473 million (2014: HK$1,700 million), representing a decrease of HK$227 million.

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

Associates recorded attributable profit decrease of 8% to HK$1,156 million (2014: HK$1,262 million), mainly due to non-equity-accounting of Greentown upon classification of it as a financial investment instead of an associate since June 2015. Other Mainland DP reported a growth to HK$742 million (2014: HK$247 million).

Joint ventures reported a profit of HK$236 million (2014: loss of HK$11 million) benefitting from higher profit contributions of Mainland DP.

Income Tax

Taxation charge for the year was HK$3,829 million (2014: HK$3,730 million), which included deferred taxation of HK$488 million (2014: HK$543 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 5% to HK$3,341 million (2014: HK$3,187 million) mainly due to higher profits from the IP and DP segments.

Non-controlling Interests

Group profit attributable to non-controlling interests increased by 58% to HK$782 million (2014: HK$494 million), reflecting the increase 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 2015 amounted to HK$16,024 million (2014: HK$35,930 million), decreasing by 55% mainly as a result of lower IP revaluation surplus arising from the year end revaluations. Basic earnings per share were HK$5.29, based on weighted average of 3,031 million shares (2014: HK$11.86 based on 3,030 million shares).

Excluding the net IP revaluation gain of HK$6,231 million (2014: HK$27,683 million), Group profit attributable to shareholders for the year was HK$9,793 million (2014: HK$8,247 million), representing an increase of 19%.

Group's core profit rose by 5% year-on-year to HK$10,969 million (2014: HK$10,474 million), of which 76% was attributable to IP and 11% was attributable to DP. IP core profit increased by 9% to HK$8,346 million (2014: HK$7,624 million) and DP core profit, including contributions from joint ventures and associates but excluding Greentown investment, increased by 48% to HK$1,211 million (2014: HK$816 million). Core earnings per share were HK$3.62 (2014: HK$3.46).

Core profit is a performance indicator of the Group's major business segments and arrived at after excluding the net IP revaluation gain, loss of HK$1,620 million (2014: Nil) arising from the deemed disposal of Greentown, attributable disposal gain of HK$613 million (2014: Nil) from Modern Terminals' disposal of its interest in Taicang container port businesses and attributable net mark-to-market loss and exchange of HK$169 million (2014: HK$229 million) on certain financial instruments.

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

As at 31 December 2015, shareholders' equity increased by HK$2.2 billion or 1% to HK$307.7 billion (2014: HK$305.5 billion), equivalent to HK$101.53 per share based on 3,031 million issued shares (2014: HK$100.82 per share based on 3,030 million issued shares). Included in the shareholders' equity was a net exchange deficit of HK$6.5 billion arising from translation of RMB net assets and an investment revaluation deficit of HK$2.0 billion in the current year.

The Group's total equity including the non-controlling interests increased by HK$3.1 billion to HK$317.2 billion (2014: HK$314.1 billion).

Assets

The Group's total assets as at 31 December 2015 amounted to HK$443.9 billion (2014: HK$444.7 billion). Total business assets, excluding bank deposit and cash, certain available-for-sale investments, deferred tax assets and other derivative financial assets, amounted to HK$414.8 billion (2014: HK$422.4 billion).

Including in the Group's total assets is the IP portfolio of HK$310.2 billion, representing 75% 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$163.3 billion (excluding the three Marco Polo hotels) and HK$54.1 billion, respectively, together representing 70% of the IP portfolio. Mainland IP amounted to HK$58.1 billion, including those under development at a cost of HK$17.1 billion.

DP (mainly in the Mainland) amounted to HK$37.8 billion (2014: HK$47.5 billion). In addition, Mainland DP undertaken through associates and joint ventures amounted to HK$25.5 billion (2014: HK$32.4 billion). Other major business assets included property, plant and equipment of HK$22.8 billion.

Geographically, the Mainland business assets, mainly comprising properties and terminals, amounted to HK$139.8 billion (2014: HK$155.1 billion), representing 34% (2014: 37%) of the Group's total business assets.

Debt and Gearing

The Group's net debt as at 31 December 2015 decreased by HK$12.1 billion or 20% to HK$47.2 billion (2014: HK$59.3 billion), which was made up of HK$70.7 billion in debt and HK$23.5 billion in bank deposits and cash. Included in the net debt was HK$7.3 billion (2014: HK$10.3 billion) attributable to Modern Terminals, HCDL and other subsidiaries, which are without recourse to the Company and its other subsidiaries. Excluding these non-recourse debts, the Group's net debt was HK$39.9 billion (2014: HK$49.0 billion). An analysis of the net debt is set out below:

Net debt/(cash)	**31 December 2015** ***HK$ Million***	31 December 2014 *HK$ Million*
Wharf (excluding below subsidiaries)	**39,863**	48,965
Modern Terminals	**8,763**	11,023
HCDL	**(1,647)**	(767)
i-CABLE	**218**	38
	47,197	59,259

As at 31 December 2015, the ratio of net debt to total equity declined to 14.9% (2014: 18.9%).

Finance and Availability of Facilities

The Group's total available loan facilities and issued debt securities as at 31 December 2015 amounted to HK$93.3 billion, of which HK$70.7 billion was utilised, are analysed below:

	31 December 2015		
	Available Facilities ***HK$ Billion***	**Total Debt** ***HK$ Billion***	**Undrawn Facilities** ***HK$ Billion***
Company/wholly-owned subsidiaries			
Committed bank facilities	**41.6**	**25.6**	**16.0**
Debt securities	**31.0**	**31.0**	**–**
	72.6	**56.6**	**16.0**
Non-wholly-owned subsidiaries			
Committed and uncommitted			
– Modern Terminals	**14.3**	**9.0**	**5.3**
– HCDL	**5.8**	**4.8**	**1.0**
– i-CABLE	**0.6**	**0.3**	**0.3**
	93.3	**70.7**	**22.6**

Of the above debt, HK$4.0 billion (2014: HK$7.8 billion) was secured by mortgages over certain IP, DP and property, plant and equipment with total carrying value of HK$24.3 billion (2014: HK$39.9 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.

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$8.1 billion (2014: HK$3.7 billion), which is immediately available for liquidation for the Group's use when in need.

Cash Flows for 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$16.0 billion (2014: HK$15.1 billion). The changes in working capital increased the net cash inflow from operating activities to HK$24.1 billion (2014: HK$18.3 billion). For investing activities, the Group recorded a cash outflow of HK$7.3 billion (2014: HK$10.7 billion), mainly for construction costs of IP in Mainland, net purchase of available-for-sale investments, compensated by proceeds from Modern Terminal's disposal of Taicang.

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 *HK$ Million*	Mainland China *HK$ Million*	Total *HK$ Million*
Properties	IP	1,218	4,137	5,355
	DP	889	15,912	16,801
		2,107	20,049	22,156
Others	Hotels	357	15	372
	Modern Terminals	257	37	294
	Wharf T&T	330	1	331
	i-CABLE	207	–	207
		1,151	53	1,204
Group total		3,258	20,102	23,360

i. IP expenditure incurred during the year was mainly for the renovation of Harbour City and construction costs of the Mainland IFS projects.

ii. DP expenditure in 2015 included HK$8.5 billion attributable to DP projects undertaken by associates and joint ventures.

iii. Modern Terminals' capital expenditure was mainly for terminal equipment while those of Wharf T&T and i-CABLE were incurred substantially for facilities and equipment.

B. *Commitments to capital and development expenditure*

As at 31 December 2015, the Group's major commitments to capital and development expenditure that are to be incurred in the forthcoming years was estimated at HK$47.8 billion, of which HK$25.3 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*
IP	Hong Kong	2,027	477	2,504
	Mainland China	8,714	5,144	13,858
		10,741	5,621	16,362
DP	Hong Kong	459	–	459
	Mainland China	11,800	16,289	28,089
		12,259	16,289	28,548
Others	Hotels	1,999	235	2,234
	Modern Terminals	150	24	174
	Wharf T&T	119	50	169
	i-CABLE	25	245	270
		2,293	554	2,847
Group total		25,293	22,464	47,757

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 the Group's internal financial resources including its surplus cash, 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 14,600 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 trend 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 offer combine rental yield growth with capital value appreciation. The recurrent cash flow they generate 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 value appreciation, the investment properties in operation offered a total return of HK$16 billion in 2015 on an asset base of HK$296 billion at the beginning of the year. Harbour City and Times Square in Hong Kong together contributed over 80% of that total return (with HK$13 billion), from an asset base of HK$225 billion. With a combined GFA of over 10 million square feet, they generated HK$12.6 billion of revenue and HK$10.2 billion of operating cash flow in 2015.

New investment properties under development are a series of International Finance Squares (IFSs) led by those in the very heart of Chengdu and Changsha. At a combined development cost of HK$40 billion, Chengdu and Changsha IFSs will be as large as Harbour City and are designed to be as dominant in their respective markets. At Chengdu IFS, a retail mall and three office towers, including a new hotel Niccolo Chengdu, have already been completed. Changsha IFS is scheduled to open in phases from 2016. Two other IFSs are under development in Chongqing and Suzhou. A fifth was completed in Wuxi in 2014.

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

From a near standing start in 2007, Wharf has built itself into one of the most active Hong Kong developers in the Mainland. Contracted sales in 2015 totalled RMB26.0 billion to bring aggregate attributable sales since 2007 to over RMB112 billion. Wharf's current portfolio of development properties in the Mainland total 5.9 million square metres with a book value of RMB59 billion.

In Hong Kong, the development land bank with a much higher unit value comprises 3.2 million square feet. In particular, the Peak portfolio is a unique collection of properties.

Outside of properties, main business interests include hotels, parts and communications. All of them generate recurrent earnings and many are land based.

(V) BUSINESS STRATEGY

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

1. Continuous product leadership for existing and new investment properties from planning, design, tenancy management and marketing to maximise the value of protfolio;

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

3. Applying core competencies in site selection and acquisition, development planning and design, construction, premium branding and marketing to operate a property development business in the Mainland to dovetail with the urbanisation programme;

4. Continuous development of sustainable and localised organisations 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.