

# MESSAGE TO SHAREHOLDERS



**NG KEE CHOE**  
Chairman

**LIM MING YAN**  
President & Group Chief Executive Officer

## Dear Shareholders,

On behalf of the Board and all staff in CapitaLand, we would like to thank you for your continued support in 2017.

The Group achieved S\$1.6 billion profit after tax and minority interests (PATMI) for financial year 2017 (FY 2017), the highest in the past five years. Group profit continued to be underpinned by strong recurring income from investment properties in 2017. Our operating profit of S\$908.3 million accounted for approximately 60% of PATMI.

The Group also delivered an improved Return on Equity of 8.5% for FY 2017, compared to 6.6% in FY 2016. In line with CapitaLand's policy to grow dividends on a sustainable basis, the Board is proposing a final ordinary dividend of 12 Singapore cents a share for FY 2017.

## ROBUST CAPITAL STRUCTURE

Our financial position remains strong. We ended 2017 with a consolidated cash balance of S\$6.1 billion and a further S\$2.9 billion in undrawn bank facilities. Our liquidity and cash generation continue to be healthy with net debt to equity, interest coverage and interest service ratios at 0.49

times, 8.1 times and 6.7 times respectively. This provides us with the financial strength and agility to respond swiftly to any new investment opportunities. Approximately 70% of the Group's debt as at end 2017 is on a fixed rate basis. This mitigates against possible interest rate hikes. Our average cost of borrowings in 2017 continues to be low at 3.2%. Average debt maturity is lengthened to 3.4 years from 3.3 years a year ago and debt maturities are spread out to avoid debt towers.

## A RESILIENT BUSINESS MODEL – TWO ENGINES OF GROWTH

With healthy financials forming a solid foundation, CapitaLand is set to embark on the next phase of growth to create long-term sustainable value and enhanced returns to all stakeholders. Since 1 January 2018, we have reorganised the Group structure into two parts – the real estate investment and operating platforms. These two engines of growth allow us to harness the Group's competitive advantages and core competences across various asset classes. At the same time, they enable us to allocate capital more efficiently across different property cycles.

The real estate investment business is now undertaken by four principal investment units, mainly Singapore/Malaysia/Indonesia; China; Vietnam; and rest of the world. Each dedicated investment team will now have better visibility and perspective of the investment opportunities across our core asset classes. This also allows each team to actively reconstitute our assets, recycle our capital, and leverage on our five real estate investment trusts (REITs) and 15 private funds.

To complement our real estate investment units, we have set out to build three best-in-class global operating platforms in retail, lodging, and commercial. While the demand for traditional “brick-and-mortar” real estate remains strong, it has evolved beyond physical infrastructure to the underlying customer experiences, including experiential content, convenience and customer engagement. Our three core operating platforms will aim to enhance the long-term value of our investment portfolio by allowing us to serve our customers better across the “live, work and play” ecosystem.

As part of our strategic focus on assets under management (AUM), we also look to further grow our private fund management platform to leverage our core competencies alongside likeminded third-party capital providers.

## REAL ESTATE INVESTMENT

### *Active Portfolio Reconstitution - Higher Quality Portfolio*

As part of the strategy to be more capital efficient and to generate better returns, the Group has increased our pace of reconstituting assets, resulting in a better quality portfolio that is focused on dominant assets in core city clusters. In 2017, the Group committed approximately S\$5.7 billion in new investments. Through major acquisitions such as Asia Square Tower 2 in Singapore, Innov Center Phase 1 & 2 in Shanghai, as well as Rock Square in Guangzhou, the Group further deepened our presence in core markets. We also acquired our first office property in Frankfurt, Germany, as well as an office and retail portfolio in Greater Tokyo, Japan.

To unlock value, the Group divested Wilkie Edge and a 50% stake in One George Street, office buildings at the fringe of Singapore’s Central Business District (CBD). In China, we

sold CapitaMall Anzhen, a master leased mall in Beijing, as well as Innov Tower, an office building in Shanghai. In total, the Group recycled approximately S\$2.5 billion in assets and recognised about S\$318 million in divestment gains in 2017.

We continue to seek out opportunities to enhance our existing properties. During the financial year, we embarked on the S\$1.8 billion redevelopment of Golden Shoe Car Park in the heart of Singapore’s CBD into an integrated property with office and serviced residence components. This follows our successful redevelopment of Market Street Car Park into CapitaGreen in 2014.

### *Strengthening Our Stable Recurring Income Base*

The Group’s stable recurring income base is a key competitive differentiator for CapitaLand which we continue to strengthen and grow. As at 31 December 2017, the Group maintained an asset mix comprising 82% investment properties and the remaining 18% are mainly trading assets.

We have remained as one of the leading developers in our core residential markets. In 2017, we achieved more than S\$5.0 billion in residential sales value across Singapore, China and Vietnam, whilst judiciously seeking to replenish our landbank in these markets. In Singapore, we sold 407 units, representing S\$1.5 billion in sales value. Residential sales in China has also remained stable with 8,479 units sold worth RMB15.4 billion (S\$3.1 billion). For Vietnam, we ended the year with a record annual sales value of S\$460 million across 1,400 units. We also made progress in growing our presence in Malaysia and Indonesia.

Our investment properties across various asset classes contributed S\$477 million in recurring PATMI in 2017. During the year, we saw the opening of six integrated projects, including Raffles City developments in Hangzhou, Changning in Shanghai and Shenzhen, as well as Capital Square in Shanghai, CapitaMall Westgate in Wuhan and CapitaLand’s largest mall in Suzhou. The Group also marked approximately one million square metres of new retail space collectively in China, Singapore and Malaysia. Our serviced residence business expanded its global portfolio through acquisitions such as the Hotel Central Fifth Avenue and DoubleTree by Hilton Hotel – Times Square South, both in New York.

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We continue to grow our funds management business which is an important source of recurring fee income to the Group and a capital efficient way to grow our AUM. In August 2017, we launched the US\$300 million CapitaLand Vietnam Commercial Fund 1, which further cements our position as one of Asia's largest real estate fund managers, with a global portfolio of assets under management of S\$51.2 billion across our five listed REITs and 15 private vehicles. This is also consistent with the Group's strategy of diversifying funding sources, enhancing returns and balancing risk exposure. We are on-track to achieve the target set in 2015 to grow another S\$10 billion AUM in our private fund business by 2020.

## OPERATING PLATFORMS

### *Building Global World Class Operating Platforms*

To remain in the forefront of the future of real estate and scale up in an asset light manner, the Group continues our global expansion of existing operating platforms in retail and lodging, as well as a new operating platform focused on commercial office. We are also looking to broaden our coverage in the hospitality and accommodation sector beyond serviced residences, through investments in alternative lodging businesses. Through these global operating platforms, the Group can further explore and invest in emerging sub-sectors such as coworking, online reservations and other retail-related platforms to enhance our value propositions to our customers.

#### **Retail**

Complementing the Group's retail investment properties, CapitaLand Retail has embarked on a strategy to deepen its presence in our city clusters through managing third-party shopping malls. We have currently signed seven mall management contracts, six in China and one in Singapore. This is an efficient way of expanding our operating network, as well as building another source of recurring revenue through management fees. We continue to evaluate opportunities to further expand our operating footprint, combining our investment property portfolio with third-party management contracts as we consolidate our position as a leading mall developer, owner and manager in Asia.

We are also accelerating the integration of online-to-offline (O2O) spaces to create an interconnected retail platform for our shoppers. In August 2017, the Group signed an agreement to launch an exclusive online mall on Lazada Singapore, which is part of Lazada Group, Southeast Asia's

largest e-commerce platform. Complemented by the "click-and-collect" service for shoppers, we are well-positioned to be Singapore's first omni-channel retail landlord.

#### **Lodging**

Our serviced residence business through Ascott continues to expand its global footprint mainly through third-party management contracts. In 2017, Ascott added 18 new cities across nine countries including South America and Africa and secured a record of about 24,000 units. Furthermore, through our acquisitions of Quest Apartment Hotels and Synergy Global Housing, the Group also grew our global cross-selling and distribution networks. As such, Ascott is set to surpass its original target of 80,000 units well ahead of 2020; and in 2018, doubled its target to achieve 160,000 units by 2023.

Given that the millennial traveller segment is already making up a quarter of Ascott's global customer base, and is poised to further expand, our new millennial-focused "live-your-freedom" (lyf) brand enables us to directly address the specific preferences of this rapidly growing market. In 2017, we secured four contracts - lyf Wu Tong Island Shenzhen and lyf DDA Dalian which are scheduled to open in 2018 and 2019 respectively, while lyf Funan Singapore and lyf Farrer Park Singapore are both slated to open in 2020.

### *Pushing New Frontiers With Technology*

To stay relevant, the Group constantly leverages technology to innovate our assets and businesses. Much progress has been made to harness the benefits of technology in various aspects of our operations. To improve business management, the Group has now united the common processes of our business units in a single IT platform. This will allow us to be nimble and to scale our businesses efficiently across geographies. We have also launched our new website at [www.capitaland.com](http://www.capitaland.com) to further enhance our online interaction with our stakeholders. The website's interactive features can better capture customers' preferences when they are being used and enable our different platforms to more efficiently engage with our customers.

Looking ahead, we plan to roll out more initiatives across our operating platforms, such as cashless payments, facial recognition, electronic check-in and out, video analytics, and smart mall technology, to help us create spaces offering both choice and convenience for our customers. We also intend to further personalise our customer experience with the help of data analytics. Notably, our hallmark CapitaStar

loyalty programme has close to five million members today, and it is able to provide our retailers with aggregated data on shoppers' purchasing habits, which will in turn help them to optimise inventory management and promotion.

## CREATING A FUTURE-READY TEAM

CapitaLand's current position would not have been possible if not for the hard work of our staff. We strongly believe in attracting the right talent, and to nurture and retain them. Our consistent focus to develop our talent pool ensures that we have depth in our management bench strength. In addition, we actively identify talent internally and externally for future leadership succession.

While we strive to provide a positive and dynamic work environment for staff to grow together with us, we also ensure they are equipped with the right skills and mindset to adapt to new market conditions. In 2017, we launched the CapitaLand ELEVATE, a S\$10 million programme to train our people in new proptech-enabled capabilities, such as data analytics, digital marketing, and digital asset management.

## BEING A RESPONSIBLE CORPORATE CITIZEN

CapitaLand remains committed to improving the economic, environmental and social well-being of our stakeholders. We rigorously strive to balance commercial viability with sustainability for future generations. Our sustainability efforts are well-recognised with various prestigious awards such as the Global 100 Most Sustainable Corporations in the World.

Through the CapitaLand Hope Foundation (CHF), the Group also contributes to community development programmes for education, healthcare and shelter needs of underprivileged children in countries where we operate. In Singapore, CapitaLand was recognised as a Champion of Good by the National Volunteer and Philanthropy Centre for being an exemplary leader and multiplier of corporate giving. Outside Singapore, CHF currently has 27 CapitaLand Hope Schools in China and Vietnam. As part of our continuous engagement, we regularly organise staff international volunteer expeditions and visits to these schools.

The Group also believes that good corporate governance supports long-term value creation. As a testament to our commitment to corporate governance best practices,

CapitaLand was awarded Silver for the Best Managed Board (for companies with S\$1 billion and above in market capitalisation) at the Singapore Corporate Awards in 2017.

## ACKNOWLEDGEMENT

Mr John Powell Morschel, who has served with distinction on the Board of CapitaLand for more than seven years, will not be seeking re-election as a Director at the upcoming Annual General Meeting. The Board and management have benefitted immensely from his counsel. We thank him for his invaluable contributions and wish him well in all his endeavours.

We would also like to extend our warmest welcome to Mr Anthony Lim Weng Kin, Mr Gabriel Lim Meng Liang, and Ms Goh Swee Chen, who joined the Board as Non-Executive Independent Directors in 2017. Going forward, the Group will benefit from these new directors who bring with them extensive and diverse experience.

We wish to express our deep appreciation to our Board members for their counsel and advice; to our staff for their dedicated service and commitment; and to all our shareholders, business partners, customers, financiers and other stakeholders for their strong support.

## LOOKING FORWARD

As we progress into 2018 and beyond, the Group with a resilient model comprising two engines of growth, is in a much stronger position to compete and thrive. We have also strengthened our core competencies and are set to grow our global operating platforms. Whilst Singapore and China remain as our core markets, we look to increase our presence in Asia and beyond. With a strong foundation in place, CapitaLand is now well-positioned to continue evolving our business, capturing opportunities ahead, and at the same time, creating long-term sustainable value and enhanced returns to all stakeholders. We look forward to your support in 2018 and beyond.

**Ng Kee Choe**  
Chairman

**Lim Ming Yan**  
President &  
Group Chief Executive Officer

6 April 2018