

BUSINESS REVIEW

HONG KONG PROPERTIES

Contracted residential sales reached a new record of HK\$23.4 billion, representing 131% growth compared to the same period in 2017 and surpassed the 2017 full year by 37%. It marked the strongest first half sales. The impressive results once again affirmed our established brand recognition and proven sales capabilities. Over 2,000 residential units were sold or presold, not only exceeding 2017's full year record by 53%, but also demonstrating steady growth through recent years. The sell-through rate was maintained at a high level of 99% on launched units or 91% on total units.

MALIBU, a new large-scale waterfront residential development, was launched in March 2018 to unveil the O'EAST portfolio. Its debut received encouraging market response with nearly 20 times over-subscription. A total of 1,552 residential units were presold within three months for HK\$14.3 billion, with an average selling price of nearly HK\$16,000 per square foot. O'EAST is the continuation of our O'SOUTH success story, a waterfront community with MTR connectivity. Being Wheelock's first development in O'EAST, MALIBU is only 2 minutes' walking distance to LOHAS Park MTR station and the upcoming 480,000 square feet LOHAS mall. It is the only site which enjoys stunning Silverstrand and O'SOUTH sea view. The 90,000 square feet Club MALIBU with an infinity pool and 24-hour gym facilities further enhances its attractiveness.

MOUNT NICHOLSON, the ultra-luxury residence on the Peak, sold two houses and two apartments for HK\$3.3 billion during the period, of which HK\$1.7 billion was attributable to the Group. Following the sale of two houses in 2017, ranked among the Top 3 of 2017 global luxury residential sales by Christie's International Real Estate, the development continued to record phenomenal transactions. House No. 2, featuring 9,172 square feet of prestigious living, was sold for HK\$151,800 per square foot or HK\$1.4 billion, ranking it the most luxurious home worldwide by Christie's International Real Estate 2018 Report. Since its debut in February 2016, the development has successfully generated HK\$22.7 billion in sales, of which HK\$11.3 billion was attributable to the Group. The sought-after remaining units will be selectively launched and we expect to see continuous demand for distinguished living at an exclusive address.

GRAND OASIS KAI TAK, the premier phase of a riverside residential development which is within one minute of walking distance to the future Kai Tak MTR station, was launched in January 2018 and presold 278 launched units for HK\$3.9 billion, with average selling price approaching HK\$26,000 per square foot. A low rise duplex was presold at close to HK\$35,000 per square foot in June 2018, setting a new benchmark in the area. The development is situated at the heart of the Kai Tak new development area and close to the future mega Kai Tak Sports Park. Club Oasis, a luxurious clubhouse, and Oasis Garden, which is designed by a world-class landscaping team, further enhance the greenness of living.

GRAND MONTEREY, the premier phase of the grand finale in the O'SOUTH portfolio, was launched in December 2017 and presold an additional 98 units for HK\$1.5 billion, with an average selling price of HK\$22,200 per square foot, including a simplex unit presold at a record price of HK\$39,000 per square foot. It is a low-density residential development surrounded by a green field with panoramic harbour views. A 40,000 square feet prestigious clubhouse and a well-developed transportation network nearby amplify its uniqueness. 22 desirable villas with tranquil living and breathtaking harbour views are being planned for launch in the second half of the year.

NAPA, a low-density development surrounded by garden villas and located in So Kwun Wat, sold 92% of 400 apartments for HK\$2.4 billion. The development is near the MacLehose Trail, a National Geographic top hike worldwide, and Tai Lam Chung Reservoir, which offers a stunning green environment for living. It is also strategically located in close proximity to the Hong Kong International Airport and stands to benefit from the planned opening of the Hong Kong-Zhuhai-Macau Bridge later this year. **GRAND NAPA**, rebranded villas of the development, will continue to be launched in the second half of the year.

Net order book increased significantly by 243% to a record high of HK\$30.2 billion, driven mainly by the successful launches of MALIBU, GRAND OASIS KAI TAK and GRAND MONTEREY. Sales recognition was HK\$2.0 billion during the period due to the adoption of new accounting standard for sales recognition under HKFRS 15.

Four residential developments, namely, SAVANNAH, ISLAND RESIDENCE, NAPA and ONE HOMANTIN were completed and handed over during the period. MONTEREY, the finale of the O'SOUTH portfolio, is expected to be completed within the year, taking the total number of completions to five developments. The results have shown our dedication to high quality homes, affirming customers' confidence in Wheelock's brand.

Land bank under management was 6.6 million square feet after the successful launch of MALIBU, which sold 1.1 million square feet. Our diversified, urban-focused land bank is sufficient to meet the Group's future needs, while we continue to replenish quality land bank through various means. The Group added two sizable residential sites during the period, one in Kai Tak and another one in Kowloon Tong. Although there is no office development under construction presently, our land bank provides a wide variety of product offerings, ranging from the Peak collection, MTR residences, waterfront living to suburban houses. A significant portion of our land bank is situated in Kowloon East, a new prime CBD for Hong Kong, which is well-positioned to benefit from the clustering of international financial institutions, re-energising of the Kwun Tong town center and improving transportation connectivity. Also, 97% of the land bank is located in city center, 90% is in proximity to MTR stations, while 80% is along the Victoria Harbour.

CORPORATE SOCIAL RESPONSIBILITY (“CSR”) AND BUSINESS-IN-COMMUNITY

Project *WeCan*, the Group’s flagship business-in-community initiative, is an open platform to provide disadvantaged students with opportunities and care to empower them to pursue further studies and future careers. With the increasing interest in STEAM education among schools, we co-organised a joint-school STEAM project with The Hong Kong University of Science and Technology in the first half of this year. 17 teams were formed to enter the prototype competition and the outstanding teams were showcased at Plaza Hollywood in July 2018. The Career Exploration Day, another joint-school project, was held in April 2018 at VTC (Tsing Yi); it was the largest Career Exploration Day ever held, with over 4,000 participating students. The programme was launched in 2015 with a host of activities to inspire students to have better planning for their future. With the continuous support of trusted partners from corporates, universities, consulates and other organisations, Project *WeCan* will expand in September 2018 to cover 76 schools, from the present 53.

On **sustainable development and product quality**, Wheelock Properties Limited (“WPL”) received various honours in the RICS (Royal Institution of Chartered Surveyors) Awards 2018, in recognition of our commitment to sustainable and green development. One Bay East, the twin-tower, full sea view Grade-A commercial complex sold to Citigroup and Manulife, was awarded “Sustainability Achievement of the Year”; PENINSULA EAST, our waterfront residential development in Yau Tong, was awarded “Residential Team of the Year – Certificate of Excellence”; and Mr. Stewart Leung, Vice Chairman of the Group, was honoured with a “Lifetime Achiever Award” for his extraordinary contributions to the real estate industry. Besides RICS, WPL has also been given a Top 10 Developer Awards 2018 by BCI Asia for the seventh consecutive year.

On **innovation**, HKSTP and WPL have jointly opened the HKSTP @Wheelock Gallery in April 2018, a new facility designed to stimulate stronger investment activities in Hong Kong’s information and technology sector. The initiative echoes our corporate innovation culture and CSR approach, and creates a platform to connect technology with industry, while bringing synergy to our own digitisation journey for accommodating customer needs and enhancing operational efficiency.

On **art and culture**, the first National Geographic Wheelock Youth Photo Competition’s winner exhibition was held at Wheelock Gallery in February and March 2018, and was open to the public.

Wheelock and Company Limited is the majority shareholder of The Wharf (Holdings) Limited, Wharf Real Estate Investment Company Limited and Wheelock Properties (Singapore) Limited. On the following two pages is a report on their operations and achievements during the six months ended 30 June 2018.

The Wharf (Holdings) Limited (“WHL”), 63.4% Equity Investment

Reporting for the first time without the demerged Wharf Real Estate Investment Company Limited (“Wharf REIC”), 2017 comparatives in the Business Review have been adjusted to make comparison meaningful. Currently, WHL is principally engaged in Investment Properties (“IP”) and Development Properties (“DP”) in Hong Kong and Mainland China, Hotels and Logistics. On an attributable basis, Hong Kong Properties’ operating profit decreased by 17% to HK\$864 million, partly due to timing differences.

China DP, constrained by administrative measures to cool an underlying market that is much hotter, reported attributable contracted sales decreasing by 36% to RMB7.2 billion. As at the end of June 2018, the net order book increased to RMB21.3 billion for 0.9 million square metres. During the period, WHL acquired 10 sites in Suzhou, Hangzhou, Foshan and Guangzhou for RMB14.0 billion on an attributable basis to maintain the DP land bank at 3.8 million square metres. China IP continued to benefit from International Finance Squares’ (“IFS”) steady contribution, with operating profit advancing by 23% to HK\$0.9 billion. In May 2018, Changsha IFS mall was opened as a new iconic landmark in the heart of the city. It achieved a commitment rate of 97% and an opening rate of 84% by 30 June 2018.

WHL is currently managing 16 hotels in Hong Kong, Mainland China and The Philippines under the Marco Polo Hotels and Niccolo Hotels brands. In addition, communications and media and entertainment (“CME2”) represents a strategic initiative in new economy infrastructure to re-invest the capital released from the earlier exit from CME1 in Hong Kong, in a progressive CME2 arena that covers much larger markets with greater growth potential.

Wharf Real Estate Investment Company Limited, 61.8% Equity Investment

On the back of the local retail market recovery, Wharf REIC’s core profit increased by 8% to HK\$5.0 billion. The IP portfolio reported robust retail sales, which grew at a rate of 31.4% (vs the Hong Kong average of 13.4%) to set a new record of HK\$24.6 billion. That represented 9.9% of total Hong Kong retail sales during the period. Harbour City exceeded the market with total revenue (excluding hotels) increasing by 11% to HK\$5.2 billion. In the midst of a major re-tenanting exercise to enhance the competitiveness of the mall, Times Square’s revenue increased by 1% to HK\$1.4 billion. Re-tenanting also affected Plaza Hollywood, with revenue increasing by 1% to HK\$290 million.

Wheelock House and Crawford House, part of Wharf REIC’s Central Portfolio, performed solidly with revenue and operating profit both increasing by 1% to HK\$233 million and HK\$203 million respectively.

Celebrating its opening in early 2018, The Murray, Hong Kong, the flagship Niccolo hotel transformed from the iconic Murray Building in prime Central District, is the latest strategic long-term investment. It was honoured with the prestigious accolades of “City Slicker, Big Sleep Awards 2018” by National Geographic Traveller and “The Best New Business Hotel in Asia 2018” by Bloomberg.

Wheelock Properties (Singapore) Limited (“WPSL”), 76.2% Equity Investment

WPSL continued to deliver stable performance. On DP, 96 residential units were sold for S\$76 million. On IP, Wheelock Place retail portion achieved 96% occupancy rate whilst Scotts Square retail was 97% occupied as at 30 June 2018.

On 19 July 2018, the Group announced a voluntary unconditional general offer for all shares of WPSL, other than those shares the Group already owned. The offer per share is S\$2.1 in cash, valuing WPSL at over S\$2.5 billion. The offer price represents a 21% premium to its last closing price on 13 July 2018 and is higher than any closing price since January 2010.

For shareholders, the offer represents an attractive opportunity to exit their entire investment in WPSL, which may otherwise be difficult due to the low trading liquidity.