

# FINANCIAL REVIEW

## (I) REVIEW OF 2018 INTERIM RESULTS

### Wheelock and Company (before consolidation of listed subsidiaries WHL, Wharf REIC and WPSL)

Wheelock and Company's own core profit decreased by 73% to HK\$198 million (2017: HK\$742 million), mainly due to lower revenue recognition of DP sold in Hong Kong, based on the new accounting standards which require recognition at the time of assignment, as well as fewer new project completions in the period.

### Wheelock Group

Group core profit decreased by 6% to HK\$5,160 million (2017: HK\$5,516 million), mainly due to the lower revenue recognition of DP sold in Hong Kong, based on the new accounting standards which require recognition at the time of assignment, as well as fewer new project completions in the period, and partly offset by the improved profit from IP.

### Revenue and Operating Profit

Group revenue decreased by 47% to HK\$17,577 million (2017: HK\$33,005 million), mainly due to lower revenue recognition of DP sold in Hong Kong, based on the new accounting standards which require recognition at the time of assignment, as well as fewer new project completions in the period. Group operating profit decreased slightly by 1% to HK\$9,648 million (2017: HK\$9,697 million), mainly due to lower revenue recognition of DP as mentioned earlier, and was partly offset by the increase in rental and investment income.

### *Investment Property*

Revenue and operating profit increased by 11% and 9% to HK\$9,021 million (2017: HK\$8,122 million) and HK\$7,408 million (2017: HK\$6,801 million) respectively. In Hong Kong, revenue and operating profit increased by 8% and 7% respectively. Harbour City recorded revenue and operating profit growth of 11% and 10% respectively. In Mainland China, IP revenue increased by 29%, with operating profit increased by 23%, mainly driven by a maturing Chengdu IFS and the newly-opened Changsha IFS.

### *Development Property*

Revenue and operating profit decreased by 76% and 42% to HK\$5,234 million (2017: HK\$21,588 million) and HK\$1,552 million (2017: HK\$2,655 million) respectively.

In Hong Kong, recognised property sales decreased by 95% to HK\$779 million (2017: HK\$15,030 million) while operating profit decreased by 75% to HK\$198 million (2017: HK\$794 million) with lower revenue recognition for the reason mentioned above, despite record sales in the period. No revenue was recognised for new project completion during the period while sales of remaining units at Kensington Hill, CAPRI, ONE HOMANTIN and NAPA were enabling revenue recognition totalled HK\$741 million.

In Mainland China, recognised property sales decreased by 27% to HK\$4,455 million (2017: HK\$6,090 million) and operating profit decreased by 20% to HK\$1,361 million (2017: HK\$1,710 million), mainly due to lower profit recognition from projects in Mainland China.

### *Hotels*

Revenue increased by 36% to HK\$1,056 million (2017: HK\$774 million), primarily attributable to a stronger performance from three Marco Polo Hotels in Harbour City and soft opening of The Murray in Hong Kong, while operating profit decreased by 19% to HK\$125 million (2017: HK\$155 million) as impacted by initial operating loss of The Murray.

### *Logistics*

Logistic revenue decreased by 12% to HK\$1,256 million (2017: HK\$1,424 million) while operating profit decreased by 31% to HK\$247 million (2017: HK\$358 million), resulting from lower throughput handled by Modern Terminals and a lower yield.

### *Communications, Media and Entertainment (“CME”)*

Exit from the CME segment was completed through the distribution of i-CABLE shares to shareholders in September 2017, which discontinued the Group’s CME revenue and operating loss (2017: revenue of HK\$641 million and operating loss of HK\$222 million).

### *Investment and Others*

Operating profit of investment and others increased by 90% to HK\$726 million (2017: HK\$382 million), mainly comprising dividend and interest income contributed from the Group’s equity and bond investments.

## **Fair Value Gain of IP**

The carrying value of the Group’s IP portfolio as at 30 June 2018 increased to HK\$353.9 billion (2017: HK\$346.4 billion), with HK\$340.7 billion thereof stated at fair value based on independent valuation as at that date. That resulted in a revaluation gain of HK\$6,007 million for the period (2017: HK\$1,529 million), which was credited to the consolidated income statement.

IP under development of HK\$13.2 billion is carried at cost and will not be carried at fair value until the fair values first become reliably measurable or the dates of their respective completion, whichever is earlier.

## Other Net (Charge)/Income

Other net charge amounted to HK\$74 million (2017: income of HK\$407 million), comprising mainly net exchange losses.

## Finance Costs

Finance costs amounted to HK\$646 million (2017: HK\$500 million). Excluding the unrealised mark-to-market gain of HK\$155 million (2017: HK\$151 million) on swaps, finance costs increased by 11% to HK\$1,378 million (2017: HK\$1,240 million) before capitalisation of HK\$577 million (2017: HK\$589 million), and HK\$801 million (2017: HK\$651 million) after capitalisation. The Group's effective borrowing rate for the period was 2.3% (2017: 3.1%) per annum.

## Share of Results of Associates and Joint Ventures

Share of profits of associates increased by 59% to HK\$605 million (2017: HK\$380 million), mainly due to higher profit contributions from DP in Mainland China.

Share of profits of joint ventures decreased to HK\$813 million (2017: HK\$986 million), resulting from deferred profit recognition for MOUNT NICHOLSON in Hong Kong and lower recognition from various DP projects in Mainland China.

## Income Tax

Taxation charge was HK\$2,581 million (2017: HK\$2,616 million), which included deferred taxation of HK\$369 million (2017: HK\$353 million) provided for the fair value gain of IP located in Mainland China.

Excluding the above deferred taxation, the taxation charge decreased by 2% to HK\$2,212 million (2017: HK\$2,263 million), mainly due to lower DP operating profit, partly offset by higher profit from IP segment.

## Non-controlling Interests ("NCI")

Profit attributable to NCI increased by 42% to HK\$5,168 million (2017: HK\$3,640 million). Excluding the NCI relating to IP revaluation gain (after deducting related deferred tax) of HK\$2,173 million (2017: HK\$454 million), NCI decreased by 6% to HK\$2,995 million (2017: HK\$3,186 million).

## Profit attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 38% to HK\$8,604 million (2017: HK\$6,243 million). Earnings per share were HK\$4.21 based on weighted average of 2,045 million issued ordinary shares (2017: HK\$3.06 based on 2,037 million issued ordinary shares).

Excluding the attributable IP revaluation gain (after deducting related deferred tax and NCI) of HK\$3,465 million (2017: HK\$722 million), Group profit attributable to equity shareholders decreased by 7% to HK\$5,139 million (2017: HK\$5,521 million).

Set out below is an analysis of the Group profit attributable to equity shareholders as contributed by each of Wheelock and Company, WHL, Wharf REIC and WPSL as if the demerger of Wharf REIC had been completed since 1 January 2017.

	<b>2018</b>	2017
	<b>HK\$ Million</b>	HK\$ Million
<b>Core profit attributable to:</b>		
Wheelock and Company	<b>198</b>	742
WHL group	<b>1,600</b>	1,723
Wharf REIC group	<b>3,100</b>	2,864
WPSL group	<b>262</b>	187
<b>Core profit</b>	<b>5,160</b>	5,516
Attributable amount of non-core gains/(losses) (e.g. mark-to-market and exchange gain/(loss) on certain financial instruments, etc.)	<b>(21)</b>	5
<b>Profit before IP valuation gain</b>	<b>5,139</b>	5,521
IP valuation gain (net of deferred tax)	<b>3,465</b>	722
<b>Profit attributable to equity shareholders</b>	<b>8,604</b>	6,243

WHL's profit for the period decreased to HK\$2,860 million (2017: HK\$8,441 million). Excluding the exceptional items, WHL's core profit decreased by 66% to HK\$2,527 million (2017: HK\$7,438 million), mainly due to the demerger of Wharf REIC in 2017. If the demerger was completed on 1 January 2017, WHL's core profit would decrease by 9% to HK\$2,527 million from HK\$2,792 million in 2017.

Wharf REIC's profit for the period was HK\$10,179 million (2017: HK\$4,900 million as if the demerger of Wharf REIC had been completed since 1 January 2017). Excluding the exceptional items, Wharf REIC's core profit was HK\$5,022 million (2017: HK\$4,646 million).

WPSL's profit for the period was HK\$346 million (2017: HK\$252 million).

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

### Shareholders' and Total Equity

Shareholders' equity slightly increased by 3% to HK\$248.7 billion (2017: HK\$241.7 billion), or HK\$121.49 per share based on 2,047 million issued shares (2017: HK\$118.37 per share based on 2,042 million issued shares) as at 30 June 2018.

Including the NCI, the Group's total equity increased by 2% to HK\$396.3 billion (2017: HK\$387.8 billion).

### Assets and Liabilities

The Group's total assets were HK\$591.8 billion (2017: HK\$569.7 billion). Total business assets, i.e. excluding bank deposits and cash, financial and deferred tax assets, increased to HK\$523.3 billion (2017: HK\$487.3 billion).

Geographically, the Group's business assets in Mainland China, mainly properties and terminals, increased to HK\$146.7 billion (2017: HK\$136.9 billion), representing 28% (2017: 28%) of the Group's total business assets.

### *Investment Properties*

The Group's IP portfolio, included in the Group's total assets, slightly increased by 2% to HK\$353.9 billion (2017: HK\$346.4 billion), representing 68% of total business assets. Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK\$231.6 billion, representing 65% of the portfolio's value.

### *Properties for Sale*

DP amounted to HK\$88.8 billion (2017: HK\$58.5 billion), mainly comprised of properties in Hong Kong of HK\$42.5 billion, in Mainland China of HK\$45.9 billion and in Singapore of HK\$0.4 billion, which were under development or held for sale as at 30 June 2018.

### *Interests in Associates and Joint Ventures*

Interests in associates and joint ventures amounted to HK\$44.3 billion (2017: HK\$41.9 billion), mainly represented by various joint venture DP projects undertaken in Mainland China and Hong Kong.

### *Deposits from Sale of Properties*

Deposits from sale of properties amounted to HK\$21.2 billion (2017: HK\$14.9 billion), reflecting contracted sales in Hong Kong, Mainland China and Singapore pending revenue recognition.

## Debt and Gearing

The Group's net debt increased by 73% or HK\$42.3 billion to HK\$100.0 billion (2017: HK\$57.7 billion) as at 30 June 2018. The net debt comprised debt of HK\$124.6 billion less bank deposits and cash of HK\$24.6 billion. An analysis of the net debt by group is shown below:

	<b>30 June 2018</b>	31 December 2017
Net debt/(cash)	<b>HK\$ Million</b>	HK\$ Million
Wheelock and Company	<b>34,347</b>	29,012
WHL group	<b>29,292</b>	(9,288)
Wharf REIC group	<b>41,220</b>	42,476
WPSL group	<b>(4,903)</b>	(4,483)
Group total	<b>99,956</b>	57,717

Excluding the net debt of WHL group and Wharf REIC group and net cash of WPSL group, which were non-recourse to the Company and its wholly-owned subsidiaries, Wheelock and Company's own net debt increased by HK\$5.3 billion to HK\$34.3 billion (2017: HK\$29.0 billion).

As at 30 June 2018, the net debt to total equity (on a consolidated basis) was increased to 25.2% (2017: 14.9%). Excluding the net debt of WHL group and Wharf REIC group and net cash of WPSL group, Wheelock and Company's own net debt to shareholders' equity (on an attributable net asset value basis) increased to 13.8% (2017: 12.0%).

## Finance and Availability of Facilities

As at 30 June 2018, the Group's available loan facilities and issued debt securities amounted to HK\$163.1 billion (2017: HK\$157.7 billion), of which HK\$124.6 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 and Company	61.0	36.8	24.2
WHL group	51.7	44.9	6.8
Wharf REIC group	50.0	42.9	7.1
WPSL group	0.4	–	0.4
Group total	163.1	124.6	38.5

Of the above debt, HK\$9.2 billion (2017: HK\$12.1 billion) was secured by mortgages over certain DP, IP and property, plant and equipment with a total carrying value of HK\$27.9 billion (2017: HK\$42.3 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\$47.2 billion (2017: HK\$29.0 billion) as at 30 June 2018, which is immediately available for the Group's use when in need.

### Cash Flows from the Group's Operating and Investing Activities

For the period under review, the Group's operating cash inflow was HK\$9.4 billion (2017: HK\$9.9 billion). Together with the changes in working capital and others of HK\$26.1 billion (2017: HK\$2.9 billion), the net cash outflow from operating activities was HK\$16.7 billion (2017: inflow of HK\$7.0 billion). For investing activities, the Group recorded a net cash outflow of HK\$18.3 billion (2017: inflow of HK\$4.9 billion), mainly from acquisition of equity and bond investments.

## Major Capital and Development Expenditure and Commitments

The Group's major capital and development expenditure incurred in the first half of 2018 is analysed as follows:

### A. Major Capital and Development Expenditure during 1H 2018

	Hong Kong/ Singapore HK\$ Million	Mainland China HK\$ Million	Total HK\$ Million
<b>Wheelock and Company</b>			
IP	37	–	37
DP	13,903	–	13,903
	13,940	–	13,940
<b>WHL group</b>			
IP	100	2,213	2,313
DP	12,487	20,282	32,769
Non-property and others	116	3	119
	12,703	22,498	35,201
<b>Wharf REIC group</b>			
IP	73	2	75
DP	–	560	560
Non-property and others	56	–	56
	129	562	691
<b>WPSL group</b>			
IP	5	–	5
DP	–	62	62
	5	62	67
Analysis by segment:			
IP	215	2,215	2,430
DP	26,390	20,904	47,294
Non-property and others	172	3	175
<b>Group total</b>	<b>26,777</b>	<b>23,122</b>	<b>49,899</b>

- i. Wheelock's own expenditure for IP and DP amounted to HK\$13.9 billion, mainly attributable to the land and construction cost payments for its Hong Kong DP projects.
- ii. WHL's expenditure totalled HK\$35.2 billion, comprising expenditure of HK\$2.3 billion for IP (mainly construction costs of the IFS projects in Mainland China), HK\$32.8 billion for DP (including those undertaken by associates and joint ventures) and HK\$0.1 billion for Modern Terminals.
- iii. Wharf REIC's expenditure amounted to HK\$0.7 billion, comprising expenditure of HK\$0.1 billion for IP (mainly construction costs of the Suzhou IFS project) and HK\$0.6 billion for DP projects in Mainland China (including those undertaken by associates and joint ventures).
- iv. WPSL's expenditure of HK\$0.1 billion was mainly for construction cost payments for its Mainland China DP project.

## B. Commitments to Capital and Development Expenditure

As at 30 June 2018, the Group's major commitments to capital and development expenditure to be incurred in the forthcoming years were estimated at HK\$57.9 billion, of which HK\$24.6 billion was committed. By segment, the commitments are analysed as follows:

	As at 30 June 2018		Total HK\$ Million
	Committed HK\$ Million	Uncommitted HK\$ Million	
<b>Wheelock and Company</b>			
DP	11,924	6,181	18,105
	11,924	6,181	18,105
<b>WHL group</b>			
IP	2,649	3,736	6,385
DP	7,865	16,457	24,322
Non-property and others	133	107	240
	10,647	20,300	30,947
<b>Wharf REIC group</b>			
IP	1,567	3,419	4,986
DP	119	2,090	2,209
Non-property and others	24	124	148
	1,710	5,633	7,343
<b>WPSL group</b>			
IP	1	–	1
DP	283	1,280	1,563
	284	1,280	1,564
Analysis by business segment:			
IP	4,217	7,155	11,372
DP	20,191	26,008	46,199
Non-property and others	157	231	388
<b>Group total</b>	<b>24,565</b>	<b>33,394</b>	<b>57,959</b>
Analysis by geographical segment:			
Hong Kong IP	1,015	506	1,521
Hong Kong DP	11,924	6,181	18,105
China IP	3,201	6,649	9,850
China DP	8,267	19,827	28,094
Singapore	1	–	1
Properties total	24,408	33,163	57,571
Non-property and others	157	231	388
<b>Group total</b>	<b>24,565</b>	<b>33,394</b>	<b>57,959</b>

- i. Wheelock and Company's own commitments of HK\$18.1 billion were mainly related to construction costs for DP in Hong Kong.
- ii. WHL's commitments of HK\$30.9 billion were mainly comprised of expenditure of HK\$6.4 billion for IP, HK\$24.3 billion land and construction costs for DP (inclusive of associates and joint ventures' attributable commitments) and HK\$0.2 billion mainly for Modern Terminals.
- iii. Wharf REIC's commitments of HK\$7.3 billion were mainly comprised of expenditure of HK\$5.0 billion for IP, HK\$2.2 billion construction costs for DP and HK\$0.1 billion mainly for Hotels.
- iv. WPSL's commitments of HK\$1.6 billion were mainly related to construction costs for DP in Mainland China.
- v. 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 12,700 employees as at 30 June 2018, 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.