

FINANCIAL REVIEW

(I) REVIEW OF 2019 INTERIM RESULTS

Wheelock-Own (before consolidation of WHL, Wharf REIC and WPSL)

Wheelock-Own's revenue for the period was HK\$4,587 million, HK\$3,702 million or 418% higher than the last corresponding period. Underlying net profit was HK\$1,908 million, increasing by 864% (2018: HK\$198 million), partly due to distortion in timing of recognition as a result of adoption of HKFRS 15. HKFRS 15 is a new accounting policy focused on the timing of sales recognition and in effect since January 2018. It is a transition from recognising sales at the issue of occupation permit to legal assignment. This could mean a deferral of over half a year in recognition.

Wheelock Group

Group underlying net profit was HK\$6,977 million or increased by 35% (2018: HK\$5,160 million), mainly attributable to higher contribution from investment properties in both Hong Kong and Mainland China, the gain on disposal of the O'South malls and impact of HKFRS 15, partly offset by less profit contribution from associates and joint ventures.

Group profit attributable to equity shareholders decreased by 3% to HK\$8,327 million (2018: HK\$8,604 million). Excluding the decrease in fair value gain of investment properties, Group attributable profit increased by 39% to HK\$7,161 million (2018: HK\$5,139 million), mainly contributed by the increase in Group underlying net profit.

Revenue and Operating Profit

Group revenue and Group operating profit increased by 24% to HK\$21,713 million (2018: HK\$17,577 million) and by 31% to HK\$12,679 million (2018: HK\$9,648 million) respectively, primarily driven by the investment properties in Hong Kong and Mainland China, and HKFRS 15 impact as mentioned above. If there were no HKFRS 15: Group operating profit for the period under review would have become HK\$12,853 million or increased by 6% instead.

Investment Property (“IP”)

Investment property revenue and operating profit both increased by 7% to HK\$9,681 million (2018: HK\$9,021 million) and HK\$7,950 million (2018: HK\$7,408 million) respectively. In Hong Kong, revenue and operating profit both increased by 4%. Harbour City recorded both revenue and operating profit growth of 6%. In Mainland China, revenue and operating profit increased by 22% and 30% respectively, mainly driven by the maturing Chengdu International Finance Square (“IFS”) and the newly-opened Changsha IFS.

Development Property (“DP”)

Development property revenue and operating profit increased by 50% and 104% to HK\$7,838 million (2018: HK\$5,234 million) and HK\$3,173 million (2018: HK\$1,552 million) respectively.

In Hong Kong, recognised property sales increased by 472% to HK\$4,454 million (2018: HK\$779 million) while operating profit increased by 790% to HK\$1,763 million (2018: HK\$198 million), mainly driven by the delivery of residential units in MONTEREY and ONE HOMANTIN.

In Mainland China, recognised property sales decreased by 30% to HK\$3,116 million (2018: HK\$4,455 million), while operating profit decreased by 5% to HK\$1,291 million (2018: HK\$1,361 million) due to improved profit margins.

Hotels

Hotel revenue increased by 11% to HK\$1,173 million (2018: HK\$1,056 million) underpinned by the continuous start-up improvement in the performance of The Murray, Hong Kong. Operating profit increased by 36% to HK\$170 million (2018: HK\$125 million), mainly due to the increase in revenue and the reduced operating loss of The Murray. Operating profit for the three Marco Polo Hotels and club at Harbour City, however, retreated by 6%.

Logistics

Logistic revenue decreased slightly by 0.2% to HK\$1,253 million (2018: HK\$1,256 million) while operating profit decreased by 9% to HK\$224 million (2018: HK\$247 million).

Investment and Others

Investment and others revenue and operating profit increased by 78% to HK\$1,900 million (2018: HK\$1,068 million) and 119% to HK\$1,589 million (2018: HK\$726 million) respectively due to the increase in dividend income and interest income from the Group’s enlarged investment portfolio.

Fair Value Gain of Investment Properties

The carrying value of the Group's investment property portfolio as at 30 June 2019 increased to HK\$344.0 billion (2018: HK\$341.5 billion), with substantially all stated at fair value based on independent valuation as at that date. Revaluation gain of HK\$2,249 million for the period (2018: HK\$6,007 million) was credited to the consolidated income statement.

Other Net Income/(Charge)

Other net income amounted to HK\$186 million (2018: charge of HK\$74 million), primarily contributed from the gain on disposal of the O'South malls and net exchange gain, partly offset by provision for diminution for certain Mainland China development property projects.

Finance Costs

Finance costs amounted to HK\$881 million (2018: HK\$646 million). Excluding the unrealised mark-to-market gain of HK\$101 million (2018: HK\$155 million) on cross currency and interest rate swaps, finance costs increased by 25% to HK\$1,717 million (2018: HK\$1,378 million) before capitalisation of HK\$735 million (2018: HK\$577 million), and by 23% to HK\$982 million (2018: HK\$801 million) after capitalisation. The Group's effective borrowing rate for the period was 2.9% (2018: 2.3%) per annum.

Share of Results of Associates and Joint Ventures

Share of profits of associates decreased by 50% to HK\$302 million (2018: HK\$605 million), mainly due to absence of profit contribution from Hotel Properties Limited, a former associate of WPSL, since its reclassification to other long term investments in late 2018 and lower profit contribution from development property projects in Mainland China.

Share of profits of joint ventures decreased by 80% to HK\$161 million (2018: HK\$813 million), mainly due to lower profit contribution from MOUNT NICHOLSON in Hong Kong and increase in pre-operating loss for certain development property projects.

Income Tax

Taxation charge was HK\$2,827 million (2018: HK\$2,581 million), which included deferred taxation of HK\$388 million (2018: HK\$369 million) provided for the fair value gain of investment properties located in Mainland China.

Excluding the above deferred taxation, taxation charge increased by 10% to HK\$2,439 million (2018: HK\$2,212 million), mainly due to increase in operating profit from development properties in Hong Kong and investment properties in Hong Kong and Mainland China, partly offset by the decrease in operating profits from development properties in Mainland China.

Non-controlling Interests ("NCI")

Profit attributable to NCI decreased by 31% to HK\$3,542 million (2018: HK\$5,168 million).

Excluding net revaluation gain of investment properties of HK\$706 million (2018: HK\$2,173 million), NCI decreased by 5% to HK\$2,836 million (2018: HK\$2,995 million).

Profit attributable to Equity Shareholders

Group profit attributable to equity shareholders decreased by 3% to HK\$8,327 million (2018: HK\$8,604 million). Earnings per share were HK\$4.07 based on weighted average of 2,048 million issued ordinary shares (2018: HK\$4.21 based on 2,045 million issued ordinary shares).

Excluding the attributable net revaluation gain of investment properties of HK\$1,166 million (2018: HK\$3,465 million), Group profit attributable to equity shareholders increased by 39% to HK\$7,161 million (2018: HK\$5,139 million).

Set out below is an analysis of Group profit attributable to equity shareholders as contributed by each sub-group of Wheelock and Company.

	2019	2018
	HK\$ Million	HK\$ Million
Underlying net profit attributable to:		
Wheelock-Own	1,908	198
WHL group	1,457	1,600
Wharf REIC group	3,265	3,100
Others	347	262
Underlying net profit	6,977	5,160
Attributable amount of exceptional items (e.g. mark-to-market and exchange gain/(loss) on certain financial instruments, etc.)	184	(21)
Profit before IP revaluation gain	7,161	5,139
IP valuation gain (net of deferred tax)	1,166	3,465
Profit attributable to equity shareholders	8,327	8,604

WHL's profit attributable to its equity shareholders for the period decreased to HK\$2,450 million (2018: HK\$2,860 million).

Wharf REIC's profit attributable to its equity shareholders for the period was HK\$6,989 million (2018: HK\$10,179 million).

(II) LIQUIDITY, FINANCIAL RESOURCES AND COMMITMENTS

Shareholders' and Total Equity

As of 30 June 2019, shareholders' equity increased by 5% to HK\$264.3 billion (2018: HK\$251.1 billion), or HK\$129.03 per share based on 2,049 million issued shares (2018: HK\$122.60 per share based on 2,048 million issued shares).

Including NCI, the Group's total equity increased by 3% to HK\$402.4 billion (2018: HK\$389.5 billion).

Assets and Liabilities

The Group's total assets were HK\$614.0 billion (2018: HK\$592.6 billion). Total business assets, i.e. excluding bank deposits and cash, financial assets and deferred tax assets, increased to HK\$535.2 billion (2018: HK\$521.8 billion).

Geographically, the Group's business assets in Mainland China, mainly properties and terminals, decreased slightly to HK\$143.4 billion (2018: HK\$144.5 billion), representing 27% (2018: 28%) of the Group's total business assets.

Investment Properties

The Group's investment property portfolio, included in the Group's total assets, slightly increased by 1% to HK\$344.0 billion (2018: HK\$341.5 billion), representing 64% (2018: 65%) of total business assets. Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK\$236.2 billion, representing 69% of the value of the portfolio.

Properties for Sale

Properties for sale amounted to HK\$96.8 billion (2018: HK\$91.4 billion), mainly comprising properties in Hong Kong of HK\$60.2 billion, in Mainland China of HK\$36.4 billion and in Singapore of HK\$0.2 billion, which were under development or held for sale as at 30 June 2019.

Interests in Associates and Joint Ventures

Interests in associates and joint ventures amounted to HK\$54.6 billion (2018: HK\$50.6 billion), mainly represented by various development property projects undertaken in Mainland China and Hong Kong.

Deposits from Sale of Properties

Deposits from sale of properties amounted to HK\$31.5 billion (2018: HK\$24.8 billion) which represented deposits from contracted sales in Hong Kong, Mainland China and Singapore pending revenue recognition.

Other Long Term Investments

Other long term investments amounted to HK\$52.9 billion (2018: HK\$42.6 billion), including mainly the Group's strategic investment in Greentown China Holdings Limited of HK\$3.0 billion and a portfolio of blue chips and bonds of HK\$49.9 billion. The portfolio performed overall in line with the market and no single investment is individually material to the Group's total assets. Marking these investments to market produced an attributable net surplus of HK\$5.6 billion (2018: HK\$0.4 billion) as reflected in the other comprehensive income, reversing attributable accumulated deficit balance of HK\$3.2 billion at 2018 year end to surplus HK\$2.4 billion at end of June 2019.

Debt and Gearing

The Group's net debt increased by 8% or HK\$7.7 billion to HK\$100.7 billion (2018: HK\$93.0 billion) as at 30 June 2019. It comprised debt of HK\$126.5 billion less bank deposits and cash of HK\$25.8 billion. An analysis of the net debt by each sub-group is shown below:

Net debt/(cash)	30 June 2019	31 December 2018
	HK\$ Million	HK\$ Million
Wheelock-Own	41,658	32,552
WHL group	24,647	25,638
Wharf REIC group	36,423	39,422
Others	(1,989)	(4,605)
Group total	100,739	93,007

Excluding the net debt of WHL group and Wharf REIC group and net cash of other groups, all of which non-recourse to the Company and its wholly-owned subsidiaries, Wheelock-Own's net debt increased by HK\$9.1 billion to HK\$41.7 billion (2018: HK\$32.6 billion).

As at 30 June 2019, the ratio of net debt to total equity (on a consolidated basis) increased to 25.0% (2018: 23.9%). Excluding the net debt/cash of WHL group, Wharf REIC group and other groups, Wheelock-Own's net debt to shareholders' equity (on an attributable net asset value basis) increased to 15.8% (2018: 13.0%).

Finance and Availability of Facilities

As at 30 June 2019, the Group's available loan facilities and issued debt securities amounted to HK\$191.1 billion (2018: HK\$184.7 billion), of which HK\$126.5 billion were utilised. An analysis is shown below:

	Available Facilities HK\$ Billion	Total Debt HK\$ Billion	Undrawn HK\$ Billion
Wheelock-Own	69.8	43.1	26.7
WHL group	74.9	43.6	31.3
Wharf REIC group	46.4	39.8	6.6
Group total	191.1	126.5	64.6

Of the above debt, HK\$16.1 billion (2018: HK\$16.7 billion) was secured by mortgages over certain development and investment properties and property, plant and equipment with a total carrying value of HK\$51.8 billion (2018: HK\$50.6 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 properties 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 listed investments with an aggregate market value of HK\$51.2 billion (2018: HK\$41.3 billion) as at 30 June 2019, which is readily 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\$11.6 billion (2018: HK\$9.4 billion). Together with the changes in working capital and others of HK\$7.7 billion (2018: HK\$26.1 billion), the net cash inflow from operating activities amounted to HK\$3.9 billion (2018: outflow of HK\$16.7 billion). For investing activities, the Group recorded a net cash outflow of HK\$4.9 billion (2018: HK\$18.3 billion), mainly for cash used in the addition of investment properties, other long term investments and interests in subsidiaries and joint ventures, net of the proceeds from disposal of investment properties.

Major Capital and Development Expenditures and Commitments

The Group's major capital and development expenditures incurred, inclusive of associates and joint ventures' attributable expenditures, in the first half of 2019 is analysed as follows:

A. Major Capital and Development Expenditure during the first half of 2019

	Hong Kong/ Singapore HK\$ Million	Mainland China HK\$ Million	Total HK\$ Million
Wheelock-Own			
IP	97	—	97
DP	20,500	—	20,500
	20,597	—	20,597
WHL group			
IP	174	34	208
DP	82	4,082	4,164
Non-property and others	53	1	54
	309	4,117	4,426
Wharf REIC group			
IP	172	63	235
DP	—	568	568
Non-property and others	19	7	26
	191	638	829
Others			
IP	37	—	37
DP	—	495	495
	37	495	532
Analysis by segment:			
IP	480	97	577
DP	20,582	5,145	25,727
Non-property and others	72	8	80
Group total	21,134	5,250	26,384

- i. Wheelock-Own's expenditures for property projects amounted to HK\$20.6 billion, mainly comprising expenditures for construction costs of property projects in Hong Kong.
- ii. WHL's expenditures totalled HK\$4.4 billion, mainly comprising expenditures for land and construction costs of property projects in Hong Kong and Mainland China.
- iii. Wharf REIC's expenditure amounted to HK\$0.8 billion, mainly comprising expenditures for construction costs of property projects in Hong Kong and Mainland China.

B. Commitments to Capital and Development Expenditure

As at 30 June 2019, the Group's major commitments to capital and development expenditures to be incurred in the forthcoming years were estimated at HK\$46.6 billion, of which HK\$26.8 billion was committed. Commitments by segments, inclusive of associates and joint ventures' attributable commitments, are analysed as follows:

	As at 30 June 2019		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
Wheelock-Own			
DP	9,296	4,019	13,315
	9,296	4,019	13,315
WHL group			
IP	822	265	1,087
DP	10,970	9,783	20,753
Non-property and others	3,821	62	3,883
	15,613	10,110	25,723
Wharf REIC group			
IP	245	962	1,207
DP	1,243	3,572	4,815
Non-property and others	13	113	126
	1,501	4,647	6,148
Others			
IP	3	—	3
DP	410	1,029	1,439
	413	1,029	1,442
Analysis by business segment:			
IP	1,070	1,227	2,297
DP	21,919	18,403	40,322
Non-property and others	3,834	175	4,009
Group total	26,823	19,805	46,628
Analysis by geographical segment:			
Hong Kong IP	884	757	1,641
Hong Kong DP	9,923	4,019	13,942
Mainland IP	183	470	653
Mainland DP	11,996	14,384	26,380
Singapore	3	—	3
Properties total	22,989	19,630	42,619
Non-property and others	3,834	175	4,009
Group total	26,823	19,805	46,628

- i. Wheelock-Own's commitments of HK\$13.3 billion are mainly related to land and construction costs of development properties in Hong Kong.
- ii. WHL's commitments of HK\$25.7 billion are mainly comprised of land and construction costs of development and investment properties of HK\$21.8 billion and HK\$3.8 billion for financial investments.
- iii. Wharf REIC's commitments of HK\$6.1 billion are mainly comprised of HK\$6.0 billion for construction costs of development and investment properties, and HK\$0.1 billion for hotels.
- iv. 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 other long term investments.

(III) HUMAN RESOURCES

The Group had approximately 12,500 employees as at 30 June 2019, 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.