FINANCIAL REVIEW

(I) REVIEW OF 2019 RESULTS

WHEELOCK-OWN (before consolidation of WHL and Wharf REIC)

Wheelock-Own's revenue for the year was HK$14,026 million, HK$3,946 million or 39% higher than the last corresponding year. Underlying net profit was HK$3,669 million, increasing by 54% (2018: HK$2,375 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$12,362 million or decreased by 6% (2018: HK$13,208 million), mainly attributable to impairment provision of HK$4,927 million for certain development properties in Hong Kong and Mainland China held by the Group's subsidiaries, associates and joint ventures, partly offset by the higher contribution from investment properties in Mainland China, gain on disposal of the O' South malls and impact of HKFRS 15 on development property in Hong Kong.

Group profit attributable to equity shareholders decreased by 47% to HK$9,173 million (2018: HK$17,239 million). Excluding the fair value gain or loss of investment properties, Group attributable profit increased by 8% to HK$12,782 million (2018: HK$11,796 million), mainly attributable to the non-recurrent deficit on reclassification of an associate in 2018, partly offset by the decrease in Group underlying net profit.

Revenue and Operating Profit

Group operating profit increased by 9% to HK$27,243 million (2018: HK$24,934 million), despite Group revenue remained relatively steady at HK$48,519 million (2018: HK$48,490 million), primarily driven by the investment properties in Mainland China, impact of HKFRS 15 as mentioned above and higher interest income from the Group's enlarged investment portfolio, partly offset by less profit contribution from development properties in Mainland China. If there were no HKFRS 15, Group operating profit for the year under review would have become HK$27,562 million or decreased by 3%.

Investment Property ("IP")

Investment property revenue and operating profit both slightly increased by 2% to HK$18,754 million (2018: HK$18,326 million) and HK$15,177 million (2018: HK$14,825 million) respectively. In Hong Kong, revenue and operating profit slightly decreased by 0.3% and 0.4% respectively. Amid the prevailing adverse economic condition particularly in the fourth quarter of the year, Times Square recorded revenue and operating profit decline of 3% and 2% respectively while Harbour City performed just at par. In Mainland China, revenue and operating profit increased by 14% and 23% respectively, wholly benefited from the driving force of the expanding Mainland China portfolio. Particularly, Chengdu International Finance Square ("IFS") and the maturing Changsha IFS, grew revenue by 13% and 92%, respectively.

Development Property ("DP")

Development property revenue decreased by 6% to HK$21,982 million (2018: HK$23,283 million) while operating profit increased by 11% to HK$9,336 million (2018: HK$8,404 million) respectively.

In Hong Kong, recognised property sales increased by 41% to HK$13,714 million (2018: HK$9,740 million) while operating profit increased by 101% to HK$5,531 million (2018: HK$2,754 million), mainly driven by the delivery of residential units in OASIS KAI TAK and MONTEREY.

In Mainland China, recognised property sales decreased by 41% to HK$7,930 million (2018: HK$13,478 million), while operating profit decreased by 36% to HK$3,594 million (2018: HK$5,596 million) with less projects completed for recognition.

Hotels

Hotel revenue decreased by 11% to HK$2,037 million (2018: HK$2,284 million) and operating profit decreased by 67% to HK$114 million (2018: HK$345 million) respectively. In Hong Kong, operating profit for the three Marco Polo Hotels and the Club at Harbour City retreated by 47% while The Murray still operated at loss amid the challenging environment during the latter half of the year. In Mainland China, the decrease of operating profit was mainly due to the start-up loss of Niccolo Changsha and decrease in hotel management fees.

Logistics

Logistic revenue decreased by 1% to HK$2,597 million (2018: HK$2,616 million) while operating profit decreased by 14% to HK$513 million (2018: HK$597 million), mainly resulting from lower throughput handled by Modern Terminals Limited in Hong Kong.

Investment and Others

Investment and others revenue and operating profit increased by 54% to HK$3,465 million (2018: HK$2,245 million) and 82% to HK$2,778 million (2018: HK$1,524 million) respectively due to higher investment income including dividends from the Group’s enlarged investment portfolio.

Fair Value (Loss)/Gain of Investment Properties

The carrying value of the Group’s investment property portfolio as at 31 December 2019 was HK$336.8 billion (2018: HK$341.5 billion), with substantially all stated at fair value based on independent valuation as at that date. An attributable net revaluation loss for the year of HK$3,609 million (2018: gain of HK$5,443 million), after related deferred tax and non-controlling interests, was charged to the consolidated income statement.

Other Net Charge

Other net charge amounted to HK$2,837 million (2018: HK$1,894 million), primarily represented the impairment provision for certain development property projects in Hong Kong and Mainland China, partly offset by gain on disposal of the O’South malls. Other net charge in 2018 mainly included the deficit on reclassification of an associate, namely, Hotel Properties Limited (“HPL”) and net exchange losses.

Finance Costs

Finance costs amounted to HK$2,286 million (2018: HK$1,599 million). Excluding the unrealised mark-to-market gain of HK$141 million (2018: HK$343 million) on cross currency and interest rate swaps, finance costs increased by 25% to HK$3,956 million (2018: HK$3,155 million) before capitalisation of HK$1,529 million (2018: HK$1,213 million), and by 25% to HK$2,427 million (2018: HK$1,942 million) after capitalisation. The Group’s effective borrowing rate was 3.1% (2018: 2.7%) per annum.

FINANCIAL REVIEW (CONTINUED)

Share of Results of Associates and Joint Ventures

Share of profits of associates decreased by 74% to HK$412 million (2018: HK$1,585 million), mainly due to absence of profit contribution from HPL, a former associate, since its reclassification to other long term investments in late 2018 and lower recognition from development property projects in Mainland China coupled with impairment losses on certain development property projects in Mainland China.

Share of profits of joint ventures decreased by 61% to HK$497 million (2018: HK$1,279 million), mainly due to lower recognition from MOUNT NICHOLSON in Hong Kong and impairment losses on certain development property projects in Mainland China.

Income Tax

Taxation charge was HK$6,110 million (2018: HK$6,630 million), which included deferred taxation of HK$736 million (2018: HK$522 million) provided for the fair value gain of IP located in Mainland China.

Excluding the above deferred taxation, taxation charge decreased by 12% to HK$5,374 million (2018: HK$6,108 million), mainly due to the decrease in operating profits from development properties in Mainland China, partly offset by the increase in operating profit from development properties in Hong Kong and investment properties in Mainland China.

Non-controlling Interests (“NCI”)

Profit attributable to NCI decreased by 71% to HK$2,819 million (2018: HK$9,631 million).

Profit attributable to Equity Shareholders

Group profit attributable to equity shareholders decreased by 47% to HK$9,173 million (2018: HK$17,239 million). Earnings per share were HK$4.48 based on weighted average of 2,048 million issued ordinary shares (2018: HK$8.43 based on 2,046 million issued ordinary shares).

Excluding the attributable net revaluation loss of investment properties of HK$3,609 million (2018: gain of HK$5,443 million), Group profit attributable to equity shareholders increased by 8% to HK$12,782 million (2018: HK$11,796 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 HK$ Million	2018 HK$ Million
Underlying net profit attributable to:		
Wheelock-Own	**3,669**	2,375
WHL group	**1,764**	4,154
Wharf REIC group	**6,243**	6,226
Others	**686**	453
Underlying net profit	**12,362**	13,208
Attributable amount of exceptional items (e.g. deficit on reclassification of HPL, mark-to-market and exchange gain/(loss) on certain financial instruments, etc.)	**420**	(1,412)
Profit before IP revaluation (loss)/gain	**12,782**	11,796
IP valuation (loss)/gain (net of deferred tax)	**(3,609)**	5,443
Profit attributable to equity shareholders	**9,173**	17,239

WHL's profit attributable to its equity shareholders for the year ended 31 December 2019 decreased to HK$3,386 million (2018: HK$6,623 million).

Wharf REIC's profit attributable to its equity shareholders for the year ended 31 December 2019 decreased to HK$3,928 million (2018: HK$18,027 million).

Note: Wheelock Properties (Singapore) Pte. Ltd. (formerly known as Wheelock Properties (Singapore) Limited) has become a private limited company since November 2019 following a scheme of Selective Capital Reduction Exercise.

(II) LIQUIDITY, FINANCIAL RESOURCES AND COMMITMENTS

Shareholders' and Total Equity

Shareholders' equity increased by 7% to HK$268.0 billion (2018: HK$251.1 billion), or HK$130.81 per share based on 2,049 million issued shares (2018: HK$122.60 per share based on 2,048 million issued shares) as at 31 December 2019.

Including NCI, the Group's total equity increased by 1% to HK$393.7 billion (2018: HK$389.5 billion).

Assets and Liabilities

The Group's total assets were HK$609.4 billion (2018: HK$592.6 billion). Total business assets, i.e. excluding certain financial assets, deferred tax assets and bank deposits and cash, increased to HK$527.7 billion (2018: HK$521.8 billion).

Geographically, the Group's business assets in Mainland China, mainly properties and terminals, decreased to HK$139.5 billion (2018: HK$144.5 billion), representing 26% (2018: 28%) of the Group's total business assets.

FINANCIAL REVIEW (CONTINUED)

Investment Properties

The Group's investment property portfolio, included in the Group's total assets, slightly decreased by HK$4.7 billion to HK$336.8 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$229.1 billion, representing 68% of the value of the portfolio.

Properties for Sale

Properties for sale amounted to HK$92.2 billion (2018: HK$91.4 billion), mainly comprising properties in Hong Kong of HK$56.8 billion and Mainland China of HK$35.4 billion, which were under development or held for sale as at 31 December 2019.

Interests in Associates and Joint Ventures

Interests in associates and joint ventures amounted to HK$57.7 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$30.7 billion (2018: HK$24.8 billion) which represented deposits from contracted sales in Hong Kong and Mainland China pending revenue recognition.

Other Long Term Investments

Other long term investments amounted to HK$46.7 billion (2018: HK$42.6 billion), including mainly the Group's strategic investment in Greentown China Holdings Limited of HK$5.2 billion and a portfolio of blue chips of HK$41.5 billion held for long term growth and reasonable dividend return. 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$7.2 billion (2018: deficit of HK$5.0 billion) as reflected in the other comprehensive income, within which a total of HK$0.9 billion was recycled to retained earnings upon de-recognition, reversing attributable accumulated deficit balance of HK$3.2 billion at 2018 year end to surplus HK$3.1 billion at end of 2019.

Debt and Gearing

The Group's net debt decreased by 5% or HK$4.8 billion to HK$88.2 billion (2018: HK$93.0 billion) as at 31 December 2019. It comprised debt of HK$125.9 billion less bank deposits and cash of HK$37.7 billion. An analysis of the net debt by each sub-group is shown below:

Net debt/(cash)	**2019 HK$ Billion**	2018 HK$ Billion
Wheelock-Own	**26.6**	32.6
WHL group	**19.0**	25.6
Wharf REIC group	**42.6**	39.4
Others	**–**	(4.6)
Group total	**88.2**	93.0

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 decreased by HK$6.0 billion to HK$26.6 billion (2018: HK$32.6 billion).

As at 31 December 2019, the ratio of net debt to total equity (on a consolidated basis) decreased to 22.4% (2018: 23.9%). Excluding the net debt/cash of WHL group and Wharf REIC group, Wheelock-Own's net debt to shareholders' equity (on an attributable net asset value basis) decreased to 9.9% (2018: 13.0%).

Finance and Availability of Facilities

As at 31 December 2019, the Group's available loan facilities and issued debt securities amounted to HK$192.0 billion (2018: HK$184.7 billion), of which HK$125.9 billion (2018: HK$121.8 billion) were utilised. An analysis is shown below:

	Available Facilities HK$ Billion	Total Debt HK$ Billion	Undrawn Facilities HK$ Billion
Wheelock-Own	65.5	34.1	31.4
WHL group	77.1	46.3	30.8
Wharf REIC group	49.4	45.5	3.9
Group total	192.0	125.9	66.1

Of the above debt, HK$17.4 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$60.9 billion (2018: HK$55.2 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$44.4 billion (2018: HK$41.3 billion) as at 31 December 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 year under review, the Group's operating cash inflow was HK$25.5 billion (2018: HK$24.4 billion). Together with the changes in working capital and others of HK$4.1 billion (2018: HK$20.8 billion), the net cash inflow from operating activities amounted to HK$21.4 billion (2018: HK$3.6 billion). For investing activities, the Group recorded a net cash outflow of HK$10.5 billion (2018: HK$30.8 billion), mainly for net cash used in the acquisition of additional interests in subsidiaries and investment in joint ventures, and net of net cash generated from the disposal of other long term investments and investment properties.

FINANCIAL REVIEW (CONTINUED)

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 2019 is analysed as follows:

A. Major Capital and Development Expenditure during 2019

	Hong Kong/ Others HK$ Million	Mainland China HK$ Million	Total HK$ Million
Wheelock-Own			
IP	96	–	96
DP	23,396	–	23,396
	23,492	–	23,492
WHL group			
IP	330	74	404
DP	5,067	8,808	13,875
Non-property and others	77	31	108
	5,474	8,913	14,387
Wharf REIC group			
IP	344	260	604
DP	–	1,488	1,488
Non-property and others	41	43	84
	385	1,791	2,176
Analysis by segment:			
IP	770	334	1,104
DP	28,463	10,296	38,759
Non-property and others	118	74	192
Group total	29,351	10,704	40,055

i. Wheelock-Own's expenditures for property projects amounted to HK$23.5 billion, mainly comprising expenditures for land and construction costs of property projects in Hong Kong.

ii. WHL's expenditures totalled HK$14.4 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$2.2 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 31 December 2019, the Group's major commitments to capital and development expenditures to be incurred in the forthcoming years were estimated at HK$45.0 billion, of which HK$22.6 billion was committed. Commitments by segments, inclusive of associates and joint ventures' attributable commitments, are analysed as follows:

	As at 31 December 2019		
	Committed HK$ Million	**Uncommitted HK$ Million**	**Total HK$ Million**
Wheelock-Own			
DP	8,166	8,879	17,045
WHL group			
IP	833	148	981
DP	9,260	8,841	18,101
Non-property and others	3,140	57	3,197
	13,233	9,046	22,279
Wharf REIC group			
IP	209	1,023	1,232
DP	968	3,371	4,339
Non-property and others	11	109	120
	1,188	4,503	5,691
Analysis by business segment:			
IP	1,042	1,171	2,213
DP	18,394	21,091	39,485
Non-property and others	3,151	166	3,317
Group total	22,587	22,428	45,015
Analysis by geographical segment:			
Hong Kong IP	799	871	1,670
Hong Kong DP	8,639	8,879	17,518
Mainland China IP	241	300	541
Mainland China DP	9,755	12,212	21,967
Others	2	—	2
Properties total	19,436	22,262	41,698
Non-property and others	3,151	166	3,317
Group total	22,587	22,428	45,015

i. Wheelock-Own's commitments of HK$17.0 billion are mainly related to land and construction costs of development properties in Hong Kong.

ii. WHL's commitments of HK$22.3 billion are mainly comprised of land and construction costs of development and investment properties of HK$19.1 billion.

iii. Wharf REIC's commitments of HK$5.7 billion are mainly comprised of HK$5.6 billion for construction costs of development and investment properties.

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.

FINANCIAL REVIEW (CONTINUED)

(III) HUMAN RESOURCES

The Group had approximately 12,500 employees as at 31 December 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.

(IV) BUSINESS MODEL

Wheelock and Company's core businesses are Hong Kong DP and investment holding. The Group has a substantial urban-focused land bank under management for development, which spans over Hong Kong's key regions and comprises diversified product offerings to cater to different segments of customers. WHL and Wharf REIC, both being listed companies in Hong Kong, are Wheelock's equity investments. Apart from Hong Kong property development, logistics and hotel management, WHL also focuses on IP and DP in Mainland China. Wharf REIC focuses on Hong Kong IP and holds a portfolio of prime IP in strategic locations, including Harbour City, Times Square and the Central portfolio (Wheelock House, Crawford House and The Murray).

(V) BUSINESS STRATEGY

For the Group's core business, Wheelock and Company endeavours to continuously enhance its competitiveness and to drive sustainable growth through:

1. Building and maintaining a diversified and competitive land bank with timely acquisitions and constant turning of assets;

2. Competence in selection and acquisition, planning and design, execution, sales and marketing;

3. Building organisation and focusing professional team efforts in building brand; and

4. Exercising prudent and disciplined financial management to ensure sustainability at all times.