

BUSINESS REVIEW

HONG KONG PROPERTIES

During the six months ended 30 June 2019, sales of development properties performed satisfactorily amidst a complex environment shaped by global economic uncertainties and continual trade tension.

Contracted residential sales amounted to HK\$16.2 billion, with a total of 1,282 units sold or presold, albeit down from the record high comparison base of HK\$23.4 billion in the first half of 2018, which was driven by the presale of MALIBU, a large scale project. The sell-through rate was 94% on launched units. No commercial sales were conducted during the period under review.

MONTARA and **GRAND MONTARA**, the second development in the O'EAST portfolio and comprising of two high rise residential towers, were launched for presale in the second quarter. The presale achieved 100% sell-through rate, reflecting our long-established reputation for superior quality. 1,120 units were presold for HK\$9.8 billion within three days, with an average selling price of HK\$15,200 per square foot. The good result accounted for 60% of total contracted sales during first half. Embracing the convenience of cosmopolitan life, the development is atop the upcoming 480,000 square feet MTR mall, "The Lohas", and is only five minutes' walk from LOHAS Park MTR station. Moreover, the exclusive, 40,000 square feet Club MONTARA features a 24-hour gymnasium, and an outdoor swimming pool that is surrounded by lush green gardens.

The inventory sales progressed satisfactorily and recorded contracted sales of HK\$6.4 billion from previously launched developments, in particular the successful selling of **CAPRI** and **GRAND NAPA** villas. The **O'SOUTH VILLAS** portfolio, comprising exquisite residences at **GRAND MONTEREY**, **SAVANNAH** and **CAPRI**, sold 29 villas for HK\$1.7 billion, contributing to a sell-through rate of 98% on the total number of units.

MOUNT NICHOLSON, an ultra-luxury residential development on the Peak, sold four houses and two apartments for HK\$3.6 billion during the period under review, of which HK\$1.8 billion was attributable to the Group.

Net order book (i.e. presold and pending recognition) grew to HK\$34.9 billion, from HK\$26.7 billion at 2018 year-end. The increase in net order book was mainly driven by successful launches of MONTARA and GRAND MONTARA.

Land Bank

The land bank under management was 6.3 million square feet as of 30 June 2019, after preselling 0.8 million square feet from MONTARA and GRAND MONTARA and increased to 6.7 million square feet in July 2019. The O'EAST and Kai Tak portfolios account for a significant portion of our urban-focused land bank. This diverse land bank provides a wide variety of product offerings, ranging from MTR residences and waterfront living, to suburban houses and the Peak collection.

Covering seven sites, the Kai Tak land bank available for sales pipeline encompassed 1.9 million square feet on an attributable basis, of which the four harbour-front sites along the former runway are jointly developed and managed with project partners. With a cluster of residential projects progressing, we will seek to maximise synergies across planning and development stages in the area, which is poised to benefit from extensive infrastructural developments, including the future Kai Tak Sports Park and transport links.

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

Community well-being is prioritised as one of the key considerations in our business decision making. We support a wide range of CSR programmes and community initiatives, spanning sustainable development, education, and art and culture.

Sustainable development

In March, we have secured a five-year **sustainability-linked loan facility** (“Facility”) in the amount of HK\$2.0 billion. The Facility is the first sustainability performance-linked loan in Hong Kong. The Facility, granted for general corporate funding requirements, illustrates our commitment to advancing our sustainability agenda in corporate practices.

Wheelock Properties Limited and the OASIS KAI TAK project were named “Corporate Social Responsibility Project of the Year” and “Residential Team of the Year” respectively by the Royal Institution of Chartered Surveyors Hong Kong, reflecting our commitment to the society and pursuit of excellence.

Demonstrating our commitment to green building standards, we aim to integrate BEAM Plus Standard and practices into all buildings. During the period under review, SAVANNAH and NAPA obtained BEAM Plus final certifications, whilst the Sin Fat Road project was given a BEAM Plus pre-certification.

Education

Project WeCan is our key BIC initiative, supporting secondary school students in widening their horizon and equipping them for future careers. With the support of 68 partners, the programme currently has 76 secondary schools participating, benefitting over 66,000 students in Hong Kong.

We attended a Project *WeCan* Partners Appreciation Reception at the Government House in May, with The Hon. Mrs Carrie Lam Cheng Yuet-ngor, the Chief Executive of HKSAR, as Guest of Honour. The event was well attended by representatives from partners, volunteers, principals and students from Project *WeCan* schools.

In July 2019, through the Project *WeCan* Job Tasting Programme, we offered students internship opportunities to work in different departments according to their interests. This annual programme enables students to develop social skills in the workplace and enhance their competitiveness through practical work experience.

Innovation

In March 2019, we announced an extension of our partnership with Hong Kong Science and Technology Parks Corporation (HKSTP) until 2020. Since its establishment in April 2018, HKSTP@Wheelock Gallery has provided a platform for technology innovators and start-ups to convey their innovative ideas to potential investors and business partners. The event featured a sharing session with the theme, "Disrupt or Be disrupted. A.I. x Traditional Industries".

Innovation also serves a major role when it comes to improving customer interaction. During the period under review, we launched a new *W-Living* app to streamline the handover process, helping to deliver a superior customer experience and achieve a paperless environment.

Lifestyle

As a move to enhance customers' leisure and social life, a Wheelock Lounge was launched at The Gateway, Harbour City, providing CLUB WHEELLOCK members with an interactive lifestyle space to relax and mingle.

An exhibition of winning works from the National Geographic Wheelock Hong Kong Photo Contest 2018 was held in early 2019. With the theme "Hong Kong Story", the contest received more than 4,000 submissions from both photography enthusiasts and professional photographers from 19 countries and regions.

SUBSIDIARIES

Wheelock and Company Limited is the majority shareholder of The Wharf (Holdings) Limited, Wharf Real Estate Investment Company Limited and Wheelock Properties (Singapore) Limited. Page 6-7 carry a report on their operations and achievements during the period under review.

The Wharf (Holdings) Limited (“WHL”)

WHL, a major listed subsidiary of Wheelock, is mainly engaged in property-focused businesses, comprising Investment Properties (“IP”), Development Properties (“DP”) and Hotel in Hong Kong and Mainland China.

WHL’s revenue and underlying net profit were HK\$8.1 billion and HK\$2.2 billion respectively. Property businesses contributed to 67% of revenue and 84% of underlying net profit.

Mainland DP operating profit (inclusive of joint ventures and associates on an attributable basis) decreased slightly to HK\$1.8 billion, with operating margin lifting 3 percentage points to 35%. WHL’s attributable contracted sales decreased by 10% to RMB6.5 billion. As at 30 June 2019, the Mainland DP land bank totalled 3.6 million square metres, spanning top tier cities and the net order book was RMB23.5 billion.

For Mainland IP, WHL continued to enjoy steady contributions from the International Finance Square (“IFS”) series. With Changsha IFS added to the portfolio in 2018, revenue and operating profit increased by 22% and 30%, to HK\$2.0 billion and HK\$1.2 billion respectively. As an iconic landmark in the heart of the city, award-winning Changsha IFS mall has achieved impressive performance and houses over 370 brands with an occupancy rate of 98%. Another flagship mall, Chengdu IFS, continued its growth momentum with revenue increasing by 14% to HK\$859 million, and operating profit by 28% to HK\$463 million.

Currently, WHL manages 17 hotels in Mainland China, Hong Kong and The Philippines, under the 5-star Marco Polo and luxury Niccolo brands.

Wharf Real Estate Investment Company Limited (“Wharf REIC”)

Wharf REIC, another major listed subsidiary of Wheelock, is a premium Hong Kong IP company with a focus on landmark retail properties. Its portfolio of premium quality IPs in Hong Kong, includes Harbour City, Times Square, Plaza Hollywood, Crawford House and Wheelock House.

Wharf REIC’s underlying net profit achieved a moderate growth of 3% to HK\$5.2 billion during the period under review.

Revenue from Hong Kong IP increased by 4% to HK\$7.4 billion, and operating profit by 4% to HK\$6.6 billion. Harbour City, the largest revenue contributor of Wharf REIC, reported total revenue (including hotels) of HK\$6.2 billion, representing 5% growth. Revenue from Times Square and Plaza Hollywood remained resilient at HK\$1.4 billion and HK\$284 million respectively.

On the other hand, revenue from office premises increased by 6% to HK\$1.4 billion on the back of positive rental reversions. Office demand for Wheelock House and Crawford House in Central remained firm. The Central Portfolio’s revenue increased by 4% to HK\$243 million and operating profit increased by 4% to HK\$211 million.

Total revenue generated from the three hotels in Harbour City – Marco Polo Hongkong, Gateway and Prince – increased slightly to HK\$617 million.

The Murray, Hong Kong, which commenced full operation in August 2018, received a host of industry awards during the period under review. However, start-up losses including full depreciation of land and building costs over a 50-year lease term, as well as interest cost, still weigh on profitability in the early years.

Wheelock Properties (Singapore) Limited (“WPSL”)

WPSL delivered a stable performance. Wheelock Place and Scotts Square, both situated at the crossroads of the Orchard and Scotts shopping belt in Singapore, maintained high occupancy.