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## **WHEELLOCK AND COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

Stock Code: 20

### **2017 Final Results Announcement**

#### *Sturdy core business*

#### **Hong Kong Properties (“HKP”) Highlights**

- **Total HKP transactions** increased by 18% to a new record of HK\$26.1 billion.
- **8 Bay East** was transacted for HK\$9.0 billion, proving sustainable demand to drive Kowloon East’s development.
- **Residential sales** maintained a steady momentum and achieved HK\$17.1 billion:
  - **MONTEREY** presold 657 units for HK\$5.9 billion
  - **OASIS KAI TAK** presold 306 units for HK\$3.0 billion
  - **MOUNT NICHOLSON** sold an additional five houses and 14 apartments for HK\$9.4 billion, translating to HK\$4.7 billion on attributable basis
- **Residential sales recognition** increased to HK\$24.2 billion, driven by five developments completed during the year and MOUNT NICHOLSON.
- **Land bank** spans over Hong Kong’s key strategic regions with a diverse mix of products of 7.1 million square feet.
- **Net order book** was HK\$8.8 billion, with contribution from successful launches of MONTEREY and OASIS KAI TAK.
- Subsequent to 31 December 2017:
  - Acquired a residential site in Kowloon Tong in January 2018 for HK\$12.5 billion via public tender.
  - Entered into a Binding Offer to acquire a residential site in Kai Tak for HK\$6.4 billion.

## Wheelock Group Financials

- Group's core profit increased by 2% to HK\$12.0 billion.
- Attributable core profit from Wharf Holdings increased by 18% to HK\$9.8 billion.
- Prudent balance sheet and holding power with Wheelock's own net gearing before consolidation at 12%.

## GROUP RESULTS

Excluding investment property revaluation gain and exceptional items, core profit was HK\$11,989 million (2016: HK\$11,811 million).

Group profit attributable to equity shareholders was HK\$20,570 million (2016: HK\$16,294 million). Earnings per share were HK\$10.09 (2016: HK\$8.02).

## DIVIDENDS

A first interim dividend of 47.5 cents per share was paid on 18 September 2017. In lieu of a final dividend, a second interim dividend ("Second Interim Dividend") of 95.0 cents per share will be paid on 27 April 2018 to Shareholders on record as at 13 April 2018. Total distribution for the year 2017 will amount to HK\$1.425 (2016: HK\$1.300) per share.

## BUSINESS REVIEW

### Hong Kong Properties ("HKP")

Total **HKP transactions** increased by 18% to a new record of **HK\$26.1 billion**.

On **commercial sales**, 8 Bay East was disposed en-bloc for **HK\$9.0 billion**. It is a Grade A commercial building located in the heart of Hong Kong's new CBD, at Kowloon East overlooking the Victoria Harbour and currently under development. The transaction was completed on 29 December 2017 and once again demonstrated strong demand for quality office premises in Kowloon East which will boost the area's future development. Following the successful en-bloc sales of One Bay East and One HarbourGate, 8 Bay East is the eighth office tower sold since 2010. Altogether, these office transactions have generated HK\$37 billion of sales to the Group.

On **residential sales**, a steady momentum has been maintained during the year to achieve **HK\$17.1 billion**, affirming our established brand recognition and proven sales capabilities. A total of 1,325 residential units were sold or presold with over 95% of sell-through rate on launched units.

**MONTEREY**, the grand finale in the O'SOUTH portfolio, had presold 657 units for **HK\$5.9 billion** since its debut in March 2017. It is a low-density residential development surrounded by a green field and offers panoramic harbour view. A 40,000 square feet prestigious clubhouse and a well-developed transportation network nearby amplify its uniqueness. Together with previous developments in O'SOUTH, namely, THE PARKSIDE, CAPRI and SAVANNAH, a total of HK\$21.0 billion in sales was generated from the O'SOUTH portfolio, about one-third of the region's sales. The remaining 269 units with the best harbour views and facings are collectively branded as GRAND MONTEREY, and will be selectively launched in 2018.

**OASIS KAI TAK**, a riverside residential development within a minute's walking distance to the future Kai Tak MTR station, is the last of the six residential sites tendered by the Government in Kai Tak back in 2014. Its debut in September 2017 received positive market feedback with over ten times over-subscription. All 306 residential units launched during the year were presold for **HK\$3.0 billion**. This development is situated in the heart of the Kai Tak New Development Area with Kai Tak river views. Club Oasis, a luxurious clubhouse, and Oasis Garden, the central garden designed by a world-class landscaping team, further enhances the greenness of living.

**MOUNT NICHOLSON**, an ultra-luxury residential development on the Peak, successfully generated HK\$19.1 billion of sales since its debut in February 2016. During the year, 14 apartments and five houses were sold for **HK\$9.4 billion**, of which HK\$4.7 billion was attributable to the Group. House No. 3 was sold for HK\$1.2 billion. Apartments 12C & D, two adjoining units, were sold for a new record of HK\$132,000 per square foot. This promising result once again reflected the continuous demand for prestigious and exclusive living on the Peak. Remaining apartments and houses will be selectively launched in 2018, and we expect to see continuous demand for distinguished living at an exclusive address.

**ONE HOMANTIN** presold an additional 109 residential units for **HK\$1.4 billion** during the year. Altogether, 471 units were presold for HK\$5.7 billion since its debut in March 2016. This development is located in Kowloon's traditional high-end district, with renowned schools network and proximity to Ho Man Tin MTR station. Moreover, the green environment and numerous recreational facilities nearby further enhance its attractiveness and market demand.

**NAPA** presold an additional 190 residential units for **HK\$1.3 billion** during the year. Up to December 2017, more than 80% of 400 apartments were presold for HK\$2.3 billion. The launch of GRAND NAPA, featuring 60 houses surrounded by lush green hills is progressing to plan. This development is strategically located in close proximity to the Hong Kong International Airport and the soon to be completed Hong Kong–Zhuhai–Macau Bridge.

**Sales recognition** increased to HK\$33.2 billion. On the residential side, five developments obtained occupation permits during the year, including CAPRI, ONE HOMANTIN, SAVANNAH, NAPA and ISLAND RESIDENCE. Together with MOUNT NICHOLSON, totally HK\$24.2 billion of residential sales were recognised. On the commercial side, the disposal of 8 Bay East of HK\$9.0 billion was completed during the year. Presold but not yet completed contracted sales, i.e. **net order book**, was HK\$8.8 billion, driven mainly by the successful launches of MONTEREY and OASIS KAI TAK.

**Land bank** under management amounted to **7.1 million square feet** as at 31 December 2017. The size of this land bank is adequate to fulfill development needs over the coming years. Our diverse land bank contains Peak collection, MTR residences, waterfront living, suburban houses and commercial properties. A waterfront residential site in Kowloon West, adjacent to the Nam Cheong MTR interchange station, was acquired through a joint-venture with Sino Land, K. Wah, SEA Holdings and Shimao in November 2017. Following this acquisition, our urban-focused land bank spans over Hong Kong's key strategic regions, including the Peak, CBDs, O'SOUTH and O'EAST. A significant portion of this land bank is situated in Kowloon East. Though there are no office developments under construction presently, it is evident from multinational corporations' keen interest in setting up their regional offices in the area, our land bank is well-positioned to benefit from the clustering of international financial institutions, re-energizing of the Kwun Tong town center and improving transportation connectivity, including the planned Cross Bay Link and Tseung Kwan O – Lam Tin Tunnel to LOHAS.

Subsequent to 31 December 2017, a residential site in Kowloon Tong commanding a total GFA of 436,000 square feet was acquired by WHL in January 2018 via public tender. The site is strategically located at the junction of Lion Rock Tunnel Road and Lung Cheung Road, near the traditional luxury residential area of Beacon Hill with a prestigious school network. On 8 March 2018, the Group entered into the Binding Offer to acquire a residential site in Kai Tak commanding a maximum GFA of 425,361 square feet. The transaction offers an opportunity for the Group to expand its development property portfolio in Kai Tak area which at present comprises OASIS KAI TAK.

### **Corporate Social Responsibility (“CSR”) and Business-in-Community**

On **sustainable development**, Wheelock and its Hong Kong Properties arm, Wheelock Properties Limited (“WPL”), jointly published the 2016 CSR Report. This CSR Report, consistent with previous years, was prepared in accordance with Global Reporting Initiative (GRI) G4 standard and independently verified. Featuring a maximised 20% of greenery area by fully utilising roof, vertical wall and podium, 8 Bay East has been awarded U.S. LEED Platinum Pre-certification (the highest standard) and HK BEAM Plus Gold Pre-certification in recognition of its contributions in sustainability. Noticeable, the Company has been admitted into a constituent member of Hang Seng Corporate Sustainability Benchmark Index since September 2017, reflecting the recognition of our effort in corporate sustainability.

WPL has not only been awarded “Corporate Social Responsibility Project of the Year” by Royal Institution of Chartered Surveyors Hong Kong for four consecutive years, but also the “Top 10 Developers Award” by BCI Asia for six consecutive years. These prominent achievements once again demonstrate confidence in our quality and recognition of our commitment to sustainable and green development.

Project *WeCan* continues to be the Group’s key business-in-community initiative, providing students who are disadvantaged in learning with opportunities and care to empower them for pursuing higher educations and future careers. With the support of corporate sponsors and volunteers, the programme currently has 53 secondary schools participated, benefiting 50,000 students in Hong Kong. During the year, the 5th Young Innovators Bazaar was held in February 2017 to give 1,000 participating students a first-hand experience of entrepreneurship by developing a viable business plan to source and sell their products at the Bazaar. It was also our first time to partner with the Global Business programme of the Hong Kong University of Science and Technology to form coaching teams to support participating students. Fung Kai No. 1 Secondary School and Ng Yuk Secondary School, two secondary schools supported by the Company and WPL, won seven prizes in total, including “Most Favorite Booth” and “Best Team Spirit”.

Meanwhile, Wheelock Internship Program expanded the candidate pool from one to four education institutions in Hong Kong, offering more opportunities for aspiring interior design graduates. This program was established by WPL in 2016 that aims to sponsor outstanding interior design graduates undertaking internships in overseas professional design practices, helping them to become well-rounded professionals with exposure to the right skill sets.

On **art and culture**, WPL organised the 5th photo competition by joining arms with National Geographic, offering emerging photographers in Hong Kong an international platform to showcase their work. Moreover, the “Sharing Your Moments in Kai Tak” Facebook campaign for charity sale was held to support local art development. All proceeds donated would go to “kaiTak, Centre for Research and Development in Visual Arts” of the Hong Kong Baptist University to support their research in community-engaged arts. Last but not least, Wheelock Gallery in Admiralty supported the “2017 where to find heART” Charity Art Exhibition co-hosted by Find Arts Studio and iCare Edutainment in July 2017 to showcase over 200 child painters’ drawings. All donations would be used to support i-Care’s service for underprivileged SEN students.

On **community service**, WPL joined hands again with Hong Chi Association to organise the Christmas eCard Design Competition and unleashed Hong Chi students' creativity. During the year, staff volunteers also participated in Hong Chi's flag day, as well as mooncakes and cookies charity sales. Furthermore, staff volunteers actively participated in other community and charity events, including Hunger Run 2017 and Hike for Hospice to build a caring Hong Kong together with community partners.

**Wheelock and Company Limited is the majority shareholder of The Wharf (Holdings) Limited, Wharf Real Estate Investment Company Limited and Wheelock Properties (Singapore) Limited. Below is a report on their operations and achievements during 2017.**

### **The Wharf (Holdings) Limited (“WHL”) 62.5% Equity Investment**

HKP delivered a solid result during the year with operating profit increased by 21% to HK\$2,907 million. Raising the bar for luxury living, WHL's Peak Portfolio showcases a landmark collection of the most prestigious residences nestled on the Peak. While launches of MOUNT NICHOLSON are progressing well, redevelopment of the other Peak projects including 77 Peak Road, 1 Plantation Road and 11 Plantation Road are also progressing to plan. WHL's "Kowloon East Waterfront Portfolio" is poised to tap the opportunities emerging from CBD2. Among which, Kowloon Godown is pending redevelopment. Following the general building plan for the open yard has been approved in 2016; its general building plan for revitalisation scheme was submitted in September 2017.

China investment properties ("IP") continued to benefit from International Finance Square's ("IFS") steady contribution. During the year, Chongqing IFS's retail mall was opened to tap the huge, experience-based retail or consumer markets in the region and to take the retail experience to the next level. Changsha IFS, inclusive of an enormous 246,000-square-metre mall, is scheduled to open in mid-2018. On China development properties ("DP"), attributable interest in contracted sales decreased by 19% to RMB25.3 billion, mainly due to a series of sustained cooling measures in China. However, operating profit surged by 99% to HK\$10,207 million, thanks to the full completion of good-margin Suzhou Times City. DP land bank was maintained at 3.9 million square metres.

The logistics segment constituted a steady source of cash flow. WHL manages 16 hotels in China, Hong Kong and the Philippines under the brand of Marco Polo Hotels and Niccolo Hotels.

### **Wharf Real Estate Investment Company Limited (“Wharf REIC”) 61.7% Equity Investment**

Harbour City continued to outperform the market in an improving retail environment, with 6% increase in operating profit to HK\$8,311 million. Times Square's operating profit declined by 1% to HK\$2,518 million. Meanwhile, constant enhancement of retail offer and compelling marketing strategies continued to drive performance of Plaza Hollywood, with operating profit increased by 6% to HK\$439 million. On the other hand, office revenue reflected solid rental reversion and stable rents for new commitments.

Wheelock House and Crawford House, part of our Central Portfolio, performed solidly with 15% increase in operating profit and positive rental reversions.

The Murray, Hong Kong, a Niccolo Hotel, has been opened for business in January 2018. As an integral part of the Conserving Central initiative, the ceremony officiated by guest-of-honour, Mrs. Carrie Lam, Chief Executive of the HKSAR was held on 20 December 2017 to commemorate the completion of the preservation of The Murray and to celebrate the 20th anniversary of the HKSAR.

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

WPSL continued to deliver stable performance. On DP, 233 residential units were sold for S\$460.1 million. On IP, Wheelock Place office tower and retail portion achieved 97% occupancy whilst Scotts Square retail was 98% occupied as at 31 December 2017.

### **FINANCIAL REVIEW**

#### **(I) Review of 2017 results**

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

Wheelock and Company’s own core profit decreased by 64% to HK\$1,109 million (2016: HK\$3,085 million), was mainly due to recognition of One HarbourGate’s profit in 2016.

##### **Wheelock Group**

Group’s core profit increased by 2% to HK\$11,989 million (2016: HK\$11,811 million).

Group profit attributable to equity shareholders increased by 26% to HK\$20,570 million (2016: HK\$16,294 million), mainly due to higher IP revaluation surplus in 2017.

##### **Revenue and Operating Profit**

Group revenue and operating profit increased by 17% and 13% to HK\$70,953 million (2016: HK\$60,579 million) and HK\$23,857 million (2016: HK\$21,135 million) respectively.

##### ***Investment Property (“IP”)***

Revenue and operating profit both increased by 5% to HK\$16,529 million (2016: HK\$15,736 million) and HK\$13,520 million (2016: HK\$12,837 million) respectively. In Hong Kong, both revenue and operating profit increased by 4%. Harbour City revenue and operating profit achieved growth by 5% and 6%, respectively. In Mainland China, revenue and operating profit increased by 12% and 16% respectively, supported by Chengdu IFS in particular.

##### ***Development Property (“DP”)***

Revenue and operating profit increased by 31% and 28% to HK\$47,836 million (2016: HK\$36,539 million) and HK\$9,312 million (2016: HK\$7,253 million) respectively.

In Hong Kong, recognised property sales increased by 40% to HK\$18,908 million (2016: HK\$13,497 million) while operating profit decreased by 70% to HK\$1,142 million (2016: HK\$3,772 million). CAPRI, ONE HOMANTIN, SAVANNAH, NAPA and Island Residence were completed in 2017, enabling revenue recognition of HK\$4,077 million, HK\$5,767 million, HK\$5,527 million, HK\$2,337 million and HK\$1,088 million respectively.

In Mainland China, recognised property sales increased to HK\$23,396 million (2016: HK\$21,670 million) and operating profit increased by 142% to HK\$7,841 million (2016: HK\$3,234 million) with completion of higher margin projects.

### ***Hotels***

Revenue and operating profit increased by 6% and 32% to HK\$1,686 million (2016: HK\$1,587 million) and HK\$381 million (2016: HK\$289 million) respectively. Hong Kong revenue increased with improved occupancies while the newly opened hotels in Mainland China have started to contribute.

### ***Logistics***

Logistic revenue increased by 3% at HK\$2,817 million (2016: HK\$2,748 million) while operating profit decreased by 7% to HK\$667 million (2016: HK\$719 million), mainly attributable to higher operating cost from Modern Terminals.

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

CME disposed i-CABLE in September 2017 and Wharf T&T in November 2016. The Group has exited the CME segment and will reinvest in CME2. This led to significant decline of revenue to HK\$874 million (2016: HK\$3,145 million) and operating loss HK\$294 million (2016: profit of HK\$59 million).

### ***Investment and Others***

Operating profit of investment and others increased by 13% amounted to HK\$811 million (2016: HK\$719 million), partly contributed from the Group’s equity and bond investments.

### **Fair Value Gain of IP**

The book value of the Group’s IP portfolio as at 31 December 2017 increased by 5% to HK\$346.4 billion (2016: HK\$329.1 billion), with HK\$324.7 billion thereof stated at fair value based on independent valuation as at that date. That resulted in a revaluation gain of HK\$9,860 million for the year (2016: HK\$597 million), which was credited to the consolidated income statement.

IP under development of HK\$21.7 billion is carried at cost and will not be carried at fair value until the earlier of when the fair values first become reliably measurable or the dates of their respective completion.

### **Other Net Income**

Other net income amounted to HK\$4,478 million (2016: HK\$6,341 million), comprising mainly a gain of HK\$4,499 million arising from the disposal of 8 Bay East by WHL (2016: mainly a gain of HK\$7,260 million arising from the disposal of WHL’s entire equity interest in Wharf T&T).

### **Finance Costs**

Finance costs charged to the consolidated income statement were HK\$1,154 million (2016: HK\$1,484 million). Excluding the unrealised mark-to-market gain of HK\$300 million (2016: HK\$261 million) on swaps, finance costs decreased by 22% to HK\$2,547 million (2016: HK\$3,262 million) before capitalisation of HK\$1,093 million (2016: HK\$1,517 million), and HK\$1,454 million (2016: HK\$1,745 million) after capitalisation. The Group’s effective borrowing rate for the year was 3.2% (2016: 3.2%) per annum.

### **Share of Results of Associates and Joint Ventures**

Share of profits of associates increased by 24% to HK\$1,471 million (2016: HK\$1,190 million), mainly due to increase in profit contributions from DP in Mainland China.

Share of profits of joint ventures increased to HK\$2,954 million (2016: HK\$1,984 million), mainly attributable to MOUNT NICHOLSON in Hong Kong and higher profit contribution from DP in Mainland China.

## Income Tax

The taxation charge was HK\$8,435 million (2016: HK\$4,691 million), which included deferred taxation of HK\$572 million (2016: HK\$23 million) provided for the revaluation gain of IP located in Mainland China.

Excluding the above deferred taxation, the taxation charge increased by 68% to HK\$7,863 million (2016: HK\$4,668 million), mainly due to DP segment in Mainland China coupled with the increased land appreciation tax provision on certain DP projects in Mainland China sold at relatively high profit margin and higher profits from IP segment.

## Non-controlling Interests (“NCI”)

Profit attributable to NCI increased by 42% to HK\$12,461 million (2016: HK\$8,778 million), mainly due to increase in net profit of WHL and Wharf REIC.

## Profit attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 26% to HK\$20,570 million (2016: HK\$16,294 million). Earnings per share were HK\$10.09 based on weighted average of 2,039 million issued shares (2016: HK\$8.02 based on 2,033 million issued shares).

Excluding the attributable IP revaluation gain (after deducting related deferred tax and NCI) of HK\$5,731 million (2016: HK\$307 million), Group profit attributable to equity shareholders decreased by 7% to HK\$14,839 million (2016: HK\$15,987 million).

Further stripping out the exceptional items, core profit increased by 2% to HK\$11,989 million (2016: HK\$11,811 million). Core earnings per share were HK\$5.88 (2016: HK\$5.81).

Set out below is an analysis of the Group profit attributable to equity shareholders as contributed by each of Wheelock, WHL, Wharf REIC and WPSL.

	<b>2017</b>	2016
	<b>HK\$ Million</b>	HK\$ Million
Profit attributable to		
Wheelock and Company	<b>1,109</b>	3,085
WHL group	<b>9,809</b>	8,298
Wharf REIC group	<b>606</b>	—
WPSL group	<b>465</b>	428
Core profit	<b>11,989</b>	11,811
Attributable gain arising from the disposal of 8 Bay East	<b>2,775</b>	—
Attributable gain arising from the disposal of Wharf T&T	—	4,416
Others	<b>75</b>	(240)
Profit before IP revaluation gain	<b>14,839</b>	15,987
IP revaluation gain (after deferred tax)	<b>5,731</b>	307
Profit attributable to equity shareholders	<b>20,570</b>	16,294

WHL’s profit for the year ended 31 December 2017 increased to HK\$21,876 million (2016: HK\$21,440 million). Excluding the exceptional items, WHL’s core profit increased by 14% to HK\$15,718 million (2016: HK\$13,754 million).

Wharf REIC’s profit for the year ended 31 December 2017 was HK\$17,218 million. Excluding the exceptional items, Wharf REIC’s core profit was HK\$9,500 million.

WPSL's profit for the year ended 31 December 2017 was S\$115.2 million (2016: S\$58.3 million), according to the accounting standards adopted in Singapore. In accordance with Hong Kong Financial Reporting Standards, WPSL's contributed profit to the Group was HK\$686 million (2016: HK\$296 million).

## **(II) Liquidity, Financial Resources and Capital Commitments**

### **Shareholders' and Total Equity**

Shareholders' equity increased by 12% to HK\$241.7 billion (2016: HK\$215.4 billion), or HK\$118.37 per share based on 2,042 million issued shares (2016: HK\$105.85 per share based on 2,035 million issued shares) as at 31 December 2017.

Including the NCI, the Group's total equity increased by 11% to HK\$387.8 billion (2016: HK\$349.5 billion).

### **Assets and Liabilities**

The Group's total assets were HK\$569.7 billion (2016: HK\$520.4 billion). Total business assets, i.e. excluding bank deposits and cash, financial and deferred tax assets, slightly decreased to HK\$487.3 billion (2016: HK\$468.1 billion).

Geographically, the Group's business assets in Mainland China, mainly properties and terminals, increased to HK\$136.9 billion (2016: HK\$122.6 billion), representing 28% (2016: 26%) of the Group's total business assets.

### **Investment Properties**

The Group's IP portfolio, included in the Group's total assets, increased by 5% to HK\$346.4 billion (2016: HK\$329.1 billion), representing 71% of total business assets. Harbour City (excluding the three hotels) and Times Square in Hong Kong were valued at HK\$226.9 billion, representing 66% of the value of the portfolio.

### **Properties for Sale**

DP amounted to HK\$58.5 billion (2016: HK\$70.1 billion), mainly comprised of properties in Hong Kong of HK\$31.5 billion, in Mainland China of HK\$26.6 billion and in Singapore of HK\$0.4 billion, which were held for sale as at 31 December 2017.

### **Interests in Associates and Joint Ventures**

Interests in associates and joint ventures amounted to HK\$41.9 billion (2016: HK\$35.1 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\$14.9 billion (2016: HK\$30.6 billion), reflecting contracted sales in Mainland China, Hong Kong and Singapore pending revenue recognition.

## Debt and Gearing

The Group's net debt was increased by 13% or HK\$6.7 billion to HK\$57.7 billion (2016: HK\$51.0 billion) as at 31 December 2017. The net debt comprised debt of HK\$114.2 billion less bank deposits and cash of HK\$56.5 billion (including WHL's and Wharf REIC's deposits and cash of HK\$13.5 billion and HK\$2.6 billion placed with banks in the Mainland respectively and Wheelock and Company's own deposits of HK\$0.4 billion placed with banks in Hong Kong with maturity over three months). Excluding WHL's net cash of HK\$9.3 billion, Wharf REIC's net debt of HK\$42.5 billion, and WPSL's net cash of HK\$4.5 billion, which were non-recourse to the Company and its wholly-owned subsidiaries, Wheelock and Company's own net debt decreased by HK\$0.7 billion to HK\$29.0 billion (2016: HK\$29.7 billion). An analysis of the net debt by group is shown below:

	<b>2017</b>	2016
Net debt/(cash)	<b>HK\$ Million</b>	HK\$ Million
Wheelock and Company	<b>29,012</b>	29,674
WHL group	<b>(9,288)</b>	23,837
Wharf REIC group	<b>42,476</b>	—
WPSL group	<b>(4,483)</b>	(2,534)
Group	<b><u>57,717</u></b>	<u>50,977</u>

As at 31 December 2017, the net debt to total equity (on a consolidated basis) was increased to 14.9% (2016: 14.6%). Excluding the net debt of WHL and Wharf REIC and net cash of WPSL, Wheelock and Company's own net debt to shareholders' equity (on an attributable net asset value basis) declined to 12.0% (2016: 13.8%).

## Finance and Availability of Facilities

As at 31 December 2017, the Group's available loan facilities and issued debt securities amounted to HK\$157.7 billion (2016: HK\$146.5 billion), of which HK\$114.2 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	60.3	32.2	28.1
WHL group	43.0	36.4	6.6
Wharf REIC group	54.4	45.6	8.8
WPSL group	—	—	—
Group	<b><u>157.7</u></b>	<b><u>114.2</u></b>	<b><u>43.5</u></b>

Of the above debt, HK\$12.1 billion (2016: HK\$13.6 billion) was secured by mortgages over certain DP, IP and property, plant and equipment with a total carrying value of HK\$42.3 billion (2016: HK\$43.5 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 SGD, 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\$29.0 billion (2016: HK\$9.5 billion) as at 31 December 2017, which is immediately available for liquidation 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 inflows was HK\$23.9 billion (2016: HK\$21.8 billion). The changes in working capital and others of HK\$6.7 billion (2016: HK\$9.8 billion) decreased the net cash inflow from operating activities to HK\$17.2 billion (2016: increased to HK\$31.6 billion). For investing activities, the Group recorded a net cash outflow of HK\$15.7 billion (2016: HK\$5.9 billion), mainly due to the acquisition of equity and bond investments.

### Major Capital and Development Expenditure and Commitments

The Group's major capital and development expenditure incurred in 2017 is analysed as follows:

#### A. Major Capital and Development Expenditure

	Hong Kong / Singapore HK\$ Million	Mainland China HK\$ Million	Total HK\$ Million
<b>Wheelock and Company</b>			
IP	548	—	548
DP	7,397	—	7,397
	7,945	—	7,945
<b>WHL group</b>			
IP	1,716	2,515	4,231
DP	207	26,003	26,210
Non property and others	1,523	12	1,535
	3,446	28,530	31,976
<b>Wharf REIC group</b>			
IP	111	342	453
DP	—	1	1
Non property and others	635	1	636
	746	344	1,090
<b>WPSL group</b>			
IP	5	—	5
DP	124	237	361
	129	237	366
<b>Analysis by segment:</b>			
IP	2,380	2,857	5,237
DP	7,728	26,241	33,969
Non property and others	2,158	13	2,171
<b>Group total</b>	12,266	29,111	41,377

- i. Wheelock and Company's own expenditure for IP and DP amounted to HK\$7.9 billion, mainly attributable to the construction cost payments for its Hong Kong DP projects.
- ii. WHL's expenditure totalled HK\$32.0 billion, comprising expenditure of HK\$4.2 billion for IP (mainly construction costs of the IFS projects in Mainland China), HK\$26.2 billion for DP and HK\$1.6 billion for Hotels, Modern Terminals and i-CABLE.
- iii. Wharf REIC's expenditure totaled HK\$1.1 billion, comprising expenditure of HK\$0.5 billion for IP (mainly construction costs of the Suzhou IFS project) and HK\$0.6 billion for Hotels for the period from 21 November 2017 (date of spin-off from WHL) to 31 December 2017.
- iv. WPSL's expenditure of HK\$0.4 billion was mainly for construction cost payments for its Singapore and Mainland China DP projects.

## B. Commitments to Capital and Development Expenditure

As at 31 December 2017, the Group's major commitments to capital and development expenditure to be incurred in the forthcoming years were estimated at HK\$53.3 billion, of which HK\$22.1 billion was committed. By segment, the commitments are analysed as follows:

	As at 31 December 2017		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
<b>Wheelock and Company</b>			
IP	—	—	—
DP	12,372	6,022	18,394
	12,372	6,022	18,394
<b>WHL group</b>			
IP	3,260	5,409	8,669
DP	4,641	12,517	17,158
Non property and others	113	26	139
	8,014	17,952	25,966
<b>Wharf REIC group</b>			
IP	1,557	3,371	4,928
DP	119	2,113	2,232
Non property and others	16	120	136
	1,692	5,604	7,296
<b>WPSL group</b>			
IP	2	—	2
DP	64	1,577	1,641
	66	1,577	1,643
Analysis by segment:			
IP	4,819	8,780	13,599
DP	17,196	22,229	39,425
Non property and others	129	146	275
<b>Group total</b>	<b>22,144</b>	<b>31,155</b>	<b>53,299</b>
Hong Kong IP	1,091	468	1,559
Hong Kong DP	12,372	6,022	18,394
China IP	3,726	8,312	12,038
China DP	4,824	16,207	21,031
Singapore	2	—	2
Properties total	22,015	31,009	53,024
Non property and others	129	146	275
<b>Group total</b>	<b>22,144</b>	<b>31,155</b>	<b>53,299</b>

- i. Wheelock and Company's own commitments of HK\$18.4 billion mainly relate to construction costs for DP in Hong Kong.
- ii. WHL's commitments of HK\$26.0 billion mainly comprise of expenditure of HK\$8.7 billion for IP, HK\$17.2 billion construction costs for DP and HK\$0.1 billion mainly for Modern Terminals.
- iii. Wharf REIC's commitments of HK\$7.3 billion mainly comprise of expenditure of HK\$4.9 billion for IP, HK\$2.3 billion construction costs for DP and HK\$0.1 billion mainly for Hotels.
- iv. WPSL's commitments of HK\$1.6 billion mainly relate to construction costs of HK\$1.6 billion 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 12,600 employees as at 31 December 2017, 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.

**CONSOLIDATED INCOME STATEMENT**  
for the year ended 31 December 2017

	Note	2017 HK\$ Million	2016 HK\$ Million
<b>Revenue</b>	2	<b>70,953</b>	60,579
Direct costs and operating expenses		<b>(42,264)</b>	(34,447)
Selling and marketing expenses		<b>(2,198)</b>	(1,956)
Administrative and corporate expenses		<b>(1,650)</b>	(1,629)
Operating profit before depreciation, amortisation, interest and tax		<b>24,841</b>	22,547
Depreciation and amortisation	3	<b>(984)</b>	(1,412)
<b>Operating profit</b>	2 & 3	<b>23,857</b>	21,135
Increase in fair value of investment properties		<b>9,860</b>	597
Other net income	4	<b>4,478</b>	6,341
		<b>38,195</b>	28,073
Finance costs	5	<b>(1,154)</b>	(1,484)
Share of results after tax of :			
Associates		<b>1,471</b>	1,190
Joint ventures		<b>2,954</b>	1,984
Profit before taxation		<b>41,466</b>	29,763
Income tax	6	<b>(8,435)</b>	(4,691)
<b>Profit for the year</b>		<b>33,031</b>	25,072
<b>Profit attributable to:</b>			
Equity shareholders		<b>20,570</b>	16,294
Non-controlling interests		<b>12,461</b>	8,778
		<b>33,031</b>	25,072
<b>Earnings per share</b>	7		
Basic		<b>HK\$10.09</b>	HK\$8.02
Diluted		<b>HK\$10.06</b>	HK\$8.01

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2017**

	<b>2017</b>	<b>2016</b>
	<b>HK\$ Million</b>	<b>HK\$ Million</b>
<b>Profit for the year</b>	<b>33,031</b>	<b>25,072</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange gains/(losses) on:	<b>5,448</b>	(5,652)
Translation of foreign operations	<b>5,448</b>	(5,652)
Net deficit on bond investments:	<b>(2)</b>	(28)
Deficit on revaluation	<b>—</b>	(9)
Transferred to profit or loss on disposal	<b>(2)</b>	(19)
Share of other comprehensive income of associates/joint ventures	<b>1,075</b>	(1,099)
Others	<b>5</b>	14
<b>Item that will not be reclassified to profit or loss:</b>		
Fair value changes on equity investments	<b>4,090</b>	(747)
Revaluation on reclassification of other properties	<b>1,427</b>	—
<b>Other comprehensive income for the year</b>	<b>12,043</b>	<b>(7,512)</b>
<b>Total comprehensive income for the year</b>	<b>45,074</b>	<b>17,560</b>
<b>Total comprehensive income attributable to:</b>		
Equity shareholders	<b>28,425</b>	11,911
Non-controlling interests	<b>16,649</b>	5,649
	<b>45,074</b>	<b>17,560</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**at 31 December 2017**

	Note	2017 HK\$ Million	2016 HK\$ Million
<b>Non-current assets</b>			
Investment properties		346,442	329,057
Property, plant and equipment		21,772	20,756
Interest in associates		25,533	17,539
Interest in joint ventures		16,390	17,578
Equity and bond investments		29,001	9,530
Goodwill and other intangible assets		298	298
Deferred tax assets		1,336	705
Derivative financial assets		204	324
Other non-current assets		1,158	609
		<u>442,134</u>	<u>396,396</u>
<b>Current assets</b>			
Properties for sale		58,518	70,050
Inventories		12	29
Trade and other receivables	9	12,359	9,567
Derivative financial assets		175	429
Bank deposits and cash		56,474	43,964
		<u>127,538</u>	<u>124,039</u>
<b>Total assets</b>		<u>569,672</u>	<u>520,435</u>
<b>Non-current liabilities</b>			
Derivative financial liabilities		(814)	(2,073)
Deferred tax liabilities		(13,535)	(10,700)
Other deferred liabilities		(314)	(305)
Bank loans and other borrowings		(79,021)	(69,055)
		<u>(93,684)</u>	<u>(82,133)</u>
<b>Current liabilities</b>			
Trade and other payables	10	(32,314)	(28,881)
Deposits from sale of properties		(14,861)	(30,599)
Derivative financial liabilities		(347)	(777)
Taxation payable		(5,473)	(2,639)
Bank loans and other borrowings		(35,170)	(25,886)
		<u>(88,165)</u>	<u>(88,782)</u>
<b>Total liabilities</b>		<u>(181,849)</u>	<u>(170,915)</u>
<b>NET ASSETS</b>		<u>387,823</u>	<u>349,520</u>
<b>Capital and reserves</b>			
Share capital	11	3,418	3,075
Reserves		238,266	212,290
<b>Shareholders' equity</b>		<u>241,684</u>	<u>215,365</u>
<b>Non-controlling interests</b>		146,139	134,155
<b>TOTAL EQUITY</b>		<u>387,823</u>	<u>349,520</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The financial information have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong). These financial information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the financial information are consistent with those used in the annual financial statements for the year ended 31 December 2016 except for the changes mentioned below.

The HKICPA has issued certain amendments to HKFRSs which are first effective for the current accounting period of the Group. The amendments do not have a significant impact on the Group’s results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for HKFRS 9, Financial instruments, since the consolidated financial statements for the year ended 31 December 2016.

The financial information relating to the years ended 31 December 2017 and 2016 included in this announcement of annual results does not constitute the Company’s statutory annual financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course. The Company’s auditor has reported on those financial statements for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

## 2. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined five reportable operating segments for measuring performance and allocating resources. The segments are investment property, development property, hotels, logistics and communications and media and entertainment (“CME”). No operating segments have been aggregated to form the reportable segments.

Investment property segment primarily includes property leasing operations. Currently, the Group’s properties portfolio, which mainly consists of retail, office and serviced apartments, is primarily located in Hong Kong, Mainland China and Singapore.

Development property segment encompasses activities relating to the acquisition, development, design, construction, sale and marketing of the Group’s trading properties, which are primarily in Hong Kong, Mainland China and Singapore.

Hotels segment includes hotel operations in the Asia Pacific region which are operated by The Wharf (Holdings) Limited (“WHL”) and Wharf Real Estate Investment Company Limited (“Wharf REIC”).

Logistics segment mainly includes the container terminal operations in Hong Kong and Mainland China undertaken by Modern Terminals Limited (“Modern Terminals”), Hong Kong Air Cargo Terminals Limited and other public transport operations.

CME segment comprises pay television, internet and multimedia and other businesses. The Group has exited CME businesses in September 2017 upon the completion of distribution in specie of i-CABLE Communications Limited (“i-CABLE”).

Management evaluates performance primarily based on operating profit as well as the equity share of results of associates and joint ventures of each segment. Inter-segment pricing is generally determined on an arm’s length basis.

Segment business assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, certain equity and bond investments, deferred tax assets and derivative financial assets.

Revenue and expenses are allocated with reference to sales generated by those segments and expenses incurred by those segments or which arise from the depreciation of assets attributable to those segments.

(a) Analysis of segment revenue and results

	Revenue HK\$ Million	Operating profit HK\$ Million	Investment properties fair value HK\$ Million	Other net income HK\$ Million	Finance costs HK\$ Million	Associates HK\$ Million	Joint ventures HK\$ Million	Profit before taxation HK\$ Million
For the year ended								
31 December 2017								
Investment property	16,529	13,520	9,860	(10)	(1,216)	-	-	22,154
Hong Kong	13,552	11,846	8,749	-	(1,056)	-	-	19,539
Mainland China	2,635	1,458	1,111	(10)	(160)	-	-	2,399
Singapore	342	216	-	-	-	-	-	216
Development property	47,836	9,312	-	674	(102)	1,161	2,944	13,989
Hong Kong	18,908	1,142	-	-	(76)	4	2,386	3,456
Mainland China	23,396	7,841	-	605	(26)	1,157	558	10,135
Singapore	5,532	329	-	69	-	-	-	398
Hotels	1,686	381	-	-	(3)	-	-	378
Logistics	2,817	667	-	104	(184)	278	12	877
Terminals	2,703	649	-	145	(184)	170	12	792
Others	114	18	-	(41)	-	108	-	85
CME (i-CABLE)	874	(294)	-	86	(7)	-	-	(215)
Inter-segment revenue	(270)	-	-	-	-	-	-	-
Segment total	69,472	23,586	9,860	854	(1,512)	1,439	2,956	37,183
Investment and others	1,481	811	-	3,624	358	32	(2)	4,823
Corporate expenses	-	(540)	-	-	-	-	-	(540)
Group total	70,953	23,857	9,860	4,478	(1,154)	1,471	2,954	41,466

For the year ended								
31 December 2016								
Investment property	15,736	12,837	597	(49)	(1,394)	-	-	11,991
Hong Kong	13,035	11,356	1,286	54	(1,349)	-	-	11,347
Mainland China	2,350	1,253	(376)	(103)	(45)	-	-	729
Singapore	351	228	(313)	-	-	-	-	(85)
Development property	36,539	7,253	-	(411)	(145)	875	1,973	9,545
Hong Kong	13,497	3,772	-	-	(81)	1	1,634	5,326
Mainland China	21,670	3,234	-	(457)	(52)	874	339	3,938
Singapore	1,372	247	-	46	(12)	-	-	281
Hotels	1,587	289	-	-	(4)	-	-	285
Logistics	2,748	719	-	(161)	(152)	244	11	661
Terminals	2,635	710	-	(120)	(152)	166	11	615
Others	113	9	-	(41)	-	78	-	46
CME	3,145	59	-	-	(29)	-	-	30
i-CABLE	1,406	(313)	-	1	(6)	-	-	(318)
Telecommunications	1,739	372	-	(1)	(23)	-	-	348
Inter-segment revenue	(430)	-	-	-	-	-	-	-
Segment total	59,325	21,157	597	(621)	(1,724)	1,119	1,984	22,512
Investment and others	1,254	719	-	6,962	240	71	-	7,992
Corporate expenses	-	(741)	-	-	-	-	-	(741)
Group total	60,579	21,135	597	6,341	(1,484)	1,190	1,984	29,763

**(b) Analysis of inter-segment revenue**

	2017			2016		
	Total revenue	Inter-segment revenue	Group revenue	Total revenue	Inter-segment revenue	Group revenue
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Investment property	16,529	(156)	16,373	15,736	(251)	15,485
Development property	47,836	-	47,836	36,539	-	36,539
Hotels	1,686	-	1,686	1,587	-	1,587
Logistics	2,817	-	2,817	2,748	-	2,748
CME	874	-	874	3,145	(63)	3,082
Investment and others	1,481	(114)	1,367	1,254	(116)	1,138
	<b>71,223</b>	<b>(270)</b>	<b>70,953</b>	<b>61,009</b>	<b>(430)</b>	<b>60,579</b>

**(c) Analysis of segment business assets**

	2017	2016
	HK\$ Million	HK\$ Million
Investment property	351,386	330,337
Hong Kong	276,610	265,355
Mainland China	68,375	59,111
Singapore	6,401	5,871
Development property	108,990	110,493
Hong Kong	47,552	51,511
Mainland China	56,623	50,766
Singapore	4,815	8,216
Hotels	10,118	8,361
Logistics	16,803	17,732
Terminals	15,865	16,727
Others	938	1,005
CME (i-CABLE)	—	1,193
Total segment business assets	487,297	468,116
Unallocated corporate assets	82,375	52,319
Total assets	569,672	520,435

Unallocated corporate assets mainly comprise certain equity and bond investments, deferred tax assets, bank deposits and cash and derivative financial assets.

Segment assets held through associates and joint ventures included in the above are:

	2017	2016
	HK\$ Million	HK\$ Million
Development property	37,242	28,970
Logistics	4,681	5,974
Group total	41,923	34,944

**(d) Other segment information**

	Capital expenditure		Increase in interests in associates and joint ventures		Depreciation and amortisation	
	2017	2016	2017	2016	2017	2016
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million	Million	Million
Investment property	<b>5,237</b>	7,988	-	-	<b>128</b>	112
Hong Kong	<b>2,375</b>	3,514	-	-	<b>32</b>	37
Mainland China	<b>2,857</b>	4,465	-	-	<b>95</b>	74
Singapore	<b>5</b>	9	-	-	<b>1</b>	1
Development property	-	-	<b>6,332</b>	1,130	-	-
Hong Kong	-	-	<b>4</b>	243	-	-
Mainland China	-	-	<b>6,328</b>	887	-	-
Hotels	<b>1,630</b>	1,021	-	-	<b>174</b>	206
Logistics	<b>406</b>	431	-	-	<b>456</b>	421
Terminals	<b>406</b>	431	-	-	<b>454</b>	418
Others	-	-	-	-	<b>2</b>	3
CME	<b>135</b>	497	-	-	<b>225</b>	673
i-CABLE	<b>135</b>	238	-	-	<b>222</b>	324
Telecommunications	-	259	-	-	<b>3</b>	349
Segment total	<b>7,408</b>	9,937	<b>6,332</b>	1,130	<b>983</b>	1,412
Investment and others	-	-	-	-	<b>1</b>	-
Group total	<b>7,408</b>	9,937	<b>6,332</b>	1,130	<b>984</b>	1,412

In addition, the CME segment incurred HK\$74 million (2016: HK\$122 million) for its programming library. The Group had no significant non-cash expenses other than i) impairment provision written back (net) of HK\$1,104 million (2016: provision HK\$1,296 million) made for certain development projects and assets and ii) depreciation and amortisation.

**(e) Geographical information**

	Revenue		Operating profit	
	2017	2016	2017	2016
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	<b>37,427</b>	33,538	<b>13,911</b>	16,422
Mainland China	<b>27,451</b>	25,240	<b>9,226</b>	4,205
Singapore	<b>6,075</b>	1,801	<b>720</b>	508
Group total	<b>70,953</b>	60,579	<b>23,857</b>	21,135

	Specified non-current assets		Total business assets	
	2017	2016	2017	2016
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	<b>298,298</b>	285,975	<b>339,174</b>	331,395
Mainland China	<b>102,435</b>	94,239	<b>136,907</b>	122,634
Singapore	<b>9,817</b>	8,966	<b>11,216</b>	14,087
Group total	<b>410,550</b>	389,180	<b>487,297</b>	468,116

Specified non-current assets exclude deferred tax assets, certain equity and bond investments, derivative financial assets and certain non-current assets.

The geographical location of revenue and operating profit is analysed based on the location at which services are provided and in case of equity instruments, where they are listed. The geographical location of specified non-current assets and total business assets is based on the physical location of operations.

### 3. OPERATING PROFIT

	2017	2016
	HK\$ Million	HK\$ Million
Operating profit is arrived at after charging/(crediting):		
Depreciation and amortisation on		
- assets held for use under operating leases	167	161
- property, plant and equipment	670	1,081
- leasehold land	66	60
- programming library	81	110
Total depreciation and amortisation	<u>984</u>	<u>1,412</u>
Staff costs (Note a)	3,527	4,039
Auditors' remuneration		
- audit services	42	31
- other services	5	3
Cost of trading properties for recognised sales	36,657	27,769
Rental charges under operating leases in respect of telecommunications equipment and services	—	71
Impairment of trade receivables	4	1
Gross rental revenue from investment properties (Note b)	(16,529)	(15,736)
Direct operating expenses of investment properties	2,535	2,743
Rental income under operating leases in respect of owned plant and equipment	(28)	(34)
Interest income (Note c)	(638)	(575)
Dividend income from investments	(315)	(238)
Loss on disposal of property, plant and equipment	<u>8</u>	<u>5</u>

#### Notes:

- (a) Staff costs included contributions to defined contribution pension schemes of HK\$294 million (2016: HK\$315 million), which included MPF schemes (no forfeiture in 2017 (2016: after a forfeiture of HK\$2 million)) and equity settled share-based payment expenses of HK\$75 million (2016: HK\$92 million).
- (b) Rental income included contingent rentals of HK\$1,278 million (2016: HK\$1,114 million).
- (c) Interest income of HK\$603 million (2016: HK\$523 million) was in respect of financial assets, which mainly comprise bank deposits, stated at amortised cost.

#### 4. OTHER NET INCOME

Other net income for the year amounted to HK\$4,478 million (2016: HK\$6,341 million) and mainly comprised:

- (a) A gain of HK\$4,499 million arose from disposal of an investment property.
- (b) Write-back of impairment provision (net) of HK\$1,104 million (2016: provision charge of HK\$1,296 million) on certain development projects and assets.
- (c) Net exchange loss of HK\$703 million (2016: gain of HK\$310 million) which included a fair value loss on forward foreign exchange contracts of HK\$381 million (2016: gain of HK\$76 million).

In 2016, a gain of HK\$7,260 million arising from the disposal of WHL's entire equity interest in Wharf T&T.

#### 5. FINANCE COSTS

	2017 HK\$ Million	2016 HK\$ Million
Interest charged on:		
Bank loans and overdrafts	1,245	1,085
Other borrowings	1,037	1,641
Total interest charge	<u>2,282</u>	<u>2,726</u>
Other finance costs	265	536
Less: Amount capitalised	<u>(1,093)</u>	<u>(1,517)</u>
	<u>1,454</u>	<u>1,745</u>
Fair value (gain)/loss:		
Cross currency interest rate swaps	(433)	48
Interest rate swaps	133	(309)
	<u>(300)</u>	<u>(261)</u>
Total	<u>1,154</u>	<u>1,484</u>

## 6. INCOME TAX

Taxation charged to the consolidated income statement includes:

	2017 HK\$ Million	2016 HK\$ Million
<b>Current income tax</b>		
Hong Kong		
- provision for the year	2,051	2,338
- over-provision in respect of prior years	(8)	(7)
Outside Hong Kong		
- provision for the year	2,669	1,215
- over-provision in respect of prior years	(38)	(61)
	<u>4,674</u>	<u>3,485</u>
<b>Land appreciation tax ("LAT") in Mainland China</b> (Note c)	<u>2,453</u>	<u>727</u>
<b>Deferred tax</b>		
Change in fair value of investment properties	572	23
Origination and reversal of temporary differences	736	518
Benefit of previously unrecognised tax losses now recognised	—	(62)
	<u>1,308</u>	<u>479</u>
<b>Total</b>	<u><b>8,435</b></u>	<u><b>4,691</b></u>

- (a) The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 16.5% (2016: 16.5%).
- (b) Income tax on profits assessable outside Hong Kong is mainly China corporate income tax calculated at a rate of 25% (2016: 25%), China withholding income tax at a rate of up to 10% and Singapore income tax at a rate of 17% (2016: 17%).
- (c) Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds on sales of properties less deductible expenditure including cost of land use rights, borrowing costs and all property development expenditure.
- (d) Tax attributable to associates and joint ventures for the year ended 31 December 2017 of HK\$1,435 million (2016: HK\$1,178 million) is included in the share of results after tax of associates and joint ventures.

## 7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

### (a) Earnings for the purpose of basic and diluted earnings per share

	2017 HK\$ Million	2016 HK\$ Million
Profit attributable to equity shareholders	<u>20,570</u>	<u>16,294</u>

### (b) Weighted average number of ordinary shares

	2017 No. of shares	2016 No. of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,039,045,177	2,032,702,292
Effect of dilutive potential shares - Share options	<u>5,788,888</u>	<u>266,158</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,044,834,065</u>	<u>2,032,968,450</u>

## 8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2017 HK\$ per share	2017 HK\$ Million	2016 HK\$ per share	2016 HK\$ Million
First interim dividend declared and paid	0.475	969	0.450	915
Second interim dividend declared after the end of the reporting period	<u>0.950</u>	<u>1,940</u>	<u>0.850</u>	<u>1,729</u>
	<u>1.425</u>	<u>2,909</u>	<u>1.300</u>	<u>2,644</u>

- (a) The second interim dividend based on 2,042 million (2016: 2,035 million) issued ordinary shares declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.
- (b) The second interim dividend of HK\$1,733 million for 2016 was approved and paid in 2017.
- (c) The distribution in specie comprises (i) the initial distribution in specie of 915 million i-CABLE shares with an attributable fair value of HK\$233 million; and (ii) further distribution in specie of 519 million i-CABLE shares which were capitalised from WHL's loan to i-CABLE with an attributable fair value of HK\$122 million.

## 9. TRADE AND OTHER RECEIVABLES

Included in this item are trade receivables (net of allowance for bad and doubtful debts) with an ageing analysis based on invoice dates as at 31 December 2017, shown as follows:

	2017 HK\$ Million	2016 HK\$ Million
Trade receivables		
0 - 30 days	944	500
31 - 60 days	150	132
61 - 90 days	55	31
Over 90 days	115	143
	<u>1,264</u>	<u>806</u>
Accrued sales receivables	4,425	252
Other receivables and prepayments	6,670	8,509
	<u>12,359</u>	<u>9,567</u>

Accrued sales receivables mainly represent consideration for property sales to be billed or received after the end of the reporting period. In accordance with the Group's accounting policy, upon receipt of the occupation permit or architect's completion certificate, the balance of the sales consideration to be billed is included as accrued sales receivables.

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for sale of properties, the proceeds from which are receivable pursuant to the terms of the agreements. All the receivables are expected to be recoverable within one year.

## 10. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on invoice dates as at 31 December 2017, shown as follows:

	2017 HK\$ Million	2016 HK\$ Million
Trade payables		
0 - 30 days	431	413
31 - 60 days	204	280
61 - 90 days	36	39
Over 90 days	114	189
	<u>785</u>	<u>921</u>
Rental and customer deposits	4,530	4,235
Construction costs payable	12,089	11,087
Amounts due to associates	2,933	3,376
Amounts due to joint ventures	3,209	2,587
Other payables	8,768	6,675
	<u>32,314</u>	<u>28,881</u>

## 11. SHARE CAPITAL

	2017	2017	2016	2016
	No. of shares	HK\$ Million	No. of shares	HK\$ Million
Issued and fully paid ordinary shares				
At 1 January	2,034,699,287	3,075	2,031,849,287	2,949
Shares issued under the share option scheme	7,050,000	343	2,850,000	126
At 31 December	<u>2,041,749,287</u>	<u>3,418</u>	<u>2,034,699,287</u>	<u>3,075</u>

## 12. REVIEW OF FINANCIAL RESULTS

The financial results for the year ended 31 December 2017 have been reviewed with no disagreement by the Audit Committee of the Company. The figures in respect of the announcement of the Group's results for the year ended 31 December 2017 have been agreed with the Company's Auditors to the amounts set out in the Group's consolidated financial statements for the year.

## CORPORATE GOVERNANCE CODE

During the financial year ended 31 December 2017, all the code provisions set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, with the exception of two deviations, namely, (i) Code Provision A.2.1 (the "First Deviation") providing for the roles of the chairman and chief executive to be performed by different individuals; and (ii) Code Provision F.1.3 (the "Second Deviation") providing for the company secretary to report to the board chairman or the chief executive.

Regarding the First Deviation, the relevant arrangement is deemed appropriate as it is considered to be more efficient for one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with more than half of them being Independent Non-executive Directors. As regards the Second Deviation, the Company Secretary of the Company has for some years directly reported to, and continues to report to, the Deputy Chairman of the Company, which is considered appropriate and reasonable given the size of the Group. In the view of the Directors, this reporting arrangement in no way adversely affects the efficient discharge by the Company Secretary of his job duties.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year under review.

## **RECORD DATE FOR SECOND INTERIM DIVIDEND**

There will be no book closure for determining Shareholders' entitlements to the Second Interim Dividend, which will be paid on 27 April 2018 to Shareholders on record as at the close of business on 13 April 2018. In order to qualify for the Second Interim Dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 13 April 2018.

## **BOOK CLOSURE FOR AGM**

For the purpose of ascertaining Shareholders' right to attend and vote at the forthcoming Annual General Meeting to be held on Friday, 11 May 2018 ("AGM"), the Register of Members of the Company will be closed from Tuesday, 8 May 2018 to Friday, 11 May 2018, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to be eligible for attending and voting at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 7 May 2018.

By Order of the Board  
**Wilson W. S. Chan**  
*Company Secretary*

Hong Kong, 12 March 2018

*As at the date of this Announcement, the Board of Directors of the Company comprises Mr. Douglas C. K. Woo, Mr. Stephen T. H. Ng, Mr. Stewart C. K. Leung, Mr. Paul Y. C. Tsui, Mr. Ricky K. Y. Wong and Mrs. Mignonne Cheng, together with seven Independent Non-executive Directors, namely, Mr. Tak Hay Chau, Mr. Winston K. W. Leong, Mr. Alan H. Smith, Mr. Richard Y. S. Tang, Mr. Kenneth W. S. Ting, Ms. Nancy S. L. Tse and Mr. Glenn S. Yee.*