(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), 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

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's 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

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")

i-CABLE was disposed 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 to HK$294 million (2016: profit of HK$59 million).

Investment and Others

Operating profit of investment and others increased by 13% and 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 HK11,989 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 and Company, WHL, Wharf REIC and WPSL as if the demerger of Wharf REIC has been completed prior to 1 January 2016.

	2017 HK$ Million	2016 HK$ Million
Profit attributable to		
Wheelock and Company	**1,109**	3,085
WHL group	**4,564**	3,160
Wharf REIC group	**5,851**	5,138
WPSL group	**465**	428
Core profit	**11,989**	11,811
Attributable gain arising from the disposal of 8 Bay East	**2,775**	–
Attributable gain arising from the disposal of Wharf T&T	**–**	4,416
Others	**75**	(240)
Profit before IP revaluation gain	**14,839**	15,987
IP revaluation gain (after deferred tax)	**5,731**	307
Profit attributable to equity shareholders	**20,570**	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, increased 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 respectively placed with banks in Mainland China, 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:

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

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:

	Available Facilities HK$ Billion	**Total Debt HK$ Billion**	**Undrawn Facilities HK$ Billion**
Wheelock and Company	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	157.7	114.2	43.5

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 Singapore dollars, and undrawn committed facilities to facilitate the Group's business and investment activities. The Group also maintained a portfolio of equity and bond investments with an aggregate market value of HK$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
Wheelock and Company			
IP	548	–	548
DP	7,397	–	7,397
	7,945	–	7,945
WHL group			
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
Wharf REIC group			
IP	111	342	453
DP	–	1	1
Non property and others	635	1	636
	746	344	1,090
WPSL group			
IP	5	–	5
DP	124	237	361
	129	237	366
Analysis by segment:			
IP	2,380	2,857	5,237
DP	7,728	26,241	33,969
Non property and others	2,158	13	2,171
Group total	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 totalled 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
Wheelock and Company			
IP	–	–	–
DP	12,372	6,022	18,394
	12,372	6,022	18,394
WHL group			
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
Wharf REIC group			
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
WPSL group			
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
Group total	22,144	31,155	53,299
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
Group total	22,144	31,155	53,299

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.

(IV) BUSINESS MODEL

Wheelock and Company's core business is Hong Kong DP. Its urban-focused land bank under management amounts to 7.1 million square feet, including one of the largest collections of ultra-luxury residential developments on the Peak, low-density and waterfront O'SOUTH residential developments, riverside residence in the heart of Kai Tak New Development Area, MTR-linked residential developments in O'EAST, a significant share of residential properties in Kowloon East and urban portfolio in Kowloon South.

In 2017, Hong Kong properties transactions totalled HK$26.1 billion. Looking forward to 2018, residential sales will continue to maintain the momentum with more than five developments in the sales pipeline.

WHL and Wharf REIC are Wheelock's equity investments in the form of listed company. WHL's focus is on IP and DP in Mainland China, other Hong Kong properties, logistics and hotels management. Its attributable land bank in the Mainland comprises 3.9 million square metres while 2017 China DP contracted sales totalled RMB25.3 billion. Separately, Wharf REIC focuses on Hong Kong IP and holds a portfolio of six prime IP in strategic locations, including Harbour City, Times Square and The Murray.

Development in Singapore is spearheaded by WPSL. It currently operates two prime commercial properties on Orchard Road, the retail heart of the city.

(V) BUSINESS STRATEGY

For the Group's core business, Wheelock endeavours to continuously enhance its competitiveness and 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.