(I) REVIEW OF 2017 RESULTS

Group core profit rose by 14% to HK$15,718 million (2016: HK$13,754 million) despite the spinoff in November 2017 of Wharf Real Estate Investment Company Limited ("Wharf REIC"). Should the spinoff not have occurred, Group core profit for 2017 would have been HK$16,622 million, an increase of 21% from 2016.

Investment Properties ("IP") reported a 3% decrease in core profit to HK$8,568 million following the spinoff. Wharf REIC has earlier announced an IP core profit of HK$8,671 million for the full year of 2017, an increase of 8% from 2016.

Development Properties ("DP") reported a record high core profit of HK$6,820 million (2016: HK$3,822 million).

Group profit attributable to shareholders increased by 2% to HK$21,876 million (2016: HK$21,440 million) after accounting for a higher net IP revaluation surplus of HK$1,733 million (2016: HK$906 million) and a gain of HK$4,499 million on disposal of 8 Bay East (2016: HK$7,260 million gain on disposal of subsidiary Wharf T&T Limited).

Phased exit from the CME segment since 2016 and the spinoff of Wharf REIC in 2017 have made a simple comparison of 2017 results to 2016 less relevant.

Revenue and Operating Profit

DP subsidiaries recognised 3% lower revenue of HK$22,608 million (2016: HK$23,275 million) but a 112% growth in operating profit to HK$7,753 million (2016: HK$3,650 million) mainly due to higher profit margins from the Mainland projects completed in 2017. Inclusion of attributable interest in joint venture projects, in particular Mount Nicholson in Hong Kong, powered an increase in DP core profit to HK$6,820 million (2016: HK$3,822 million).

IP revenue and operating profit decreased by 5% to HK$14,599 million (2016: HK$15,289 million) and 4% to HK$12,029 million (2016: HK$12,541 million), respectively. In Hong Kong, revenue and operating profit decreased by 8% and 6% due to the Wharf REIC spinoff. On the other hand, Mainland revenue and operating profit, led by Chengdu IFS, increased by 12% and 16%.

Hotel revenue declined by 6% to HK$1,487 million (2016: HK$1,587 million) but operating profit increased by 13% to HK$328 million (2016: HK$289 million). Hong Kong revenue and operating profit decreased by 11% and 2%, respectively, again due to the Wharf REIC spinoff. In the Mainland, Niccolo Chengdu and Marco Polo Changzhou have started to contribute.

Logistics revenue increased by 3% to HK$2,817 million (2016: HK$2,748 million) but operating profit fell by 7% to HK$667 million (2016: HK$719 million) resulting from higher operating costs.

Exit from the CME segment was completed through the sale of Wharf T&T in November 2016 and disposal of i-CABLE shares by distribution in specie to the Company's shareholders completed in September 2017. For 2017, this led to a significant decline in CME revenue to HK$874 million (2016: HK$3,145 million) and an operating loss of HK$294 million (2016: profit of HK$59 million).

Investment and others revenue increased by 19% to HK$1,044 million (2016: HK$878 million) and operating profit by 27% to HK$579 million (2016: HK$455 million), benefitted from higher interest income and dividend income.

On consolidation, Group revenue decreased by 7% to HK$43,273 million (2016: HK$46,627 million) but operating profit increased by 21% to HK$20,622 million (2016: HK$17,065 million).

DP Sales

Total DP contracted sales, inclusive of joint venture projects on an attributable basis, decreased by 13% to HK$35,045 million (2016: HK$40,104 million).

Mainland contracted sales dropped by 19% to RMB25,338 million (2016: RMB31,420 million). However, revenue recognition grew by 11% to HK$33,959 million (2016: HK$30,676 million) with operating profit nearly doubling to HK$10,207 million (2016: HK$5,133 million). Net order book dropped to RMB19,196 million (December 2016: RMB27,436 million) accordingly.

Hong Kong contracted sales, mainly attributable to Mount Nicholson, amounted to HK$4,733 million (2016: HK$4,980 million). Revenue recognition decreased to HK$5,279 million (2016: HK$6,419 million) but contributed an operating profit of HK$2,907 million (2016: HK$2,400 million). In addition, 8 Bay East, an investment property under development in Kwun Tong, was sold for HK$9,000 million resulting in a gain of HK$4,499 million accounted as other net income.

Fair Value Gain of Investment Properties

Book value of the Group's IP portfolio as at 31 December 2017 fell substantially to HK$82.1 billion (2016: HK$319.3 billion), following the Wharf REIC spinoff, of which HK$65.5 billion was stated at fair value based on independent valuation to generate a revaluation gain of HK$2,310 million (2016: HK$910 million). The attributable net revaluation gain of HK$1,733 million (2016: HK$906 million), after taking into account the related deferred tax and non-controlling interests, was credited to the consolidated income statement.

IP under development in the amount of HK$16.6 billion (2016: HK$16.7 billion) is carried at cost and will not be carried at fair value until the earlier of its fair values first becoming reliably measurable or the date of completion.

Other Net Income

Other net income of HK$4,362 million (2016: HK$6,252 million) primarily included a gain of HK$4,499 million arising from disposal of 8 Bay East.

Included in other net income for 2016 was a gain of HK$7,260 million arising from disposal of the entire equity interest of Wharf T&T.

Finance Costs

Finance costs charged to the consolidated income statement amounted to HK$1,013 million (2016: HK$1,361 million) and included an unrealised mark-to-market gain of HK$292 million (2016: HK$237 million) on cross currency and interest rate swaps in accordance with prevailing accounting standards.

The effective borrowing rate for 2017 was 3.5% (2016: 3.2%). Excluding the unrealised mark-to-market gain, finance costs before capitalisation were HK$1,674 million (2016: HK$2,163 million), representing a 23% decrease. Finance costs after capitalisation were HK$1,305 million (2016: HK$1,598 million), representing an 18% decrease.

Share of Results (after tax) of Associates and Joint Ventures

Attributable profit from associates increased by 44% to HK$1,331 million (2016: HK$923 million) mainly due to higher profit contributions from China DP.

Joint ventures profit also grew by 49% to HK$2,958 million (2016: HK$1,983 million) benefited from Mount Nicholson in Hong Kong and various China DP projects.

Income Tax

Taxation charge for the year increased substantially by 94% to HK$7,967 million (2016: HK$4,107 million), which included deferred taxation of HK$572 million (2016: HK$23 million) provided for the current year's revaluation gain attributable to investment properties in the Mainland.

Excluding the above deferred taxation, the tax charge increased by 81% to HK$7,395 million (2016: HK$4,084 million), which was mainly attributable to the higher profits from IP and Mainland DP segments coupled with the increase in land appreciation tax on certain Mainland DP projects sold at relatively high profit margins.

Non-controlling Interests

Group profit attributable to non-controlling interests increased to HK$727 million (2016: HK$225 million).

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year increased slightly by 2% to HK$21,876 million (2016: HK$21,440 million). Basic earnings per share were HK$7.21, based on weighted average of 3,034 million shares (2016: $7.07 based on weighted average of 3,031 million shares).

Excluding the net IP revaluation gain of HK$1,733 million (2016: HK$906 million), Group profit attributable to shareholders decreased by 2% to HK$20,143 million (2016: HK$20,534 million), which included a gain of HK$4,499 million from disposal of 8 Bay East (2016: HK$7,260 million gain on disposal of Wharf T&T).

Group core profit increased by 14% to HK$15,718 million (2016: HK$13,754 million), of which IP and DP accounted for 55% and 43% respectively. Core earnings per share were HK$5.18 (2016: HK$4.54).

Core profit is a performance indicator of the Group's major business segments and arrived at after excluding the attributable net IP revaluation gain HK$1,733 million (2016: HK$906 million), mark-to-market and exchange gain of HK$62 million (2016: HK$321 million) on certain financial instruments, disposal gain of 8 Bay East HK$4,499 million and other non-recurrent loss of HK$136 million (2016: HK$7,260 million gain on disposal of Wharf T&T).

Wharf REIC's Spinoff

Group results have been impacted by the spinoff of substantially all of its Hong Kong investment properties including Harbour City, Times Square, Plaza Hollywood, Wheelock House, Crawford House together with Harbour Centre Development Limited ("HCDL") through the distribution and separate listing of Wharf REIC in November 2017.

As reported, Group core profit increased by 14% to HK$15,718 million. Adjusted for the demerger by excluding Wharf REIC results, Group core profit increased by 36% from 2016 to HK$7,122 million (2016: HK$5,238 million), 88% of which from DP. Mainland DP core profit leaped by 145% to HK$3,840 million (2016: HK$1,568 million) and Hong Kong DP increased by 22% to HK$2,399 million (2016: HK$1,970 million), accounted for 54% and 34% of Group's core profit, respectively.

Should the spinoff not have occurred, Group core profit would have increased by 21% to HK$16,622 million instead. The spinoff reduced Group core profit by HK$904 million.

The above impacts are summarised by segment as follows:

Core Profit	**2017**				2016	
(HK$ million)	**Group (note) (a)**	**Group (Excluding Wharf REIC) (b)**	**Wharf REIC (c)**	**Combined Wharf and Wharf REIC (b)+(c)**	Group	Group (Excluding Wharf REIC)
IP	**8,568**	**747**	**8,671**	**9,418**	8,839	807
DP	**6,820**	**6,239**	**683**	**6,922**	3,822	3,538
– Hong Kong	**2,399**	**2,399**	**–**	**2,399**	1,970	1,970
– Mainland	**4,421**	**3,840**	**683**	**4,523**	1,852	1,568
Others	**330**	**136**	**146**	**282**	1,093	893
Total	**15,718**	**7,122**	**9,500**	**16,622**	13,754	5,238

Note: The Group's reported core profit for 2017 included Wharf REIC's profit up to the date of Wharf REIC's spinoff.

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

As at 31 December 2017, shareholders' equity decreased by HK$174.8 billion to HK$142.0 billion (2016: HK$316.8 billion), equivalent to HK$46.75 per share based on 3,037 million issued shares (2016: HK$104.48 per share based on 3,032 million issued shares), mainly resulting from the utilisation of HK$197.8 billion distributable reserve for the Wharf REIC spinoff implemented by distribution of a special interim dividend. This was partially compensated by a net exchange surplus of HK$5.1 billion arising from translation of RMB net assets due to a 7% RMB appreciation in 2017.

Total equity including non-controlling interests decreased by HK$179.9 billion to HK$145.5 billion (2016: HK$325.4 billion).

Assets

Total assets as at 31 December 2017 halved to HK$222.6 billion (2016: HK$443.8 billion) following the Wharf REIC spinoff. Total business assets, excluding bank deposit and cash, financial and deferred tax assets, decreased to HK$161.7 billion (2016: HK$403.0 billion).

Geographically, Mainland business assets, mainly comprising properties and terminals, amounted to HK$127.5 billion (2016: HK$121.0 billion), representing 79% (2016: 30%) of total business assets.

Investment properties

Included in total assets is the IP portfolio of HK$82.1 billion (2016: HK$319.3 billion), representing 51% (2016: 79%) of total business assets. This portfolio mainly comprised Mainland IP at valuation of HK$62.5 billion (2016: HK$58.5 billion), led by Chengdu IFS and Shanghai Wheelock Square, and at cost of HK$16.6 billion (Changsha IFS under development).

Properties for sale

DP assets increased to HK$25.2 billion (2016: HK$23.9 billion), reflecting the construction cost incurred offset by disposals from the Mainland DP portfolio.

Interests in associates and joint ventures

Interests in associates and joint ventures amounted to HK$30.5 billion (2016: HK$31.1 billion), mainly representing DP projects in Hong Kong and the Mainland.

Equity Investments

Equity Investments amounted to HK$19.1 billion (2016: HK$5.7 billion), mainly representing a portfolio of blue chips held for long term growth potential with reasonable dividend return that in line with the market, and each investment within the portfolio is individually immaterial to the Group's total assets. The revaluation of portfolio produced a net surplus of HK$2.7 billion (2016: deficit of HK$0.8 billion) as reflected in the other comprehensive income for the year.

Deposits from sale of properties

Deposits from sale of properties amounted to HK$9.1 billion (2016: HK$18.9 million), representing contracted sales in the Mainland pending recognition in the coming years.

Net Cash/(Debt) and Gearing

Net cash as at 31 December 2017 amounted to HK$9.3 billion (2016: net debt of HK$23.8 billion), mainly resulting from net receipt from Wharf REIC of HK$42.0 billion to settle inter-group balance. It comprised of HK$45.7 billion in bank deposits and cash and HK$36.4 billion in debts. It includes Modern Terminals' net debt of HK$6.8 billion (2016: HK$8.5 billion), which is non-recourse to the Company and its other subsidiaries. Excluding these non-recourse debts, the Group's net cash was HK$16.1 billion (2016: net debt HK$16.7 billion). An analysis of the net cash/(debt) is as below:

Net cash/(debt)	31 December 2017 HK$ Billion	31 December 2016 HK$ Billion
Wharf (excluding below subsidiaries)	**16.1**	(16.7)
Modern Terminals	**(6.8)**	(8.5)
HCDL (disposed to Wharf REIC)	**–**	1.9
i-CABLE (disposed in September 2017)	**–**	(0.5)
	9.3	(23.8)

Finance and Availability of Facilities

Total available loan facilities and issued debt securities as at 31 December 2017 amounting to HK$43.0 billion, of which HK$36.4 billion were utilised, are analysed as below:

	31 December 2017		
	Available Facility HK$ Billion	Total Debts HK$ Billion	Undrawn Facility HK$ Billion
Company/wholly-owned subsidiaries			
Committed and uncommitted bank facilities	7.9	5.4	2.5
Debt securities	23.2	23.2	–
	31.1	28.6	2.5
Non-wholly-owned subsidiaries			
Committed and uncommitted			
– Modern Terminals	11.9	7.8	4.1
	43.0	36.4	6.6

Of the above debts, HK$4.8 billion (2016: HK$6.7 billion) was secured by mortgages over certain IP, DP and property, plant and equipment with total carrying value of HK$18.6 billion (2016: HK$17.7 billion).

The Group diversified the debt portfolio across a bundle of currencies including primarily United States dollar ("USD"), Hong Kong dollar ("HKD") and Renminbi ("RMB"). The funding sourced from such debt portfolio was mainly used to finance 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 are primarily used for management of interest rate and currency exposures.

The Group continued to maintain a strong financial position with ample surplus cash and undrawn committed facilities to facilitate business and investment activities. In addition, the Group also maintained a portfolio of liquid equity investments with an aggregate market value of HK$19.1 billion (2016: HK$5.7 billion), which is available for use if necessary.

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group recorded net cash inflows before changes in working capital of HK$21.0 billion (2016: HK$18.0 billion). The changes in working capital reduced the net cash inflow from operating activities to HK$5.2 billion (2016: HK$29.1 billion) for decrease in deposits from sale of properties and increase in properties under development. For investing activities, the Group recorded a net cash inflow of HK$36.7 billion (2016: outflow of HK$2.5 billion), mainly from net receipt of HK$42.0 billion from Wharf REIC and proceeds from disposal of 8 Bay East, partly offset by acquisition of equity investments.

Major Capital and Development Expenditures and Commitments

Major expenditures incurred in 2017 are analysed as follows:

	Hong Kong HK$ Million	Mainland China HK$ Million	Total HK$ Million
Properties			
IP	1,716	2,515	4,231
DP	207	26,003	26,210
	1,923	28,518	30,441
Others			
Hotels	994	–	994
Modern Terminals	394	12	406
i-CABLE	135	–	135
	1,523	12	1,535
Group total	3,446	28,530	31,976

i. IP expenditure was mainly for construction costs of the Mainland IFS projects.

ii. DP and IP expenditures included HK$9.4 billion for property projects undertaken by associates and joint ventures.

iii. Expenditure for Hotel was related mainly to conversion of The Murray before the Wharf REIC spinoff, while that for Modern Terminals was related mainly to terminal equipment.

As at 31 December 2017, major expenditures to be incurred in the coming years was estimated at HK$26.0 billion, of which HK$8.0 billion was committed. They are analysed by segment as below:

	As at 31 December 2017		
	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million
IP			
Hong Kong	748	–	748
Mainland China	2,512	5,409	7,921
	3,260	5,409	8,669
DP			
Mainland China	4,641	12,517	17,158
Others			
Modern Terminals	113	26	139
Group total	8,014	17,952	25,966

Properties commitments are mainly for land cost and construction cost, inclusive of attributable commitments to associates and joint ventures, to be incurred by stages.

These expenditures will be funded by 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 investments available for sale.

(III) HUMAN RESOURCES

The Group had approximately 8,800 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 trend 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

Complete demerger of the prime Hong Kong IP under Wharf REIC in November 2017 has provided investors with investment choice.

Following the demerger, the Group is principally engaged in Hong Kong and Mainland properties, with interests in hotels and logistics as well. In addition, CME2 is an infrastructure play in the new economy and represents a strategic investment with a long term perspective.

DP accounted for 88% of Group core profit in 2017. On an attributable basis, combined DP sales in Hong Kong and the Mainland exceeded HK$35 billion and revenue recognition exceeded HK$39 billion. Inclusive of non-DP, sale of property interests enabled a total net profit of over HK$12 billion to be realised.

Since the second half of 2017, over HK$50 billion has been re-invested to replenish DP land bank or related property interests. Total current land bank amounts to 3.0 million square feet in Hong Kong and 3.9 million square metres in the Mainland.

Flagship project in Hong Kong is Mount Nicholson, a record-setting luxury residential joint venture co-led by fellow subsidiary Wheelock Properties, to head the valuable Peak portfolio which includes non-DP properties. Other projects include redevelopment projects in Kowloon East and the newly-acquired Lung Cheung Road site in Kowloon Tong.

On the Mainland, sharpening of DP focus to half a dozen key cities (from the sixteen cities previously) has benefitted the business unit across the board. A number of projects are undertaken through joint ventures to pool resources.

IP on the Mainland accounted for another 10% of Group core profit in 2017. Recent additions include mixed-use International Finance Square (IFS) in the very heart of Chengdu and Chongqing, with Changsha due to open by phase from later this year. In particular, Chengdu IFS and Changsha IFS are comparable to Harbour City, Hong Kong, in critical mass and dominance in their respective markets.

Looking ahead, the Group is committed to a balanced business strategy, with no more than 50% of total equity allocated to properties in the Mainland.

(V) BUSINESS STRATEGY

The Group endeavours to continuously enhance its competitiveness and drive sustainable growth through:

1. For DP, applying core competencies in site selection and acquisition, product planning and design, construction management, premium branding and marketing to achieve premium sales results and profit margin;

2. For IP, replicating the leadership in management and strong professional relationship with key tenants to operate market leading complexes in the Mainland to create new value and present long-term growth potential;

3. Exploring new investments in the new economy both for direct return as well as to enhance the performance of “old economy” assets.

4. Continuous development of sustainable and localised organisations with local market know-how and international standards and execution expertise; and

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