WHARF

Established 1886

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1997

2017 Final Results Announcement

RETAIL DRIVES IP CASHFLOW

HIGHLIGHTS

- Core profit increased by 12% to HK$9,500 million, 94% from the 6 core properties in Hong Kong.
- Retail accounted for 72% of total rental revenue with a 5% growth rate.
- Retail sales of HK$41 billion was 7.0% higher than 2016 (market: 2.2%) and accounted for a share of 9.2% of total Hong Kong market.
- In particular, Harbour City retail sales grew by 9.1% for the full year and 15.0% for second half year (10-year CAGR: 10.2%).
- Retail tenants averaged HK$2,300 of sales per square feet per month to anchor Harbour City's standing as one of the most sought-after malls in the world.
- Ocean Terminal Extension and The Murray were completed in 2017 to enhance the portfolio's value.
- Rare 999-year land leases distinguish the Group's portfolio from others in Hong Kong.
- Total value of the six premium properties amounted to HK$265 billion.
- Net asset value at HK$207 billion, equivalent to HK$68.29 per share.
- Gearing at 19.9% to total equity.
- Dividend of HK$0.95 per share making a total amount of HK$2,884 million, representing 65% of core profit from Hong Kong IP for second half of the year.

CORPORATE OVERVIEW

New Listing but Rich Heritage

- Listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 1997) on 23 November 2017

- The Company holds and operates an unrivalled portfolio of six premium quality properties in Hong Kong spun off from The Wharf (Holdings) Limited (Stock Code: 4) ("Wharf Holdings")

- The Company has a rich heritage as Wharf Holdings was the 17th company incorporated in Hong Kong 131 years ago and a constituent stock of Hang Seng Index from its very beginning

Investment Highlights – Simple and Focused

(a) Premier HK Investment Properties ("IP") Play with Proven Track Record
- Among the largest real estate companies in terms of IP revenue and valuation in the city

(b) Portfolio of Six Unique, Premium Quality Assets at Prime Locations
- 11.7 million square feet of GFA with total value of HK$265 billion as at 31 December 2017
- Total turnover: HK$14.6 billion in 2017
- The six premium quality assets include:
  - Harbour City in the vibrant lifestyle hub of Tsimshatsui
  - Times Square in Causeway Bay, a leading shopping district on Hong Kong Island, directly linked to the MTR station
  - Plaza Hollywood in Kowloon East, a vibrant new central business district, atop Diamond Hill MTR station
  - Central Portfolio comprising Crawford House, Wheelock House (atop MTR station) and The Murray in the heart of the central business district of Central
- The pedigree of the portfolio is reflected in the 999-year land leases, which further distinguish it from other portfolios in Hong Kong

(c) Prominent Core Properties with Rare 999-year Leaseholds Top the List in HK in terms of Total GFA
- Over HK$200 billion worth of prime core properties with rare 999-year leaseholds in Hong Kong (topping the list in Hong Kong in terms of total completed GFA)

(d) Retail Proxy; Three Iconic Malls Represented 9.2% of Overall HK Retail Sales and Weathered Market Downturns over Decades
- Exponential growth in retail rental income over the past decade
  - Quantum Jumps: Harbour City: 4.1 times versus 2007; Times Square: 3.0 times versus 2007
  - Solid 10-year retail rental CAGR: Harbour City: 15%; Times Square: 12%

(e) Mall Differentiation – Setting the Bar on "Retailtainment" Experiences
- Continue to offer visitors a high quality retail offer and experience
- Constant tenant mix refinement and recruitment of differentiating retailers continue to create value and drive performance

(f) Prudent Financial Management and Stable Dividend Policy

- High level of financial discipline (2017 net gearing: 19.9%) and flexibility (Loan to Value: 20%)
- Moody's A2 issuer rating with stable outlook
- Provide stable dividend by distributing 65% of core profit from Hong Kong IP annually

Valuable IP Portfolio

(a) Harbour City

- Must-have partner and sought-after prime showcase to the Mainland market for the world's best brands; International destination retail landmark
- Massive two-million-square-foot adjoining mall space (including a 530-metre contiguous retail frontage on Canton Road)
- Critical Mass: Core of the "Greater Harbour City" Cluster in the high-traffic lifestyle hub
- Among the most productive malls globally
- A host of renowned brands have their best or among their best performing stores in the world at Harbour City
- Comprehensive offering; hosting a series of unrivalled power centres in different categories
- Ocean Terminal's prominent footprint features in satellite photographs of Hong Kong. The newly-opened Ocean Terminal Extension designed by Foster + Partners has quickly become a new focal point to further enhance Ocean Terminal's positioning

(b) Times Square

- Iconic 17-level shopping and lifestyle landmark in Causeway Bay; Among the most successful vertical malls across the globe
- Direct connection to the MTR
- Core of the "Greater Times Square" Cluster

(c) Central Portfolio

- Recent acquisitions of **Crawford House (prime retail and office), Wheelock House (prime office)** and **The Murray** further expand recurrent income base in Hong Kong

The Murray, a Niccolo Hotel, Hong Kong

- Completion of preservation of The Murray (20 December 2017), to celebrate the 20th Anniversary of HKSAR
- Luxurious, contemporary chic Niccolo Hotel converted from Murray Building in Central, part of the government's Conserving Central initiative
- Designed by renowned design and architectural firm, Foster + Partners
- Soft opened on 15 January 2018
- This is a strategic investment in Central Business District with a long term perspective

(d) Plaza Hollywood

- A leading shopping destination in Kowloon East (a vibrant new central business district)
- Favourable location at the entrance to Tate's Cairn Tunnel and atop the Diamond Hill MTR Station
- Benefits from the burgeoning populous middle class in the surrounding residential area
- Proximity to a cluster of tourist attractions and cultural landmarks
- In 2021, the Island line of the Shatin to Central Link Scheme will come into operation to further enhance its geographical advantages

GROUP RESULTS

Group core profit for the year increased by 12% to HK$9,500 million (2016: HK$8,516 million), equivalent to HK$3.13 per share (2016: HK$2.81).

Group profit attributable to equity shareholders, including investment property revaluation surplus and other accounting gains/losses, increased by 74% to HK$17,218 million (2016: HK$9,917 million). Basic earnings per share were HK$5.67 (2016: HK$3.27).

DIVIDENDS

An interim dividend of HK$0.95 per share will be paid on 24 April 2018 to Shareholders on record as at 6:00 p.m. on 9 April 2018. The distribution will amount to HK$2,884 million, representing 65% of core profit from Hong Kong IP for second half of 2017.

BUSINESS REVIEW

Harbour City

Harbour City performed solidly in an improving market. Overall revenue (excluding hotels) increased by 5% to HK$9,444 million and operating profit by 6% to HK$8,311 million.

Retail

Proactive retail management alongside an improving local retail environment accelerated Harbour City's outperformance again in 2017. Retail sales grew by 9.1% principally driven by a continuous recovery in luxury brands. The outperformance trend reflects the continuous increase in shoppers' traffic and consumption at the mall. Positive rental reversion coupled with improving turnover rent lifted revenue by 7% to HK$6,627 million and operating profit by 7% to HK$5,896 million. Average retail passing rent for 2017 grew by 6% to HK$430 per square foot per month. Occupancy rate was 96% at year-end.

Emerging as a new icon in the city since completion in past summer, the new striking Ocean Terminal Extension ("OTE") is an ideal place to capture the sunset and night views of Hong Kong with its west-facing Observatory Deck boasting a magnificent 270-degree panoramic view of Victoria Harbour. Unprecedented gastronomic experiences will be provided with the 11 dining outlets with fantastic alfresco area. These included *à nu retrouvez-vous*, *Ana Ten*, *Paper Moon*, *TSUKADA NOJO*, *Xihe Ya Yuan*, and *HEXA*, a fine Chinese dining restaurant operated by *Club Cubic*. Alongside upgraded cruise terminal facilities, OTE is a new driver of incremental patronage.

Constant re-tenanting at Harbour City revealed fresh surprises for visitors. New additions including *ba&sh*, *GOR GOR*, *Gusella*, *John Hardy*, *Laurèl*, *LAMY*, *Mr&Mrs Italy* and *St. John* further enhanced the diverse tenant mix. A spate of exciting premium brands including *ADORE*, *Boy London*, *Degaia*, *ERES*, *EVE LOM*, *Homme Plissé Issey Miyake*, *Little MO&Co.*, *Marcelo Burlon*, *Our Generation*, *Roseonly* and *Yves Salomon* established their Hong Kong debuts at Harbour City.

Revolving pop-up stores by prestigious brands including *Chaumet*, *Chloé* (exclusive), *Coach* (exclusive), *DEVIALET*, *Dior* handbag, *Estée Lauder* / *La Mer* / *TOM FORD*, *Innisfree*, *MAGIC HAUS* and *Kenzo Kids* further spiced up retail experiences and encouraged repeat visits. *Abercrombie & Fitch* unveiled a new concept store at Harbour City in late 2017, making a grand re-entrance into the Hong Kong market.

Harbour City has stepped up its game in providing intimate and incomparable culinary experiences. Four eatery outlets, namely *China Tang*, *ÉPURE*, *Sushi Tokami* and *Ye Shanghai*, were honoured to be recognised in the "MICHELIN Guide Hong Kong/Macau 2017". The newly-opened *The Cheesecake Factory*'s Hong Kong debut, modelling on its original store in Beverly Hills, attracted a capacity crowd and a consistently long line. Other recent openings included the Hong Kong debuts of *Menya Ittō*, a famous ramen and tsukemen restaurant from Tokyo, and *Du Hsiao Yueh*, a well-known traditional Tainan restaurant with over 100 years of history, at LCX, as well as *Hattendo Café* and *Uji-en* Hong Kong debuts and *Tsuta Japanese Soba Noodles* Kowloon debut at Gateway.

Innovative and high-calibre marketing campaigns further attract incremental patronage. Harbour City partnered with Hong Kong Disneyland to present "Super Hero Summer" featuring the first-ever Hong Kong-exclusive Marvel comic book with a giant 3-D popup book installation and six comic strips on display at the Ocean Terminal Forecourt in summer, which successfully captured crowds and media attention. A public art project "Bubble Up", the first solo art exhibition by Mr. Shinji Ohmaki, a contemporary Japanese artist, in Hong Kong, was launched with 20 bubble performance shows, generating "Millions of Bubbles". With the Christmas theme of "Christmas in the Air", a giant Santa airship embellished with more than 2,000 LED lights was parked at the Ocean Terminal Forecourt. Hong Kong's first public aerial drone show, combined with the LED violin band and a unique hoop dance performance, also brought unprecedented visual surprise to the audience.

Office

Office rental reversion remained solid despite intensifying competition resulting from office supply in Kowloon. Steady rents for new commitments were achieved. Average passing rent for 2017 increased by 5% to HK$43 per square foot per month. Revenue increased by 2% to HK$2,492 million. Occupancy rate was 98% at year-end. Lease renewal retention rate was 66%.

Serviced Apartments

Gateway Apartments, Sutton Court and Hampton Court, offer a wide range of apartment types to accommodate the unique and sophisticated demands of discerning residents. The privileged access to the exclusive Pacific Club further elevates the exquisite living experiences. Revenue during the year amounted to HK$325 million, with occupancy at 95% at year-end (excluding the vacation of Hampton Court for premise conversion). Hampton Court will be converted into office premises as part of the company's value-accretive initiatives, scheduled for completion by 2019.

Times Square

Overall revenue remained at HK$2,824 million and operating profit declined by 1% to HK$2,518 million.

Retail

The 17-storey vertical mall of nearly one million square feet is a must-visit shopping landmark in town. Owing to a 4% reduction of lettable area for shop amalgamation housing two anchors, the *Facesss* and *LEGO* Certified Store, as well as ongoing tenant mix reshuffling, revenue eased by 1% to HK$2,112 million despite a stable rental reversion. Average retail passing rent increased mildly to HK$299 per square foot per month. Occupancy rate was 96%. Tenant sales witnessed solid improvements with a 1.1% growth in 2017. Foot traffic remained steady.

Tenant mix continued to be refreshed to wow visitors with a broader spectrum of exclusive experiences catering for an eclectic range of interests and tastes. *LEGO* Certified Store launched a 3,385-square-foot Hong Kong Island debut at the lifestyle hub in July 2017, while the opening of 6,450-square-foot *Facesss*, a beauty category killer with more than 30 global renowned beauty counters (including debuts in Hong Kong and *Facesss*-exclusive), offers pleasant surprises to customers. These exciting openings continued to drive incremental sales and traffic. Other new additions including *ARTĒ Madrid*, *ba&sh*, *Coronet*, *John Masters Organics* (Hong Kong debut), *Madia*, *Michael Kors* and *Proteca & ACE* further enhance retail experiences.

A wide diversity of contemporary eateries from across the globe whipped up waves of excitements for diners. These included *San Xi Lou*, a pioneer in Sichuan cuisine in Hong Kong, *Forbidden Duck* serving signature Peking-style and slow-cooked roast duck, and *Club Albergue 1601*, a four-in-one dining space combining restaurant, bar, café and skycourt.

Various exhilarating exhibitions and events were rolled out to promote the cultural values of the community. The Picasso and Jacqueline Exhibition with a curated collection of 13 precious masterpieces by the legendary artist flown in all the way from the Museu Picasso in Barcelona successfully surprised visitors. Nine Hongkongers, including renowned collectors and clay model / miniature artists, were invited to share their fondest memories about home cooking in Hong Kong, along with their recipes and kitchen models, in the "Sweet Memories of Home Cooking" Exhibition. "My Furry Kids at Home" Photo Exhibition was launched to encourage the adoption of cats, giving the furry kids and ourselves a chance to live with a happy life.

Office

Revenue increased by 2% to HK$712 million on stable rental reversion. Average passing rent increased by 4% to HK$54 per square foot per month for 2017. Occupancy rate was 99% at year-end. Lease renewal retention rate was 74%.

Central Portfolio

Wheelock House and Crawford House performed solidly with positive rental reversions. Segment revenue increased by 15% to HK$466 million and operating profit by 15% to HK$410 million.

Crawford House

Crawford House is a prime commercial property on Queen's Road Central with a rare 999-year leasehold. The tower spans 85,000 square feet of retail premises across seven storeys (including a basement), with 18 prime office floors atop. Its commanding presence in the vibrant heart of the bustling central business district of Central makes it a preferred workplace for a diversity of industries and trades. The prominent 120-metre high street frontage, housing *Zara*'s largest flagship in Hong Kong, represents the longest single retail frontage on Queen's Road Central. The strategic location adjacent to the Mid-levels escalator, and a stone's throw away from Central MTR station, bolster the appeal and enhance retail value. Retail occupancy remained at 96% at year-end, and office occupancy was 99%. Office passing rent for 2017 increased by 6% to HK$57 per square foot per month while a 9% rental reversion was achieved. Lease renewal retention was maintained at 68%.

Wheelock House

The Company's premises at Wheelock House at the intersection of Pedder Street and Des Voeux Road Central include the entire office tower (21 consecutive floors of Grade A office spaces) and a prime shop on the ground floor with a rare 999-year leasehold. Situated in a highly coveted location atop Central MTR station, Wheelock House is among the most preferred addresses for sizable corporations and multinationals of different sectors. It has been reflected in the high occupancy and lease renewal rate. Wheelock House was 100% leased at favourable rental rates as at year-end. Office passing rent for 2017 posted a gain of 7% to HK$74 per square foot per month, and a 19% rental reversion was recorded.

The Murray
The Murray, Hong Kong, the recently-opened flagship property of Niccolo Hotels, is a unique hospitality and leisure destination for local and international guests to enjoy. The US$1 billion contemporary urban chic sanctuary features 336 oversized rooms and suites spanning 25 floors. *Popinjays* (a stunning rooftop restaurant, bar and terrace) offers breath-taking views of the central business district and the green oasis of Hong Kong Park. Included in the eclectic array of dining concepts to delight guests' palates *The Tai Pan* (modern European dining), *Garden Lounge* (afternoon tea and casual dining), *Murray Lane* (sophisticated bar by the lobby), and *Guo Fu Lou* (Michelin-starred Cantonese classics). Alongside the creative meeting and event spaces and wellness offerings, The Murray is poised to offer prestigious visitors, captains of industry and leaders in style, unique memorable experiences and to become the new epicenter for events and celebrations.

Plaza Hollywood
Constant enhancement of retail offer and compelling marketing strategies continued to drive performance. Positive rental reversion lifted revenue by 5% to HK$574 million and operating profit by 6% to HK$439 million. Average retail passing rent for 2017 increased by 2% to HK$108 per square foot per month. Occupancy rate was 97% at year-end. Retail offering was further enriched with new recruitments of popular brands including *Chickeeduck*, *Joy & Peace*, *King Koil*, *Nature Bud*, *Ray-Ban*, *SKECHERS*, *Suning* and *Verdee Bamboo Living*. A spate of enticing dining options was introduced to satiate diners' palate. These included *bless Cold-Pressed Juice*, *Chasho Shimizu Ippoen*, *Crostini*, *Fullhouse Kitchen*, *Luna Cake*, *Pacific Coffee* and *Ten Ren's Tea*.

In a bid to boost tourist spending, Plaza Hollywood continued to collaborate with Kai Tak Cruise Terminal and arrange free shuttle buses, ambassadors and incentive programmes to lure tourists to the mall. Various impactful marketing campaigns continued to drive quality traffic. Heaps of kid-friendly events including Tainan Food Market and Balance Bike Training Site were launched to appeal to the family demographic. Vegetable Food Festival, our annual joint promotion with Chi Lin Nunnery, was organised in July with overwhelming responses from the public and media. During Christmas, a giant festival decoration under the theme of Betakkuma, a popular online cartoon character among youngsters, successfully allured crowds. Other significant cultural highlights included Hong Kong's largest Used Book Fair for charity and Best-10 Book Award and Book Fair.

Harbour Centre Development Limited (Stock Code: 51) ("HCDL") – 71.5% Equity Interest
HCDL comprises Marco Polo Hongkong Hotel and The Murray in Hong Kong, Suzhou International Finance Square, Marco Polo Changzhou, as well as the remaining development properties in the Mainland. For details of its operations and results, please refer to the 2017 final results announcement of HCDL.

With an intention to re-focus back on opportunities in Hong Kong, Mainland Assets under HCDL will be liquidated in an orderly manner.

FINANCIAL REVIEW

(I) Review of 2017 results

Group core profit increased by 12% to HK$9,500 million in 2017 (2016: HK$8,516 million). Investment Properties ("IP") achieved an 8% growth to HK$8,671 million as the backbone. Development Properties ("DP") added HK$683 million.

Profit attributable to shareholders increased by 74% to HK$17,218 million (2016: HK$9,917 million) after inclusion of a higher IP revaluation surplus of HK$7,982 million (2016: HK$1,211 million).

<u>Revenue and Operating Profit</u>

IP revenue and operating profit continued to grow, respectively by 4% to HK$13,334 million (2016: HK$12,775 million) and 5% to HK$11,698 million (2016: HK$11,171 million). In particular, Harbour City recorded revenue and operating profit growth of 5% and 6%.

Hotel revenue rose by 5% to HK$1,403 million (2016: HK$1,342 million) and operating profit by 25% to HK$337 million (2016: HK$269 million).

DP recognised 138% higher property sales to HK$5,907 million (2016: HK$2,482 million) and 754% higher operating profit to HK$3,630 million (2016: HK$425 million) benefitting from the final completion of Suzhou Times City.

Investment and others revenue grew by 3% to HK$260 million (2016: HK$252 million) while operating profit dropped by 68% to HK$48 million (2016: HK$148 million).

Consolidated revenue increased by 24% to HK$20,904 million (2016: HK$16,851 million) and operating profit by 31% to HK$15,442 million (2016: HK$11,824 million).

<u>Changes in Fair Value of IP</u>

Book value of the IP portfolio as at 31 December 2017 increased to HK$253.8 billion (2016: HK$244.4 billion) with HK$249.9 billion thereof stated at fair value based on independent valuation, which produced a revaluation gain of HK$7,991 million for the year (2016: HK$1,191 million). The attributable gain of HK$7,982 million (2016: HK$1,211 million), net of related non-controlling interests, was credited to the consolidated income statement.

IP under development in the amount of HK$3.9 billion is carried at cost and will not be carried at fair value until the earlier of its fair value first becoming reliably measurable or the date of completion.

<u>Finance Costs</u>

Net finance costs amounted to HK$1,029 million (2016: HK$1,351 million) after interest capitalization of HK$4 million (2016: HK$15 million) for DP projects. The effective borrowing rate for the year declined to 3.2% (2016: 4.0%).

Income Tax

Taxation charge for the year increased to HK$4,267 million (2016: HK$1,895 million) mainly due to increase in land appreciation tax and income tax provision for Suzhou Times City resulting from its higher profit recognised in the year.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year amounted to HK$17,218 million (2016: HK$9,917 million), representing an increase of 74%. Basic earnings per share were HK$5.67, based on weighted average of 3,036 million shares (2016: HK$3.27 based on 3,036 million shares).

Core profit, excluding the net IP revaluation gain of HK$7,982 million (2016: HK$1,211 million) and exchange loss of HK$264 million (2016: gain of HK$190 million), rose by 12% to HK$9,500 million (2016: HK$8,516 million). Core earnings per share were HK$3.13 (2016: HK$2.81).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 31 December 2017, shareholders' equity increased by HK$8.4 billion to HK$207.3 billion (2016: HK$198.9 billion), equivalent to HK$68.29 per share based on 3,036 million issued shares (2016: HK$65.52 per share based on 3,036 million shares).

Total equity including non-controlling interests increased by HK$8.9 billion to HK$213.0 billion (2016: HK$204.1 billion).

Assets

Total assets as at 31 December 2017 increased to HK$272.7 billion (2016: HK$265.5 billion). Total business assets, excluding bank deposit and cash, equity investments, financial and deferred tax assets, increased to HK$266.5 billion (2016: HK$257.6 billion) mainly due to increase in IP valuation, offset by decrease in DP resulting from orderly liquidation.

Geographically, Hong Kong business assets, mainly comprising IP, amounted to HK$258.4 billion (2016: HK$248.3 billion), representing 97% (2016: 96%) of the Group total.

Investment properties

IP increased by 4% to HK$253.8 billion (2016: HK$244.4 billion), representing 95% of total business assets. Harbour City and Times Square were valued at HK$170.3 billion (excluding the three hotels) and HK$56.6 billion, respectively, together representing 89% of the IP portfolio.

Development Properties / Interests in Associates and Joint Ventures

DP fell to HK$0.1 billion (2016: HK$2.0 billion) reflecting further sales recognition of the subsidiary portfolio during the period. In addition, DP undertaken through associates and joint ventures amounted to HK$3.3 billion (2016: HK$3.2 billion).

Hotels

Hotel properties included The Murray, three MP Hotels and MP Changzhou with book cost increasing to HK$8.3 billion (2016: HK$6.8 billion), reflecting the construction cost incurred for The Murray, which started to trade in early 2018.

Deposits from sale of properties

Deposits from sale of properties was reduced to zero (2016: HK$5.0 billion), reflecting full recognition of DP revenue by subsidiaries.

Debts and Gearing

Net debt as at 31 December 2017 increased by HK$12.3 billion to HK$42.5 billion (2016: HK$30.2 billion). It comprised HK$45.6 billion in debts and HK$3.1 billion in bank deposits and cash.

Upon listing on the Main Board of the Hong Kong Stock Exchange on 23 November 2017, the Group settled the inter-group balances in total amount of HK$46 billion due to former parent company, The Wharf (Holdings) Limited, and its fellow subsidiaries by drawdown on bank borrowings, resulting to an increase in net debt.

An analysis of net debt is as below:

Net debt/(cash)	**31 December 2017 HK$ Billion**	31 December 2016 HK$ Billion
Wharf REIC (excluding HCDL)	**42.9**	1.1
HCDL	**(0.4)**	(1.9)
	42.5	(0.8)
Loans from fellow subsidiaries	**-**	31.0
Total net debt	**42.5**	30.2

As at 31 December 2017, the ratio of net debt to total equity rose to 19.9% (2016: 14.8%).

Finance and Availability of Facilities

Total available loan facilities as at 31 December 2017 amounting to HK$54.4 billion, of which HK$45.6 billion was utilised, are analysed as below:

	31 December 2017		
	Available Facility HK$ Billion	**Total Debts HK$ Billion**	**Undrawn Facility HK$ Billion**
Committed and uncommitted bank facilities			
Wharf REIC (excluding HCDL)	48.3	43.3	5.0
HCDL Group	6.1	2.3	3.8
	54.4	45.6	8.8

Certain banking facilities were secured by mortgages over the IP under development with total carrying value of HK$3.9 billion (2016: Nil).

The debt portfolio was primarily denominated in Hong Kong dollar ("HKD"). Funding sourced from such debt portfolio was mainly used to finance the Group's IP and remaining DP investments.

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$2.7 billion (2016: HK$2.3 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$15.5 billion (2016: HK$11.9 billion) mainly generated from rental income. Changes in working capital reduced the net cash inflow from operating activities to HK$9.6 billion (2016: HK$11.4 billion). For investing activities, the Group recorded a net cash outflow of HK$12.6 billion (2016: inflow of HK$6.2 billion), mainly due to repayment of intergroup balances to Wharf group upon the Group's listing.

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	491	788	1,279
DP	-	525	525
	491	1,313	1,804
Others			
Hotels	1,629	1	1,630
Group total	2,120	1,314	3,434

i. IP expenditure was mainly incurred by HCDL for construction of its Suzhou IFS project.
ii. Hotels expenditure was mainly incurred by HCDL for construction of The Murray, which was completed in late 2017.
iii. DP expenditure included costs for projects undertaken by associates and joint ventures.

As at 31 December 2017, major expenditures to be incurred in the coming years was estimated at HK$7.3 billion, of which HK$1.7 billion was committed. They are analysed by segment as below:

	As at 31 December 2017		
	Committed HK$ Million	**Uncommitted HK$ Million**	**Total HK$ Million**
Properties			
IP			
Hong Kong	343	468	811
Mainland China	1,214	2,903	4,117
	1,557	3,371	4,928
DP			
Mainland China	119	2,113	2,232
Properties total			
Hong Kong	343	468	811
Mainland China	1,333	5,016	6,349
	1,676	5,484	7,160
Hotels	16	120	136
Group total	1,692	5,604	7,296

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.

Included in the above are HCDL's expenditures amounting to HK$6,489 million, which will be funded by its own financial resources.

(III) Human Resources

The Group had approximately 2,900 employees as at 31 December 2017. Employees are remunerated according to their job responsibilities and market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For The Year Ended 31 December 2017

	Note	**2017 HK$ Million**	2016 HK$ Million
Revenue	2	**20,904**	16,851
Direct costs and operating expenses		**(4,494)**	(4,247)
Selling and marketing expenses		**(361)**	(311)
Administrative and corporate expenses		**(463)**	(293)
Operating profit before depreciation, amortisation, interest and tax		**15,586**	12,000
Depreciation and amortisation		**(144)**	(176)
Operating profit	2 & 3	**15,442**	11,824
Increase in fair value of investment properties		**7,991**	1,191
Other net (charge)/income	4	**(311)**	216
		23,122	13,231
Finance costs	5	**(1,029)**	(1,351)
Share of results after tax of:			
-An associate		**82**	23
-Joint ventures		**(15)**	176
Profit before taxation		**22,160**	12,079
Income tax	6	**(4,267)**	(1,895)
Profit for the year		**17,893**	10,184
Profit attributable to:			
Shareholders of the Company		**17,218**	9,917
Non-controlling interests		**675**	267
		17,893	10,184
Earnings per share			
Basic and diluted	7	**HK$5.67**	HK$3.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 31 December 2017

	2017 HK$ Million	2016 HK$ Million
Profit for the year	**17,893**	10,184
Other comprehensive income		
Items that will not be reclassified to profit or loss (net of nil tax):		
Fair value changes on equity investments	**451**	(151)
Items that may be reclassified subsequently to profit or loss (net of nil tax):		
Exchange difference on translation of the operations of :		
- subsidiaries	**267**	(373)
- an associate and a joint venture	**72**	(87)
Others	**(139)**	11
Other comprehensive income for the year	**651**	(600)
Total comprehensive income for the year	**18,544**	9,584
Total comprehensive income attributable to:		
Shareholders of the Company	**17,613**	9,529
Non-controlling interests	**931**	55
	18,544	9,584

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Note	**31 December 2017 HK$ Million**	31 December 2016 HK$ Million
Non-current assets			
Investment properties		**253,827**	244,375
Hotel and club properties, plant and equipment		**8,549**	7,000
Interest in an associate		**1,599**	1,417
Interest in joint ventures		**1,694**	1,808
Equity investments		**2,708**	2,301
Deferred tax assets		**353**	-
Other non-current assets		**54**	41
		268,784	256,942
Current assets			
Properties for sale		**144**	1,957
Inventories		**12**	11
Trade and other receivables	9	**635**	818
Prepaid tax		**24**	164
Bank deposits and cash		**3,076**	5,212
Amount due from the former immediate holding company		**-**	358
		3,891	8,520
Total assets		**272,675**	265,462
Non-current liabilities			
Deferred tax liabilities		**(2,207)**	(1,762)
Other deferred liabilities		**(314)**	(300)
Bank loans		**(24,752)**	(3,150)
Loans from fellow subsidiaries		**-**	(30,980)
		(27,273)	(36,192)
Current liabilities			
Trade and other payables	10	**(8,805)**	(7,932)
Deposits from sale of properties		**(13)**	(5,030)
Taxation payable		**(2,816)**	(533)
Bank loans		**(20,800)**	(1,232)
Amount due to the former immediate holding company		**-**	(10,354)
Amounts due to fellow subsidiaries		**-**	(52)
		(32,434)	(25,133)
Total liabilities		**(59,707)**	(61,325)
NET ASSETS		**212,968**	204,137
Capital and reserves			
Share capital		**304**	- *
Reserves		**207,014**	198,910
Equity attributable to shareholders of the Company		**207,318**	198,910
Non-controlling interests		**5,650**	5,227
TOTAL EQUITY		**212,968**	204,137

* The balance represents amount less than HK$1 million.

NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 13 April 2017.

To rationalise the corporate structure in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Group underwent a group reorganisation ("Reorganisation"), the Company became the holding company of the Group on 9 August 2017.

The companies now comprising the Group were under the common control of the same controlling shareholder before and after the Reorganisation. Accordingly, the Reorganisation is considered to be a business combination of entities under common control. The consolidated financial statements have been prepared using the merger basis of accounting as if the companies now comprising the Group have been consolidated at 1 January 2016. The assets and liabilities of the consolidating companies are recognised and measured using the historical carrying amounts from the perspective of the controlling shareholder.

The consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group include the consolidated results and cash flows of all companies now comprising the Group (or where the companies were incorporated, established or acquired at a date later than 1 January 2016, for the period from the date of incorporation, establishment or acquisition to 31 December 2017) as if the group structure had been in existence since 1 January 2016. The consolidated statement of financial position of the Group as at 31 December 2017 and 2016 has been prepared to present the state of affairs of the Group as if the Reorganisation had been completed at 1 January 2016.

This financial information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, 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 disclosure requirements of the Hong Kong Companies Ordinance. This 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 HKICPA has issued certain amendments to HKFRSs which are first effective for the current accounting period of the Group. The amendments do not have 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.

2. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined three reportable operating segments for measuring performance and allocating resources. The segments are investment properties, development properties and hotels. No operating segments have been aggregated to form the reportable segments.

Investment properties 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.

Development properties segment encompasses activities relating to the acquisition, development, design, construction, sales and marketing of the Group's trading properties in Mainland China.

Hotels segment includes hotel operations in Hong Kong and the Mainland China.

Management evaluates performance primarily based on operating profit as well as the equity share of results of an associate 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 and current assets directly attributable to each segment with the exception of bank deposits and cash, certain financial investments, deferred tax assets and amount due from the former immediate holding company.

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.

2. SEGMENT INFORMATION

a. Analysis of segment revenue and results

	Revenue HK$ Million	Operating Profit HK$ Million	Investment properties fair value HK$ Million	Other net (charge) /income HK$ Million	Finance costs HK$ Million	Share of results after tax of an associate HK$ Million	Share of results after tax of joint ventures HK$ Million	Profit before taxation HK$ Million
For the year ended 31 December 2017								
Investment property	**13,334**	**11,698**	**7,991**	**-**	**(1,008)**	**-**	**-**	**18,681**
Development property	**5,907**	**3,630**	**-**	**2**	**(3)**	**82**	**(15)**	**3,696**
Hotels	**1,403**	**337**	**-**	**-**	**(3)**	**-**	**-**	**334**
Segment total	**20,644**	**15,665**	**7,991**	**2**	**(1,014)**	**82**	**(15)**	**22,711**
Investment and others	**260**	**48**	**-**	**(313)**	**(15)**	**-**	**-**	**(280)**
Corporate expenses	**-**	**(271)**	**-**	**-**	**-**	**-**	**-**	**(271)**
Group total	**20,904**	**15,442**	**7,991**	**(311)**	**(1,029)**	**82**	**(15)**	**22,160**
For the year ended 31 December 2016								
Investment property	12,775	11,171	1,191	-	(1,306)	-	-	11,056
Development property	2,482	425	-	23	(8)	23	176	639
Hotels	1,342	269	-	-	(4)	-	-	265
Segment total	16,599	11,865	1,191	23	(1,318)	23	176	11,960
Investment and others	252	148	-	193	(33)	-	-	308
Corporate expenses	-	(189)	-	-	-	-	-	(189)
Group total	16,851	11,824	1,191	216	(1,351)	23	176	12,079

2. SEGMENT INFORMATION

b. Analysis of segment business assets

	2017	2016
	HK$ Million	HK$ Million
Investment properties	**254,295**	244,871
Development properties	**3,552**	5,710
Hotels	**8,659**	6,983
Total segment business assets	**266,506**	257,564
Unallocated corporate assets	**6,169**	7,898
Total assets	**272,675**	265,462

Unallocated corporate assets mainly comprise equity investments, deferred tax assets, bank deposits and cash, amounts due from the former immediate holding company.

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

	2017	2016
	HK$ Million	HK$ Million
Development properties	**3,293**	3,225

c. Other segment information

	Capital expenditure	
	2017	2016
	HK$ Million	HK$ Million
Investment properties	**1,279**	7,770
Hotels	**1,630**	989
Group total	**2,909**	8,759

	Depreciation and amortisation	
	2017	2016
	HK$ Million	HK$ Million
Investment properties	**20**	21
Hotels	**121**	152
Segment total	**141**	173
Investment and others	**3**	3
Group total	**144**	176

The Group had no significant non-cash expenses other than depreciation and amortisation.

2. SEGMENT INFORMATION

d. Geographical information

	Revenue		Operating Profit	
	2017	2016	**2017**	2016
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Hong Kong	**14,843**	14,200	**11,756**	11,328
Mainland China	**6,016**	2,606	**3,641**	451
Singapore	**45**	45	**45**	45
Group total	**20,904**	16,851	**15,442**	11,824

	Specified non-current assets		Total business assets	
	2017	2016	**2017**	2016
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Hong Kong	**257,839**	247,844	**258,387**	248,319
Mainland China	**7,830**	6,756	**8,119**	9,245
Group total	**265,669**	254,600	**266,506**	257,564

Specified non-current assets excludes deferred tax assets, equity investments and other non-current assets.

The geographical location of revenue and operating profit is analysed based on the location at which services are provided and in the case of equity investments, 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

Operating profit is arrived at :

	2017	2016
	HK$ Million	HK$ Million
After charging / (crediting):		
Depreciation and amortisation on		
– hotel and club properties, plant and equipment	**136**	168
– leasehold land	**8**	8
Total depreciation and amortisation	**144**	176
Impairment of trade receivables	**4**	-
Staff costs (Note i)	**833**	779
Auditors' remuneration		
– audit services	**16**	8
– non-audit services	**2**	-
Cost of trading properties for recognised sales	**2,182**	1,968
Gross rental revenue from investment properties (Note ii)	**(13,334)**	(12,775)
Direct operating expenses of investment properties	**1,509**	1,494
Interest income (Note iii)	**(44)**	(69)
Dividend income from equity investments	**(78)**	(76)
Corporate charges form a fellow subsidiary	**213**	189

Notes :

(i) Staff costs included defined contribution pension schemes costs for the year ended 31 December 2017 of HK$41 million (2016: HK$38 million).

(ii) Gross amount of rental income includes contingent rentals for the year ended 31 December 2017 of HK$738 million (2016: HK$707 million).

(iii) Interest income for the year ended 31 December 2017 of HK$44 million (2016: HK$69 million) are generated in respect of financial assets (mainly comprising bank deposits) stated at amortised cost.

4. OTHER NET (CHARGE) / INCOME

Other net (charge) / income for the year mainly comprises net foreign exchange losses of HK$264 million (2016: gains of HK$231 million).

5. FINANCE COSTS

	2017 HK$ Million	2016 HK$ Million
Interest charged on :		
-Bank loans	**89**	92
-Loans from fellow subsidiaries	**848**	1,112
Total interest charge	**937**	1,204
Other finance costs	**96**	162
Less: Amount capitalised	**(4)**	(15)
Total	**1,029**	1,351

6. INCOME TAX

Taxation charged to consolidated statement of profit or loss includes :

	2017 HK$ Million	2016 HK$ Million
Current income tax		
Hong Kong		
– provision for the year	**1,670**	1,536
– under-provision in respect of prior year	**2**	1
Outside Hong Kong		
– provision for the year	**939**	215
– over-provision in respect of prior year	**-**	(2)
	2,611	1,750
Land appreciation tax (“LAT”) in China	**1,568**	9
Deferred tax		
Origination and reversal of temporary differences	**88**	136
Total	**4,267**	1,895

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 assessable profits outside Hong Kong is mainly China corporate income tax calculated at rates of 25% (2016: 25%) and China withholding income tax at a rate of up to 10% for the year ended 31 December 2017 and 2016.

c. Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in the PRC are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds on sales of properties less deductible expenditure including cost of land use rights, borrowing costs and all property development.

d. Tax attributable to an associate and joint ventures for the year ended 31 December 2017 are an aggregate of HK$18 million (2016: HK$153 million) is included in the share of results of an associate and joint ventures.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK$17,218 million (2016: HK$9,917 million) and the weighted average of 3,036 million ordinary shares which has been taken into account the shares issued pursuant to the distribution in specie of 3,036,227,327 ordinary shares of the Company as if it had been effective on 1 January 2016.

There are no potential dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

No dividend was paid or proposed by the Company since its incorporation to the year ended 31 December 2017.

The interim dividend of HK$2,884 million (HK$0.95 per share) based on 3,036 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.

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 date as at 31 December 2017 as follows:

	2017 HK$ Million	2016 HK$ Million
Trade receivables		
0 – 30 days	**254**	244
31 – 60 days	**27**	24
61 – 90 days	**3**	4
Over 90 days	**7**	16
	291	288
Other receivables and prepayments	**344**	530
	635	818

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 the invoice date as at 31 December 2017 as follows:

	2017 HK$ Million	2016 HK$ Million
Trade payables		
0 - 30 days	**107**	111
31 - 60 days	**16**	31
61 - 90 days	**2**	7
Over 90 days	**5**	6
	130	155
Rental and customer deposits	**3,393**	3,306
Construction costs payable	**1,310**	1,189
Amount due to an associate	**-**	14
Amount due to joint ventures	**1,514**	1,422
Other payables	**2,458**	1,846
	8,805	7,932

11. REVIEW OF UNAUDITED FINANCIAL INFORMATION

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 by the Company's Auditors to the amounts set out in the Group's consolidated financial statements for the year.

CORPORATE GOVERNANCE CODE

Throughout the period from the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited on 23 November 2017 to 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 one exception as regards Code Provision A.2.1 providing for the roles of the chairman and chief executive to be performed by different individuals.

Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of a chief executive thereby enabling more effective planning and better execution of long-term strategies. 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 half of them being Independent Non-executive Directors.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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.

RELEVANT DATES FOR INTERIM DIVIDEND AND ANNUAL GENERAL MEETING

<u>Interim Dividend</u>

Ex-entitlement date	6 April 2018 (Fri)
Latest time to lodge share transfer	4:30 p.m., 9 April 2018 (Mon)
Record date/ time	6:00 p.m., 9 April 2018 (Mon)
Payment date	24 April 2018 (Tue)

In order to qualify for the interim dividend, all transfer, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 9 April 2018.

<u>Annual General Meeting ("AGM")</u>

Ex-entitlement date	30 April 2018 (Mon)
Latest time to lodge share transfer	4:30 p.m., 2 May 2018 (Wed)
Book closure period	3 May 2018 (Thur) to 9 May 2018 (Wed), both days inclusive
Record date	3 May 2018 (Thur)
AGM date/ time	10:30 a.m., 9 May 2018 (Wed)

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 Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 2 May 2018.

By Order of the Board
Kevin C. Y. Hui
Company Secretary

Hong Kong, 5 March 2018

As at the date of this announcement, the board of Directors of the Company comprises Mr. Stephen T. H. Ng, Ms. Doreen Y. F. Lee, Ms. Y. T. Leng and Mr. K. H. Leung, together with four Independent Non-executive Directors, namely Mr. Alexander S. K. Au, Mr. Andrew J. Seaton, Mr. R. Gareth Williams and Professor E. K. Yeoh.