

Chairman's Statement

The world opened 2009 very uncertain and nervous after the monumental financial tsunami in 2008 had shocked financial systems and nearly flooded the world economy. A slow recovery started after governments started to introduce unprecedented financial rescue programmes in March. Nevertheless, real GDP for the full year still contracted by 2.7% in Hong Kong and by 2% in Singapore. Mainland China's GDP grew by 8.7% due to rapid and decisive liquidity expansion which started before the end of 2008 on a scale and with a speed hitherto never seen that lasted throughout the entire 2009. However, serious uncertainties remain going forward to 2010 and 2011 as markets anticipate the eventual unwinding of these massive rescue programmes.

On a recurrent basis, the Group's underlying net profit increased by 21% to HK\$3,747 million (2008: HK\$3,095 million). Non-recurrent items improved net profit to HK\$4,442 million while investment property revaluation further lifted Group profit attributable to shareholders to HK\$9,631 million. Net asset value per share rose by 19% to HK\$34.3 as at 31 December 2009. The Group's net debt amounted to HK\$18.9 billion.

To support Wharf's HK\$9.1 billion rights issue in January 2008, the Company took on additional debt of HK\$4.0 billion instead of raising new equity from shareholders. Subsequent dividends from Wharf and Wheelock Properties, being the Company's primary source of cash inflow, were applied to fund the Company's dividends to shareholders and left a balance to reduce the Company's net debt by HK\$1.6 billion.

New opportunities may arise for the Company and its various subsidiaries in 2010 and 2011, given the serious uncertainties that remain around the world. The Board recommends no change in distribution from 2008 with a final dividend of 10 cents per share to bring the total dividend for the year to 12.5 cents per share (2008: 12.5 cents).

The Group's performance is underpinned primarily on the strength of the core properties.

Wharf's retail properties outperformed to deliver a solid performance even before the upturn in local consumer spending and the recovery in inbound travel. This can be attributed to leadership retail management, diversified trade-mix across a finely calibrated price point matrix and powerful retail marketing. Core assets Harbour City and Times Square reported a 10% increase in profit to HK\$5.3 billion. Together, they accounted for around 8% of total Hong Kong retail sales in 2009. The office portfolio also held up well and a sustained level of occupancy and rents were achieved, thanks to their ideal location, served by excellent transportation networks and well-rounded ancillary services.

Wharf's China property segment, still at a relatively early stage of development, outpaced all other segments in profit growth. Sales for 3.7 million square feet of properties recognised in 2009 helped increase operating profit by elevenfold to exceed HK\$1 billion. Including sales not yet recognised, a total of 4.7 million square feet of properties were sold in 2009 for RMB4.6 billion to exceed target. That reflected soaring housing demand across urban China, the properties' excellent location and quality, as well as Wharf's respected brand.

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Wheelock Properties has been successful in riding the recent market cycles in Singapore and will continue to watch the market for reinvestment opportunities. In Singapore, with both Ardmore II and Orchard View to be completed in the first half of 2010, earlier successful pre-sales are expected to be recognised. During the year, it successfully pre-sold projects in Hong Kong and Southern China, including The Babington in the Mid-Levels and the two projects in Foshan, Guangdong. In March 2010, a 50:50 joint venture with New World Development won the tender for the development of a luxury residential project atop MTR Austin Station at the heart of West Kowloon. The project has excellent potential, given its prime location in West Kowloon on top of the key transportation networks in the city.

Urbanisation remains to be the growth driver of China's GDP over the next 30 years. The high-speed railway development marks a new milestone to connect all the major cities throughout the country. It will generate more economic activities in the cities and between cities over the second 30 years of China's opening up. The recent Central Economic Work Conference underlined the Chinese government's pledge to fast track the process of urbanisation and further relaxation of residence permits. That will lend further support to urban housing demand. I remain enthusiastic about the fundamentals of the Mainland real estate market, where the Group's motto of "Building for Tomorrow" continues to serve us well both internally and externally.

Following a notable recovery towards the end of 2009, the Hong Kong economy looks set for a further rebound in 2010. The Government forecasts GDP will resume positive growth of 4-5%, underpinned by a further recovery in external trade and domestic demand. The strengthening economic relations with the Mainland will continue to add impetus to Hong Kong's recovery process and provide a cushion against the uncertainties in the global environment. I remain optimistic about the medium-term outlook for Hong Kong.

Asia, particularly the Mainland, is expected to take the lead in the recovery process. The Group, with its strong foothold in Hong Kong, China and Singapore, is well positioned to benefit from the dynamic growth in the regions. It is well poised to display its vitality and to create a better future on the back of a spate of investment opportunities in Hong Kong, Singapore and China. The Group is confident that these investments will generate a satisfactory return to the Group in the years to come.

On behalf of Shareholders and my fellow Directors, I wish to express our heartfelt gratitude to all Staff for their dedication and contribution throughout the year. In particular, Mr Gonzaga Li, Senior Deputy Chairman, is retiring after serving in the senior management nucleus for over 40 years. I am personally indebted to him for his invaluable assistance to me over the years. Special mention is also due to our property teams who are fully energised and motivated to help propel the Group and to make great advances to establish our leadership position in the segment.

Peter K C Woo

Chairman

Hong Kong, 23 March 2010