

Global economic downturn took its toll on the Hong Kong economy in 2008. Accordingly, GDP grew mildly by 2.5% for 2008 as a whole. With a deepening global economic crisis, the residential property market faltered in the second half of 2008. Concerns over the worsening job prospects and gloomy economic outlook spurred a bruising downturn in the Hong Kong retail market towards the latter part of 2008.

Despite the softening commercial property market, the Group's core properties achieved strong performance in 2008. Leveraging on excellent retail management and vibrant promotions, the Group's retail properties continued to be highly popular with both local and overseas shoppers making them very resilient even in difficult times. The Group also managed its office portfolio well in achieving a sustained level of occupancy and rents. Some of the Group's office portfolio has benefited from the growing trend of decentralisation despite weakening demand towards the fourth quarter of 2008.

In 2008, Singapore also suffered from the worst economic crisis in years. This has further depressed the local residential and leasing markets. Even with the prevailing weaker market sentiment and the challenging operating environment, Wheelock Properties (Singapore) Limited ("WPSL") continued to perform well. In property development, WPSL completed two residential projects – The Sea View and The Cosmopolitan. Its effort in conserving a neo-classical bungalow at The Sea View for the condominium clubhouse won an Architectural Heritage Award from the Urban Redevelopment Authority.

Group profit attributable to equity shareholders decreased by 55% to HK\$3,432 million (2007: HK\$7,615 million), which was mainly due to the exceptional impairment provisions made for investments and a decrease in net investment property surplus. Earnings per share were HK\$1.69 (2007: HK\$3.75).

Excluding the exceptional impairment provisions for investments and the net investment property revaluation surplus after the related deferred tax and credit adjustment, the Group's net profit attributable to equity shareholders decreased by 9% to HK\$3,095 million (2007: HK\$3,414 million). The decrease was mainly due to the absence of the exceptionally large investment profits recorded in 2007, which did not recur in 2008.

Consolidated net asset value per share rose by 4% to HK\$28.91 as at 31 December 2008. The financial position of the Group remained healthy, with net debt amounting to HK\$22.7 billion.

A final dividend of 10.0 cents per share has been recommended to bring the total dividend for the year ended 31 December 2008 to 12.5 cents per share (2007: 12.5 cents per share). Total dividend received in cash from the publicly-listed subsidiaries The Wharf (Holdings) Limited and Wheelock Properties Limited amounted to HK\$1,256 million during the financial year (2007: HK\$1,132 million).

BUSINESS PERFORMANCE

Property

The office portion of Crawford House was 95% leased at satisfactory rental rates. Lease renewal retention rate stood high at 90%. Hennes & Mauritz AB (H&M), a reputable international retailer, leased the majority of the retail podium. In a bid to stay competitive in the marketplace, Crawford House is upgrading its ground-floor lobby and renovating its washrooms and the common corridor for enhancement.

Wheelock Properties Limited

Wheelock House and Fitfort were 98% and 97% leased respectively at satisfactory rental rates at the end of December 2008.

As at the end of 2008, the group had acquired up to 98% of the interest in the property situate at 46 Belcher's Street for a total of HK\$305 million. The project is planned for residential redevelopment. The 6D-6E Babington Path (Mid-levels) redevelopment, comprising 47 deluxe apartments, commenced a soft launch for pre-sales in September 2008.

On the Mainland property development front, a residential development in a 50:50 joint venture with China Merchants Property group situate at Xincheng District (新城區), Foshan launched its pre-sales of the first phase of the townhouses in September 2008 and has met with an overwhelming response. All units launched were sold out in early October 2008.

Wheelock Properties (Singapore) Limited

Wheelock Place was 99% committed at satisfactory rental rates at the end of December 2008. Two residential projects, The Sea View and The Cosmopolitan, were completed and fully pre-sold. By the end of 2008, WPSL had successfully pre-sold various other properties in Singapore, including 100% of Ardmore II and 77% of Scotts Square. In accordance with the current accounting standard, revenue and profits for these projects will not be recognised by the Group until project completion, presently scheduled for 2010 and 2011 respectively. Orchard View, a luxury 36-storey residential development is targeted to be launched for sale in 2010. Ardmore 3, planned for redevelopment and sale, is under design and planning.

The Wharf (Holdings) Limited

"Building for Tomorrow" is Wharf's mission. Harbour City and Times Square, the "Heart of the Group" representing 46% of its total assets and 63% of total operating profit, posted solid double-digit growth in both turnover and operating profit, despite the adverse economic conditions. This was the "Tomorrow" that Wharf has built for today.

In the meantime, Wharf is building a new "Tomorrow" in the Mainland. As at the end of 2008, its attributable landbank and investment properties totalled close to 100 million square feet of gross floor area.

Times Squares in Beijing, Shanghai and Chongqing are investment properties and together reported rises in revenue and operating profit of 22% and 38% in 2008 over 2007, respectively. In addition, the 180,000-square-foot shopping mall in Dalian Times Square opened in November 2008 and quickly became the luxury shopping landmark of the Northeast.

Wharf's next flagship, the International Finance Centre (IFC) project in Hongxing Road, Chengdu, is comparable in significance to Harbour City and Times Square in Hong Kong. Chengdu is the up and coming business hub at the heart of Western China and has a population of 11 million, trailing only Beijing, Shanghai and Chongqing. Prime retail rental is comparable to that in Shanghai. Sitting at the top location in the city's main commercial district, the project links to the adjacent mass transit railway station where two major lines intersect. There are three leading department stores across the street. The scale of the development, also with retail, office, apartments and hotel, is comparable to that of Harbour City. It aims to quickly become the "Best of the West" as the new shopping hub for not only Chengdu but the entire Western region when it is completed in phases from 2012.

In development properties, Wharf has been achieving record or near record sales for its various residential projects in the respective cities. Recent pre-sales launches in cities such as Chengdu, Chongqing and Dalian have met with very favourable response.

The group remains enthusiastic about the fundamental outlook for the real estate market in the Mainland. Urbanisation is the theme for the next 20 years. Close to 300 million people are anticipated to be moving into the cities. Our overall development portfolio is expected to generate attractive returns to the group in the coming years.

OUTLOOK

Given the sheer scale of the global financial meltdown, economies across the globe have deteriorated sharply since the latter part of 2008. Hong Kong economic performance in 2009 is bound to be affected. GDP is expected to contract by 2% to 3%. Worsening economic conditions will put a further drag on the key sectors of Hong Kong. However, it is believed that China will be the first country to recover from the global crisis and will be able to ride out the challenges of a worsening global crisis. Its sustained economic growth as well as massive support measures to Hong Kong will be able to help Hong Kong weather the financial storm. The Mainland government has pledged to further strengthen the economic and financial co-operation between Hong Kong and the Pearl River Delta Region and to further facilitate Mainland visitors to Hong Kong. As an international financial centre and a leading hub for China-related business, Hong Kong will strive to maintain its roles and to lessen the impact from the deteriorating economic conditions. Medium-term prospects for Hong Kong remained positive.

The Group is well-poised for creating a better future and displaying its vibrancy on the back of numerous investment opportunities in Hong Kong and China. On its new projects underway in China, the Group is confident they will achieve a reasonable profit to the Group in the next few years. The Group will carefully plan the progress of development through close monitoring of market conditions. The projects involved will be funded both by equity and debt, as well as proceeds from operations and property pre-sales.

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 financial year.

Peter K C Woo
Chairman

Hong Kong, 25 March 2009