CHAIRMAN'S STATEMENT

Shareholders Rewarded for Another Solid Year

Eurozone debt woes and a fragile recovery in the United States created market volatilities that slowed down macro-economic growth in global markets. On the other hand, the global overflow of liquidity chasing both protection and yield put immense pressure on asset values, particularly in the more robust economies in Asia. China, Hong Kong and Singapore face the brunt of this new paradigm.

Hong Kong's economy grew by a modest 1.4% in 2012, down from 5% in 2011. On the other hand, housing prices rose to a new high, caused by an imbalance in supply and demand. In an effort to stabilise the market, the government introduced several rounds of demand management measures as well as longer term measures to increase both private and public housing supply. These measures are expected to facilitate the development of a more stable and sustainable market.

In Singapore, the economy grew by 1.3% in 2012, down from 4.9% in 2011. Similarly, the government introduced several rounds of fiscal measures to cool the property market. Nevertheless, growing affluence and low unemployment rate continued to create a fundamental demand for quality properties.

In China, GDP growth rate also decelerated to 7.8% in 2012. The housing market stabilised in both price and volume. Cooling measures introduced at the beginning of the year led to a drop in transactions volume. In the course of the year, market sentiments picked up noticeably as a result of pent-up demand and monetary easing. The government's commitment to double the country's GDP by 2020 and to increase the service sectors' share of GDP from 42% to 47% within the five-year plan will further accelerate urbanisation, wealth creation and fuel a growing demand for quality urban living.

Business Performance

Wheelock Properties Limited ("WPL"), spearheading the Group's property development business in Hong Kong, delivered another solid performance in 2012. Property sales doubled to HK$6.9 billion. The total land bank in Hong Kong was replenished to 7.1 million square feet after expending HK$6.1 billion in acquisitions in the past 15 months for, through the addition of residential sites in Tseung Kwan O, Tuen Mun, Western District and Hong Kong Island East. These new select investments will strengthen WPL's residential sales pipeline in the next three to five years.

99% of 104 residential units at Lexington Hill in Western District were pre-sold in 2012 at an average price of HK$12,000 per square foot. Including the subsequent sale of a retail shop and 22 carparking spaces, total sales proceeds amounted to HK$1.28 billion.

85% of 66 residential units (and 51 carparking spaces) at Kadoorie Hill in Homantin were pre-sold since October 2012, at an average price of HK$18,000 per square foot. Total sales proceeds of HK$1.77 billion were generated.

Austin Station project, with a residential GFA of 1.3 million square feet, is due for completion in 2015. This is a substantial MTRC JV urban project well located in the heart of Kowloon West and adjacent to the future high speed railway terminus from the Mainland. The deal has an advantageous structure with attractive ROE opportunities. The development comprises two sites, pre-sales of site C as Phase 1 with 576 units is targeted to start in the second half of 2013.

On the office market front, WPL initiated an acquisition and redevelopment strategy over five years ago with the acquisition of a site on Heung Yip Road, Hong Kong Island, where One Island South is located in 2005. One Midtown in Tsuen Wan was another successful redevelopment story that anchored this business strategy. There has been a persistent trend of multinational companies moving away from traditional office districts seeking modern, elegant and well located new office clusters.

One Bay East, a commercial project started in 2011 in Kowloon East which is labelled CBD2 by the government is due for completion in 2015. In March 2013, the West Tower of this twin-office tower project with a 512,000 square feet GFA was sold to Manulife (International) Limited for HK$4.5 billion which will become the headquarter of their Hong Kong operation.

Besides One Bay East, WPL also acquired the Hung Luen Road site in 2011, a harbour front Hung Hom office site at the junction of Hung Luen Road and Kin Wan Street in Hung Hom, offering 590,000 square feet of GFA. This will be a twin-office tower project scheduled to come to the market in 2015.

Furthermore, Wharf T&T Square, the existing office complex of 596,200 square feet in Kowloon East or CBD2 has received redevelopment approval. This would come on stream in 2017 with additional GFA for sale.

WPL has assembled an interesting office portfolio with One Bay East and Wharf T&T Square, connected by an open park, both fronting the water. We also have the redevelopment approval to turn the nearby Kowloon Godown into a residential complex of 829,000 square feet which WPL has a de facto 52% interest. The three water front sites together under our development have a total combined GFA of 2.5 million square feet that span a 500-metre coastline in this promising CBD2 area. This formed an interesting land bank story in Kowloon East which is smaller but not dissimilar to Harbour City of Kowloon West. Government also has interesting plans for the water body in front of our lots and this land bank is linked to the brand new Kai Tak cruise terminal and the adjacent massive development of the entire old airport development scheme.

The Wharf (Holdings) Limited ("Wharf"), our major listed subsidiary, continued to deliver an exceptional performance with a record year in 2012. Revenue of investment properties and hotels reported a new record of HK$11 billion, with an operating profit of HK$8.6 billion. Harbour City and Times Square maintained a 9% share of total Hong Kong retail sales, despite 17% of the total retail space at Times Square having been withdrawn from the market for refurbishment.

Book value of Wharf's investment properties in Hong Kong and China doubled in three years to HK$232 billion at the end of 2012. The overall return for this portfolio in 2012 was HK$43 billion, of which HK$7 billion came from operations and HK$36 billion from capital appreciation. Measured against book value as at the start of 2012, this represents a 25% composite return for the year and substantial value creation for shareholders.

Wharf's net debt to total equity ratio was maintained at a healthy 21.7% despite the new long term investments in the new Ocean Terminal lease and in Greentown China Holdings Limited ("Greentown").

The China strategy progressed smoothly and started to bear fruit. RMB15 billion of property sales were contracted during 2012, an 18% increase over 2011. Total contribution from China properties increased to 30% of Wharf's core profit in 2012. Excluding its attributable share in Greentown, the Mainland land bank stood at 12.3 million square metres at year end, spanning across 15 cities. The commercial properties portfolio in Hong Kong and China will increase substantially upon the completion of all five International Finance Squares (IFSs) by 2016. The total combined area will reach 50 million square feet.

In Singapore, listed subsidiary Wheelock Properties (Singapore) Limited ("WPSL") acquired a residential site in Ang Mo Kio with a GFA of 0.7 million square feet for S$550 million in January 2013. By the end of 2012, Scotts Square apartments were 85% sold at an average price of S$4,000 per square foot while Orchard View was 100% sold at an average price of about S$2,845 per square foot.

Financial Results

Attributable profit increased by 18% to HK$26.9 billion.

Wharf reported a record profit (increasing by 55% to HK$47.3 billion) and is paying a record dividend (increasing by 56%). However, concentration of development completion by units other than Wharf, particularly in Singapore, was much higher in 2011 than in 2012.

In Singapore, WPSL reported a substantial decline in operating profit by HK$3.1 billion or 81%. Scotts Square had contributed HK$3.6 billion in 2011.

In Hong Kong, operating profit from development declined by HK$0.5 billion or 25%. One Island South had contributed HK$2.1 billion in 2011. In 2012, One Midtown contributed HK$1.3 billion.

Profit before investment property revaluation surplus increased by 4% to HK$8.7 billion.

Core profit, i.e. profit before net investment property revaluation surplus and exceptional items, decreased by 20% to HK$7.3 billion. 77% of that was attributable to Wharf, 16% to WPL and 7% to WPSL. Core earnings per share were HK$3.58.

Net asset value increased to HK$74.83 per share. Consolidated net debt of HK$73.2 billion represented a gearing ratio of 25.6%. Excluding non recourse debts of non-wholly owned subsidiaries, net debt was HK$20.4 billion (2011: HK$15.0 billion) resulting in a substantially lower stand alone gearing ratio of 17.7% as at 31 December 2012 for the Company.

In lieu of a final dividend, the Board has approved the payment of a second interim dividend of 60 cents per share and a special interim dividend of 25 cents per share. Total distribution for 2012 amounted to HK$1.10 per share, representing an increase of 120% over 2011. It also represented a distribution ratio of 31% of core profit, as against 11% in 2011.

Corporate Governance and Social Responsibility

The Group strives to maintain a very high standard of corporate governance by following established sound policies and risk management practices.

We spare no effort to foster the sustainability of the society and the environment. In 2012, the Group together with its subsidiaries supported close to 400 programmes of different forms.

Back in 1994, the Woo Wheelock Green Fund ("WWGF") was created in collaboration with the Environment and Conservation Fund to support environmental research and technology projects. In the past five years, WWGF supported 13 projects. Recently, a project commenced in 2009 that was aimed at developing an automatic switch-off system for idling automobile engines to achieve fuel saving and reduce emission was completed and is now being prepared for commercialisation. This green motivation, if widely adopted, will have positive impact on air quality and supplements the government's initiative to reduce road side emission.

In 2012, the Austin Station residential development achieved the BEAM Plus Gold Certification (Provisional Assessment).

Backed by the active support of our staff volunteers, the Group serves the community by supporting non-governmental organisations as well as initiating our own community programmes. Among these programmes, we are particularly pleased to see

Project *WeCan*, our flagship youth development programme, now making an impact to the lives of over 10,000 students of humble backgrounds in Hong Kong.

Outlook

Financial conditions have improved since the latter part of 2012. However, the global economic outlook remains challenging but is hopefully starting to stabilise. The Hong Kong and Singapore governments have both forecasted their GDP growth rates in a range of 1.5%–3.5% in 2013, reflecting the continuing cautious outlook.

An array of cooling measures imposed on the Hong Kong and Singapore property markets will curb speculation and develop a more sustainable market that will benefit WPL and WPSL respectively.

The Mainland's 7.8% GDP growth in 2012 still outpaced other major economies in the world. With sound economic fundamentals and increased efforts to shore up domestic demand, China is expected to maintain its growth momentum in 2013. The next phase of growth should continue to be underpinned by accelerating urbanisation, completion of the high-speed rail network and increasing domestic consumption. The continued wealth creation will generate growing demand for quality urban living and shopping environment, from which the Group's China businesses will benefit.

Over the years, the Company has been fully supportive of Wharf and its expansion plans. That includes investing a total of HK$9.6 billion to participate pro rata in Wharf's two rights issues in 2008 and 2011 as well as underwriting the remaining HK$9.5 billion. We are delighted that our participation has helped Wharf create significant shareholder value through a strengthening of its equity base, delivering record profits, and rewarding its shareholders with a robust increase in dividend distribution and a robust share price.

That, in turn, has allowed the Group to expand its Hong Kong development business through WPL and, at the same time, reward the Company's Shareholders with much higher dividends and share price advances.

In February 2012, Mr Stewart C K Leung accepted our invitation to become Vice Chairman of the Company and chairman of WPL. Mr Leung has extensive experience in property development, management and related businesses in Hong Kong. He serves as chairman of the Executive Committee of the Real Estate Developers Association of Hong Kong. Together with Mr Douglas C K Woo and Mr Ricky K Y Wong as managing directors of Wheelock Properties (Hong Kong) Limited, Mr Leung is a great addition to the Wheelock Properties team that drives our core business.

Mr Alexander S K Au, after having served as an Independent Non-executive Director for ten years, resigned from the Company's Board in 22 October 2012 to join the board of directors of Wharf. Furthermore, Mr Herald L F Lau, an Independent Non-executive Director of the Company since 2010, has decided to retire at the forthcoming Annual General Meeting and not stand for re-election. I take this opportunity to thank both Mr Au and Mr Lau for their invaluable support and guidance during their tenure.

On behalf of Shareholders and my fellow Directors, I wish to express our heartfelt gratitude to my senior colleagues and all Staff for their dedication and contribution throughout the year.

Peter K C Woo
Chairman

27 March 2013