

CHAIRMAN'S LETTER

To our shareholders,

Creating Value

To understand the Wharf Group, it is important to understand its five core assets and the Group's ability to create increasing value for its shareholders over time.

These five core assets — **Harbour City**, **Times Square**, **Modern Terminals**, **i-CABLE** and **Wharf New T&T** — have become firmly established brands in Hong Kong. **Times Square** and **Modern Terminals** are now building their names in China.

Over the past 20 years, the Wharf Group has continually invested and reinvested in its property and logistics holdings and seized opportunities to enter the important new (at the time) field of communications, media and entertainment (CME). The value of the Group's business assets has grown by over 20 times in the past two decades.

■ By optimizing and redeveloping certain parts of **Harbour City**, total square footage has grown by over 40 per cent since early 1980s to today's 8.29 million square feet, more than triple the size of a Manhattan midtown city block. As a result, **Harbour City** has critical mass in the Tsimshatsui area and now accounts for 50 per cent of the Group's business assets.

■ An old tram depot in Causeway Bay was redeveloped into today's highly valuable **Times Square**. Accounting for almost 20 per cent of the Group's business assets, the two-million-square-foot retail and office complex is now the focal point within the popular district of Causeway Bay. The **Times Square** brand has now been successfully transferred to China with major developments operating in Beijing and Shanghai and under construction in Chongqing.

■ The Group has taken from start-up to fully established operations **i-CABLE** and **Wharf New T&T**, which now run Hong Kong's leading Pay-TV operator (licensed in 1993), quite possibly the world's first profitable broadband operator (licensed in 2000) and Hong Kong's fastest growing fixed telecom network operator (licensed in 1995). Under the leadership of Mr Stephen Ng and his team, all of these businesses are now in profit and represent the Group's newest growth engine.

■ The Group's container terminal assets in Kwai Chung managed to expand substantially from the initial 40 per cent interest in just one berth to today's controlling stake of 55.3 per cent in **Modern Terminals**, which will control seven berths after the completion of Container Terminal 9. Under the leadership of Mr Erik



Peter K C Woo
Chairman

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Christensen and his team, **Modern Terminals** has over the last five years increased market share to 30.7 per cent from 21.6 per cent and improved productivity by almost 100 per cent.

The Group's core assets have consistently underpinned our journey through the ups and downs of the various economic peaks and troughs. As they account for about 90 per cent of Wharf's business assets, we intend to report on them more thoroughly.

Good management is key to maintaining a track record of value creation, just as a simple Group structure helps achieve higher corporate efficiency. Disposal of the Group's interest in Beauforte Investors Corporation Limited in October 2000 and its stake in The Cross-Harbour (Holdings) Limited in March 2001 was consistent with this policy.

It is also particularly important during uncertain times to have a good proportion of earnings from recurrent revenue. This is essential to support investment needs for longer-term growth and to pay dividends to shareholders. Over the past eight years, recurrent earnings streams have grown stronger. As a result, even during the very challenging situation that emerged in 2001, the Wharf Group performed well.

Corporate Results

For the very challenging year that ended December 31, 2001, Group profit attributable to shareholders was \$2,519 million, an increase of one per cent. Earnings per share were \$1.03 compared with \$1.02 for the preceding year, an increase of one per cent.

■ Core properties **Harbour City** and **Times Square**, with high occupancy rates, contributed an aggregated \$3 billion in rental

income, an improvement of six per cent over a year ago, notwithstanding a soft property market.

■ Nelson Court on Waterloo Road and Sorrento Phase I at the MTR's Kowloon Station sold very well in 2001.

■ **i-CABLE**'s net profit increased by 735 per cent to \$167 million. **Wharf New T&T** broke into net profitability with just six per cent market share and a 34 per cent increase in revenue.

■ **Modern Terminals'** profitability was maintained at the 2000 level with an increased throughput of 4.7 per cent over a year ago and productivity gains of almost 12 per cent.

An interim dividend of 28 cents per share was paid in November 2001 and your Directors recommend a final dividend of 50 cents per share to be

approved at the forthcoming Annual General Meeting.

With high liquidity in the banking sector during 2001, the Group continued to refinance its loan facilities with remarkably lower spreads and more favourable terms.

Board and Management

As a special note, I would like to thank Mr Gonzaga Li for his able stewardship as Chairman during the past eight years, when much of our value creation took place. I am pleased that he will continue as the Group's Senior Deputy Chairman and will lead our China operations as Chairman and Chief Executive of Wharf China Limited.

I would also like to thank Mr John Terence Hung, who recently retired from the Group's main board, for his continuous and invaluable contributions over the past 34 years. John is an

outstanding colleague and a great team player. As a good friend and colleague, I wish him all the best with his future pursuits.

A team approach and the dedication of Group management and staff have been the important basic ingredients for the Group's long-term success, particularly during challenging times. On behalf of our shareholders and my fellow board members, I would like to record my heartfelt thanks to them all.

Furthermore, I would like to welcome Messrs Christopher Langley, Hans Michael Jebsen, James Thompson and Professor Arthur Li Kwok Cheung on their joining our Group's main board as Non-executive Directors. I am sure the Group will benefit from their extensive experience and wisdom.

Going Forward

Since the close of the 2001

fiscal year, the Group has made a number of management changes, Mr Gonzaga Li will focus on the Group's growing China activities. Mr David Lawrence is taking charge of our Hong Kong property development activities. Under their leadership, we expect these key operations to continue to strengthen.

Mr Erik Christensen and his team will continue their re-engineering efforts to further improve **Modern Terminals'** productivity to maintain competitiveness while seeking new expansion opportunities.

Under Mr Stephen Ng, the digitisation programme at CABLE TV will increase penetration and yield to enhance bottom line benefits, while investment needs can readily be met internally. The potential 40 per cent target market share for the broadband Internet business is achievable and will be quite

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profitable. **Wharf New T&T's** investment programme will become self-funding and offer excellent growth opportunities as the market deregulates further.

Based on the Group's internal projections, future cash flow is likely to improve on the back of rising rental income, property sales, and the fast growing CME business. Given a continuation of low interest rates and hence borrowing costs, we see solid improvement in the Group's overall financial position.

As to the general economic situation, Hong Kong is exceptionally strong in the service industry which now contributes 86 per cent of

Hong Kong's GDP. Yet, this sector accounts for only 33 per cent of GDP in China, and we see that as an opportunity. We believe Hong Kong is in the right place, at the right time, with the right neighbour. China's WTO membership is a new milestone for Hong Kong, presenting unprecedented positive opportunities and challenges. The Wharf Group is solidly positioned to participate in and contribute to the future development of Hong Kong's new era and to continue to create value from its core assets.

Peter K C Woo

Chairman

Hong Kong, April 2, 2002

From left: K C Leung, Michael Kalyk, Erik Christensen, Gonzaga Li, Peter Woo, Stephen Ng, David Lawrence, Doreen Lee



