

Chairman's Statement

An unprecedented combination of events in 2003 – including terrorism overseas, SARS, the Central Government's policy initiatives in favour of Hong Kong, and the economic upturn – has produced a profound change in local sentiment. The Group performed well during the year.

Group profit amounted to HK\$3,043 million, representing a growth of 35 per cent when compared to HK\$2,259 million achieved the year before. Earnings per share were HK\$1.24.

Before the sudden emergence of SARS, the local economy had been in dreadful shape. But after the disease abated and the Central Government stepped in with a variety of measures, a bottom was quickly established. A V-shaped recovery followed and the adjustment process lasted only a few months — valuations have returned to the pre-SARS level or climbed even higher, while market sentiment has improved tremendously.

The roller-coaster ride experienced during the year 2003 demonstrated the wisdom of the Group's decision at the beginning of the last financial year to make debt reduction its top priority. All business units remained financially sound and solid despite the extremely severe operating environment. Your Directors recommend an unchanged final dividend of 28 cents per share which is to be approved at the forthcoming Annual General Meeting.

BUSINESS PERFORMANCE

On behalf of our shareholders and my fellow board members, I would like to express my heartfelt thanks to all Group management and staff, especially those who, while shouldering extra duties and enduring many hardships during the SARS outbreak, yet remained fully committed to their work.

The performance of Team Wharf Estates was particularly impressive. Their timely and decisive actions in the face of the SARS epidemic fully demonstrated the quality of our crisis management. As a leading investment house put it in one of its research reports, "...not only has this concerted effort strengthened the landlord-tenant relationship, but the impressive performance in attracting customer traffic also increased retailers' confidence in the appeal of Wharf's retail malls...". I feel this is an accurate assessment.

Other business units also recorded steady progress:

- Both **i-CABLE** and **Wharf T&T** reported new highs in numbers of subscribers and installed fixed lines.
- **Modern Terminals** handled four million TEUs in Kwai Chung, a new high for a company with more than 30 years of history in Hong Kong.





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

GOING FORWARD

Now that the Central Government has begun to implement measures targeting at the three pillars of the Hong Kong economy – Trade and Commerce (CEPA), Tourism (relaxation of travel restrictions on individuals) and Finance (allowing banks in Hong Kong to conduct RMB business) – the outlook for business has turned positive. Growth in the Pearl River Delta has been swift. Hong Kong is the region's lead business platform with established and growing critical mass. We are pleased to see solid signs of domestic recovery for the first time since the Asian Financial Crisis hit us in 1997. Many predict that deflation will soon be a thing of the past. Moreover, China's GDP growth, now running at around seven per cent annually, can be expected to create a favourable macroenvironment for business growth.

Peter K C Woo

Chairman

Hong Kong, March 16, 2004