

# Chairman's Statement

The Hong Kong economy defied record high oil prices and rising interest rates to exceed expectations in 2005. Driven by flourishing external trade, investments and re-vitalised domestic consumption, real GDP growth reached 7.3%. Consumer confidence continued to rise, aided by a steady improvement in employment, a controlled rise in wages, robust economic expansion and a healthy stock market. The composite consumer price index rose by a modest 1.1%. Thanks to the progressive expansion of the Individual Traveller Scheme to 38 cities, Mainland arrivals reached 12.5 million in 2005 to mark a new high.

Favourable economic fundamentals fuelled growth across all business sectors of the Group. All core businesses of the Group performed well in 2005, with better than expected results overall.

Group turnover rose by 5% to HK\$12,543 million (2004: HK\$11,953 million). Group profit rose by 10% to HK\$13,888 million (2004: HK\$12,677 million). Earnings per share rose to HK\$5.67. Excluding the unrealised surplus from the revaluation of investment properties to comply with prevailing accounting standards, Group profit rose by 20% to HK\$4,499 million (2004: HK\$3,740 million).

Rentals firmed across all property sectors. Tightening supply and growing demand for Grade A offices led to accretive rental reversions in 2005. Retail sentiments remained strong. Valuation of the Group's investment properties correspondingly rose by 17% to HK\$78,224 million.

The Group has reduced its debt over the past few years and is reasonably sheltered from the rising interest rate environment. Gearing ratio improved to 24.6% at the end of 2005.

A final dividend of 44 cents per share has been recommended to bring the total dividend for the year to 80 cents per share (2004: 68.75 cents).

## Business Performance

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

Consistent focus on shopping mall management has successfully attracted shopper's traffic and enabled our retail tenants to achieve favourable sales performance. In December 2005, a record was set when an average turnover of over HK\$1,200 per square foot was achieved by the Harbour City retail tenants. For both tourists and local shoppers, Harbour City and Times Square are well established as the premier, must-visit shopping malls in Hong Kong.

Other business units also recorded steady progress:

- The Group continued to pursue landbank replenishment opportunities in Hong Kong and expanded its property investments and developments in China.
- The CME sector responded swiftly to competitive attack to achieve steady market position, profitability and cash flow.
- Modern Terminals handled a record 5.04 million TEUs at Kwai Chung, 16% higher than in 2004. It also undertook strategic expansion in China through the Dachan Bay and Taicang projects.

A full report on each business unit's performance is included in the Managing Director's Report.

As a special note, I wish to express my heartfelt gratitude to Mr Quinn Law, who left the Board effective November 1, 2005, and Mr Erik Christensen, who will retire from the Board at the upcoming Annual General Meeting, for their invaluable contributions to the Group.

## **Outlook**

Hong Kong's economic momentum remains intact and the outlook for 2006 positive. China, with strong GDP growth continuing, will remain as Hong Kong's biggest and most important trading partner. As China booms, Hong Kong flourishes. The Closer Economic Partnership Arrangement, coupled with China's WTO accession, will continue to benefit Hong Kong companies in exploring business opportunities on the Mainland, and facilitate SMEs from China to make use of the Hong Kong trading platform. The economic interlock between the Mainland and Hong Kong will be further strengthened.

Hong Kong tourism will continue to expand. The Hong Kong Tourism Board forecasted another 16% growth in tourist arrivals to reach 27 million in 2006. Consumer spending remains strong, underpinned by the wealth effect of the asset markets and improving employment situations.

Despite the tightening monetary conditions in the US over the past two years, the world economic fundamentals remain healthy. Asia, in particular China, has been the whole world's focal point and Hong Kong is at the heart of the action. Hong Kong is the platform facilitating the "going out" policy of Mainland private enterprises, and the "going in" strategy of international enterprises.

Hong Kong is not without its challenges but is on balance in very good shape. I look keenly forward to a brighter and better future.

**Peter K C Woo**

*Chairman*

Hong Kong, March 15, 2006