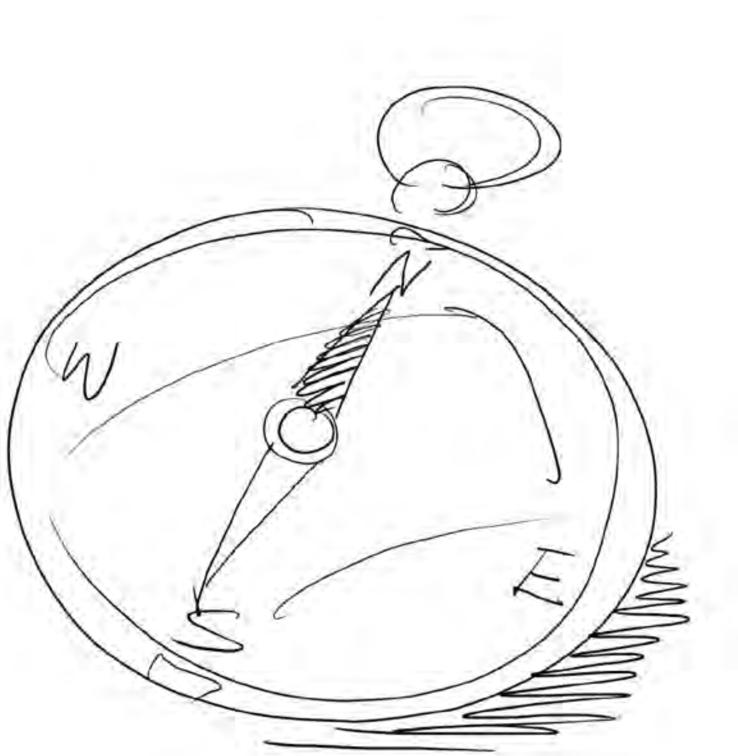
Chairman's Statement

Going forward, the Group's growth drivers will be its business initiatives in both property and logistics in China in the near- to medium-term. It is the Group's objective to achieve a 50/50 weighting in assets between the Mainland and Hong Kong in the next five years.



2007 was a good year for Hong Kong, driven by strong local economic fundamentals. Real GDP gained 6.3% marking the fourth consecutive year of strong economic growth. Hong Kong's unemployment rate reached its lowest level since March 1998 due to the buoyant local economy. The low interest rate environment, coupled with a perceived shortfall in residential supply versus demand, sparked a remarkable increase in residential prices across the board accordingly. Retail market was continuously lifted by the increasing number of arriving tourists especially from the Mainland who wanted to spend more in Hong Kong and the local consumers who were emboldened by their growing household wealth and better job security. Riding on its excellent retail management and quality, the Group's core properties, namely Harbour City and Times Square, continued to achieve remarkable sales growth in 2007. Demand for Grade A office space remained strong, underpinned by business expansion and upgrading requirements. This has benefited the Group's office portfolio during the year.

Under these favourable market conditions and supported by a strong operating base, the core businesses of the Group performed well in 2007 with robust growth in turnover and operating profit. Contribution from the Group's China property business increased quite substantially in 2007, giving rise to an encouraging year-on-year growth in profit in 2007. Going forward, the Group's growth drivers will be its business initiatives in both property and logistics in China in the near- to medium-term. It is the Group's objective to achieve a 50/50 weighting in assets between the Mainland and Hong Kong in the next five years.

Harbour City and Times Square, the core assets of the Group representing 52% of total assets, remained the top and must-visit "shoppertainment" destinations in Hong Kong for both tourists and locals. Their combined turnover grew by 15% to HK$5,434 million and operating profit by 18% to HK$4,035 million. This solid and stable stream of income will facilitate the Group's business expansion in future.

In line with its commitment towards expanding the property sector in the Mainland, the Group acquired 12 sites for development in the cities of Chengdu, Hangzhou, Suzhou, Chongqing, Nanjing, Changzhou and Wuxi during 2007 and early 2008. Overall, the Group has succeeded in acquiring 17 sites in the Mainland since the middle of 2005. The Group's attributable landbank and investment properties in terms of plot ratio GFA are currently about 90 million square feet. It is approaching our interim aim of 100 million square feet. Over the next few years, our intention is not to reduce our land bank below this general level through selective replenishment of our land bank.

The Group put up several phases of the various residential projects in the cities of Shanghai, Wuhan and Chengdu for sale/pre-sale during the year and met with overwhelming responses. These included Phases I and II of Wellington Garden in Shanghai, Wuhan Times Square in Wuhan and Tian Fu Times Square in Chengdu. Most of the units put up for pre-sales/sales were taken up quickly and the average prices achieved exceeded the Group's expectation. For Tian Fu Times Square, 97% of three selective residential blocks were successfully pre-sold at record high unit price in the city. Wuhan Times Square also successfully sold 98% of its first phase consisting of two residential towers at record high unit price in that city. Phase I of Wellington Garden in Shanghai, comprising two residential blocks, were 100% sold at excellent prices. With project completion of the relevant phases of Wuhan Times Square and Wellington Garden in 2007, profit from the sale of relevant residential units were accounted for, contributing meaningful profits to the Group during the year.

Modern Terminals' progressive investment programme in the Mainland is also bearing fruit. The first two berths of its five-berth Dachan Bay project in Western Shenzhen have commenced services in December 2007 and the remaining three berths will be commissioned in 2008. Together with its other quality projects including Taicang terminal and Mega Shekou terminal, Modern Terminals will significantly increase its presence in the region of Pearl River Delta and Yangtze River Delta. The resultant capacity in the Mainland will be larger than the existing one in Hong Kong. Modern Terminals handled a record 5.72 million TEUs in 2007 in Hong Kong, 6% higher than 2006.

The CME businesses managed to achieve satisfactory performance in an increasingly competitive environment as we continue to add value creating capabilities.

Group turnover grew by 21% to HK$16,208 million (2006: HK$13,364 million) and operating profit increased by 46% to HK$9,466 million (2006: HK$6,471 million). However, finance costs and taxation charge increased during the year. Net profit attributable to Shareholders excluding the net surplus arising from the revaluation of investment properties increased by 39% to HK$5,947 million. (2006: HK$4,285 million). Including a higher unrealised surplus from the revaluation of investment properties, net profit attributable to Shareholders was HK$13,143 million (2006: HK$10,757 million). Earnings per share were HK$5.37 (2006: HK$4.39).

Valuation of the Group's investment property portfolio on the back of rising property rentals, grew by 11% to HK$95,782 million at the end of 2007. The financial position of the Group remained strong with gearing ratio at 25.6% by the end of the year.

A final dividend of 44 cents per share has been recommended to bring the total dividend for the year to 80 cents per share (2006: 80 cents).

Despite the uncertain global outlook, the Asia Pacific economy is expected to remain a bright spot against a dimmer global economic landscape, on the back of the growth momentum in the Mainland economy and other Asian economies. Hong Kong will continue to benefit economically from CEPA, Individual Visit Scheme and its role as platform for the "bringing in, going out" process for Mainland enterprises.

It is expected that Hong Kong's economy will hold up well in 2008. Expected low unemployment, rising household incomes and a series of tax relief measures are likely to induce stronger levels of local consumption and fuel retail expansion as well as heightening the residential sector. The inbound tourism will likely benefit from the spill-over effects of the Beijing Olympic Games and the emergence of Macau's gaming and convention industry.

Hong Kong's longstanding economic success and reputation as Asia's international financial centre is built on the core values of the rule of law and the recognition of and the respect for private property ownership rights.

For the future, however, we are concerned when we start to see the irresponsible and arbitrary attitude taken by special interest groups towards our Group's Times Square as part of the recent movement to "reclaim" the city's "public space".

Times Square is a private property and the street level piazza is dedicated to the public solely for the purposes of pedestrian passage and passive recreation under very specific restrictions. Any act to ignore and violate the governing Deed of Dedication, which is a legally-binding agreement, would have far-reaching implications and be unacceptable to law-abiding citizens and owners of private property.

China's robust growth prospects give rise to investment opportunities for Hong Kong and overseas companies. The Group is taking on its substantial business initiative in expanding its business investment in the Mainland to capitalise from China's strong economic growth and the expected increase in its pace of urbanisation.

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

Peter K C Woo
Chairman
Hong Kong, 26 March 2008