Chairman's Statement

The Heart of the Group, Harbour City and Times Square in Hong Kong, together represent 46% of the Group's total assets and 63% of total operating profit. They easily outperformed the general economy. Operating profit rose by 20% from 2007 to nearly HK$5 billion to set a key corporate milestone.

Hong Kong's economy fell victim to the global financial tsunami and slowed markedly after September 2008. For full year 2008, real GDP grew by 2.5%, a rapid deceleration from the rate of 6.4% in 2007.

"Heart of the Group"

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In particular, total retail sales generated from these two prime retail properties accounted for 7% of total Hong Kong retail sales in full year 2008, and close to a phenomenal 10% in December 2008. It has significantly and consistently outperformed the general market in growth rate in both good times and bad, by up to 10 percentage points or more. Average sales per square foot reported for Harbour City in December was a record high of HK$1,900.

Lease reversion at Harbour City and Times Square has accordingly been brisk. 70% of the office space with leases expiring in the first half of 2009 have been secured and renewed at new rates which are on average 20% higher than those expiring. Attracted by our robust sales performance, there is a consistent waiting list of preferred retail tenants for the occasional space that becomes available. Both Canton Road and Times Square have become "must visit" retail meccas for visitors.

China Properties

"Building for Tomorrow" is the Group's mission. The dependability of cashflow from the "Heart of the Group" has enabled the Group to re-invest to build a new "Tomorrow" for the future. That new "Tomorrow" is clearly in Mainland China. Since 2005, the Group has acquired 19 sites in the Mainland for development in cities such as Chengdu, Hangzhou, Suzhou, Chongqing, Changzhou and Wuxi. As at the end of 2008, the Group's attributable landbank and investment properties totalled close to our interim target of 100 million square feet of gross floor area.

We have initiated earlier this year a deliberate process of localisation with a view to establishing a substantial local business organisation and base in the Mainland. We believe strongly this would empower us to compete more effectively in the future with leading local property developers there.

Times Squares in Beijing, Shanghai and Chongqing are investment properties and together reported rises in revenue and operating profit of 22% and 38% in 2008 over 2007, respectively. In addition, the 180,000-square-foot shopping mall in Dalian Times Square opened in November and quickly became the luxury shopping landmark of the Northeast.

The International Finance Centre (IFC) project in Hongxing Road, Chengdu, the Group's next flagship, is comparable in significance to Harbour City and Times Square in Hong Kong. Chengdu is the up and coming business hub at the heart of Western China and has a population of 11 million, trailing only Beijing, Shanghai and Chongqing. Prime retail rental is comparable to that in Shanghai. Sitting at the top location in the city's main commercial district, the project links to the adjacent mass transit railway station where two major lines intersect. There are three leading department stores across the street. The scale of the development, also with retail, office, apartments and hotel, is comparable to Harbour City. It aims to quickly become the "Best of the West" as the new shopping hub for not only Chengdu but the entire Western region. A total project investment of RMB14 billion and an initial yield of 5 to 7% are envisaged. The project is targeted to be completed in phases from 2012.

Other projects are still at early stages of development but are already showing promising signs of investment logic. We will continue to monitor market conditions closely to fine tune the progress of development. We aim to avoid building on speculation and when the market is not yet there.

The Group has been achieving record or near record sales for its various residential projects in the respective cities. Recent pre-sales launches have met with very favourable response. For the project in Gaoxin District, Chengdu, about 77% of the units offered since last November have been presold at an average price of RMB6,000 per square metre. For the joint venture project in Danzishi District, Chongqing, about 70% of the units offered since last November have been presold at an average price that rose from RMB4,600 to RMB4,900 per square metre. At Dalian Times Square, Dalian, over half of the units offered in the second tower earlier in March were presold within one week, and before the public sale started, at an average price of RMB14,000 per square metre to match the record price achieved for the first tower in June 2008.

The Group remains enthusiastic about the fundamental outlook for the real estate market in the Mainland. Urbanisation is the theme for the next 20 years. Close to 300 million people are anticipated to be moving into the cities. Our overall development portfolio is expected to generate attractive returns to the Group in the coming years.

Capital Planning

Cashflow management and control are critical in today's tight credit market. This is expected to persist for some time to come. In that regard, the Group has built a solid foundation to meet not only existing commitments but also any new investment opportunities which may arise.

All of the Group's key Hong Kong assets are generating excellent recurring cashflow. Harbour City and Times Square alone produced free cashflow of about HK$4 billion in 2008. In addition, the Logistics and CME segments upstreamed a total of about HK$1 billion of cash after meeting their own development needs respectively.

Timely completion of committed facilities helped the Group to secure HK$14 billion of medium term debt capacity in 2007. This was followed by a rights issue at the beginning of 2008 to help the Group to raise HK$9 billion of additional equity in a good market. As at the end of 2008, the Group's net debt amounted to less than HK$10 billion, after excluding standalone credit and cashflow entities such as Modern Terminals and Harbour Centre Development, which are partly-owned subsidiaries of the Group. Committed facilities and cash in hand are more than adequate to meet planned capital expenditure. Even if none of the facilities maturing in 2009 is renewed, it is expected that HK$10 billion of committed facilities would still remain unutilised at the end of the year.

In addition, the Group continues to minimise and stabilise its cost of funding. One such initiative is to lock in an interest cost savings of over 3,000 basis points (amounting to US$123 million) by swapping a 10-year US$400 million debt to finance the Group's renminbi assets in the Mainland into Japanese yen to diversify funding. The Group stands to gain from it unless the dollar/yen exchange rate falls below the breakeven rate of 85 in 2017. This direct currency swap is not a speculative derivative. It is "marked to market" at the end of each accounting period in accordance with current accounting standards. This may give rise to unrealised and potentially volatile accounting gains or losses from year to year. Another initiative is to lock in fixed interest rates for 10 years in the exceptionally low interest rate environment of today.

2008 Financial Summary

Group turnover for 2008 slipped to HK$15,940 million (2007: HK$16,208 million) with strong recurrent rental income substantially covering the lower property sales recognised in the year. Operating profit decreased to HK$7,639 million (2007: HK$9,516 million) on account of lower profits of HK$84 million from Hong Kong and China property sales recognised (2007: HK$1,127 million) and an exceptionally large profit (HK$1,806 million) from investment disposal in 2007.

Profit attributable to Shareholders excluding the net investment property revaluation surplus was HK$4,194 million (2007: HK$5,947 million). Including a lower unrealised surplus from the revaluation of investment properties, profit attributable to Shareholders was HK$6,247 million (2007: HK$13,143 million). Earnings per share were HK$2.28 (2007: HK$5.17).

Revaluation of the Group's investment properties portfolio, underpinned by higher rentals, grew by 2% to HK$98,410 million as at the end of 2008. Gearing was 20.9%.

Including Logistics, 30% of our Group's assets were renminbi assets located in the Mainland as at the end of 2008.

A final dividend of 44 cents per share (2007: 44 cents) has been recommended to bring the total dividend for the year to 80 cents per share (2007: 80 cents).

Outlook

2009 is expected to be an interesting year. The Hong Kong economy is forecasted to contract by 2 to 3% in real terms. The near-term prospect for retailers will continue to be overshadowed by economic uncertainties. We see steady growth of the Mainland economy and the staunch supporting measures extended to Hong Kong should cushion Hong Kong in weathering the storm. Hong Kong will benefit from the Mainland's strong economic fundamentals. It is well-poised to turn this global financial crisis into opportunities while advancing its status as an international financial centre and a superb business service platform for the region. The medium and longer term economic prospects for Hong Kong remain promising.

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

Peter K C Woo
Chairman
Hong Kong, 25 March 2009