Chairman's Statement

Group Profit

HK$17.5 billion

↑180%

Profit before Investment Property Revaluation Surplus

HK$7.8 billion

↑86%

A new milestone for profitability

The China property segment, while still at a relatively early stage of development, outpaced all other segments in profit growth.

The Hong Kong economy contracted by 2.7% in 2009 in the midst of a severe worldwide recession. The Group's overall performance well exceeded our budgets, achieved primarily on the unexpected strength of the property segments in both Hong Kong and the Mainland. Group profit rose by 180% to HK$17.5 billion. Profit before Investment Property revaluation rose by 86% to HK$7.8 billion.

Property Investment accounted for over 70% of Group operating profit. Strong structural growth in this segment more than compensated for the cyclical weakness in the other segments including Logistics. The "Heart" of the Group, Harbour City and Times Square, comfortably outperformed the market and accounted for 8% of total retail sales in all of Hong Kong.

Three other key factors drove the Group's earnings growth in 2009 in roughly equal importance: Property Development, favourable financing costs and disposal of Beijing Capital Times Square. In particular, operating profit from Property Development exceeded HK$1 billion (from a 33% margin) to rise to 12% of Group operating profit. It is well poised as a reliable new source of income for the Group in the coming years.

"Heart of the Group" – Harbour City and Times Square

The two core assets in the Property Investment segment, Harbour City and Times Square, continued to deliver with a 10% - increase in recurring profit to HK$5,313 million. Under the Group's leadership in retail management, the two properties once again comfortably exceeded the Hong Kong average for retail sales growth over 2008. Distinguished by their premier location, sustained quality for the most exhilarating and rewarding shopping experience, diversified trade-mix and powerful retail marketing, Harbour City and Times Square combined accounted for around 8% of total Hong Kong retail sales in 2009. Both core assets held up well in office occupancy and rent for their ideal locations, served by excellent transportation networks and well-rounded ancillary services.

China Properties

The Group's strategy to increase its Mainland assets to 50% of Group assets is progressing well. Our land bank in the Mainland has already exceeded the interim target of 100 million square feet of gross floor area. To sustain development in the Mainland, the Group has taken deliberate steps to localise its management teams. The China East team has been fully localised, while the China West team, established in Chengdu, continues to be led by Hong Kong executives until it is fully localised.

The China property segment, while still at a relatively early stage of development, outpaced all other segments in profit growth. Sales for 3.7 million square feet of properties recognised in 2009 helped increase operating profit by elevenfold to exceed HK$1 billion. Including sales not yet recognised, a total of 4.7 million square feet of properties were sold in 2009 for RMB4.6 billion to exceed target. They spanned across six cities (Chengdu, Chongqing, Dalian, Shanghai, Wuhan and Wuxi) and reflected soaring housing demand across urban China, the properties' excellent location and quality, as well as Wharf's reputable brand strength.

The 2010 aim for sales/presales of close to 10 million square feet for RMB10 billion will mark a new milestone for the Group. The strong cash flow from this programme would provide additional resources for additional investment in quality projects when suitable opportunities arise.

In Property Investment, the Times Squares in Beijing, Chongqing, Dalian and Shanghai together registered a 15% growth in revenue and a 26% growth in operating profit. In November 2009, the Group accepted an attractive offer to dispose of the Beijing Capital Times Square. It is intended to re-invest the capital from the disposal in other interesting prospects in due course.

2009 Financial Summary

Group turnover for 2009 increased by 10% to HK$17,553 million on account of strong recurrent rental income, coupled with phenomenal revenue growth from China property sales. Operating profit grew by 13% to HK$8,554 million.

Profit attributable to Shareholders excluding the net investment property revaluation surplus rose by a robust 86% to HK$7,817 million. Including a higher unrealised surplus from the revaluation of investment properties, profit attributable to Shareholders rose by 180% to HK$17,501 million. Earnings per share were HK$6.35.

Revaluation of the Group's investment properties, underpinned by higher rentals, grew by 12% to HK$115,492 million as at the end of 2009. Gearing was 17.5%. Including Logistics, 32% of the Group's assets were Renminbi-based assets as at the end of 2009.

The Board is recommending a 45% increase in final dividend to 64 cents per share. This would increase total dividend for the full year by 25% to HK$1.00 per share.

Outlook

Subsequent to the severe global downturn in the second half of 2008, the Hong Kong economy started to pick up in the middle of 2009 and staged a strong recovery late in the year. The government forecasts Hong Kong's GDP will revert to a positive annual growth of 4~5% in 2010. Local consumption, having regained momentum in the second half of 2009, is poised to rise further in 2010, along with an improving employment market in tandem with the economic upturn. According to the Hong Kong Tourism Board, tourist arrivals are expected to grow by 5% to 31 million this year on the back of a strong growth in visitors from the Mainland and emerging markets. A further revival in consumer sentiment and inbound tourism will add impetus to the Hong Kong retail market in 2010.

While the global economy has emerged from the doldrums, China is expected to take the lead in the recovery process. Riding on the close economic ties with the Mainland, Hong Kong will continue to benefit from the Mainland's vibrant growth and strong economic fundamentals. The medium-term outlook for the Hong Kong economy remains cautiously optimistic. The remarkable economic resilience of our vast hinterland will cushion Hong Kong against the uncertainties in the global environment in the longer term.

In 2009, the Mainland's GDP grew by 8.7% and the growth is targeted to maintain at 8% in 2010. The high-speed railway development commenced since 2003 marks a cornerstone for all major cities throughout the country to be connected. It will generate more economic activities in and between the cities over the next 30 years of China's opening up. The recent Central Economic Work Conference underlined the Central government's pledge to speed up the process of substantial urbanisation and further relaxation over residence permits that would lend further support to housing demand. I remain enthusiastic on the fundamentals of the Mainland property market, where the Group's motto of "Building for Tomorrow" is the right message internally and externally.

However, we also see new uncertainties looming for 2010 and 2011. They include the multi-government 'exit strategies' around the world, the fragile state of the European economy, and tension between China and the United States of America. The Group will persistently pursue its business objectives while maintaining its consistently sound financial management to ride out this exciting journey.

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. In particular, Mr Gonzaga Li, Senior Deputy Chairman, is retiring after serving in the senior management nucleus for 30 years. I am personally indebted to him for his invaluable assistance to me over the years. Special mention is also due to our property teams who are fully energised and motivated to help propel the Group and to make great advances to establish our leadership position in the segment.

Peter K C Woo
Chairman
Hong Kong, 23 March 2010