Chairman's Statement

Hong Kong's economy rebounded strongly in 2010 with a robust 6.8% growth rate. Vibrant business activities resumed and tourist arrivals rose by 10% to a record high of more than 36 million. Among those arrivals, over 62% were from Mainland China, demonstrating the strength of the economic tie Hong Kong has with the vast hinterland.

Since the "open door" policy started in 1978, Hong Kong has benefitted much from Mainland China. Its role has evolved over the decades, from being a direct investor when Hong Kong's industries migrated to Guangdong to benefit from the low cost base, to becoming a servicing and financing platform for China. Today, as a major international financial hub, Hong Kong is the most attractive offshore platform for Chinese companies for commercial and financial activities, as well as an entrance platform for international companies investing into China.

The entrepreneurial spirit of Hong Kong companies and their ability to adapt to changing environment has contributed much to this success. In addition, the vital ingredients that Hong Kong possesses, including its free port, low and simple taxation regime, visible yet disciplined supervisory and regulatory system, have remained over these years and have nurtured an orderly, yet laissez-faire environment in which businesses to thrive. It is these factors that make Hong Kong a 'showcase' for China.

Economic development in China in 2010 continued with a 10.3% growth. The focus for growth is shifting to the stimulation of domestic consumption, as the country enters its next 30 years of economic development. The high-speed rail network, with its 4x4, NS–EW grid, will connect the country, accelerating urbanisation and dispersing wealth across the population. In addition to Beijing and Shanghai, mega cities and various metropolitan regions will emerge around China to house the booming middle class. This will generate economic maturity and sustainability for the Mainland.

Business Performance

The Group reported a record performance in 2010 on the strength of the property segments in both Hong Kong and the Mainland. Group profit increased by 86% to HK$35.8 billion.

Harbour City and Times Square in Hong Kong posted a 9% increase in recurring profit to HK$5.8 billion. They continued to command an unmatched 8.5% share of Hong Kong's total retail sales in 2010, reflecting the Group's leadership in retail property management. Harbour City's market value rose to HK$80 billion (excluding hotels) and Times Square's to HK$30 billion, underpinned by the CAGR in rental income of 12% and 9% respectively since 2003.

The Group's strategy to increase its Mainland assets to 50% of Group assets is progressing well, with 34% of the business assets on its balance sheet already in China at the end of 2010. The land bank was increased to 12 million square metres in early 2011, moving closer to the interim target of 15 million square metres. The land bank was accumulated at a cost of RMB61 billion, of which RMB15 billion is not yet due for payment.

The recurrent rental base in China was boosted by the completion of Shanghai Wheelock Square in 2010. This 270-metre office tower, the tallest building in Puxi, was valued at HK$6.2 billion compared with its original cost of HK$2.9 billion. The recurrent income base will be multiplied when the pipeline of International Finance Centre (IFC) developments in the cities of Chengdu, Chongqing, Wuxi, Suzhou and Changsha gradually rolls out between 2013 and 2016 to add about two million square metres.

Property sales in China are gathering pace. Nearly 540,000 square metres of properties were sold or presold in 2010 to generate attributable sales proceeds of RMB8.8 billion. Budgeted sales for 2011 is RMB14 billion, with actual sales in the first two months of the year meeting budget. While the current market is somewhat uncertain and may affect achievement of the full year budget, we remain confident about the underlying strength of the market in the medium term.

The drive to create a strong and sustainable localised management team in China continues, as the Group believes local execution knowhow and intelligence network ensure swift and accurate response to market changes. The fully localised China East team has already produced many successful project sales in 2010.

Financial Results

Group turnover for 2010 increased by 10% to HK$19.4 billion on account of strong recurrent rental income and China property sales. Operating profit increased by 10% to HK$9.4 billion.

Profit attributable to Shareholders excluding net investment property revaluation surplus increased marginally to HK$7.9 billion. Including the net unrealised surplus from the revaluation of investment properties, profit attributable to Shareholders rose by 86% to HK$35.8 billion. Earnings per share were HK$12.98.

Underpinned by sustainable higher rentals, valuation of the Group's investment property portfolio increased by 26% to HK$148 billion at the end of 2010. Gearing was 19.2%. Including Properties, Hotels and Logistics, 34% of the Group's business assets were Renminbi-based as at the year end.

Book net asset value as at 31 December 2010 increased to HK$59.22 per share. This reflects primarily only the revaluation of the Group's investment properties and listed investments.

To enhance the capital base for the rising business activities, the Group raised HK$10 billion through a rights issue in March 2011, which was 671% over-subscribed. This provides funding flexibility for the Group's China expansion, including the recently acquired Changsha IFC site, which will be a RMB15 billion project.

The Board is recommending a final dividend of 64 cents per share to bring the total dividend for the year to HK$1.00 per share.

Outlook

Outlook for Hong Kong is positive, with the government predicting a 4%-5% GDP growth in 2011. Trade growth, strong domestic consumptions and tourist arrivals will propel Hong Kong forward.

While there remains external uncertainties, Hong Kong will continue to benefit from the favourable policies implemented by the Central Government. The main theme of the 12th Five-Year Plan is to rapidly change China's economic growth model. Initiatives to drive domestic demand, increase the service industry content of GDP by four percentage points, and speed up urbanisation are positive policy initiatives that will provide advantageous opportunities for Hong Kong companies. Further development of offshore Renminbi products in Hong Kong will solidify its status as the offshore centre for RMB.

China is already the world's second largest economy after decades of blistering growth. Macro policies being rolled out indicate the government's desire to spread the growth across the country for long term sustainable development. The high-speed rail grid will consolidate, link up and optimise the cities and the markets, and develop an integrated and modern China. While there are internal and external challenges, the Group remains enthusiastic about the fundamentals of the Mainland economy.

2011 marks the 125th anniversary for Wharf. While we are proud of our past achievements, we look forward passionately to accelerating our strategic initiative of "Building for Tomorrow" in Mainland China and enhancing our corporate social responsibility effort through the drive of "Business-in-Community" for a better Hong Kong.

On behalf of 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
23 March 2011