Chairman's Statement

A Record Year from Building for Tomorrow

2012 was a truly remarkable year in the history of our Company.

It also marked 30 years for me at Wharf, which I joined as Managing Director in 1982. At that time, Wharf's book value was HK$3.2 billion while its market capitalisation was HK$3 billion. In 2012, Wharf's net book value stood at HK$249 billion with a market capitalisation of HK$184 billion.

Core profit for 2012 exceeded HK$11 billion — nearly four times the value of the entire Company in 1982. Overall profit in 2012 topped HK$47 billion, a number that would have been unimaginable back in 1982 and was certainly not budgeted for at the beginning of 2012.

We salute the late Sir YK Pao's wisdom and foresight in his strategic acquisition of control of Wharf which started in 1978. He took the Chair in June 1980. The robust foundation built by the late Sir YK and the vision he had for this company, makes Wharf what it is today. And it ensures that even in a challenging environment such as last year we were capable of achieving record-breaking results. I wish to acknowledge the tremendous contribution of my past and current senior colleagues and thank them for the success that Wharf enjoys today.

Last year was plagued by challenges on the domestic and international fronts. Hong Kong reported a modest GDP growth rate of 1.4%, down from the above-trend rate of 4.9% in 2011. Nevertheless, the domestic sector held up reasonably well with private consumption expenditure grew steadily. Visitor arrivals increased by 16% to reach a new record of 48.6 million of which 72% came from Mainland China. Thriving inbound tourism continued demand for hotel rooms and consumer goods. Hong Kong retail sales posted a moderate growth rate of 9.8% in 2012, after a record performance in 2011.

Meanwhile, China's GDP growth rate decelerated to 7.8% in 2012, from 9.2% in 2011. The Mainland property market was affected by the introduction of home purchase restrictions at the beginning of the year but gradually stabilised in both housing prices and home-sale transactions. Cooling measures imposed by the government should facilitate a healthier and more sustainable market development in the longer term.

Completion of the Beijing to Shenzhen high-speed railway during 2012 will consolidate business activity and stimulate economic growth, particularly in the central China region. The Central government's commitment to double GDP by 2020 will further accelerate urbanisation, substantially grow the service sector and drive domestic demand. This should be a very positive force in spurring new demand for quality urban living and unique 'shoppertainment' experiences.

In 1992, Wharf published the "Hong Kong Plus" paper, which highlighted the opportunities Hong Kong would have post 1997 with Mainland China — namely, the trade services explosion which would drive Hong Kong's economic viability and the financial services platform which would complement this. Looking back, we laid out much of the Hong Kong story that has subsequently unfolded. We foretold a story of success because we did not subscribe to "the sky is falling" panic preceding and during the change of sovereignty. It has been quite a success story for Hong Kong. At Wharf, we quietly carried on with our mission — "Building for Tomorrow" — one block at a time. We thank our shareholders for their unfailing support throughout.

Chairman's Statement

Many feel the real transition to Hong Kong's reunification with China actually started when the Sino-British negotiation started in 1982. These 30 years from 1982 to 2012 represented the most volatile period in Hong Kong's history, packed with risks and opportunities. 1997 was just the watershed between the two 15-years before and after. That is now all behind us.

The next 15 to 30 years should be even more exciting for Hong Kong.

The high-speed railway to Guangzhou and beyond, the bridge to the western region of the Pearl River Delta and the third airport runway will all provide new and substantial pipelines to facilitate fast growing demand for Hong Kong as the premier universal service platform on the doorstep of China.

The urbanisation of China is surely a once-in-a-lifetime opportunity for Hong Kong — the right time, the right place and the right harmony, as the Chinese saying goes. The top 15% of almost every Mainland city's urban population will be in need of services which are not adequately provided for in the city where they reside. Hong Kong has the critical mass, and is the reliable platform that can offer many of the services the Mainland Chinese seek. To our many neighbours, Hong Kong is indeed that top brand on the many services that they prefer.

The extraordinary surge in demand will continue to challenge Hong Kong's capacity and creativity. Hong Kong must stay fully alert to the huge demand from the Mainland, while serving our own residents, and overseas visitors, anchoring on our assured quality, reliability, professionalism and integrity. While many developed economies are still in a state of shock and suffering sluggish demand since the 2008 financial tsunami, this extraordinary surge in demand in Hong Kong is clearly a "happy problem" that many other economies would wish to have. In order for Hong Kong to stay ahead of the curve, it is crucial we learn to deal with the surge and not to turn our back to it. We must relentlessly build on our critical mass, to keep our standards high in order to support our core services and to create new services.

Hong Kong should not be and cannot be seen to be inward looking. We certainly have ample fiscal means and the capacity to deal with our political and social issues. Perhaps we ourselves are still not believers of our own success, something international observers would find strange. Being ultra-prudent, we have repeatedly underestimated our fiscal revenues year after year, putting our own governance creditability at risk with our community. We should be more ambitious about realising the many and varied opportunities offered by this new, exciting era.

For Hong Kong, the transition has been successful and is fully behind us. The sky has not fallen and it is not going to fall. We can handle any problem. We look forward, not backward.

Business Performance

The Group reported another year of record revenue and profit.

Our principal core business is the investment property ("IP") portfolio, which includes hotels. This segment increased total revenue by 12% to reach HK$11 billion and operating profit by 11% to HK$8.6 billion, representing 61% of the Group's total operating profit.

The Group continued to maintain a leading position in the Hong Kong retail market. Total retail sales at Harbour City and Times Square surged to a new record of HK$40 billion in 2012, commanding a 9% share of total Hong Kong retail sales despite 17% of the retail space at Times Square being withdrawn from the market during the major renovation to relocate the cinema to the Food Forum floors.

On a per square foot basis, Harbour City's retail sales soared to HK$2,600 per month and Times Square's to HK$1,700. These two assets had a combined value of HK$177 billion at the end of 2012, up from HK$137 billion in 2011, and represented 50% of the Group's business assets and HK$58 per Wharf share on an attributable basis.

Harbour City's success stems from its premier location, critical mass, strategically calibrated trade mix and forward looking retail marketing. We are pleased to have finalised the new lease for Ocean Terminal with the Government. This will consolidate our retail footprint on Canton Road while opening up many opportunities for trade mix refinement and premises enhancement to maintain our leadership positioning in retail.

The enhancement projects along Canton Road continued to bring new excitement to the city. Some non-retail areas on Canton Road were converted into multi-level flagship stores for Fendi and Giorgio Armani. Premises enhancement is an ongoing initiative to provide a captivating "shoppertainment" experience for all shoppers. Over the past 10 years, Harbour City completed a minimum of 17 major projects and invested more than HK$1.7 billion to make Harbour City what it is today. These included the LCX conversion in 2002, the Ocean Terminal Praya upgrade in 2005, the Ocean Centre conversion to create an outdoor dining area in 2007 and Gateway courtyard upgrades in 2008 and 2012. The average payback period is three to five years. Rome was not built in a day. Neither is Harbour City!

Times Square has been operating for 18 years and I believe it is now the most successful vertical mall in the world. The highest retail rent was achieved on the 8th floor, and reached HK$600 per square foot per month in 2012. Times Square is now undergoing a major enhancement project with an investment of HK$500 million to relocate the cinema from the ground and lower floors to the 12th and 13th floors, bringing in exciting top luxury retail brands, while Lane Crawford will expand. It will truely be a new era for Times Square.

Book value of the Group's investment properties in Hong Kong and China doubled in three years to HK$232 billion at the end of 2012, primarily the result of continuous efforts invested in premises enhancement initiatives and tenant-mix refinement.

Harbour City and Times Square delivered a 20% compound annual growth rate in retail sales in the past 10 years, outpacing the Hong Kong retail market by nine percentage points.

The Group's investment properties in Mainland China performed solidly in 2012. Total rental income increased by 26% to HK$1 billion. Shanghai Wheelock Square is the tallest office tower in Puxi and remains the preferred office location for multinationals given its prime location and elegant sense of arrival. Average spot rent achieved in 2012 was among the highest office rental rates in Shanghai.

Looking ahead, the Group's commercial properties and retail area in Hong Kong and China will multiply, particularly with the completion of five International Finance Squares (IFS) on the Mainland by 2016, which will significantly increase rental income.

Chengdu IFS, a mega-sized retail mall of 200,000 square metres which will be the largest in Chengdu and Western China, is scheduled to open in the first quarter of 2014. Pre-leasing has progressed well with 80% of total retail space committed by year end. The IFS retail malls in Chengdu and Changsha will have a total retail area of 444,000 square metres when completed — equivalent to the creation of two Harbour City malls. The Group's total retail area in Hong Kong and China will increase to 11 million square feet by 2016 — triple the retail area in Hong Kong.

Chairman's Statement

Business Performance (Cont'd)

As our core business, our investment property portfolio presents two dimensions of value creation for our shareholders: one from rentals and the other from capital appreciation. We have in the past taken a low profile on the second aspect although it goes very much hand in hand with the first. Property funds in the marketplace deliver overall returns to their investors as assessed every three to five years in terms of internal rate of return which includes both aspects.

The overall return for our investment property portfolio this year is HK$43 billion, from which HK$7 billion is contributed from operations and HK$36 billion from capital appreciation. Against the total asset value as at the start of 2012, this represents a 25% aggregated return for the year and rather substantial value creation for shareholders.

China property is now our second most important business. China sales continued to gain pace in 2012. Revenue increased by 51% to HK$9.6 billion. A total of 1.3 million square metres of properties were sold or presold which generated attributable sales proceeds of RMB15 billion, 18% up on 2011. The net order book at year end increased to RMB15.7 billion for 1.4 million square metres. The total land bank in China stood at 12.3 million square metres at the end of 2012, spanning 15 cities. The 2013 sales budget has been set at RMB20 billion. Attributable interest held through associated company Greentown China Holdings Limited ("Greentown") has not yet been included.

Total contribution from China increased to 30% of the Group's core profit, up from 21% in 2011. This RMB portfolio which has been substantially built up over the last seven years now totalled RMB99 billion. The development of a sustainable organisation in local markets continues and is our high priority.

In June 2012, we made a timely acquisition of a 25% equity stake in the leading Mainland property developer Greentown for about HK$2.7 billion at HK$5.20 per share. That entitled us to a HK$900 million share in Greentown's 2012 profit for a 33% return in less than seven months. In addition, a paper gain of nearly HK$9.00 per share or 173% was recorded by the end of the year, translating to a notional profit of HK$4.7 billion. This was only partly reflected in our profit and loss account for 2012. Outside of the equity stake, we also invested HK$2.6 billion in a Greentown convertible instrument with a composite return of over 12% per annum on redemption. While direct financial benefits have been rewarding, going forward, we are more excited about the synergistic commercial additives to our Mainland property initiative with this partnership.

Financial Results

Group revenue increased by 29% to HK$31 billion with strong recurrent rental income and Mainland property completions. Operating profit grew by 24% to HK$14 billion.

Profit attributable to Shareholders excluding net investment property revaluation surplus and exceptional items increased by 37% to HK$11 billion. Including the net surplus from revaluation of investment properties and exceptional items, profit attributable to Shareholders was HK$47 billion and earnings per share were HK$15.60. Book net asset value increased to HK$82 per share.

The Group continues to practise prudent financial management with net debt at HK$55.6 billion at year end. Gearing stabilised at 21.7%. Funding sources were expanded to lengthen maturity and reduce over-reliance on any single financing platform.

The Board has raised the total dividend for the year by 56% to HK$1.65 per share. This also means an increase in the payout ratio to 45%, from around 40% in previous years. This we feel will better reflect the returns generated by our investment property portfolio which our shareholders value greatly.

Business in Community

The Group continued to realise its "Building for Tomorrow" mission through the pursuit of its Business In Community programme (BIC). The Group will earmark up to 1% of annual core profit to support worthy and specific BIC projects in which staff volunteering can also play a key part.

The Group's flagship Project *WeCan* aiming to help students and schools of humble backgrounds was lifted to a new level with the enthusiasm of 10 participating secondary schools plus hundreds of staff volunteers from the Group's business units, and the support of the Quality School Improvement Project of The Chinese University of Hong Kong ("CUHK").

In the past 18 months, more than 100 activities were arranged for teachers, parents and 10,000 students. The Group opened 100 spaces across various business units to students for the first ever job-tasting programme during the last summer holiday so they could experience a real working environment. In January 2013, a joint school Chinese New Year Bazaar was held at Plaza Hollywood with more than 200 Project *WeCan* students taking the lead from planning to final execution. We are thankful for the Government's support. The appearance of the Chief Secretary for Administration of Hong Kong at the opening ceremony gave a major confidence boost to the students.

The Group supported the Wu Zhi Qiao (Bridge to China) Charitable Foundation again by sponsoring a new project in Gansu in the summer of 2012. Project *WeCan* earned the Outstanding Partnership Project Award in 2011/2012, the top honour given to a Caring Company by The Hong Kong Council of Social Service.

At the other end of the spectrum, two talented architecture postgraduates from the CUHK were selected to undertake a 12-month internship with top and leading international design firms overseas through the Architectural Design Internship programme established by The Wharf ArchDesign Resource Trust which aims at broadening young architects' horizons.

The care-for-others spirit is a critical component of the Group's core values. I thank the 800 staff who have enrolled as volunteers to serve different members of society.

Outlook

2013 is likely to remain challenging for the global economy in light of the fragile fiscal position in Europe and the US while the major economies will stay on a slow-growing path. Nevertheless, economic fundamentals in Hong Kong remain positive on the back of a low unemployment rate, improving household incomes and a series of tax relief measures. The inbound tourism and the associated retail services platform will continue to benefit from increasing visitor arrivals. The Hong Kong government is expecting the economy to hold up better than in 2012 and is forecasting a 1.5–3.5% GDP growth rate. China's commitment to double 2010 GDP by 2020 is equivalent to a sustainable economic growth of 7.5% per year over the next eight years. The next phase of growth should continue to be underpinned by accelerating urbanisation and domestic consumption. The fast-expanding middle class with spending power will continue to spur demand for quality urban living and unique 'shoppertainment' experiences. Completion of the Shenzhen to Hong Kong high-speed railway section by 2015 will link up Hong Kong to key cities on the Mainland and further strengthen economic ties. Hong Kong's economy will continue to benefit from the Mainland's vibrant and sustainable growth.

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

Peter K C Woo
Chairman
26 March 2013