Chairman's Statement

2013 was a year of challenge on the domestic and international fronts.

Although the global economy was in better shape than the worst days of the 2008-2009 global financial crisis, growth was weak due to the muted recovery of the advanced economies and the slower pace of activity expansion in the emerging markets. The uncertainties arising from US monetary and fiscal issues led to a bout of global financial jitters. The nascent economic recovery in the Eurozone remained fragile. On the other hand, China's economy was relatively resilient with GDP growing at 7.7%, exceeding the Government's 7.5% target, and growing faster than any other major economy. Under new leadership, China has initiated an era of more modest growth and is on track to steer the economy towards a more consumption-driven and sustainable economic model. It is a natural development after years of blistering growth.

Hong Kong registered moderate GDP growth of 2.9%, up from 1.5% a year earlier. The domestic sector held firm, with steady growth in private consumption expenditure. Inbound tourism remained vibrant with overall visitor arrivals rising by 12% to another record of 54.3 million, of which 75% came from Mainland China. This thriving sector fuelled demand for hotel rooms and consumer goods. Hong Kong retail sales posted a respectable 11% growth rate, which suggested the local retail sector was in vibrant health. While this success was the envy of cities around the world, there is a price to pay for it too. For the first time, we witnessed demonstrations targeted at visitors from the Mainland.

On the other hand, the property markets in Hong Kong and China where our main business is based, were overshadowed by a raft of cooling measures imposed by respective Governments, resulting in a challenging market environment. It is generally not anticipated that this policy framework will ease in the near term.

However, notwithstanding a series of headwinds, the fundamentals of Hong Kong and China remained solid, as reflected in the steady economic growth in the respective regions in 2013. Hong Kong continues to be a superb business and services platform for the Asian region, in particular for China.

The Third Plenary Session of the 18th Central Committee held in November, 2013, affirmed China's commitment to push forward urbanization, unleash domestic demand, and to embrace market dynamics to determine resource allocation, which bodes well for the longer-term outlook for the real estate market. The commitment to double GDP by 2020 will further propel economic growth and accelerate urbanization and wealth accumulation for the next decades. These pledges give rise to solid demand for quality urban living and unmatched "shoppertainment" experiences by the fast-expanding middle class. For services not available in the Mainland, they will seek them in Hong Kong.

Business Performance

The Group has produced consistent and quality growth over the years. Wharf is among the top local blue chip stocks that are most actively traded, signaling high liquidity and attractiveness for investors.

The investment properties ("IP") portfolio, our principal core business, contributed a solid performance. Total revenue increased by 13% to reach HK$11.1 billion and operating profit by 13% to HK$9.3 billion, representing 70% of the Group's total operating profit. Through years of value creation and new investment, the Group's IP portfolio, with a book value of HK$261 billion as at the end of 2013, has grown to rank among the Top 5 publicly-held portfolios in the world. Capital-intensive and long-term, quality IP presents two dimensions of value creation for our shareholders: one from rental income and the other from capital appreciation.

With its leadership in retail management, the Group continued to maintain its pole position in the Hong Kong retail market. Despite the substantial loss of 17% of retail space to a major renovation at Times Square for most of the year, total retail sales at Harbour City, Times Square and Plaza Hollywood surged to a record of HK$45.8 billion in 2013, consolidating an unmatched 9% share of total Hong Kong retail sales.

Harbour City's retail sales rose to more than HK$2,800 per square foot per month and Times Square to over HK$1,700. These two assets had a combined value of HK$192 billion at the end of 2013, up from HK$177 billion in 2012, and represented 49% of the Group's business assets.

Harbour City remained one of the world's leading shopping destinations with 2,000,000 square feet of contiguous mall space. With its premier location, critical mass, expertly-managed trade mix across a finely-calibrated price point matrix and powerful retail marketing, Harbour City is in an unparalleled position. In an ever-intensifying competitive landscape, premises enhancement is an ongoing initiative to provide shoppers with a captivating "shoppertainment" experience. Ocean Terminal renovation, an important part of Harbour City's substantial value-accretive initiatives, opens up many opportunities for trade mix refinement and premises enhancement. It is poised to be a medium-term growth driver for the Group.

Times Square, the Group's iconic shopping haven in Causeway Bay, is the world's most successful vertical mall with some 17 floors of retail. A major 18-month revamp with an investment of around HK$500 million was completed around the end of the year. The enhanced Times Square offers the most extensive product, entertainment and culinary choice at the heart of Causeway Bay. The new CINE TIMES on Levels 12-14 offers five screens with 900 seats in total to become the largest cinema complex on Hong Kong Island. This, together with the re-engineering Food Forum (on Levels 10-13) and outlet bazaar, add further appeal and attract foot traffic to the upper levels. To enable shoppers to travel to the upper levels more conveniently, bigger and faster elevators from ground level have been installed. In the meantime, coveted luxury brands including Chanel, De Beers, Dior Homme, Fendi, Louis Vuitton and Tiffany have opened on the ground and lower levels in premises vacated by the old cinema. All such new elements have sparked a new era of exhilarating shopping experiences for visitors. The highly value-accretive reconfiguration of the mall undoubtedly pushes the bar to a new height.

The Group's investment properties on the Mainland also reported solid performance. Total rental revenue increased by 25% to HK$1.3 billion. One of the key contributors was Shanghai Wheelock Square, the tallest building in Puxi and the preferred office location for multinationals due to its prime location, world-class management and elegant sense of arrival. The average spot rent achieved in 2013 was among the highest office rental rates in all of Shanghai. Dalian Times Square and Chongqing Times Square also delivered encouraging performance.

Looking ahead, the completion of five International Finance Squares ("IFS") on the Mainland by 2014–2017 will multiply the Group's commercial properties and retail area in Hong Kong and China as well as significantly strengthen our recurrent income base in China. In particular, the IFS' in the cities of Chengdu and Changsha will command scale comparable to or surpassing that of Harbour City in Hong Kong.

The mega-sized Chengdu IFS retail mall of 210,000 square metres is a new landmark in this Capital of China West, officially opened in mid-January 2014. The launch featured the world's largest giant panda art piece and marked the recruitment of nearly 300 of the world's most coveted brands, including the debut in Chengdu or even the whole of China West for close to 100 celebrated brands. More than 95% of total retail space was already committed at opening, at rental rates well above budget. When in full operation, the mall is expected to generate annual retail revenue of RMB600 million.

The IFS retail malls in Chengdu and Changsha, with an aggregate retail area of 440,000 square metres, will be equivalent to the creation of more than two Harbour City malls. The IFS mega mall of 230,000 square metres in Changsha is scheduled for completion in 2016.

Sales from China Development Properties ("DP") continued to gain momentum in 2013 to underline the Group's proven execution capabilities. Consolidated DP revenue increased by 20% to HK$11.4 billion. On an attributable basis, a total of 1.5 million square metres was sold or presold in 2013 to generate proceeds of RMB20.9 billion, 39% higher than in 2012 and 4% above target. That increased the net order book at year-end to RMB20.6 billion for 1.7 million square metres. The total attributable land bank at year-end was maintained at 11.7 million square metres, spanning 15 cities. The sales target for 2014 has been set at RMB23 billion. Attributable interest held through associated company Greentown China Holdings Limited ("Greentown") has not yet been included.

Total contribution from China represented 33% of core profit. The RMB portfolio expanded to RMB112 billion. Development of a strong and sustainable localized management team in China continues and remains our main priority.

Chairman's Statement

Financial Results

Group revenue increased by 3% to HK$31.9 billion on strong recurrent rental revenue and Mainland property completions. Operating profit decreased by 6% to HK$13.3 billion.

Profit attributable to Shareholders excluding net investment property revaluation surplus and exceptional items, increased by 2% to HK$11.3 billion. Including the net surplus from revaluation of investment properties and exceptional items, profit attributable to Shareholders was HK$29.4 billion and earnings per share was HK$9.70. Book net asset value increased to HK$90.94 per share.

The Group continues to practise prudent financial management with net debt of HK$58.1 billion at year-end. Gearing remained healthy at 20.4%. In an effort to lengthen maturity profile of debt and to reduce over-reliance on any single financing platform, funding sources were expanded.

The Board has maintained a payout ratio of 45%, which reflects the returns generated by our prime investment properties portfolio.

Business in Community

The Group never loses sight of its core values and its commitment to foster the betterment of the communities in which we operate. In pursuit of its "Building for Tomorrow" mission through its Business in Community ("BIC") initiatives, the Group has supported a series of worthy BIC projects, in which staff volunteering plays a pivotal role.

The flagship school improvement programme, Project *WeCan*, which launched in 2011 currently covers 14 participating secondary schools, supporting more than 12,000 deserving students from underprivileged backgrounds in Hong Kong. More than 400 staff volunteers across the Group work closely with partner schools and are continually impressed by the passion and caring from teachers. The next phase of the programme will include a total funding of more than HK$500 million over the next five years to help approximately 150 local secondary schools through the improvement of software and hardware.

With the launch of phase two, Project *WeCan* is now the largest youth development programme for underprivileged youth ever undertaken by a private corporation in Hong Kong. To date, over 120 activities and programmes have been attended by more than 25,000 student participants.

Apart from a joint school program called Business Bliss, a Chinese New Year Bazaar was held at Plaza Hollywood in January 2013 with more than 200 Project *WeCan* students taking the lead from planning to final execution, a host of summer programmes were organized for Project *WeCan* students, including a Job Tasting Programme, an English Learning camp, a Wu Zhi Qiao (Bridge to China) trip to Chongqing and a Mobile Library trip to Sichuan. The Job Tasting Programme held in the summer of 2013 involved more than 100 students who were placed in different posts across the Group. These varied summer jobs offered real-life work experience for the students. Project *WeCan* not only addresses the needs of students, but also drives the professional development of teachers. We organized the first-ever Joint School Teachers' Development Day in 2013, at which Principals of "*WeCan*" schools shared practical experiences through seminars and workshops on a wide range of subjects while teachers were given the opportunity for personal development, while meeting and exchanging ideas with their peers.

More recently, our Chief Executive of the HKSAR, The Honourable C Y Leung highlighted Project *WeCan* in his 2014 Policy Address as one of the examples of business sector leading the effort in assisting the underprivileged. In June, Mrs Carrie Lam, the Chief Secretary for Administration of the HKSAR and the Chairperson of the Commission on Poverty, while speaking at the "Poverty Alleviation and the Role of the Business Sector" Forum, commended Project *WeCan* as an example of how companies can really support the community, stating its continuity can enhance the effectiveness of poverty alleviation. We appreciate the Government's compliments and support.

The care-for-others spirit has long been a critical component of the Group's core values. I thank all our volunteers who take ownership of the project and devote great effort to serving the community. I thank our partner, The Chinese University of Hong Kong, which provides the necessary education software to help our schools. I also welcome Mr Henry Poon, the retired Principal of St Paul's Co-educational College to serve as Programme Director — Consultant for Project *WeCan*.

Outlook

Though the global economies have been restored to a healthier growth trajectory, 2014 will remain challenging as major advanced economies continue to work through varying fiscal and monetary issues. Possible further tapering of various Government quantitative easing programmes in major developed economies could impact capital flow reversals and asset market gyrations in emerging markets, causing uncertainty.

With a series of tough policies and local construction costs under continued upward pressure, the property markets in Hong Kong and China will continue to be difficult. That said, the long-term fundamentals of Hong Kong and China will remain solid given the steady economic growth forecasts in the respective markets.

China's growth target for this year is 7.5%, which remains unchanged from the previous two years, underlining its determination to ensure sustainable economic development. China's commitment to double 2010 GDP by 2020 is also equivalent to a sustainable economic growth of 7.5% per annum over the next seven years, signaling China's commitment to raise the quality and efficiency of its economic fundamentals. The next phase of growth will continue to be powered by accelerating urbanization and domestic consumption as well as further development of the services sector. The growing middle class with rising wealth will spur demand for quality consumer goods and urban living for the next decades.

The Mainland economy, being the second largest in the world, will benefit Hong Kong. The economic fundamentals in Hong Kong remain positive, with low unemployment rate, positive business sentiment, resilient consumption demand, ongoing large-scale infrastructure works and a solid expansion in inbound tourism. The local economy is projected to expand by 3-4% in 2014.

The Shenzhen to Hong Kong high-speed railway section, to be completed by 2015, will facilitate the spread of economic activities between Hong Kong and key cities on the Mainland and deepen Hong Kong's economic links with the vast hinterland. When completed, the bridge to Zhuhai and Macao will be the strategic link to the West Bank of the Pearl River Delta. These will continue to stimulate economic activities for our retail and personal services platform.

Mr James Thompson, Independent Non-Executive Director since 2001 and 74 years of age, will not seek re-election on retirement by rotation at the upcoming Annual General Meeting. He has given the Board and me tremendous and valuable guidance over the years and we will miss his counsel. I thank him most sincerely on behalf of the Company and wish him all of the very best.

On behalf of Shareholders and the Board, I also wish to express my heartfelt appreciation to all customers, staff and business partners for their unwavering support, enthusiasm, commitment and contribution. We will continue to rely on such support to deliver good returns on our investment.

Peter K C Woo
Chairman
Hong Kong
27 March 2014