

Chairman's Statement

I first came across Wharf in 1978. Mr Li Ka-shing had visited Sir YK Pao to discuss a 10% stake in The Hongkong and Kowloon Wharf and Godown Company Limited (now known as The Wharf (Holdings) Limited). In what reminded me of my earlier banking days in New York, I was combing over the 1977 Wharf annual report and Mr Li's one page summary, to make my buy-or-not recommendation overnight. I witnessed their quick handshake on the deal the next afternoon and the rest is history. Mr Li also went on to achieve super success.

I became a director of Wharf in 1978. This year marks my 37th year on the board. In January 2014, Mr Douglas Woo became the Chairman of Wheelock, Wharf's parent company, working with its two vice chairmen, Mr Stephen Ng and Mr Stewart Leung. Mr Leung currently chairs Wheelock Properties Limited, another principal subsidiary of Wheelock. I will now take leave as Chairman at the forthcoming annual general meeting ("AGM") and Mr Ng will become chairman of Wharf.

THE WHARF JOURNEY

During my time at Wharf, we have witnessed and benefited from the opening of China with the first wave of market reforms and economic expansion, running from the late 1970s through to 2012. Wharf has actively participated from a front row seat in the economic renaissance of our enormous hinterland.

In 1992, Wharf published the "Hong Kong Plus" paper, highlighting the seldom talked about opportunities Hong Kong would have pre and post 1997 with the opening of mainland China. The paper outlined my optimism for this new era of Hong Kong against a wave of "the sky is falling" panic preceding and throughout the change of sovereignty.

With a strong belief and confidence in the trade services explosion, which would drive and anchor Hong Kong's economic fundamentals, Wharf considered its substantial investments in Hong Kong to be compelling opportunities for the company. Wharf undertook to do this after the 1982-1984 Sino British negotiation on the handover of Hong Kong and the subsequent joint declaration.

Wheelock Marden, established in 1857, was one of Hong Kong's premier 'hongs' that headed eight listed companies. Against the backdrop of prolonged disputes between its two main shareholders, in February 1985, Wharf was the invited white-knight and made its successful swift general offer and takeover bid, in opposition to the hostile bid from Tan Sri Khoo Teck Puat of Singapore. That was Wharf's first such major investment.

Then came the redevelopment from 1989 to 1993 of the old tram depot into today's two million square foot Times Square, the start-up of the first ever multi-channel pay TV service in Hong Kong, i-CABLE, in 1993, and its sister telecommunications company Wharf T&T in 1995 to lead the market deregulation, and the substantial rebuilding of Harbour City from 1990 to 2000 kicking off with Gateway I. At Harbour City, 2.4 million square feet of GFA were added, nearly 30% of the expanded development, which today has a market value of HK\$170 billion. Time Square's current market value is over HK\$50 billion. All bold and pioneering projects in times of great political uncertainty.

Wharf's business began in a wharf and godown in Tsim Sha Tsui in 1886. In the 1970s, cargo containerisation was a game changer and Kwai Chung was the selected location. Urbanisation provided the defining opportunity for Wharf — when the harbourfront godowns were demolished, we were able to create The Hongkong Hotel, Ocean Centre and the rest of Harbour City.

Wharf eventually became a 25.6% shareholder in Modern Terminals Limited ("MTL") with the consolidation of Container Terminals 1 and 5 in Kwai Chung. Wharf then progressively increased its stake in MTL from 1987 to 2005 and is now the controlling shareholder with 67.6%. With its addition of Container Terminals 2 and 9 (South) during the same period, MTL now boasts four terminals covering 92.61 hectares of land with seven berths and a total quay length of 2,432 metres. Wharf's cargo-handling pedigree moved from Tsim Sha Tsui to Kwai Chung. Perhaps there awaits a sequel of sorts — Wharf 2?

Our retail malls now together capture nearly 10% of total Hong Kong retail sales, servicing over 155 million shoppers annually.

Harbour City takes a 7.1% share of Hong Kong retail sales. In the 1960s Nathan Road was the major tourist and nightlife destination and Canton Road was a dilapidated street that few dared to visit when the sun went down. We maximised Harbour City's plot ratio untapped by previous management, which represents an increase of nearly 50% on a large base. We revamped retail shop fronts on Canton Road and added sizeable new retail GFA. With two million square feet of mall space under one roof, and 530 metres of contiguous retail frontage along Canton Road, Harbour City has critical mass and street exposure. It became an international retail landmark. It is a most preferred location and show case to the mainland market for the world's best brands. Our long waiting list is a huge comfort to our proactive management approach anchored on solid retailing principles. Louis Vuitton and Chanel have their best performing stores here. Harbour City sets new records in sales and retail revenue every year. She compares more than favourably with industry-leading international benchmarks. Annual retail sales in 2014 exceeded HK\$35 billion (growing fivefold in 10 years) making it perhaps one of the most productive, if not the most productive, malls in the world.

Transforming an old tram depot and wet markets into Times Square was a thrill in itself. A 17-storey vertical mall of one million square feet was unheard of at that time in Hong Kong and the world. The redevelopment project began in 1989 when there was a crisis of confidence in Hong Kong and some thought I was a bit on the crazy side to do this project at that time. With its signature open Piazza, bonus plot ratio was allowed for Times Square. Now, the 17-storey retail mall is perhaps the most successful vertical mall in the world. It is also a must-visit shopping landmark in town. Since its opening in 1993, Times Square's New Year's Eve Apple Countdown appears on the front page of leading local newspapers every year. Once a neighbourhood of fruit and fresh meat stalls, it is now home to coveted luxury brands such as Louis Vuitton and Chanel. From a zero book value in 1989, the subsequent value created for the two million square feet project has exceeded our own expectations.

However, the story that is not well known is that this property was previously put into a joint venture with a local developer to build small flats for sale. That would have been perhaps a totally forgotten project, perhaps a non-event, and Hong Kong would have missed having a substantial landmark. However, due to a very weak and nervous market at that time, the deal was put in abeyance by mutual consent. We took a strong stance subsequently and succeeded in terminating that deal for good. The outcome was a huge bonus indeed for Wharf shareholders.

GIVING BACK

We believe it is only right that Business should engage itself in the Community. Five years ago we identified an area where Wharf could give back to the community by working with students of Band 3 schools. These students are disadvantaged in learning due to environment and circumstance, not lack of ability. 150 out of 450 middle schools are designated Band 3. Only 20% of all graduating middle school students go on to university. What about the remaining 80%? The lower half of the 80% attend Band 3 schools. Through guidance, opportunity and exposure, we aim to help equip and empower these students to strive to take a meaningful role in society and the workforce, and simply to give these students feeling that they exist and that someone cares.

Together with our many caring corporate partners, we are investing about \$300 million in a Business-in-Community initiative named Project *WeCan*. But this is not a financial donation, it is a programme that utilises our corporate resources and provides equipment, software, training and activities. When a Group subsidiary or a corporate partner 'adopts' a school, it provides exposure to careers through workplace visits; job tasting and mentorships; software; customised programmes for individual development; community service in China; career planning; and skills building including English, basic accounting, IT competence and 3D printer training; and also importantly, teachers development.

We started with 10 schools over four years ago. In 2013, we had 450 volunteers working across 14 schools. In Autumn 2014, we added another 30 schools with the *WeCan 2* programme, and the initiative now covers 30% of all Band 3 schools and 40,000 students.

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The Government has fully endorsed and supported the programme with the Chief Executive Leung Chun-ying highlighting Project *WeCan* in his 2014 Policy Address as one of the examples of the business sector leading the effort in assisting the disadvantaged. But it is the testimonials of the students who through this programme have gained more self-confidence and stated their aspirations to dream bigger and work harder to rise from the menial to the meaningful with goals and objectives that really hits home.

Our aim is that with more working partners, we can eventually cover all 150 schools of this banding in the not too distant future. We are looking for more Business-in-Community volunteers including Professionals-in-Community and Retirees-in-Community to take on more schools as Wharf has finite human resources. Many of our staff give their time to coaching and mentoring these students for which I am immensely grateful. The silver lining is that not only do the students and teachers get great value out of the programme, our staff really enjoys being involved and are highly engaged in “giving back” — they care.

However, we don't do this alone and I would also like to extend my gratitude to the other caring corporations and institutions that have helped make Project *WeCan* so impactful:

AIA, Bluebell Hong Kong Limited, BNP Paribas, City University of Hong Kong, Coach Hong Kong Limited, Consulate General of France in Hong Kong and Macau, DBS Bank, Elegant Watch & Jewellery, Emperor Watch & Jewellery, Grosvenor Limited, I.T Limited, Lane Crawford, LWK & Partners (HK) Ltd, Midland Charitable Foundation, Parfums Christian Dior Hong Kong Limited, Prince Jewellery and Watch Company Limited, Standard Chartered Hong Kong 150th Anniversary Community Foundation, The Chinese University of Hong Kong and The Hong Kong Polytechnic University.

One day, a *WeCan* student said to me, “I get it”. I said, “What?” And he replied, “I don't want to be earning an hourly wage at McDonald's. I want a job in an office like yours...” Once these students know what they want, they are motivated to work towards it. That made my day.

THE FUTURE

Since 2013, China has been led by a new and dynamic generation of strong leaders who will steer China's second wave as the world's second largest economy. In 2014, China's economy grew by 7.4% — the slowest growth rate in a quarter of a century. This reflects what the new Chinese leaders call the “new normal” of slightly slower but higher quality growth, say at around 7%, for a more sustainable and environmentally friendly economic expansion. This second wave will have more in-depth reform, rule of law and austere party discipline as anchor policy focus.

Recently, domestic consumption has contributed more to growth than investment for the first time. China's top policy makers are committed to pivoting from investment-led growth in industry and infrastructure toward services and consumption and to focus on domestic demand, and the restructuring and rebalancing of the economy. A prodigious pace of urbanisation continues with 200 million people moving from the rural areas to the cities and towns over the next twenty years. The high-speed rail network will facilitate the spread of economic activities, resulting in an emergence and connection of metropolitan regions across the country. This means the further integration and enhancement of the critical mass of the emerging domestic markets.

The huge commitment to double GDP from 2010 to 2020 will further accelerate urbanisation and wealth accumulation for the next decade.

This is good news for Hong Kong — these growth stories underline the needs of quality consumers in the Mainland for services and merchandise unavailable in their hometowns and cities, but available here. Hong Kong is the convenient premier business and services platform, which offers quality, selection and reliability. Hong Kong needs to continue to develop and build capacity to cater for and properly service this huge demand from visitors and local residents.

Wharf reported total profit of HK\$36 billion for 2014. After dividends, the Group's net asset value increased by HK\$30 billion. In 1978, when my family first invested in a 10% stake of Wharf, Wharf's market capitalisation was just HK\$3.5 billion. Currently, Wharf's net book value stands at HK\$300 billion. Our asset base continues to grow. Wharf is one of the top local blue chip stocks with liquidity.

Investment Properties (“IP”) is the core of our portfolio representing 72% of total assets with recurring income in 2014 of HK\$13 billion. Harbour City and Times Square are sitting on rare 999-year leaseholds. New growth will also be coming from mainland China. Shanghai Wheelock Square is the premier landmark office tower and the tallest in Puxi, Shanghai, at 270 metres. Chengdu International Finance Square (“IFS”), an 6.6-million-square-foot multi-use complex comprising a 2.2-million-square-foot mall, is comparable to Harbour City in Hong Kong. Changsha IFS, a 7.8-million-square-foot multi-use complex consisting of a 2.5-million-square-foot mall, is yet another Harbour City. Both IFSs are located in the most prime locations in their cities. Our tenants have come with us to these new markets reflecting their trust and confidence in our judgment and value creation capability.

As an integral part of our multi-purpose IFS complexes, our hotel group will be launching its first Niccolo, a collection of contemporary urban chic hotels, at Chengdu IFS in mid-2015. A further three Niccolo hotels will be opened in the IFS complexes in Chongqing, Changsha and Suzhou.

We are excited about winning the government tender in 2013 on the Murray Building. This allows us to convert the 50-year-old iconic landmark in Hong Kong, with its majestic arches, into a unique urban chic hotel. This is a conservation project which will feature 340 luxury guestrooms overlooking the heart of Central.

IP will remain the core of our portfolio. We continue to be selective in our search for prime opportunities.

Post AGM this year, Mr Stephen Ng will chair the company. With his proven track record and experience, I am supremely confident that he will do well as Chairman. Mr Andrew Chow, Chairman of Wharf China Development Limited, who has pioneered our strategic investments in China with the mainland business portfolio now accounting for close to 50% of Group revenue, will assume the role of Deputy Chairman. Ms Doreen Lee, Chairman of Wharf Estates Limited in Hong Kong and China, who has ably managed our IP portfolio in Hong Kong and Mainland China representing 72% of our total assets, will be a Vice Chairman of Wharf. Mr Paul Tsui, who is highly knowledgeable and experienced in overseeing finance and administration, will be another Vice Chairman of Wharf.

IN CLOSING

During my tenure, Hong Kong has had more than its fair share of huge ups and downs. With challenges still to come on the domestic and international fronts, I am confident Wharf is well positioned for an exciting and successful future and that it will continue to be vigilant.

Many say Wharf has been fortunate. With the gradual removal of travel restrictions on mainland Chinese wanting to visit Hong Kong, starting on 28 July 2003, the number of visitors has grown from 12 million in 2004 to 47 million at present. The exponential growth in the critical mass of Hong Kong's financial services platform has also made quantum jumps from a total market cap and average turnover on the Hong Kong stock market of under HK\$7 trillion and HK\$16 billion respectively in 2004, to HK\$25 trillion and HK\$69 billion respectively in 2014.

Well, Wharf did not succeed by being idle. Persistent and substantial investments were made in hardware of around 5 million square feet of IP build, plus software, in marketing and customer relationship management with mainland customers during those 15 years leading up to 2004. These initiatives reaped sizeable rewards when harvest came.

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Those 15 years starting in 1989, of which the period of 1995 through to 1997 was a bubble economy, were either turbulent and or deflationary. That was the period when Wharf chose to build and refine our unique platforms in Harbour City and Times Square. "Building for Tomorrow" was our motto and that was what we did. We did not build for the sake of building or for the sake of short-term profits or to win design awards. Simply, Wharf built to create value.

We were therefore ready and in time to serve the surge when the gates opened in 2003, as both people and capital started to actively seek high usage from Hong Kong's high performance services platform. Over the subsequent 10 years from 2004 to 2014, Wharf added almost HK\$80 per share to its NAV (2014: HK\$100.82; 2004: HK\$22.46), with 2014's almost five times that of 2004. Perhaps not too coincidentally, total retail sales in Harbour City in 2014 was also nearly five times that in 2004. This speaks for itself.

Personally, this has been an unforgettable journey. However, all that has been achieved at Wharf could have just been points on a "to do" list if not for a dedicated and passionate group of managers and staff who have helped make all of this possible. In this regard, I'd like to make special mention of my former Deputy Chairman, Mr Gonzaga Li, who helped make our mission impossible possible, often times exceeding what I had imagined, and Mr Stephen Ng, my current Deputy Chairman, who took i-CABLE from a start-up through to a successful IPO and also launched Wharf T&T, which now generates around HK\$300 million profit a year. I would like to take this opportunity to express my heartfelt gratitude and appreciation to my fellow Directors, senior colleagues and every one of our hard working staff for their enormous contribution. And I would like to thank our customers and business partners for their unwavering support, enthusiasm and commitment over the past three decades that have enhanced the Group.

Last but certainly not least, I wish to sincerely thank our shareholders for their confidence and unfailing support over the years and I invite them to continue to do so.

Peter K C Woo

Chairman

Hong Kong

14 March 2015