In Building for Tomorrow, Wharf has achieved a few "firsts" in the past decades. That includes the first all-weather mall in Hong Kong (Ocean Terminal), the first and only mall with retail sales reaching 7% of Hong Kong retail sales (Harbour City), the first 17-storey vertical mall in Hong Kong (Times Square) and the first 40-storey industrial building in Hong Kong (CABLE TV Tower).

Wharf has also been Building for Tomorrow in other sectors. That includes building and operating of the first cruise terminal in Hong Kong (Ocean Terminal), the first container terminal in Hong Kong (Modern Terminals), the first cross-harbour tunnel in Hong Kong (Hunghom Tunnel), the first electronic toll collection system in Hong Kong (Autopass), the first multi-channel Pay TV service in Hong Kong (CABLE TV), and the first 24-hour news channel in Cantonese in the world (i-CABLE News).

CHAIRMAN'S STATEMENT

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It is my great honour to present my first statement to Shareholders as Chairman of Wharf. I wish to begin by expressing my sincerest gratitude to my predecessor, Hon Peter K C Woo. Mr Woo retired from the Board, after 37 years, at the AGM in May 2015. His leadership during these years has transformed the Company and taken it to the forefront among local companies.

GENERAL ECONOMY

2015 was a tough year on all fronts for Hong Kong. The global economy had entered an era of low growth. Developed economies remained stagnant and emerging economies were slowing down. Interest rate hike in the U.S., currency instability, as well as the reform in transition in China further clouded the global economic outlook.

China's economy grew by 6.9% in 2015, its slackest pace in a quarter century, underlining a "new normal" of slower but high-quality growth for a more sustainable and environmentally friendly development. A structural transition towards services and consumption was making good headway as consumer spending contributed 66% of GDP growth, the biggest contribution since 2001. For the first time, a booming services sector accounted for over half of the economy, climbing to 50.5%. In the property market, against the backdrop of a slowing economy, a string of easing measures stimulated buying activities. However, it would be prudent to plan on a slower-growth China as the substantial catch up phase of China's development has concluded several years ago.

In Hong Kong, the economy recorded a modest 2.4% growth rate in 2015. An increase in outbound travels by locals and a decrease in tourist arrivals, caused principally by a strong Hong Kong dollar, combined to cast a further shadow on the bumpy retail and hospitality sectors. The perceptions of an unwelcoming or even unsafe Hong Kong, which worried some travellers, have worsened the situation. As a result, total visitor arrivals decreased by 2.5% to 59.3 million and total retail sales dropped by 3.7% to HK$475.2 billion. Some have described the market as facing its worst retail woes since the 1997 financial crisis.

BUSINESS PERFORMANCE

Our proven management and execution capabilities have guided our businesses well through tough times. Resilience of Investment Properties ("IP"), our principal core business, underpinned group performance. Our malls in Hong Kong (Harbour City, Times Square and Plaza Hollywood) reported solid rental growth backed by our unique advantageous elements that include critical mass, showcase effect and best-positioned destination retail, despite a dip in retail sales amidst difficult trading conditions. In addition, office performance during the year was gratifying.

IP core profit increased by 9% to HK$8.3 billion. That helped to increase IP contribution to core profit to 76% (2014: 73%) and underpinned a net IP revaluation surplus of HK$6.2 billion in an uncertain market. As a proactive operator, we rolled out a range of mall enhancement initiatives and innovative marketing programmes to uplift exhilarating one-stop "Shoppertainment" experiences in our malls that enchant new and regular shoppers.

Harbour City remains a global retail landmark and one of the most coveted destinations for top brands. Its unique positioning as an international showcase in the region attracted new and sought-after brands. We continued to improve retail offer with the most differentiating and aspirational brands and dedicated special efforts in spicing up our culinary offerings to bring surprises and enjoyment to visitors. A series of value-accretive initiatives are underway, including the 4-storey extension building at Ocean Terminal, and they are set to enhance the competitive edge of the one-stop shopping mecca.

Times Square remains one of the world's most successful vertical malls. A slew of trade mix revamp and enhancement works, including the conversion of 9th-10th floors into a lifestyle hub, creation of a kids zone on 13A floor, and relocation of some tenants with new images, are progressing well and will further unlock the hidden value of the shopping landmark, offering latest fashion and new culinary options to visitors.

In China, the Group's IP started to bear fruit, lifting revenue by 16% to HK$2.3 billion and operating profit by 25% to HK$1.2 billion. Chengdu IFS stood out to post stellar results, with retail performance exceeding the Group's expectation. Its superb location and distinguished positioning outshine the competition. Office leasing is well on track, particularly with financial services tenant. Less than a year from opening, Niccolo Chengdu, the Group's first "sophisticated urban chic" hotel, is already leading the city on room yield and won prestigious awards, such as the "*Best Luxury Wedding Hotel*" by CHINA MAG, "*Best New Hotel Brand – Luxury*" at the 5th China Hotel Awards, as well as "*Best New Hotels*" at the 2015 China Travel Awards, hosted by Travel+ Magazine.

China retail is a pillar of the Group's new engine for revenue and valuation growth. Times Outlet and IFS complex in Chengdu showed continued strength and the retail-oriented IFS complexes in Chongqing and Changsha are poised to tap strong experience-oriented consumption in the years to come. Ideally located at the heart of their respective core CBD, Chengdu IFS and Changsha IFS are set to match Harbour City and Times Square in scale and market positioning.

On the Development Properties ("DP") front, the Group's attributable interest in contracted sales surged to a record RMB26 billion, 21% over 2014 and above target. Net order book at year-end increased to RMB25 billion (net of business tax). Inclusive of joint ventures and associates on an attributable basis, revenue increased by 18% to HK$27.4 billion and operating profit by 51% to HK$4.2 billion. The Group continued to pursue a prudent approach to further land purchases to focus on fewer target cities, with seven DP sites acquired in 2015/16 in Beijing, Hangzhou and Foshan directly or through joint ventures for RMB6.8 billion on an attributable basis.

FINANCIAL RESULTS

Group core profit increased by 5% to HK$11.0 billion on solid rental operations and Mainland completions. Together with the net surplus from IP revaluation and other exceptional items, profit attributable to Shareholders was HK$16.0 billion and earnings per share were HK$5.29. Total assets were stable at HK$444 billion, with IP portfolio increasing by 3% to HK$310 billion and DP portfolio (excluding joint ventures and associates) decreasing to HK$38 billion. Book net asset value increased to HK$308 billion (or HK$101.53 per share) net of decreases in exchange and investment reserves.

The Group maintains robust financial health. Net debt at year-end decreased by HK$12 billion to HK$47 billion. Gearing ratio fell to 14.9% (2014: 18.9%).

In lieu of a final dividend, a second interim dividend of HK$1.35 per share (2014: HK$1.26) has been declared to bring the total dividend for the year to HK$1.90 per share (2014: HK$1.81).

BUSINESS-IN-COMMUNITY

We are honoured to be recognised by the community for our effort in community investment. Our long-standing mission of "Building for Tomorrow" creates a solid pathway to Corporate Social Responsibility (CSR). With our "Business-in-Community" initiatives, we adopt a long-term vision in generating positive impact and lasting value to the society.

CHAIRMAN'S STATEMENT

Project *WeCan* is designed to provide assistance to the underprivileged students in society. Launched in 2011, it has scaled up to serve a total of 50 less advantageous secondary schools, supporting over 42,000 deserving students in Hong Kong. A wide variety of activities have been organised to nurture students' confidence and inspire them to pursue higher studies and fulfilling careers. A joint annual school event "Young Innovators Bazaar" was held in January at Plaza Hollywood, where 500 students from 25 Project *WeCan* participating schools gained first hand experience in setting up and running their own businesses for a few days. Company visits, job-tasting and other career development opportunities, as well as a host of summer programmes, were also organized to help the students create meaningful life. On top of that, a Joint School Teachers' Development Day was held to offer more all-rounded support to more than 2,600 teachers and headmasters from 50 partner schools who attended the event.

The Group supported Hong Kong Ocean Day 2015 in September by sending a corporate team to join other professional divers to clean the ocean around Sharp Island in Sai Kung. About 200 Project *WeCan* students took part in an eco-tour and scuba-dived to witness the beauty under the water thereby raising their awareness of marine conservation.

These efforts would not have been possible without the support of our corporate partners and colleagues of our business units. I wish to applaud their efforts to serve the community and express my sincerest gratitude.

The Wharf Hong Kong Secondary School Art Competition has continued to raise public awareness on art and culture as well as to cultivate home-grown young talents. The top 18 finalists are eligible to apply for the Wharf Art Scholarship to pursue further studies in art-related bachelor programmes in local and overseas universities. For the past four years since the scholarship is available, nine have been fully funded to pursue art and design related studies in top notch universities.

Since 2011, the Group has sponsored 12 outstanding architectural postgraduates via The Architectural Design Internship Programme to intern in renowned architectural firms in different parts of the world, France, Germany, Italy, Switzerland and the United Kingdom, to India and Japan.

We also published our first standalone CSR Report in accordance with the internationally recognised guidelines Global Reporting Initiative (GRI). The report covers the economic, environmental and social performances across the Group's major businesses in Hong Kong.

OUTLOOK

An uneven recovery, the divergence in monetary policy instilling more volatile fund flows, weak oil prices and interest rate hikes are adding to uncertainties over the global economic outlook in 2016. It is important to stay alert to "competitive devaluation" as this would result in the pie getting smaller. The U.S. and China need to take leadership to steer other nations to avoid that trap. As quantitative easing phases out in the U.S., a gradual move towards suitable fiscal stimulus is the direction the world needs.

The second largest economy in the world at our door step will continue to buttress Hong Kong. China pledged to maintain an annual GDP growth of at least 6.5% and to create a moderately prosperous society by 2020 in its latest five-year plan (2016–2020). While China is moving towards a domestically and market-driven model, the "new normal" will bring both new challenges and risks. That said, a healthier domestic market will usher in new sources of growth, putting China on a more competitive trajectory. Across a range of issues, the commitment to double per-capita income by 2020 over 2010 levels will accelerate urbanization and wealth accumulation for coming decades. Hong Kong is the world's leading super service platform, hitting the sweet spot on needs in China brought by urbanization, service sector intensification and consumerism. The Group is well poised to tap these opportunities.

Back in Hong Kong, the local economy is projected to expand by 1–2% in 2016 and by 3% per annum from 2017 to 2020. In the near term, Hong Kong's retail and hospitality industries may remain weak but the government is allocating funding and taking additional initiatives to resuscitate the flagging tourism industry. Construction of the Hong Kong-Zhuhai-Macau Bridge is underway, which will foster closer co-operation among the three places and stimulate economic activities for our retail and personal services platform.

The substantial devaluation of the Yen and the Euro in recent years is hurting Hong Kong and particularly its retail sector. International brands are making product price adjustments and the process continues. Nobody sees this as a permanent structural situation.

Furthermore, our proven management and execution track record provide confidence to our tenants, shoppers and investors, offering consistencies and productivity by our destination and well-located properties. This is manifested in positive lease renewals which add to the traction and continuing demand, keeping our showcase status resilient.

On behalf of all Shareholders and my fellow Directors, I wish to pay special tribute to all Staff for their high levels of dedication, professionalism and contribution throughout the year.

Wharf has successfully weathered cycles in the past. I am immensely grateful to Mr Woo for the solid foundation he has laid for the Group. We have remarkable assets in unique and prime locations, a seasoned management team, and dedicated and professional staff. I have worked with them for many years and have every confidence the Group will continue to rise to the challenge.

Stephen T H Ng
Chairman and Managing Director
Hong Kong
9 March 2016