CHAIRMAN'S STATEMENT

Dear Shareholders,

2017 marked an important milestone in Wharf's history. To provide investors with clearer strategic and investment options, and to increase operational and financial transparency, a demerger was completed in November to split the Company into two listed sister companies. Investors are now given a choice of investing directly in the portfolio of premier Investment Properties ("IP") in Hong Kong held under Wharf Real Estate Investment Company Limited ("Wharf REIC"), or the other businesses that remain in the Group after the demerger.

A Balanced Portfolio of Assets

Excluding the demerged IP businesses, 2017 Group core profit increased by 36% over 2016 to HK$7.1 billion.

88% of that was contributed from Development Properties ("DP"). Including other properties, total net profit realised from the sale of property interests exceeded HK$12 billion, 68% of which from Hong Kong and 32% from the Mainland. Since the second half of 2017, over HK$50 billion have been re-invested in DP land bank or related property interests.

Mainland IP contributed another 10% of Group core profit. Apart from properties, the Group operates a logistics business in South China through Wharf Logistics, a hotel business in Asia through Wharf Hotels, and has through Wharf CME2 started to invest in the new economy in major markets with favourable growth potential.

In the foreseeable future, properties, both from Hong Kong and the Mainland, will remain the largest contributor.

Hong Kong Properties

For land bank replenishment, a prominent residential site in Lung Cheung Road, Kowloon Tong, was acquired in January 2018 for HK$12.5 billion through a Government tender and will be developed into a unique living destination on Kowloon Peninsula. Other opportunities will also be explored.

Hong Kong properties also include a valuable Peak Portfolio and a Kowloon East Waterfront Portfolio. Current land bank totals 3.0 million square feet of GFA.

Mainland Properties

In the Mainland, the Group continues to be selective for new investments.

For DP, Beijing, Shanghai, Suzhou, Hangzhou, Shenzhen and Guangzhou are among the key target cities. Including joint ventures on an attributable basis, nine sites were acquired in 2017 for RMB15.7 billion (GFA: 701,300 square metres) plus 10 sites so far in 2018 for RMB12.2 billion (GFA: 599,100 square metres).

For IP, the signature IFS (International Finance Square) series in the heart of respective cities are on track to expand our recurrent income base. We aim to replicate the success of Chengdu IFS at the newly-opened Chongqing IFS and the soon-to-open Changsha IFS with the Group's expertise in operating productive mixed-use developments.

Logistics

Modern Terminals ("MTL") and Hong Kong Air Cargo Terminals ("HACTL") continued to rank among the best of class in the world, based on decades of operational experience and innovation. With rare critical mass and sturdy foundations, MTL and HACTL provide the Group with a solid income base.

GENERAL ECONOMY

2017 has been characterised by a combination across the world of economic upturn, low inflation and accommodative monetary policies. Leading indicators from a range of advanced and emerging economies witnessed moderate but solid growth. The U.S. and E.U. economies gained further traction while China's growth accelerated to an above-par 6.9%. Risks and uncertainties, however, are still abound and may derail the global economy if they materialise. The impact of protectionist sentiments on world trade, contagious effect of Brexit, imminent interest rate hikes in the U.S., elevated geopolitical tensions and financial imbalances in the credit market still cast a long shadow over global economic prospects.

China has made huge strides since opening up in 1978 to become the second largest economy in the world. Structural rebalancing towards domestic consumption and services moderated its economic growth rate in recent years. While steering the economy on a more sustainable and quality growth path, China is on track to play a greater role on the world stage with bold plans such as the Belt and Road Initiative.

Real estate investment is a crucial driver for the economy. Despite government's cooling measures, the Mainland property market continued to pick up pace with demand holding up. With tightening measures still in place, growth in real estate investment, property sales and home prices might slow in 2018, facilitating a healthier development of the market.

On the IP front, offices and shopping malls in the Mainland are generally grappling with a slew of challenges including abundance of new supply, aggressive expansion of brands and rapid rise of e-commerce. Break-neck expansion of online retail has made the country one of the world's largest and fastest growing e-commerce markets. While the overall retail market is immensely competitive, seamless integration of online and offline shopping may give rise to a new retail model. The Group's retail and lifestyle destinations are all set to embrace this integration trend and achieve mutual benefits with our best-in-class tenants.

Hong Kong's economy witnessed a favourable growth of 3.8%, driven by recovering external and domestic demands. Despite the continued cooling measures, the property market held up well in both volume and price. In particular, strong demand for luxury properties continued to be fuelled by massive capital inflow and the local wealth effect created by the bullish stock market, against very limited new supply,

Benefitting from a broad-based global economic upturn, the global trade lull is reversing on the back of reviving demand. While the risks of Sino-U.S. trade tension are still looming, China's trade growth appears to stand on firm footing. The Belt and Road Initiative and the Greater Bay Area development plan will deepen the collaborations and exchange between China and other countries. As an important gateway to the Mainland market, Hong Kong is poised to benefit.

BUSINESS PERFORMANCE

In Hong Kong, Mount Nicholson, our prestigious residences on the Peak, recorded phenomenal transactions with five houses and 14 apartments sold in 2017 for combined proceeds of over HK$9.4 billion. In January 2018, two apartments were sold for a total of HK$1.1 billion at an average price of HK$128,400 per square foot.

In Kowloon East, the subsidiary that is developing the 8 Bay East office project was disposed of for HK$9 billion to set a new record for en-bloc office transaction in Kowloon. A gain of HK$4.5 billion was recognised in addition to the realisation of HK$1.3 billion of revaluation surplus recorded in prior years.

On the Mainland, inclusive of joint ventures and associates on an attributable basis, DP revenue increased by 11% to HK$34.0 billion and operating profit by 99% to HK$10.2 billion, with 1.23 million square metres of GFA recognised. Attributable interest in contracted sales decreased by 19% to RMB25.3 billion and the net order book decreased to RMB19.2 billion for 0.8 million square metres at year-end.

For IP, despite rising competition from both online and offline, proven retail expertise puts the Group in a strong position in the market. Chengdu IFS leads the pack in retail sales and patronage and reported a robust retail sales growth of 30% to RMB5 billion in 2017. Niccolo Chengdu, the first Niccolo hotel and an integral part of Chengdu IFS, has rapidly emerged as the market leader in room yield. The award-winning integrated complex sets an excellent model for the other IFS complexes.

In September 2017, the mall and Niccolo hotel at Chongqing IFS were opened. The 109,000-square-metre mall, surmounted by an iconic 300-metre landmark tower and four other towers, is home to over 150 retailers including 80 renowned international brands, of which 20 are debuts in Chongqing. Niccolo Chongqing, a contemporary urban chic hotel, is prominently recognised as the city's highest sky hotel to set a new standard.

In Changsha IFS, the 246,000-square-metre mega mall is scheduled to open in May of this year. With an enviable location at the heart of city centre, 94% of the retail floor plate have been committed or are under offer, underlining retailers' trust and confidence in our retail expertise.

FINANCIAL RESULTS

Consolidating Wharf REIC up to completion of the demerger in November, Group core profit increased by 14% to HK$15.7 billion. Together with the net surplus from IP revaluation and other exceptional items, profit attributable to shareholders was HK$21.9 billion and earnings per share HK$7.21. Total assets amounted to HK$222.6 billion. Book net asset value was HK$142.0 billion (or HK$46.75 per share).

The Group maintained a net cash position of HK$9.3 billion at year-end, or HK$16.1 billion if debts with no recourse to Wharf were excluded.

In lieu of a final dividend, a second interim dividend of HK$0.95 per share will be paid to bring the total dividend per share for the year to HK$1.59 in cash plus HK$65.33 in the form of share of Wharf REIC and i-CABLE Communications Limited ("i-CABLE") distributed in specie.

BUSINESS-IN-COMMUNITY

The Group supports a series of "Business-in-Community" initiatives, in which staff volunteering plays a pivotal role. Our commitment to generate positive impact and lasting value to the community is well recognised.

Flagship youth development programme Project *WeCan* is a structured platform bringing disadvantaged schools and supporting corporate and community partners together to provide financial and volunteer support. Since its launch in 2011, the programme has supported over 50,000 students who are disadvantaged in learning in 53 deserving schools through year-round enrichment activities to extend students' learning beyond classrooms.

The Wharf Architectural Design Internship Programme continues to nurture young local talents. A total of 24 outstanding architectural postgraduates have benefitted from the Wharf Architectural Design Internship Programme since 2011 and were awarded placement opportunities in renowned architectural firms in countries including France, Germany, Japan, Switzerland and the United Kingdom.

OUTLOOK

2018 was ushered in on a positive note and yet there are risks and uncertainties lurking in the background. While almost all of the world's major economies are in some phase of expansion, unresolved geopolitical issues could disrupt their pace. These include rising de-globalisation and protectionist sentiments, a looming trade war, Brexit, imminent interest rate hikes, as well as tension in the South China Sea, Korean Peninsula and the Middle East. These conflicts, if not properly handled, could lit the spark to transform the world economy.

It is widely expected that the stable and balanced economic growth in China will continue to outperform most major economies. Despite rising trade tension and geopolitical risks that may undermine its economy, China remains committed to meeting an annual GDP growth target of at least 6.5% until 2020, while edging closer to its ambition to double per-capita income over 2010 levels by 2020. Rapid urbanisation and wealth accumulation, as well as the rising spending power all bode well for quality consumption and housing demand.

The Hong Kong economy is projected to expand by 3% per annum between 2018 and 2021. Domestic demand should hold up well, buttressed by positive consumption sentiment under favourable employment and income conditions. The property market, amidst a tight demand-supply balance, may continue to gain traction. Solid demand and sound fundamentals are anticipated to support the market, especially for premier real estate, where supply remains scarce.

The three major cross-border transport infrastructure projects designed to link Hong Kong with the rest of South China, namely the Hong Kong-Zhuhai-Macau Bridge, the Guangzhou-Shenzhen-Hong Kong Express Rail Link as well as Liantang road link, are scheduled to open later this year. They will not only strengthen Hong Kong's social and economic ties with the Mainland but also bolster its competitiveness as the "super-connector" bridging the Mainland and global markets, at a time when the Belt and Road and Greater Bay Area Initiatives are racing ahead. Hong Kong is best positioned to seize opportunities and ride on the fast train.

With over 130 years of history, the Group has established itself as a premier company with prime real estate as its primary strategic focus. Underpinned by a long standing mission of "Building for Tomorrow", the Group has built on its core strength in the property sector to deliver fruitful results over the years. CME2 represents a new strategic initiative and an infrastructure play in the new economy. Former capital released from the exit from Wharf T&T and i-CABLE in 2016 and 2017 is re-invested in a progressive CME2 arena that covers much larger markets with greater growth potential.

On behalf of all Shareholders and my fellow directors, I wish to extend my sincerest gratitude to all customers and business partners for their support and to all staff for their professionalism throughout the year.

Our proven management and execution track record has laid a solid foundation for business growth, and helped Wharf to weather economic ups and downs throughout the past decades. We remain confident in steering the Group through challenges in the new era.

Stephen T H Ng
Chairman and Managing Director
Hong Kong

8 March 2018