Peter K C Woo, Chairman

Chairman's Statement

GENERAL OVERVIEW

2002 was a difficult year.

Group profit amounted to HK$2,303 million, representing a decline of 9 per cent when compared to the HK$2,519 million achieved the year before. Earnings per share were HK$0.94.

Value of property dropped and this was reflected in the accounts when certain Group investment and other properties were marked down at the end of the financial year 2002, resulting in HK$813 million and HK$6,077 million, totalling HK$6,890 million, being charged against the profit and loss account and the reserves account respectively. Together with an investment provision of HK$134 million, the total write-down was HK$7,024 million or HK$2.87 per share. Net asset value declined from HK$22.33 per share to HK$19.91 per share. The debt to equity ratio rose from 36 per cent to 42 per cent.

Rents are under pressure. Interest rates may have bottomed out. The Group's corporate finance priority is to ensure that the balance sheet is on a solid footing as we prepare for future opportunities.

A prudent dividend policy is consistent with market reality and sound balance sheet management. Your Directors recommend a reduction in the total dividend payout to 56 cents per share, comprising the interim dividend of 28 cents per share paid in November 2002 and a final dividend of 28 cents per share to be approved at the forthcoming Annual General Meeting ("AGM"). This represents a payout ratio of 60 per cent of the Group's profit, compared with our high ratio of over 75 per cent of recurrent earnings since 1997.

BUSINESS PERFORMANCE

Our core businesses performed steadily in a deflationary environment, with improved operating margins. Excluding property impairment and investment provisions, Group net profit was HK$3,250 million, an increase of 14 per cent over the previous year. Profit before interest was up by 6 per cent. Interest expenses fell by HK$351 million or 32 per cent to HK$755 million.

The progress in the operating performance of our core businesses in 2002 can be attributed to the dedication and quality of the different business unit management teams and their staff. In the absence of inflation, management will clearly be the differentiating factor for the Group's success. On behalf of our shareholders and my fellow board members, I would like to express my most sincere and heartfelt thanks to Team Wharf, led by the main board Directors in charge of the different business portfolios.

- **Harbour City** achieved 7 per cent growth in operating profit mainly because of the continuous progress at Gateway II and the resilient performance of the **Harbour City** retail properties.

- **Times Square** maintained its profitability at the previous year's level in spite of extremely keen competition and the emergence of new supply on Hong Kong Island.

- **Modern Terminals** set another record for total boxes handled. Profit almost equalled the 2001 level, a weak economy and pressure on tariff rates notwithstanding. Cost per TEU handled, a reflection of productivity gains, declined by a further 13 per cent in 2002 from 2001. Cost per TEU handled has fallen by 41 per cent in the last five years.

- Although competition intensified last year, the CME portfolio showed steady progress. **i-CABLE** registered a 14 per cent increase in operating profit before corporate expenses. **Wharf T&T** also reported a record gain in market share. Net profit increased by 540 per cent on the back of 41 per cent growth in the number of total installed fixed lines.

Throughout the various economic peaks and troughs of the last two decades, the Group's core businesses have consistently underpinned its performance. This is particularly true of Wharf Estates Limited's **Harbour City** and **Times Square**, which constitute well over half of Group total assets. They both possess "REIT" like characteristics, offering steady and exceptionally strong cash flow. Both **Harbour City** and **Times Square** are 999-year leaseholds, a rarity in Hong Kong.

Apart from the core businesses mentioned above, Wharf Estates Development Limited faced huge challenges from the decline of the property market. Sales for Sorrento and Bellagio were satisfactory and in line with budget. Their combined total sales and proceeds reached 2,553 units and HK$9.2 billion as at the end of year 2002. Wharf Estates China Limited also recorded steady progress, both in terms of rental contributions from Beijing Capital Times Square and Shanghai Times Square and of the highly successful pre-sale of Chongqing Times Square's residential units (more than 99 per cent of the first three apartment towers sold within days). The fourth tower was launched recently to an even better response and higher prices.

BOARD

There have been movements among board members since I became Chairman. On a special note, I would like to first thank Mr K H Leung and Mr Ian H Melrose, who retired from the Group's main board last year, for their long and devoted service to the Group and the main board. Following his appointment as the Secretary for Education and Manpower for the HKSAR Government, Professor Arthur Li had resigned from the board as a Non-executive Director. Mr Robert Burns also decided not to stand for re-election at the coming AGM. We thank these distinguished gentlemen for all their invaluable contributions on the board.

It is a pleasure to welcome Professor Edward Chen, Mr Paul Cheng, Dr Raymond Ch'ien and Mr Erik Christensen to the main board. We look forward to the diversity of views that these gentlemen will add.

Furthermore, as recently announced, Ms Doreen Lee has been appointed a member of the board while Mr Paul Tsui resigned as an Executive Director and a Director of Wharf. Ms Lee oversees the leasing and operations of our two core properties, **Harbour City** and **Times Square**.

GOING FORWARD

Geopolitical risk is a popular topic of late. We must closely monitor the latest developments in order to assess business risk and the relevance of our existing strategies.

Hong Kong's immediate hinterland, the Pearl River Delta, is growing steadily; with the highest GDP per capita, its GDP growth rate is also the highest in the Mainland. China's WTO entry also means opportunities for Hong Kong. However, Hong Kong continues to experience economic rationalisation and adjustment.

Approximately 60 to 65 per cent of our net cash inflow from operating activities is generated by investment property. If the gloomy outlook for the office property market is materialized, it will adversely affect our future operating cash flow, since office accounted for close to 45 per cent of the Group's investment property portfolio as at the end of 2002.

The continuing deflationary environment means that the real cost of borrowing is high despite today's all-time low nominal interest rates. The Group will seek to optimise its assets and dispose of non-core assets whenever possible. Prudent management is the call.

Peter K C Woo
Chairman
Hong Kong, April 8, 2003

From left:
Doreen Lee,
Erik Christensen,
Gonzaga Li,
Peter Woo,
Stephen Ng,
David Lawrence,
Michael Kalyk