Chairman's Statement

With the end of deflation in July 2004, Hong Kong is once again the Hong Kong we are all familiar with.

Driven by the Individual Traveller Scheme (ITS), the local retail market made a swift rebound in 2004. Rentals soared as retail operations expanded. Business opportunities brought about by the Closer Economic Partnership Arrangement (CEPA) began to emerge. This, coupled with China's continuous economic development, helped stimulate further growth in business activities, escalating office demand and thus rental levels. The export market has been in steady growth, providing opportunities for small- to medium-sized enterprises ("SMEs") to expand as well as attracting SMEs from overseas and the mainland to set up offices in Hong Kong to take advantage of its highly-effective trading platform. Hong Kong registered GDP year-on-year growth of 8.1 per cent in 2004.

In this business environment, the Group's five core brands performed well in 2004, with some reporting better-than-expected results.

Group profit amounted to HK$3,767 million, representing a growth of 24 per cent when compared to HK$3,043 million achieved the year before. Earnings per share were HK$1.54.

Since its inception in 2003, the ITS has been extended to additional mainland cities, stimulating further influx of mainland tourists to Hong Kong. Statistics from the Hong Kong Tourism Board showed considerable growth in tourist arrivals in various geographical segments, with a noticeable surge in business visits. Hotel occupancy climbed from 70 per cent the previous year to 88 per cent in 2004.

Led by continual growth from the trade sector, Grade A office rentals rebounded significantly from the low point recorded during the SARS period. The Group's flagship property, **Harbour City**, recently reported office occupancy of 97 per cent. As no major supply of office space in core business districts is anticipated, rental levels of **Harbour City**'s offices are expected to continue to rise. This upward trend of rental levels has had a positive impact on property value. Valuations of the Group's investment and hotel properties rose by HK$11 billion or 20 per cent in 2004 compared to a year ago.

US interest rates are being modestly adjusted up as anticipated. Local interest rates sooner or later will follow suit to further narrow the gap. Amidst this upward interest rates cycle, the Group successfully executed its debt reduction programme in 2004. Our current gearing ratio has decreased to 21.6 per cent. The Group's business development is expected to benefit from the high liquidity of the banking system. The Board of Directors recommends a final dividend of 36 cents per share, bringing the total dividend for the year to 68.75 cents per share (2003: 60.75 cents per share), to be discussed and approved at the forthcoming annual general meeting.

Business Performance

On behalf of our shareholders and my fellow board members, I would like to express my heartfelt thanks to all Group management and staff for their dedication and hard work throughout the year.

The Wharf Estates team had another year of success in terms of traffic at the shopping malls as well as average sales revenue per square foot as recorded by our tenants. **Harbour City** and **Times Square** have become the most popular shopping malls in town.

Other business units also recorded steady progress:

- Timely introduction of triple-play offers followed the launch of the VoIP service to enhance competitiveness of CME products.

  Consolidated net profit of the listed **i-CABLE** rose by 29 per cent.

  Wharf T&T achieved the milestone of free cash flow.

- **Modern Terminals** handled 4.35 million TEUs in Kwai Chung, nine per cent higher than the record four million TEUs achieved in 2003.

As a special note, I would like to express my heartfelt gratitude to Mr Paul Cheng, who has tendered his resignation from the Board effective March 31, 2005, and Mr Christopher Langley, who will retire from the Board by rotation at the coming Annual General Meeting and will not stand for re-election, for their invaluable contributions to the Board.

Going Forward

With progressive extension of the ITS as well as the opening of Hong Kong Disneyland, the retail sector will continue to benefit. The second stage of CEPA, which encourages Chinese private enterprises to make fuller use of the comprehensive trading services platform in Hong Kong, is expected to accelerate the process of "*bringing in, going out*" for mainland enterprises, further facilitating economic development in China and thus giving a boost to Hong Kong's business activities.

Hong Kong is truly an amazing city and story. Having dealt with the 15 years of political transition pre-1997 and worked through the almost seven years of deflation post-1997, it is unimaginable that any other city could have gone through these 22-odd years as successfully. Hong Kong is as vibrant and ready as ever to take on the world. The Group now looks forward to a future that is fulfilling and eventful.

Peter K C Woo
Chairman
Hong Kong, March 15, 2005