

INTERIM DIVIDEND

The Board declares payment of an interim dividend of HK7 cents per share for the year ending 31st December 2001 (2000: HK10 cents) to those Shareholders whose names appear on the Register of Members of the Company on 16th October 2001. Dividend warrants are expected to be despatched to Shareholders on or about 23rd October 2001.

CLOSURE OF TRANSFER BOOKS

The Register of Members of the Company will be closed from Wednesday, 10th October 2001 to Tuesday, 16th October 2001, both days inclusive, during which period no share transfers will be effected.

For those Shareholders who are not already on the Register of Members, in order to qualify for the interim dividend, all share certificates accompanied by the duly completed transfers must be lodged with the Hong Kong Branch Registrars of the Company, Central Registration Hong Kong Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 9th October 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

A. Hong Kong Commercial and Residential Properties

(a) Acquisition of 39th to 50th Floors of Citibank Tower, Garden Road

On 28th June 2001 we completed the acquisition of 100% interests in 39th to 50th Floors of Citibank Tower, comprising 232,501 sq.ft. of office space, together with 382 sq.ft. of retail space and 15 car-parking spaces. The purchase consideration was based on a valuation of the properties of HK\$1,951,559,540. HK\$300,060,000 of the purchase price was satisfied by issuing 16,670,000 new shares of Great Eagle Holdings Limited at a price of HK\$18.00 per share. Another HK\$1,075,000,000 was financed by a bank loan, with the balance funded out of our available liquidity.

Citibank has leased back 10 floors through June 2004 (with an option to renew for a further term of 3 years at open market rates). The other two floors have been leased to another major financial institution till August 2004 (also with an option to renew at open market rates).

(b) Rental Income for the 6 months ended 30th June 2001

| | Group's Interest | Gross Floor Area (sq.ft.) | | | Parking Spaces | Gross Rental Income <i>(HK\$million)</i> |
|--------------------------------|---------------------|---------------------------|------------|-------------|-------------------|---|
| | | Office | Commercial | Residential | | |
| Citibank Plaza | 85.93% | 968,000 | 49,000 | – | 537 | 230.0 |
| | 100% | 70,000 | – | – | 3 | 14.0 |
| | 100%* | 232,500 | 382 | – | 15 | 0.8 |
| Great Eagle Centre | 100% | 193,000 | 77,000 | – | 296 | 36.9 |
| Astor Plaza | 100% | – | 70,000 | – | – | 0.4 |
| Concordia Plaza | 100% | 28,000 | – | – | 5 | 2.7 |
| Convention Plaza Apartments | 100% | – | – | 10,000 | – | 1.8 |
| | | | | | | <u>286.6</u> |

* *Acquired on 28th June 2001*

(c) Occupancy and Rental Trend

| | Occupancy at 30th June 2001 | | |
|-----------------------------|-----------------------------|------------|-------------|
| | Office | Commercial | Residential |
| Citibank Plaza | | | |
| 85.93%-owned Portion | 93.4% | 100.0% | – |
| 100%-owned Portion* | 99.1% | 100.0% | – |
| Great Eagle Centre | 97.6% | 99.5% | – |
| Astor Plaza | – | 6.5% | – |
| Concordia Plaza | 100.0% | – | – |
| Convention Plaza Apartments | – | – | 100.0% |

* *Including property acquired on 28th June 2001*

Occupancy rates of offices in Citibank Plaza and Great Eagle Centre have remained at a high level during the first half of 2001. Our two buildings had very limited exposure to dot.com tenants. However rent rates failed to stay on the upward trend of 2000, in the face of the global economic slowdown. Because of the weakness in the worldwide capital markets, major financial institutions, which are the major users of prime Grade-A office space, have temporarily deferred their expansion plans. The negative sentiments in the market have caused rent rates to retreat from their recent peak in late 2000. However, the lack of new supply has helped moderate the decline.

The commercial portion of Citibank Plaza was fully let. A new restaurant opened in June 2001 to favourable review by office users. The shops in Great Eagle Centre remained well occupied and rental income was also stable. Renovation works at Astor Plaza have been put on hold while alternative uses are being considered in the light of changed market conditions.

B. U.S. Commercial Properties

| | Occupancy 30th June 2001 | Floor Area (sq.ft.) | | Parking Spaces | Gross Rental Income (US\$million) |
|------------------------|-----------------------------|---------------------|------------|-------------------|---|
| | | Office | Commercial | | |
| Pacific Wilshire Plaza | 100% | 117,000 | 1,000 | 274 | 1.93 |
| Pacific Ygnacio Plaza | 95% | 121,000 | – | 379 | 1.59 |
| 353 Sacramento Street | 90% | 297,000 | 10,000 | – | 4.78 |
| 150 Spear Street | 98% | 294,000 | 2,000 | 17 | 6.65 |
| | | | | Total | 14.95 |

In January 2001, the Group completed the purchase of 150 Spear Street in San Francisco, after the sale of Metropolitan Tower in New York in December 2000. The higher yield of 150 Spear Street has led to increased overall contribution from the U.S. portfolio in the first half of 2001.

All of the U.S. properties continued to be well occupied. However modest reduction in occupancy has occurred, reflecting a softening in real estate markets associated with the decline of the dot.com industry and a slowing of the U.S. economy.

In August 2001, Pacific Wilshire Plaza was disposed of at a consideration of US\$32.9 million. A modest profit will be recorded.

C. Hotels and Furnished Apartments

Performance of the Group's hotels in the first 6 months of 2001 was adversely affected by the downturn of the U.S. economy and the weakened currencies of some of the countries we operate in vis-à-vis the U.S. and HK dollars. Total gross revenue declined by 7.2% to HK\$794.5 million (2000: HK\$856.2 million). Total EBITDA also dropped 8.9% to HK\$223.3 million (2000: HK\$245.2 million).

Hong Kong Operations

(i) *Great Eagle Hotel, Hong Kong*

Weakened corporate demand reduced average occupancy rate to 78% in the first half of 2001 from 83% last year. Average room rate however increased to HK\$847 from HK\$775.

(ii) *Eaton Hotel, Hong Kong*

Average room rate further improved to HK\$454 in the first half of 2001 from HK\$386 last year. This was achieved at the expense of the occupancy rate, which dropped back to 82% from 90%.

(iii) *Eaton House Furnished Apartments, Hong Kong*

Average occupancy declined slightly to 80% (2000: 82%). Total revenue however increased modestly to \$18.4 million from \$17.0 million in 2000.

International Operations

(i) *The Langham Hilton, London*

In the first half of 2001, the London hotel market was adversely affected by the U.S. economic slowdown. It was exacerbated by the breakout of foot-and-mouth epidemics in the beginning months. Occupancy of the Langham as a result dropped sharply to 69% during the period comparing to 79% last year while average room rate fell only slightly to £168 from £170.

(ii) *Sheraton Towers Southgate Hotel, Melbourne*

The Melbourne market experienced a small growth but was offset by added hotel room inventory. Average room occupancy of 76% and average room rate of A\$233 were achieved at Sheraton Southgate in the first half of 2001, as compared to 75% and A\$243 respectively last year.

(iii) *Sheraton Auckland Hotel and Towers, Auckland*

The Auckland hotel market remained competitive. While average room occupancy at Sheraton Auckland surged to 75% from 66% last year, average room rate dropped to NZ\$146 from NZ\$169 last year.

(iv) *Hotel Le Meridien, Boston*

The U.S. economic downturn and the reduction in financial activities heavily affected the Boston market. Average occupancy at Hotel Le Meridien fell to 69% in the first half of 2001 from 75% last year. Average room rate also dropped to US\$247 from US\$256.

(v) *Delta Chelsea Hotel, Toronto*

Occupancy for the first half of 2001 was steady at 72% as compared to 70% last year. Average room rate was C\$138 as compared to C\$135 last year.

D. Properties Under Development

Mongkok Project

Construction of the foundations, after earlier delays due to difficult underground conditions, is expected to be completed in the fourth quarter of 2001. Commencement of sub-structure and super-structure construction will follow immediately. Target occupancy date of the entire project remains the end of 2003.

We are further refining the design of the 586,000 sq.ft. retail centre to make it a unique and user-friendly shopping and entertainment facility. Detailed designs of the 752 hotel guest rooms and other facilities by an internationally renowned interior decorator are also underway.

In July 2001, the Town Planning Board has approved a revision to the footbridges connecting the hotel and retail elements. Two ten meters wide bridges on two levels will now be built to facilitate pedestrian flow across Shanghai Street. Special architectural features will also be incorporated to create an impressive streetscape in this renewed urban area.

The total expenditure incurred in relation to the project, including property acquisition, tenants' compensation, site construction works, professional fees and interest capitalised, amounted to HK\$6,334.8 million as of 30th June 2001.

E. Others

The performance of Toptech Co. Limited suffered from the slowdown of the Hong Kong housing industry. Its income from operations dropped 52.7% to HK\$11.6 million in the six months ended 30th June 2001 from HK\$24.5 million last year.

In winding down our exposure to e-commerce investments, further charges of HK\$32 million was made in the 2001 interim results. After these charges, the remaining e-commerce investments on the Group's books were less than HK\$20 million.

FINANCIAL REVIEW

A. Debt

Consolidated Net Attributable Debt of the Group as of 30th June 2001 was HK\$11,217 million, an increase of HK\$2,311 million over the HK\$8,906 million at 31st December 2000. The incremental financing was incurred mainly in relation to the acquisition of additional space in Citibank Plaza, Hong Kong and 150 Spear Street, San Francisco. The underlying rental income of these acquisitions comfortably covered the related debt servicing requirements.

Consolidated Net Asset Value as of 30th June 2001, based on valuation of the Group's investment properties by independent appraisers as of 31st December 2000, amounted to HK\$17,904 million. The Net Asset Value was boosted by a HK\$300 million new issue of shares in connection with the Citibank Plaza acquisition. The overall gearing ratio was 63% as of 30th June 2001.

As of 30th June 2001, 79% of the Group's debts was on a floating-rate basis. We have since taken steps to lock in fixed interest rates for part of the floating-rate debt as HK\$ interest rates have dropped to an attractive level.

As of 30th June 2001, 68.7% of the Group's debts was denominated in Hong Kong dollars with a further 15.0% in U.S. dollars. The balance was in various foreign currencies.

The Group borrows mainly on medium to long term basis. As at 30th June 2001, 85.6% and 62.9% of its loans have maturity dates exceeding 1 and 2 years respectively.

As of 30th June 2001, the Group had total cash balances and undrawn committed bank facilities of HK\$1,881.8 million. In addition, HK\$4,030 million of the Mongkok Project construction term loan remained undrawn.

B. Finance Cost

Generally lower interest rates and narrowed interest spreads charged by banks helped contain the financing cost of the Group. Notwithstanding the increased borrowings, the gross finance cost for the first half of 2001 dropped by HK\$11.6 million to HK\$374.7 million from HK\$386.3 million for the prior year period. However as borrowings attributed to the Mongkok Project had been refinanced at lower interest spreads, a lower amount of interest expenses was correspondingly allocated to the Project in the first half of 2001. The amount of interest capitalised for the period (largely related to Mongkok) decreased by HK\$21.9 million to HK\$137 million from HK\$159 million last year. The net result was that Net Finance Cost charged to earnings in the first half of 2001 increased slightly to HK\$215.4 million from HK\$209.7 million last year.

C. Convertible Bonds

Convertible bonds equivalent to HK\$1.2 billion were redeemed in full on their maturity date of 3rd April 2001.

STAFF

The total number of employees in the Group was 2,879 as of 30th June 2001. In addition to salary payment, other benefits include year-end double pay, discretionary bonus, education allowance, insurance, medical schemes, provident fund schemes as well as a stock option scheme for executive directors and senior employees.

PROSPECTS

Despite the temporary set back in the office and hotel businesses in the past several months, their medium term outlook remains positive. There will be little new supply of Grade-A office space in Hong Kong in the next nine to twelve months. The projected supply in 2003 and 2004 will also be fairly in line with historical average take-up. Therefore occupancy levels of Grade-A office properties can be expected to stay at a healthy level. The Group's hotels are typically high quality properties at prime urban locations. Their performance should be the most resilient in slow economic conditions. As and when the global economy recovers and the capital markets stabilise, the performance of the Group's offices and hotels should rebound quickly.

DIRECTORS' INTERESTS

As at 30th June 2001, the interests of the Directors and their associates in the securities of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance") were as follows:

(A) Shares

| Name of Company | Name of Director | Number of shares held | | | | Total |
|-----------------|--------------------------|-----------------------|------------------|------------------------------|--------------------------------|-------------|
| | | Personal Interests | Family Interests | Corporate Interests | Other Interests | |
| 1. The Company | LO Ying Shek | 4,994,725 | - | - | - | 4,994,725 |
| | LO TO Lee Kwan | - | - | - | - | - |
| | LO Ka Shui | 6,006,711 | - | 6,636,557 <i>Note (5)</i> | 333,099,887 <i>Note (1)</i> | 345,743,155 |
| | LO Kai Shui | - | - | 671,523 <i>Note (6)</i> | 333,099,887 <i>Note (1)</i> | 333,771,410 |
| | Brian Shane McELNEY | 14,000 | - | - | - | 14,000 |
| | CHENG Hoi Chuen, Vincent | - | 10,000 | - | - | 10,000 |
| | WONG Yue Chim, Richard | - | - | - | - | - |
| | LO Hong Sui, Antony | 2,729 | - | - | - | 2,729 |
| | LAW Wai Duen | 238,402 | - | - | 333,099,887 <i>Note (1)</i> | 333,338,289 |
| | LO Hong Sui, Vincent | 276 | - | - | - | 276 |
| | LO Ying Sui, Archie | 1,178,547 | 3,662 | 300,000 <i>Note (7)</i> | 333,099,887 <i>Note (1)</i> | 334,582,096 |
| | KAN Tak Kwong | 314,503 | - | - | - | 314,503 |

| Name of Company | Name of Director | Personal Interests | Number of shares held | | | Total |
|----------------------------------|----------------------|--------------------|-----------------------|---------------------|-----------------|-------|
| | | | Family Interests | Corporate Interests | Other Interests | |
| 2. Subsidiary Company | | | | | | |
| Century Faith Investment Limited | LO Hong Sui, Vincent | - | - | 2 | - | 2 |
| | | | | <i>Note (8)</i> | | |

As at 30th June 2001, the Directors who held share options granted under the Executive Share Option Scheme of the Company are as follows:

| Name of Director | No. of shares comprising the share options | Date granted | Period during which rights exercisable | Subscription price per share (HK\$) |
|------------------|--|--------------|--|-------------------------------------|
| LO Ying Shek | 120,000 | 15/04/1997 | 16/04/1999-15/04/2002 | 21.519 |
| | 300,000 | 22/01/1998 | 23/01/2000-22/01/2003 | 6.912 |
| | 120,000 | 12/03/1999 | 13/03/2001-12/03/2004 | 7.020 |
| | 130,000 | 14/02/2000 | 15/02/2002-14/02/2005 | 10.116 |
| | 180,000 | 16/01/2001 | 17/01/2003-16/01/2006 | 13.392 |
| LO Ka Shui | 120,000 | 15/04/1997 | 16/04/1999-15/04/2002 | 21.519 |
| | 300,000 | 22/01/1998 | 23/01/2000-22/01/2003 | 6.912 |
| | 120,000 | 12/03/1999 | 13/03/2001-12/03/2004 | 7.020 |
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| | 180,000 | 16/01/2001 | 17/01/2003-16/01/2006 | 13.392 |
| LO Kai Shui | 120,000 | 15/04/1997 | 16/04/1999-15/04/2002 | 21.519 |
| | 300,000 | 22/01/1998 | 23/01/2000-22/01/2003 | 6.912 |
| | 120,000 | 12/03/1999 | 13/03/2001-12/03/2004 | 7.020 |
| | 130,000 | 14/02/2000 | 15/02/2002-14/02/2005 | 10.116 |
| | 180,000 | 16/01/2001 | 17/01/2003-16/01/2006 | 13.392 |
| KAN Tak Kwong | 50,000 | 15/04/1997 | 16/04/1999-15/04/2002 | 21.519 |
| | 450,000 | 22/01/1998 | 23/01/2000-22/01/2003 | 6.912 |
| | 25,000 | 12/03/1999 | 13/03/2001-12/03/2004 | 7.020 |
| | 50,000 | 14/02/2000 | 15/02/2002-14/02/2005 | 10.116 |
| | 130,000 | 16/01/2001 | 17/01/2003-16/01/2006 | 13.392 |

During the six months ended 30th June 2001, none of the Directors has exercised any share options to subscribe for shares of the Company.

Notes:

- (1) Options granted in the years of 1997 to 1999 were granted under the old Executive Share Option Scheme which expired on 16th March 1999. Options granted in and after 2000 were granted under a new Executive Share Option Scheme adopted on 10th June 1999.
- (2) Consideration paid for each grant of option was HK\$1.00.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June 2001, the following Shareholders, not being Directors of the Company, were recorded in the register kept pursuant to Section 16(1) of SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company:

| Name of Shareholder | Number of shares | Notes |
|----------------------------|-------------------------|--------------|
| LO Hung Suen | 333,099,887 | (1) |
| LO Wai Ki, Gwen | 336,178,915 | (1) |
| Shui Sing Company, Limited | 81,794,957 | (2) |
| Galtee Investment Limited | 93,702,380 | (2) |
| Shui Sing Holdings Limited | 282,845,349 | (3) |
| Shui Sing (BVI) Limited | 282,845,349 | (3) |
| HSBC Group* | 333,484,085 | (4) |

* *HSBC Group included HSBC Holdings plc and its subsidiaries, namely, HSBC Finance (Netherlands), HSBC Holdings B.V., HSBC Investment Bank Holdings B.V., HSBC International Trustee Limited, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited.*

Notes:

- (1) The 333,099,887 shares of Dr. LO Ka Shui, Mr. LO Kai Shui, Madam LAW Wai Duen, Dr. LO Ying Sui, Archie and Madam LO Hung Suen and 333,099,887 of the 336,178,915 shares of Madam LO Wai Ki, Gwen were the same parcel of shares.
- (2) The 81,794,957 shares held by Shui Sing Company, Limited and the 93,702,380 shares held by Galtee Investment Limited were duplicated in the interests described in Note (3). Both of these companies were direct wholly-owned subsidiaries of Shui Sing (BVI) Limited which was a direct wholly-owned subsidiary of Shui Sing Holdings Limited.

- (3) These 282,845,349 shares held by Shui Sing Holdings Limited and Shui Sing (BVI) Limited were the same parcel of shares and were duplicated in the interests described in Note (1).
- (4) 333,099,887 shares of the 333,484,085 shares were the same parcel of shares as described in Note (1). HSBC International Trustee Limited ("HKIT"), as trustee of a discretionary trust in which the persons mentioned in Note (1) are the beneficiaries, were interested and/or deemed to be interested in the said 333,099,887 shares. HKIT was also the trustee of other discretionary trusts which was holding 384,198 shares.
- (5) The 6,636,557 shares were held by a company in which Dr. LO Ka Shui had entire interest.
- (6) The 671,523 shares were held by a company in which Mr. LO Kai Shui had entire interest.
- (7) The 300,000 shares were held by a company in which Dr. LO Ying Sui, Archie had entire interest.
- (8) The 2 shares in Century Faith Investment Limited were held by a company in which Mr. LO Hong Sui, Vincent was interested.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements for the six months ended 30th June 2001 have been reviewed by the Audit Committee of the Company.

By Order of the Board
LO YING SHEK
Chairman

Hong Kong, 11th September 2001