

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

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1 OVERVIEW

Turnover increased by 24% to \$2,748.4 million. The increase in turnover was mainly owing to the sale of 36 residential units of Garden Terrace during the year, and the profit generated therefrom amounted to about \$320 million. This helped to increase profit before tax by 18% to \$1,703.1 million. Net profit increased by \$165.5 million to \$1,383.7 million, an increase of 14% over the previous year's figure.

2 PROPERTY LEASING

For a geographical analysis of our investment properties refer to page 17.

2.1 Hong Kong

2.1.1 Under Development

Our 3,045 sq.m. site in Stubbs Road, The Summit, is expected to be completed by the end of 2001. This 70-storey residential tower over a 4-storey car parking podium comprises 56 luxury duplex units, each featuring its own private lift lobby, double height ceilings in the living/dining area, and four bedrooms. Every unit will overlook spectacular views of Happy Valley and Victoria Harbour, and the development provides recreational facilities, a telecommunications network and car parks.

2.1.2 Commercial

The retail rental market has been recovering at a pace much slower than expected. The rental rates attained during the last quarter of the financial year did not generally reflect much growth or gain, especially

in secondary locations. Fortunately, occupancy in traditional shopping districts was still maintained at a high level.

Our shopping malls have performed satisfactorily during the year under review, and occupancy levels remained stable with the Hang Lung Centre in Causeway Bay at 100%, Kornhill Plaza in Quarry Bay at 99%, and Grand Tower Arcade in Mongkok at 97%.

Fashion Island/Fashion Walk in Causeway Bay

In Causeway Bay, the retail mix at Fashion Island/Fashion Walk has helped distinguish it as the fashion place where retailers provide exclusive product lines. These shops, especially those with good exposure, are in popular demand. This has allowed us to revise the rental moderately upward despite the general slowdown in the retail market. Rental income recorded an increase of 14%, and the occupancy level was 99%.

The Peak Galleria - Victoria Peak

The Peak Galleria continues to be a popular spot for overseas and local visitors. Although the majority of tenants encountered declining business turnover during recent years, average occupancy was kept at above 80%. Rental income recorded a decrease of 4%.

THE PEAK GALLERIA



Queensway Plaza in Admiralty

At Queensway Plaza, pedestrian flow and customer demographics remain virtually unchanged, and this is expected to continue. The existing lease for Queensway Plaza expires in 2002, and in April, the Group won a government tender for a further 10-year lease effective until 2012. This will allow us to reassess the current trade mix and improve the outlook of the shopping centre. Physical facelift improvement work is planned for the first quarter of 2002. Rental income recorded a decrease of 8%, and the occupancy level was 100%.

Amoy Plaza in East Kowloon

At Amoy Plaza in East Kowloon, the market profile has shifted towards a younger group of consumers. Continuous upgrading of this property enables us to adjust the tenant profile in order to achieve the highest possible rental income. Rental income recorded a decrease of 2%, and occupancy level was 99%.

Total revenue from leasing of commercial properties fell by 2% to \$1,048.5 million.

GROUP PERFORMANCE

	2001	2000	Change	
	\$Million	\$Million	\$Million	%
Turnover				
Property Leasing	1,760.8	1,833.2	-72.4	-4
Disposal of Investment Properties	762.4	12.4	+750.0	+6,048
Interest Income	225.2	375.7	-150.5	-40
	2,748.4	2,221.3	+527.1	+24
Profit before Taxation				
Property Leasing	1,500.3	1,488.2	+12.1	+1
Disposal of Investment Properties	320.2	8.1	+312.1	+3,853
Net Interest (Expenses) / Income	(31.1)	31.7	N/A	N/A
	1,789.4	1,528.0	+261.4	+17
Less: Administrative expenses	(86.3)	(90.6)	-4.3	-5
	1,703.1	1,437.4	+265.7	+18
Net Profit attributable to Ordinary Shareholders	1,383.7	1,218.2	+165.5	+14

2.1.3 Office

Owing to the downsizing of many businesses, the year proved a difficult one for securing both renewed leases and new tenancies. Efforts to retain our existing tenants succeeded in keeping our occupancy levels fairly high, over 90% on average, throughout the year.

With most of our properties in Central already leased, we were little affected by the transient “dotcom” boom. Rental income for offices in Central recorded a 7% decrease from the previous year, while the occupancy level was maintained at 93%. Baskerville House in Duddell Street, Central, was renovated and equipped with state-of-the-art telecommunications infrastructure.

Causeway Bay and Wanchai were not hit as hard as other areas, recording an occupancy level of over 99%, while rental income was down just 3%. Our offices in Quarry Bay/Kornhill recorded an overall rental income decrease of 16%, and occupancy was 96%.

In Kowloon, our office properties recorded an increase in leasing activity with average occupancy in Mongkok reaching 95%.

Park Building in Cheung Sha Wan

Park Building, our newly converted office building in Cheung Sha Wan, started generating rental revenue in the latter half of the financial year. 50% of the 13,522 sq.m. building was occupied by the financial year end.

Total revenue from rental of office buildings fell by 7% to \$474.7 million.

2.1.4 Residential

The average rent for luxury residential units decreased during the last fiscal year owing to the uncertain global economic outlook. With corporate demand declining, low to middle budget rents (below \$70,000) tended to dominate the leasing market for luxury residential units.

Burnside Estate in Hong Kong South

Turnover of tenants at Burnside Estate was higher than expected owing to diminishing rental allowances for corporate executives and the declining number of overseas employees in the market. The average occupancy of the development was maintained at 95%, whereas rental revenue dropped by 3% from the previous year.

Garden Terrace in Mid-Levels

Sale of matured property is an integral part of the Group's operating strategy. At Garden Terrace, 36 of the four-bedroom luxury units have been sold at the end of the fiscal year, and there are plans to sell the remaining units.

Total revenue from rental of residential properties fell by 23% to \$90.4 million.



GARDEN TERRACE

2.1.5 Industrial/Office

Although leasing activity in some areas was strong in the first half of the financial year, demand dropped in the latter half owing to the drop in demand for IT business space. Although the overall occupancy level at our industrial/office properties was maintained at 84%, the rental rate dropped by 7% to 8%.

Our industrial property, Star Centre, achieved an occupancy rate of 84% by year end.

Industrial properties comprise only a very small percentage of our portfolio. Total revenue from them decreased by 6% to \$27.1 million.

2.1.6 Car Parks

The car park operation has been running smoothly under the internationally recognised ISO 9002 quality system. With its effective in-house software operational system, our car parking operation maintains its status as one of the leading car park operators in Hong Kong.

Total parking revenue dropped by 4% this year to \$135.9 million, and this is attributed to decreasing monthly parking demand. In recent years, there has been a structural change in monthly demand for parking in urban areas, as the increasing population in newly developed residential estates in rural districts leans towards using public transport. Hourly parking business, however, showed signs of recovery in most of our well-located car parks towards the end of the financial year.

2.2 Shanghai

The Grand Gateway, Xujiahui

The property is in a prime location above Shanghai's largest subway station, Xujiahui Station, in the southwest commercial centre. The 99,200 sq.m. retail complex, the largest modern shopping mall in Shanghai, was 94% leased by the end of the year under review.

Amoy Properties has a 47.25% interest in The Grand Gateway's shopping mall.

Plaza 66, Nan Jing Xi Lu

The 50,100 sq.m. mall at Plaza 66 had its Grand Opening in July 2001. The ground floor features one of the biggest collections of international name brands in the city, including Chanel, Cartier and Louis Vuitton, and is attracting high customer traffic. The 90,000 sq.m. 66-storey office tower is practically fully leased and is occupied mostly by major multinational companies.

Amoy Properties has a 79% interest in Plaza 66.



PLAZA 66

SEGMENTAL ANALYSIS

	Gross Floor Area #		Rental Revenue #	
	2001	2000	2001	2000
	sq.m.	sq.m.	\$Million	\$Million
Investment Properties				
Commercial	299,200	259,700	1,103.5	1,094.2
Office	259,400	188,400	482.0	512.2
Industrial/Office	35,000	35,000	27.1	28.9
Residential	26,700	36,700	90.4	117.8
Projects under Development				
Commercial	44,700	64,000	—	—
Office	56,300	127,400	—	—
Residential	382,900	251,500	—	—
	1,104,200	962,700	1,703.0	1,753.1
No. of Carparking Spaces				
Car Parks	6,261	5,849	135.9	142.3
Total			1,838.9	1,895.4

Including the Group's attributable interest

GEOGRAPHICAL ANALYSIS OF INVESTMENT PROPERTIES

AT 30 JUNE 2001

	Gross Floor Area ('000 sq.m.)				No. of Carparking Spaces	2000/01 Rental Revenue (\$Million)				
	C	O/I	R	Total		C	O/I	R	CP	Total
A. HONG KONG										
<i>Hong Kong Island:</i>										
Central and Admiralty	10.1	40.5	—	50.6	16	106.6	150.2	—	—	256.8
Causeway Bay and Wanchai	40.8	38.8	8.0	87.6	418	216.1	127.5	11.5	10.8	365.9
Kornhill and Quarry Bay	54.1	37.3	—	91.4	1,159	192.2	71.8	—	31.3	295.3
The Peak and Mid-Levels	12.5	—	24.6*	37.1	576	43.3	—	32.0	9.5	84.8
Hong Kong South and Others	—	—	9.2	9.2	89	—	—	46.4	—	46.4
<i>Kowloon:</i>										
Mongkok #	24.1	47.0	—	71.1	1,433	179.1	84.0	—	55.5	318.6
Tsimshatsui	6.1	11.1	0.1	17.3	—	30.6	38.0	0.5	—	69.1
Ngau Tau Kok and Kwun Tong	60.6	6.5	—	67.1	785	278.3	1.1	—	25.5	304.9
Cheung Sha Wan, Kwai Chung and Others	4.5	42.1	—	46.6	199	2.3	29.2	—	3.3	34.8
B. SHANGHAI										
Xuhui District#	46.9	—	—	46.9	1,100	47.0	—	—	—	47.0
Jing An District*#	39.5	127.4	—	166.9	486	8.0	7.3	—	—	15.3
Total	299.2	350.7	41.9	691.8	6,261	1,103.5	509.1	90.4	135.9	1,838.9

Including the Group's attributable interest

* Including property under development

C : Commercial

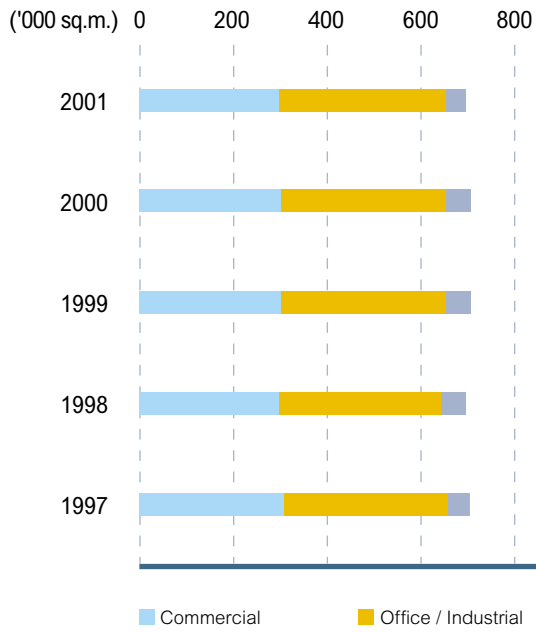
O/I : Office/Industrial

R : Residential

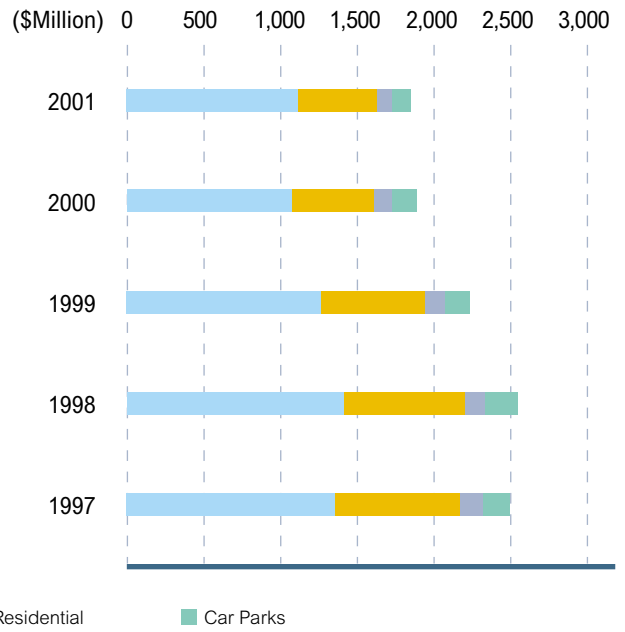
CP : Car Parks

INVESTMENT PROPERTY SIZE*

AT 30 JUNE

**RENTAL REVENUE***

FOR THE YEAR ENDED 30 JUNE



* Including the Group's attributable interest

3 PROPERTY DEVELOPMENT

Airport Railway Kowloon Station Package Four Development

Superstructure at the Airport Railway Kowloon Station Package Four Development project is in progress and on schedule. The expected completion date for the complex is June 2003. The three 70-storey residential towers over a 5-storey car parking podium will provide 1,134 residential units with gross floor areas ranging from 78 sq.m. to 180 sq.m.

Hing Wah Street West - West Kowloon Reclamation

Foundations are being laid at our Hing Wah Street West property, which is part of the West Kowloon Reclamation Project. The Group holds an 85% share in this development, which consists of five blocks of average 41-storey residential towers over a 4-storey car parking/retail podium with basement. A 4,000 sq.m. clubhouse and recreational facilities are planned for the podium rooftop, and the 1,632 residential units range in area from 56 sq.m. to 66 sq.m. (this includes units accounting for 30% of the total floor area which are allocated to the Home Ownership Scheme). Anticipated completion date is September 2003.

Hoi Fai Road - West Kowloon Reclamation

At the Government Land Auction in December, the Group acquired a prime 20,200 sq.m. seaview site for \$2,580 million in Hoi Fai Road on the West Kowloon Reclamation. Initial plans call for the construction of eight 43-storey residential towers over a 3-storey podium housing offices and car parking spaces. There will also be a 4,000 sq.m. detached clubhouse with recreational facilities on the podium rooftop. Residential towers will provide approximately 1,849

units ranging in size from 62 sq.m. (two-bedroom) to about 96 sq.m. (three-bedroom). Anticipated completion date is March 2004.

Hau Man Street in Ho Man Tin

Foundations have been laid at our 1,420 sq.m. site at the junction of Carmel Village Street and Hau Man Street in Ho Man Tin, Kowloon. The 24-storey residential tower over a 4-storey car parking/retail podium comprises 192 units with gross floor areas ranging from 55 sq.m. to 60 sq.m. Anticipated completion date is the first quarter of 2003.

Only evolution and transformation
can guarantee continuity. That which
remains static is destined to stagnate,
age and perish.



MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

4 FINANCE

4.1 Capital Structure

The Company's share capital comprises ordinary shares of \$1 each and convertible cumulative preference shares of \$7,500 each. The shareholders' funds as of 30 June 2001 amounted to \$27,019.1 million, representing a decrease of \$458.2 million when compared with last year. The decrease in shareholders' funds is mainly due to a decrease in the valuation of the group's investment properties when compared with last year.

Out of 300,000 convertible cumulative preference shares issued in November 1993, about 37% totalling \$843.3 million remained outstanding as of 30 June 2001.

4.2 Finance and Treasury Operations

The Group's consolidated net debt as at 30 June 2001, being bank borrowings less cash and bank deposits, amounted to \$5,227.6 million compared to last year's net debt balance of \$173.2 million. The increase was mainly attributed to the capital expenditures on the Group's investment in the Ho Man Tin project, the two West Kowloon projects, and the premium for the new lease with the government for Queensway Plaza.

In the syndicated loan market, the Group arranged two five-year revolving loan facilities during the year. In July 2000, a \$4 billion facility was completed and received very strong support from 14 leading banks. In April 2001, the Group arranged another \$5 billion facility with 22 leading international banks. Both facilities demonstrated the strong credit rating of the Group and the confidence of the banking

community in the Group's prudent management and financial performance.

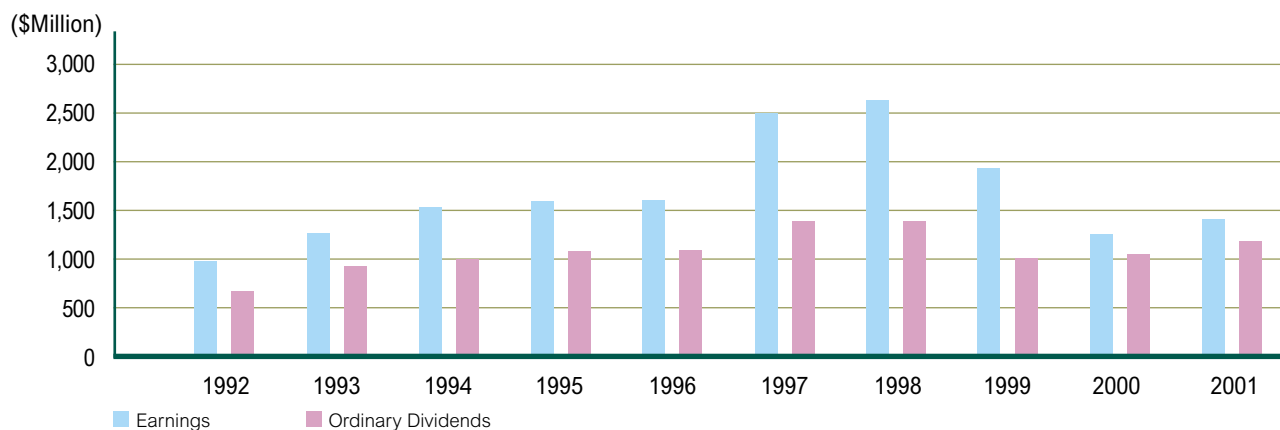
The Group's undrawn banking facilities together with bank deposits as at 30 June 2001 amounted to \$7,566.8 million, which comprised \$3,724.8 million bank deposits, \$2,844 million committed facilities and \$998 million demand facilities. The ample financial resources available to the Group will provide adequate funding for the Group's operational and capital expenditure requirements.

The Group's borrowings are unsecured and it is the Group's policy to lengthen its debt maturity profile by refinancing its matured debts with medium to long-term committed facility. Of the total borrowings as at 30 June 2001, 24% is repayable within one year and 76% is repayable within 2 to 5 years.

Borrowing methods used by the Group include syndicated loans, term loans, floating rate notes and revolving facilities denominated mainly in Hong Kong dollars. The interest rates for most of these borrowings are floating rate, fixed by reference to the Hong Kong Interbank Offered Rate. The Group employs interest rate swaps when appropriate to hedge its floating rate interest exposure. As at 30 June 2001, 15% of the Group's borrowings are hedged to fixed interest rates.

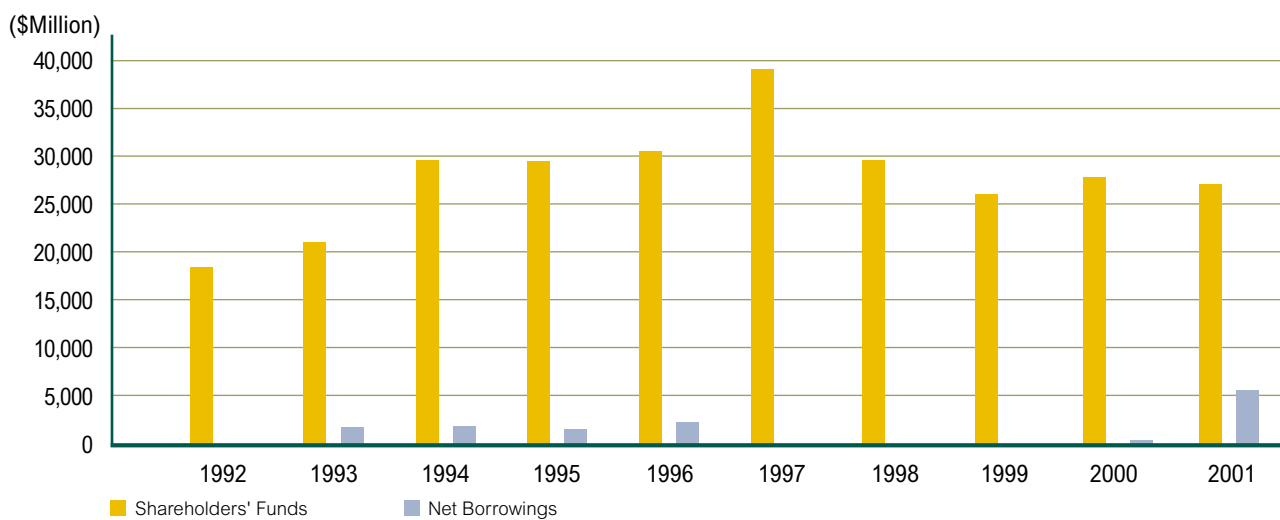
EARNINGS AND ORDINARY DIVIDENDS

FOR THE YEAR ENDED 30 JUNE



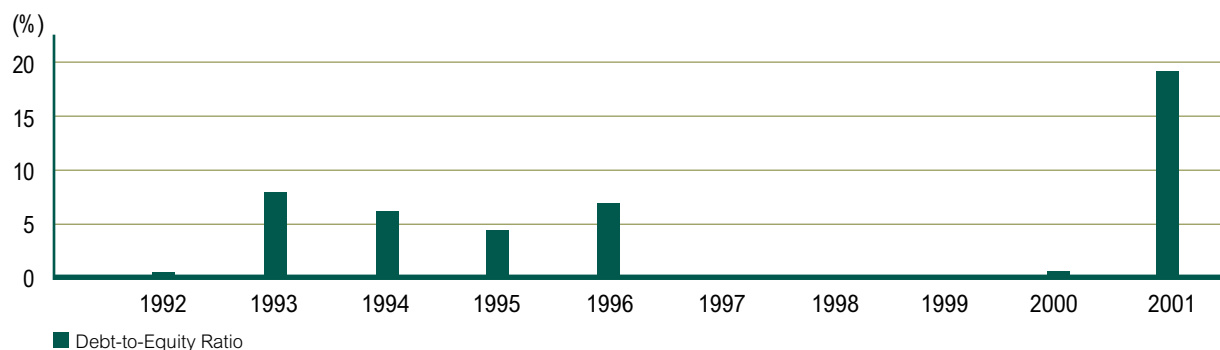
SHAREHOLDERS' FUNDS AND NET BORROWINGS

AT 30 JUNE



DEBT-TO-EQUITY RATIO

AT 30 JUNE



Note: Debt represents bank loans and overdrafts less cash and deposits with banks. Equity comprises shareholders' funds and minority interests.

10-YEAR FINANCIAL SUMMARY

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Change of 2001 over 2000
	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	%
Turnover*	1,422	1,764	2,477	2,434	2,427	3,769	3,844	2,765	2,221	2,748	+24
Operating Profit	1,034	1,353	1,792	1,839	1,844	2,784	3,014	2,071	1,398	1,652	+18
Net Profit											
attributable											
to Ordinary											
Shareholders	916	1,213	1,504	1,548	1,580	2,490	2,653	1,896	1,218	1,384	+14
Dividends											
Ordinary Shares	674	813	927	1,061	1,088	1,358	1,366	985	1,041	1,156	+11
Preference Shares	—	—	80	121	115	87	71	53	48	48	—
Assets											
Investment											
Properties and											
Fixed Assets	17,985	24,400	33,239	33,247	34,881	38,160	29,248	25,795	27,772	27,929	+1
Cash and											
Deposits with Banks	799	15	1,248	1,065	191	2,577	4,712	5,461	4,854	3,725	-23
Other Assets	491	756	1,123	1,072	1,048	1,663	1,541	4,158	5,286	8,892	+68
	19,275	25,171	35,610	35,384	36,120	42,400	35,501	35,414	37,912	40,546	+7
Liabilities											
Bank Loans and											
Overdrafts	839	1,645	3,064	2,367	2,465	680	2,211	5,010	5,027	8,952	+78
Finance Lease											
Obligations	—	982	982	980	974	965	951	933	910	883	-3
Proposed Final											
Dividend	475	531	622	699	713	895	884	579	752	838	+11
Other Liabilities	608	740	1,277	1,344	1,286	1,381	1,747	2,331	3,428	2,467	-28
	1,922	3,898	5,945	5,390	5,438	3,921	5,793	8,853	10,117	13,140	+30
Minority Interests	—	—	123	201	197	219	240	268	318	387	+22
	1,922	3,898	6,068	5,591	5,635	4,140	6,033	9,121	10,435	13,527	+30
Net Assets	17,353	21,273	29,542	29,793	30,485	38,260	29,468	26,293	27,477	27,019	-2

10-YEAR FINANCIAL SUMMARY (continued)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Change of 2001 over 2000
	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	%
<i>Financed by:</i>											
Share Capital											
Ordinary Shares	2,259	2,259	2,261	2,495	2,501	2,888	2,853	2,894	2,891	2,891	—
Preference Shares	—	—	2,250	2,059	2,000	1,245	1,245	843	843	843	—
Share Premium and											
Capital Reserves	13,713	17,233	22,674	22,428	22,681	29,691	19,870	16,145	17,171	16,485	-4
Revenue Reserves	1,381	1,781	2,357	2,811	3,303	4,436	5,500	6,411	6,572	6,800	+3
Shareholders' Funds	17,353	21,273	29,542	29,793	30,485	38,260	29,468	26,293	27,477	27,019	-2
	¢	¢	¢	¢	¢	¢	¢	¢	¢	¢	
Earnings per											
Ordinary Share**											
Basic	47.5	53.7	66.5	66.6	63.3	91.7	92.5	66.2	42.1	47.9	+14
Diluted	—	52.0	62.3	65.8	62.8	90.1	91.0	65.4	—	—	—
Dividends per											
Ordinary Share	32.5	36.0	41.0	42.5	43.5	47.0	48.0	34.0	36.0	40.0	+11
Debt-to-Equity											
Ratio #	0.2%	8%	6%	4%	7%	N/A	N/A	N/A	0.6%	19%	+18
Pay-out Ratio											
(Ordinary Shares)	68%	67%	62%	64%	69%	51%	52%	51%	86%	84%	-2

* Turnover includes interest income from the year ended 30 June 1997 onwards.

** Earnings per ordinary share, but not dividends per ordinary share, have been adjusted for the effect of the 3-for-10 rights issue in April 1992.

Debt represents bank loans and overdrafts less cash and deposits with banks. Equity comprises shareholders' funds and minority interests.

5 EMPLOYEES

In Hong Kong, Amoy Properties utilises the services available within the Hang Lung Group on a cost reimbursement basis, and 749 of the Group's employees are dedicated to serving Amoy's business. In addition, 366 people are employed by the Group in Shanghai.

To comply with the Mandatory Provident Fund Schemes Ordinance, our MPF Scheme came into operation from 1 December 2000, and our existing ORSO Scheme was granted MPF-exempt status. Staff members were given a one-off opportunity to select their preferred scheme. To assist employees in making an informed decision, nineteen MPF communications seminars were conducted. Communication kits and videotapes about the MPF-exempt ORSO Scheme and new MPF Scheme were prepared to ensure full understanding of the different benefits provided.

To enhance our staff's solid work ethics and skills, we introduced a number of training programmes designed to improve intra-departmental relationships and communication. Key managerial staff participated in a series of valuable workshops covering "Coaching & Counselling Skills", "Experiential Team Building" and "Creative Thinking for Creating a Productive Workforce". The objective was to provide a practical arena for the exchange of ideas and views related to improving staff/management productivity and interaction. Our operational employees were given the opportunity to participate in a special workshop targeting their "Winning Customer Service Skills". This type of workshop provides a common set of criteria and basic guidelines, which our frontline staff can practise on a day-to-day basis. We also provided courses in "Practical Putonghua".

Fostering healthy, friendly relations within our community of staff has long been the Group's policy. As in previous years, a number of special outings and sporting activities were held. In November, many staff members and their families enjoyed the company-organised 2-day tour of Fo Shan and Zhao Qing. The activity programme for the year also included the popular Ocean Park Family Day, and a one-day outing to many places of interest around Hong Kong. Social events for the year included movie nights, squid fishing, mahjong and badminton competitions. Furthermore, a group of our staff contributed their time and efforts to The Community Chest Corporate Challenge, an activity that raises the awareness of affairs affecting community-conscious people. Various special interest courses were well attended.

Stability and continuity are core qualities responsible for the Group's success. To foster and reinforce these attributes, the Personnel Department actively promotes social and training activities that nurture and improve intra-office relations on a one-to-one basis. The result is lower staff turnover, and a work environment that attracts superior talent across all areas of the Group.