



2001 turned out to be a challenging year for the Group's businesses. However,

our strong recurrent income base,

coupled with lower interest rates,

has enabled us to weather the

economic downturn and limited

the downside in our financial

performance.

DIVIDENDS

The Board has resolved to recommend to Shareholders at the forthcoming 2002 Annual General Meeting (the "2002 AGM") the payment of a final dividend of HK14 cents per share for the year ended 31st December 2001 (2000: HK20 cents per share), to be satisfied by way of a scrip dividend with a cash option, to Shareholders whose names appear on the Register of Members on 9th May 2002. Together with the interim dividend of HK7 cents per share paid on 23rd October 2001, on the assumption that every Shareholder elects to receive all final dividend in cash, the total dividend for the full year will be HK21 cents per share (2000: HK30 cents per share), amounting to not less than HK\$121,205,158 (2000: HK\$165,633,965).

Subject to the approval of Shareholders at the 2002 AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be allotted and issued pursuant to the proposed distribution of a scrip dividend mentioned herein, each Shareholder will be allotted fully-paid shares having an aggregate market value equal to the total amount which such Shareholder could elect to receive in cash and will be given the option to elect to receive payment partly or wholly in cash instead of the allotment of shares. Dividend warrants and share certificates in respect of the proposed dividend are expected to be despatched to Shareholders on or about 6th June 2002. Full details of the scrip dividend will be set out in a letter to be sent to Shareholders together with a form of election for cash soon after the 2002 AGM.

CLOSURE OF TRANSFER BOOKS

The Register of Members of the Company will be closed from Thursday, 2nd May 2002 to Thursday, 9th May 2002, 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 final 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, 30th April 2002.

OPERATIONS REVIEW

1. Rental Properties

Total net rental income increased 6.55% to HK\$764.5 million in 2001 from HK\$717.5 million in 2000. The income for 2001 was boosted by 6 months of contribution from additional space acquired in Citibank Plaza in June 2001 and sharply higher income from our U.S. office portfolio. On a "same-asset" basis, the income from our Hong Kong rental properties actually declined.

Hong Kong Rental Properties

(a) Acquisition of additional office space in Citibank Tower

On 28th June 2001, we completed the purchase of 39 - 50/F of Citibank Tower (comprising 232,501 gross sq. ft. of office space), together with a shop and some carparking spaces, based on a valuation of HK\$1,951.56 million. HK\$300.06 million of the purchase consideration was satisfied by issuance of new shares of Great Eagle Holdings Limited at a price of HK\$18 per share. The entire area was leased to Citibank and another major financial institution for about 3 years from the date of acquisition, generating a yield of 6.8%.

Hong Kong & Overseas

Offices

The Hong Kong Grade-A office
market saw rising vacancy rates
in 2001.

(b) Rental Income for the year ended 31st December 2001

	Group's Interest	Gross Floor Area (sq.ft.)			Parking Spaces	Gross Rental Income (HK\$ million)
		Office	Commercial	Residential		
Citibank Plaza	85.93%	968,000	49,000	–	537	449.6
Citibank Plaza	100%	70,000	–	–	3	28.2
Citibank Plaza acquired 2001	100%	232,500	380	–	15	64.4
Great Eagle Centre	100%	193,000	77,000	–	296	74.4
Astor Plaza	100%	–	70,000	–	–	0.5
Concordia Plaza	100%	28,000	–	–	5	8.9
Convention Plaza Apartments	100%	–	–	10,000	–	3.7
						629.7

(c) Occupancy and Rental Trend

	Occupancy at 31st December 2001		
	Office	Commercial	Residential
Citibank Plaza	93.5%	100.0%	–
Great Eagle Centre	96.6%	100.0%	–
Astor Plaza	–	34.7%	–
Concordia Plaza	100.0%	–	–
Convention Plaza Apartments	–	–	100.0%



Citibank Plaza, Hong Kong

Notwithstanding one of the lowest level of new supply in 15 years, the Hong Kong Grade-A office market saw rising vacancy rates in 2001, resulting from negative absorption largely associated with downsizing in the financial and information-technology industries. Occupancy rates of offices in both Citibank Plaza and Great Eagle Centre decreased moderately. Rentals for Grade-A offices also came under increasing pressure as the year progressed, especially after the September 11 event. By year-end 2001, effective rent rates had fallen roughly 30% from the level at the beginning of the year.

The softening trend continued into early 2002 though the number of enquiries has been on the increase, indicative of the underlying demand, alongside some bargain hunting activities.

U.S. Rental Properties

Our office portfolio in the United States showed significantly better results in 2001. The negative effect of the downturn in the U.S. economy occurred late in the second half of the year and therefore did not immediately register material impact on the portfolio during 2001. A near full-year contribution by the high-yielding 150 Spear Street, San Francisco, which was acquired in January 2001 and replaced the much lower-yielding Metropolitan Tower in New York sold in December 2000, resulted in a substantial increase in income from the U.S. portfolio in 2001.

In August 2001, we disposed of Pacific Wilshire Plaza in Los Angeles at a consideration of US\$32.9 million. A modest profit was recorded.

The softening of the U.S. office market will likely continue into the early part of 2002 and lower occupancy rates are anticipated. However, because only 20% of the portfolio's leases are scheduled to expire in 2002, the negative impact should not be excessive.



150 Spear Street, San Francisco, USA



Hong Kong & Overseas

Hotels

The event of September 11 adversely
affected performance of hotels
in Hong Kong and overseas.

2. Hotels and Furnished Apartments

Total revenue of the Group's hotels and furnished apartments for 2001 amounted to HK\$1,552.7 million, representing HK\$404.3 million and HK\$1,148.4 million from Hong Kong and overseas operations respectively. Total EBITDA amounted to HK\$460.6 million for 2001 as compared with HK\$548.7 million for 2000.

Hong Kong Operations

The Hong Kong hotel industry was adversely affected in the last year by various negative factors while it was adjusting to a structural transformation in the general economy. Tourist arrivals had been moving up nicely in the first three quarters of 2001 though much of the growth was driven by Mainland China arrivals. Downward pressure on rates exerted by the limited number of permitted suppliers of this market has continued to limit the profitability from this growth to hotels in Hong Kong.

The event of September 11 had an immediate negative effect on general arrivals ex-China, particularly business arrivals in the last four months of the year, leading to lower occupancy and room rates.



Great Eagle Hotel, Hong Kong

Great Eagle Hotel, Hong Kong

The Great Eagle Hotel, which has continued to be well received in the 5 star market as a worthy independent product despite difficulties caused by the financial downturn and September 11 incident, was able to achieve an overall occupancy of 78.8% in 2001 (83.4% in 2000) with an increase in average room rate to HK\$828.5 from HK\$798.5 in 2000.

Eaton Hotel, Hong Kong

Operating with a strong appeal to regional leisure travellers looking for comfortable value but affordable prices, this hotel still managed to maintain its market position, finishing the year with occupancy of 84.6% (88.5% in 2000) and average room rate of HK\$426.0 (HK\$436.0 in 2000).

Eaton House Furnished Apartment, Hong Kong

Due to a softer rental market and increases in supply, Eaton House's occupancy declined to 75.3% in 2001 from last year's 85%. Total revenue dropped to HK\$34.6 million as compared with HK\$37.2 million in 2000.

International Operations

The Langham Hilton, London

The effects of the downturn in financial markets from early 2001 were further exacerbated in London's deluxe hotels performance, first by the Foot-and-Mouth epidemics that devastated leisure and summer traffic to the UK and secondly by the September 11 event which temporarily halted much of the financial and commercial travel in the final quarter.

Although the rooms inventory in 2001 was enlarged by the addition of 47 Concierge Club rooms in mid 2000, the hotel finished the year at 67.8% occupancy and average room rate of £158.8, down from 77.5% and £175.8 in 2000. A further enhancement of approximately two thirds of the standard rooms was completed in 2001, which should improve the hotel's 5 star standard as business returns to more normal patterns in 2002.

Delta Chelsea Hotel, Toronto

The hotel's performance has held up relatively well despite the US economic downturn and September 11 incident by gaining local market share over its competitors. It achieved an average occupancy of 72.8% and average room rate of C\$138.7, compared to 74.8% and C\$137.8 in 2000.

Sheraton Towers Southgate Hotel, Melbourne

Despite the collapse during 2001 of Australia's second largest domestic airline, Ansett, which has negatively impacted the local tourism industry, the hotel managed to maintain occupancy at 72.7% compared to last year's 74.2%. Average room rate finished at A\$223.1 from A\$238.0 last year.

Hotel Le Meridien, Boston

Most severely impacted by the downturn of the US economy and the September 11 incident, the hotel's occupancy and average room rate have dropped to 64.8% and US\$236.1 from 76.8% and US\$260.9 in 2000 but remain in line with the overall market. Boston has started a slow recovery these last months in line with other major U.S. centers, but continuing improvements will depend on the US financial recovery over the next year.

Sheraton Auckland Hotel and Towers, Auckland

Further expansion of the serviced apartment inventory in Auckland in 2001, which competes directly with hotels on daily lettings, along with the effects of September 11 on travel patterns, has continued to add to rate cutting citywide throughout this year. Average room rate has slipped to NZ\$141.8 from last year's NZ\$159.2. However, increased room demand in the first three quarters has improved the overall occupancy in 2001 to 68.1% from last year's 63.7%.



Delta Chelsea Hotel, Toronto, Canada



Comprehensive Redevelopment, Mongkok – Construction proceeding at full speed

3. Properties Under Development

Mongkok Project

Almost all of the foundation works at this 1.76 million sq. ft. retail/office/hotel complex were completed in November 2001 after delay due to difficult site conditions, with minor outstanding works due to be completed by the end of March 2002. The main contract for construction of the sub-structure and super-structure were awarded in December 2001 and the related works have commenced. Target occupancy date of the entire project remains the end of 2003.

To further enhance the appeal of the project, an internationally renowned firm of architects has been retained to advise on the design of the 586,000 sq. ft. retail component of the project. This integrated complex, by virtue of its magnitude and world-class design, will become a landmark for Mongkok and the focus of commercial and retailing activities in the area.

The total expenditure incurred in relation to the project, including interest capitalised, amounted to HK\$6,699.6 million as of year end 2001. Out of the HK\$5,100 million six-year term loan arranged to finance the project, HK\$4,030 million remained available for drawing as at 31st December 2001 and should be sufficient to fund the project to completion.