To Our Shareholders

At the 18 December 2001 extraordinary shareholders' meeting, you had approved changing the Company name from "Hang Lung Development Company, Limited" to "Hang Lung Group Limited". The change reflects our previous decision to put all future property development projects into our 60%-owned subsidiary Hang Lung Properties Limited, formerly known as Amoy Properties Limited. In the past, Hang Lung Properties only did leasing business.

Results and Dividend

In the six months ended 31 December 2001, net profit fell 39% to $300.4 million from $493.4 million of the previous year. Earnings per share retreated by 39% to 22.7 cents. Your board declares an interim dividend of 12 cents per share payable on 28 March 2002 to shareholders of record on 22 March 2002. This is the same amount as that paid a year ago.

Operations Review

Once again our industry went through a very challenging period. Apartment prices hardly moved as transaction volumes increased somewhat. On the leasing front, office rental fell by 10-15% in the six months under review, and high end residential remained weak. Retail space has fared slightly better, but the overall market is moving in the wrong direction.

Fortunately, rents in Shanghai had so far held up. Our two shopping centers — The Grand Gateway and Plaza 66 — as well as the office tower at the latter location had all performed well.

One fortunate thing of late is that the cost of money has remained cheap, with mortgage rates at all-time lows. In 2001, the prime lending rate adjusted downward 11 times which must be a record. The government has also taken correct measures for our industry. In the past few months alone, it has, among other things, announced a 10-month moratorium in selling Home Ownership Scheme units, raised the Home Purchase Loan Scheme quota, and increased tax exemptions for mortgage payments.

We were barely able to maintain Hong Kong rental income at about the same level as the year before. Shanghai projects gave us a boost, but were not sufficient to counterbalance two factors which hurt the bottom line. First, we sold less flats than the year before. Secondly, interest income fell as we deployed cash for land acquisition and building construction, and interest rate was much lower than before.

Prospects

The Hong Kong economy where by far the majority of our income is derived, will remain lethargic. Foreign financial institutions are retrenching, leading to high vacancies of offices and high end residential units, and the desirable effects of China's WTO accession have not yet come through. All that will impact consumer spending, and hence retail rents. As evidenced in the latest government figures, unemployment is worsening, and our citizens may yet delay the purchase of residential flats.

In spite of the expected increasing income from Shanghai, full year profit will likely be lower than that of last year. While we are still reviewing our strategy for non-real estate businesses, any positive effects will not become apparent for several years and even then, the magnitude will be limited.

What eventually will pull profit up will be the sales of Hong Kong apartments which are now being built. They have low land costs relative to our competitors, and as long as the overall market does not collapse altogether, should bring reasonable profits. I, for one, do not subscribe to the disastrous scenario and so look forward to marginally better days ahead — perhaps as early as 2003.

On Behalf of the Board
Ronnie C. Chan
Chairman

Hong Kong, 1 March 2002