Interim Statement 2002

- High occupancy (office: 95%; retail: 96%) amidst a generally soft market
- Re-launch of residential portfolio Bamboo Grove well received
- Investing for the future: decision made for major refurbishment of the retail podium of Caroline Centre
- Strong balance sheet: debt maturity profile lengthened and funding sources diversified

OVERVIEW

The first half of 2002 continued to be challenging, amidst a generally soft market. Despite this, overall occupancy levels throughout the Group's office and retail portfolios remained high (office: 95%; retail: 96%).

The completion of the major refurbishment programme of our residential Bamboo Grove project demonstrates the Group's long-term strategy to continually review the performance of our portfolio and enhance the same by selective refurbishment. The refurbished Bamboo Grove, re-launched during the review period, is being well received by the market.

The Group is committed to investing for the future. The decision has been made during the review period for a major refurbishment of the retail podium of Caroline Centre to further enhance its value and strengthen its positioning. The programme is expected to commence in early 2003.

RESULTS

Net profit for the six months ended 30 June 2002 was HK$294.2 million, which was 4.0%, or HK$12.3 million, lower than the first half of 2001. Earnings per share were correspondingly lower at HK28.52 cents against last year's HK29.73 cents.

Contributing to the net profit decrease was gross rental income falling by 10.3% as rental reversions remained negative and Bamboo Grove experienced higher vacancy as a result of the residential development's year-long refurbishment. Excluding Bamboo Grove, the rental fall year-on-year was 3.6%. The Group, however, was able to take advantage of the favourable interest rate environment and achieved reduction of net financing charges by 33.7% or HK$59 million.

DIVIDENDS

Your Directors have declared an interim dividend of HK10 cents per share (2001: HK10 cents). The dividend will be payable in cash with a scrip dividend alternative. Details on the payment of interim dividend including the scrip dividend arrangements are set out in "Shareholder Information" on the inside back cover.

PORTFOLIO ACTIVITY

Hong Kong

Office

The office leasing market remained soft. Pressure is particularly noted in localities where major new supplies are expected, in addition to surrendered space resulting from corporate downsizings. At the same time, better-quality buildings under single ownership remain better market-performers.

The Group's occupancy rate had held up well against this background, at 95%, although vacancy rose as a result of downsizings. Our strategy of continually anticipating and meeting the needs of our customers stood us in good stead and we enjoy excellent relationship with our tenants.

Retail

Our retail portfolio recorded a satisfactory occupancy rate of 96%. We are committed to building partnership relations with our tenants in achieving mutual benefits and long-term growth for both parties. Promotional and marketing activities were further strengthened.

The planned refurbishment programme of the retail podium of Caroline Centre (Group interests: 65.36%, Hang Seng Bank: 24.64%, Jebsen & Company: 10%) will include a re-design of the retail podium, to enhance shop front, internal finishes as well as layout. As a part of the feasibility studies, detailed customer-focused analysis for both shoppers and our retail tenants were carried out. The results of these have enabled us to produce an overall masterplan for the planned refurbishment, and will also help us to proactively manage the tenant mix within the centre.

Residential

The residential Bamboo Grove development has been much enhanced by the recent refurbishment programme. A new range of resident services has also been introduced. Leasing activities of the first available refurbished units are progressing well.

DEVELOPMENT PROPERTIES

The Grand Gateway commercial and residential complex in Puxi, Shanghai, where we have a 17% interest, has established itself as one of the most popular shopping centers in the Puxi area. The retail podium is virtually fully-let, with the residential tower recording 96% occupancy.

Pre-sales in our three joint-venture residential developments in Singapore, Sanctuary Green, The Gardens at Bishan (10% interest) and Amaryllis Ville project (25% interest) are in progress.

FINANCE

The Group continued to have a strong balance sheet and to adhere to a policy of prudent financial management. In February 2002, the Group launched the inaugural issue of US$200 million 7% 10-year Notes under the newly established medium term note programme. The net proceeds were used to help refinance the HK$2 billion Floating Rate Notes which matured in March 2002. This issuance significantly lengthened the Group's debt maturity profile and diversified funding sources. Accordingly, the sources of debt facilities from capital market issuances and bank loans changed to 34% and 66% respectively.

As of 30 June 2002, the Group's total debt was largely stable at HK$5,698 million (HK$5,628 million as of 31 December 2001) with a lengthened maturity profile. Of the total debts outstanding, 7% are repayable within the next year, 52% repayable within two to five years and the remaining 41% repayable after five years. All borrowings remained unsecured, 97% of which were on a committed basis. Net debt (gross borrowings less cash, cash equivalent and marketable securities at period-end market value) amounted to HK$4,726 million. As of 30 June 2002, shareholders' funds stood at HK$21,177 million (HK$21,267 million as at 31 December 2001) with lower investment securities valuation. The Group's financial position remains strong with net debt to shareholders' funds remaining modest at 22.3% (21.4% at 31 December 2001), and net interest expenses coverage ratio improving to 4.7 times as at 30 June 2002 (31 December 2001: 3.7 times) mainly due to substantially lower finance costs.

Currency and interest rate swaps were implemented to maintain minimal currency mismatches and reduce borrowing costs. The Group's foreign currency exposure mainly arises from the US$200 million Notes issued in February 2002, of which about 50% has already been hedged back into Hong Kong dollars. 87% of the Group's borrowings were at floating rates to take advantage of the declining interest rates during the period.

The lowering of the Group's credit rating, along with other Hong Kong property companies, to "BBB" (stable outlook) by Standard and Poor following its May 2002 negative review of the Hong Kong property sector has not affected to any material extent the strong financial position of the Group. Moody's Investor Services continues to maintain a higher rating of Baa1 for the Group.

The Group's major capital expenditures during the review period amounted to HK$154 million from yield-enhancing improvements to the Group's investment properties, principally being the Bamboo Grove refurbishment programme as financed by internal resources.

The current available banking facilities (as at 30 June 2002, the Group had HK$1,399 million in undrawn committed bank facilities) together with the medium term note programme in place and internal resources, should be sufficient to cover the Group's refinancing and capital expenditure needs over the next few years.

There was no change in the Group's contingent liabilities during the period.

OUR PEOPLE IN CONTEXT

It is important that any organization, particularly in a changing environment, has a combination of experience and skills. We welcomed Mr. Michael T. H. Lee, who was appointed Chief Operating Officer in June. We further broadened our skill base by appointing several new senior professionals.

We continue to develop our own people, a key element in our human resources strategy. Our property trainee programme, now in its third year, is designed to develop new graduate recruits through a structured programme of job rotation and project assignments. We recognize and respond positively to the unemployment problem that Hong Kong faces. We recruited new staff who completed training sponsored by the Employees Retraining Board and are encouraged by the progress.

OUTLOOK

The outlook for the Hong Kong economy for the second half of 2002 is likely to remain challenging. Despite this, we have a strong balance sheet and are committed to investing for the future to create long-term value for our shareholders.

Peter T. C. Lee
Chairman and Managing Director

Hong Kong, 29 August 2002