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的規劃，恒隆滿懷
信心邁步向前。

Strong leadership and
focused planning
combine to move
Hang Lung ahead
with confidence.

致各股東

TO OUR SHAREHOLDERS



渣打銀行大廈
Standard Chartered Bank Building

過去十多年來，本人均親筆撰寫集團內每間上市公司之主席報告。自亞洲金融風暴後，這些報告有可能是香港企業同類致股東函件當中篇幅最長者之一。本人此舉有兩項原因：首先，此乃可與股東（尤其那些未能親身出席本集團股東週年大會之股東）直接溝通之少數機會之一；而更重要者，本人嘗試從管理層角度就香港物業市場提供中肯分析，這在本集團之母公司恒隆集團之年報尤其明顯。令人欣喜者乃投資界和傳媒數年來均頗為重視此等報告，一俟其公佈後本地報章隨即迅速刊登。如今集團之所有地產業務均集中於本公司，故本人會在此報告繼續該項慣常做法。

業績及股息

截至二零零二年六月三十日止財政年度之營業額為二十三億八千三百二十萬元，減少百分之五點五；普通股股東應佔純利為十二億零七百萬元，較上年度下降百分之十二點八。每股普通股盈利為四角一點八仙，較上年度減少百分之十二點七。

董事局建議派發末期股息每股普通股二角九仙，而全年度每股普通股股息總額將為四角，兩者均與上年度之股息金額相同。

業務回顧

香港地產市道持續低迷。雖然自二零零一年七月以來新住宅單位之成交額有所增加，但樓價實質已進一步下跌約一成。由一九九七年七月起累計，樓價最少已下挫六成；更糟者乃樓價有可能進一步下跌。

眾所週知，在地產行業流動現金每較溢利更為關鍵。於今天嚴峻之熊市下，此因素驅使發展商按可出售大量單位之定價來傾銷物業，其理念乃為先於競爭對手吸納尚餘之購買力。此舉或可解決發展商燃眉之急，卻對市場構成極負面之影響。其締造了樓價將進一步下挫之預期，因而加劇了惡性循環。最近，連迄今不願「無必要」壓價之發展商亦加入該行列。此亦難怪，皆因彼等必須套取現金以保障股東價值——此乃彼等明顯預期樓價將持續滑落而作出之防患未然。

於割價之同時，發展商正出盡奇謀以吸引潛在買家。年青人現可不費一文便可遷入新居；除享有銀行按揭以外之四年免息貸款外，更可獲得現金回贈，足以支付所有相關費用並有餘錢裝修新居。因此，過往許多無法置業之年青人現已成為買家。他們可能沒有太多積蓄，部份甚至沒有穩定職業。鑑於一九九七年前夕制定之法例令破產者較易翻身，失業更易成為導致申請破產之原因。這不禁令人臆測，倘樓價進一步下跌將有何光景；買家立即變成負資產，但提供第二按揭之發展商亦承受與買家同等之高風險。

現時之問題非單涉及地產業之問題，亦關乎整體經濟，兩者有不可分割之關係。失業率正在攀升，最近已升至百分之七點八之高位，而通縮則仍持續。吾等亦不能低估負資產之影響；人一生之最大投資乃家居，眼見其貶值達三分之二決非樂事。而此命運或多或少已落在大部份港人身上，並包括近年向政府有關機構如房屋委員會及房屋協會購入資

For over a decade, I have personally penned the chairman's statements for each of the public companies in the Group. A number of them after the Asian crisis probably rank among the longest of all similar letters to shareholders for Hong Kong corporates. My reasons are twofold: first, this is one of the few occasions to directly communicate with shareholders, especially those who cannot attend our Annual General Meeting in person. More significantly, I attempt, especially in the annual report of our parent company, Hang Lung Group, to present a critical analysis of the Hong Kong property market from the viewpoint of your management. It is gratifying to note that in recent times, both the investment community as well as the media have apparently taken the piece seriously. Once public, it quickly finds its way into the local press. Now that all real estate activities are concentrated in this company, I will continue the tradition here.

RESULTS AND DIVIDENDS

For the fiscal year ended 30 June 2002, turnover decreased 5.5% to \$2,383.2 million. Net profit attributable to ordinary shareholders was \$1,207 million, 12.8% lower than last year. Earnings per ordinary share was 41.8 cents, representing a decrease of 12.7% over last year.

Your Board recommends a final dividend of 29 cents per ordinary share and total dividends for the year would be 40 cents per ordinary share. Both are the same as last year.

BUSINESS REVIEW

Hong Kong's property market continues to languish in misery. Although transaction volume of new residential units has increased since July 2001, prices actually went down by another 10% or so. Cumulatively from July 1997, they have fallen by at least 60%. Worse yet, it is possible that prices may go down further.

As everyone knows, in this business cash flow is more critical than profit. In severe bear markets like today, this drives developers to dump properties at prices that will move large number of units. The idea is to preempt competitors from soaking up remaining purchasing power. While this may solve the immediate problem of a developer, the effect on the market is extremely negative. It creates market expectations of further drops in prices, thus reinforcing the vicious circle. Of late, even major developers who are hitherto not willing to "unnecessarily" put pressure on prices, are engaging in this practice. They can hardly be faulted, for they must generate cash to preserve shareholders' value – just in case prices keep going south which they obviously anticipate.

At the same time, while cutting prices, developers are deploying all sorts of gimmicks to attract potential buyers. Nowadays a young person can move into a new unit with no money down. In addition to a 4-year interest free loan to top up the bank mortgage, a rebate

will enable him or her to pay for all related expenses and have money left for furnishing the new home. As a result, there are now many young buyers who previously could not have bought. These people more likely than not have little savings and some do not even have a secure job. With laws enacted right before 1997 which make bankruptcy a lot easier, losing a job can become a quick trigger to file. One cannot help but wonder what will happen if prices fall further. Immediately, the buyer has negative equity, but the developer who grants the second mortgage is as much at risk as the buyer.

At issue is not just a problem of the real estate sector but also of the entire economy, although the two are inextricably tied. Unemployment has been climbing, recently to a high of 7.8%, and deflation persists. One should also not underestimate the negative wealth effect. Watching one's biggest acquisition in life, i.e. his or her residence, drop by two-thirds in value is not fun. This fate, to a greater or a lesser degree, has befallen a sizable percentage of our population, including those who bought in recent years subsidized homes from government related bodies such as the Housing Authority and Housing Society. No wonder people do not want to consume. Daily reports in local newspapers of businesses closing and of layoffs will only exacerbate the downward price spiral.

Lower consumption affects the rental side of our business – at least the leasing of shops. In

本人對樓市有短期與
長期之看法；
前者乃甚為謹慎，
但後者乃頗為安心。

*I have a short and a longer term
view of the market – the former
is very cautious, but the latter,
more relaxed.*

助房屋之人士。難怪人們不願消費，而每天在本地報章讀到公司倒閉及裁員新聞，只會令樓價之跌勢加劇。

消費每況愈下對本集團之物業(至少是商舖物業)之租賃業務構成影響。單以二零零二年第二季計算，商舖租金已下跌約百分之五。而由於新需求甚小，寫字樓租金亦告下跌。雖有為數頗多之中小型日本公司來港開業，但彼等通常只租用很小之寫字樓面積。彼等對豪宅市道亦無補於事，該類物業乃近期最受打擊之一環，其租金由年初至今已下跌約百分之二十至百分之二十五。

在此艱困環境下，本集團來自香港投資物業之租金收入較一年前下跌百分之二點三，而利潤則下降百分之八點六。惟靠本集團位於上海之投資物業，本集團來自投資物業之整體租金收入方能增長百分之八，而整體利潤之增長則少於百分之一。由於來自物業銷售之利潤減少，以及利息收入下降，本集團於財政年度之整體溢利錄得減退。

於過去一年內尚有其他兩件事應一提。首項乃本公司於三月份及五月份發行合共兩批五年期可換股債券，總集資額約為三十四億五千萬元。該等債券之年息為三點四厘，換股價為每股九元。這是數十年來首項以港幣為單位發行之可換股債券，反應甚為熱烈。

發行該項債券之背後理念值得解述。恒隆如今已被廣泛接受為於過去約十年來能基本上持續正確判斷市場週期之極少

數香港大型地產公司之一。本集團於一九九五年至一九九七年期間堅拒購買物業，以及其後於一九九九年三月至二零零零年十二月期間以市場多年少見之較廉價格購入多幅位置優越之土地，被稱道為本集團近年之成功關鍵。因此，現時本公司在有利潤之地產公司當中，屬於最高市盈率之股份之一。

然而，倘未能以審慎財務規劃作為配合，縱使正確判斷市場週期亦未必能為股東增值。於一九九五年至一九九七年之市道顛峰期，本集團售出頗多位於市區之投資物業，此舉不僅為本集團提供可觀之利潤亦提供現金。於一九九六年，本集團透過配售股份進一步加強本集團之資產負債表，並約於同一期間把長期貸款鎖定於合理之利息水平。一言以蔽之，本集團籌集所得之現金高達一百億元。當亞洲金融風暴於一九九七年年底吹襲香港時，本集團已全無負債。事實上，於償還所有債項後，本集團在整個金融風暴期間仍持有五十億元現金，從任何角度而言均令人欣羨。故此，一俟本集團認為樓市已經見底，而競爭對手仍在劫後掙扎復原之際，本集團得以進取地購置物業。在該等日子，現金便是皇牌！

本集團之連串購置物業行動於一九九九年三月起進行，至二零零零年十二月結束。(正如本人過往曾撰述，在該二十一個月內究竟於何時購置土地，本身已是棘手之問題，其後之邊際利潤很大程度上乃取決於此決定，而本集團慶幸能於每次低潮時採取購置行動。)雖然多名競爭對手於二零零一年爭相入市，坦白而言本集團當時

the second quarter of 2002 alone, retail rental fell by about 5%. Office rents also declined since there was hardly any new demand. A good number of small to medium size Japanese companies did arrive, but they usually took very little space. Nor did they help the luxury residential market which was the hardest hit of late – rents dropped by around 20-25% since the beginning of the year.

Under this tough environment, our investment properties in Hong Kong generated 2.3% less in gross rent and 8.6% less in profit from a year ago. Only with the help of our Shanghai projects did overall rent grow by 8% and profit by less than 1%. Since there were less earnings from property sales, overall bottom line for the fiscal year retreated. Drop in interest income also contributed to this result.

Two other events during the past year should be mentioned. First, in March and May, we issued two tranches of a 5-year convertible bond which raised about \$3.45 billion. Interest rate is 3.4% per annum and conversion price is \$9 per share. It was the first Hong Kong dollar denominated convertible issue in decades and was enthusiastically received.

The rationale behind the issue deserves explanation. It is now widely accepted that Hang Lung is one of the very few major Hong Kong real estate companies which has basically consistently called the market cycles correctly for the past decade or so. Our refusal to buy properties during 1995 to 1997 and

subsequent purchases between March 1999 and December 2000 of well located land at prices cheaper than the market has seen in years, are in particular credited for our recent success. As a result, our shares are now trading at one of the highest price-earnings ratios of profitable property companies.

Calling the market correctly, however, could not by itself produce value for shareholders if it were not supplemented by prudent financial planning. During the market peak of 1995 to 1997, we sold quite a bit of in-town investment properties which gave us not only handsome profit but also cash. We had further strengthened our balance sheet by placing shares in 1996, and had locked in longer term loans at reasonable rates around the same time. All told, we had raised over \$10 billion cash. This gave us a totally debt-free position when the Asian crisis hit in late 1997. In fact, after repaying all debt, we still sat on \$5 billion of cash throughout the crisis, an enviable position by all accounts. That enabled us to buy aggressively once we thought that the market had bottomed and when competitors were still struggling to recover from the shock. Those were the days when cash was king!

Our land acquisition spree lasted between March 1999 and December 2000. (As I had previously written, the timing of land purchases during that 21 month period was in itself tricky. Eventual profit margin depends a lot on those decisions and we were fortunate to have bought each time at the bottom.) Although a

number of our competitors rushed into the market in 2001, we were frankly by then unsure where the market was going. In fact, we were fearful that the price recovery might not be sustainable. What we did know was that our new projects would easily cost a total of some \$12 billion with construction expenses coming in over the next few years. As such, we were convinced that it was time to once again raise cash. If the market continues to weaken and selling of flats becomes difficult, then money in our pocket will make me sleep better. The cash crunch experienced in 1984-85 has not been forgotten by your management. But if the market shows signs of sustainable recovery, then we better have the funds on hand to buy more land – not unlike 1999 and 2000 – before prices run away from us. Either way, we should strengthen our finances.

The easy decision was to take advantage of historic low interest rates to refinance all existing debts. That we did in the first six months of this year. More difficult, however, was to raise equity. What instrument to use is unfortunately not altogether up to us; we can only do what the capital market allows.

Management's preference has always been straight equity in forms palatable to existing shareholders such as warrants and share placements. Convertible preference shares such as the issue we did in 1993 was also favored. Our overriding considerations are twofold: minimize the dilution, if any, to existing shareholders, and avoid currency risks.



格蘭中心
Grand Centre

並不肯定樓市之去向，更擔心樓價之復甦不能持續；但本集團確知道本身之新項目其後之建築工程，於未來數年甚易耗用達一百二十億元。因此，本集團相信此乃再度籌集現金之時機。倘市道繼續疲弱而住宅銷售變得困難，則本集團口袋有現金可令本人更能安睡；管理層並無忘記一九八四至一九八五年市場現金拮据之經驗。但倘市道持續出現復甦跡象，則於土地價格升逾本集團可接受之水平前，本集團宜恰似一九九九年及二零零零年時手頭擁有現金以購置更多土地。孰此孰彼，本集團均應加強財政實力。

簡易之決定乃把握利率處於歷史性低位之時機為所有原有債務進行再融資，本集團於今年頭六個月已完成此舉，但較困難者乃進行證券融資。本集團可使用何種工具，不幸非由本集團完全作主；本集團只能選用資本市場所容許之工具。

一直以來，管理層均優先考慮對現有股東較愜意之直接融資工具如認股權證或配股。管理層亦屬意可換股優先股，例如本集團於一九九三年所發行者。吾等之先決考慮有兩點：盡量減低對現有股東之攤薄影響(如有)，以及避免貨幣風險。

某程度上，基於第二項原因，本集團於一九九三年選擇發行可換股優先股而非稍便宜之可換股債券，因該兩種工具當時均只能以美元為單位。正如其後之事件顯示，於一九九三年由其他公司所發行之可換股債券，縱非所有亦絕大部份均須於一九九七年或一九九八年贖回——而這正是亞洲

金融風暴之時！由於可換股優先股乃永久性之證券，本集團得以免遭該命運。

無論如何，於二零零一年整年間及今年大部份時間內，資本市場均未予配合。但當一扇機會出現時，耐心便再次獲得回報。本集團於三月份把握該機會發行可換股債券。其對現有股東之攤薄影響甚微，而以三點四厘之利率鎖定未來五年之貸款成本亦屬合理，此項利率低於本集團歷來之股息率。

部份人士提出疑問，於利率現時低企之際，為何要承擔攤薄影響？為何不乾脆發行債券？本人之答案很簡單：利率較低僅為次要之考慮，藉著不過份進取之發行價，本人希望不用還款。基於合理之利潤推測，該批債券有頗佳機會被轉換為股份。畢竟，環球經濟正充滿不明朗，而本港市場亦危機四伏。正如本人喜愛的其中一句格言所述：股本是公司的資金，而債項是銀行的資金——債項是要償還的！再者，按上述就籌集現金所提出之有力論據所示，本人樂於取得可供選擇之最佳交易。任何仍抱懷疑態度之人士有可能大幅低估了市場之逆變，其程度及為期之長可能會令許多人詫異。如以往一樣，本人相信歷史將再次證明本集團正確。

最後一個論題與中國市場有關。本人很高興見到本集團之上海物業已有表現並開始對本集團之純利帶來增長。按本集團投資物業組合之整體租金收入及除稅前溢利計算，上海物業約佔百分之十一。於香港投資物業之租金處於呆滯或

It was partly for the second reason that in 1993 we chose convertible preference shares instead of the slightly cheaper convertible bonds, for in those days both instruments could only be denominated in U.S. dollars. As subsequent events showed, most if not all of the convertible bonds issued by others in 1993 had to be repaid in 1997 or 1998 – right at the time of the Asian crisis! With convertible preference shares which are perpetual, we escaped that fate.

In any event, throughout 2001 and for most of this year, the capital market was not cooperating. Nevertheless patience once again paid off when a window of opportunity arose. We took advantage of it in March and did the convertible bond issue. Dilution to existing shareholders is minimal, and to lock in money at 3.4% over the next 5 years seems reasonable. This rate is below our historic dividend yield.

Some people question why suffer dilution at all when interest rates are so low; why not issue straight debt? My answers are simple: cheaper rates are only a secondary consideration; by not pricing the issue overly aggressively, I hope not to have to repay. Given reasonable profit projections, the chances are good that the bonds will be converted. After all, the world economy is full of uncertainties and the local market fraught with danger. As one of my mottos goes: equity is the company's money while debt is the bank's – it has to be repaid! Moreover, in light of the strong arguments for raising cash presented earlier, I will gladly take the best deal available.

Any lingering Doubting Thomas is perhaps grossly underestimating the treacherousness of the market, the extent and duration of which may surprise many. As before, I trust that history will once again prove us correct.

The final issue relates to the China market. It is gratifying to watch our Shanghai properties perform and begin to make a difference to our bottom line. In terms of both gross rent and profit before taxation, Shanghai accounts for roughly 11% of our total investment portfolio. While Hong Kong rents stagnate or fall, those from Shanghai are expected to rise steadily.

This is the 10th year of our operation in China and so perhaps it is time to take stock of our mainland strategy. Back in 1992, we decided to enter the Shanghai market after a long period of research and observation. Recognizing how difficult it must be to get things done in a transitional economy like China, and given the associated importance of human relations, it seemed prudent to concentrate on one or at most two cities. And to differentiate ourselves from the many local and overseas (mainly Hong Kong) players, we must do something that they do not or could not do.

Of the many cities studied, we picked three candidates: Guangzhou which is closest to Hong Kong, Beijing and Shanghai. We eventually determined that although it was the first region to open up since the early 1980's, Guangzhou – and for that matter, the entire Pearl River Delta – was at the time less well

regulated. Every Tom, Dick and Harry from Hong Kong were clamoring for a piece of the pie. Beijing, on the other hand, was politically complicated and in any event had what seemed to us to be poor city planning. Shanghai was just opening up and several things there impressed us. While being pro-business, the government was more disciplined than most places in China. The caliber of people both inside and outside of government is good, a point which is still true today. Moreover, it seemed that the Central Government was bent on restoring the city's economic prominence of the pre-World War II days. If so, then we should ride that wave.

As to differentiating ourselves, we knew that we could not compete with native developers on low-end products. Hong Kong investors on the other hand would likely repeat what they had done in their home market, namely smaller buildings with average quality. Less significant players could not, or do not know how to, do otherwise, while the major ones may not have the appetite for large and first-class projects. So if our estimation was correct in that Shanghai would one day become a city of world significance, then we should do something of world-class quality and size. Consequently, after an initial high-end residential site to learn the ropes, we embarked on two major projects which are now known as The Grand Gateway and Plaza 66.

The Grand Gateway in Xujiahui of Xuhui District is an almost 100,000 square meter shopping

下跌之際，預期來自上海物業之租金收入將穩步上升。

本集團之中國業務已踏入第十週年，也許是時候檢察本集團在中國大陸之發展策略。回顧一九九二年，本集團經過長期研究及觀察後決定進軍上海市場。本集團深明在一個過渡性經濟例如中國要成事定必困難，而鑑於人際關係之重要性，因此選擇一個或最多兩個城市集中發展應屬審慎之舉。為了在許多本地及海外(主要為香港)之競爭對手手中突圍而出，本集團必須幹眾人所不會或不能幹之事。

經研究多個城市後，本集團選擇了三個城市作考慮：最鄰近香港之廣州、以及北京和上海。其後本集團決定，廣州以至整個珠江三角洲雖然是自八十年代初期已開放之首個地區之一，但當時之管治情況並非完全理想，來自香港之張三李四均欲分一杯羹。另一方面，北京就政治方面而言較為複雜，而無論如何北京之城市規劃予本集團未盡完善之感。上海當時剛起首開放，但有數點令吾等印象深刻。當地政府的支持商業發展之同時比中國大部份地方政府有較佳之紀律；其官方及民間之人才均出類拔萃，此點於今天仍然屬實。再者本集團當時感到中央政府正矢志回復上海於第二次世界大戰前舉足輕重之經濟地位，既然如此，本集團理應乘風舉帆。

本集團明白，要做到鶴立雞群，決不可與當地發展商在低檔產品進行競爭。另一方面，香港投資者多會把其在香港之做法再套用於上海，即發展中庸質素之

小型物業；規模較次之發展商沒有能力採取或不通曉其他做法，而大型發展商未必對大型及一級項目有興趣。因此，倘本集團對上海某天將成為顯赫世界之城市之判斷正確，則本集團應在上海發展世界級質素和規模之物業。結果，於上海發展一項高檔住宅物業作牛刀小試後，本集團便開始發展現稱為港匯廣場及恒隆廣場之兩項大型物業。

位於徐匯區徐家匯之港匯廣場乃面積幾達十萬平方米之購物商場，是迄今在人煙稠密之浦西舊區(與浦東新區截然不同)最大之同類物業，矗立於上海最大之地鐵站上蓋，經已全部租出。現今每逢週末或假期，逾十五萬人前往該商場。

位於靜安區南京西路之恒隆廣場，包括一幢樓高六十六層面積逾七萬八千平方米之辦公室大樓，以及下設面積逾五萬二千平方米之購物商場，兩者均已全部租出。該辦公室大樓之租戶陣容仿如國際商界之精英名錄，而該購物商場所雲集之歐洲高級時裝品牌之鼎盛，有可能多於世界上任何一處。雖然該購物商場之人流遠低於港匯廣場，但其店舖之生意甚佳，位於底層之商舖按每平方米計算所錄得之收入，可媲美世界主要城市之同類商舖之水平。

該兩項物業之獨特處乃彼等面積宏大兼且美侖美奐。兩者均由世界知名之美國建築師設計，並按高水平之特定要求而興建。迄今上海尚無可與彼等之面積及質素匹敵之同類物業，故彼等可望於未來多年保持競爭優勢。

從財務角度來看，來自該等上海投資物業之收入與本集團位於香港之投資物業所提供之回報，按除稅後之基準而言並無太大分別；唯一之分別乃中國大陸項目之租金上升潛力短期而言遠遠較佳。本集團正研究如何利用吾等經過辛勤所取得之精湛知識以擴展本集團之中國業務。本人將在稍後之環節再論述此點。

展望

本人對樓市有短期與長期之看法；前者乃甚為謹慎，但後者乃頗為安心。

正如前文所述，樓市自一九九五年以來均至為險厄。任何人倘於一九九五年至一九九七年期間購入土地，如今只能瞠目注視其已落成物業帶來之巨額損失。住宅平均價格已下挫逾六成，但地價之跌幅更甚，而在某些情況下更遠遠為甚。(此乃為何本人當時對某些投資分析員之言論百思不得其解，例如：某間地產公司因無物業可售故不會錄得溢利。彼等仍有於舊思維，以為銷售物業便會自動錄得溢利。今天之實情是：售樓愈多變現之虧損愈大乃更為常見。因此，本集團慶幸並無物業可供銷售，因有關之土地必多為摸頂購入。)即使部份於一九九九年四月政府恢復賣地後被購入之土地，按今天之樓價亦已淪於失利。包括本集團在內較幸運之發展商其物業仍「有利可圖」，但如今之安心程度亦遜於一年前。最近之市場狀況已出現經濟「雙底」衰退之跡象，而首個谷底乃於一九九九年出現。

center which is so far the biggest in Puxi, the highly densely populated older part of the city (as opposed to the new town Pudong). Fully leased, it is on top of the biggest subway station in Shanghai. On weekends and holidays, in excess of 150,000 people now frequent the mall.

Plaza 66 on Nanjing Xilu in Jingan District has an office tower of over 78,000 square meters with 66 floors, on top of a shopping center of 52,000 square meters. Both are fully leased and the office tenants read like who's who in international business. The retail mall probably has the highest concentration of European high fashion brand names anywhere in the world. There are far less visitors compared to The Grand Gateway, but the shops are doing equally excellent business. In fact, the per square meter revenue generated on the ground floor compares favorably to those in major cities in the world.

What is unique about these two developments is that they are both big and beautiful. Both are designed by world-renowned American architects and are built to high specifications. So far nothing in Shanghai approaches their size or quality which will hopefully keep them competitive for many years to come.

From a financial perspective, returns generated in Shanghai on an after-tax basis are not much different from those of our Hong Kong investment properties. The only difference is that mainland projects have much better near

term rent appreciation potential. We are now studying how to build upon our hard-earned expertise to grow the business in the mainland. I will return to this subject in a later section.

PROSPECTS

I have a short and a longer term view of the market – the former is very cautious, but the latter, more relaxed.

As alluded to earlier, the market since 1995 has been most perilous. Anyone who has bought land between 1995 and 1997 is now staring at the completed buildings with huge losses. While residential units on average have fallen by over 60%, land prices have dropped even more, and in some cases, by much more. (This is why I am baffled these days by the words of some investment analysts such as: a certain real estate company will not make a profit because it does not have properties to sell. They are stuck with the old paradigm that selling properties automatically makes money. The fact today is: the more one sells, the more losses are realized. As such, it is fortunate that we do not have anything to sell since the land would have been purchased at the peak.) Even some sites bought by others after the resumption of government land sales in April 1999 are under the water at today's prices. More fortunate owners like us whose projects are "in the money" are less comfortable today than a year ago. Recent market developments have shown signs of a "double-dip," with the first trough being in 1999.

In this environment, we, like all our competitors, are faced with two very difficult decisions. Should we sell flats now or later, and when should we start buying land again. The answer to the first will partially depend on one's cash flow position. We are fortunate to be healthy financially, for through the recent reorganization of group companies, holding costs of development projects are now supported by steady rental income. As such we can afford to wait. However, one cannot dismiss the possibility that a time may come when it is no longer prudent to do that. The only comfort then will be that given our much lower average land cost, the terrible market will hurt us less compared to our competitors. Needless to say, I would rather like to see them make money, knowing that we are making more.

When to buy land is even more difficult a decision since we do not know our future cash position apart from rental income. Given that, it is wise to be conservative. This was why we had not purchased anything in the past twenty months.

Land acquisition decisions are further complicated by one factor seldom discussed in public. Since the government basically controls all land sales, it can strongly influence prices. When the market falls, it often stops selling. It does so either by declaring a moratorium such as the 9-month period between July 1998 and March 1999, or by simply putting up artificially high minimum prices when developers apply for land. Afterall,



恒隆廣場·上海
Plaza 66, Shanghai

在現時環境下，本集團與競爭對手均面對兩項非常困難之決定。吾等應於現時抑或稍後銷售物業，以及吾等應何時開始重新購置土地。首個問題之答案部份將取決於個別公司之流動現金狀況。本集團慶幸享有穩健之財政，而透過最近之集團重組，本集團物業發展項目之留置成本已獲得穩定之租金收入所支持，因此本集團有能力等候。然而，不能否定有朝一日此非再為審慎之舉，但基於本集團之土地之平均成本遠遠較低，屆時唯一之安慰乃在可怕之市道下本集團將比競爭對手受到較小創傷。無用贅言，本人於任何時間均寧見競爭對手有利可圖，因本人明白本集團之利潤將更甚。

何時購置土地乃更加困難之決定，皆因本集團無法預知租金收入以外之未來現金狀況。有鑑於此，保持克制乃明智之舉。此亦解釋本集團為何於過去二十個月並無購置任何土地。

一項很少公開討論之因素令購置土地之決定進一步複雜化。由於政府基本上控制所有土地銷售，彼有強大之能力可影響價格。當市道下調時，政府往往停止賣地。要做到這點，政府可宣布暫停賣地，例如於一九九八年七月至一九九九年三月期間之九個月暫停賣地；亦可於發展商申請土地時，簡單地把底價人為調高。畢竟，估值既是科學也是藝術，而無論如何政府亦經常害怕被批評為廉價出售土地。

對社會而言，此舉是否恰當具有爭議性。其或可防止人心惶惶，而已購入昂貴土地

之發展商無疑會予以支持，但此對沒有追逐價格之審慎發展商並不公平。以違反自由市場原則之方式作出干預，令審慎之發展商被剝奪了於市道下調時購置土地之機會。於一九九七年前高地價政策令整體樓市明顯有升無跌之際，此舉或可令人接受，但現今地產業已經歷基本性之轉變（即本人過去所解釋關於土地供應充裕及市場具有透明度），此舉便問題叢生。原料（即土地）價格因行政手段而高企，但成品則受市道之變幻莫測所支配，因而令地產業之風險增加。部份人士或誤以為，基於土地價格總會見底，現時之風險已較低。唯一之問題乃包括政府在內無人可控制已建成之單位之價格。

言盡於此，本人仍勉強支持政府之賣地政策以維持社會之安穩。本人之所以提出此論題，乃希望一俟市道回復正常時，應檢討該等政策尤其政府之土地估值程序。

但就現時而言，即使現有之政策不公平，吾等亦唯有忍受。鑑於近數月之市道持續疲弱，對本集團於二零零零年十二月前之二十一個月之購置土地決定抱有疑問，表面上似乎合理。相對於競爭對手而言，本集團乃以最低價購入最佳之土地，但歸根結底本集團應作出購置行動嗎？基於政府之政策乃於市場意慾疲弱時不出售土地，本集團並無其他選擇，容許本集團之土地儲備降至零乃不切實際。或許本集團應告慰，事實上本集團自二零零一年一月以來並無購置土地，任何於該期間出售之土地售價均較本集團之前所付出之購買價昂貴。

valuation is as much an art as a science, and the government is in any event always fearful of being criticized for selling land cheap.

For society, this is arguably desirable – it may prevent panic. Developers who have purchased expensive land will no doubt support the practice, but it is unfair to the prudent players who did not chase prices. A form of intervention which goes against the free market principle, the latter are deprived of the opportunity to buy when the market is down. Before 1997, when the overall market apparently only goes up due to high land price policy, this is perhaps acceptable. But now that the industry has fundamentally changed (i.e. sufficient land supply and transparent market, as I have in the past explained), it becomes problematic. Price of raw material, i.e. land, is administratively kept from falling while the finished product is subject to the vagaries of the market. The risk of the industry is thus enhanced. While some may erroneously argue that since there would be a floor to land prices, the risk is now less. The only problem is that no one – not even the government – can control the prices of the built-out apartments.

Having said all that, I still reluctantly support the land sales policies of the government in order to maintain societal calm. My intention of bringing up the subject is that once the market returns to normalcy, there should be a review of those policies, particularly the government's land valuation process.

But for now, we have to live with existing rules, unfair as they may be. Given the weakening market of the past months, on the surface one may justifiably question our decisions to buy land in the twenty-one months before December 2000. Relative to our competitors, we have bought the best plots at the lowest prices, but should we have bought at all? Given the government's policy to effectively not sell land when market sentiments are weak, we are left with no alternative. Allowing our land bank to run down to zero is unrealistic. Perhaps we should take comfort in the fact that we had bought nothing since January 2001, for any land transacted in that period was more expensive than ours.

Whatever the case, one thing is certain: I have never seen in all the years a more treacherous time for the industry. To recognize in 1995 that prices were too high was not that difficult; the difficult part came in resisting temptation to follow the crowd and buy. But at least your management knew then what needed to be done. Now the market is very different – none of us has seen anything like it. To see us through, I am counting on utmost caution mixed with an instinct for the market honed through long years. As always, luck will help.

Looking further down the road, however, the picture is in my opinion not as bleak. While almost no one today anymore believes that real estate prices will return to the pre-1997 heights, I see little reason to be overly pessimistic. In the past I had presented arguments for a healthier market in the longer term. Allow me to briefly summarize.

Demographics are favorable to the industry. The city is projected to have about one million people added by 2010 and almost three million more by 2020. Many of the new arrivals from the mainland will bring with them cash to immediately buy properties, rather than waiting seven to ten years to save up for the down payment as the earlier immigrants. Just as the Pearl River Delta will be the target area for Hong Kong's lower economic strata to purchase homes, our city will attract many of the nouveau riche of the mainland. Both phenomena have started and will likely continue for some time. Recent weakness in the market may tempt even more of our fellow countrymen to acquire here, and regulations are already being crafted to make their coming and purchasing easier.

Cheaper prices will enable many locals to exchange smaller flats for bigger ones. With the median size being around 50 square meters, the lure of more spacious units is powerful. So far the lethargy of the secondary market has prevented them, but given the opportunity, a good number will make the move.

Similarly, many who live in older apartments will relocate to newer ones. Competition in the past few years has greatly improved the quality of more recent developments. These are characterized by better design and material, more luxurious lobbies and lavish club houses with many amenities. They appeal especially to the younger buyers.

The other side of the coin is that many of our

無論如何，有一點可以肯定：本人從未見過地產業處於較如今更難逆料之時刻。於一九九五年時要洞悉樓價過高並不太困難；難處在於堅拒誘惑絕不隨波逐流購置土地，但最少管理層當時知道須要採取甚麼行動。如今之市況已截然不同，吾等從未見過類似之光景。本人寄望以高度之謹慎以及多年磨練所得之市場觸覺引領本集團渡過逆境。一如往常，運氣將有助一臂之力。

然而，放眼前景，本人並不認為前景如此灰暗。雖然今天幾乎無人相信樓價可重返一九九七年前之高位，然而依本人之見並無太大理由過度悲觀。本人過往已就長遠之健康市道提出意見，容許本人在此簡要概述。

人口增長對地產業利好。預期香港人口於二零一零年將增加約一百萬人，於二零二零年會再增加近三百萬人。許多來自中國大陸之新增人口將攜同現金來港並隨即置業，而非像過去來港之大陸移民等候七至十年，以便儲蓄金錢來支付住宅物業之首期。正如珠江三角洲將成為香港較低經濟階層之置業目標地區，香港將吸引大陸許多新貴前來置業。這兩種現象均已出現，並有可能維持一段時間。近期之疲弱市道會吸引更多中國同胞來港置業，而有關法例現正草擬令彼等更容易來港及置業。

較廉之樓價將令許多港人得以換樓而購入較大之單位。基於中型單位之面積約為五十平方米，大型單位之吸引力甚大。迄今二手市場呆滯令換樓人士卻

步，但尚有機會，頗多人士將作出行動。

同樣，許多居於較舊單位之人士亦會遷往新居。過去數年之競爭環境令近年落成之住宅項目之質素大幅改善，這可見諸較佳之設計和物料、更豪華之大堂、以及設施完善之豪華會所。此等因素對年青買家特別具有吸引力。

另一方面，香港許多舊樓現正急劇趨於破殘。於六十年代急速增長長期興建之住宅大廈既不妥善亦追不上潮流。此類物業將隨著時間過去而被清拆。因此，住宅供應量最低限度在重建期間將暫時減少，而倘地積比率被調低或土地被用作其他用途，例如增加戶外土地等，住宅供應量有可能長期減少。

本人已列舉許多予人樂觀之因素，但正如本人於過往之報告所撰述，有明顯抵銷性之憂慮存在，但此等令人關注之因素並非能完全蓋過上述之利好作用。

除此以外，讓本人闡述數項無須過度悲觀之實質原因。首先，現政府不會故意摧毀樓價亦斷不能承受此後果。既知香港約百分之六十七之市民以自置物業為居所（於二零零一年年中有百分之四十八居住在私人物業以及百分之十九居住在資助式發售單位），摧毀地產市場等於摧毀對香港經濟之信心，皆因居所擁有人乃任何社會之支柱。本人相信香港行政長官董建華先生及其幕僚均深明有關問題及解決方法。此外，他們亦明白現時之問題非僅涉及地產業，而是與整體經

濟和社會息息相關。根據本港一間大學最近之研究顯示，香港之通縮約有一半源於樓價下跌。因此，除非地產業之景況改善，香港經濟將無法復甦。

事實上，政府近期所有之房屋政策均取向正確。以往部門和機構之間缺乏協調，現正透過新制定之問責制予以解決，而更清晰地申明果斷之政策無疑將有幫助。就此而言，完全取消居者有其屋計劃（居屋計劃）將是朝正確方向邁出之一大步。居屋計劃肯定已完成其歷史使命，現應全身而退。

第二個令人樂觀之原因對於香港乃是新事。於過去數月，所有政黨均有清楚共識，認為樓價進一步下滑對任何人均無益。一方面，需要如此長時間方能認同此明顯之事，事實上令人不安。草根政客對經濟缺乏基本理解，亦因偏袒現有房屋政策之最大得益者（百分之三十一本港人口居住公屋而其租金竟不足支付其維修費用），以至矇昧至斯，無視市場之現實。另一方面，其可破壞上述已有之共識之可能性低，即使頑固之輩亦終於明白房屋危機之嚴重性。雖然此可望成為政府實施政策之基礎，但餘下之危機乃政客會就有關對策之劑量而爭議不休。本人從事地產業已數十年，在本人心中毫無疑問，除非採取強而有力之果斷措施，否則樓市將不會復甦。

香港於近數月出現一個有趣現象，即使有單位銷售之發展商亦公開承認樓市可能仍未見底。正如一九九五年至一九九七年後，當本集團於二零零一年年中開始提出

city's older buildings are fast becoming dilapidated. Built during the fast growing years of the 1960's, the residential blocks are inefficient and outdated in style. Many of these will in time be torn down. As such, there will be a decrease in housing stock at least temporarily during construction and possibly permanently if plot ratios are lessened or if the land is used for alternative purposes such as more open space.

I have enumerated many factors for optimism, but there are obviously compensatory worries as I have written in previous reports. However, those concerns cannot altogether negate the positive forces presented above.

Beyond all that, let me present a few more practical reasons for less pessimism. First, the present government cannot afford to and will not knowingly destroy property prices. Knowing that some 67% of our homes are owned by our citizens (with 48% in private housing and 19% in subsidized sale flats as of mid 2001), wrecking the real estate market is to damage confidence in our economy, for homeowners are pillars of any society. I am convinced that Hong Kong's Chief Executive Mr. Tung Chee Hwa and his deputies are well aware of the problem and the solution. Moreover, they recognize that at issue is not just the real estate sector; it is a problem that encompasses the entire economy and society. According to recent research of a local university, about half of the city's deflation is accounted for by the decline in property prices.

As such, the economy cannot recover unless the industry improves.

In fact, all of the government's recent housing policies are on the right track. The former lack of coordination among departments and agencies is being addressed by the newly established accountability system. More clear cut pronouncement of firm policies will no doubt help. In this regard, the total abolition of the Home Ownership Scheme (HOS) will be a big step in the right direction. HOS has definitely served its historic mission and should be retired – once and for all.

A second reason for optimism is something new to our society. In the past several months, there emerged a clear consensus among all political parties that further property price deterioration was not beneficial to anyone. On the one hand, the fact that it took so long to recognize something so obvious was disconcerting. Grassroot oriented politicians lack basic understanding of the economy. They are also blinded by their prejudiced protection of the group already most benefited from existing housing policies—the 31% of the population living in public rental flats whose rents could not even cover the cost of maintenance – such that they do not see market realities. On the other hand, the likelihood of the consensus dissipating is low. Even the diehards are finally realizing the seriousness of the housing crisis. While this will hopefully serve as a basis for the government policies to take effect, the

remaining danger is that politicians will bicker over how powerful should the medicine be. As someone who has been in the business for decades, there is no doubt in my mind that unless strong and decisive measures are taken, the market will not revive.

One interesting phenomenon here is that in recent months, even developers who have flats to sell are publicly admitting that the market may not have bottomed. Just as back in 1995 to 1997, we were a lone voice when we began to sound a note of caution in mid-2001. Now it is a chorus. How ironic then that at this time we should once again be the odd fellow to propose a ray of hope. In the go-go days of the mid-1990's, we were considered by many as conservative and even by one major institutional investor as lazy. The same may now call us unrealistic or something worse. We call only on history to testify on our behalf, and trust that it will yet testify in our favor in the coming years.

There is, however, no place for complacency. The extremely tricky question for us operators in the business is how long will it take the market to turn around. The answer will depend to a great extent on what measure the government will take to stimulate the market. Whatever they are, the road ahead will not be easy. But, as the Chinese say, with crisis comes opportunities; and as the westerners say: when the going gets tough, the tough get going. I believe in both axioms, and so believe that if anyone will emerge stronger through this

謹慎看法時，本集團乃一士諤諤，如今則一眾唱和；今天本集團因提出一線希望而再度成為孤軍，此乃何等諷刺。在九十年代中期之莽鹵歲月，本集團被許多人視為保守，甚至被一名大型機構投資者視為慵惰，如今同一人士可能稱本集團乃不切現實甚至給予更差之稱謂。本集團只能求諸歷史為證，並相信於未來歲月歷史將證明本集團正確。

然而，現時斷無沾沾自喜之處。對本集團等地產商而言，極棘手之問題乃市道好轉需時多久。在頗大程度上，有關答案將取決於政府將採取之刺激樓市措施。無論此等措施為何，前路將不會平坦易行。然而，正如中國人所說，有危自有機；亦正如西方人所說，路途崎嶇之際，強者跨步之時。本人相信此兩句格言，因而相信假如任何人可安渡此黑暗期並更為強盛，本集團自亦包括在內。坦白而言，此等贏家為數不多，而這對本公司之股東亦是好消息。

要在下回合取得成功，地產商必須在新環境下改變其經營方式。事實上，本集團於數年前已就此起步。設計和建築方面之產品質素，其重要性現已遠超從前。良好之建築進度既可讓市場推廣更具彈性，亦可節省利息開支，尤其於利率回復至歷史之正常水平時將更見效益。隨公司聲譽而來之產品品牌，將成為判別贏家和輸家之因素。物業之位置固然仍至為重要，但良好之聲譽有助於市況欠佳時銷售物業，亦有助於市況蓬勃時提高物業售價。最後一點乃成本控制亦將遠較過往重要；在一九九七年前之日子，邊際利潤主要取決於地

價，如今建築成本將日益扮演較重要之角色。畢竟，於過去往往佔項目成本高達百分之七十五至百分之八十之地價，但如今可能只佔百分之四十至百分之五十。

至於本集團之中國發展策略，儘管本集團迄今表現甚佳，本集團仍小心謹慎。本人在較早前之環節曾提及，不可無取捨地把香港湊效之方法套用於中國大陸。兩地之社會和實質環境均有分別，需要採用不同策略。可供非中國大陸物業發展商仿效之有效模式縱非全無亦為數甚少，故吾等只能另闢新徑。縱像本集團般擁有財政資源，亦非成功之保證。事實上，此因素可帶來適得其返之作用，當資金充裕時，人每易疏忽大意。畢竟中國大陸多個城市和鄉鎮均爭取本集團前往投資。吾等應永不忘記，作出投資甚為容易，但令投資有利可圖則極為困難。

上海市場於過去十年已有頗大之轉變，因此本集團並不相信重覆本集團過往之做法在今天乃正確之舉。土地已不再廉宜，須投入之總成本頗大，而市場亦較波動。無論如何，本集團仍繼續物色項目。倘本集團於未來一或兩年在中國大陸有新作為，本人亦不感詫異。本集團首個受惠之項目有可能是完成興建恒隆廣場之第二幢辦公室大樓及港匯廣場餘下之兩幢住宅大廈，前者將為本集團之物業組合增添約八萬平方米之優質寫字樓面積。

在現時地產業最黑暗或最低限度接近最黑暗之時刻(歷史或會證明之)，容許本

人以評估本集團現今之相對市場地位作為結筆。對本集團而言，自亞洲金融風暴以來之過去五年乃回報可觀甚至令人鼓舞之歲月。藉着審慎管理土地購置、物業銷售及財務規劃，本集團被機構投資者認同為香港最佳管理之地產公司之一。本公司現享有之高市盈率，乃因此項因素所致。

今天，在本港所有大型地產公司當中，本集團受昂貴存貨之牽絆最少、擁有最佳及最廉宜之土地儲備、以及資產負債表屬於最強之公司之一。兩年前之集團重組，令本集團得以更有效地運用資源，以穩定之租金收入支持回報潛力較高之物業發展項目。最後但絕對重要者，本集團擁有一隊專心致志之管理隊伍而其領導人已合作無間多年，因此本人有信心本集團享有輝煌之前景。現時之市況確實可畏，但從古至今市場均有週期性。雖然香港不太可能重獲昔日之光輝(無論歷史將顯示此光輝是多麼浮誇及不得當)，但香港始終會復甦，而地產業亦然。於此出現時，本集團之管理隊伍已準備就緒。此乃本人之責任，而本人向股東保證定必使其落實。

主席
陳啟宗

香港，二零零二年八月二十八日

dark period, we should be one of them. Frankly, the number of winners will not be big. That too should be good news to our shareholders.

To succeed in the next round, real estate developers must change operationally under the new market environment. In fact, we have started several years ago. Product quality both in terms of design and construction is more critical than ever. Construction speed will give marketing flexibility as well as interest saving, especially after rates return to historic norms. Product branding through company reputation will become a factor to separate the winners from the losers. Whereas location is still of foremost importance, a respected brand name will facilitate property sales in tough times and help raise prices in good times. Finally, cost control will be more critical than before. Whereas in the pre-1997 days, profit margin was predominately determined by the price of the land, now construction cost will play an increasing role. Afterall, land used to account for as much as 75% to 80% of total project cost, but is more like 40% to 50%.

As to our China strategy, in as much as we have performed well so far, we remain cautious. In an earlier section, I alluded to the fact that one cannot apply what works in Hong Kong to the mainland without discretion. Both the societal and physical environments are different which necessitate a different strategy. There are few, if any, worthy models that can be emulated by non-mainland players, and so one has to blaze a trail. Having financial

resources like we do is no guarantee for success. In fact, it can work against us – one tends to be careless when money is abundant. Afterall, many cities and towns in the mainland beckon for our dollars. One should never forget that it is all too easy to make investments, but extremely difficult to make them profitably.

The Shanghai market has changed considerably in the past decade. We are not convinced that to repeat what we have done in the past is the right thing to do today. Land is no longer cheap, total commitment tends to be large, and the market is volatile. Nevertheless, our search for projects is ongoing. I will not be surprised if something is done in the mainland in the coming year or two. The first projects that will benefit will likely be the building out of the second office tower at Plaza 66 and the remaining two residential blocks at The Grand Gateway. The former will add about 80,000 square metres of prime office space to our portfolio.

Allow me to close with an assessment of our relative market positioning – at this point which history may prove to be the darkest hour of the industry, or at least close to it. The past five years since the Asian crisis have been a rewarding and even invigorating time for us. By prudent management of land acquisition, properties sales, and financial planning, we have been recognized by institutional investors as one of the best run property companies in town. The point has been born out by the high price-earnings ratio which we now enjoy.

Today we are, of all the major real estate companies, the least burdened by expensive inventory, have the best and cheapest land bank, and have one of the strongest balance sheets. The group restructuring two years ago has enabled us to more efficiently use our resources – steady rental income to support potentially higher return development projects. Last but not least, we have a dedicated management team with leaders which have worked well together for many years. This is why I am confident that our future is bright. The market is admittedly terrible at the moment, but it has always been cyclical – since time immemorial. Though unlikely to regain its former glory – however flimsy and undeserving as history may show it to be – Hong Kong will nevertheless recover, and so will our industry. When that happens, your management will be ready for it. That is my job and I give you my undertaking to see it through.

Ronnie C. Chan

Chairman

Hong Kong, 28 August 2002