RESULTS AND DIVIDEND

In the six months ended 31 December 2002, turnover decreased 13.6% to $1,074 million. Net profit attributable to ordinary shareholders decreased 13.8% to $546.6 million. Earnings per ordinary share was 18.9 cents, 13.7% lower than the previous period. Your Board has declared an interim dividend of 11 cents per ordinary share payable on 25 April 2003 to ordinary shareholders of record on 17 April 2003. This is the same as last period.

OPERATIONS REVIEW

The decrease in profit is due primarily to insufficient property sales, and to increased financing costs. The slight fall in property leasing profit in Hong Kong is basically compensated for by the rise of the same in Shanghai.

Because of the very lethargic market and the low cost of funding, management has decided to postpone our sales program. Selling closer to construction completion has certain benefits – after scaffolding is removed, potential buyers can better compare our products with those of nearby competitors. We are confident that our projects will fare favorably, both in terms of design and material.

Last October we completed the purchase of Grand Hotel Holdings (GHH). Management has for years been waiting for an opportune time to execute this transaction and now we are pleased that our shareholders have overwhelmingly approved it. The new arrangement will enable us to unify ownership of the former Grand Tower Hotel. In the past, we only owned the shopping center while the hotel upstairs belonged to GHH. Together with the abutting Ritz Building which we already own, we now have an island site which can be redeveloped when market conditions are right. A similar situation exists with Grand Plaza Hotel. But since redevelopment is not anticipated in the near future, rooms at Grand Tower will be turned into offices and retail spaces, and those in Grand Plaza has been converted to service apartments. At the latter facility, approximately half of the rooms were already service apartments when the property was built.

PROSPECTS

It is questionable whether the mass residential market will recover soon. Supply is still plentiful and take-up slow. (The increase in demand at the primary market in 2002 is somewhat deceptive. As prices for private sector and government subsidized housing converged, the demand for the latter shrunk as buyers chose the better designed and built private units. In response, the government towards the end of 2001 announced a 10-month sales moratorium of subsidized flats. The combined number of primary market demand, including both private and government built apartments, has remained amazingly steady over the past few years at around 27,000 units annually.) Threat of unemployment has kept confidence levels low while expectation of lowering prices has further slowed things down. Secondary market volume, which must first rise if the primary market were to recover, has remained small. The average number of annual transactions at the secondary market during the past five years has not been much more than 35% of the height achieved in 1997. The result is that prices continue to fall. In 2002 alone, average price retreated by some 11%.

Rental income from Hong Kong will continue to come under pressure. Deflation and a general economic slowdown have affected rents. As before, offices and high residential markets are hardest hit. Local consumer confidence will remain weak but shop owners can expect a continued increase and flow of mainland tourists. Mongkok and Causeway Bay, the two main districts for local shoppers in which we have many properties, are especially blessed. They will blunt the fall in our total rent collection. Growth in the Shanghai market will hopefully cover much of that shortfall.

Ronnie C. Chan
Chairman

Hong Kong, 20 February 2003