

# Harbour City



Harbour City – 8.3 million square feet of prime office, retail, service apartment and hotel space in the heart of Tsimshatsui waterfront.





**BALANCE SHEET (EXTRACT)**

as at December 31, 2003

	HK\$M	
Properties		34,791
Net current liabilities		(1,350)
Other non-current liabilities		(214)
Net business assets (before debts)		33,227

**GROSS REVENUE**

	2003	2002
	HK\$M	HK\$M
Office – Gateway I & II	643	637
Office – Other Towers	338	382
Retail	1,032	1,017
Service Apartment	186	226
Hotel	533	616
	<b>2,732</b>	<b>2,878</b>

**OPERATING PROFIT**

	2003	2002
	HK\$M	HK\$M
Office – Gateway I & II	556	523
Office – Other Towers	264	307
Retail	768	798
Service Apartment	110	150
Hotel	105	223
	<b>1,803</b>	<b>2,001</b>

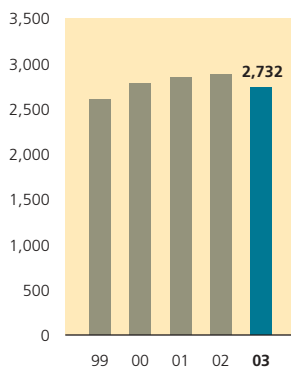
**HARBOUR CITY: RETAIL TENANT MIX (BY AREA AND RENTAL)**

as at December 31, 2003

	% by Area	% by Rental
Fashion	26.6	41.8
Restaurant, Fast Food, F&B	23.6	9.7
Department Stores, Confectionery Products	13.9	10.0
Jewellery, Beauty and Accessories	6.2	9.4
Children's Wear & Related Trades, Toys	8.9	4.1
Leather Goods - Shoes, Bags, Luggage etc	8.2	15.8
Others	12.6	9.2
	100.0	100.0

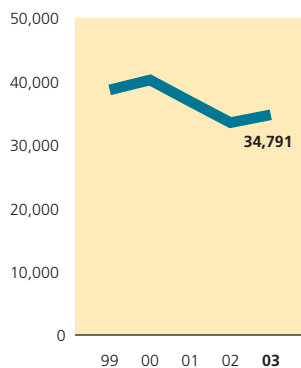
**GROSS REVENUE**

HK\$M



**PROPERTY VALUE**

HK\$M



# Harbour City

**RETAIL**

Harbour City retail properties registered growth in average rental during the year under review in spite of a difficult environment. Policies adopted by the Central Government in the second half of last year, including the relaxation of travel restrictions on mainland residents and the CEPA arrangements, have brought a whole new outlook to the Hong Kong retail market. Tourists from mainland China now account for more than half of Hong Kong's visitor arrivals, and the persistently strong growth in this segment last year made up for the loss of visitors caused largely by SARS.



Thanks to the presence of top designer labels at Harbour City, the Canton Road area is fast becoming the most prominent high-end fashion cluster in the Asia Pacific region.

For the year 2003, **Harbour City**'s retail occupancy, which showed remarkable resilience even during the SARS outbreak, was maintained at around 96 per cent. Special measures designed to raise **Harbour City**'s already outstanding hygiene standards to an even higher level received tremendous support from shoppers, tenants and the public. Instead of reacting passively by giving away concessions or rental reductions to tenants, Group management responded proactively by investing promptly in marketing and promotion. These actions, when combined with the Government-led initiatives introduced later on, meant that business disruptions caused by SARS were relatively short-lived, as evidenced by the more than 20 per cent year-on-year growth in both foot traffic and average sales per square foot of floor area recorded during the second half. The increase of well above 50 per cent in vehicle traffic in **Harbour City**'s car parks also added to shopper traffic. Most new leases and renewals achieved favourable increments.



The piano solo performances during weekends and holidays are well received by shoppers.



Business disruptions caused by SARS were relatively short-lived. Harbour City's foot traffic grew 20% year-on-year during the second half of 2003.



The relocation of the Lane Crawford department store has given the south end of Canton Road a refreshing new look.

Canton Road underwent many exciting changes in the year under review. A number of upmarket fashion and related retailers – including YSL, TOD's, a.testoni, Vivienne Westwood and Marella – set up shop at **Harbour City** along Canton Road, following in the footsteps of top designer labels such as Louis Vuitton, Salvatore Ferragamo, Gucci, Prada, D&G, Versus, Joyce, and Hugo Boss. Thanks to their presence and the grand openings of prestigious brands like Christian Dior, Celine, Fendi, Cartier, Escada and Ermenegildo Zegna along Peking Road, the Canton Road area is fast becoming the most prominent high-end fashion cluster in the Asia Pacific region, comparable to the Champs Elysées in Paris. Moreover, the recent relocation of the Lane Crawford department store has given the south end of Canton Road a refreshing new look.

Apart from the various upmarket fashion and related tenants, crowd-pleasers like Crystal Jade La Mian Xiao Long Bao and Azabu Sabo have opened new outlets at **Harbour City**, enhancing the mall's already wide selection of F&B choices. Leveraging on the huge success of LCX and Faces, more powerhouse concepts will be introduced in the near future, including KidX, SportX and another sizeable AV products and electronic goods power centre similar to the Electronics World on the 7th and 8th floors of **Times Square**.



Faces, the largest beauty emporium in Hong Kong, is a new retail concept featuring more than 40 skincare and cosmetics brands.

## OFFICES

Hampered by the negative reversionary cycle, **Harbour City** offices generated less total revenue in 2003 than the year before. Even though **Harbour City's** office occupancy climbed steadily last year – from January's average of 84 per cent to 88 per cent at year end – the gains were not large enough to offset the magnitude of the negative rental reversion. With a 78 per cent retention rate for office tenancies that expired in 2003 and new lettings totalling about 480,000 square feet, the net take-up was more than 200,000 square feet during the year under review.

As the Hong Kong economy showed signs of an upturn in the latter part of last year, the increase in leasing activities helped to ease the supply issue on the Island side. While all major districts recorded double-digit declines in rental rates during 2003, the average at **Harbour City** fell only by about 11 per cent, at the low end of market declines. The strong performance of the trade and commerce sector and the relatively balanced demand-supply situation in **Harbour City** and the surrounding area mean that **Harbour City** Grade A offices remain in a favourable position.



Hong Kong welcomed the Year of the Monkey in January 2004 with a dazzling night parade as thousands of spectators lined the route along Canton Road.



Gateway Apartments draws the majority of its tenants from among multinational corporations due to its top-flight reputation and superb location.

## SERVICE APARTMENT

The operating environment for service apartments continued to be difficult in 2003. New supply and competition from the hotel industry remained a drag on the performance of the service apartment operations. What's more, the revival of the property market and low interest rates have lured a certain portion of this segment's target customers out of rentals and into home ownership.

Gateway Apartments' average occupancy stood at 70 per cent. Because of its top-flight reputation and superb location, Gateway Apartments draws the majority of its tenants from among multinational corporations. About 65 per cent of outstanding tenancies have durations of 12 months and above, while another 15 per cent have durations of six to 12 months; the remaining 20 per cent are committed for periods of less than six months.



The facelift of The Marco Polo Hongkong Hotel's facade was completed last year.

## HOTELS

Due to the SARS outbreak, the consolidated occupancy for the three Marco Polo Hotels at **Harbour City** declined to about 67 per cent in the year 2003, versus 86 per cent the year before. The average occupancy rates for The Marco Polo Hongkong Hotel, The Marco Polo Gateway and The Marco Polo Prince were 65, 68 and 68 per cent respectively.

According to statistics released by the Hong Kong Tourism Board, the number of visitor arrivals in 2003 totalled 15.54 million, six per cent lower than 16.57 million a year ago. Considering the impact of SARS, such a single digit decline was better than general expectations. A closer examination of the figures shows that only the China tourist segment recorded a significant increase, whereas other major segments, including the US, Europe and Japan, experienced negative growth of 10 to 30 per cent. As a result of this new visitor composition, Marco Polo's average room rate in 2003 still lagged despite the full recovery of occupancy in the second half.

## HARBOUR CITY: PORTFOLIO INFORMATION

	Area (sq ft)	Gross Revenue (HK\$M)	Average Occupancy (%)	Year-end Valuation (HK\$M)	Anchor Tenants
<b>Office</b>					
Gateway	2,698,000	643	81.3%	11,056	AIA, CMG Asia, DuPont, Ernst & Young, GlaxoSmithKline, Hallmark, JAL, Karstadt Quelle, MGA Entertainment, Nike, Prudential, Sears
Other Towers	1,747,000	338	89.7%	4,700	APL, Hasbro, Hitachi, HKSAR Government, Mattel, May Department Store, Metro-Group, Zurich Insurance
<b>Retail</b>	1,903,000	1,032	95.8%	11,319	City Super, Cova, Golden Gateway Multiplex, Gucci, I.T, Joyce, Lane Crawford, Louis Vuitton, Marks & Spencer, Polo Ralph Lauren, Prada, Toys"R"Us, Ye Shanghai
<b>Service Apartment</b>	670,000	186	69.6%	4,307	
<b>Hotel</b>	1,248,000	533	66.8%	3,409	



The Canton Road countdown party on Christmas's Eve was extremely popular.





# Times Square



Times Square – a landmark property in Causeway Bay, Hong Kong's busiest shopping district.



**BALANCE SHEET (EXTRACT)**

as at December 31, 2003

	HK\$M
Properties	12,323
Net current liabilities	(234)
Other non-current liabilities	(234)
Net business assets (before debts)	11,855

**GROSS REVENUE**

	2003 HK\$M	2002 HK\$M
Office	256	318
Retail	585	577
	<b>841</b>	895

**OPERATING PROFIT**

	2003 HK\$M	2002 HK\$M
Office	206	275
Retail	497	487
	<b>703</b>	762

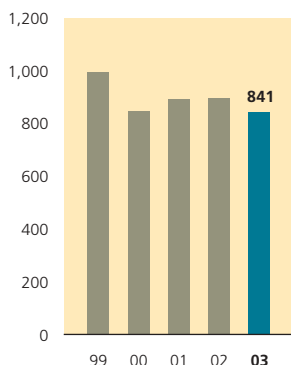
**TIMES SQUARE: RETAIL TENANT MIX (BY AREA AND RENTAL)**

as at December 31, 2003

	% by Area	% by Rental
Restaurant, Fast Food, F&B	26.9	16.4
Department Stores, Confectionery Products	24.8	17.6
Fashion	15.0	27.0
Consumer Electronic & Entertainment	13.9	10.0
Jewellery, Beauty and Accessories	7.0	15.5
Sports wear	4.0	4.5
Others	8.4	9.0
	100.0	100.0

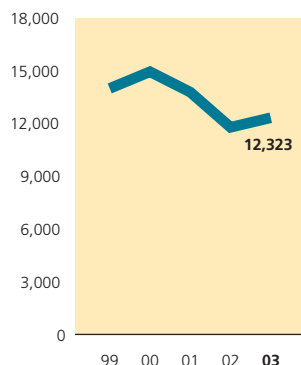
**GROSS REVENUE**

HK\$M



**PROPERTY VALUE**

HK\$M



# Times Square

**RETAIL**

Retail occupancy stood at 98 per cent in 2003. The **Times Square** shopping complex increased its total revenue thanks to higher rental and occupancy rates. As Causeway Bay's landmark, **Times Square** demonstrated exceptional resilience during the SARS period. Due to management's timely and decisive actions immediately after the start of the outbreak, foot traffic in absolute terms bounced back to pre-SARS levels within weeks; indeed, it was about 10 per cent



Times Square enjoys heavy daily foot traffic.

higher than the foot traffic number recorded at the same time the year before. As in the case of **Harbour City**, numerous innovative marketing programmes and thorough hygiene measures proved extremely successful, and no rental reductions had to be given to tenants due to SARS.

The operating environment of the retail sector in Hong Kong turned around drastically in the second half of last year thanks to buoyancy of tourism and improving economic indicators. Retail space at prime locations has been subject to very keen demand in the past six to nine months, as reflected by surging rental rates and a much more active purchase and sale market. **Times Square** also recorded favourable gains in rental reversions in 2003.



Electronics World on the 7th and 8th floors of Times Square has become a must-go destination for tourists searching for AV and electronics goods.



Times Square's retail occupancy rate stood firm at 98% in 2003.



The operating environment of the local retail sector improved dramatically in the second half of 2003.

All expiring tenancies were successfully renewed or re-merchandised with more appealing retailers. The new restaurants Crystal Jade La Mian Xiao Long Bao, Shark's Fin City, Japanese Dining SUN, Modern China Restaurant and California Pizza Kitchen have proved very popular with shoppers. Since their launch, all five have been drawing impressive traffic into the shopping complex. Plans are afoot to bring in more exciting F&B outlets.



The highly popular Food Forum offers a great variety of specialty restaurants.

**TIMES SQUARE: PORTFOLIO INFORMATION**

	Area (sq ft)	Gross Revenue (HK\$M)	Average Occupancy (%)	Year-end Valuation (HK\$M)	Anchor Tenants
<b>Office</b>	1,033,000	256	83%	4,799	AT&T, Boston Consulting, Coca-Cola, Disney, Lucent, Royal Bank of Scotland PLC, NCR, Shell
<b>Retail</b>	936,000	585	98%	7,524	Bally, Broadway, City'Super, Fortress, i.t, Lane Crawford, Mango, Marks & Spencer, Max Mara, UA Cinema, Versace

## OFFICES

After standing at 92 per cent for two consecutive years, **Times Square**'s office occupancy rate declined to 83 per cent in 2003, as the result of a single tenant's decision to relocate to Tai Po. No other significant departures are expected in the near to medium term.

In spite of keen competition and the rising supply of Grade A office space, **Times Square** remained the preferred spot for multinationals engaged in the services or consumer goods markets. The retention rate for office tenancies expiring in 2003 was more than 70 per cent. High-profile tenants including Giorgio Armani, The Royal Bank of Scotland, L'Oreal and Charles Schwab renewed their leasing agreements. Meanwhile, the arrival of other household names such as Honda Motors and ABN AMRO Bank brought new lettings to 113,000 square feet.



Times Square offices remain the preferred spot for multinationals engaged in the services or consumer goods markets.

## Plaza Hollywood

This shopping mall located in the Diamond Hill area maintained an average occupancy rate of 97 per cent during the year under review. Similar to the Group's other major retail properties, Plaza Hollywood recorded double-digit growth in both shopper and vehicle traffic.



Plaza Hollywood recorded double-digit growth in both shopper and vehicle traffic during the year.

**BALANCE SHEET (EXTRACT)**

as at December 31, 2003

	HK\$M
Properties	5,379
Interest in Sorrento and Bellagio	1,815*
Property inventory and development	1,357
Second mortgage debtors	58
Net current liabilities	(131)
Net non-current liabilities	(71)
Net business assets (before debts)	8,407

\* Include 1/3 interest in Bellagio and 40% interest in Sorrento, of which 20% held through Harbour Centre Development Limited, a 67%-owned subsidiary.

## Wharf Estates Development Limited

Since the second half of last year, the local property market has again become active. Purchase and sale transactions in both primary and secondary markets showed remarkable increases, and the overall rental market began to stabilise in the final quarter of 2003.

### SORRENTO

Sorrento, an MTRC joint-venture project above Kowloon Station, is equally owned by a five-member consortium comprising Wharf, Harbour Centre Development, Wheelock, New Asia Realty and Realty Development Corporation (now a wholly-owned subsidiary of New Asia Realty). For Phase I, launched in



Cumulative sales of Sorrento Phase II reached 728 units at the end of 2003.

**PROPERTY LIST**

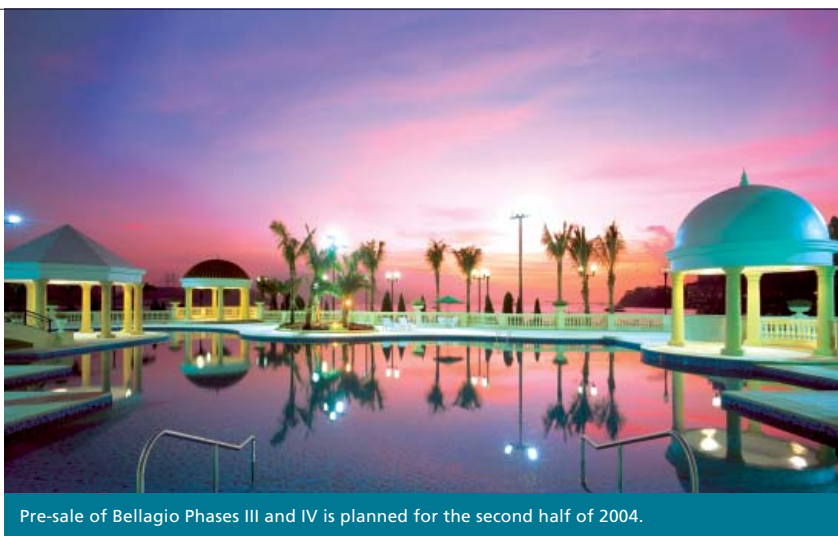
	Project Nature	GFA (sq ft)	% Owned	Status
World Trade Square	Office/Retail	395,000	100%	For Lease
Mountain Court	Residential	49,900	100%	For Lease
Chelsea Court	Residential	43,000	100%	For Lease
No. 1 Plantation Road	Residential	97,000	100%	For Lease
Various units of Strawberry Hill	Residential	37,000	100%	For Lease
77 Peak Road	Residential	32,000	100%	For Lease
Sorrento Phase I & II	Residential	2,531,000#	33%*	For Sale
Bellagio Phase I/II	Residential	1,525,300#	33%	For Sale
Bellagio Phase III/IV	Residential	1,571,400	33%	Under Construction
Victoria Road	Residential	48,800	100%	Under Construction
Gough Hill Path	Residential	24,700	100%	Under Construction
Cable TV Tower South	Retail/Hotel	596,000	100%	Under Design Planning
Kowloon Godown	Residential/Hotel	1,078,000	100%	Under Planning Submission
Yau Tong Godown	Retail/Residential	244,000	100%	Under Planning Submission
Yau Tong JV Project	Retail/Residential	9,041,000	15.6%	Under Planning Submission

# Substantially sold  
\* Effective ownership

November 2001, cumulative sales and proceeds for Towers 3, 5 and 6 reached 1,251 units (98% sold) and HK\$5.9 billion as at the end of 2003. And at Phase II, consisting of Towers 1 and 2, which was launched in November 2002, cumulative sales and proceeds reached 728 units (85% sold) and HK\$4.7 billion as at the end of the year under review.

## BELLAGIO

Bellagio, in Sham Tseng on the western shore of the New Territories overlooking the Tsing Ma Bridge, is a joint-venture development equally owned by Wharf, Wheelock and New Asia Realty. Phases I and II were launched in September 2002 for pre-sales. At the end of December 2003, cumulative sales had reached 1,585 units (93% sold), realising proceeds of about HK\$3.7 billion.



Pre-sale of Bellagio Phases III and IV is planned for the second half of 2004.

Construction work on Phases III and IV, covering the remaining 1,650 units, commenced in March 2003. While completion of these two phases is expected towards the end of 2005, the target for the launch of pre-sales is the second half of 2004.

## WORLD TRADE SQUARE

Office and retail occupancy of World Trade Square stood at 75 and 63 per cent respectively at the end of December 2003. Due to the relatively large amount of supply available and competition from nearby industrial/office buildings, rental rates experienced double-digit declines on average last year.

## WHARF PEAK PORTFOLIO

Both Mountain Court and Chelsea Court, with 16 and 20 units respectively, were completed in mid-2001. As at the end of 2003, 13 units, or more than 80 per cent of Mountain Court had been leased out; and 11 units, or 55 per cent of Chelsea Court had been leased. No. 1 Plantation Road, with 48 luxury apartments, was completed in June 2002. Leasing started in July 2002, and 30 takeups had been recorded at the end of 2003. The redevelopment of 3-5 Gough Hill Path into five houses has begun and is progressing according to schedule.



By the end of 2003, 30 luxury apartments had been leased at No. 1 Plantation Road.