

致各股東

TO OUR SHAREHOLDERS



執行董事 — 從左至右：吳士元先生，陳啟宗先生，袁偉良先生，何世良先生
Executive Directors — from left: Mr. Terry Sze Yuen Ng, Mr. Ronnie Chichung Chan,
Mr. Nelson Wai Leung Yuen and Mr. Wilfred Sai Leung Ho

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三十二億五千四百萬元，減少百分之四十一點七；股東應佔純利為六億九千一百八十萬元，較上年度下降百分之七點一。每股盈利為五角二點三仙，較上年度減少百分之七點一。

董事局建議派發末期股息每股三角二仙，而全年度每股股息總額將為四角四仙，兩者均與上年度之股息金額相同。

業務回顧

香港之經濟以及地產業均極為疲弱，後者既促成前者亦成為其犧牲品。區內經濟欠佳遏抑寫字樓需求，而失業率則升至近數十年來未見之高位。消費萎縮加上樓價下跌，為香港帶來頑劣之通縮，對樓價預期進一步下跌則成為妨礙潛在置業之有力因素，惡性循環遂持續不斷。

香港地產業處於如斯光景。某些住宅之現價僅略高於九十年代中期樓價之三分之一，而成交額甚低。發展商採用之促銷謀略確吸引了社會內較年青兼財政安穩較遜之一群，惟此階層也許本不應被列為吸納對象，此舉可能為未來製造潛在之負資產犧牲品。但即使此群買家現已明顯枯竭。

因此，負責本集團地產業務之附屬公司恒隆地產錄得業績減退，並不令人意外。直接之原因乃物業銷售活動大幅減少。來自香港之租金收入微降，但因上海之租金收入增長而得以彌補。

地產業另一個甚為疲弱之環節乃酒店業。就該行業而言，創新記錄之訪港旅客數字帶有誤導性。首先，約有三分之一訪港旅客乃即日旅客，彼等乘搭某一類交通工具抵港，於數小時後乘搭另一類交通工具離開。彼等很大部份均為往返海峽兩岸即台灣與中國大陸之旅客，此乃由於台北政府禁止兩岸直接通航所致。其他即日旅客乃中國大陸人士，彼等使用香港國際機場往返外地。從中國大陸任何地方乘搭飛機至深圳（彼在香港以北一小時車程內）所需之費用，遠較直飛香港廉宜。

造成酒店業窘境之另一原因，乃在港度宿之中國大陸旅客雖為平均消費最高之旅客（較美國、歐洲及日本之旅客為高，此乃值得思考之發展現象），但其花於住宿之消費則甚少。鑑於香港酒店房間數目充裕，旅行社商議所得之房租對酒店幾無利潤可言，但為免員工失業，酒店商亦唯有照接生意。

酒店業之情況於可見將來料無改善。鑑於西方國家經濟放緩以及恐怖主義持續帶來威脅，酒店消費較高之美國及歐洲旅客短期內不會踴躍來港，而日本旅客亦然。同時，酒店房間供應量將顯著增加。於二零零二年至二零零五年期間，預期香港將有十九間新酒店，合共約有一萬零七百個房間，後者將較去年升逾百分之二十六。除非情況大幅好轉

RESULTS AND DIVIDENDS

For the fiscal year ended 30 June 2002, turnover decreased 41.7% to \$3,254 million. Net profit attributable to shareholders was \$691.8 million, 7.1% lower than last year. Earnings per share was 52.3 cents, representing a decrease of 7.1% over last year.

Your Board recommends a final dividend of 32 cents per share and total dividends for the year would be 44 cents per share. Both are the same as last year.

BUSINESS REVIEW

Hong Kong's economy as well as its real estate sector are both extremely weak. The latter contributed to the former and is also a victim of it. Regional economic malaise has curbed office demand and unemployment has reached heights unseen in recent decades. Consumer spending shrunk which together with falling property prices, gave us a recalcitrant deflation. Expectations of further drops in prices in turn became a powerful deterrent to potential home acquisitions, and so the vicious circle continues.

Such is the state of our industry. In some cases, residential prices are not much more than a third of the mid-1990's, and transaction volume is very low. Sales gimmicks employed by developers managed to attract a layer of society – younger in age and less financially secured – which perhaps should not have been tapped, for we may be creating potential negative equity victims of tomorrow. But even that group is now apparently exhausted.

It is thus not surprising that our property business through the subsidiary Hang Lung Properties reported diminished results. The immediate reason was that there were much less property sales activities. Leasing in Hong Kong fell only slightly but was made up by growth in Shanghai.

Hotel is another very weak part of our business.

Record high tourist arrivals are misleading as far as the hospitality industry is concerned. First, about one-third of them are same day visitors – they arrive through one mode of transportation and depart a few hours later through another. Much of these are Cross-Strait travelers between Taiwan and the Mainland due to the prohibition of direct transport links between the two sides on the part of the Taipei government. The others are mainlanders using our international airport to go overseas and to return to. Plane tickets from anywhere in the mainland to Shenzhen, an hour north of Hong Kong by road, is far cheaper than flying directly into our city.

Another reason for the industry's predicament is that although mainland visitors who stay overnight have the highest per capita spending – higher than those from the U.S., Europe and Japan, a phenomenal development worth pondering on – little money is spent on accommodation. Given an abundance of rooms in Hong Kong, tour group operators can negotiate room rates such that they are hardly profitable to the hotels. But to keep staff from losing their jobs, hoteliers will nevertheless have to take the business.

The hospitality industry is not expected to improve in the near future. Given the economic slow down in the West and the constant threat of terrorism, high hotel spending Americans and Europeans are unlikely to rush in anytime soon. The same is true of Japanese tourists. At the same time, the supply of rooms will increase significantly. Between 2002 and 2005, the city expects 19 new hotels with a total of about 10,700 rooms, a rise in the latter of over 26% from last year. Unless the situation is drastically changed for the better which is not anticipated, we and many other hotel operators may soon slip into the red.

A few months ago, we terminated all new activities in non-real estate fields. Any remaining commitments which are all passive investments will of course be honored, but the dollars involved are small. When all projects are eventually liquidated, I suspect that any

loss which so far all come from start-up expenses will be adequately covered by investment profits. As such, the exercise should have little or no financial impact on the company.

The only potential investment which was close to consummation before the retrenchment was a series of small French hotels. Uncertainties in the major world economies, namely the U.S. and European Union, and the rise of terrorism in the West, together with the associated disappearance of favorable financing, contributed to the decision.

Closer to home, the difficult property market environment in Hong Kong also requires the full attention of management, making us less willing to divert time and effort. Ironically, the tough time in the real estate sector has given us a unique opportunity to greatly strengthen our relative position in the industry. Perhaps it is better that we should focus our resources to exploit that favorable situation before venturing outside. And as the huge Chinese economy continues to grow, it is hard to imagine that a Hong Kong-based group like us will find better opportunities elsewhere other than our motherland.

PROSPECTS

To understand the real estate industry, especially the residential sector, one must first properly interpret events of the past five years.

Due to government policies and the Asian Crisis, residential prices started to fall soon after the city's return to China. However, it was not until recent months that the community has finally recognized that at issue is not just our industry but the health of the entire economy. Any further deterioration in property value is not good for anyone.

Since the beginning of the industry's plight in early 1998, there was a divergence of views in society regarding the nature and extent of its severity. As a

(吾等並不抱此預期)，否則本集團及許多其他酒店商可能快將錄得虧損。

數月前，本集團終止了所有屬於非地產項目之新業務。任何餘下之承擔均為間接投資，對此吾等當然會履行責任，但涉及之金額僅屬小數目。當所有項目最終結束時，本人估計任何損失(迄今均來自開業費用)將可被投資利潤足以彌補。因此，有關行動對本公司之財政應只有少量或毫無影響。

於作出此項收減行動前已接近投資階段之唯一潛在投資乃數間位於法國之小型酒店。世界主要地區即美國及歐盟區之經濟不明朗、恐怖主義在西方國家冒升、以及隨着環境變化而消失之良好融資，均導致該項決定。

就本土情況而言，香港地產市道之困境亦需管理層全神貫注，此令吾等不願分散時間及精力。反之，地產市道之困境讓本集團有難得機會大力鞏固本集團在地產業之相對地位。也許本集團較佳之做法，乃先集中資源掌握有關良機後才向外發展。基於中國龐大之經濟正持續增長，很難想象一個以香港為基地之集團如本集團，可在祖國以外之地方找到更佳機會。

展望

要瞭解地產業尤其住宅環節，必須首先演繹過去五年之事況。

由於政府之政策以及亞洲金融風暴，樓價於香港回歸中國後不久便開始下跌。然而，直至近數月社會人士方才明白，問題非單關乎地產業亦與整體經濟之安康有關。樓價再有任何下跌均對任何人無益。

自地產業於一九九八年年初陷入困境起，社會上對有關問題之性質及其嚴重性有不同意見，因此政府難以妥善解決有關問題。不同社會階層各為本身利益搖旗吶喊，此現象本非壞事，純為多元化社會之寫照，令人苦惱

者乃許多表達意見之人士實不知情，對經濟尤其地產市場亦欠缺正確理解。

政府本身亦犯了數項錯誤。香港行政長官董建華先生於一九九七年七月一日在其就職演辭內宣布，於未來十年將每年興建八萬五千個單位，其原本之動機誠屬美好(乃為令自置家居者之比例由當時之六成增至於二零零七年時之七成)，但卻選了不能再差之時機。亞洲金融風暴於一九九七年七月悄悄來臨，但本地物業發展商直至一九九八年方察覺其影響，這可見諸部份最昂貴之土地確實於一九九七年最後數個月內由政府拍賣售出。

本地政客更遲遲未見危機已逼近眉睫，直至最近為止，彼等之一貫看法仍是絕不容許樓價回升。由於政府向此等壓力屈服，其有可能不察覺情況之嚴重性(雖謂任何政府甚少能預見劫禍逼近)。政府亦不瞭解其政策之影響力及帶來之後果。

結果，新政府在其首年向房屋委員會提供大量土地以興建資助式發售單位，而此類單位乃為就每年八萬五千個單位之目標提供三分之二單位。於一九九八年年中香港被現實所煎熬、以及政府被逼實施暫停賣地為期九個月之措施後，吾等以為社會和政府會醒覺，但彼等即使於一九九九年四月暫停賣地措施結束後仍如在夢中。

政府方面，防止炒賣樓宇之措施直至二零零一年年初方被部份撤銷。而直至二零零一年秋季即地產市場之危機開始幾為四年後，政府方停止向房屋委員會批地及宣布暫停發售居者有其屋(居屋)單位為期十個月。

政客和評論員更遲方明白市場實況。當行政長官於二零零零年八月表示八萬五千個單位之目標已不再存在時，惹來大量指其向物業發展商叩頭之斥責。彼等直至最近為止仍高談防止樓價上升，於其時樓價正逐步下跌，而負資產者正苦不堪言。即使迄今，彼等亦在爭論政府應否支持樓價。

政府之房屋政策亦被指斥為搖擺不定。據本人對香港行政長官之認識，本人並不相信此乃屬實。實情乃新政府對如何應變香港之新現象——即完全自由表達意見，感到茫然無措。(以往治港之英國行政機構對於控制反對聲音甚具技巧。舉例而言，當時批評政府之報章會有後果，此舉於今天乃無法理解。其時政府內絕不容許異見，而英方亦致力確保此乃一九九七年後之情況。)某些立法會議員和社會運動家在一方而主要商家在另一方，大部份之紛紜意見均來自彼等之互相攻訐，而不同政府部門於不同時間試圖討好此等針鋒相對之陣營，以致予人搖擺不定之感。即使部份對政治敏感程度較低之物業發展商亦不瞭解此點，以致感到困惑。

基於以上分析，政治精英與政府均必須分擔其咎。前者把所有責任歸咎於後者以便解脫責任乃絕不公平之做法。彼等必須明白，其錯誤之聲音會招致後果。不幸者乃彼等確實無須為其言論和行動負責，因批評政府無須付出代價。(事實上，任何善於此舉之人士，有可能獲得以自由思想自詡對獲北京支持之港府存有偏見之美國報章給予讚揚。)彼等最低限度應作出建設性之批評，並於證明犯錯時應有道德勇氣承認錯誤。

許多地產界之專業人士如本人一樣，認為政府未能及早採取果斷行動乃難辭其咎。但基於上述之政治複雜性，吾等或許不應如此嚴厲。然而，總需有一個時間(而本人相信此時間已至)政府必須表現其領導能力而不怯於反對聲音。政府永不能討好每一個人，必須作出符合最佳整體利益之做法。畢竟社會上已有一定之共識，認為不應讓樓價進一步下跌，各界之分歧僅屬藥方之劑量多少而已。

可肯定者乃香港現正受房屋危機所煎熬。本人相信政府應立即永遠終止發售居屋。如何處理現時之空置單位及興建中之單位乃技術事宜，不應被容許掩蔽重新振興樓市之先決目標。房屋委員會應只興建公屋及租予真正有需要之人士。居屋計劃及其姊妹計劃(即私

result, it was difficult for the government to adequately address the problem. Different sectors of society were clamoring for their own interest which as a phenomenon in itself was not bad. It is a mere reflection of a pluralistic society. The trouble lies in the fact that many of the views expressed were uninformed and lacked proper understanding of the economy and, in particular, of the real estate market.

The government for its part has made a number of mistakes. Whereas the original intention of building 85,000 units per year for ten years as enunciated by our Chief Executive Mr. Tung Chee Hwa in his inaugural speech on July 1, 1997 was noble – to increase home ownership from 60% at that time to 70% by 2007 – the timing could not have been worse. The Asian Crisis quietly arrived in July 1997, but local developers were not aware of its impact until 1998. This can be seen from the fact that some of the most expensive pieces of land were auctioned by the government in the closing months of 1997.

Local politicians were even slower to see impending danger. Their overwhelming view until recently was that real estate prices must not be allowed to rise again. Bowing to such pressures might have blinded the government to the seriousness of the situation, although admittedly governments anywhere seldom foresee looming troubles. It also failed to understand the power and ramifications of its own medicine.

As a result, in the first year of the new government, it gave an enormous amount of land to the Housing Authority to build subsidized sale flats. These were to account for two-thirds of the target of 85,000 annual units. One would think that after reality hit home in mid-1998 and the government was forced to impose a 9-month land sale moratorium, the community and the government would wake up. They did not – not even after the moratorium ended in April 1999.

On the part of the government, anti-speculation measures were not partially removed until early 2001.

Not until the fall of 2001, almost four years after the property crisis started, did it stop granting land to the Housing Authority and announced a 10 month moratorium on the sales of Home Ownership Scheme (HOS) flats.

Politicians and commentators were even slower to recognize market realities. When the Chief Executive said in August 2000 that the 85,000 units per year goal no longer existed, it attracted a slew of accusations that he was kowtowing to developers. Until recently, they still talked about preventing residential prices from rising, during which time prices were steadily falling and negative equity victims suffering. Even today, they are debating whether the government should prop up prices.

The government has also been accused of vacillating in its housing policies. Knowing our Chief Executive, I do not believe that this is the case. Instead, the new government was at a loss to react to what was a new phenomenon in our city – total freedom of expression. (Previously, the British administration was most skillful in controlling opposing voices. For example, there were consequences for newspapers when criticizing the government, something which is unthinkable today. Insubordination was never allowed within the government whereas the British insured that there would be such after 1997.) As contrasting opinions – mostly between certain Legislators and social activists on the one hand and major businessmen on the other – were tugging at each other, different governmental departments would at different times try to please the opposing constituencies, thus giving the impression of vacillation. Even some less politically astute developers failed to understand this and were confused.

Given the above, it is evident that both the political elite and government must share the blame. It is altogether unfair of the former to put all responsibilities on the latter while conveniently exonerating

themselves. They must realize that there are consequences to their erroneous noises. The reality, unfortunately, is of course that they do not have to be accountable for their words and actions, for there is no cost to criticizing the government. (In fact, anyone who does so will likely score points with liberal-minded American press prejudiced against the Hong Kong government due to the support it enjoys from Beijing.) They should at least do it constructively, and should have the moral courage to admit mistakes when proven so.

Like me, many real estate professionals fault the government for not taking drastic actions earlier. But given the political complications outlined above, perhaps we should not be too harsh. However, there will come a time – and I believe that it has arrived – that the government must exert leadership in spite of oppositions. It can never please everyone and must do what is in the best interest of the whole. After all, considerable consensus is already present in society that further price deterioration is undesirable. Different sectors only differ on how strong the cure should be.

To be sure, Hong Kong is suffering from a housing crisis. I believe that the government should now once and for all terminate the sales of HOS flats. What to do with the existing empty units and those under construction is a matter of technicality which should not be allowed to cloud the overriding objective of jump-starting the market. The Housing Authority should only build public housing to be rented to the truly needy. The HOS, like its sister schemes – the Private Sector Participations Scheme, Middle Income Housing Scheme, Sandwich Class Housing Scheme, and Mixed Development Scheme – has outlived its historic mission. It is the product of a deliberate distortion of the residential market through the artificial high land price policy of the pre-1997 days. Now that the distortion has been removed by the new government through the introduction of sufficient land supply and of a transparent market, HOS should be relegated to its rightful place – the history book.

人參建居屋計劃、中等收入人士房屋計劃、夾心階層房屋計劃以及混合式發展計劃)早已完成其歷史使命。其乃一九九七年前人為高地價政策下蓄意扭曲住宅市道所帶來之產品，如今此扭曲已因新政府透過引入足夠之土地供應及具透明度之市場而得以消除，因此居屋計劃應列入其適當位置即史籍內。

置業承擔能力現處於歷史高位，而私人單位已降價達三分之二，以致其與居屋單位同樣廉宜。地產業所出現之結構性基本轉變已可確保樓價不再急升。其他措施當中，透過土地申請計劃令土地銷售由市場力量取決而不再由政府完全操控，將令房屋變為另一項商品及隨供求之變化所支配。為期十個月暫停出售居屋之行動於七月份結束後，公眾對居屋單位之銷售缺乏興趣，可引證本人之看法。

政府尚應採取其他行動，主要包括不再容許香港之地下鐵路公司即地鐵以及陸上鐵路公司即九鐵與私人物業發展商競爭。此兩間公司以獲得資助形式取得供興建車站及維修站之土地，然後與私人物業發展商組成合資公司興建供銷售之物業。在過往之高地價政策下，物業價格往往持續上升，因而令該兩間公司受惠，締造了世界上幾乎僅有之「奇跡」——即鐵路公司似乎無需政府資助亦可錄得盈利。如今地產業已有基本性之轉變，物業神話亦已破滅，當務之急應是檢討該政策。

隨著物業價格整體下跌，除非政府向該兩間公司大幅增加批地數量或大幅降低其補地價金額，否則土地發展將不再可支持鐵路擴建。兩項途徑均會進一步扭曲市場，更遑論該兩間公司已擁有之土地數量只能以龐大來形容。當土地一落入彼等之手，彼等可於任何時間推出市場，導致市場之透明度下降。此不計該兩間半官方公司之物業部乃如斯缺乏效率，其規模必然接近房屋委員會，兼且亦甚為官僚。本人敢說同一數量之工作在私人企業只需不超過三分之一人手。即使把其發展工作之半官方性質考慮在內，此仍屬不可接受。

就此而言，把地鐵和九鐵合併應確屬明智之舉。政府就不採取此行動所持之理由(例如於批地時製造競爭)並不合理，而讓地鐵上市及繼續享有現行之批地安排乃屬不智。以原則而論，為何政府要以資助式之價格批地予一間以政府作為主要股東之上市公司，讓這間公司與私人物業發展商迎面競爭？最低限度，上市令地鐵更難與九鐵合併。

上述提議之所有行動其目標乃為穩定物業市場。儘管許多物業發展商仍緬懷過去高地價政策之美好歲月，本人一直主張應消除市場之扭曲，盡力為社會之利益着想。物業價格下降代表香港可更具競爭力，因競爭委實激烈。倘新加坡不再為香港之憂慮，則上海應為吾等之掛憂。孰此孰彼，無論個人或城市，惟有自強不息者方能在今天瞬息萬變之世界中生存。

無論前路如何，香港之物業價格現正處於低沉。資產通縮從不容易安渡，必須小心處理。不幸，基於上述原因，香港對有關過程並無足夠之駕馭。倘不予以治理，持續滑落之物業價格將成為香港經濟中較如今更嚴酷之里程碑。

自私而言，更長之熊市對本集團之主要附屬公司恒隆地產並不一定是壞事。在香港所有大型地產公司中，恒隆地產擁有令人最少煩憂之存貨、最佳及最廉宜之土地儲備、以及最強之資產負債表其中之一。其手頭之土地直至二零零五年或二零零六年方會用罄，故尚有一或兩年可增購土地以維持穩定盈利。低迷之市道可讓其如一九九九年及二零零零年般以廉價購置土地。正如該等日子一樣，屆時恒隆地產也許再次幸運地成為幾乎唯一購置土地之公司。其銷售單位之行動確須延遲，但所有其他公司亦然。而與部份其他公司不同，恒隆地產並無套現之壓力。在其擁有土地之每個地區，恒隆地產擁有之土地成本最低、位置及／或地積最優越，故恒隆地產確實甚具競爭力，更無須多提本集團認為恒隆地產之產品質素乃名列業內前茅。因

此，本集團將可如過去數年般進一步鞏固其在地產業之相對地位。

然而，本集團之首要關注乃整體經濟之安康。倘情況進一步惡化，例如出現更多裁員事件、負資產家庭之數目增加、以及普遍性出現更多社會問題，將令現已處於水深火熱之港人百上加斤。此乃為何本集團及(本人相信)所有其他主要物業發展商，均希望政府於此時刻可表現出強大之領導能力，為市道帶來振興及回復社會之信心。

但就現時而言，市場環境確實黑暗。僅令本集團之投資者稍安者，乃事實上無論地產業出現任何情況，本集團因處於優越地位故可充份予以掌握。管理層亦相信市道終有一天會復甦，於此發生時，部份物業發展商已嚴重轉弱，而少數將更為強盛。本人有信心本集團乃屬於後者。

主席
陳啟宗

香港，二零零二年八月二十八日

Housing affordability is at all time high, and private apartments have fallen by two-thirds in value such that they are as cheap as HOS flats. Fundamental changes in the industry's structure have ensured that residential prices cannot run away anymore. Among other measures, by subjecting land sales to market forces through the land application plan and no longer totally controlled by the government, housing will become another commodity. It will be subject and sensitive to supply and demand. The lack of public interest in the sales of HOS flats after the 10-month moratorium which ended in July proves my case.

There are other things that the government should do. Chief among them is to remove MTRC and KCRC, our subway and railway companies respectively, from competing with private developers. These two companies obtain land from the government on a subsidized basis for their stations and maintenance depots. They then enter into joint venture with private developers to construct buildings for sale. Under the former high land price policy when property values more often than not rose consistently, the two corporations benefited and created the "miracle" that was almost unique in the world – railroad companies can make money, apparently without government subsidies. Now that the real estate sector has fundamentally changed and the property myth punctuated, it is high time to review that policy.

Overall lower property prices ensure that land development will no longer be able to support rail expansion unless the government grossly increase the amount of land granted or decrease the land premium charged. Either route will further distort the market, not to mention that the amount of land the two companies already own can only be described as massive. Once land is in their hands, they can release anything anytime, thus making the market less transparent. This is not to mention how inefficient are the property departments of these two quasi-governmental entities. They must approach that of the bloated Housing Authority and are very

bureaucratic. I dare say that the same amount of work in a private enterprise will take no more than a third of the staff. Even taking into consideration of the semi-public nature of their development work, this is still unacceptable.

In this regard, it seems only sensible to merge MTRC and KCRC. The government's reasons not to do so are unreasonable – such as to create competition when land is granted. The recent listing of MTRC under present arrangements is unwise. As a matter of principle, why should the government give land at subsidized rates to a public company with the government being the major shareholder, when it competes head on with private sector developers? At the least, public floatation makes it more difficult to merge with KCRC.

The objective of doing all of the above is to have a stable property sector. Whereas many developers are reminiscing about the good old days of the high land price policy, I have always advocated – at least partly if not primarily for social good – the removal of market distortions. Lower property prices will mean that our city will be more competitive, and competition is keen indeed. If Singapore is no longer our worry, then Shanghai should be. One way or another, only those – whether an individual or a city – who constantly improve will survive in today's fast changing world.

So however it comes, Hong Kong property prices are now depressed. Asset deflation is never easy and must be managed carefully. Unfortunately, for reasons described above, we have not adequately overseen the process. If not remedied, continued deterioration of real estate value will become an even bigger milestone to our economy than what it already is.

Selfishly speaking, an even longer bear market is not necessarily bad for our major subsidiary Hang Lung Properties (HLP). Of all the major real estate companies, it has the least troubled inventory, has the best and cheapest land bank, and has one of the

strongest balance sheets. Land on hand will last until 2005 if not 2006, and it has another year or two to acquire more in order to hopefully maintain consistent profit. A depressed market may allow it to purchase cheaply as it has done in 1999 and 2000. Like in those days, HLP may with some luck once again be almost the only company buying. Admittedly sales of flats will have to be postponed but so will everyone else. Yet unlike some others, HLP does not have pressure for cash. With the lowest cost and the best located and/or shaped plots in each of the districts where it owns land, it is very competitive indeed. This is not to mention our belief that HLP's product quality is among the best in the business. As such, our relative position in the industry will be further strengthened – as was the case in the past few years.

Nevertheless, our overriding concern is the overall health of the economy. Further deterioration will mean added suffering to our already battered citizens, such as more layoffs, an increase in the number of families with negative equity, and generally more social problems. This is why we, together with I believe all other major developers, hope that the government will exert strong leadership at this time to revive the market and to restore societal confidence.

But for now, the market environment is dark indeed. Our investors can only take comfort in the fact that whatever befalls the property sector; we are well positioned to take advantage of it. Management also believes that the market will one day recover. When that happens, some developers will have been by then severely weakened, while a few will emerge stronger. I am confident that we are in the latter category.

Ronnie C. Chan

Chairman

Hong Kong, 28 August 2002