

主席報告

Chairman's Statement

簡單來說，我們的目標是在二零零五、二零零六和二零零七年三年內，在多個城市購入土地以興建十至十二個大型商業項目。每個項目的投資額介乎港幣二十億元至二十五億元，故集團總投資額達港幣二百五十億元至三百億元。本人欣然報告，
此計劃已取得重大進展。

上海 長沙 濟南 潘陽 JINAN 天津 TIANJIN 北京

Simply put, we aim to secure land within the three years of 2005, 2006 and 2007 to build 10 to 12 sizable commercial complexes in several cities. With each project defined as investing HK\$2 to \$2.5 billion, the total investment would entail HK\$25-30 billion. I am pleased to report that **significant progress has been made.**



業績及股息

截至二零零六年六月三十日止財政年度之營業額為港幣三十七億四千零六十萬元，減少百分之四十六點二。股東應佔純利為港幣四十四億零二百六十萬元，下跌百分之三十五點四。每股盈利為一元一角九點二仙，較去年度下降百分之三十八點五。倘不計入重估盈餘及有關的遞延稅項，基本純利減少百分之三十五點三，由港幣二十五億一千五百七十萬元減至港幣十六億二千七百萬元；每股基本盈利為四角四點一仙，減少百分之三十八點四。

董事局建議派發末期股息每股三角八仙，較去年度增加百分之二點七。如獲股東批准，全年度每股股息總額將為五角一仙，較上財政年度增加百分之二。

業務回顧

策略性計劃

一年前，本人詳細撰述集團在中國內地擴大投資的原因和策略。簡單來說，我們的目標是在二零零五、二零零六和二零零七年三年內，在多個城市購入土地以興建十至十二個大型商業項目。每個項目的投資額介乎港幣二十億元至二十五億元，故集團總投資額達港幣二百五十億元至三百億元。本人欣然報告，此計劃已取得重大進展。

下列敘述可令股東溫故知新。經過接近兩年的努力，集團於二零零五年一月取得首個上海以外位於天津的項目。正如我們去年所料，集團於二零零五年九月簽約購入第二幅土地。該幅土地位於瀋陽市中街路，其面積達三點五公頃。我們將在該址興建一幢樓高五層、樓面面積近十二萬平方米的購物商場。有關的土地交收應可在今年內辦妥，隨後約需四年時間完成施

Results and Dividend

Turnover for the fiscal year ended 30 June 2006 decreased by 46.2% to HK\$3,740.6 million while net profit attributable to shareholders fell by 35.4% to HK\$4,402.6 million. Earnings per share was 119.2 cents, representing a drop of 38.5% from the year before. When excluding the revaluation gain and its corresponding deferred tax, the underlying net profit retreated by 35.3% from HK\$2,515.7 million to HK\$1,627.0 million, and the underlying earnings per share by 38.4% to 44.1 cents.

A final dividend of 38 cents per share is recommended by the Board which is 2.7% higher than last year. If approved, total dividends for the full year will be 51 cents per share, an increase of 2% compared to that of the last fiscal year.

Business Review

Strategic Initiatives

A year ago, I wrote extensively on the reasons for expanding investments in mainland China and the strategy for it. Simply put, we aim to secure land within the three years of 2005, 2006 and 2007 to build 10 to 12 sizable commercial complexes in several cities. With each project defined as investing HK\$2 to \$2.5 billion, the total investment would entail HK\$25-30 billion. I am pleased to report that significant progress has been made.

To refresh shareholders' memory, after almost two years of labor, we landed our first project outside of Shanghai in Tianjin in January 2005. As anticipated last year, we signed up a second piece in September 2005. Situated on Zhongjie Road in Shenyang, we will build on the 3.5 hectare site a five-storey shopping mall of almost 120,000 square meters. Completion will take about 4 years after land possession which should come within this year. Zhongjie Road is said to be the first pedestrian shopping street in the whole of China and is one of the two best existing

工。中街路被譽為全中國首條步行商業街，並為瀋陽市現有的兩大最佳商業區之一。瀋陽市作為工業基地遼寧省的省會，是中國東北地區最大及最富經濟活力的城市。集團在瀋陽市的購物商場，具有宏偉氣派的設計特色，可與集團在天津市的商場和上海市現有的兩座商場媲美。其總成本約港幣二十五億元，與天津項目相若。

今年一月，我們與山東省濟南市政府，就一幅面積約六公頃的土地訂立初步協議，並於其後成為該幅土地唯一合資格的競投者。這項交易原定於今年七月辦妥土地清理後完成。現時雖然稍有延誤，但我們應可於未來數月內完成交易。

確如所料，這是濟南市內地點最佳的土地之一。我們計劃斥資約港幣二十五億元，在該址興建一幢樓高六層、樓面面積約十五萬平方米的購物商場。濟南市是山東省的商業中心。山東省人口居全國省份第二位，經濟產值亦居全國第二位，是製造業和農業雙強的少數省份之一。

其後，在上月一星期內，我們就添置三幅土地達成初步洽商。這並不令人意外，皆因管理層已為每個有關項目投入最少一年時間。當中兩項交易經已公布，其中一項現已完成。第三項交易即將公布。

該宗完成之交易亦為瀋陽市項目。有關土地位於歷史著名的「斗姆宮」，面積達九點二公頃，是我們迄今在內地購入的最大幅土地。土地成本約為港幣八億七千萬，以單位價格計算頗為相宜，估計項目總成本約為港幣八十億元。土地位置無與倫比，位於市政府廣場南面，西面為市政府辦公大樓，北面為瀋陽市唯一的高層商業區，東面為瀋陽市之大劇院和音樂廳。

commercial districts in Shenyang. As capital of the highly industrialized Liaoning Province, Shenyang is the biggest and the most economically dynamic city in Northeast China. Our mall design is as spectacular as the one in Tianjin and our two existing ones in Shanghai. Total cost approximates the Tianjin project which is about HK\$2.5 billion.

In January this year, we entered into a preliminary agreement with the city of Jinan, capital of Shandong Province, and later became the sole qualified bidder for a piece of land measuring approximately 6 hectares. Completion was originally planned for July once the land is cleared. Despite a minor delay, we should conclude the transaction within the coming few months.

As can be expected, the site is among the best located in the city. A six-storey shopping mall is planned totaling some 150,000 square meters. Total investment is expected to be around HK\$2.5 billion. Jinan is the commercial center of this second most populous province. Shandong also has the second highest economic output of all provinces, and is one of the very few that are strong in both manufacturing and agriculture.

Then within one week last month, we concluded preliminary negotiations on three more plots. None came as a surprise, for management has been working on each of them for at least a year. Two transactions have been made public and one of the two has since been completed. The third will soon be announced.

The one concluded is again in Shenyang. Measuring 9.2 hectares, the site which is historically known as 'Doumugong' is the biggest we have so far acquired on the mainland. Land cost is about HK\$870 million so unit price is rather favorable. Total project cost is estimated at HK\$8 billion. Once again, the location could not be better – it abuts the southern edge of the city's central piazza. To the west of the square is the municipal government's head office; to the north is Shenyang's only cluster of high rise offices; and to the east is the city's theatre and concert hall. Given the size, we can create a multi-purpose complex

鑑於該幅土地面積宏大，我們可興建多用途的綜合項目，包括購物商場、辦公室大樓、酒店及高層豪華寓所，這與集團甚為成功的上海港匯廣場相似。

上月宣布的第二個項目，位於湖南省省會長沙市，涉及的土地必為該城市的黃金地塊之一。待交易完成後，我們便會動工興建一座樓面面積達五十萬平方米的商業物業，包括一座作為中心焦點的購物商場。該幅土地面積約為七公頃，總投資額約為港幣四十億元。

倘不計入濟南市和長沙市項目，我們現時擁有五個項目：一個位於天津市，另一個位於瀋陽市中街路，加上位於瀋陽市斗姆宮的項目（因投資金額關係故列作三個項目）。倘計入濟南市項目、長沙市「兩個」項目（同樣因投資金額關係）及我們即將公布的項目，集團將擁有九個項目。

正如本人過往撰述，挑選城市是重要決定之一，也是集團未來數十年能否成為贏家或大贏家的關鍵所在。經過小心考慮，我們決定專注於較為少數的城市。我們的目標仍然是擁有十二個位於上海以外的項目，但並不局限於一個城市只有一個項目，而是在八個或九個城市擁有合共十二個項目。

基本原因是從實際方面考慮。國內房地產業甚為注重關係，而鑑於條例法規常有不明確之處，管理層必須與市領導人緊密合作，方能澄清有關條文。這在購置土地前及項目開發時皆屬實情，更何況與政府各層商討各項繁瑣問題，確需大量時間和精力。因此，倘我們確定某城市的經濟日益蓬勃，便有理由在當地進行超過一個項目。上海市和瀋陽市便是兩個好例子。

comprising a shopping mall, office towers, hotels and perhaps a few blocks of high-rise luxury apartments. This is similar to our highly successful The Grand Gateway development in Shanghai.

The second project announced last month is in Changsha, capital of Hunan Province. The location must be considered one of the very best in the city. Once the transaction is completed, a commercial complex totaling 500,000 square meters will be constructed and will have as its centerpiece a shopping center. The site is approximately 7 hectares and total investment should be around HK\$4 billion.

Not counting Jinan and Changsha, we now have five projects – one in Tianjin, another on Zhongjie Road in Shenyang, plus Doumugong also in Shenyang which due to its investment size, is counted as three. If we include the one in Jinan, the 'two' (again by virtue of the dollar amount) in Changsha and the soon to be announced project, we will have nine.

As I have previously written, city selection is one of the critical decisions that will determine whether we will in the coming decades win or win big. Upon careful consideration, we have decided to concentrate on fewer cities. Still targeting about twelve projects outside of Shanghai, we will put them in 8 or 9 cities instead of strictly one per city.

The reason is primarily a pragmatic one. Our industry on the mainland is highly relationship-intensive. Rules and regulations are at times unclear and management has to work closely with municipal leaders to clarify them. This is true before land purchase as well as during the developmental process. Negotiations with different levels of government on all too many issues take an enormous amount of time and effort. So if we determine that a city is economically vibrant, then it makes sense to do multiple projects. Shanghai and Shenyang are two such cases.

購物商場將續為我們的基本產品，辦公室大樓、酒店及豪宅大樓可作為購物商場的輔助物業。這些與上海港匯廣場相似的大型項目，通常會分期發展，並往往由購物商場牽頭，待市場成熟時才興建其餘物業。以本人所見，這屬於土地儲備的安排。我們約於一九九四年及一九九五年動工興建上海兩個項目，當時整個上海市幾乎全無甲級寫字樓物業。其後，市場情況顯著改變。待我們首幢辦公室大樓落成時，租情已甚為熾熱，租金亦甚為可觀。本人預期，某些城市會有類似的發展情況，但我們倘要在這些城市取得在上海的同樣成果，也許不切實際。然而，其他城市今天的地價，遠低於我們約十三年前為上海恒隆廣場和港匯廣場所支付的地價。

去年，本人詳細撰述集團在內地擴展的原因和策略理念。藉此機會，本人解釋集團如何落實有關計劃。當我們決定專注商業租賃物業並以購物商場為重點產品後，下一個重要決定是挑選城市。

中國經濟開放始於香港和上海之間的華南沿海地區。這些城市許多均已頗為繁盛，故集團決定在上海作出首兩個內地項目實屬正確。正如本人去年所述，除香港以外，上海和北京仍是中國最富經濟活力的城市。然而，現時要在這兩個大都會找到大型黃金地塊，幾乎是沒有可能的事；涉及的土地清理亦極為困難。至於所謂高地價，在本人之憂慮中排名榜末。部份人士對此也許感到意外，但觀乎該等城市的急速增長，今天的高價明天來看便會顯得便宜。

Shopping centers will remain our primary product type. We may supplement them with office towers, hotels and luxury residential blocks. Similar to The Grand Gateway in Shanghai, such large developments are typically phased. Almost always a mall will be built first and the rest later as the market matures. It is, I suppose, a way of land banking. When we started constructing the two Shanghai projects around 1994 and 1995, there were almost no class-A offices in the entire city. The situation has obviously changed. By the time our first tower was completed, it was renting briskly and at attractive rates. I anticipate a similar course of development in certain cities although reaping the same bonanza as we did in Shanghai is perhaps unrealistic. Land prices today in the other cities are, however, much less than those we had paid for Plaza 66 and The Grand Gateway in Shanghai some thirteen years ago.

Last year I wrote extensively on why we decided to expand in the mainland and our strategy in general terms; here I will devote space to how we execute. After deciding on the type of products to specialize in, namely commercial complexes for rent centering on a shopping mall, the next critical decision is city selection.

China's economic opening started along the southern coast between Hong Kong and Shanghai. Many of those cities are already rather prosperous and our locating the first two mainland projects in Shanghai was altogether a correct decision. As noted last year, outside of Hong Kong, Shanghai and Beijing are still the most economically vibrant cities in China. However it is now almost impossible to find top located large tracts in these metropolises. Site clearance is also extremely difficult. Perhaps surprising to some, the least of my worries is the apparent high prices – what seems expensive today will look cheap tomorrow given these cities' extraordinary growth.

因此，前往其他沿海城市，是我們別無他法的選擇。集團即將公布簽訂初步協議，對方是這些城市之一。管理層會在類似城市物色更多項目。

天津市是坐擁中國最大海港的沿海城市之一，也是中央政府近期大力推動發展的環渤海地區（環渤海）的經濟中心。珠江三角洲（珠三角）和長江三角洲（長三角）已有頗大的發展，但環渤海仍然遠遠落後，其人均收入不足珠三角或長三角的一半，因此環渤海必須急步趕上。觀乎北京對此矢志力行，天津市無疑會大幅受惠。

在這方面，近期一則新聞值得留意。中國國務院剛發出文件，就相距略多於一百公里的北京市和天津市兩大都會的定位，作出了明確的劃分。北京市將繼續是國際城市兼政治文化中心，而天津市按計劃將成為「華北經濟中心」。明顯地，這項決定的背後有實際的考慮，例如天津市的海港設施及北京市棘手的交通擠塞問題等。鑑於北京市現有的汽車數目是上海或香港的三倍以上，並正以驚人的速度增長，把政治和經濟稍作分工，確是審慎的做法。這亦證明，我們較早時進軍天津市場，是明智的決定。

東北是中央政府熱切開發的另一個地區。東北區天然資源豐富，歷來是中國主要的製造業中心，但自七十年代起陷入困境。隨著中國約二十五年前開放，東北區的情況有所好轉，但因欠缺中央政府支持，故仍落後於珠三角和長三角，例如其外國直接投資便遠較上述兩地為少。數年前，中央政府開始強調「振興東北老工業基地」，這口號現已舉國皆知。毫無疑問，東北區的經濟中心是瀋陽，其後為哈爾濱、大連和長春。

Consequently, we have little choice but to go to other coastal locations. The preliminary agreement signed with the city that will be announced soon is one of them. Your management will search for more projects in similar municipalities.

A coastal city that has one of the country's biggest seaports is Tianjin. It is also the geographic center of the Bohai Economic Rim (BER) which the central government has of late strongly promoted. With the Pearl River Delta (PRD) and Yangtze River Delta (YRD) already rather developed, BER which has an average per capita income less than half of the other two areas must catch up. Beijing is apparently determined to do exactly that and Tianjin will no doubt greatly benefit.

In this regard, a recent news item deserves special mention. The State Council of China has issued a paper specifically defining the relative positioning of Beijing and Tianjin, two megalopolises a little over 100 kilometers apart. Whereas the capital will continue to be an international city which is also a political and cultural center, Tianjin alone is planned to become the 'economic center of the North.' There are obviously practical considerations behind this decision such as the ports in Tianjin and intractable traffic congestion in Beijing. With more than three times as many automobiles in the capital as in either Shanghai or Hong Kong and growing at an alarming rate, certain separation of political and economic functions becomes prudent. This validates our earlier decision to enter the Tianjin market.

Another region which the government is keen to develop is the Northeast. Rich in natural resources and historically the country's foremost manufacturing center, it has fallen on hard times since the 1970's. Although things have picked up somewhat after the country opened up some 25 years ago, it lacked central government support and lagged behind the PRD and later the YRD. Foreign direct investment for example fell far behind those two areas. A few years ago, the central government began to promote 'Revive the Old Industrial Base of the Northeast,' a slogan now known to all in the country. The economic center of the region is undoubtedly Shenyang followed by Harbin, Dalian and Changchun.

瀋陽擁有可觀的消費力，這也許令人感到意外。我們通過分析慶幸地得知，按每個面積單位的奢侈品銷售額計算，某些瀋陽商舖確可取得較上海或北京商舖為高的銷售額。誠然，這些商舖在東北區數目較少，但華南地區收入快速增長的勢頭，現已開始在瀋陽等東北城市掀起；再者，華北人民歷來均較願意傾囊消費。因此，我們相信集團應在瀋陽市發展，故購入中街路和斗姆宮兩個項目。我們亦正研究區內其他城市的發展機會。

中國領導人早已認識到，必須收窄沿海地區和內陸城市的財富差距。鄧小平先生作為「中國改革開放的總設計師」，主張先讓部份中國人富起來，但他的總著眼點是提升全中國十三億人民的生活水平。經過二十年集中在沿海地區的經濟開放後，中國於九十年代後期開始進行西部大開發。一九九七年，重慶市獲准擴大管治領域，並成為中央政府的省級直轄市。二零零零年，四川省省會成都市舉辦首屆「中國西部論壇」，本人為開幕講者之一。一年後，該論壇移師陝西省省會西安市舉行。北京對有關城市的選擇，清楚說明西部大開發的主力重點。

我們研究這些城市多年，往返次數多不勝數。迄今我們在該區仍未成事，但本人抱有希望，總有開花結果之時。集團現時亦正在區內，探討兩三個令我們感興趣的城市。

最後，華中以南六個人口稠密的省份，包括：山西省、河南省、湖北省、湖南省、安徽省和江西省，總人口超過三億五千萬人，其經濟落後情況亦與西部大同小異。毫無疑問，中央政府很快便會把注意力轉往該區。區內有少數城市具有經濟活力，我們現正專注於三個城市，其中包括長沙市。

Confirmation of Shenyang's consumption power came somewhat as a surprise. Both fortuitously as well as through research, we have learned that sales of luxury goods per unit of shop space can actually be higher than those in Shanghai or Beijing. Of course there are less of these outlets in the Northeast but fast income growth prevalent in the South has begun to take place in cities like Shenyang. Moreover, historically people from the North are far more willing to spend whatever money they may have. As such, we are convinced that we should be there, hence the two projects of Zhongjie Road and Doumugong. We are also studying other cities in the region.

Chinese leaders have long recognized the need to close the wealth gap between the coast and the inland. While advocating that some Chinese must get rich first, Mr. Deng Xiaoping as the master architect of the country's economic reforms sought to raise the standard of living for all 1.3 billion citizens. After 20 years of economic opening mostly along the coast, the late 1990's saw the beginning of efforts to develop the Great West. In 1997 Chongqing was enlarged and given provincial status, reporting directly to the central government. In 2000, the first Western Forum of China was held in Chengdu, capital of Sichuan Province and I was one of the opening speakers. A year later, the event moved to Xian, capital of Shaanxi Province. These choices of cities by Beijing speak clearly of the foci of the push to develop the West.

We have been studying these cities for years and countless trips have been made. So far we have not succeeded but I am hopeful that something may yet open up. There are two or three other interesting cities in the region which we are also exploring.

Finally, the densely populated six provinces in South Central China – Shanxi, Henan, Hubei, Hunan, Anhui and Jiangxi with a total population of over 350 million – have been left behind economically not unlike the Great West. The central government will no doubt sooner than later turn its attention to this region. There are a few economically vibrant cities and we are working on three including Changsha.

無論在那一個城市，關鍵問題在於：如何令本集團成為當地政府首選的外資土地購置者？在這方面，集團確實擁有一些獨特的競爭優勢。

首先，我們在上海持有兩項宏大奪目、極其成功的發展項目——上海恒隆廣場和港匯廣場。它們是集團最佳的市場推廣工具。環顧全中國，市政府領導人難以找到其他發展商，其項目質量（包括設計、管理及盈利）可與集團之上海項目看齊。大部份市長均希望，我們能為當地城市創造同類項目。

其次，集團的項目設計全屬宏偉壯觀。本人由始至終堅信，中國值得擁有最好的物業。在中國內地興建物業，不應按內地今天的人均收入或當時的美學觀念為依歸，這個信念在集團九十年代發展的上海項目已彰顯。當時人們對這些項目感到驚訝，如今他們完全理解並讚賞有加。我們必須有遠見，為二十一世紀的中國建造項目。

第三，集團將絕大部份項目持有作收租用途。這個承諾令市政府官員感到意外，亦令他們無一不表欣喜。當然，我們不擬沽售，是涉及到財務上的考慮，主要因為收租物業的應繳稅款遠遠較低。然而，尚有令人信服的原因，令市政府垂青本集團。

我們的職責是為旗下商場和寫字樓物業取得高成效，亦即參照我們在上海的做法——為該兩類物業取得當地最高的租金。倘我們享有卓越的租金收入，意味著政府有更多的稅收。租戶（尤其購物商場租戶）願意支付該等租金，全因為我們能創造環境讓他們售出產品。倘他們的銷售額上升，其向當地城市繳納的稅額便增加。因此，每一方都是贏家。

A critical question everywhere is: how to make ourselves the outside investor of choice to local governments in land acquisitions. We do have some unique competitive advantages in this regard.

First, we have two huge, highly visible and extraordinarily successful developments in Shanghai – Plaza 66 and The Grand Gateway. They are our best marketing tools. Looking around the entire country, municipal leaders can hardly find other developers with projects that approach ours in quality – in terms of design, management and profitability. Most mayors want us to duplicate them in their cities.

Secondly, all of our designs are invariably spectacular. My belief from day one is that China deserves the best. One should not build according to the mainland's per capita income of today or according to the prevailing sense of aesthetics. That was exactly what we did in Shanghai in the 1990's and people were surprised. Now they understand and are appreciative. One must be foresighted and build projects for China of the 21st century.

Thirdly, we keep almost all of our developments for rent. That is a commitment which surprises municipal officials and without exception, they like it. To be sure, we have financial considerations for not selling – mainly, taxes are a lot lower for rental properties. However, there are also compelling reasons for municipal governments to prefer us.

Our job is to make our malls and offices highly successful – like what we have done in Shanghai where we command the highest rents for both product types. The superb income we enjoy will mean more taxes to the government. Our tenants, especially at our shopping centers, are willing to pay us such rents because we have created an environment where they can sell their products. The high sales volume will also increase taxes to the city. So everyone wins.

現時，集團在上海兩項物業每年的總回報率約為百分之十五，這是以攤分所有成本及無借貸為計算基準。即使不計入租金可能調升的因素在內，該等物業三年後的總回報率亦將超逾百分之五十。這決非內地住宅銷售項目經常可取得的回報。即使有住宅項目能達此要求，發展商只須為此納稅一次，其後當地城市再無稅收。至於本集團，三年後我們仍持有該等收租物業，它們會繼續為我們提供回報，並為當地城市提供稅收。

進一步來說，由於我們持有這些物業，故我們必須妥善保養和更新，令物業保持競爭力。這可確保物業不會淪為都市眼刺。太多此類頹敗物業遍佈中國，有些物業甚至變成社會病毒的溫床。市政府領導人當然不欲這些問題發生。

要落實這項租賃策略，有賴穩健的財政。集團財力強大，市政府官員盡知。少數其他公司（大部份為香港物業發展商）也許擁有財力，但未必擁有專才。至今為止，他們未有成功的項目可作為證明。此外，管理層瞭解風險，若然我們對風險感到安心，便不怕付款並會迅速付款；市政府領導人對此亦感欣喜。故此，只要我們的購地出價具競爭力，很容易便可成為獲垂青的買家。

最後，我們的獨特優勢是管理風格和公司文化。這是多個城市的市長對我們的評語。我們並非最容易打交道的公司。相對任何內地發展商及香港競爭對手，我們的辦事方式也許最為周詳，必須談妥所有重要細節，方會作出承諾。許多發展商喜歡合同措辭含糊，好讓他們日後佔甜頭。他們忘記對方是擁有最終決定權的政府。我們的方式是把雙方日後的不快減至最少，這贏得處事認真的市政府領導人的尊重。

At present, our two Shanghai complexes are yielding gross returns of approximately 15% per annum on all-cost-allocated and unleveraged bases. Not counting possible rent appreciation, in three years we will have a total return of over 50%. It is certainly not an everyday event that mainland residential projects for sale can generate those numbers. Even if they do, developers pay taxes once and the city receives no more thereafter. With us, the rental properties are still ours after three years and will continue to generate returns to us and taxes to the city.

Furthermore, by owning our facilities, we must maintain them well and keep improving them to stay competitive. That will ensure that they do not degenerate into urban eyesores. There are all too many such failed projects everywhere and some have even become hotbeds of social ills. Obviously municipal leaders do not like such problems.

To execute such a rental strategy, one must be financially strong. That we are, and city officials know it. And very few others (mostly Hong Kong developers) may have that strength but they may not have the expertise, for none have successful projects to show for it. Moreover, management knows the risks and if comfortable with them, is not afraid to pay and to pay promptly. That too municipal leaders like. Consequently, as long as we are competitive in land price, we can easily become the preferred purchaser.

Finally, our management style and corporate culture give us a distinct advantage. Mayors of more than a few cities have told us this. We are not a company that is the easiest to deal with. Perhaps more than any local player and our Hong Kong competitors as well, we negotiate all essential details before committing. Many developers like to keep contracts vague thinking that they can gain advantages later. They forget that their counterparty is the government which has the ultimate say. Our way minimizes future unpleasant surprises for both parties, and serious municipal leaders respect us for it.

與西方模式只講求法律精神的公司不同，集團管理層融會中西精髓——採用西方的方法包括法律來嚴密保障集團的權益，並同時尊重中國的文化風俗。我們勤奮、謹慎，但亦注重禮貌、尊重、坦誠。表面上，香港公司在這方面應佔優勢，但要取得妥善的平衡，困難程度遠超人們所想。

從多次同類洽商及管理內地商業物業所累積的經驗，教曉我們應在甚麼地方堅持、甚麼地方讓步。因此，我們能以閃電速度進行洽商。認真的市政府官員欣賞我們知所進退，而瀋陽市斗姆宮項目能在創記錄的短時間內達成協議，正好為我們的成功提供明證。

所有這些因素有助我們成為首選的發展商。這當然並非放諸四海而皆準，倘市政府領導人並非與我們抱有同一觀點，我們亦無能為力，自當默然告退。本人極不願錯失優質城市，幸好廣闊神州尚有許多其他良選。

業務回顧

營業額和溢利下降，主要由於自二零零五年第三季開始，樓市甚為疲弱所致。去年九月，政府拍賣土地錄得極高成交價，為樓價帶來短暫刺激。我們掌握這良機，售出碧海藍天約三百個單位。不久樓市再度沉寂，而在財政年度餘下時間內，銷售機會不再出現。

一手市場特別受到影響。市道自二零零四年初起放緩——當年售出少於二萬七千

However, unlike western style companies who only know how to be legalistic, your management blends the best of both worlds – rigorously protecting ourselves including through the use of the law as in the West, while respecting Chinese culture and customs. We are diligent and careful yet courteous, respectful, upfront and honest as well. On the surface, Hong Kong companies should have an edge in this regard, but to strike the right balance is much more difficult than people think.

Our repeated experiences in similar negotiations and in managing mainland commercial complexes have taught us what to insist and what to give. As a result, we can move with lightning speed. Serious municipal officials appreciate it, and the land acquisition in record time for the Doumugong project in Shenyang stands as a testimony of success.

All these help make us the developer of choice. Of course it does not work everywhere, for if city leaders have agendas not congruent with ours, there is nothing we can do. We will quietly walk away. I hate to lose good cities but fortunately there are many others in the vast country.

Operations Review

The drop in turnover and profit is due primarily to the exceptionally weak residential market starting in the third quarter of 2005. In September last year, a government land auction generated exceptionally high land prices. That temporarily stimulated home prices and we took advantage of the window to sell some 300 units of AquaMarine. Before long, the residential market fell silent once more. Selling opportunities were not to be seen again for the rest of the fiscal year.

The primary market was particularly affected. Activities have slowed since the beginning of 2004 – less than 27,000 apartments were sold

個單位，二零零五年售出不足一萬六千個單位，而二零零六年上半年僅售出四千二百個單位。樓價亦於二零零五年第四季下滑。少數大型發展商也許須粉飾損益賬，故多次大幅割價，令樓價跌勢加劇。潛在買家觀望樓價進一步調整，故紛紛裹步。

連串加息增添悲觀情緒，息差轉變有如雪上加霜。按揭利率於二零零五年初為最優惠利率減二點七五厘，而少於十二個月後已變為最優惠利率減二點二五厘。期內，最優惠利率由五厘升至七點七五厘；換言之，按揭利率上升超過一倍，由二點二五厘升至五點五厘。

然而，市場亦有正面的發展。自二零零四年年初起，當一手市場交易開始放緩之際，二手市場活動出現良好復甦。未來新樓銷售有可能隨之回升。新樓銷售現時已有一些復甦跡象，這是由於憧憬利率見頂所致。

租賃市場令人份外鼓舞。集團整體租金收入上升百分之十一——香港物業升幅為百分之五，上海物業升幅為百分之二十七，租金單位則全面上升。租出率方面，香港物業的主要環節包括商舖物業和寫字樓之租出率企穩；住宅物業租出率下降，但由於我們轉為吸納有能力支付較高租金及租期較長的租戶，故住宅物業的租金收入實際上升。上海物業包括商舖和寫字樓，基本上均全部租出，其租金佔本公司整體租金收入百分之二十七，一年前為百分之二十三。

that year, not quite 16,000 units in 2005, and only 4,200 in the first half of 2006. Price levels had also deteriorated in the last quarter of 2005. It was exacerbated by repeated and increasingly deeper cuts by a few major developers who perhaps needed to pump up their profit and loss accounts. The result was that potential buyers became skeptical of further price adjustments and consequently stayed away.

Successive interest rate hikes added to the pessimism. Changes in interest spread also did not help. At the beginning of 2005, mortgages were at prime minus 2.75%; less than twelve months later, they stood at prime minus 2.25%. In that period, the prime rate moved from 5% to 7.75%, meaning that mortgages more than doubled from 2.25% to 5.50%.

There were however some positive developments. Coinciding with the fall in primary market transactions which started in early 2004, secondary market activities picked up quite nicely. It is possible that the sales of new units will follow suit. There are already some signs of recovery, an expectation which is boosted by the plateauing of interest rates.

The leasing market was much more encouraging. Our total rental income grew by 11% – Hong Kong properties by 5% and Shanghai by 27%. Unit rents increased across the board. Occupancy for the key sectors of retail and offices in Hong Kong held steady. Residential fell but total income actually rose as we switched to higher paying and longer staying tenants. Shanghai facilities, both shops and offices, remain basically fully let. Their rents accounted for 27% of the Company's total rental revenue. That number stood at 23% a year ago.

展望

當恒隆四年後慶祝五十週年時，其面貌與今天及創立時相比，將有很大的分別。本公司一直以香港為基地，在可見將來仍將如是。然而，當位於內地的新項目落成時，我們便會變成中國主要的物業發展商、業主兼管理人。一俟我們按計劃完成十二個項目，加上兩項甚為成功的上海項目在內，我們將在中國多個最富活力的城市，擁有約三百萬平方米的最佳商業物業。

倘上海項目是可借鑑的經驗，則集團約港幣三百億元的新投資，應可帶來遠超香港物業的租金溢利。這是不合理地假設，除十二個項目外，集團不會再有新項目。因此，只要中國經濟保持穩定發展，集團應可有卓越的表現。

此外，購物商場是我們在內地的主要產品，故在某程度上，我們可被視為消費股而非一家純地產公司。地產是一項工具，可藉此受惠於增長迅速的中國消費；這好比一家時裝或化妝品製造商或零售商，可從中國的消費熱中受惠。本人認為，在中產階級冒升帶動的中國消費浪潮中揚帆前進，是一門僅有少數業務能勝過的好生意。

就此而言，作為商業物業的業主，我們享有獨特的好處。我們無須像外國零售商為銷售網絡操心。(在生意事宜上，香港公司在內地被視為「外商」。)我們可在幾乎任何一個我們屬意的城市開發項目。只要妥善設計和保養物業，我們很少機會須處理生產商及商店東主所面對的陳舊產品問題。倘我們在最佳地點興建合適產品(我

Prospects

When Hang Lung celebrates its 50th anniversary four years from now, it will look substantially different from what it is today and what it has been since its founding. We have always been a Hong Kong based company and will remain so for the foreseeable future. However, as new mainland projects are completed, we will also become China's leading commercial real estate developer, owner and manager. Once we complete the twelve planned projects, and together with the two highly successful complexes in Shanghai, we should own approximately 3 million square meters of the best commercial space in several of the most dynamic cities around the country.

If our Shanghai experience is any indication, then the HK\$30 billion or so in new investments should yield rental profits which will easily exceed those from Hong Kong. This unreasonably assumes no further new projects beyond the twelve. As long as the Chinese economy remains steady, we should do very well.

Moreover, with shopping malls as our lead product on the mainland, to some extent we can be viewed as a consumer spending company rather than as a pure property firm. Real estate is the means to tap fast rising Chinese consumption just as a clothing or cosmetics manufacturer and retailer benefit from the country's spending explosion. I can think of few better businesses to be in than to ride the wave of the rising Chinese middle class.

In this regard, to be a commercial property owner has distinctive attractions. We do not have to worry about distribution networks like foreign retailers do. (In business matters, Hong Kong firms are considered 'foreign' on the mainland.) We can put our projects in almost any city we want. We have little issue with product obsolescence faced by manufacturers and shop owners, as long as we design and manage our facilities well. Price competition is also manageable if we build the right product in the best locations as we

們現時正這樣做)，自可妥善管理價格競爭。未來八至十年，我們會打造出一項「專利」生意。一旦完成後，它可年復一年帶來穩定的租金收入。

倘前景這麼美好，為何所有人不趨之若鶩？

首先，很少人認為從事地產業需要明確清晰的策略，我們對此並不認同。由進入內地市場首天起，我們已有明確的策略。如有需要，我們當然可修訂策略，以配合市場發展。根據這項策略，我們首階段專注上海。這任務我們辦得很成功，坦白說遠超我們原來的預期。港匯廣場所有物業已於近期落成，待上海恒隆廣場今年底全部竣工後，首階段便會完結。

數年前，當集團在上海取得初步成功後，管理層腦海中浮起的問題是：我們下一步怎樣做？預期來自銷售香港住宅項目的可觀現金流，以及香港本土欠缺可提供合理回報的新機會，均促使我們迫切地作出思考。我們開始穿梭神州大地，以將上下而求索的精神，最終定出明確的策略。去年，我們決定在本人致股東函件內公布這項策略，而本人今年在主席報告內再加以詳述。坦白說，我們並未見到有許多香港地產公司，就發展內地市場擁有明確清晰的計劃。

其次，我們視中國項目為長線投資。把物業出租而非出售，在內地頗為罕見。大部份內地發展商需要資金周轉，故須出售項目，甚至在項目完成前進行預售。迄今，我們未見有任何公司擁有可與我們相比的長線投資視野。如上文所述，我們成為政府垂青的土地買家，部分原因是我們願意不出售項目。這意味著，我們經常沒有競爭對手。

are doing. In the coming eight to ten years, we are building such a 'franchise,' and once completed, it will bring as desirable a stream of rental income as annuities.

If the prospect is so promising, why is everyone not pursuing it?

First, few people view the real estate business as needing a clearly defined and well articulated strategy. We disagree. From our first day in the mainland market, we have a definitive strategy which can of course be adjusted if necessary in response to market developments. Phase one was to concentrate on Shanghai. That we have executed successfully, frankly beyond our original expectations. The build out of The Grand Gateway recently and of Plaza 66 at the end of this year will bring this phase to a close.

Initial success in Shanghai several years ago raised the question in the minds of management: what shall we do next? Sizable expected cash flow from the sales of Hong Kong residential projects, as well as the apparent lack of new opportunities in our home city that promise reasonable returns, contributed to the urgency in our thinking. We began to travel the breadth and length of the country which led to a definitive strategy. Last year we decided to make it public in my letter to shareholders, and I have expanded upon it in this writing. Frankly we fail to see many Hong Kong property companies that have well articulated plans for the mainland market.

Secondly, we are in China for the long haul. Renting properties without selling them is quite rare on the mainland. Most local developers need to turn their capital by selling or even pre-selling before project completion. So far we have hardly seen any company with our long term horizon. As noted above, it is partially this willingness not to sell which makes us the government's preferred land purchaser. That means we often do not have any competitor.

此外，鑑於內地證券市場迅速發展，更何況香港及/或海外資本市場提供機會，故我們可把中國項目資本化。在可見將來，我們並無類似計劃，但知道這是可行的方法也是好的。

第三，要充分落實本集團的策略，涉及很大的難度。這要求很多學問，由土地選址、設計概念、詳盡設計、以至處理政府關係及租戶關係等。管理層必須嚴守紀律，這與從事製造業無異，也許會令有些人感到意外。中國內地並非最容易經商的地方，變幻似乎是中國內地唯一的永恆。無怪人們為何難以舉出一家全國知名的成功地產公司(尤其商業物業公司)。

在今天的中國(正如在其他發展迅速的經濟體系一樣)，其中一個最大的誤解是：進行地產項目乃易如反掌。也許是吧，但要項目成功卻十分困難。放眼一看，幾乎每個主要城市，都有許多怪模怪樣兼且十室九空的建築物，便可見端倪。它們的存在對當地城市誠屬壞事，卻也意味著，最低限度至現時為止，我們面對的是輕微的競爭。

成功需要很多因素配合，故管理層的素質甚為重要。本人欣然匯報，我們現已擁有一支卓越的管理團隊。自高伯適和伍綺琴去年加入董事局後，本人認為集團管治之佳，與業內任何公司比較均不遑多讓。集團五位高級行政人員互補長短、合作無間。我們亦有許多能幹的同事相助，但就內地新項目而言，我們仍須盡快加強內地管理人員的能力，如去年提及，這是一項挑戰，我們現正悉力以赴。

Moreover, with the fast developing stock exchanges on the mainland, not to mention the possibility of using the Hong Kong and/or overseas capital markets, it is increasingly possible to monetize our projects. We do not have such plans for the near future, but it is always good to know that it can be done.

Thirdly, it is extremely difficult to adequately execute our strategy. There is a lot of know-how involved from site selection to conceptual and detail design, and from the management of government relations to that of tenants. Perhaps surprising to some, and not unlike manufacturing, management must be very disciplined. mainland China is not the easiest place to do business, and the only thing that is constant, it seems, is change. No wonder why one can hardly name a nationwide successful real estate company especially in commercial developments.

One of the biggest misconceptions today in China (as in other fast developing economies) is that doing real estate projects is easy. Perhaps it is, but doing it successfully is very difficult. Just witness the many monstrous and practically empty buildings in almost every major metropolis. Inasmuch as their presence is bad for the cities, it does mean that at least for now, competition is light.

Given the many necessary success factors, quality of management becomes critical. I am gratified to report that now we have an excellent team. With William Ko and Estella Ng joining the board last year, I like to think that as a group we are as good as any in the business. The five senior executives complement each other and work well together. We are supported by many capable staff, but for the new mainland projects, we still need to quickly beef up local management capabilities. As mentioned last year, this is a challenge and we are working hard at it.

部份人士問：中央政府近期收緊房地產市場規管，對恒隆會否有影響？我們當然正密切跟進情況，但迄今我們並無受到任何影響。北京遏止數個城市的住宅樓價是正確的做法，但我們的項目不受影響。

本人亦應提出，為進一步加強競爭能力，我們甚為重視節約能源。環保符合政府政策，同樣重要的是它符合企業效益。我們有充分理由為新項目作出節能設計——能源平均佔集團旗下商業物業近百分之二十二的營運成本，故我們不斷努力，以更佳的設計和管理來降低能源用量。

香港方面，本人再次抱有希望，集團在本財政年度內可進一步售出住宅單位。過去約一個月，一手市場似乎有所回升。鑑於加息週期可能快將終結，我們有理由持審慎樂觀態度。我們亦會在香港物色購置土地機會，最近已簽約購入一幅豪宅用地，並希望作出更多收購。

預期租賃市場將重演上財政年度的情況，即香港溫和上升而上海則銳升。上海恒隆廣場第二幢辦公室大樓可望於今年底落成，其預租情況理想，但須至下財政年度方能為純利提供顯著的貢獻。

倘無不可預見的情況出現，明年度的業績應可轉佳，但主要須留意香港住宅單位的銷情。

主席
陳啟宗

香港，二零零六年八月二十一日

Some have asked if the recent tightening of the real estate market by the central government has affected us. We are obviously following the situation closely but so far there has been no impact on us. Beijing is rightly reining in residential prices in a number of cities but we do not play in that space.

To further strengthen our competitiveness, I should mention that your management is very mindful of the need to conserve energy. Environmental friendliness is in accordance with government policies, and just as importantly, is good business. We have all reasons to design our new projects with conservation in mind. Energy on average accounts for almost 22% of the total cost of running our commercial complexes, and we are constantly striving to lower it by designing and managing more smartly.

Back in Hong Kong, I am again hopeful that we will sell more residential units in the present fiscal year. In the past month or so, the primary market seems to have picked up somewhat. With interest rate hikes apparently approaching the end of this cycle, there are reasons for cautious optimism. We will also look to buy land locally. Recently we have signed up a luxury residential site and hope to do more.

The rental market is expected to be a repeat of the past fiscal year, namely, rise gently in Hong Kong and sharply in Shanghai. Slated for completion end of this year, the second office tower in Plaza 66 while pre-leasing well, will not contribute significantly to the bottom line until the next fiscal year.

Barring unforeseen circumstances, next year should see better results. The main item to watch is the sales of residential units in Hong Kong.

Ronnie C. Chan
Chairman

Hong Kong, 21 August 2006