



Harbour City

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



Harbour City

HARBOUR CITY
海港城



Harbour City – home of Hong Kong's largest and most popular shopping mall.

BALANCE SHEET (EXTRACT)

as at December 31, 2002

	HK\$M
Properties	33,548
Net current liabilities	(1,443)
Other non-current assets	179
Net business assets (before debts)	32,284

For the year 2002, **Harbour City** generated HK\$2,878 million in total revenue, an increase of 1.4 per cent compared to 2001. The gain in revenue came mainly from Gateway offices' higher contribution. Retail revenue was marginally lower than that of the previous year. Other operations, including **Harbour City** ex-Gateway office towers, service apartments and hotels, all showed marginal to single-digit declines in revenue because of the current weak state of the economy. As a result of better cost controls and reallocation of resources, operating profit grew by 7.4 per cent to HK\$2,001 million.

OFFICES

4.45 million square feet

The overall average occupancy rate for **Harbour City** offices remained above 83 per cent. This seemingly reduced figure reflected the inclusion of the newly launched Tower 6 in the overall calculation. With a 70 per cent-plus retention rate for office tenancies that expired in 2002 and new letting commitments totalling about 400,000 square feet, there was actually a net takeup of 200,000 square feet during the year under review. The Gateway offices stood out as the best performer among all the major components of **Harbour City**. Total office revenue rose by 8 per cent to HK\$1,019 million from HK\$943 million in 2001.

GROSS REVENUE

	2002 HK\$M	2001 HK\$M
Office – Gateway I & II	637	523
Office – Other Towers	382	420
Retail	1,017	1,024
Service Apartment	226	227
Hotel	616	643
	2,878	2,837

OPERATING PROFIT

	2002 HK\$M	2001 HK\$M
Office – Gateway I & II	523	418
Office – Other Towers	307	309
Retail	798	806
Service Apartment	150	158
Hotel	223	172
	2,001	1,863

The increasing supply of new space, combined with company downsizing, put the Hong Kong office market under tremendous pressure. The average asking rent for office space at **Harbour City** declined by roughly 13 per cent during 2002. Office consolidation and lease restructuring were the dominant features of the market and vacancy levels generally increased across all districts.

SERVICE APARTMENTS

670,000 square feet

Gateway Apartments contributed HK\$226 million to **Harbour City's** total revenue, more or less the same as in 2001. The year 2002 was extremely difficult for service apartment operations. While previously most demand had come from overseas businessmen and professionals, the downward trend of housing-related allowances hit this segment hard. Moreover, competition grew as more service apartment projects commenced operation, more landlords converted residential buildings into service apartments, and hotels offered more flexible long-stay packages, an indirect substitute for service apartments.

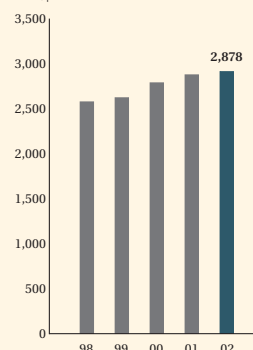
Thanks to its superb location and excellent service, Gateway Apartments continued to do well. The average occupancy rate throughout the year remained at about

All Gateway Apartments units command spectacular views of the Victoria Harbour.



Harbour City

GROSS REVENUE
HK\$M



80 per cent. Over 65 per cent of outstanding tenancies are for 12 months or more, 15 per cent for six to 12 months, and about 20 per cent for less than six months. The majority of Gateway Apartments tenants are multinational corporations.

HOTELS

1.27 million square feet; 1,499 rooms in Hong Kong

Café Marco, the stylish coffee shop at The Marco Polo Hongkong Hotel, was opened in January 2003.

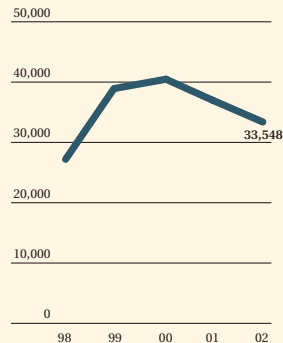


The three hotels at **Harbour City** together generated HK\$616 million in revenue, which was 4.2 per cent lower than the year before. Although statistics from the Hong Kong Tourism Board suggested a staggering 30 per cent increase in the number of visitor arrivals in 2002, the operating environment for the hotel industry remained tough. Due mainly to the

contraction of the high yield corporate and business segment in the aftermath of the 9-11 terrorist attacks, many hotel operators have adopted highly competitive pricing strategies to preserve market share. Because of their positioning as four-star executive business hotels, the three Marco Polo hotels at **Harbour City** could not benefit meaningfully from the 50 per cent jump in the number of visitors from Mainland China, who now account for more than 40 per cent of total visitor arrivals.

The average occupancy rates for The Marco Polo Hongkong Hotel, The Marco Polo Gateway and The Marco Polo Prince in 2002 were 81, 88 and 92 per cent respectively. Consolidated occupancy for the three hotels was about 86 per cent, approximately three percentage points higher than the 83 per cent achieved in 2001. However, this improvement was offset by the pricing weakness affecting the entire industry. Food

PROPERTY VALUE HK\$M



Harbour City maintains a distinctively high retail occupancy of over 97 per cent.

and beverage, a major source of income along with room charges, continued to be affected by keen competition from nearby hotels and other non-hotel food outlets, as well as the price-sensitivity of consumers.

RETAIL

1.90 million square feet

Revenue from **Harbour City** retail properties totalled HK\$1,017 million, marginally lower than the HK\$1,024 million achieved in 2001 due to the temporary disruption during the renovation period at Ocean Terminal last year. As reflected in retail sales figures, the whole retail sector in Hong Kong continued to suffer from deflation and weak consumer sentiment. Very fierce competition, together with Hong Kong residents' increasing fondness for cross-border shopping, are putting further pressure on certain sub-groups of retail operators. However, the surge in consumption by foreign visitors, particularly tourists from Mainland China, has alleviated the pain to some extent.

Harbour City

HARBOUR CITY: RETAIL TENANT MIX (BY AREA AND RENTAL)
as at December 31, 2002

	% by Area	% by Rental
Fashion	26.4	37.9
Restaurant, Fast Food, F&B	17.7	9.0
Department Stores, Confectionery Products	14.5	11.3
Jewellery, Beauty and Accessories	8.9	12.1
Children's Wear & Related Trades, Toys	8.7	5.7
Leather Goods - Shoes, Bags, Luggage etc	7.8	13.1
Others	16.0	10.9
	100.0	100.0

Lane Crawford's new flagship store in Harbour City features a jumbo cosmetics centre.



In spite of the uninspiring operating environment, average retail occupancy at **Harbour City** edged up slightly to 97 to 98 per cent. Tourists and shoppers from Mainland China, currently the demographic group with the greatest spending power, mostly come to Hong Kong for its wide selection of branded goods and high-end merchandise and the quality assurance that comes with them; traffic tends to flow towards conveniently located shopping malls with desirable content. The polarization trend already observed continued last year as most retailers moved towards locations with consistent and secure traffic flow. Average asking rent for retail space at **Harbour City** held firm throughout 2002. Furthermore, thanks to a 2 per cent increase in average sales per square foot within the **Harbour City** complex, most new leases and renewals achieved double-digit increments.

More top-notch international fashion boutiques – including Kate Spade, and Bottega Veneta – opened shops at **Harbour City** during the year under review. Innovative

concepts designed to add excitement and stimulate spending, such as LCX and the jumbo Lane Crawford cosmetics centre, have been introduced to **Harbour City** and met with an enthusiastic response. Other new upmarket tenants waiting to join the Canton Road critical mass include Yves Saint Laurent's 9,000-square-foot flagship store, slated for launch towards the end of 2003. Several popular brands targeting office ladies and youngsters, including Mango, Ztamp and Une Nana Cool, have also opened their outlets in **Harbour City** recently.

With its cluster of upmarket designer labels, Canton Road is fast becoming the "Champs Elysees" of Hong Kong.



HARBOUR CITY: PORTFOLIO INFORMATION

	Area (sq ft)	Gross Revenue (HK\$M)	Average Occupancy (%)	Year-end Valuation (HK\$M)	Anchor Tenants
Office					
Gateway	2,698,000	637	79.5%	10,550	- AIA - CMG Asia - DuPont - Ernst & Young - GlaxoSmithKline - Hallmark - JAL - Karstadt Quelle - Nike - Prudential - Sears
Other Towers	1,748,000	382	89.3%	4,736	- APL - Eagle Star - Gemex - Hasbro - Hitachi - HKSAR - Government - Mattel - May - Department - Store
Retail					
	1,901,000	1,017	97.3%	10,877	- 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
Service Apartment	670,000	226	79.7%	4,046	
Hotel	1,276,000	616	86.3%	3,339	



Times Square

*A landmark in Causeway Bay,
Hong Kong's busiest shopping district.*



Times Square



Times Square's shopping complex enjoys extremely heavy daily traffic.



BALANCE SHEET (EXTRACT) as at December 31, 2002

	HK\$M
Properties	11,782
Net current liabilities	(227)
Net business assets (before debts)	11,555

Total revenue generated by **Times Square** in Causeway Bay amounted to HK\$895 million, slightly higher than the HK\$892 million achieved in 2001. While the retail segment increased its contribution, office revenue came in marginally lower than the year before. Operating profit for 2002 was maintained at HK\$762 million, the same as the year before. Savings from the cost-rationalization programme during the year were offset by premises-enhancement expenses at the Food Forum and Kids Kingdom.

OFFICES

1.03 million square feet

Times Square offices maintained their average occupancy rate at 92.7 per cent. In addition to the sluggish demand faced by the whole Grade A office market, new space coming out of Central and Island West has created remarkably fierce competition on Hong Kong Island. Since most businesses in all industries have focused on cost saving, office consolidation activities characterised the market in 2002. Total office revenue at **Times Square** dropped by HK\$1 million to HK\$318 million.

During the year under review, approximately 70 per cent of all expiring leases were renewed. Because of **Times Square's** central location in Hong Kong's prime shopping district, its typical tenants are multinational

GROSS REVENUE

	2002 HK\$M	2001 HK\$M
Office	318	319
Retail	577	573
	895	892

OPERATING PROFIT

	2002 HK\$M	2001 HK\$M
Office	275	271
Retail	487	491
	762	762

corporations with popular brands in the consumer goods market. Despite a 20 per cent decline in market rents in Causeway Bay and the nearby Wanchai area, asking rents for **Times Square** offices declined by only about 10 per cent last year.

RETAIL

936,000 square feet

Total **Times Square** retail revenue increased by about HK\$4 million, to HK\$577 million. The improvement was largely a result of the higher rental rates for tenants. The soft market notwithstanding, the average occupancy of the **Times Square** shopping complex held steady at 96 to 97 per cent. Like **Harbour City**, **Times Square** achieved double-digit positive rental reversion for the retail portion last year.

As for re-merchandising progress, 95 per cent of all expiring tenancies in 2002 were either successfully renewed or replaced with more appealing operators. A host of new high-end international brands joined **Times Square** in 2002, including Versace, Links of London, Jacadi, Brooks Brothers, Calvin Klein and Patagonia. Three exciting new restaurants – WasabiSabi, Water Margin and Ramas Greens – opened as well, increasing the variety of cuisines available at the Food Forum.



Luxury fashion and home furnishings retailer Lane Crawford and lifestyle specialty store City'Super are both core offerings of Times Square in attracting traffic.

Times Square

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

as at December 31, 2002

	% by Area	% by Rental
Restaurant, Fast Food, F&B	25.8	16.2
Department Stores, Confectionery Products	23.5	17.0
Fashion	15.8	28.0
Consumer Electronic & Entertainment	14.4	10.5
Jewellery, Beauty and Accessories	6.5	14.3
Others	14.0	14.0
	100.0	100.0



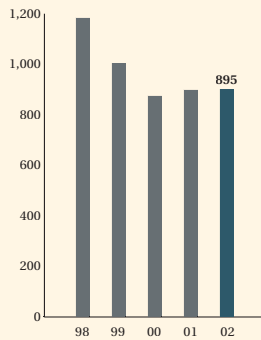
The highly popular Food Forum features a great variety of specialty restaurants.

As reported in the interim results, one of last year's top priorities was to leverage on the success of Electronics World on 7/F by expanding this theme to 8/F. Thanks to a discreet tenant acquisition process, the vast majority of Hong Kong's most popular audio-visual niche brands, electronic goods chains and specialized accessories suppliers are now to be found on these two floors, forming a very sizeable AV products and

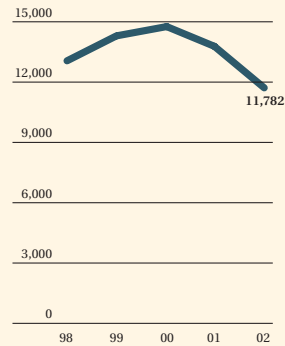
TIMES SQUARE: PORTFOLIO INFORMATION

	Area (sq ft)	Gross Revenue (HK\$M)	Average Occupancy (%)	Year-end Valuation (HK\$M)	Anchor Tenants
Office	1,033,000	318	92.7%	4,862	- AT&T - Coca-Cola - Disney - Lucent - Motorola - NatWest - NCR - Shell
Retail	936,000	577	96.7%	6,920	- Bally - Broadway - City' Super - Disney Store - Fortress - Lane Crawford - Marks & Spencer - Max Mara - UA Cinema - Versace

GROSS REVENUE HK\$M



PROPERTY VALUE HK\$M



electronic goods power centre. Quality service and vast selection have given Electronics World a high public profile. In fact, the Electronics World has become a new core offering of **Times Square** in attracting traffic, in addition to the luxury fashion and home furnishings retailer Lane Crawford, the lifestyle specialty store City'Super and the UA Times Square cinema complex.



"On Stage at Times Square" is dedicated to talented amateur and experienced performers alike.



The Electronics World on the 7th and 8th floors has become a "power centre" for AV products and electronics goods.



Sorrento Phase II was launched with excellent response in November 2002.



Wharf Estates Development Limited

Wharf Estates Development Limited is the development arm of the Wharf Group with net business assets of almost HK\$13 billion comprising development projects and other properties.

BALANCE SHEET (EXTRACT)

as at December 31, 2002

	HK\$M
Interest in Sorrento and Bellagio	3,241*
Properties	8,459
Property inventory and development	1,465
Second mortgage debtors	77
Net current liabilities	(371)
Net business assets (before debts)	12,871

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

SORRENTO

Over 81 per cent of the 1,272 Sorrento Phase I units have been sold. The 854 Phase II units are being released to the market in batches and pre-sales commenced in late November 2002.

Because of the Government's property stimulus package, the Phase II units have sold quite quickly, in spite of being much larger on average than the Phase I units. Prices for Phase II units range from HK\$5 million to HK\$10 million. At the end of December 2002, more than 260 units had been sold, raising proceeds of about HK\$1.8 billion.

The Phase I units, which were launched in November 2001, received an occupation permit in October 2002. At the end of the year under review, total sales and proceeds were 1,040 units and over HK\$4.7 billion.

Sorrento is an MTRC joint-venture project above the Kowloon Station, equally owned by a five-member consortium comprising Wharf, Harbour Centre Development, Wheelock, New Asia Realty and Realty Development Corporation.



**Wharf Estates
Development
Limited**

PROPERTY LIST

	Project Nature	GFA (sq ft)	% Owned	Status
Plaza Hollywood	Retail	562,000	100%	For Lease
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
Sorrento Phase II	Residential	1,235,000	33%*	Under Construction
Bellagio Phase III/IV	Residential	1,571,000	33%	Under Construction
Gough Hill Path	Residential	24,000	100%	Under Design Planning
Kowloon Godown	Residential	2,300,000	**	Under Planning Submission
Yau Tong Godown	Residential	244,000	100%	Under Planning Submission
Yau Tong JV Project	Retail/Residential	9,041,000	15.6%	Under Planning Submission

* Effective ownership

** A joint venture with details under discussion

Wharf Estates Development Limited



A total of 1,250 Bellagio units have been sold by end of 2002.

Each of the five stakeholders has contributed financial capital and funding on a pro rata basis to the project company which holds Sorrento. The total area of the development is 2.5 million square feet, comprising 2,126 units in two phases. Phase I was completed in October 2002, one year ahead of the expected completion of Phase II.

BELLAGIO

In September 2002, Bellagio Phase I, consisting of 840 units, was launched. Due to the positive response, it was soon decided to add all 864 Phase II units to the offer list. At the end of December 2002, total sales and proceeds stood at 1,250 units and HK\$2.8 billion.

Bellagio, in Sham Tseng on the western shore of the New Territories, is a joint-venture development equally owned by Wharf, Wheelock and New Asia Realty.

The three stakeholders contributed financial capital and funding on a pro rata basis to the project company which holds Bellagio. With a total area of 3.1 million square feet, once completed it will consist of 3,354 units in eight towers in four phases. Phases I and II were completed in May and August 2002 respectively.

PLAZA HOLLYWOOD

An average occupancy rate of 98 per cent was achieved during year 2002. With 95 per cent of all 2002 expiring tenancies being successfully renewed or re-merchandised, rental revenue generated by Plaza Hollywood during the year under review was maintained at about the same level a year ago.

WORLD TRADE SQUARE

Occupancy reached 83 per cent at the end of year 2002. Due to competition coming from nearby industrial/office buildings, rental rates have been under pressure.

WHARF PEAK PORTFOLIO

Both Mountain Court and Chelsea Court were completed in mid-2001. Out of the respective 16 and 20 total units, 13 or more than 80 per cent of Mountain Court units and 10 or 50 per cent of Chelsea Court units had been leased out as at the end of year 2002. No.1 Plantation Road, providing 48 luxury apartments, was completed in June 2002. Leasing started in July and a total of 14 takeups had been recorded as at the end of 2002. Redevelopment of 3-5 Gough Hill Path is currently in progress according to schedule.



Overlooking the beautiful Tsing Ma Bridge, Bellagio offers its residents a unique resort-type lifestyle.