

The Company plays a pivotal role in the establishment of new communities centred on rail access and implementing new concepts for a modern living environment. By establishing high building and environmental standards, we enable property developers and users to benefit from the value created by the Company's integrated rail and property development initiatives.

Property and the operating agreement

The Operating Agreement provides the basis for Government and the Company to agree on property development rights to be provided to the Company in order to plan and build new railway projects. Such rights will be subject to payment of land premium at full market value, although such assessment is made ignoring the presence of the railway. This is a continuation of the successful practice previously adopted between the former Mass Transit Railway Corporation and Government.

Proven strategy to optimise value of assets

The Company optimises the value of its property assets by structuring joint venture arrangements with developers to maximise its potential profits while minimising downside risk. Our profits are derived from the sharing of realised profits with property developers in agreed proportions from the sale

or lease of the properties, the sharing of assets in kind built under the development, or through up-front cash payments from developers. Profit sharing arrangements are structured in accordance with prevailing market conditions, allowing us to maintain a flexible approach for each development package.

Adopting land use, site planning and phasing strategies that are realistic for each development site form the basis of our low-risk approach to the development process. Clearly defining key interface works and essential design controls further reduces uncertainty. Coupled with careful choice of timing for the invitation of tenders from qualified developers, the Company is able to optimise its risk and return from property projects. Government land premiums and development costs are normally the responsibility of the appointed developer.

Development properties

The award in September 2000 of the Kowloon Station Packages Five, Six and Seven to a company in the Sun Hung Kai Properties Group marked the completion of a six-year tender programme for the Airport Railway property development projects that commenced in 1994. All Airport Railway related sites are now under various stages of active development, with some already completed and occupied.

AIRPORT RAILWAY PROPERTY DEVELOPMENT PLAN	AIRPORT RAILWAY PROPERTY DEVELOPMENT PROGRESS	TSEUNG KWAN O EXTENSION PROPERTY DEVELOPMENT PLAN																																																																																					
<p>Gross floor area in thousand sq.m.</p> <table border="1"> <caption>Airport Railway Property Development Plan Data</caption> <thead> <tr> <th>Station</th> <th>Residential</th> <th>Office</th> <th>Hotel/Service apartment</th> <th>Retail and others</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Hong Kong</td> <td>254</td> <td>102</td> <td>60</td> <td>416</td> <td>832</td> </tr> <tr> <td>Kowloon</td> <td>608</td> <td>236</td> <td>163</td> <td>90</td> <td>1,097</td> </tr> <tr> <td>Olympic</td> <td>390</td> <td>111</td> <td>79</td> <td>62</td> <td>642</td> </tr> <tr> <td>Tsing Yi</td> <td>246</td> <td>47</td> <td>293</td> <td>47</td> <td>593</td> </tr> <tr> <td>Tung Chung</td> <td>936</td> <td>22</td> <td>1,558</td> <td>22</td> <td>2,538</td> </tr> </tbody> </table>	Station	Residential	Office	Hotel/Service apartment	Retail and others	Total	Hong Kong	254	102	60	416	832	Kowloon	608	236	163	90	1,097	Olympic	390	111	79	62	642	Tsing Yi	246	47	293	47	593	Tung Chung	936	22	1,558	22	2,538	<p>Gross floor area in thousand sq.m., as at 31 December 2000</p> <table border="1"> <caption>Airport Railway Property Development Progress Data</caption> <thead> <tr> <th>Station</th> <th>Under construction</th> <th>Construction completed or near completion</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Hong Kong</td> <td>331</td> <td>85</td> <td>416</td> </tr> <tr> <td>Kowloon</td> <td>949</td> <td>148</td> <td>1,097</td> </tr> <tr> <td>Olympic</td> <td>577</td> <td>62</td> <td>642</td> </tr> <tr> <td>Tsing Yi</td> <td>65</td> <td>293</td> <td>293</td> </tr> <tr> <td>Tung Chung</td> <td>719</td> <td>312</td> <td>1,031</td> </tr> </tbody> </table>	Station	Under construction	Construction completed or near completion	Total	Hong Kong	331	85	416	Kowloon	949	148	1,097	Olympic	577	62	642	Tsing Yi	65	293	293	Tung Chung	719	312	1,031	<p>Gross floor area in thousand sq.m.</p> <table border="1"> <caption>Tseung Kwan O Extension Property Development Plan Data</caption> <thead> <tr> <th>Station</th> <th>Residential</th> <th>Retail</th> <th>Office</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Tiu Keng Leng</td> <td>238</td> <td>13</td> <td>251</td> <td>264</td> </tr> <tr> <td>Tseung Kwan O</td> <td>111</td> <td>76</td> <td>290</td> <td>477</td> </tr> <tr> <td>Hang Hau</td> <td>139</td> <td>3</td> <td>142</td> <td>284</td> </tr> <tr> <td>Dream City</td> <td>1,600</td> <td>40</td> <td>1,640</td> <td>1,640</td> </tr> </tbody> </table>	Station	Residential	Retail	Office	Total	Tiu Keng Leng	238	13	251	264	Tseung Kwan O	111	76	290	477	Hang Hau	139	3	142	284	Dream City	1,600	40	1,640	1,640
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<p>Tendering of Airport Railway development packages was completed comprising some 3.5 million sq.m. of residential, commercial, hotel and retail space.</p>	<p>Developments at the five stations progressed as scheduled. Projects completed or near completion, mainly residential sites, represented some 40.5% of total gross floor area at year-end.</p>	<p>Developments at the four stations/depot will provide some 2.3 million sq. m. of gross floor area, including 2.1 and 0.2 million sq. m. of residential and commercial space respectively.</p>																																																																																					



4 shopping malls, 36,701 residential flats and 370,022 square metres of commercial space along the MTR system bring convenience and service to the community

The Packages Five, Six and Seven mixed development scheme includes the 102-storey landmark tower, likely to be the most prominent building in Hong Kong. Together with the 88-storey tower currently under construction above Hong Kong Station, it will deliver the "gateway" vision of landmark commercial towers above the Airport Railway stations on each side of the Hong Kong harbour.

The Kowloon Station development will be at the centre of the future new urban district of Tsim Sha Tsui West. Our share of Packages Five, Six and Seven will be a majority interest in the 83,800 square metres retail centre, which we expect will be added to our investment property portfolio.

The Company is taking forward the development of the Tseung Kwan O Extension (TKE) property sites in a commercially prudent way similar to that for the Airport Railway. Located at three stations, Tiu Keng Leng, Tseung Kwan O and Hang Hau, and at the future depot and adjacent station at Area 86, these four property sites will be at the hub of the high-density community districts in the Tseung Kwan O New Town. The MTR will be the principal mode of transport for these communities, linking them directly to the commercial and business centres of the Hong Kong harbour waterfront.

For the TKE project there will be 23 property development packages offering a total of some 2.3 million square metres of residential, commercial and retail space. These packages are envisioned to be of various sizes and mix to allow for participation from a broad spectrum of property developers. During the past year one very small package, at Area 57a, was awarded on a

negotiated basis in view of its close integration with a much larger development scheme being undertaken by the developer on the remainder of Area 57. Tendering on an open

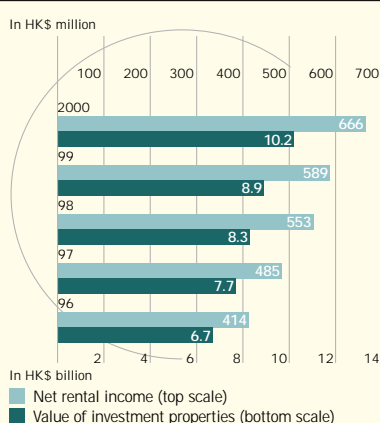
basis for the remaining TKE packages is expected to commence in 2001 subject to market conditions, with all the property development projects scheduled for completion by 2012.

Taking a leading role, in liaison with Government's Buildings Department and other organisations, the Company has incorporated into the design and planning of these properties timely and imaginative solutions for the sustainable development of Hong Kong. At the Area 86 "Dream City" complex, which will be Hong Kong's single largest private property development to date, a new model for high-density community living with segregated areas for automotive and pedestrian movement and large-scale open areas for leisure activities will be created. This complex will incorporate a full range of amenities and community and supporting facilities including schools, clubhouses and shopping centres. To optimise the environmental benefits of the surrounding geography, the layout of the planned 50 residential towers has been designed to maximise the airflow and view corridors.

Consistent with the approach of adding value to our developments, we believe such improved designs will

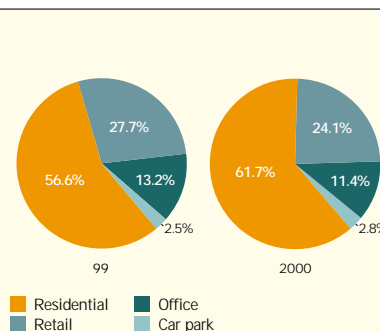
become a standard for consumer demand in future and we will continue to competitively position our development schemes accordingly. We shall continue to work with Government and the industry to ensure the emergence of such "green initiative" designs for inclusion in future properties.

INVESTMENT PROPERTIES

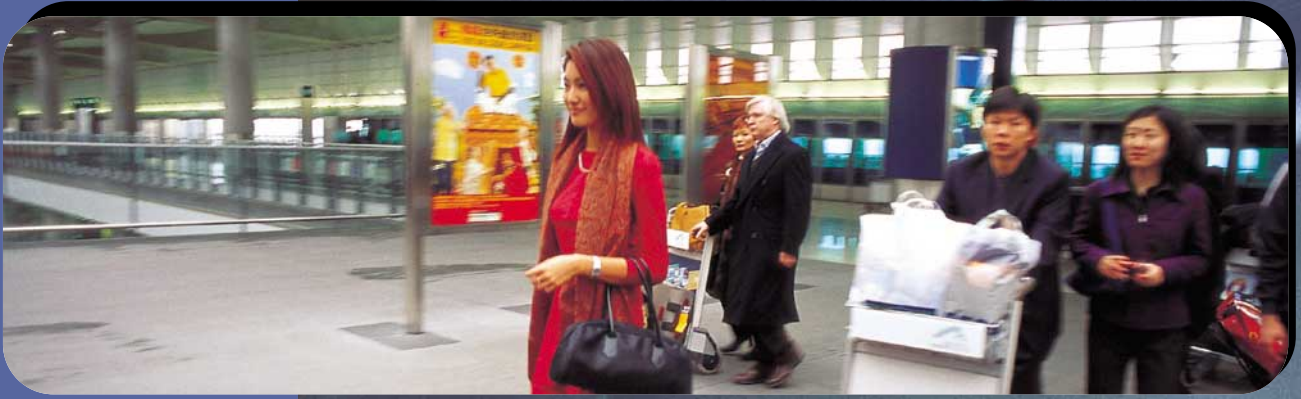


Certain strategic properties are retained for investment, the rental of which provides recurrent income. The value of the investment property portfolio totalled HK\$10.2 billion at year-end.

DISTRIBUTION OF PROPERTY MANAGEMENT INCOME



From its portfolio of managed residential flats, car parks, office and retail centres the Company earned HK\$60 million, an increase of 20% from 1999.



52,435 core kilometres of fibre optic cable, 377 retail outlets and 7.1 million Octopus cards enhance our customer services

Further asset development opportunities

Expressions of interest were invited from developers at year-end for the development of a primarily residential scheme with a limited retail component above Choi Hung Station. Strong interest was received. Because of its strategic transport location, a park-and-ride car park and a major improved bus, mini-bus and taxi interchange with the MTR station are included in this scheme. The scheme comprises 17,131 square metres of gross floor area of residential space, 2,400 square metres of commercial/retail space, 450 public car parking spaces and a two-storey public transport interchange. Tender and award are expected during the first quarter of 2001.

A re-zoning application for the Chai Wan Depot was made to the Town Planning Board, seeking approval for a primarily residential development to be built over the open-air section of the depot. This would effectively extend the existing Heng Fa Chuen community and achieve environmental benefits. Subject to the re-zoning decision being made in early 2001 and the completion of other statutory approval procedures, construction could commence in 2003/4, extending over four to five years.

A further re-zoning application, for airspace residential and amenity development whilst incorporating existing uses, was made for a site adjacent to Tsing Yi Station that is currently

AIRPORT RAILWAY PROPERTY DEVELOPMENTS (PACKAGES AWARDED)

Location	Developers	Type	Gross floor area (sq.m.)	No. of parking spaces	Expected completion date
Hong Kong Station	Sun Hung Kai Properties Ltd.	Office	254,190		By phases from 1998-2005
	Henderson Land Development Co. Ltd.	Retail	59,460		
	The Hong Kong & China Gas Co. Ltd.	Hotel	102,250		
	Bank of China Group Investment Ltd.	Car park		1,344	
Kowloon Station Package One	Wing Tai Holdings Ltd.	Residential	147,562		Completed in 2000
	Temasek Holdings (Pte) Ltd. Singapore Land Ltd. Keppel Land Ltd. Lai Sun Development Co. Ltd. Worldwide Investment Co. (Bermuda) Ltd.	Car park		1,332	
Package Two	The Wharf (Holdings) Ltd. Wheelock and Company Ltd. New Asia Realty and Trust Company Ltd. Realty Development Corporation Harbour Centre Development Ltd.	Residential Car park	210,319	1,313	By phases from 2002-2003
Package Three*	Sun Hung Kai Properties Ltd.	Residential Cross-border bus terminus Car park	100,000 5,886	425	2004
Package Four	Amyo Properties Ltd.	Residential Car park	128,845	864	2003
Packages Five, Six and Seven	Sun Hung Kai Properties Ltd.	Retail	82,750		By phases from 2003-2007
		Office ††	235,778		
		Serviced apartment ††	68,472		
		Hotel	95,000		
		Residential Kindergarten Car park	21,300 1,050	1,974	
Olympic Station Package One	Sino Land Co. Ltd.	Office	111,000		By phases from 1998-2000
	Bank of China Group Investment Ltd.	Retail	14,900		
	Kerry Properties Ltd.	Residential	169,950		
	China Overseas Land and Investment Ltd. DBS Land Ltd.	Indoor sports hall Car park	13,219	1,380	
Package Two	Sino Land Co. Ltd.	Retail	47,500		By phases from 2001-2002
	Kerry Properties Ltd.	Residential	220,050		
	Bank of China Group Investment Ltd.	Market	1,100		
	China Overseas Land and Investment Ltd.	Car park		932	

occupied by a lorry park and transport interchange. Decision on the application is expected in early 2001.

Investment properties

Our investment properties performed well in the face of a continuing weak property market, with rental income increasing 9% over the previous year. We took positive steps to further enhance our shopping centres by embarking on two significant initiatives.

The major renovation of Heng Fa Chuen Galleria as a European-style mall with revised retail tenant mix, to be renamed as Paradise Mall, commenced late in the year.

Completion will be during 2001. The intention is to reposition the centre in market terms and increase its attractiveness to a wider catchment area. Prospective retail tenants have shown a good level of interest, with a substantial percentage of the floor space already committed by year-end.

In the final quarter of 2000 we commenced a new initiative at Telford Plaza shopping centre which is located in one of the areas with the highest passing pedestrian traffic in Hong Kong. We believe we will create value and further increase the performance of the mall by combining the market with the adjacent supermarket, creating a superstore, and to rearrange amenity spaces and some retail units to better attract passing trade.

AIRPORT RAILWAY PROPERTY DEVELOPMENTS (PACKAGES AWARDED) (continued)

Location	Developers	Type	Gross floor area (sq.m.)	No. of parking spaces	Expected completion date
Olympic Station Package Three*	Sun Hung Kai Properties Ltd.	Retail	2,600		2001
		Hotel	62,000		
		Car park		169	
Tsing Yi Station	Cheung Kong (Holdings) Ltd. Hutchison Whampoa Ltd. CITIC Pacific Ltd.	Retail	46,170		Fully completed in 1999
		Residential	245,700		
		Kindergarten	925		
		Car park		920	
Tung Chung Station Package One#	Hang Lung Development Co. Ltd. Henderson Land Development Co. Ltd. New World Development Co. Ltd. Sun Hung Kai Properties Ltd. Swire Properties Ltd.	Office	15,000		By phases from 1999-2003
		Retail	48,500		
		Hotel	22,000		
		Residential	260,960		
		Kindergarten	700		
		Car park		2,002	
Package Two**	HKR International Ltd. Hong Leong Holdings Ltd. Recosia Pte Ltd. Lippo China Resources Ltd.	Retail	2,500		By phases from 2001-2004
		Residential	253,100		
		Kindergarten	350		
		Car park		738 †	
Package Three**	Cheung Kong (Holdings) Ltd. Hutchison Whampoa Ltd.	Retail	5,000		By phases from 2002-2004
		Residential	407,300		
		Wet market	550		
		Kindergarten	350		
		Car park		1,215	
Total:			<u>3,464,286</u>	<u>14,608</u>	

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* Town Planning Board has approved the change of land use from hotel to residential development of 103,152 sq.m. and 252 car parking spaces for Package Three.

** Includes additional floor area

† This falls within the range of 637 to 745 as stipulated in the latest approved Master Layout Plan.

†† This falls within the range of 231,778 to 235,778 sq.m. for offices and 68,472 to 72,472 sq.m. for serviced apartments as stipulated in the latest approved Master Layout Plan.

Tung Chung Station additional floor area:

The Town Planning Board has given its approval for the revised Master Layout Plan for Tung Chung Station development to incorporate the proposed additional residential gross floor area of 14,550 sq.m. into the development schemes for Package One.

Property management

The Company is one of the largest estate managers in Hong Kong with 36,701 residential units and 370,022 square metres of office and retail space in 18 locations under management as at year-end. Total revenue derived from business increased by 20% due to our continued efforts to offer our customers quality services whilst maintaining our competitive edge.

During the year, Premier Management Company was established for the management of selected high-end properties, initially at certain of the Airport Railway developments. This new service is designed to provide a higher

quality of service to residents and office tenants, and is identified as a brand distinct from the Company's existing services for mass residential properties

E-services for property

In July we entered into an agreement with Superhome.net to establish a property e-portal to be used throughout our portfolio of managed estates. This specialised service, due to commence in 2001, will offer contents specific to the Company in the form of infotainment and on line management services for individual customers and for the management of our estate services.

TSEUNG KWAN O EXTENSION PROPERTY DEVELOPMENTS (PACKAGES TO BE AWARDED)*

Location	No. of packages envisaged**	Type	Gross floor area (sq.m.)	No. of parking spaces	Expected period of package tenders**	Expected completion date
Tiu Keng Leng Station	3	Residential	237,852		2001-2004	2006
		Retail	13,000			
		Car park		686		
Tseung Kwan O Station†	4	Residential	110,925		2001-2004	2006
		Retail	75,514			
		Office	103,130			
		Car park		1,633		
Hang Hau Station	2	Residential	138,652		2001-2003	2005
		Retail	3,500			
		Car park		381		
Area 86	14	Residential	1.6 million		2001-2008	2012
		Retail	40,000			
		Car park		4,329		

* Subject to land grant conditions and completion of statutory processes

** Subject to review

† Includes area 57a which was awarded in July 2000 with details as follows:

Location	Developers	Type	Gross floor area (sq.m.)	No. of parking spaces	Expected completion date
Tseung Kwan O Station Area 57a	Sun Hung Kai Properties Ltd. Nan Fung Development Ltd. Henderson Land Development Co. Ltd. Chime Corporation Ltd.	Residential	26,005		2003
		Retail	3,637		
		Car park		80	

CHOI HUNG PARK-AND-RIDE DEVELOPMENT (TO BE AWARDED)

Location	Retail (sq.m.)	Residential (sq.m.)	Car park	Park-and-ride car park
Choi Hung park-and-ride	2,400	17,131	51	450

Creating shareholder value

Although we are faced with a continued unsettled property market, our outlook for the coming year is cautiously optimistic. We will move forward with the Choi Hung park-and-ride tender and with the first tender of the TKE property developments.

We will continue to respond to market trends, seeking opportunities to increase the value of our properties through upgrading, enhanced services, and new innovations for our investment and management portfolios. This will include extending e-facilities to our retail tenants for on line shopping services, expanded use of the Octopus card in our managed properties and completion of the shopping centre renovations at Paradise Mall and Telford Plaza to increase their attractiveness.

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INVESTMENT PROPERTY PORTFOLIO (AS AT 31 DECEMBER 2000)

Location	Type	Lettable floor area (sq.m.)	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	38,310	-	100%
	Car park	-	993	100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre	19,612	-	50%
	Car park	-	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping centre	10,383	-	100%
	Car park	-	651	100%
Hang Fa Chuen, Chai Wan, Hong Kong	Shopping centre	19,625	-	100%
	Car park	-	415	100%
Maritime Square, Tsing Yi	Shopping centre	28,197	-	100%
	Kindergarten	925	-	100%
	Car park	-	220	100%
	Motorcycle park	-	50	100%
G/F, No. 308 Nathan Road, Kowloon	Shop unit	70	-	100%
G/F, No. 783 Nathan Road, Kowloon	Shop unit	36	-	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten	540	-	100%
	Car park	-	126	100%
International Finance Centre, Central, Hong Kong	Car park	-	136	51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car park	-	292	100%
Roof Advertising Signboard, Admiralty Centre, No.18 Harcourt Road, Hong Kong	Advertising signboard	-	-	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shops	286	-	50%

Note: The above properties are let to tenants for commercial use except Heng Fa Chuen Residents' Club House. All properties are held by the Company under leases for over 50 years except for Telford Plaza I and II, Luk Yeung Galleria, Maritime Square, New Kwai Fong Gardens and International Finance Centre where the leases expire on 30 June 2047.

MANAGED PROPERTIES (AS AT 31 DECEMBER 2000)

Number of managed residential flats	36,701 units
Area of managed commercial and office space	370,022 sq.m.