

Chairman's Statement

I am pleased to present my interim report to the shareholders.

Interim Results

The Group's unaudited profit after tax and minority interests for the six months ended 31st December 2000 was HK\$5,301 million, compared with HK\$5,253 million for the same period last year. Earnings per share were HK\$2.21, compared with HK\$2.19 for the corresponding period last year.

Dividend

The Directors have declared an interim dividend of HK\$0.55 per share, the same as last year's interim dividend. The dividend will be payable on 12th April 2001, to shareholders whose names appear on the Register of Members of the Company on 12th April 2001.

Business Review

Property Sales

During the six months ended 31st December 2000, total property sales generated by the Group, both as principal and agent, were HK\$13,769 million, 3.5 times sales in the same period last year. The majority of this revenue was generated from The Leighton Hill in Happy Valley, Oscar by the Sea in Tseung Kwan O, Royal Peninsula in Kowloon and Villa Esplanada Phase 3 in Tsing Yi. The response to the pre-sale of The Leighton Hill in November 2000 was very encouraging and virtually all units were sold within a couple of weeks.

During the first half of the 2000/01 financial year, the Group completed the following eight projects with an attributable gross floor area of about three million square feet:

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
Royal Peninsula	Kowloon Inland Lot 11084	Residential	50	739,000
Le Sommet	28 Fortress Hill Road, North Point	Residential	100	390,000
Ocean Shores Phase 1, Blocks 5 & 6	Tseung Kwan O Town Lot 55	Residential	49	267,000
Villa Premiere	99 Fung Cheung Road, Yuen Long	Residential	100	217,000
Chelsea Heights Phase 2	Tuen Mun Town Lot 396	Residential/Shopping Centre	100	667,000
The Belcher's Phase 1	89 Pok Fu Lam Road	Residential/Shopping Centre	29	386,000
Grand Villa	401 Chatham Road, Hung Hom	Residential/Shops	100	30,000
MEGA-iAdvantage	399 Chai Wan Road	Internet Service Centre	84	293,000
Total				2,989,000

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Approximately 75 per cent of the residential units scheduled for completion in the current financial year has been pre-sold. The shopping centres in Chelsea Heights and The Belcher's, as well as MEGA-iAdvantage, are being retained as investments.

Land Bank

Since the last financial year, the Group acquired two sites through public tender and land auction, with an aggregate gross floor area of five million square feet:

Project	Site Area <i>(square feet)</i>	Group's Interest <i>(%)</i>	Usage	Attributable Gross Floor Area <i>(square feet)</i>
Airport Railway Kowloon Station Development Packages 5, 6 & 7	790,000	JV	Office/Shopping Centre/Residential/Service Apartment/Hotel	4,698,000
Kowloon Inland Lot 11145, Farm Road	30,000	100	Residential/Shopping Centre	268,000
Total	820,000			4,966,000

The Group currently owns a land bank of 54.7 million square feet in Hong Kong, comprising 19.3 million square feet of completed investment properties and 35.4 million square feet of properties under development. In addition, the Group owns 22 million square feet of agricultural land in the New Territories in terms of site area. The majority of the agricultural land is located along existing or planned railway lines, and is in the process of land use conversion.

Property Development

Hong Kong saw a strong economic recovery in 2000. Employment is up and salaries have risen modestly. As deflationary pressures continued to ease, homebuyers' confidence has gradually strengthened recently, in response to progressive cuts in local interest rates and positive Government measures in relation to the residential property market. Transaction volume picked up with firmer prices, and at present, virtually all buyers are genuine end-users.

Property prices are now very attractive, at mid-1992 levels, and affordability for homebuyers is the strongest in the last 12 years. At present, mortgage payments are generally lower than residential rent. Other fundamental factors including employment conditions, prospects for pay rises and the interest rate outlook are all positive for the property market.

The Group continues to focus on developing large-scale projects, offering a wide mix of flat sizes to buyers, with the majority being small-to-medium units. It plans to increase the volume of residential developments for sale in coming years, and capitalizing on current market conditions, it will continue to expand its land bank by converting

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agricultural land to development sites. Negotiations with the Government on premiums for several approved land use conversion sites are under way. Profit margins on new development projects are expected to gradually increase over time, due mainly to timely land acquisition and construction cost controls.

The Group will continue to strengthen its brand name by implementing a variety of measures to enhance the premium quality of its properties, customer care and management service. It is also devoting extensive effort to encouraging employees to raise levels of quality even higher.

Property completions in the first half, and expected completions in the second half of the current financial year, by attributable gross floor area, are shown below:

	Residential	Shopping Centre	Internet Service Centre	Total
	<i>(million square feet)</i>			
First Half Year				
For Sale	2.5	0	0	2.5
For Investment	0	0.2	0.3	0.5
Sub-Total	<u>2.5</u>	<u>0.2</u>	<u>0.3</u>	<u>3.0</u>
Second Half Year				
For Sale	1.1	0	0	1.1
For Investment	0	*	0	*
Sub-Total	<u>1.1</u>	<u>*</u>	<u>0</u>	<u>1.1</u>
Full Year Total	<u>3.6</u>	<u>0.2</u>	<u>0.3</u>	<u>4.1</u>

* Less than 100,000 square feet

Property Investment

Overall occupancy of the Group's rental portfolio remains high at 96 per cent and leasing was relatively active in the second half of 2000 amid the domestic economic improvement. China's impending entry to the WTO, Hong Kong's leading position as an international finance and business hub and continuous economic growth will give rise to more demand for high-quality office space. The anticipated tight supply over the next one or two years suggests a positive outlook for the office leasing market.

Capitalizing on the success of International Finance Centre (IFC) Phase 1, which is now fully let, pre-leasing of IFC Phase 2 will begin soon. Given its strategic location above Hong Kong Station, the high specifications of the office building, its superb quality and interactive technological design, the Group is confident that Phase 2 leasing will be encouraging. Phase 2, which consists of 1.95 million square feet of offices, 0.5 million square feet of shopping and 1.1 million square feet of hotel space, will be completed in stages between 2002 and 2004.

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The Airport Railway Kowloon Station Development Packages 5, 6 and 7 has added 4.7 million square feet of attributable gross floor area to the Group's portfolio, consisting of offices, hotels, service apartments, shopping and residential space. Together with Airport Railway Kowloon Station Development Package 3, there will be a total of over two million square feet of residential properties at Kowloon Station available for sale in the next few years. Situated above Kowloon Station on the Airport Railway and at the heart of a key future commercial and cultural district of Hong Kong, the project will feature the most modern design and intelligent facilities. The project's mega-tower, together with the 88-storey office building at IFC Phase 2 on Hong Kong Island's waterfront, will form a "Harbour Gateway", a new landmark spanning Victoria Harbour.

Advantageously situated in the prime area of Kowloon East, Millennium City is now one of the major commercial centres of Hong Kong. Both Phases 1 and 2 of Millennium City are fully let. The construction of Phase 3 is under way and pre-leasing will commence in the second half of 2001. Planning for Phase 4 is being finalized, and it is scheduled for completion by stages in the next two to three years. Phase 4 has a total floor area of over 1.2 million square feet, comprising office space and a regional shopping mall. Upon completion, the entire Millennium City will provide over 3.7 million square feet of office and retail space in Kowloon East.

Leasing of the Group's shopping centres remains satisfactory. With pay rises, improving job security and lower interest rates, consumer spending should improve gradually and retail rentals should fare better. To further enhance rental and capital value, the Group will continue its renovation and refurbishment programme. The new "garden feel" theme in New Town Plaza III is an example of the Group's efforts to provide a more comfortable environment for shoppers and tenants. In addition, the Group will continue to organize promotional activities in its shopping centres to boost consumption and increase pedestrian flows.

It is the Group's policy to maintain an optimum mix in its rental portfolio. In the next five years, the Group plans to develop eight million square feet of high-quality investment properties, which will give it the largest Grade-A office portfolio in the territory and help to transform Hong Kong's skyline. As part of this initiative, the Group will work to further strengthen its organization and reallocate resources for the development of landmark projects. While developing more quality properties for rental, the Group will also consider selling some non-core investment properties.

Information Technology and Telecommunications

SUNeVision

SUNeVision showed strong revenue growth during the first half of the 2000/01 financial year. It improved operating efficiency on the back of continued business growth and better control over costs. A number of SUNeVision's business units recorded notable progress during the period under review. The MEGA-iAdvantage in Chai Wan was completed in December 2000 and leasing has been satisfactory. The progress of leasing at the other two Internet service centres in Hong Kong has also been encouraging. Together with its operations in Beijing, Shanghai and Singapore, iAdvantage has approximately 570,000 square feet of Internet service centre space throughout Asia. Super-Office, a leading business-enabling service provider, performed satisfactorily with increased users. SuperHome has expanded its community web site network into residential properties managed by the MTR Corporation.

The majority of SUNeVision's planned capital expenditure has largely been accomplished, but it will continue to seek investment opportunities for long-term business growth. The company will focus on revenue growth, mainly generated by the full operation of all its Internet service centres and the provision of a comprehensive range of quality services. SUNeVision is financially strong, with net cash of approximately HK\$2,200 million. With its first-

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mover advantage, strong management team and shareholders' full commitment, the company will further strengthen its leading position in Internet infrastructure and enabling services in Hong Kong and Asia during the current process of industry consolidation. The Group is confident in the company's business prospects.

SmarTone

SmarTone was successful in increasing its customer base during the second half of 2000. Subscribers rose to over 1,044,000 by 31st December 2000. The company has achieved a critical mass for its development of wireless data applications and services. It will focus on maximizing efficiency and effectiveness in today's competitive market. SmarTone intends to maintain high customer satisfaction levels and retain high-value subscribers through its superior quality network and premium service. The company will extend its presence beyond Hong Kong after winning a Macau 2G licence. Leveraging its leading position in the telecommunications sector and financial strength, SmarTone will continue to exploit 2G and 2.5G services, taking advantage of opportunities to consolidate and move into 3G as they arise. The Group is confident about the company's future prospects and will continue to hold SmarTone as a long-term strategic investment.

Transportation and Infrastructure

Kowloon Motor Bus

The Kowloon Motor Bus Holdings Limited (KMB) recorded an encouraging result for the 2000 financial year, with increased ridership and improved efficiency. The company further expanded its fleet with new air-conditioned buses. With its management expertise and the use of information technology, KMB continues to provide passengers with an efficient, reliable and ecologically-sound bus service, demonstrated in part by its environmentally-friendly, solar powered bus shelters. It is also developing interchange packages with other public transport operators, offering greater flexibility and wider coverage for passengers. KMB will continue to explore opportunities for business diversification in the bus transportation sector in Hong Kong and on the Mainland, contributing quality recurrent income to the Group.

RoadShow Holdings Limited, a wholly-owned subsidiary of KMB, is engaged in on-board multi-media, transit network media sales and merchandising. "Multi-Media On Board" buses were launched at the end of 2000, broadcasting informative and entertaining programmes. KMB intends to spin off RoadShow Holdings for listing on The Stock Exchange of Hong Kong.

Other Infrastructure Business

The Route 3 (Country Park Section) recorded considerable revenue growth with a steady rise in traffic volume during the period under review. The Wilson Group recently won a Government contract extending its operation and maintenance of the Tsing Ma Control Area, including the Tsing Ma Bridge, for another six years.

The volume of cargo handled at the River Trade Terminal in Tuen Mun has been increasing, and the Airport Freight Forwarding Centre is operating smoothly. Construction of two berths at Container Terminal 9 is progressing, with completion scheduled in phases during 2003 and 2004.

All the Group's infrastructure projects are in Hong Kong and will provide steady streams of recurrent income over the long term.

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Hotels

As visitor arrivals continued to show impressive growth, the hotel sector registered higher levels of occupancy during the period under review. The occupancy rate for the Group's hotels continued to rise, and operating margins showed continued improvement. Average occupancy of the Group's hotel portfolio increased to 88 per cent and the average room rate rose by 11 per cent. The outlook for the hotel industry remains promising in the long term. Hong Kong will continue to be both a tourist and business hub, as well as the gateway to China, attracting even more business travellers when the Mainland enters the WTO. The Group's hotels are expected to show continuous business growth. The Group is also developing five-star hotels in both the Hong Kong and Kowloon Airport Railway stations.

Mainland China Business

China's accession to the WTO will usher in a new era of opportunity and challenge for Hong Kong. The Group will capitalize on this by taking advantage of its existing presence on the Mainland to expand its investments selectively as the Chinese economy continues to grow.

Leasing of the Group's investment properties in both Shanghai and Beijing was encouraging. The shopping centre and office space at Sun Dong An Plaza in Beijing are now 95 per cent and 97 per cent leased respectively, and occupancy of Central Plaza in Shanghai is over 93 per cent. The Group will selectively invest on the Mainland in property, logistics and information technology businesses, continuing to focus geographically on four major cities: Beijing, Shanghai, Guangzhou and Shenzhen.

Corporate Finance

The Group will continue its conservative financial policies, with low gearing and high liquidity, and at the same time diversify its funding sources and lengthen its debt maturity profile. Its financial position remains strong, with a net debt to shareholders' funds ratio of 17.5 per cent at 31st December 2000.

The Group recently arranged a seven-year HK\$7.8 billion syndicated loan facility at competitive pricing with 22 leading banks, and the response was overwhelming. Since July 2000, the Group has also issued several fixed and floating rate notes totalling HK\$1.6 billion with tenors ranging from three to eight years, under its EMTN programme. The proceeds from both the syndicated loan and the notes will be used as standby funds to refinance short-term debts as well as for general working capital.

With substantial undrawn facilities on a committed basis standing by for future business expansion, all the Group's credit facilities are unsecured. Its foreign exchange risk is negligible since the vast majority of its borrowings are denominated in Hong Kong dollars. The Group recently had its rating outlook up-graded from stable to positive by Moody's, on a par with Hong Kong's sovereign rating.

Customer Service

The Group is constantly improving its customer service, "Putting the Customer First". Premium handover service and a one-year quality guarantee on new residential properties further demonstrate the Group's commitment to superior quality and after-sale service. The Group's vision is to build ideal homes, providing total lifestyle solutions to residents.

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The Group offers top-quality management service to residents and has won recognition in the property management industry. Its subsidiary Hong Yip was the first Hong Kong property management company to receive enhanced ISO9001:2000 quality certification, and its other subsidiary Kai Shing recently won a number of honours for eco-friendly property management.

The Group is active in introducing environmentally-friendly concepts to new properties and estate management, providing a greener, more comfortable indoor and outdoor environment to residents. Initiatives include environmentally-friendly designs, energy and water conservation measures and an electric shuttle bus service. One of the Group's projects, The Parcville, is the first residential development in Hong Kong to be rated "Excellent" under the Business Environment Council's Hong Kong Building Environmental Assessment Method.

The SHKP Club continues to grow, with membership presently standing at more than 130,000. The Club is always providing members with enhanced privileges and services, building loyalty to the Group and strengthening two-way communication.

Prospects

At the recent session of the National People's Congress, China formulated its Tenth Five-Year Plan. It is anticipated that the Chinese economy will grow at an average of seven per cent over the next five years, doubling in size in the next ten years. With its imminent entry to the WTO, China will quicken economic reforms and open up its domestic market further. This will offer tremendous business opportunities to both Hong Kong and overseas enterprises. Being the gateway to China and an international business centre, Hong Kong stands to benefit from all these opportunities.

The Government has adopted various policy measures that have boosted public confidence and sustained the economic recovery. It has also taken initiatives to revitalize the housing market. These measures should make the residential property market healthier. Notwithstanding recent volatility in the stock market, with falling interest rates, Hong Kong's gradual economic recovery is expected to continue. Employment will continue to rise, while the macro-economy will revert to a mild inflationary environment over time.

Home ownership and property investment have increasingly become more attractive, due to the narrowing yield gap as a result of significant cuts in mortgage rates. Together with pay rises, rising employment, favourable affordability, easy mortgage credit and strengthening homebuyer confidence, the demand for residential property should rise. New residential supply is expected to remain steady in next two to three years, at approximately the yearly average of the last decade. Taking all these factors together, the Group expects Hong Kong's property market to fare better in the coming year.

With on-going economic growth, favourable demographics and supportive government land and housing policies, prospects for the residential property market are promising in the long term. The Group will continue to build its strong brand name in the market, positioning itself as the developer of choice for premium property and strengthening its reputation for quality.

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The Group will continue to focus on Hong Kong property development and investment. It is well positioned to capitalize on current market conditions for business expansion, better utilizing its asset base to maximize shareholders' value and return on equity. At the same time, the Group will capitalize on the opportunities presented by China's entry to the WTO with selective investments in property, logistics and information technology on the Mainland.

Approximately 75 per cent of the residential properties to be completed in the current financial year have been pre-sold. The Group will launch residential projects for pre-sale according to schedule. Major projects set for pre-sale in the next few months include Ocean Shores Phase 2 in Kowloon East, 71 Mount Kellett Road on the Peak, the project at Shui Pin Wai in Yuen Long and Park Island Phase I in Ma Wan. The upcoming residential pre-sales and a substantial stream of rental income will further strengthen the Group's cash flow position. Given the steady recovery in the property market, I am fully confident about the Group's future prospects.

Dr. Ho Tim, an independent non-executive director, will soon retire from the board after more than 28 years of service. Throughout these years, he made considerable contributions to the Group's growth. On behalf of the board, I would like to thank Dr. Ho for his invaluable efforts and dedication.

I would also like to take this opportunity to express my gratitude to my fellow directors for their guidance, and to all the staff for their dedication and hard work.

Kwok Ping-sheung, Walter
Chairman & Chief Executive

Hong Kong, 16th March 2001