CHAIRMAN'S STATEMENT

I am pleased to present my report to the shareholders.

RESULTS

The Group's profit after taxation and minority interests for the year ended 30th June 2003 was HK$6,584 million, a decrease of 23 per cent compared with last year's profit of HK$8,519 million. Earnings per share for the year were HK$2.74, representing a 23 per cent decrease compared with HK$3.55 per share for the previous year. The earnings for the year reflect a provision for the diminution in value of property development projects and provisions made by SUNeVision Holdings, which together amounted to HK$1,481 million.

DIVIDENDS

The Directors have recommended the payment of a final dividend of HK$1.00 per share for the year ended 30th June 2003. Together with the interim dividend of HK$0.60 per share, the dividend for the year will be HK$1.60 per share, compared with HK$1.55 per share for the previous year (excluding last year's special 30th anniversary bonus dividend of HK$0.60 per share).

BUSINESS REVIEW

Property Sales

Property sales turnover for the year as recorded in the accounts was HK$12,543 million, as compared with last year's sales of HK$16,164 million. During the year, the Group sold and pre-sold an attributable HK$12,157 million worth of properties in Hong Kong, as compared with HK$15,151 million for the previous year. Sales were temporarily affected by the outbreak of SARS during the second quarter of 2003, but picked up quickly after the disease was brought under control. Major residential projects sold during the year included Park Island Phase 1 on Ma Wan, 1 Po Shan Road in Mid-Levels, 1 Ho Man Tin Hill, Park Central in Tseung Kwan O and Aegean Coast in Tuen Mun. Since the beginning of July 2003, the Group has sold over HK$3,600 million worth of properties.

The public sale of YOHO Town in Yuen Long set a one-day record for the year.

A prime location, luxury and elegant style make 1 Ho Man Tin Hill in Kowloon a local landmark.

During the year under review, the Group completed the following ten projects, comprising 6.2 million square feet of attributable gross floor area:

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
Park Island Phase 1	8 Pak Lai Road, Ma Wan	Residential/ Shopping centre	Joint venture	1,851,000
Park Central Phases 1 & 2	Tseung Kwan O Town Lots 57 & 66	Residential/ Shopping centre	57.52 / 25	1,592,000
Ocean Shores Phase 3A	88 O King Road, Tseung Kwan O	Residential/ Shops	49	512,500
Villa by the Park	139 Castle Peak Road, Yuen Long	Residential	100	439,000
Aegean Coast	Tuen Mun Town Lot 374	Residential/ Shops	25	312,000
1 Ho Man Tin Hill	1 Ho Man Tin Hill Road	Residential	Joint venture	158,000
1 Po Shan Road	1 Po Shan Road, Mid-Levels	Residential	60	72,000
Kelletteria	71 Mt. Kellett Road, The Peak	Residential	100	14,000
Two IFC	8 Finance Street, Central	Office/ Shopping centre	47.5	1,169,000
Millennium City Phase 3	370 Kwun Tong Road	Office	70	108,000
Total				**6,227,500**

Over 92 per cent of the residential projects completed during the year have been sold. Millennium City Phase 3 and the shopping centre in Park Central are being kept as long-term investments. Likewise, Two IFC is being retained for rental except for the highest office space zone, which was sold to one owner-occupier.

Land Bank

The Group did not acquire any land during the year, due mainly to the moratorium on government land sales. The sale of residential properties completed during the year and of some office space in Two IFC reduced the Group's Hong Kong land bank to 45.3 million square feet.

Negotiations with the government on land premiums are continuing. The Group will take advantage of current property market conditions to replenish its residential development land bank when appropriate opportunities arise. The Group also holds more than 21 million square feet of agricultural land in terms of site area. The majority of these sites, located along existing or planned railways in the New Territories, are in the process of land use conversion.

Both Kelletteria on The Peak (above) and 1 Po Shan Road in Mid-Levels (below) are in traditional luxury neighbourhoods with excellent designs, facilities and quality that set new standards.

Property Development

Confidence in the residential property market has improved and sales volume increased in the past few months. Property prices have shown some signs of firming up of late, but still remain highly affordable and attractive. Improved economic conditions, record low mortgage interest rates and attractive rental yields relative to interest costs continued to underpin the market. The recent buoyancy in the stock market has in part contributed to better performance by luxury properties.

The government's firm stance on supporting the market is welcome. This, coupled with the nine measures introduced last November, should assist healthy development in the residential market over the medium to long term.

The Group intends to produce a high volume of residential properties for sale. Its focus is on developing large-scale projects with a concentration on small and medium sized units. At the same time, it selectively builds some high-end, low-density projects with larger units. The Group is constantly looking for new ways to reduce construction costs without compromising on quality, and these efforts have paid off with enhanced project returns.

The Group won an anti-SARS Achievement Award for its concerted efforts to battle the outbreak, and was the only commercial entity to win among corporate organizations.

The recruitment of 500 anti-SARS Ambassadors helped fight the outbreak and created new jobs.

Customer satisfaction is one of the Group's top priorities. It continues to set new standards in all aspects of property development, such as quality, design and amenities. Hygiene facilities have been enhanced in new projects, particularly after the outbreak of SARS, and the Group's member property management companies proactively address increased hygiene awareness among residents and tenants. In addition, the Group is always striving to improve after-sale service.

The Group's strong brand name has raised the marketability of its projects and enabled premium pricing. This was demonstrated by the encouraging sales of YOHO Town in Yuen Long and luxury residential projects such as 1 Po Shan Road and 1 Ho Man Tin Hill, which are sold out.

A few projects have been rescheduled in order to improve their designs and layouts, and to incorporate added features to meet customers' needs. As a result, the Group's planned completions in the 2003/04 financial year will be reduced to 3.8 million square feet as follows:

	Attributable Gross Floor Area (million square feet)		
	Residential	**Shopping Centre**	**Total**
For sale	3.7	0	3.7
For investment	0	0.1	0.1
Year Total	**3.7**	**0.1**	**3.8**

Property Investment

Gross rental income for the year, including the Group's share of joint venture projects, was HK$5,628 million, compared to HK$5,844 million last year. Net rental income fell to HK$4,100 million from HK$4,432 million. The decline was mainly due to the weak office sector as well as a loss of rental income resulting from the disposal of two non-core commercial complexes. Overall occupancy of the Group's rental portfolio, excluding Two IFC which was only recently completed, remains at 92 per cent.

The Group reacted quickly to the outbreak of SARS with a comprehensive set of hygiene measures to reassure its residents, commercial tenants and the public. A series of mall promotions was also staged to restore shoppers' confidence. The Group's retail rental income was steady during the year, since the majority of its malls are regional shopping centres catering to local residents, which proved resilient in the face of the outbreak. The promotions stimulated consumer spending and traffic in the Group's malls is already back to normal, so SARS had a minimal impact on overall rental income.

The Group is committed to enhancing the value of its investment properties and upgrading service to grow with its tenants. It regularly improves the tenant mix in its shopping centres and renovates malls to sustain their attractiveness. The Group plans to renovate five shopping centres in the coming years, including New Town Plaza Phase 1 in Shatin, which will cost HK$300 million over the next two years.

The Group's shopping centres along the railway network are benefiting from increased Mainland tourist numbers. To exploit this opportunity, the Group will increase its promotions in major Mainland cities to attract visitors to its shopping centres in Hong Kong.

The 88-storey Two IFC tower is Hong Kong's tallest building and a new landmark.

Office rents have become more attractive when compared to key financial centres worldwide. The supply of new office space will be limited in the coming years, and the recent rally in the financial markets, together with some signs of economic recovery, have resulted in more leasing enquiries and commitments. The desire to relocate to top-grade office space is likely to rise, especially at the current competitive rents.


The increase in Mainland tourists benefits New Town Plaza in Shatin, one of Hong Kong's most popular shopping malls.

Following China's entry to the WTO, Hong Kong should also benefit from the recent Closer Economic Partnership Arrangement (CEPA) with the Mainland, which will give rise to more business opportunities here. Hong Kong's role as an international centre of finance, commerce, trade and tourism will be strengthened further, and demand for high-quality office buildings is expected to remain promising over the medium to long term.

Strategically located above Hong Kong Station on the Airport Express, IFC is soon to be a world-class office, retail and hotel complex. The newly-completed 88-storey Two IFC office tower has almost two million square feet of gross floor area. This is Hong Kong's newest landmark, setting the standard for prestige office accommodation in every respect. Leasing of both the office and retail space in Two IFC has been progressing smoothly and the soft opening of IFC Mall will take place in October this year. The last phase of IFC is a 1.1 million square-foot hotel complex under the Four Seasons brand. Upon completion in late 2004, the hotel will provide 1,000 guest rooms in two towers and be the largest six-star hotel in Hong Kong.

Kowloon Station Development Packages 3, 5, 6 & 7 will encompass residential, office, retail and hotel space above Kowloon Station on the Airport Express, with the finest design and layout, incorporating superb technology and facilities. Part of the project will be an ultra-modern tower that transforms the territory's skyline. The first phase of the development, which consists of one million square feet of residential area, will go on sale in mid-2004.

Leasing of the newly-completed office space in Millennium City Phase 3 has been satisfactory. The 600,000 square-foot shopping centre in Phase 5 will be completed in the second half of 2004. Phase 5, which also includes office space, will form a new landmark in the prime business hub of Kowloon East.

The Group aims to maintain an optimal mix in its quality rental portfolio. To further improve returns and asset turnover, it will consider selling some non-core investment properties at the right time.

Information Technology and Telecommunications

SmarTone

Despite fierce market competition and the outbreak of SARS, SmarTone delivered encouraging results with a net profit of HK$408 million for the year, a 254 per cent increase from the previous year. Significant progress was made in pursuing its strategy of delivering the best customer proposition through continual improvements in the three key pillars of its business: products and services, network and customer service. SmarTone has also reinforced its branding in the market.

In a deflationary economy with customers becoming increasingly price sensitive, the company will continue to stay competitive on price without compromising on its high standards of customer service and network quality. It aims to increase revenue and market share over time with an ongoing focus on its three key pillars strategy.

SmarTone proposes a special dividend of HK$3.50 per share for the year ended 30th June 2003, to achieve a more capital-efficient structure. The company will still retain sufficient cash resources for expected operational needs after distribution of the proposed dividend.

The Group increased its holding in SmarTone to about 51 per cent in January 2003 through a mandatory general offer at HK$8.50 per share, which was triggered by the Group's electing to receive SmarTone scrip dividends. Given SmarTone's strong management team, sound business strategy and solid financial position, the Group is confident in the company's growth prospects and committed to holding its stake as a long-term investment.

SmarTone made significant progress during the year by concentrating on its three pillars of business – products and services, network and customer service.

SUNeVision

SUNeVision's continuing back-to-basics strategy, further improvements in efficiency and cost streamlining enabled it to generate a profit for the year before one-off provisions for the impairment of equity technology investments and a valuation deficit on property.

SUNeVision is financially strong with approximately HK$1,200 million in cash and interest-bearing securities on hand. Going forward, it will strive to keep improving financial performance, leveraging its strong fundamentals and financial position for growth. The company will also look for new, IT-related businesses with immediate revenue and reliable cash flows to complement its existing businesses.

Transportation and Infrastructure

Kowloon Motor Bus

Kowloon Motor Bus (KMB) performed relatively well during the depressed economic environment of 2002, while the outbreak of SARS and operating competition had a considerable impact on the company's performance in the first half of 2003. Various cost saving measures have been implemented and further improvements in operating efficiency and customer service are expected through the continual upgrade of IT facilities. KMB is committed to providing an efficient, reliable and user-friendly bus service, aiming for total customer satisfaction. It will continue to explore new growth opportunities in its core transportation business in both Hong Kong and on the Mainland. RoadShow Holdings, the listed subsidiary of KMB, has expanded into the Mainland and is a leading media sales company in the greater China region.

Other Infrastructure Business

The Wilson Group performed reasonably well given the weak domestic economy throughout the year, and Route 3 (Country Park Section) continued to record a steady volume of traffic.

Both the River Trade Terminal and Airport Freight Forwarding Centre are operating smoothly. The two berths at Container Terminal 9 are being built in phases and are scheduled for completion in the second half of 2004.

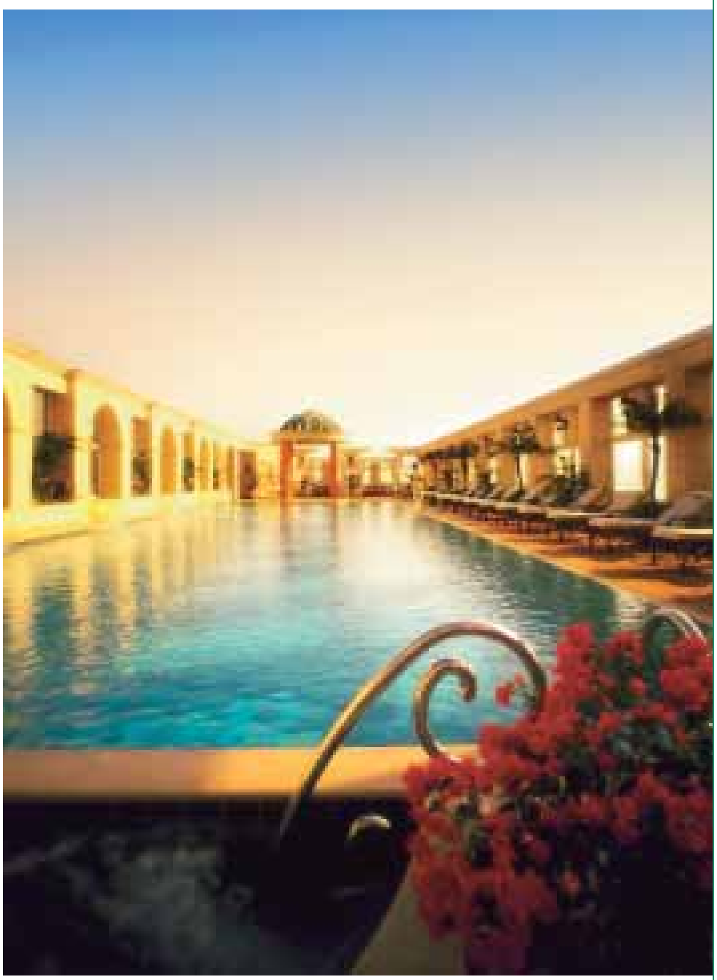
All the Group's infrastructure projects are in Hong Kong and are expected to generate healthy cash flows and returns over the long term.

Hotels

Overall performance of the Group's three hotels was dragged down by the SARS outbreak in the last few months of the financial year, but occupancy rebounded significantly in the aftermath of the disease and now stands at around 90 per cent. This was due mainly to a faster-than-expected recovery in tourist arrivals. The Hong Kong and Central governments have agreed to allow residents of selected major Mainland cities, particularly those from Guangdong, to visit the territory as individuals, which should continue to boost the local tourist industry.

Various initiatives by the private and public sectors to promote Hong Kong as a regional tourist hub, together with more tourist attractions coming in the next few years, should contribute to the long-term growth of Hong Kong tourism. With the tourist sector growing rapidly, the Group is building Hong Kong's first Four Seasons hotel and plans another six-star hotel above Kowloon Station.

Kowloon Motor Bus is committed to improving operational efficiency and customer service.



The Group's hotels will benefit from the continued growth of tourism in Hong Kong.

CHAIRMAN'S STATEMENT

Mainland Business

The Mainland economy kept growing as a result of higher exports, more foreign capital flowing in and greater fixed investments, notwithstanding the SARS outbreak.

Group Chairman and Chief Executive Walter Kwok (right) and Kang Huijun, Chairman of the Shanghai Lujiazui Finance and Trade Zone Development Company, at the signing ceremony for the Group's landmark project in Lujiazui, Shanghai.

China's scheduled WTO commitments on trade, investment and market access will mean an increase in business and investment opportunities there, and more multinationals, including banking and financial institutions, are expected to increase their Mainland presence.

The Group recently signed an agreement to develop a landmark project in the Lujiazui financial and trade zone of Shanghai, in order to tap into the rapidly expanding Mainland economy. Total project cost is estimated to be HK$8,000 million. The project has an aggregate gross floor area of 4.5 million square feet and will comprise luxury hotels, top-quality offices, serviced apartments and shopping facilities. It will be developed in phases by 2011, with the first phase scheduled for completion in 2007.

The Group's Mainland investment property portfolio performed reasonably well. Leasing of Sun Dong An Plaza in Beijing was satisfactory and Shanghai Central Plaza was almost fully let. About 70 per cent of Phase 1 of The Woodland in Zhongshan, consisting of 312 units, has been sold.

Corporate Finance

Maintaining an extended debt maturity profile and adequate stand-by facilities are key elements of the Group's financial policies. In keeping with this, it completed an HK$8,000 million, seven-year fully revolving syndicated credit facility with a consortium of 20 leading local and international banks in May 2003. Response to the facility was very positive, with over-subscriptions at both the underwriting and general syndication stages. The proceeds will be used for general working capital and to refinance some short-term debts.

The Group's financial position remains strong. Its net debt to shareholders' funds ratio was 10.9 per cent as at 30th June 2003 and its interest coverage was high at 13.2 times. Its consistent, prudent financial management policy includes keeping financial leverage low and liquidity high, and it maintains high credit ratings of 'A' from Standard & Poor's and 'A3' from Moody's.

The Group has substantial committed undrawn facilities on standby for future business expansion, and all of its credit facilities are unsecured. It is exposed to minimal foreign exchange risk, given that almost all of its financing is denominated in Hong Kong dollars. It has not made any speculative arrangements on derivatives, and it has no off-balance-sheet or contingent liabilities other than borrowings by joint venture companies. The Group will continue to diversify its funding base and lengthen its debt maturity profile. As and when appropriate, the Group will take advantage of current market conditions, with low interest rates and abundant liquidity, to source long-term financing at competitive rates.

Corporate Governance

Good corporate governance is a paramount concern for the Group's board of directors and senior management. The Group is dedicated to ensuring high standards of corporate governance in all aspects of its business and maintaining effective accountability mechanisms and high transparency for investors. Prompt disclosure of information builds investors' confidence and facilitates their understanding of the Group's strategies and latest situation. Believing that good reporting and internal control systems are vital to the accuracy of both internal and external financial information, the Group makes constant improvements wherever possible.

This commitment to good corporate governance has won the Group wide recognition from the investment community. It was named Hong Kong's Best Property Developer for corporate governance by Euromoney magazine in 2003, Asia's Best Property Company by FinanceAsia magazine in 2003 and voted one of the best companies for corporate governance by the magazines Asiamoney and The Asset in 2002.

Customer Service, Human Resources and Environmental Protection

First-class customer service is one of the cornerstones of the Group's success. Because of this, the Group is always working to raise levels of service to new heights in all aspects of its business. Its two property management subsidiaries aim to offer residents a lifestyle of total convenience, and they consistently win a variety of awards for top management service. The Group also cares about the environment and follows green practices in its business, such as including environmentally-friendly and energy-efficient features in new projects.

The Group's SHKP Club reaches out to the public to promote two-way communication. Club membership is now approaching 180,000. Members enjoy a range of property-related benefits and activities, and in return they share their valuable insights into the property market.

The Group currently employs about 20,000 people. Staff have access to a wide range of training programmes to further personal and professional development, and regular assessments are carried out to evaluate staff performance. The Group is committed to raising both Chinese and English language standards in the workplace, to sustain long-term competitiveness.

The SHKP Club promotes two-way communication with its members.

PROSPECTS

Global economic conditions are likely to improve as a result of the continued easing of monetary policy around the world, particularly in the US and Europe, while the Mainland economy should continue to thrive. These factors are expected to provide momentum for Hong Kong's economic growth.

Concerted effort and support from the Central Government, various local government measures, continuing export growth, the gradual revival of tourism and a rebound in consumer spending are spurring a local economic recovery from the SARS-induced downturn.

The recently-announced strategy of repositioning Hong Kong and Guangdong marks a new era of economic cooperation across the border. The quickening pace of economic cooperation and integration with the Pearl River Delta, together with CEPA, should further boost Hong Kong's growth prospects.

A unique exterior makes 18 Farm Road in Ho Man Tin stand out in the area.

With a gradual economic recovery, strong market fundamentals such as record affordability and market-driven housing policy, homebuyers' confidence should strengthen over time. A positive population policy, particularly the introduction of investment immigrants, should be an added bonus to the market. All these mean that take-up is likely to increase in the coming year. This higher take-up and an anticipated decline in new supply in the pre-sale market should keep the current recovery going forward.

Sham Wan Towers in Island South enjoys panoramic views of the yacht club.

Against improving prospects for the residential market, the Group aims to maintain a high volume of residential production over the medium term. To accomplish this, the Group will replenish its development land bank when opportunities arise. Equally important, its rental income base will also be enhanced by new landmark investment properties such as Two IFC. Concurrently, the Group will dispose of selected non-core rental properties in due course to maintain an optimal portfolio mix and increase asset turnover.

The Group's strong brand name attracts buyers in the competitive market.

The Group will continue to strengthen its brand name through various initiatives such as enhancing the quality of products and services and branding individual projects. High project marketability and improved pricing ability, backed by a powerful brand, should contribute to better returns on development projects over time.

On the Mainland, the Group continues its gradual and selective approach to investing in the property sector, focusing on major cities such as Beijing, Shanghai, Guangzhou and Shenzhen.

New major residential projects to be pre-sold in the next nine months include the development on Tuen Mun Town Lot 399, 8 Waterloo Road in Kowloon, 18 Farm Road in Ho Man Tin and Park Island Phase 2 on Ma Wan. Proceeds from these pre-sales and solid rental income will further enhance the Group's financial position.

Over 40 per cent of the residential properties to be completed in the coming financial year have been pre-sold. With the current property market recovery expected to continue and barring unforeseen circumstances, the Group's results for the coming year will be satisfactory.

Finally, I would 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, 25th September 2003