Property Related Businesses

As Hong Kong continues to develop as a major tourist destination with new attractions, the Group is confident about long-term prospects for the hotel sector, and is building new hotel developments in prime locations to take advantage of business opportunities.

Four Seasons Hotel Hong Kong

Restaurants and bars at The Royal Garden in Tsim Sha Tsui fared well during the year.

Regular promotions and quality service make The Royal Park in Shatin more competitive.

HOTELS

The outbreak of SARS in Hong Kong affected the Group's three hotels significantly during the last three months of the year under review, as it did the entire tourism industry. Nonetheless, with the disease under control, tourist numbers recovered quickly, largely because of a surge in Mainland visitors.

The **Royal Garden** in Tsim Sha Tsui finished the most challenging year of its 20-year history with an average occupancy of 71 per cent, which was in line with the industry average while maintaining room rates at levels comparable to previous years. The hotel's restaurants and bars fared well during the year, exceeding expectations for F&B revenue. The Inagiku Japanese restaurant showed particularly good performance since it began operations in April 2002, and this led the restaurant to open two new private VIP rooms in June 2003. The response to promotions immediately after SARS has been equally good and is spurring a fast recovery in business, giving rise to renewed confidence and optimism.

Despite more promising figures at the start of the year, the **Royal Park** in Shatin ended up with an average of over 70 per cent occupancy. The hotel's room rates were in line with previous years. In order to meet the increasing demand for serviced apartments in the area, over a hundred guest rooms were remodelled with the installation of kitchenettes and broadband Internet service. The Derby's All-Day-Dining was also renovated to make it more inviting to patrons. These moves vastly increased the hotel's competitiveness, further enhancing its position in the market. For the year ahead, the Royal Park will continue to explore new business opportunities, at the same time maintaining good relationships with existing clients.

The **Royal Plaza** maintained an average occupancy of 75 per cent, at room rates similar to the level achieved in previous years. The hotel's advantageous location in the city centre attracts both leisure and business clients, providing a diverse and well-balanced customer mix that enables the hotel to react swiftly to changes in the market. Renovation of the open kitchen in La Scala's All-Day-Dining was completed at the beginning of the year. The brighter and more welcoming dining environment contributed to the restaurant's increasing popularity. The addition of two function rooms provides extra revenue by catering for the increase in small to medium sized meetings and functions. Looking forward, the Royal Plaza will continue its proactive strategy to optimize competitiveness.

The Royal Plaza in Mongkok will benefit from the surge in Mainland tourists because of its prime location on the rail line.

Hong Kong continues to develop as a major tourist destination with new attractions, and with the recent CEPA and relaxation of travel restrictions on independent Mainland visitors, demand from both tourists and business travellers is expected to rise. The Group is confident about the long-term prospects for the hotel sector and is building new hotel developments in prime locations.

IFC on the central waterfront of Hong Kong Island will include the **Four Seasons Hotel Hong Kong** comprising one six-star hotel tower and another tower of serviced hotel suites. Together, the two towers will offer almost 1,000 first-class guest rooms and should be open for business in early 2005.

The Four Seasons Hotel Hong Kong in IFC is expected to be open for business in early 2005.

As part of the Airport Railway Kowloon Station Development, the Group is also building another six-star hotel facility with over one million square feet of hotel and serviced suite accommodation.

CONSTRUCTION

The construction division completed 12 million square feet of properties during the year under review, including 4.7 million square feet by a joint-venture company. This included the 420-metre super-highrise Two IFC, Park Island Phase 1, Park Central Phases 1 and 2, 1 Ho Man Tin Hill, 1 Po Shan Road, Villa by the Park and Millennium City Phase 3. Turnover (on a progressive completion basis) from construction subsidiaries was HK$4,050 million, with another HK$3,203 million recorded by joint venture companies.

Major projects now under construction include YOHO Town Phase 1, Airport Railway Kowloon Station Development Packages 3, 5, 6 and 7, Olympic Station Development Package 3, Ocean Shores Phase 3, Liberté, Park Island Phase 2, Sham Wan Towers, Millennium City Phase 5 and the Four Seasons Hotel Hong Kong at IFC.

The Group tests every window in new developments with a high-pressure water spray after installation.

Superior management and vertical integration allow the Group to maintain premium quality of its developments while reducing construction costs.

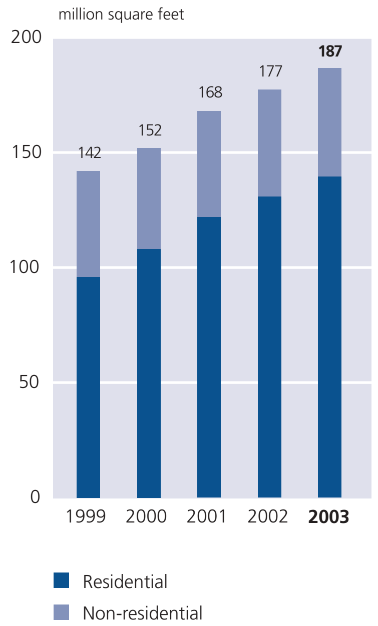
The construction division has several wholly-owned subsidiaries: **Everfield Engineering Company Limited, Eversun Engineering Limited** and **Aegis Engineering Company Limited**, which complement its activities. The subsidiaries provide various construction-related services to the Group's own and some external projects. These include the supply and installation and maintenance of electrical and fire prevention systems and the hiring out and servicing of plant and machinery, motor vehicles and containers for construction projects. The division also supplies ready-mixed concrete to the Group and external contractors through an associate, **Glorious Concrete (HK) Limited**.

PROPERTY MANAGEMENT

The Group's dedication to providing the finest homes continues after customers take possession. Through its member property management subsidiaries the **Hong Yip Service Company Limited** and **Kai Shing Management Services Limited**, the Group ensures that residents enjoy a total lifestyle of service and convenience. Both companies offer a full range of professional services including estate management, agency, cleaning, pest control, security and complete building maintenance. Kai Shing and Hong Yip are also pioneers in the application of information technology to property management, using smart card access control systems and using the Internet. The two companies manage almost 187 million square feet of residential, commercial and industrial premises, serving over 200,000 households.

Hong Yip and Kai Shing are committed to raising the quality of property management. Hong Yip was the first property manager to be named Best Property Management Agent by the Hong Kong Housing Authority, a distinction it has kept for nine consecutive years. Kai Shing won a Certificate of Merit in the Hong Kong Management Association's (HKMA) 2003 Quality Awards, in recognition of its quality management. Its efforts in staff training

Premises Managed by the Group



The Group's member property management subsidiaries Hong Yip and Kai Shing won Best Property Management Awards from the Hong Kong Housing Authority.

were also recognized with a Certificate of Merit in the HKMA Awards for Excellence in Training 2003. Hong Yip has also received an Employers' Gold Star Award from the Employees Retraining Board for three successive years.

The Group strives to provide its customers with the best service.

The companies are also concerned about the environment. Hong Yip won a gold medal in the Green Award of 2002 Hong Kong Eco-business Awards, and the Hong Kong Housing Authority named it Champion in the Green Property Management Awards 2003. In addition to ISO 9001 and ISO 14001 certification, Kai Shing was certified for OHSAS 18001 in May 2003, and it won the Hong Kong Eco-Business Grand Award in 2002 for the second time in three years, confirming its commitment to green property management.

During the outbreak of SARS, the Group reacted quickly and introduced a variety of measures to ensure the highest standards of hygiene in both residential and commercial properties. These included disinfecting public areas regularly, chlorinating flush water supplies, thoroughly cleaning common air-conditioning systems and offering SARS-prevention advice and supplies. All these measures helped ensure that the highest standards of cleanliness were maintained.

Both companies are widening the scope of their operations with innovative services. Hong Yip began offering a new one-stop renovation / engineering consulting, construction and real estate agency service for entire buildings, to a highly-favourable response. Kai Shing took the lead in applying information technology to property management. Its Super e-Management system links individual estates and allows resident access, and the Smart Alert service will provide future residents of YOHO Town access to an extensive range of useful information daily.

Branching out beyond Hong Kong, Hong Yip is preparing to manage its first estate on the Mainland: The Woodland in Zhongshan. Kai Shing is looking for new business opportunities externally. In December 2002, the company secured a major management contract with a local developer in Dongguan, and by early 2003 it had completed several consultancy projects in various parts of the Mainland.

The Group reacted quickly to the outbreak of SARS, forming a special team to carry out extensive cleaning.

FINANCIAL SERVICES

The financial services division is made up of the **Hung Kai Finance Company Limited** and **Honour Finance Company Limited**.

The division decided to exit the stock and futures broking business effective 1st August 2003 as a result of the changed operating environment. It now focuses on core services such as home mortgages, consumer loans and deposit-taking, to better support the Group's property development business. The division remained profitable during the year, despite increasing competition in the mortgage market.

INSURANCE

Sun Hung Kai Properties Insurance Limited recorded turnover of HK$437 million for the period under review. A more favourable insurance market enabled the company to report a 12-month net profit before taxation of HK$54.5 million, compared with HK$45.6 million last year. The company provides its clients with a comprehensive range of insurance services. It also offers insurance products through its Internet site www.shkpinsurance.com.hk. The company aims for steady growth of quality business and continues to exercise prudent underwriting in today's competitive business environment. The company's underwriting performance is expected to improve further in the coming year.

TELECOMMUNICATIONS

SmarTone Telecommunications Holdings Limited showed an encouraging improvement in its results despite increased market competition and the SARS outbreak. Profit attributable to shareholders for the year amounted to HK$408 million, an increase of 254 per cent from HK$115 million for the previous year. As at 30th June 2003, the company had 966,000 mobile customers in Hong Kong.

SmarTone showed an encouraging improvement in its results despite heavy market competition. Shown: Chief Executive Officer Douglas Lai at the unveiling of SmarTone's new corporate identity.

SmarTone focuses on improving service quality through continual enhancements to the three pillars of its business – products and services; network performance; and customer service. Concurrently, the company has adopted a competitive pricing strategy in order to increase its share of market revenue under a deflationary economy. To enable this two-pronged strategy, SmarTone has improved productivity and competitiveness by enhancing its effectiveness and efficiency.

SmarTone has been strengthening its branding while reinforcing its customer proposition – helping customers get closer to the people, information and entertainment that is important to them. It was the only mobile operator selected as one of Asia's Top 20 Brands by Media magazine in June 2003.

SmarTone continues to lead in bringing innovative products and services to market. It has marketed mobile data services that offer attractive propositions and a superior total customer experience. These include: SmarTone'in', a ground-breaking mobile multimedia portal offering a rich variety of infotainment for all customers; SmarTone BIZ, a suite of mobile business tools designed for busy executives who travel frequently; and messaging services such as picturemail – a picture message service providing customers a wide range of unique benefits.

SmarTone continues to invest in its network to deliver superior availability, reliability and speed in all its services. The company won numerous major service awards during the year, which demonstrates its position as a leader in customer service, not only among telecom operators, but also across all service industries in Hong Kong.

SmarTone will continue to pursue its strategy and accelerate the pace of bringing new services to market. At the same time, the company will further improve productivity and competitiveness. The Group is confident of SmarTone's prospects and has increased its interest in the company to 51.1 per cent through a mandatory general offer. It will continue to hold its stake in SmarTone as long-term strategic investment.

INFORMATION TECHNOLOGY

Despite a difficult economic environment, **SUNeVision Holdings Limited** stayed with its back-to-basics strategy and made a positive showing before one-off provisions for the year under review. Continuous improvements in efficiency and further streamlining of costs enabled the company to generate an operating profit of HK$74 million after finance expenses and before one-off costs, a clear improvement over the HK$5 million loss last year.

Year-on-year turnover grew, and gross profit increased by nearly 60 per cent to HK$71 million. Gross margin increased from 19 per cent to 29 per cent, while operating expenses fell 42 per cent to HK$69 million. The company has shown an operating profit for six consecutive quarters since the third quarter of financial year 2001/02 and operating expenses have fallen for 12 consecutive quarters since the first quarter of the 2000/01 financial year.

Overall, SUNeVision recorded a net loss of HK$341 million for the year as a result of three one-off items. The company made a HK$252 million provision against its equity technology investments, the majority of which related to a full write off of its investment in C2C, the international undersea cable operator. This provision was necessitated by the fact that C2C's majority shareholder fully provided its entire stake in the final quarter of the financial year. As at 30th June 2003, the revised value of SUNeVision's equity technology investments stood at HK$166 million.

SUNeVision also saw a HK$123 million revaluation deficit on its data centre land and buildings, and a HK$50 million revaluation deficit on its investment properties, reflecting the general downturn in property values in Hong Kong.

iAdvantage continued to reinforce SUNeVision's position as a leading carrier-neutral provider of data infrastructure and data-centric services, and its world-class data centre facilities and customer service attracted large local and multinational customers. Overall data centre occupancy during the year was satisfactory, and ongoing new demand for iAdvantage's services is anticipated. Turnover from SUNeVision's consumer-enabling and property-related technology businesses grew during the year, due largely to their ability to capitalize on the Group's stronghold in the property sector.

SUNeVision begins the coming year with a stable of solid data infrastructure and service provision businesses. Looking forward, the company will take advantage of its strong financial position for growth, focusing on IT-related businesses with immediate revenue and reliable cash flows to complement existing businesses. The Group owned 84.9 per cent of SUNeVision as at 30th June 2003.

SUNeVision's iAdvantage and SuperHome both made contributions with their solid data infrastructure and on-line service businesses.

REVIEW OF OPERATIONS Transportation, Infrastructure and Logistics

KMB continued making improvements in operational efficiency and services during the year.

FRANCHISED BUS OPERATION

The Kowloon Motor Bus Holdings Limited (KMB) is a publicly-listed company in Hong Kong in which the Group has a 33 per cent interest. Its main business is operating franchised bus services in Kowloon and the New Territories. The company has diversified into the non-franchised bus and media sales businesses in recent years. KMB performed relatively well in 2002 despite a difficult operating environment. Its net profit fell to HK$939.6 million, partly due to a deemed profit arising from the spin-off of RoadShow Holdings Limited booked in 2001. Increased competition and the outbreak of SARS had a considerable impact on the company's performance in the first half of 2003. The company recorded a net profit of HK$231.5 million during the period. KMB continued to increase its operational efficiency and upgrade its services during the year, furthering its goal of achieving total customer satisfaction.

RoadShow Holdings Limited is a publicly-listed company 73 per cent owned by KMB. It provides multi-media services for the out-of-home media market. The company reported a net profit of HK$55 million in 2002. The Group had an effective interest of about 25.6 per cent in RoadShow as at 30th June 2003.

TOLL ROAD

The Group has a 50 per cent interest in the **Route 3 (CPS) Company Limited**. Under a 30-year build-operate-transfer franchise that runs to 2025, the company now operates the strategic north-south expressway between Yuen Long and Ting Kau.

The dual three-lane expressway, consists of the 3.8-kilometre Tai Lam Tunnel and 6.3-kilometre Tsing Long Highway. It provides a direct link from the Lok Ma Chau crossing and northwest New Territories to the container ports in Kwai Chung, Hong Kong International Airport and the urban areas. It not only helps alleviate traffic congestion on Tuen Mun Road and the Tolo Highway, but also provides a faster, convenient link for commuters. Traffic volume remained fairly stable during the year.

TRANSPORT INFRASTRUCTURE MANAGEMENT

The Group is involved in transport infrastructure management through its 100 per cent ownership of the **Wilson Group** which oversees parking, tunnel, bridge, tollway and other related businesses. The Wilson Group employs around 4,000 people.

As the largest parking operator in Hong Kong, ISO 9002-certified Wilson Parking is re-equipping its access control systems to accept electronic payment as an additional convenience to customers. The Wilson Group manages 250 car parks with about 73,000 parking bays.

The Wilson Group manages and maintains the Shing Mun and Tseung Kwan O tunnels, the Tsing Ma Control Area and Route 3 (CPS). It also manages ten major public transport interchanges. Over 194,000 vehicles were equipped with Wilson's Autotoll electronic toll collection tags at the end of June 2003.

Wilson Facilities Management has been operating and maintaining some 7,000 baggage trolleys at Hong Kong International Airport since July 2002. In October 2002, Wilson's Hong Kong Parking secured a government contract to supply and install an Octopus card parking meter system for all 18,000 on-street parking bays.

The Hong Kong School of Motoring, 30 per cent owned by the Wilson Group, is the major provider of off-street driver training in Hong Kong.

Wilson Parking is the largest parking operator in Hong Kong.

Route 3 (CPS) is a strategic expressway linking the northwest New Territories to the urban areas in Kowloon.

PORT BUSINESS

The Group owns a 28.5 per cent stake in **Asia Container Terminals Limited**, which is developing two berths at Container Terminal 9 (CT9) on Tsing Yi Island. Construction began in mid-2000, and upon completion in 2004, the company will exchange its two berths at CT9 for two existing berths in Container Terminal 8.

The **River Trade Terminal Company Limited** is 43 per cent owned by the Group. The facility occupies a 65-hectare site in Tuen Mun, with 3,000 metres of quay front and 60 berths providing a wide range of containerized cargo handling and storage services. It handled 1.8 million TEUs in 2002, and throughput is expected to grow in the coming year.

The Group's 50 per cent stakes in both the **Hoi Kong Container Services Company Limited** and **Faith and Safe Transportation Company Limited** make it one of the biggest midstream operators in Hong Kong. The companies provide comprehensive midstream service and yard storage.

AIR TRANSPORT & LOGISTICS BUSINESS

The **Airport Freight Forwarding Centre Company Limited (AFFC)** is a wholly-owned subsidiary of the Group that operates a world-class international air cargo consolidation centre in close proximity to the two air cargo terminals at Hong Kong International Airport. The centre is a multi-storey drive-in facility with over 1.3 million square feet of floor area and more than 500 vehicle parking bays. Above it is a nine-storey grade-A office block containing 175,000 square feet of floor space. AFFC has advanced facilities and sophisticated information technology systems that handle 50 per cent of Hong Kong's air cargo. AFFC's advanced facilities and quality services help its tenants enhance their business capabilities.

The Group's wholly-owned subsidiaries **Sun Hung Kai Super Logistics Limited** and **e-Supply Chain Management Limited** offer comprehensive air cargo support services. The Group also holds a 50 per cent interest in **Sun Logistics Company Limited**, which provides total industry-specific logistics solutions to local and multinational businesses. Services include warehouse management, regional and global distribution, web-based inventory management and supply chain management consultancy. The Group holds a 33 per cent interest in a joint venture – **Global Airport Logistics Company Limited** – which is developing a logistics centre in Beijing.

The Group is active in the port business in Hong Kong.

The Group's **Hong Kong Business Aviation Centre Limited** is a 15-year franchise at Hong Kong International Airport that serves all business aircraft flying in and out of Hong Kong. The facilities, located in the southwest corner of the Chek Lap Kok reclamation, include a dedicated apron for aircraft parking, an executive terminal and a 23,800 square-foot hangar, all built to the highest international standards. There has been steady growth in the number of aircraft movements. The franchise is now in its fifth year of operation and generating profit. The Group owns 35 per cent of the company.

WASTE MANAGEMENT

The Group is actively involved in environmental protection. Through its 20 per cent ownership of **Green Valley Landfill Limited** and **South China Transfer Limited**, the Group is working to achieve a cleaner, greener environment for Hong Kong.

The companies are engaged in various environmental protection and waste management projects. Green Valley built and operates a 100-hectare landfill site in Tseung Kwan O with the capacity to handle 43 million cubic metres of waste. South China Transfer built and operates the largest refuse transfer station in Hong Kong. Located on Stonecutters Island, the station can process 2,875 tons of waste a day.

OTHER INVESTMENT HOLDINGS

Travelex Hung Kai Airport Currency Exchange Limited is a joint venture between the Group and Travelex, in which the Group holds a 25 per cent interest. As the sole moneychanger at Hong Kong International Airport, the company's major businesses are foreign exchange and the sale of various travel-related products. The outbreak of SARS earlier this year drastically affected business and airport passenger traffic fell substantially in those months. Business has been improving continuously in recent months with the revival of both tourist and business travelling.

New-Alliance Asset Management (Asia) Limited is a 50/50 joint venture between the Group and Alliance Capital Management LP. The company's main business is investment management and unit trust and mutual fund distribution in Hong Kong. There has been increased activity since the beginning of 2003 in both the distribution of unit trusts and mutual funds through major financial intermediaries and the provision of portfolio management to institutional customers.

USI Holdings Limited is a publicly-listed company in which the Group owns a 19 per cent interest. It is in the apparel, property and telecommunications businesses. The company reported a net profit of HK$21 million in 2002. Going forward, USI will remain focused on strengthening its core businesses.

The Airport Freight Forwarding Centre handles 50 per cent of Hong Kong's air cargo.