

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 2001 was HK\$8,330 million, compared with last year's profit of HK\$10,822 million. Earnings per share for the year was HK\$3.47, compared with HK\$4.51 for the corresponding period last year. A one-off gain of HK\$2,688 million arising from the spin-off of SUNeVision Holdings Limited was included in last year's results. Excluding that gain, profit for the year under review shows a year-on-year growth of 2.4 per cent.

## DIVIDENDS

The Directors have recommended the payment of a final dividend of HK\$1.00 per share for the year ended 30th June 2001. Together with the interim dividend of HK\$0.55 per share, the total dividend for the year is HK\$1.55 per share, compared with HK\$1.75 per share for the previous year.



## REVIEW

### Sales

During the year ended 30th June 2001, total property sales generated by the Group, both as principal and agent, amounted to HK\$19,641 million, an increase of 102 per cent over the previous year. Major projects sold during the period included The Leighton Hill in Happy Valley, Oscar by the Sea in Tseung Kwan O, The Parcville in Yuen Long, Royal Peninsula in Kowloon, The Belcher's Phase 2 in western Mid-Levels and Villa Esplanada Phase 3 in Tsing Yi.

*The Leighton Hill in Happy Valley received an overwhelming response from the market on its launch in November 2000.*

During the year under review, the Group completed the following 11 projects, with an attributable gross floor area of about 4.1 million square feet:

Project	Location	Usage	Group's Interest %	Attributable Gross Floor Area square feet
Royal Peninsula	3 Hung Lai Road, Kowloon	Residential	50	739,000
Oscar by the Sea Phase 1	Tseung Kwan O Town Lot 51	Residential	Joint venture	447,000
Le Sommet	28 Fortress Hill Road, North Point	Residential	100	390,000
Villa Premiere	99 Fung Cheung Road, Yuen Long	Residential	100	217,000
Villa Esplanada Phase 3	8 Nga Ying Chau Street, Tsing Yi	Residential	22.5	193,000
Ocean Shores Phase 1	88 O King Road, Tseung Kwan O	Residential/ Shopping Centre	49	672,000
Chelsea Heights Phase 2	1 Shek Pai Tau Path, Tuen Mun	Residential/ Shopping Centre	100	667,000
The Belcher's Phase 1	89 Pok Fu Lam Road, western Mid-Levels	Residential/ Shopping Centre	29	386,000
Grand Villa	401 Chatham Road, Hung Hom	Residential/Shops	100	30,000
Shouson Place	16E Shouson Hill Road, Island South	Shopping Centre	100	17,000
MEGA-iAdvantage	399 Chai Wan Road	Data Centre	84.3	293,000
<b>Total</b>				<b>4,051,000</b>

More than 85 per cent of the residential units completed during the year have been sold. The shopping centres in Chelsea Heights, The Belcher's and Ocean Shores, as well as Shouson Place and MEGA-iAdvantage, are being retained as long-term investments.

## Land Bank

During the year, the Group added a total of 5.3 million square feet of attributable gross floor area to its land bank through various means including public auction and tender:

Project	Usage	Group's Interest %	Attributable Site Area square feet	Attributable Gross Floor Area square feet
Airport Railway Kowloon Station Development Packages 5, 6 & 7	Office/Shopping Centre/Residential/ Serviced Apartment/ Hotel	Joint venture	790,000	4,698,000
Kowloon Inland Lot 11145, Farm Road	Residential/Shopping Centre	100	30,000	268,000
New Kowloon Marine Lot 3, Lai Chi Kok	Residential/Shopping Centre	34	43,000	376,000
<b>Total</b>			<b>863,000</b>	<b>5,342,000</b>

The Group currently owns a land bank of 54.1 million square feet in Hong Kong, in terms of attributable gross floor area. It consists of 19.3 million square feet of completed investment properties and 34.8 million square feet of properties under development. The Group also owns 22 million square feet of agricultural land in the New Territories, primarily along existing or planned railway lines, the majority of which is in the process of land use conversion.



*Oscar by the Sea in Tseung Kwan O offers home buyers a wide range of unit sizes.*

## Property Development

Transaction volume in Hong Kong's residential market was affected by the recent terrorist attacks in the United States, after a modest improvement in the first eight months of 2001. Market sentiment has been weak, affected by the economic slowdown, rising unemployment rate and the significant decline in the Hong Kong stock market in the past two months. However, recent positive Government measures for the housing market and eight consecutive interest rate cuts totalling 3.5 per cent this year have helped to strengthen market fundamentals.

Affordability for home buyers is now the most favourable in the last 13 years, with residential prices currently at early 1992 levels. In addition, attractive financing packages offered by banks, the lowest mortgage rates on record and a significant increase in the number of Government-subsidized housing loans have underpinned market demand. Higher rental yields relative to mortgage interest rates have resulted in more people opting to buy flats instead of renting accommodation. It is expected that as confidence in the economy improves, the demand for housing will increase accordingly.

The Group's strategy is to increase the completion of residential units for sale over time in order to meet market demand, with a focus on developing large-scale, premium-quality projects with comprehensive facilities. It will continue to offer home buyers a wide range of flat sizes, with an emphasis on small-to-medium units. To meet the objective of raising production volume and enhancing value for shareholders, the Group will add to its land bank through various means when appropriate. Conversion of agricultural land into the Group's development land bank is continuing.

The Group's aim has always been to build ideal homes for its customers. As home buyers have become more selective, the Group is raising standards even higher in order to enhance its brand name for quality and strengthen its market-leading position. A variety of measures adopted during the year will allow the Group to surpass its achievements in areas such as project quality, customer care and management service. Reinforcement of the Group's brand name and stringent controls over construction costs should help to improve project returns.

In the coming financial year, the Group expects to complete 4.6 million square feet of gross floor area in attributable terms:

	Attributable gross floor area in million square feet			Total
	Residential	Shopping Centre	Office	
For sale	4.5	—	*	4.5
For investment	—	*	0.1	0.1
<b>Total</b>	<b>4.5</b>	<b>*</b>	<b>0.1</b>	<b>4.6</b>

\* less than 0.1 million square feet

## Property Investment

The Group's property investment portfolio generally performed well during the year, although leasing demand for commercial properties has softened since early 2001. Overall occupancy of investment properties owned by the Group remained high at 95 per cent. Gross rental income during the year under review, including the Group's share of jointly controlled entities, increased by 3.7 per cent over the previous year to HK\$5,877 million.

To bolster recurrent income, the Group is actively developing a number of new, superior-quality investment property projects. At the same time, it will also review its rental portfolio constantly, with the intention of disposing of some non-core properties to maintain an optimal investment portfolio.

Following the success of One International Finance Centre (IFC), which is fully let, construction of Two IFC is under way. It consists of a 1.95 million square-foot, state-of-the-art office building, 500,000 square feet of prime shopping space, a 1.1 million square-foot six-star hotel complex and 140,000 square feet of landscaped garden. IFC is strategically located on the Central waterfront, right above the Airport Railway Hong Kong Station, with spectacular views of Victoria Harbour. The hotel complex will include one 400-room tower and another 600-room tower for long-staying guests, and it will be managed by Four Seasons Hotels and Resorts, a leading international luxury hotel operator. This will be the first Four Seasons-branded property in Hong Kong. With its ultra-modern office towers designed with interactive technology, IFC will serve as a truly international business and financial hub. The office tower in Two IFC will be completed by the end of 2003, and the shopping centre is expected to open in the first half of 2003. The entire IFC complex will be completed in phases by 2004. The Group has a 47.5 per cent interest in the project.



Kowloon Station Development Packages 5, 6 and 7 are situated right above Kowloon Station on the Airport Express Railway, at the heart of the future commercial and cultural hub of Hong Kong. With 4.7 million square feet attributable to the Group, the entire project comprises office, hotel, residential and serviced apartments, as well as retail space. Foundation work has already begun, and the whole project is scheduled for completion in phases between 2005



Top: Walter Kwok, the Group's Chairman (fifth left) and Raymond Kwok, Vice Chairman (third left) at the IFC-Four Seasons Hotel superstructure commencement ceremony.

Left: Airport Railway Kowloon Station Development Packages 5, 6 and 7 will have top-quality offices, residential and serviced apartments, hotel and shopping centre.

and 2007. Airport Railway Kowloon Station Development Packages 3, 5 and 6 will provide a total of two million square feet of residential property available for pre-sale in about two years' time.

Given its prime location in the centre of Kowloon East, Millennium City has become one of the major commercial developments in Hong Kong. With the success of Phases 1 and 2, which are both fully let, Phase 3 is under construction, with occupation scheduled for the second half of 2002.

With Hong Kong serving as an international hub for business, finance, trade and tourism, and China's entry to the WTO, the demand for top-quality office space is expected to remain solid. At the same time, the Group is taking various steps to enhance rental values in its shopping centres. In addition to regular renovations and refurbishment, promotional programmes are also staged in the shopping centres, particularly during weekends and public holidays, to boost pedestrian flows and consumer spending.

## Information Technology and Telecommunications

### *SUNeVision*

SUNeVision's business has been progressing well since the listing in March 2000. The company generated total revenue of approximately HK\$198 million during the financial year ended 30th June 2001, and achieved a positive gross margin in the second quarter of 2001. This performance primarily reflects a growth in revenue from the Internet infrastructure business and the company's success in carefully controlling costs in a tough operating environment. Leasing of iAdvantage's data centres in Hong Kong has been satisfactory, and other business units have made steady progress during the year.

The company is reviewing its business strategy and will focus on operations with growth potential. At the same time, it will prudently manage its balance sheet and tightly control operating costs and capital expenditure. SUNeVision has cash and marketable bonds totalling HK\$1,870 million. With the full support of its parent company and commitment of its experienced management, SUNeVision will become more competitive by operating more efficiently and cost-effectively, and it is well positioned to pursue new investment opportunities when appropriate.

### *SmarTone*

The telecommunications market remained highly competitive, and SmarTone reported a loss for the year, mainly due to the start-up investment required for its broadband business and other provisions. SmarTone expanded its customer base to 980,000 during the year, laying the foundation for future growth. Mr. Douglas Li rejoined the company as CEO in July 2001, and he will lead SmarTone forward in its commitment to offering superior service to its customers. Through effective execution, the company will deliver a total service offering, achieving operational efficiencies and controlling costs. SmarTone Macau was launched in August 2001, offering a high-quality network and superior customer service.