

SmarTone was provisionally awarded a 3G licence in Hong Kong in September 2001 at the reserve price of five per cent royalty rate. This will allow the company to provide its customers with wireless broadband and personalized services, with multi-media contents. SmarTone conducted the first successful 3G trial in the greater China region in 1999, giving it a head start in the industry.

With its leading market position, solid customer base and strong cash reserves of HK\$3,478 million, the company will be able to leverage its strengths in any opportunities for consolidation that may arise. The Group is confident in SmarTone's future growth and prospects, and is committed to holding the company as a long-term strategic investment.

Transportation and Infrastructure

Kowloon Motor Bus

Kowloon Motor Bus (KMB) had a good year in 2000, with net profit increasing 15.7 per cent. Operating efficiency continued to show improvement, and there were increases in new bus routes and passenger volume. The company aims to maintain its market-leading position by providing a high standard of user-friendly bus services, ensuring total customer satisfaction. The relocation of KMB's Lai Chi Kok bus depot to the West Kowloon reclamation will further enhance the efficiency and reliability of the fleet. The new depot will be purpose-built to provide advanced support service for KMB's modern fleet, and it is scheduled for completion by the end of 2001. KMB will continue to look for ways to diversify business in the bus transportation industry in Hong Kong and on the Mainland.

RoadShow Holdings Limited, a 73.3 per cent owned subsidiary of KMB, is a leading out-of-home media sales company in Hong Kong. The company provides multi-media on-board services to a captive transit vehicle audience base. It also engages in transit network media sales and merchandizing. RoadShow was listed on the main board of the Hong Kong Stock Exchange on 28th June 2001, raising net proceeds of HK\$534 million.

Other Infrastructure Business

Route 3 (Country Park Section) performed well this year. The toll for the Tai Lam Tunnel was increased in April 2001, and traffic volume remained satisfactory despite slower economic growth. It is expected that the development of new towns in the northwest New Territories and increasing trade between the Mainland and Hong Kong will result in growing traffic on the toll road.



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The volume of cargo handled at the River Trade Terminal has been expanding since it commenced operation, and the Airport Freight Forwarding Centre continued to operate smoothly.

Through its 28.5 per cent interest in Asia Container Terminals Limited, the Group is participating in the development of two berths in Container Terminal 9. The project financing is already in place. Completion is scheduled in phases during 2003 and 2004.

All of the Group's infrastructure projects are in Hong Kong, and will provide quality cash flows and recurrent income over the long term.

Hotel Business

With increased incoming tourists, overall occupancy in Hong Kong's hotel sector remained at relatively high levels during the year. Performance of the Group's three hotels was encouraging. The average occupancy rate for the hotels not only registered a high of 85 per cent, room rates also increased during the year.

The Group is now developing six-star hotel facilities at both Hong Kong and Kowloon stations on the Airport Express Railway. With Hong Kong being a regional hub for tourists, the Government's initiatives to boost tourism, an anticipated increase in business travellers amid China's entry to the WTO and Beijing's successful bid to host the Olympic Games in 2008, the Group's hotel portfolio is well positioned to take full advantage of forthcoming business opportunities.



Mainland China Business

With robust economic growth on the Mainland, performance of the Group's property investment portfolio in Beijing and Shanghai was satisfactory during the year. Sun Dong An Plaza in Beijing recorded 95 per cent overall occupancy, and Central Plaza in Shanghai was 93 per cent let.

China will continue to offer enormous business and investment opportunities to local and overseas investors, particularly after its entry to the WTO. With the success of ongoing housing reform in China, the Group will take advantage of the opportunities presented by investing selectively in the China property market in Beijing, Shanghai, Guangzhou and Shenzhen.

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Corporate Finance

The Group's financial position remains strong, with low gearing and high interest coverage. Its net debt to shareholders' funds ratio as at 30th June 2001 was 15.8 per cent, and it has abundant undrawn banking facilities on a committed basis to finance future business expansion. All the Group's credit facilities are unsecured. Exposure to foreign currency risk is negligible, given that the vast majority of its borrowings are denominated in Hong Kong dollars.

In line with the Group's policy of lengthening its loan maturity profile, it successfully arranged two seven-year syndicated loans with a number of leading local and international banks in 2001. The market response was overwhelming, and an aggregate HK\$15,300 million revolving credit and term loan facility was established to refinance short-term debt and for use as general working capital. The Group also broadened its funding base through issues of fixed and floating rate notes under its EMTN programme amounting to HK\$2,150 million since July 2000, with tenors ranging from three to eight years.

During the year, the Group's credit rating outlook from Moody's was upgraded from stable to positive, in line with that of the Hong Kong Government's sovereign ceiling. The Group will adhere to its conservative financial management policies by maintaining low gearing and high liquidity.

Customer Service

Customer care is a top priority for the Group, and it is constantly looking for new ways to improve the quality of its products and services. The Group's Service Excellence Programme provides extensive and ongoing training to front-line staff in order to raise the quality of customer service.

The Group's property management subsidiaries Hong Yip and Kai Shing consistently receive accolades for their management service, and the companies won over 30 awards from a variety of organizations during the year. Both companies continue to extend the use of information technology in property management and building services, monitoring facilities via the Internet. They are also environmentally conscious, encouraging recycling and conservation to reduce the amount of waste produced by the properties they manage.

Membership in the SHKP Club continues to grow, and it now exceeds 140,000. The Club offers members complete service and a wide range of leisure and property-related activities. Building on the success of initiatives such as the Show Flat Preview Loyalty Scheme, the Club introduced various new benefits and services for members during the year, including a Buyer Reward Programme. The Club will continue to attract new members and promote two-way communication with the public through various means.



The Group strives to increase staff consciousness of the importance of quality, to reinforce its status as a premium-quality developer.

PROSPECTS

China continues to show impressive growth, with ongoing economic reforms. Its anticipated accession to the WTO will add further momentum to its economic progress. Beijing's successful bid to host the Olympic Games will not only translate into greater economic expansion during the run-up to 2008, it will also strengthen both domestic and international confidence in China. All these favourable developments on the Mainland should benefit Hong Kong's economy and property market over time, as the territory serves as a gateway to China.

The September attack in the United States has undoubtedly shocked global financial markets and the world economy, but the negative impact is likely to be short term. Given persistently low interest rates and continued growth on the Mainland, Hong Kong is well equipped to deal with the current challenges.

Despite challenging economic conditions, home buyers' confidence should improve following the suspension of HOS sales until June of next year and the current review of the institutional framework for public housing. These factors, along with the desire to own property, very favourable affordability for home buyers and relaxed mortgage financing, are expected to bolster the demand for residential property. New supply in the pre-sale market is likely to remain steady next year, and there is a high likelihood that it will fall in the medium term. In light of all these, the residential market should become active once the shock of recent events in America subsides.

The Group has witnessed various major economic ups and downs over the past few decades, and each of these downturns invariably brought the Group considerable investment opportunities. With its experienced management team and strong financial position, the Group believes that the current residential market will provide opportunities for business expansion and long-term growth. We are confident that the Group will be an even stronger property company with the advent of a recovery in the market.



The Group will build more premium-quality residential developments, including Park Central in Tseung Kwan O, for sale in the next few years to meet the expected demand.

The Group will continue efforts to strengthen its property business in Hong Kong. It will build more residential developments for sale in the next few years to meet expected demand. It will also develop a number of landmark investment properties to increase recurrent income. Concurrently, the Group will dispose of some non-core investment properties in order to maintain an optimal mix in its rental portfolio and improve the return on assets.

With a focus on maintaining its leading position in the present challenging business environment, the Group will continue to develop premium products

and provide quality service, making its properties customers' first choice. To further enhance competitiveness, the Group will take steps to strengthen its brand name and control costs, but without compromising on quality. The aim is to increase returns and enhance shareholder value.

Given the promising outlook for China's economy, the Group is actively seeking business opportunities in the Mainland property market to take advantage of growing prospects in that sector over the long term. The Group will bring its strong brand name and successful Hong Kong experience to Mainland China, and it is confident that it will further develop the market there.

Proceeds from upcoming pre-sales and substantial recurrent rental income will further enhance the Group's cash flow. The Group will continue to launch new projects for pre-sale according to schedule, and major projects to be marketed in the next nine months include Park Central in Tseung Kwan O, Villa by the Park in Yuen Long, 71 Mount Kellett Road on the Peak and Park Island on Ma Wan.

Approximately 75 per cent of the residential properties to be completed in the coming financial year have been pre-sold, and barring unforeseen circumstances, the Group's results for the coming year will show satisfactory growth.

APPRECIATION

Sir Sze-yuen Chung was appointed as an Independent Non-Executive Director of the Company in March this year. His broad experience and knowledge of business and public affairs will benefit the Group's future business development.

Independent Non-Executive Director Dr. Ho Tim retired from the board in March this year after more than 28 years of service. Throughout this time, he has made a considerable contribution to the Group's growth, and on behalf of the board, I would like to thank Dr. Ho for his valuable efforts and dedication.

Executive Director Mr. Law King-wan will soon retire after over 30 years of service, staying on as a Non-Executive Director. I wish to thank Mr. Law for his substantial contribution to the Group's development, and for his commitment and loyalty.

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, 27th September 2001