REVIEW OF OPERATIONS – PROPERTY RELATED BUSINESSES

The Group's three hotels maintained high occupancy levels during the year.

HOTELS

The Group's three hotels recorded satisfactory results during the year. Although business in late 2001 suffered in the wake of the September 11th attacks in the US, a recovery in tourist arrivals since early 2002 has helped to maintain average occupancy at high levels.

The **Royal Garden** in Tsim Sha Tsui finished the year ending 30th June 2002 with an average occupancy of 86 per cent, similar to last year. Performance for the year was no doubt bolstered by the hotel's renovation programme, which finished at the end of December 2001. The renovations allowed the hotel to compete with the best possible image, in a market that called for flexibility and resourcefulness. One of the highlights of the year was the opening of the new Inagiku Japanese restaurant in April 2002. The initial response has been most positive and business levels are encouraging. Looking ahead, creativity and adaptability will be the keys to the Royal Garden's ongoing success in what will probably continue to be an extremely challenging market.

In spite of the economic difficulties last year, the **Royal Park** in Shatin achieved an average occupancy rate of 87 per cent. Its advantageous location and flexible marketing strategy helped attract various international conferences and events. To meet the increasing need for serviced apartments in the area, some of the rooms have been refurbished with the installation of kitchenettes. The hotel will continue to explore other opportunities to provide more comprehensive service and enhance its competitive edge.

The **Royal Plaza** in Mongkok maintained an average occupancy rate of 85 per cent during the year under review. The performance of its banquet division was most outstanding, showing a 13.5 per cent growth in revenue. To increase competitiveness and enhance service for guests, the hotel introduced a new Beauty and Body Care service in its health club. The anticipated completion of a covered walkway to the Mongkok MTR station will make the hotel more accessible, and this convenience should make it more attractive to business travellers. For the year ahead, Royal Plaza will continue to follow an aggressive yet flexible strategy, which will enable it to respond swiftly to market demand.

Given continued economic growth on the Mainland and the government's initiatives to promote Hong Kong as a regional tourism hub, demand from both tourists and business travellers is anticipated to rise. The Group is confident about the long-term prospects for the hotel sector and plans to build six-star hotels above the Hong Kong and Kowloon stations on the Airport Railway.

The Group's International Finance Centre on the central waterfront of Hong Kong Island will include the Four Seasons Hotel Hong Kong, comprising one six-star hotel tower and a serviced suites hotel. Together, the two towers will offer almost 1,000 first-class guest rooms in what will be the first Four Seasons hotel in Hong Kong. Completion is scheduled for late 2004.

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

CONSTRUCTION

The construction division completed 6.4 million square feet of properties during the year, including 178,000 square feet by joint-venture companies. Projects completed during the year include The Leighton Hill, The Belcher's Phase 2, Oscar by the Sea Phase 2, Prima Villa, The Parcville, 1 Lion Rock Road, 7 Minden Avenue and Millennium Trade Centre. The division's subsidiaries recorded a turnover of HK$6,300 million (on a progressive completion basis) for the year, with an additional HK$4,600 million recorded by its joint-venture companies.

Major projects under construction include Two International Finance Centre, Kowloon Station Development Package 3, Ocean Shores Phase 3, Park Island, Park Central, Liberté, Villa by the Park and Millennium City Phase 3.

The division's restructuring a year ago is now paying off, with a new focus on quality, speed and cost controls, as well as safety. Improvements have been made at all levels, and new construction standards are in place. The division also gives its full support during the handover of new properties, to ensure a high level of customer satisfaction.

The construction division provides full support for new property handovers.

The following wholly-owned subsidiaries and associate provide construction-related services complementing the division's activities:

The **Everlight Engineering Company Limited, Everfield Engineering Company Limited** and **Eversun Engineering Company Limited** provide and install electrical and fire prevention systems, including recurring system maintenance, for in-house and external projects. Total turnover for these subsidiaries over the year under review was HK$428 million.

The **Aegis Engineering Company Limited** hires out plant and machinery, motor vehicles and containers for in-house and external projects. Turnover for the year under review amounted to HK$74 million.

Glorious Concrete (HK) Limited is an associate of the division that supplies ready-mixed concrete to the Group and external contractors. Its results for the year were good.

Hong Yip Director and General Manager Alkin Kwong (right) receives a Quality Award – Certificate of Excellence from David Li, Chairman of the Hong Kong Management Association.

PROPERTY MANAGEMENT

As part of its commitment to offering residents the finest living environments, the Group strives to offer ever-higher standards of service through its two property management subsidiaries, Hong Yip Service Company Limited and Kai Shing Management Services Limited. They are highly regarded in the industry and together manage over 177 million square feet of residential and commercial property.

Hong Yip manages more than 110,000 residential and commercial units, totalling about 92 million square feet of floor area. In addition to properties developed by the Group, Hong Yip's management portfolio includes other private housing estates and government buildings.

In order to raise the level of technology in property management, Hong Yip acquired Hallsmart Limited this year and is actively promoting the use of smart cards in the estates it manages to improve efficiency. The company also established Hongplus Professional Consultants to offer consulting on maintenance and renovations, so that owners can keep their buildings in the best condition to preserve property values.

As part of its drive for service excellence, Hong Yip initiated the Assurance Buildings programme, which includes a whole range of value-added services to achieve a high standard of management and offer the best value for money. This continuous stream of innovative ideas and proactive effort has earned Hong Yip an enviable reputation.

Kai Shing now manages 69 million square feet of residential premises, 14 million square feet of commercial space and two million square feet of industrial properties. Its core businesses are property management, sales and leasing agency, security and technical services and club management.

Despite the economic downturn, Kai Shing has expanded the scope of its business to include facility management for the government and other institutions. As an industry leader in the use of information technology in property management, the company continues to upgrade its exclusive Super e-Management and Mobile Building Management systems to improve operational efficiency further.

Kai Shing's professionalism in property management is reflected in its ISO 9001 certification. Building on its reputation, the company has established a presence on the Mainland, particularly in Shanghai, where it manages the Group's Shanghai Central Plaza and Arcadia Shanghai.

The Group places high emphasis on training its front-line property management staff. Both Kai Shing and Hong Yip organize comprehensive training and development courses to ensure that customers receive the best possible level of service, and their high-calibre teams of property management specialists are praised highly by residents.

The Group's property management companies are also forerunners in the field of environmental protection. Both companies have ISO 14001 certification and participate in the SHKP Environmentally Friendly Joint Action campaign, helping to promote conservation and recycling in the estates they manage. Dedicated to offering customers the finest service and providing residents with an ideal living environment, these two companies have won numerous awards in recognition of their quality, customer service and environmentally-friendly practices.

Patrick Lam (right), Director of Kai Shing, receives a 2002 Hong Kong Eco-Business Award from Financial Secretary Antony Leung.

FINANCIAL SERVICES

The financial services division is made up of **Hung Kai Finance Company Limited, Honour Securities Company Limited, Honour Futures Limited** and **Honour Finance Company Limited**. Principal services include home mortgages, share margin financing, stock and futures broking, consumer loans and deposit taking.

The division remained profitable despite the continued downturn in the financial markets and an increasingly competitive mortgage business.

INSURANCE

Sun Hung Kai Properties Insurance Limited recorded HK$336 million in turnover during the year under review. Despite a generally negative investment climate, the company and its subsidiaries recorded pre-tax profit this year of HK$46 million, compared to HK$45 million last year, primarily because diminished investment returns were offset by better underwriting results.

Since its establishment in 1979, the company has been offering its clients a full range of insurance coverage, and it also now deals in insurance products over the Internet via 'www.shkpinsurance.com.hk'. Sun Hung Kai Properties Insurance has always taken a prudent approach to underwriting, aiming at a focused market segment. The company has a credit rating of 'A-' from both Standard & Poor's and A. M. Best, reflecting its sound financial performance and management systems.

SUNeVision recorded operating profits before one-off costs since the third quarter of financial year 2001/02. Sheridan Yen, SUNeVision Managing Director, at the 2001/02 results announcement.

iAdvantage offers world-class facilities and value-added service to its customers.

INFORMATION TECHNOLOGY

SUNeVision Holdings Limited saw the timely completion of a major restructuring programme during the year under review, which realigned business units, streamlined operations, increased productivity and sharpened the focus of all employees.

Operating expenses fell in each of the last eight quarters. The company is now firmly back to basics and well on track for a complete turnaround. Already, year-on-year figures hold out considerable promise for the future; turnover increased by HK$43 million, gross margin improved from negative eight per cent to positive 19 per cent and losses before one-off costs shrank to HK$5 million from HK$141 million last year. The company is confident that the level of operating profit first achieved in the third quarter of the fiscal year can be maintained.

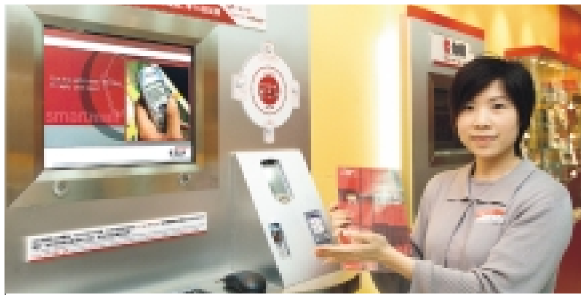
The closure of unprofitable business units and prudent provisions with respect to SUNeVision's investment portfolio have allowed the company to focus on providing high-quality solutions in data infrastructure and enabling services and maximizing value from a solid customer base in each of its business units.

Despite difficult market conditions, iAdvantage achieved high customer retention in both data centre occupancy and value-added services. MEGA-iAdvantage in Chaiwan continued to build on its position as the leading carrier-neutral interconnection hub in Asia. In March 2002, iAdvantage was awarded ISO 9001:2000 certification in recognition of its world-class facility infrastructure design and construction.

SUNeVision's recovered fundamentals and financial strength position it well for growth. The restructuring and reorganization is largely complete, and the company does not anticipate the need for additional restructuring and provisions. The company will begin its next financial year with a balanced and scaleable portfolio of bottom-line profitable or EBITDA-positive businesses, comprising data infrastructure and service provision, enabling services and venture capital investments. In addition to organic growth, SUNeVision is exploring opportunities to add new technology-related businesses to complement its current core operations. The Group owned 84.8 per cent of SUNeVision as at 30th June 2002.

TELECOMMUNICATIONS

SmarTone Telecommunications Holdings Limited recorded significantly improved results after refocusing on its core mobile business and reorganizing its activities behind three key business principles: customer orientation, effectiveness and efficiency. Profit attributable to shareholders for the year amounted to HK$115 million, recovering from a loss of HK$284 million for the previous year. As at 30th June 2002, the total number of customers stood at 984,000.



*SmarTone's 'email **on the go**' enables customers to access e-mail from mobile phones or PDAs anytime, anywhere.*

With a renewed emphasis on customer orientation, SmarTone has delivered a wide range of programmes to enhance service and customer satisfaction further.

The company has been improving its radio network to enhance in-building coverage, increase capacity and improve the delivery of both voice and non-voice services. Significant enhancements to voice services have also been made to create more value for customers.

The company is paving the way to capture the market opportunities created by data-centric services. A number of services encouraging customers to use their mobile phones for non-voice communication were introduced during the year. These include: 'email **on the go**,' which enables customers to access their business and personal e-mail, calendar and contacts list from their mobile phones or PDAs anytime, anywhere; 'picture**mail**' which allows the creation of multimedia messages combining voice, text and photos taken with a MMS CameraPhone, and share them instantly with friends; and 'SMS **via email**' which enables the transmission of SMS from PCs to any GSM phone.

SmarTone's commitment to quality service is well recognized in the industry. During the year, the company won the most major service awards of any mobile operator in Hong Kong. These include two of the four annual service and courtesy awards presented by the Hong Kong Retail Management Association (HKRMA). SmarTone was also named Services Category Leader in the Electronic and Electrical Appliances/ Telecommunications industry under the HKRMA's Mystery Shoppers Programme.

SmarTone will continue to make significant investments in upgrading all areas of its core mobile business. Data-centric services are the key drivers of the company's future growth. SmarTone was awarded a 3G licence in October 2001. 3G will become critical when capacity demand from wide take-up of data-centric services appears. The company is ready for 3G and has already completed the first phase of its pilot 3G network, which will eventually become part of a commercially-operational system.

SmarTone is well positioned to surmount the challenges ahead and exploit emerging market opportunities. The Group remains confident in the long-term prospects for SmarTone and is fully supportive of its vision. The Group had a 29.6 per cent interest in SmarTone as at 30th June 2002, and it will continue to hold the stake as a long-term strategic investment.

REVIEW OF OPERATIONS – TRANSPORTATION, INFRASTRUCTURE AND LOGISTICS

KMB recorded strong earnings growth in 2001.

Route 3 (CPS) saw steady traffic volume during the year.

FRANCHISED BUS OPERATION

The Kowloon Motor Bus Holdings Limited (KMB), in which the Group has a 33.3 per cent interest, is publicly listed in Hong Kong. Its main business is the provision of franchised bus services covering Kowloon and the New Territories, and the company has diversified into non-franchised buses and media sales in recent years. It recorded an 86.7 per cent increase in net profit to HK$1,595.5 million for the year ended 31st December 2001, mainly because of a deemed profit of HK$349.6 million arising from the spin-off of RoadShow Holdings Limited. For the six months ended 30th June 2002, the company reported a net profit of HK$572.1 million. The company is dedicated to achieving total customer satisfaction. During the year, it introduced more bus-to-bus interchange packages and the first green bus equipped with a Euro III engine, and announced plans to air-condition bus waiting areas. The efficiency and reliability of its bus services will be enhanced further with the recent opening of a new, purpose-built bus depot on the West Kowloon reclamation, which provides better support for the KMB fleet.

RoadShow Holdings Limited, a 73 per cent owned subsidiary of KMB, was listed on The Hong Kong Stock Exchange in June 2001. It is a leading out-of-home media sales company that primarily markets advertising aimed at transit vehicle passengers, through its proprietary multi-media on-board system. The company reported a net profit of HK$175.1 million for the financial year ended 31st December 2001. The Group had an effective interest of 25.6 per cent in the company as at 30th June 2002.

TOLL ROAD

The Group has a 50 per cent interest in the **Route 3 (Country Park Section) Company Limited**. Under a 30-year build-operate-transfer agreement with the government reached in 1995, the company constructed and now manages the strategic north-south road link between Yuen Long and Ting Kau. The dual three-lane highway consists of the 3.8 kilometre Tai Lam Tunnel and 6.3 kilometre Tsing Long Highway.

Route 3 (CPS) has been open since May 1998, providing a direct link from the Lok Ma Chau crossing and northwest New Territories to Tsuen Wan, the container ports in Kwai Chung and Hong Kong's international airport. This has helped to alleviate traffic congestion on Tuen Mun Road and the Tolo Highway. Traffic volume remained stable during the year.

TRANSPORT INFRASTRUCTURE MANAGEMENT

The Wilson Group is a wholly-owned subsidiary of the Group that oversees parking, tunnel, bridge, tollway and other transport-related management businesses through its own network of wholly or partially-owned subsidiaries. It was established in July 1998 following Wilson Parking's diversification into these business areas. The Wilson Group employs around 4,000 people.

Under the Wilson Group umbrella, Wilson Parking and Mack & Co. Carpark Management manage more than 250 car parks with over 76,000 parking bays. As the largest parking operator in Hong Kong, ISO 9002-certified Wilson Parking is re-equipping its access control systems to link car parks to an operations support centre in order to go cashierless in 18 months. The Wilson Group also operates car beautification centres in car parks.

The Wilson Group expanded from car park operations into a wide range of transport-related businesses.

Wilson Group subsidiaries manage and maintain the Shing Mun and Tseung Kwan O tunnels, the Tsing Ma Control Area and Route 3 (CPS). The Wilson Group has also expanded its management of public transport interchanges during the year. Electronic Toll Systems is another part of the Wilson Group that has a 50 per cent stake in Hong Kong's only electronic toll collector, Autotoll Limited. Over 190,000 vehicles were equipped with an electronic toll collection system transponder at the end of June 2002.

Wilson Facilities Management secured its first contract from the Airport Authority to operate and maintain all baggage trolley facilities at Hong Kong International Airport from July 2002. In March 2002, Wilson's Hong Kong Parking secured a government contract to supply all the smart cards for on-street parking.

Hong Kong School of Motoring, 30 per cent owned by the Wilson Group, has been operating successfully for the past 19 years. As the major provider of off-street driver training facilities in Hong Kong, it currently operates centres in Shatin, Wong Chuk Hang and Yuen Long.

PORT BUSINESS

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

The **River Trade Terminal** is 33 per cent owned by the Group. This facility occupies a 65-hectare site in Tuen Mun with 3,000 metres of quayfront and 60 berths, providing a wide range of containerized and break-bulk cargo handling and storage services.

In addition, the Group holds 50 per cent interests in both **Hoi Kong Container Services Company Limited** and **Faith and Safe Transportation Company Limited**, two market leaders in the mid-stream industry in Hong Kong. Business has been operating smoothly.

AIR TRANSPORT & LOGISTICS BUSINESS

The **Airport Freight Forwarding Centre Company Limited** (AFFC) is a wholly-owned subsidiary of the Group that operates the only premium freight forwarding and logistics centre at Hong Kong International Airport. Its strategic location and easy accessibility to the Pearl River Delta region have made it an important transport hub for out-bound air cargo from southern China.

AFFC's tenants include numerous leading freight forwarders and logistics companies. In operation since 1998, AFFC has 1.3 million square feet of cargo handling space and 175,000 square feet of premium-quality office space, offering flexible leasing terms and competitive rates for its airport location. AFFC's advanced facilities and supply-chain management capabilities enable tenants to better cope with the demands of global trade in the information age.

AFFC has a strategic location at Hong Kong International Airport.

Through wholly-owned **Sun Hung Kai Super Logistics** and a 50 per cent interest in **Sun Logistics Company Limited**, the Group offers customers a full range of third-party logistics services, from warehouse management, regional and global distribution, to fulfilment and other value-added services. Sun Hung Kai Super Logistics also provides cargo handling at AFFC. Harnessing advanced information technology, it serves a wide range of customers from large international corporations to small and medium local businesses.

Seeking business opportunities on the Mainland, Sun Hung Kai Super Logistics is engaged in projects with joint-venture partners to build service networks in the major cities, starting with Beijing.

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.

Since it commenced business in 1998, there has been a steady growth in the number of aircraft movements. The franchise is now in its fourth 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 20 per cent ownership of **Green Valley Landfill Limited, South China Transfer Limited** and **Pearl Delta Limited**, the Group works actively for 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. Pearl Delta has been collecting and managing waste at Hong Kong International Airport at Chek Lap Kok since it opened in July 1998.

OTHER INVESTMENT HOLDINGS

Travelex Hung Kai Currency Exchange Limited (formerly Thomas Cook 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 money changer at Hong Kong International Airport, the company's major businesses are foreign exchange and the sale of various travel-related products. Revenue in the latter half of 2001 was affected by reduced travel since 11th September. The beginning of 2002 however, has seen a gradual return of passengers using the airport.

New-Alliance Asset Management (Asia) Limited is a 50/50 joint venture between the Group and Alliance Capital Management LP. Since its incorporation in 1997, the company has been engaged in investment management and unit trust and mutual fund distribution in Hong Kong, providing a broad range of services to publicly-listed companies, institutional clients and individuals. The distribution of unit trusts and mutual funds through major financial intermediaries met with heavy competition from numerous guaranteed products, and sales slowed somewhat compared with last year. Institutional sales have gained momentum however, as a result of securing an increased number of investment mandates from major names in the market.

USI Holdings Limited is a publicly-listed company in Hong Kong in which the Group has a 19 per cent interest. It has three major areas of business: apparel, property and communications. The company reported a net profit of HK$52 million in 2001, compared with a loss of HK$69 million in the previous year. The improvement was mainly due to a significant reduction in financing costs and gains from the divestment of the company's interests in two European investments. For the first six months of 2002, the company recorded