



The Group achieved several important milestones in 2002, as a result of both strategic consolidation and promising initiatives in our core businesses of shipping, hospitality and property. Our businesses benefited generally from renewed interest in travel to Macau and China, and the Group capitalised on opportunities to strengthen its position as a premier provider of travel and hospitality services in the Pearl River Delta area.

The Group's profit attributable to shareholders for the year ended 31 December 2002 was HK\$382.6 million, an increase of 38.5% over 2001 profits of HK\$276.3 million. Turnover amounted to HK\$5,014.7 million, a decrease of 6.1% from HK\$5,338.7 million in the previous year. Basic earnings per share were HK 20.8 cents (2001: HK 16.5 cents).

Subject to approval by our shareholders at the Annual General Meeting on 11 June 2003, the Directors recommend a final dividend of HK 3.5 cents per share (2001: HK 3 cents per share). In addition to the interim dividend of HK 3.5 cents per share previously paid (2001: HK 2 cents per share), the total dividend for the year amounted to HK 7 cents per share (2001: HK 5 cents per share).

Our market leadership on the Hong Kong-Macau passenger ferry route is well-established and unsurpassed.

Increasing growth in passenger volume on our shipping division's ferry routes to Shenzhen and Guangzhou, together with effective cost control efforts, buoyed earnings for Shun Tak-China Travel Shipping Investments Ltd., the Group's joint venture with China Travel International Investment Hong Kong Limited. The Group anticipates that the economic growth of the Pearl River Delta will continue to attract both business and leisure travel there, to the continued benefit of our shipping business.

Reflecting our confidence in Hong Kong's position as a convenient transit hub to Mainland China, the shipping division will introduce new ferry services between the Hong Kong International Airport in Chek Lap Kok and several Pearl River Delta destinations in June 2003. To prepare for the new services, the shipping division formed Hong Kong International Airport Ferry Terminal Services Limited in June 2002 to undertake renovation, management and operation of a cross-boundary passenger ferry terminal at the airport. The new routes and services will effectively expand the Group's shipping services network to a wider and more international traveler base.

The Group believes that the Macau economy will continue to expand in the coming years, as its popularity as a leisure and business destination for travelers grows. In a mutually beneficial alliance, the Group entered into a strategic shipping joint venture, shared as to 60% and 40% by the Group and Sociedade de Turismo e Diversões de Macau, S.A.R.L. (STDM), respectively, in November 2002. The new shipping joint venture optimises our shipping operations and increases the Group's effective shareholding in STDM to approximately 11.48%, solidifying our partnership. At the same time, the Group entered into another strategic joint venture with STDM, shared as to 80% and 20% by the Group and STDM, respectively, to develop a 99,000-square-metre hotel and commercial site in Taipa, Macau. With these new strategic joint ventures with STDM, which has been

operating in Macau's leisure and tourism sector for many years, the Group will further explore and develop expansion opportunities in Macau.

The Group is also proud to have been awarded a 20-year operational and property management agreement for the Macau Tower Convention and Entertainment Centre in late 2001. Over the past year, our hospitality division has gained valuable experience in managing the many major meetings, conventions and exhibitions that are hosted at the Centre.

With the continued revival of Macau tourism, the Mandarin Oriental Macau significantly increased its net profit over the prior year. The Westin Resort Macau recorded slight decreases in average room rate and occupancy rate over the prior year, due to a refurbishment programme which is scheduled for completion in the second quarter of 2003. The refurbishment programme includes interior decoration of guest rooms, which will enhance the comfort and enjoyment of hotel guests.

The portfolio of the property management division, which specializes in providing value-added property services for residents and tenants, continued to expand. The division has been appointed as property manager of the Liberté upon its completion. Hence, the Group anticipates an increasing contribution from its property management services.

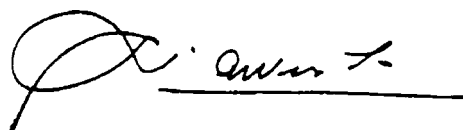
During the year, the Group generated substantial cash inflow and earnings from the sale of its quality property developments, namely The Belcher's and Liberté, and enhanced its financial position. In addition, the Group successfully raised approximately HK\$388.5 million through a rights issue in May, which further enhanced the financial flexibility of the Group. Accordingly, the Group's gearing ratio has significantly improved. In view of the sound financial position of the Group, together with the year's strategic

joint ventures with STDN, the Board is confident that the Group is well-poised to pursue new business opportunities and long-term hospitality development, particularly in Macau.

The Group continues to review and restructure its existing operations and focus on the business development of its shipping and hospitality divisions. In February 2002, the Group strategically disposed of its 20% stake in an air-cargo business, AHK Air Hong Kong Limited, for HK\$194 million, at a gain of HK\$177.8 million. In February 2003, the Group entered into a conditional sale agreement to dispose of its 15% stake in a Shanghai property development, City Center of Shanghai, for HK\$342 million, at an estimated gain of approximately HK\$29.7 million.

The Group is gratified that the process of consolidation begun in recent years is unfolding positively and profitably. The Group is committed to become the leading travel and hospitality operator in the region and we will continue to seek premium opportunities, which complement our traditional business activities and strengthen our interests in Macau and the Pearl River Delta.

I extend appreciation to all the Group's constituencies, including employees, managers and shareholders, whose continuing efforts contributed to our positive performance in the past year. Together we move forward to build on our past achievements.



Stanley Ho

Group Executive Chairman
26 March 2003