THE YEAR 2000 SAW A SIGNIFICANT IMPROVEMENT IN *Great Eagle’s* BUSINESS FUNDAMENTALS AND PROSPECTS

Our strong recurrent income base enabled us to turn in a steady financial performance. We have seen upward momentum in our rental and hotel revenue in the second half. The Hong Kong office market recovered strongly, with rentals for Grade-A space climbing sharply during the year as vacancy rates fell. This began to benefit the Group, as the pattern of rental reversions shifted in our favour in the second half. Occupancy at our hotels in Hong Kong also rose to very high levels, permitting a modest increase in average room rates. Our overseas hotels remained highly profitable overall.

This sets the scene for an upcycle in our businesses beginning in 2001. We expect this upcycle to gather pace on the back of Hong Kong’s economic recovery. China’s eventual entry to the World Trade Organization will further boost demand for Hong Kong offices and hotels. In the meantime falling interest rates will reduce our finance cost.

In addition, foundation work forged ahead at our large Mongkok development which, when complete, will constitute a dynamic urban commercial centre in one of the busiest shopping districts of Hong Kong. The project will increase our Hong Kong property portfolio by 78% when it is completed in the fourth quarter of 2003.

DIVIDENDS

The Board has resolved to recommend to Shareholders at the forthcoming 2001 Annual General Meeting (the "2001 AGM") the payment of a final dividend of HK20 cents per share for the year ended 31st December 2000 (1999: HK20 cents per share), to be satisfied by way of a scrip dividend with a cash option, to Shareholders whose names appear on the Register of Members on 9th May 2001. Together with the interim dividend of HK10 cents per share paid on 24th October 2000, on the assumption that every Shareholder elects to receive all final dividend in cash, the total dividend for the full year will be HK30 cents per share (1999: HK30 cents per share), amounting to not less than HK$165,626,572 (1999: HK$163,981,458).

Subject to the approval of Shareholders at the 2001 AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares to be allotted and issued pursuant to the proposed distribution of a scrip dividend mentioned herein, each Shareholder will be allotted fully-paid shares having an aggregate market value equal to the total amount which such Shareholder could elect to receive in cash and will be given the option to elect to receive payment partly or wholly in cash instead of the allotment of shares. Dividend warrants and share certificates in respect of the proposed dividend are expected to be despatched to Shareholders on or about 11th June 2001. Full details of the scrip dividend will be set out in a letter to be sent to Shareholders together with a form of election for cash soon after the 2001 AGM.

OPERATIONS

Office Properties

The Group's office properties in Hong Kong saw rising levels of occupancy. At year-end 2000, occupancy at Citibank Plaza and Great Eagle Centre had reached 96% and 98% respectively.

The continuing recovery in the Hong Kong economy has been the main factor behind falling vacancy levels. The office market also benefited from a surge in demand from information and technology companies. Although our own exposure to this sector is limited, these companies absorbed much of the inventory in peripheral locations, contributing to lower vacancy rates for Grade A offices in prime districts.

At the same time, the heated price war that had been prevalent throughout 1999 among owners of major new office buildings in Central began to subside as those buildings became fully let. This allowed rental rates to begin increasing strongly in the second quarter of 2000.

The benefits of this favourable trend were not reflected in the financial performance of our office properties in 2000, partly owing to the rental reversion patterns of the existing tenancies, and the lag in time before increased market rents translate into higher rental income. However the reversion pattern has turned favourable in the second half of 2000, which should lead to an improved operating income from our office properties in the 2001 financial year.

Our office portfolio in the United States has again performed very well in 2000, with all buildings close to full occupancy. The Metropolitan Tower in New York was sold in December 2000 and another office building, 150 Spear Street in San Francisco was acquired in January 2001, to capture the higher yields available in the latter's market.

Hotels

Our hotels in Hong Kong continued the recovery that began in late 1999. Occupancy at the Great Eagle Hotel jumped to 83% in 2000 from 71% in 1999, while average room rates edged up. At the Eaton Hotel, occupancy reached 88.5% in 2000, up from 83.8% in the previous year, and average room rates also rose.

High levels of occupancy and favourable room rates continued at our overseas hotels. The Langham Hilton in London, Delta Chelsea Hotel in Toronto and Le Meridien Boston and Sheraton Melbourne all reported modest increase in net operating income, although Sheraton Auckland showed a small decline. The overall satisfactory performance continues our solid track record overseas since our first investment in the Langham Hilton in 1996. Not only have these hotels generated good recurrent income, their capital values have also appreciated substantially.

Mongkok Project

Following the completion of Land Grant formalities in February 2000, construction of the foundations of the Mongkok project is well underway and should be completed in the latter part of 2001. The entire project is scheduled for occupation towards the end of 2003. This project will add 1.76 million square feet of prime entertainment/shopping, office and hotel facilities, enlarging our Hong Kong property portfolio by 78%. By creating a dynamic new centre in the most popular shopping district in Kowloon, we are confident of achieving favourable returns on the project.

The total expenditure incurred in relation to the project, including property acquisition, land premium, construction and interest capitalised amounted to HK$6,012 million as of year end 2000. In August 2000, we successfully arranged a HK$5,100 million six-year term loan, which should be sufficient to fund the cost-to-complete as well as related financing costs.

e-Business

During the year we made certain investments in Internet-related start-up businesses. All are at early stages of development. In view of the uncertain business prospects for e-commerce and the drastic reduction in valuations for information and technology companies, we have prudently made provisions totalling HK$33 million in our 2000 income statement against some of these investments. We have taken steps to contain further exposure to these investments. Their negative impact on our profits in future years will not be significant.

Financing

Ample liquidity in the Hong Kong commercial banking market has enabled us to obtain significantly more favourable financing terms. In December 2000 we were successful in refinancing Citibank Plaza with a HK$3,600 million facility at a significant reduction in interest spread as compared with the old facility. With 66% of our borrowings in the form of floating-rate debt, the recent rapid decline in global interest rates will also lead to substantial financing cost savings for us in the coming year.

We are committed to maintaining a prudent financial structure. Consolidated net attributable debt amounted to HK$8,906 million as of 31st December 2000. Overall gearing ratio was 51%, the bulk of which was attributable to our overseas investments. The higher debt levels of the overseas properties are comfortably supported by their generally higher yields. The borrowings against these properties are all in their respective local currencies so as to mitigate exchange rate risks. Our Hong Kong assets have remained lowly geared.

Our current liabilities as of 31st December 2000 included outstanding convertible bonds of HK$1.2 billion equivalent. We have arranged sufficient long-term funding to redeem the bonds when they mature in April 2001.

OUTLOOK

We are very confident of the prospects for our Group in the coming year. Although the unsettled equity market in the United States may in the short term indirectly affect the growth in demand for Grade-A office space in Hong Kong, the very low levels of new supply in 2001 and 2002 will lend support to rental rates. At current rate levels, positive rent reversions on our prime Hong Kong offices will gather pace in the coming two years. For our hotels, persistently high levels of occupancy in Hong Kong should result in further increases in room rates for 2001, which in turn will benefit our earnings. Income from our overseas hotels should also remain robust, although the rates of growth have slowed as some of the markets appear to have peaked. We are selectively examining proposals to divest some of these assets to realise gains and fund possible investments in Hong Kong. At the same time, our financial costs in 2001 will benefit from the sharp downward trend in global interest rates. All in all, the outlook for the coming year is generally favourable.

Finally, I would like to take this opportunity to thank all my fellow Directors and staff members for their contribution and loyal service provided to the Group in the past year.

LO Ying Shek
Chairman

Hong Kong, 13th March 2001