

Gross Revenue

Gross revenue increased by US\$24.3 million in 2000 attributable to the increased business volumes of the three terminals, offset in part by a drop in the average rate per box handled.

Gross revenues for the Terminals Division are expected to improve further in 2001 although the rapid growth rate of Deltaport in recent years is likely to slow.

Terminal Operating Costs

Terminal operating costs increased in line with the larger number of boxes handled in 2000. The average unit cost per move, however, was maintained at the 1999 level with HHCTI's increases in costs allied to growing business volumes.

Business and Administrative Expenses

Business and administrative expenses decreased by US\$5.4 million in 2000 as a result of various cost saving measures.

Operating Results

Operating results improved during the year with continued favourable results in Global and TSI. Global Terminal achieved an outstanding performance against that of 1999 with a stringent containment of various cost items. It is expected that results in 2001 will be modestly over that of 2000 as the fast growth trend in Deltaport slows.

PROPERTY INVESTMENT & DEVELOPMENT

Summary of Operating Results

US\$'000	2000	1999	Variance
Gross revenue	17,837	18,030	(193)
Property management costs	(8,010)	(9,867)	1,857
Gross profit	9,827	8,163	1,664
Business and administrative expenses	(4,943)	(3,789)	(1,154)
Profit before exceptional items	4,884	4,374	510
Revaluation deficit	–	(10,000)	10,000
Profit/(loss) from property investment	4,884	(5,626)	10,510
Profit from property development	13,401	310	13,091
Operating results	18,285	(5,316)	23,601

The Group owns an approximately 600,000 sq ft office and commercial property located at 88 Pine Street, New York, USA, an area popularly referred to as the "Wall Street area" of Manhattan Island. The building was constructed in 1972 and is operated as a multi-tenanted building.

Approximately 20,000 sq ft is occupied by Group companies. The Group also owns an 8% interest in a modern comprehensive office, commercial, hotel and residential apartment complex known as "Beijing Oriental Plaza", with a gross floor area of approximately 570,000 square meters, on a site located at Wangfujing Dajie, Beijing. It is intended that the interest in this property project be owned as a long-term investment and phase I of the project was completed in 2000.

In addition, the Group owns interests in four jointly controlled entities as investment vehicles to participate in its property development projects in China. The primary location of the property development projects is in Shanghai. "Joffre Gardens" at Nan

Chang Lu, Shanghai was completed in 2000 and constituted the principal profit contributor for the year while the other two development projects in Zhen Ning Lu and Zi Yang Lu in Shanghai with a larger scale will be progressively completed between 2001 and 2004.

Gross Revenue

Gross revenue for 2000, representing mainly the rental income from Wall Street Plaza, was maintained at the 1999 level. Although the whole building was fully let at the end of the year, revenue did not benefit greatly due to the inclusion of rent-free periods. The occupancy rate is expected to pertain through 2001 and revenue will improve.

Profit Before Exceptional Items

The profit before exceptional items for 2000 was comparable with that of 1999. With the surge in world oil prices, a higher utility cost was recorded for 2000 which was offset by savings in other overhead expenses.

Revaluation Deficit

Wall Street Plaza was acquired in 1987 by the Group for US\$150.0 million but was progressively written down based on professional valuations to reflect then current market values. The building was valued at US\$110 million at the end of 1999, US\$120 million in 1998, resulting in a US\$10 million revaluation deficit. The valuation of the building was maintained at US\$110 million at the end of 2000 and no revaluation gain or deficit was recorded for the year.

Profit From Property Development

A profit of US\$13.4 million was recorded from property development in 2000 compared with US\$0.3 million in 1999. Over 60% of the current year profit was contributed by the completed Nan Chang Lu project in Shanghai. Two other projects, namely Zhen Ning Lu and Zi Yang Lu in Shanghai, are due for completion between 2001 and 2004. A modest profit was recorded in 1999 for a smaller property development project in Hangzhou.

PORTFOLIO INVESTMENTS & OTHERS

US\$'000	2000	1999	Variance
Portfolio income	7,987	4,186	3,801
Long-term investment income	3,936	5,348	(1,412)
(Loss)/profit on disposal of long-term investments	(175)	17	(192)
Provision for diminution in value of long-term investments	(9,877)	–	(9,877)
Others	(9,282)	(8,215)	(1,067)
	(7,411)	1,336	(8,747)

The Group's investments in portfolio and, on a longer term basis, in bonds were managed in 2000 largely by in-house managers operating under guidelines imposed by the Investment Committee of the Board. No investment in financial derivatives, where the Group is exposed to financial obligation larger than amount invested, is allowed. Other investments mainly included a minority holding in a China investment fund.

Portfolio investments recorded a profit of US\$8.0 million for 2000, an increase of US\$3.8 million as compared with 1999. The portfolio investment result reflected the improved return of investment portfolio funds in 2000.

Income generated from fixed income bonds amounted to US\$3.9 million for 2000 compared with US\$5.3 million in 1999.

During the year, some fixed income bonds were realised. The loss on disposal of these bonds was US\$175,000 (1999: profit US\$17,000).

The Group made a provision of US\$1.4 million in 2000 for the diminution in value of the China investment fund. In addition, a provision of US\$8.5 million was made in 2000 for possible credit losses in respect of certain fixed income bonds, making a total provision of US\$9.9 million for the year.

Others included unallocated business and administration overheads, the operating results of the residual food and beverage business which was disposed of in 2000, exchange and research costs of financial projects and other miscellaneous income and expenses. These totalled US\$9.3 million in 2000 compared with US\$8.2 million of 1999.

Interest Income, Expense & Financing Charges

The Group invests surplus liquid funds, other than funds allocated for investments in bonds and listed equity securities, in cash and bank deposits. The Group incurs interest expenses on bank loans, finance leases and, to a very small extent, on bank overdrafts which are variously secured against vessels, containers, chassis, terminal equipment and the investment property owned by the Group. The Group also incurs financing charges on the asset securitisation programme and finance arrangement fees.

Interest Income

Interest income arises from the deposit of available Group cash balances on a short-term basis with banks and other financial institutions. Interest income may vary year to year with the cash flows of the business, the level of capital expenditure and new investments (particularly in relation to China investments) and the amount which the Group commits to its investment portfolio. In 2000, interest income increased slightly to US\$14.0 million when compared with US\$11.7 million in 1999.

Interest Expense

Interest expense increased by US\$12.1 million in 2000 principally as a result of new leases on container and terminal assets plus additional interest on loans drawn upon the delivery of new vessels during the year. The average cost of finance rose from 7.3% in 1999 to 7.8% in 2000.

Financing Charges

Financing charges mainly included loan arrangement fees and charges for the asset securitisation programme. With a further assignment of US\$15.3 million of receivables in 2000, charges also increased by US\$0.8 million for the year.

Profit Before Taxation

Profit before taxation for 2000 rose to US\$131.5 million compared with US\$80.3 million for 1999. The international transportation, logistics and terminals business continued to display a healthy profit growth in 2000 despite a volatile bunker market and a down turn in the US economy towards the end of the year. The year 2000 results also benefited from profits produced by property development projects in China. The performance of portfolio investments in 2000 was impaired by the provision for possible credit losses on fixed income bonds and some long-term investments.

REVIEW OF CONSOLIDATED BALANCE SHEET

Summary of Consolidated Balance Sheet

US\$'000	2000	1999	Variance
Fixed assets	1,286,197	1,006,412	279,785
Jointly controlled entities	50,829	38,705	12,124
Long-term investments	97,272	91,471	5,801
Cash, portfolio and bond investments	458,025	455,954	2,071
Accounts receivable and properties held for sale	247,603	254,968	(7,365)
Deferred expenditure	15,328	15,354	(26)
GROSS ASSETS	2,155,254	1,862,864	292,390
Accounts payable and accruals	(389,230)	(405,016)	15,786
Other payables	(22,169)	(19,934)	(2,235)
GROSS ASSETS LESS TRADING LIABILITIES	1,743,855	1,437,914	305,941
Long-term liabilities	753,761	560,457	193,304
Bank loan, overdrafts and current portion of long-term liabilities	198,292	172,579	25,713
Total debt	952,053	733,036	219,017
Minority interests and provisions	10,569	11,939	(1,370)
Ordinary shareholders' funds	781,233	692,939	88,294
CAPITAL EMPLOYED	1,743,855	1,437,914	305,941
Debt to equity ratio	1.2	1.1	
Net debt to equity ratio	0.6	0.4	
Accounts payable as a % of turnover	16.3	18.9	
Accounts receivable as a % of turnover	10.2	11.7	
% return on average ordinary shareholders' funds	15.2	10.0	
Net asset value per ordinary share (US\$)	1.51	1.34	
Cash, portfolio and bond investments per ordinary share (US\$)	0.89	0.88	
Share price at 31st December (US\$)	0.43	0.39	
Price earnings ratio based on share price at 31st December	2.0	3.0	

Fixed Assets

Fixed assets additions were US\$378.5 million (1999: US\$46.3 million) and mainly comprised final payments for two new container vessels (US\$121.2 million), purchases, largely through finance leases, of containers and chassis (US\$163.1 million) and the assets acquired for terminal operations (US\$68.0 million). The depreciation charge for the year was US\$84.1 million (1999: US\$69.5 million).

Jointly Controlled Entities

The total investment in jointly controlled entities was US\$50.8 million at 31st December 2000 (1999: US\$38.7 million). Jointly controlled entities mainly consist of:

- a 25% interest in a joint venture company which was formed pursuant to arrangements of the old Global Alliance to own and then charter vessels to alliance partners.
- a 59% interest in a joint venture for the operation of a container depot and transportation business in Qingdao.
- a 47.5% interest in a domestic housing project located at Nan Chang Lu, Shanghai (the "Joffre Gardens"). The development consists of four residential towers with approximately 72,000

square meters of gross floor area. The total project cost was approximately US\$65 million. The project was completed in 2000 and approximately 85% of total gross floor area was sold by the year end.

- a 47.5% interest in a domestic housing project located at Zhen Ning Lu, Shanghai ("The Courtyard"). The planned development consists of three to four residential towers. The total gross floor area is approximately 66,000 square meters. The completion of the project is planned to be in the third quarter 2001. The total project cost is estimated to be US\$54 million and finance representing approximately 60% of the cost has been arranged. Pre-sale commenced in February 2000, and approximately 50% of the total gross floor area was sold by the end of the year 2000.
- a 47.5% interest in a domestic housing project located at Zi Yang Lu, Shanghai. The planned development consists of 11 to 13 residential towers with a small portion for commercial use. The total gross floor area is approximately 240,000 square meters. This project will be developed in phases with an estimated final completion date in

2004. The total project cost is estimated to be US\$164 million and finance of approximately 50% of the cost has been arranged. Pre-sale commenced in January 2000 and Phase 1A is expected to be completed by the end of 2001. Approximately 89% of the total gross floor area of Phase 1A has been sold.

Long-Term Investments

Long-term investments of the Group at 31st December 2000 amounted to US\$97.3 million principally represented by the Group's 8% interest in Beijing Oriental Plaza. Total investment at the end of 2000 amounted to US\$91.2 million (1999: US\$77.6 million). Finance for this project was arranged in 2000 and there will be no significant capital injection required for this project in the coming year.

Long-term investments also include a minority interest of US\$0.8 million in an unlisted China fund (1999: US\$2.2 million). A provision of US\$1.4 million was made in 2000 to reflect the diminution in value of this investment.

Cash, Portfolio and Bond Investments

The amount of cash and portfolio investment balances is basically affected by the level of outlay on asset acquisitions, the gearing ratio, capital requirements for China projects, and normal operating requirements. Funds surplus to planned requirements are set aside for portfolio investment or fixed income bonds. Cash, portfolio investments and fixed income bonds totalled US\$458.0 million at the end of 2000 compared with US\$455.9 million at the end of 1999.

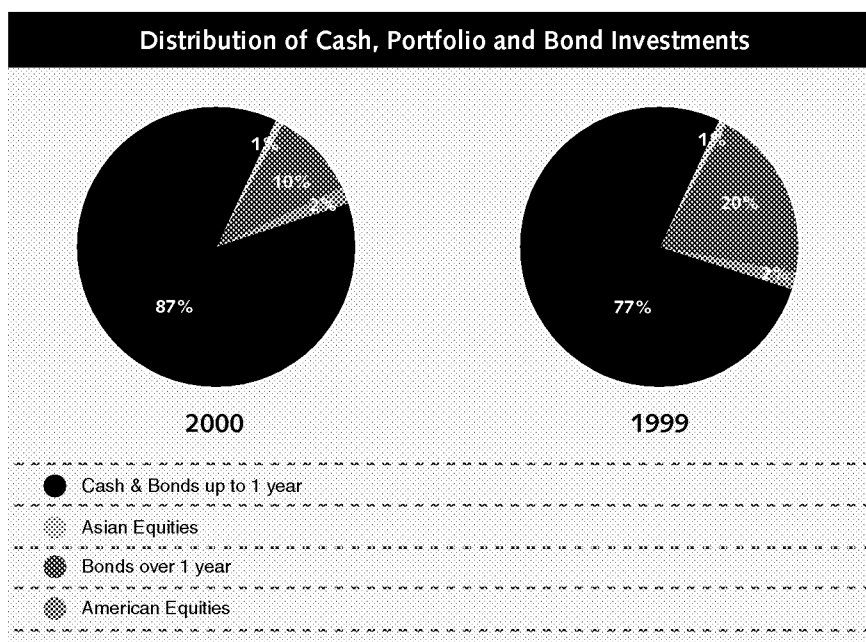
Certain fixed income bonds were sold or matured during the year. At 31st December 2000, fixed income bonds amounted to US\$47.8 million (1999: US\$60.9 million) after the provision of US\$8.5 million for possible credit losses.

Cash, portfolio and bond investments per ordinary share at 31st December 2000 amounted to US\$0.89 compared with US\$0.88 at 31st December 1999.

Distribution of Cash, Portfolio and Bond Investments

The Group's investment portfolios are largely invested in US dollar convertible bonds, short to medium term US dollar bonds and similar instruments, and short-term cash deposits. No investments are made in derivative investment products.

The amount and distribution of cash, portfolio and bond investments at the end of 2000 and 1999 was:



Accounts Receivable and Accounts Payable

Accounts receivable and properties held for sale decreased by US\$7.4 million to US\$247.6 million at the end of 2000 as a result of a further assignment of US\$15.3 million of accounts receivable during the year pursuant to a receivables purchase agreement concluded in 1998.

Accounts payable at the end of 2000 were US\$15.8 million lower than that of 1999. Accounts payable as a percentage of turnover of 16.3% were also lower than that of 1999.

Shareholders' Funds

The Group's shareholders' funds, increased in 2000 by US\$88.3 million as a result of the retained profit for the year. Consequently, net asset value per ordinary share increased by US17 cents to US\$1.51 per share.

The return on average shareholders' funds is calculated at 15.2% for 2000 with a dividend pay out ratio of 18.5%.

Total Debt

Total debt increased during the year by US\$219.0 million as a result of indebtedness drawn in 2000 to finance the capital expenditure on asset acquisitions, notably two new container vessels, containers and chassis, offset in part by the scheduled repayment of loans and bank indebtedness during the year. The repayment profile of the Group's long-term liabilities is set out in Note 23 to the Accounts. Repayments are spread evenly over the residual terms of the related financing subject to balloon repayments at the end of the terms of certain loans. Total debt is a mixture of fixed and floating rate indebtedness.

Debt Profile

As at the end of 2000, over 87% (1999 : 85%) of the Group's total debts were denominated in US\$ which effectively reduces the risk of exchange fluctuations. Loans in currencies other than US\$ are hedged with comparable amount of assets in local currencies.

Of the total US\$952.1 million debt outstanding at the end of 2000, US\$211.5 million was fixed rate debt comprised mainly of container and terminal equipment leases. The fixed rates range from 6.23% to 14.57% dependent upon the cost of money at the time each transaction was entered into. The remaining US\$740.6 million of loans was subject to floating interest rates at various competitive spreads over three months LIBOR (or equivalent) and relates principally to indebtedness on vessels and the investment property, Wall Street Plaza. In order to reduce the impact on the Group's profitability of fluctuating interest rates, the Group entered into interest rate swap and collar contracts for US\$350 million of its floating rate

debt with contract rates ranging from 5.6% to 7.3%. These contracts expired in January 2001 and the Group has not entered into new contracts for interest hedging in view of the lowering of interest rates. The Group's average cost of debt at 31st December 2000 was 7.8%, inclusive of the interest rate hedging contracts.

Net Debt to Equity Ratio

This ratio increased from 0.4 to 0.6 during 2000 due to the increased indebtedness in financing capital expenditure on asset acquisitions, offset in part by profits generated for the year and the proceeds from the asset securitisation programme. The ratio will be maintained during 2001 as only a moderate increase in net debt is expected for the coming year. Moreover, the forecasts for the business over the next five years, based on the assumptions used in preparing those forecasts, indicate that the Group's objective to keep this key ratio below the 1.0 threshold will be achieved.

Operating Leases and Commitments

In addition to the operating assets owned by the Company and its subsidiaries, the Group also manages and utilises assets through operating lease arrangements. The total rental payment in respect of these leases for 2001 amounted to US\$235.2 million as detailed in Note 27(b) to the Accounts of this report. Assets under operating lease arrangements consist primarily of container boxes, chassis, container vessels and certain terminals in North America.

At the end of 2000, the Group had outstanding capital commitments amounting US\$182.6 million, principally represented by the orders placed for two new container vessels to be delivered in 2003.

Review of Consolidated Cash Flow Statement

Summary of Consolidated Cash Flow Statement

US\$'000	2000	1999	Variance
Net cash inflow from operating activities	254,749	239,762	14,987
Investing and financing inflow:			
Interest and investment income	25,650	21,101	4,549
Sale of fixed assets and investments	10,916	7,078	3,838
New loan drawdown	110,529	35,441	75,088
Others	1,479	1,172	307
	148,574	64,792	83,782
Investing and financing outflow:			
Interest paid	(69,212)	(62,440)	(6,772)
Dividends paid to shareholders	(20,685)	–	(20,685)
Taxation paid	(16,686)	(11,489)	(5,197)
Purchase of fixed assets and investments	(182,596)	(51,359)	(131,237)
Loan repayments	(100,694)	(84,564)	(16,130)
Deferred expenditure incurred	(7,544)	(10,064)	2,520
Others	(1,461)	(357)	(1,104)
	(398,878)	(220,273)	(178,605)
Net cash inflow	4,445	84,281	(79,836)
Beginning cash, bonds and portfolio balances	455,954	375,531	80,423
Changes in exchange rates	(2,374)	(3,858)	1,484
Ending cash, bonds and portfolio balances	458,025	455,954	2,071
Represented by:			
Unrestricted bank balances and deposits	250,586	201,974	48,612
Restricted bank balances and deposits	106,356	117,151	(10,795)
Portfolio investments	53,243	75,907	(22,664)
Debt securities held as long-term investments	47,840	60,922	(13,082)
	458,025	455,954	2,071

A net cash inflow of US\$4.4 million was recorded in 2000 as compared with a net inflow of US\$84.3 million for 1999. The favourable operating results and the US\$15.3 million proceeds received from the receivable purchase agreement principally accounted for the operating inflow. Purchases of fixed assets and investments in 2000 principally represented the acquisition of two new vessels, purchases of container equipment and further investments in China projects. Other outlays mainly include deferred expenditure on leasehold improvements and leasing expenses for the investment property.

Liquidity

As at 31st December 2000, the Group had total cash, bond and portfolio investment balances of US\$458.0 million compared with debt obligations of US\$130.6 million repayable in 2001. Total current assets at the end of 2000 amounted to US\$615.0 million against total current liabilities of US\$609.7 million. The Group's shareholders' funds are now entirely ordinary shareholders' equity and no loan capital is in issue. The Group prepares and updates cashflow forecasts for asset acquisitions, project development requirements, as well as working capital needs, from time to time with the objective of maintaining a proper balance between a cautious liquidity level and efficient investment of surplus funds.