

I have pleasure to present to shareholders the annual report of the Group for the year ended 31st March, 2001.

REVIEW

Financial Performance and Positions

For the fiscal year ended 31st March, 2001, the Group's consolidated turnover decreased by 3% to approximately HK\$10,803 million when compared with that of the last year. The slight decrease was mainly attributable to the decrease in construction works in South East Asia and contract mining works in Australia which was partly compensated by the increase in telecommunications infrastructure services works in Australia and New Zealand.

The Group's profit from operations decreased by 34% to about HK\$221 million. Such decrease was mainly due to the loss on certain major civil engineering projects as a result of the final commercial settlement following a lengthy and difficult dispute resolution process. Finance costs were reduced by 4% resulting from the debt reduction in Hong Kong operations. Share of results of associates and a jointly controlled entity registered a profit of about HK\$15 million contributed mainly from contracting business. Net investment expenses amounted to some HK\$19 million was mainly from disposal of the remaining shares of New World CyberBase Limited and other marketable securities, net of interest income. Loss on disposal and dilution of interests in subsidiaries and associates of about HK\$334 million was mainly attributable to the dilution of the Group's equity interest in Downer EDI Limited ("Downer") from 67% to 45%. Basic loss per share is 48 cents.

When compared with the Group's financial position as at last year end, total assets of the Group dropped by 44% to some HK\$5,913 million as the assets of Downer were no longer consolidated in the accounts of the Group. Net current assets stood at some HK\$377 million and current assets maintained at about 1.2 times of current liabilities.

Net cash inflow from operations was about HK\$650 million and outflow of HK\$1,334 million in respect of investing, financing and other activities, resulting to a net decrease in cash of about HK\$684 million for the year. Operating cash flow per share is HK\$0.66.

With a strong cash position of about HK\$590 million and debts of about HK\$1,171 million, net debt amounted to some HK\$581 million giving rise to a net debt to total equity ratio of 0.23 times. As a result of the loss attributable to shareholders of about HK\$470 million for the year, shareholders' funds decreased by 12% to about HK\$2,561 million. Net asset value per share is HK\$2.6.



Yu Chui Court, Shatin, Hong Kong



Lamma Power Station Extension Projects, Hong Kong

OPERATIONS

Contracting

The Group secured new contracts with an aggregate attributable value of approximately HK\$3,331 million comprising some HK\$2,398 million building construction contracts, some HK\$362 million civil engineering contracts and some HK\$571 million specialist works during the year. The contracts undertaken by Downer are no longer included as the Group's workload since it became an associate as at the balance sheet date.

Contracts on hand at the end of this year decreased by 30% to about HK\$11,278 million when compared with that of the last year, while value of work remaining decreased by 35% to HK\$5,429 million. Subsequent to the year end, the Group secured further new contracts with an aggregate attributable value of approximately HK\$1,397 million.

Contracts continued to progress well, in general, with satisfactory margin. In Hong Kong, turnover maintained at around same level of HK\$6,329 million and building construction contracts, which accounted for around 60% of turnover, continued to show healthy margin. Civil engineering activities, as affected by the final commercial settlement on certain major civil engineering projects, suffered losses. Specialist works had low margin due to severe competition in the market.

In Australia, both turnover and margin from contract mining activities had dropped due to lost productivity and additional costs associated with wet weather. Workload of infrastructure services in New Zealand and Australia dropped slightly while a small operating margin increase was recorded. Market conditions of contract drilling activities had improved with some upward movements in pricing and increases in rig utilisation. Downer also expanded its contracting activities into telecommunications infrastructure services which provided the Group with additional business opportunities for providing service to telecommunication companies.

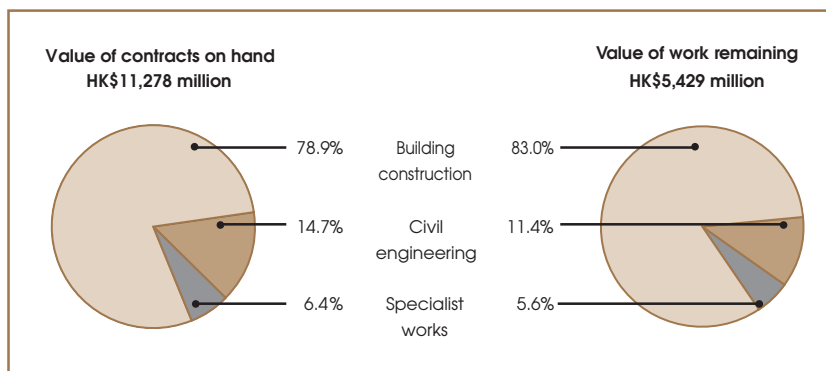
Construction Materials

Construction materials division encountered difficult trading conditions with revenue dropped and reduced margin recorded. After the disposal of the Unicon factory in Yuen Long, the operation base was relocated to Southern China in December 2000. This relocation will strengthen the Group's competitiveness in the precast concrete products market.



Precast concrete products factory in Dongguan, PRC

Contracts On Hand



Property and Hotel Operations

Total value of the property portfolio amounted to some HK\$1,319 million as at the year end, equivalent to 22% of the total assets of the Group. Included in the property portfolio, 87% are investment and hotel properties and the remainders are development properties. Occupancy rate for investment properties reached 95% at the year end. Pre-sale of the Group's commercial / residential property was satisfactory, 34% of the residential units had been sold at the year end. The Group's first hotel commenced operation in February 2001 with grand opening in June 2001 and is expected to contribute to operating margin in the coming year.



Cathay Lodge, Wanchai, Hong Kong



In-Zone of Cathay Lodge



Best Western Rosedale on the Park, Causeway Bay, Hong Kong



Hotel lobby of Best Western Rosedale on the Park



Sonata Restaurant of Best Western Rosedale on the Park

E-business

During the year, the Group has formed alliance with a number of strategic partners and made a strategic investment in Icflox International Group ("Icflox") which specialises as an on-line business enabler for the global construction industry. The Icflox professional asset life-cycle management solutions have been deployed in an ASP model to the architectural, engineering and construction sector in countries within the Asia Pacific Region in 2000 and will be further expanded to other regions.



Web page of icflox.com

LIQUIDITY AND CAPITAL RESOURCES

The Group currently maintains a variety of credit facilities to meet its working capital requirements. As at the year end, the Group's total borrowings, which were all denominated in Hong Kong dollars, amounted to about HK\$1,171 million with some HK\$383 million repayable within one year and some HK\$788 million repayable after one year. Cash balance amounted to approximately HK\$590 million.

As at the year end, around 66% of the Group's total borrowings, including the 6% secured convertible redeemable note and the other loans, were at fixed interest rates. The Group's gearing ratio decreased to 0.46 which is calculated based on the total borrowings of HK\$1,171 million and the Group's shareholders' funds of HK\$2,561 million.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

Including the directors of the Group, as at 31st March, 2001, the Group (not including those employed by Downer) employed a total of 1,870 full-time employees. Remuneration packages comprised salary and year-end bonuses based on individual merits. No share options were granted or exercised during the year.

CONTINGENT LIABILITIES

As at the year end, the Group has contingent liabilities in respect of outstanding performance bonds on construction contracts and guarantees given to banks and financial institutions on general banking facilities granted to associates and a jointly controlled entity of HK\$599 million and HK\$88 million respectively.

PLEDGE OF ASSETS

As at the year end, certain of the Group's properties, investment securities and debtors with an aggregate value of approximately HK\$2,489 million and its benefits under certain construction contracts, have been pledged to banks, financial institutions and lenders to secure general credit facilities granted to the Group.



Drilling services of Century Drilling

Telecommunications infrastructure services by Downer Engineering

MAJOR EVENTS

Disposal of Property Interest

In June 2000, the Group completed the disposal of the Unicon factory situated in Yuen Long for a consideration of HK\$150 million.

Acquisition of Subsidiaries

In June and July 2000, Downer acquired ConneCTel Limited from Telecom Corporation of New Zealand and Downer Connect Pty Limited from ERG Limited of Australia.

The acquisition of ConneCTel Limited made Downer the largest telecommunication maintenance, design and build service provider in New Zealand. Downer Connect Pty Limited also provides a wide range of telecommunications infrastructure services in Australia and New Zealand. With a combined staff and workforce in excess of 1,000 and an excellent skill base, these two companies will provide a strong operation base for Downer's telecommunication business.

As a result of the transaction, ERG Limited became a substantial shareholder of Downer which is expected to have long term strategic benefits for both groups.



Rollingstock by EDI Rail



Mining operations of Roche Mining



Road maintenance by Works Infrastructure

Acquisition of 17.45% Equity Interest in China Strategic Holdings Limited

In October 2000, a Company's subsidiary acquired 17.45% equity interest in China Strategic Holdings Limited ("China Strategic") for HK\$643,520,000. The strategic investment in China Strategic is to provide the Group with an opportunity to diversify interests for capital appreciation.

Dilution of Interest in Downer

In November 2000, Downer had made a voluntary conditional securities exchange offer ("Offer") to acquire the remaining 90.5% equity interest in Evans Deakin Industries Limited ("EDI"). Upon completion of the Offer, the Group's equity interest in Downer was reduced to 44.6% as at 31st March, 2001 and the Group remains the single largest shareholder of Downer. Downer subsequently changed its name from Downer Group Limited to Downer EDI Limited. The listing position of Downer continued on the Australian Stock Exchange with its stock code changed from DGL.AU to DOW.AU. Downer also became a S&P/ASX 200 index stock.

EDI is principally engaged in the design, manufacture and maintenance of railway rollingstock and sugar milling equipment and the manufacture of mechanical and electrical plant and crushing and fine particle separation equipment throughout Australia and other international locations. In addition, EDI also undertakes railway, power utility and telecommunication maintenance services throughout Australia. EDI is also engaged in heavy steel casting activities as well as manufacturing of roller doors. The acquisition will enhance the investment value in Downer.



Headquarters of
Hongkong Electric,
Hong Kong



Yau Tong Estate
Phase 1, Hong Kong



Fu Tai Estate, Tuen Mun,
Hong Kong



Tsing Wang Court, Tsing Yi,
Hong Kong

SECURITIES IN ISSUE

During the year, an aggregate of 12,373,289 shares were issued by way of scrip dividend.

As at the year end, there were 992,488,392 shares in issue and outstanding share options over a total of 54,449,206 shares. The 2001 5% convertible bonds and the 2001 5.5% convertible bonds were repaid during the year while outstanding amount of the secured convertible redeemable note remained at HK\$450,000,000. Subscription price remained at HK\$0.6048 and HK\$0.5552 for the share options over 38,349,206 shares and 16,100,000 shares respectively and the share options over 43,145,088 shares at subscription price of HK\$3.3042 expired during the year.

FINAL DIVIDEND

The board of directors has resolved to recommend the payment of a final dividend of 1 cent per share for the year ended 31st March, 2001 (2000: 1 cent per share) to shareholders whose names appear on the Company's register of members as at the close of business on 10th October, 2001. The final dividend is expected to be paid to shareholders by post on or around 14th December, 2001.

The board of directors has also proposed that the final dividend should be satisfied by way of a scrip dividend of shares, with an option to elect cash in respect of part or all of such dividend. The market value of the shares to be issued under the scrip dividend proposal will be fixed by reference to the average of the closing prices of the Company's shares for the three consecutive trading days ending 10th October, 2001 less a discount of five per cent. of such average price or the par value of shares, whichever is the higher. The proposed scrip dividend is conditional upon The Stock Exchange of Hong Kong Limited ("Stock Exchange") granting listing of, and permission to deal in, the new shares to be issued and the passing at the forthcoming annual general meeting of the Company of an

ordinary resolution to approve the final dividend. A circular giving full details of the scrip dividend proposal and a form of election will be sent to shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31st March, 2001, the Group repurchased the 2001 5% convertible bonds and the 2001 5.5% convertible bonds in the aggregate nominal amount of US\$31,415,000 and US\$4,150,000 at the aggregate price of US\$30,693,000 and US\$4,705,000 respectively. The outstanding balance of the 2001 5% convertible bonds and the 2001 5.5% convertible bonds of par value of US\$63,710,000 and US\$33,560,000 respectively were redeemed by the Group during the year.

Save as aforesaid, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

OUTLOOK

Although the results of the Group in this year had been affected by losses arising from disposal of the share portfolio, deemed disposal of interest in Downer arising from various acquisitions and unsatisfactory commercial settlement on certain major civil engineering contracts, these losses were mostly capital in nature and more importantly, non-recurring.



Harbourfront Landmark, Hunghom, Hong Kong

Contracts on hand remains adequate and stable with operations performing well. A subsidiary of the Group being selected as one of the six Hong Kong Housing Authority's Premier League Contractors gives us the advantage in securing public housing projects. While the construction market in the coming year is not expected to improve much in view of the slow recovery of the economy of Hong Kong, the Disneyland Theme Park project and the associated infrastructure and hotel development will provide business opportunities to the Group's contracting operation. Beijing's successful bid to host the 2008 Olympic Games and China's expected entry to World Trade Organisation will stimulate China's economic growth, and the Group, which has long establishment in China, would benefit from them. In addition, the Group's diversified businesses and investments, including property and hotel businesses and investments in Downer, China Strategic and Icofex will continue to enhance the Group's ability to maintain a stable income stream and create new business opportunities.

The Group will continue to follow this business and investment diversification strategy, together with its diversified technical capabilities, low gearing levels and a stable income stream, is expected to capture new opportunities and poised to meet the challenges ahead.

APPRECIATION

On behalf of the board of directors, I would like to take this opportunity to express my appreciation to the shareholders for their support, to the management and staff for their dedicated efforts and to our clients, consultants and partners for all their valuable assistance offered during this past year.

Chan Kwok Keung, Charles
Chairman

Hong Kong, 14th July, 2001