

Chairman's Statement



"We are working towards a stronger financial position, a solid profit base and a better return to shareholders."

Consolidated Results

I am pleased to report that the Group's businesses continued to improve steadily during the year ended 30th June, 2001 with earnings before interest and tax increasing by 19% to HK\$1,011 million. Net profit increased over the previous year by 80% to HK\$306 million and earnings per share was HK34.9 cents.

Dividend

The Board of Directors has decided to recommend the payment of a final dividend of HK7 cents per share for the year ended 30th June, 2001 (2000: HK6 cents per share). Together with the interim dividend

of HK5 cents per share paid on 10th May, 2001, total dividends for the year ended 30th June, 2001 will amount to HK12 cents (2000: HK11 cents) per share, an increase of 9% over that of the previous year. Subject to the approval of shareholders at the Annual General Meeting to be held on 31st October, 2001, the final dividend will be paid on or about 7th November, 2001 to shareholders as registered at the close of business on 31st October, 2001.

Finance

In the year under review, the Group's financial situation further strengthened. Stable cash flow and sufficient liquidity enabled the Group to better manage its financial activities.

During the year, the Group repaid the non-recourse Guangzhou-Shenzhen Superhighway syndicated bank loan, which was replaced by a 10-year loan of US\$300 million arranged between the joint venture company and a PRC bank. In addition, a syndicated bank loan of HK\$1,380 million was refinanced at a lower interest cost and the maturity date extended to 2007.

As at 30th June, 2001, consolidated net debt amounted to HK\$7,845 million and shareholders' equity reached HK\$13,878 million, resulting in a gearing ratio of 57%, down from last year's 75%. The decrease is a reflection of the Group's efforts to maintain its leverage at an optimum level.

The Group will continue to ensure that all existing and future investments will be financed at the lowest cost possible to ensure a stronger financial base and a better return on equity.

Market and Business Review

In the year under review, aspirations for continued growth in the New Economy vanished and the U.S. economy showed signs of weakness. The pace of economic recovery in Hong Kong and other Asian countries was slower than anticipated, reflecting a difficult operating environment. However, working from a sound business foundation, the Group continued to strengthen its core business activities and improve its financial situation. As a result, the recurring operation of the core businesses recorded growth and contributed to the profits of the Group.

INFRASTRUCTURE

The infrastructure business achieved the strongest performance among the four core businesses. Earnings before interest and tax reached HK\$736 million, an increase of 19% as compared to the previous year. The Group participates primarily in the toll road investment projects in the Pearl River Delta Region of Guangdong Province. With GDP growth of 10.5% in 2000, Guangdong Province maintained its status as one of the fastest growing provinces in the mainland, with the Pearl River Delta Region continuing to develop rapidly. Guangdong Province has a well-developed road system. Ownership of passenger and goods vehicles grew by 20% in 2000. The Group's operating toll roads are all principal routes connecting major cities. Together with other highways in the Region, they form a comprehensive highway network that will experience continued steady traffic growth.

In the year under review, the Guangzhou-Shenzhen Superhighway recorded double digit growth in traffic volume and toll revenue of 13% and 10%, respectively. The Shunde Roads registered traffic growth of 5%. The Shunde 105 Road recorded an increase in traffic of 21% following the full operation of the main alignment in October 2000. The Guangzhou East-South-West Ring Road commenced full operation in June 2000, and traffic is expected to further increase after the completion of other connecting roads.

PROPERTY

Sub-sectors of the office market performed differently because of the changing economic environment. Fewer new office completions placed a premium on those properties located in the core business districts on Hong Kong Island as these areas are the preferred locations for multi-national enterprises, financial institutions, telecommunication firms and trading companies. As a result, occupancy rates remained high in these areas. Hopewell Centre, the Group's flagship property, maintained an average occupancy rate of 94% and contributed an important portion to the Group's recurring income. The rental situation is expected to improve when the local economy strengthens.

The Hongkong International Trade and Exhibition Centre ("HITEC") at Kowloon Bay also recorded a steady occupancy rate. Earlier, the Group received initial approval from the Town Planning Board to ease certain restrictions on the operations of HITEC by permitting commercial usage. In line with the Government's development plan in southeast Kowloon, the expansion of HITEC activities can complement the district's commercial growth.

HOSPITALITY

The tourism industry experienced significant recovery during the year with visitor arrivals exceeding 13.06 million, surpassing the record of 12.97 million set in 1996. This signalled a definite improvement in the tourism industry which had a positive impact on the hotel industry. The Group's hospitality business moved from a loss to a profit-making situation during the year with earnings before interest and tax increasing to HK\$33 million. Both the Panda Hotel in Hong Kong and the China Hotel in Guangzhou experienced satisfactory occupancy rates and generated steady recurring income. Our food and beverage business also saw substantial improvement due to effective cost control. All catering outlets will continue to operate in line with market needs to further improve operating profits.

CONSTRUCTION AND ENGINEERING

The slow local economy resulted in decreased demand for new construction projects, leaving this market very depressed. In 2000, total completed construction projects by major contractors were lower by 4% compared to the previous year, while completion of private construction projects fell by 10%. This reflected a change in market domination by private construction projects. In recent years, however, the Group bid primarily for Government projects which generate a steady source of income. The Group is also actively pursuing the 'slip-climbform' building method, an environmental-friendly system designed to enhance the quality of building works.

OTHER DEVELOPMENTS

The Group continued to negotiate with the governments of Thailand and Indonesia over the Bangkok Elevated Road and Train System and the Tanjung Jati B Power Plant project, respectively, its two investment projects in Southeast Asia. The Group will continue to work in the best interests of its shareholders in moving towards a beneficial settlement.

Prospects

The decline in interest rates since the beginning of 2001 due to the U.S. economic slowdown enabled the Group to embark on a refinancing program that greatly strengthened its financial base. Looking ahead, the Group expects its financial foundation to grow stronger as it continues to exercise stringent cost control. By reaping the benefits of a steady improvement in business, better credit terms can be achieved. In the long term, the Group will continue to maintain a steady cash flow, minimize borrowing levels, strengthen capital liquidity, consolidate profit base and increase the returns to shareholders.

During the year under review, the recurring operation of the Group's core businesses – infrastructure, property, hospitality and construction – recorded an operating profit, and the result of business consolidation provided the Group with a solid basis for profit growth. The global

economy is expected to face great challenges in light of the slowing U.S. economy. Therefore, the Group will maintain its focus on strengthening its core businesses. China's entry into the World Trade Organization ("WTO") and the subsequent increased trade and business activities will possibly create more opportunities in the infrastructure sector. The Group will continue to minimize and adjust operating costs in line with the economic environment and market conditions to enhance shareholder value.

Commercial ties between the mainland and Hong Kong will become even stronger as import and export trade activities expand when China is admitted to the WTO. A comprehensive road transportation system linking Hong Kong to the mainland is a vital element in this development. In line with this, the Group is investigating the construction of a bridge linking Guangdong, Hong Kong and Macau. The Group is also actively evaluating planning alternatives for its property development projects and will formulate appropriate strategy in accordance with the latest market situation.

Personnel

The Group has appointed Mr. Carmelo Ka Sze LEE as an independent non-executive director and Mr. Thomas Jefferson WU as an executive director with effect from 21st March and 15th June, 2001 respectively.

Acknowledgement

I would like to express my gratitude to the Board of Directors and all the staff of the Group for their support and effort over the year. Their efforts are invaluable as we move forward to assure a prosperous future for the Group.

Sir Gordon Ying Sheung WU, KCMG, FICE
Chairman and Managing Director

Hong Kong, 18th September, 2001