CHAIRMAN'S STATEMENT

To Our Shareholders

RESULTS AND DIVIDENDS

For the fiscal year ended 30 June 2001, turnover and net profit increased by 23.7% and 13.6% to $2,748.4 million and $1,383.7 million respectively. Earnings per ordinary share was 47.9 cents which represents an increase of 13.8% from a year ago.

Your Board recommends a final dividend of 29 cents per ordinary share which is 11.5% higher than that of last year. If accepted by shareholders, that would make a full year dividend of 40 cents per ordinary share or 11.1% higher than the year before.

BUSINESS REVIEW

This is the first full year that Amoy is engaged in both real estate development and rental of investment properties.

Contrary to previous expectations, both property sales and rental markets deteriorated further in the past few months. For the fiscal year, rental income declined by 3.9% to $1,760.8 million while profits therefrom eked out an increase to slightly over $1,500 million. The fall in rental income is due partly to the removal of units of Garden Terrace from the market in preparation for their sales. Due mainly to the disposal of investment properties, profit attributable for ordinary shareholders rose by 13.6% to $1,383.7 million.

Having been in the business for decades, my colleagues and I have never seen a similar environment for the sales of residential units. Developers with tens of thousands of unsold flats and local bankers awashed with cash strived to lure potential buyers into their doors. Incentive schemes never heard of before are complemented by the lowest mortgage rates in decades. A buyer can move into an apartment with no money down and will not need to repay the developer-financed second mortgage of 20-25% for up to four years. The seller is obviously taking tremendous default risks especially given possibly higher unemployment rates in the coming months. Even then, there are few takers! This is not to mention that much of those projects are selling at a loss. We can only count ourselves fortunate to not have anything to sell at this time, for we refrained from purchasing land at the height of the market a few years ago.

Why are potential buyers not biting? Deflation which has persisted for almost three full years must be one key reason. The terrorist attack in the U.S. two weeks ago will only make things worse. Unemployment which has mainly hit the lower economic strata in recent years is now infecting the professional class. Under these circumstances, it is difficult to have confidence on either the overall economy or on one's ability to repay mortgages, no matter how low the interest rates may be. Those few fortunate ones not affected by the above see the abundant supply of flats in the hands of the developers. It is only reasonable that they too will delay any purchase.

The same factors are affecting consumption which depresses retail rents. Only the top locations are leasing well. Offices and high-end residentials are even more hurt by the malaise of the local economy and that of our trading partners. Some will not renew their leases while others will reduce the space required. At the same time, several buildings under construction in Central will be ready in the coming two to three years. They will ensure that office rents will not rise any time soon.

In December, we won at an auction a harbor-front residential site for $2.58 billion. About 151,000 square meters of mostly apartments will be constructed with 80% of the units having unobstructed sea views. A year ago our neighbor paid over 50% more for his plot which is smaller and inferior in shape. Catching up in construction progress, we will be very competitive when it comes time to sell.

Another bright spot comes from our two projects in Shanghai. Plaza 66 saw its soft opening in early April and was officially opened in July. From the early days, both the shopping center and the high-rise office tower were practically fully let at acceptable rents. Our list of office tenants reads like who's who in global business. At the mall, branded high fashion goods are particularly selling well. In many cases, sales rents have already kicked in and the tenants are asking for more space. To the surprise of many, although the same products are slightly more expensive in Shanghai than in Hong Kong, they move faster in Shanghai. This is yet another indication that no one should underestimate the rising purchasing power and economic prowess of China.

The larger shopping center, The Grand Gateway, is also performing well. Visitors have steadily increased such that weekday traffic can now be as much as that on the weekends when the center first opened in December 1999. Tenant mix problems have mostly been sorted out, and the mall is finding its appropriate market positioning.

PROSPECTS

It is very difficult to say when the Hong Kong property market will recover. Given the analyses presented above, it is reasonable to expect that the rest of the fiscal year will be weak. The big decision for us is whether to buy more land. Since management believes that when the market eventually recovers, prices are unlikely to rise sharply, hence, there is no particular hurry to act now. Moreover, the amount as well as diverse sizes and locations of land potentially for sale by the government in the coming years are plentiful. This is not to mention the huge supply provided by MTRC and KCRC, our subway and railway companies respectively. Nevertheless, there are one or two developers out there who have an enormous appetite to purchase. How to win the right piece at the lowest possible price will tax our wisdom.

The rental market will likely remain lethargic for the foreseeable future. It is hard to see at this stage what events will turn things around. Nevertheless since all free markets move in cycles, better days will return although they will be quite far into the future.

To have a sustainable recovery, several things must happen. First, the China market must hold up as it has in recent years. Second, the West, particularly the U.S., must turn around economically. Third, Hong Kong's economy must find a new impetus to replace the formerly all-important real estate sector. Of the three, the last which is least important by world standards, may prove the most difficult.

One possible area for our future growth is China. Having had nine years of experience there, management is understandably cautious. Decent investments will absorb considerable financial and management resources and the return characteristics are questionable. Nevertheless we will continue our search although all potential undertakings will have to compete with Hong Kong development projects for funds.

In the meanwhile, growth in profit in the coming few years will come mainly from the sales of local development projects. Since we are not under financial pressure and given the low carrying costs due to low interest rates, we can pick the right time to sell. This is especially true of more expensive flats.

Ronnie C. Chan
Chairman

Hong Kong, 24 September 2001

Growth is a cycle with beginning and end. The process begins with creation, an act of desire and commitment.