

Chairman's Statement

"After years of dedicated efforts, the Group's gearing ratio has been reduced to a reasonable level and its financial position reconsolidated."



I am pleased to report the following to the shareholders:

Consolidated Results

The Group's recurring earnings before interest and tax for the year ended 30th June, 2002 is HK\$953 million, compared with HK\$1,011 million of the same period last year. Net profit increased by 11% over the previous year to HK\$340 million. Earnings per share is HK38.8 cents as compared with HK34.9 cents last year.

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, 2002 (2001: HK7 cents per share). Together with the interim dividend of HK6 cents per share paid on 30th April, 2002, total dividends for the year ended 30th June, 2002 will amount to HK13 cents per share (2001: HK12 cents per share), an increase of 8% over that of the previous year. The Register of Members of the Company will be closed from Friday, 11th October, 2002 to Thursday, 17th October, 2002, both dates inclusive, during which period no transfer of shares of the Company will be effected. Subject to the approval of shareholders at the Annual General Meeting to be held on 17th October, 2002, the final dividend will be paid on or about 22nd October, 2002 to shareholders as registered at the close of business on 17th October, 2002.

30th Anniversary Special Dividend

In view of the substantial strengthening of its financial position, on the occasion of the 30th Anniversary of the Group, the Board of Directors has decided to recommend the additional payment of a 30th Anniversary Special Dividend of HK30 cents per share. Subject to the approval of shareholders at the Annual General Meeting to be held on 17th October, 2002, the 30th Anniversary Special Dividend will be paid on or about 22nd October, 2002 to shareholders as registered at the close of business on 17th October, 2002.

Market and Business Review

2001/02 was an extremely challenging year. Weak economic conditions abroad, the structural change of Hong Kong's economy, the persistently high unemployment rate and the slow recovery of the local economy have led to a difficult business environment in Hong Kong. In contrast, boosted by the official entry into the World Trade Organization in December last year, the robust import and export trade and the strong increase in consumer spending, the economy of Mainland China was performing well.

The Group's primary businesses are in Guangdong and Hong Kong. The Group's property and hotel businesses in Hong Kong have been affected by the 911 incident but mitigated by the cost-cutting and intense marketing. The Group's transportation projects in the Mainland maintained steady growth due to strong economic growth in the Pearl River Delta. During the year, the Group also took the opportunity to improve the quality of its investments in the Mainland through the disposal of non-core assets and the refinancing of debts of two joint venture companies to further reduce interest expenses. As a result, the Group's net profit has improved in comparison with last year.

Infrastructure

Since the implementation of the Open Door Policy, the Group has been actively investing in transportation infrastructure projects in the Pearl River Delta region of the Guangdong Province. Last year, the GDP growth of the Guangdong Province is 9.5% and it remains one of the high growth provinces in China, in particular, the Pearl River Delta region maintained its rapid rate of development. In recent years, due to the gradual perfection of the transportation network, the increasing flow of people and goods, the increase in average income of the population and the rapid growth of privately owned vehicles in the Pearl River Delta region, highway usage maintained a steady growth.

In the past year, the average daily traffic of the Guangzhou-Shenzhen Superhighway reached 123,000 vehicles, an increase of 14% over the previous year. Toll revenue also increased by 7% to RMB1,892 million. Average daily traffic and toll revenue of the Shunde Roads increased by 3% while those of the Shunde 105 Road increased by 9%. The average daily traffic of the Guangzhou East-South-West Ring Road recorded 33,000 vehicles and a slight increase of 2% in toll revenue, as some of the interchanges and the local connecting roads are yet to be completed.

Share of the joint venture companies' results in infrastructure business attributable to the Group was HK\$516 million, an increase of 110% over last year. During the year, part of the loans advanced by the Group to the joint venture companies was repaid, allowing

the Group to repay other debts and improve its financial situation. However, the interest income from the joint venture companies decreased by HK\$317 million as compared with last year. Therefore, earnings before interest and tax of the infrastructure businesses was HK\$677 million, a decrease of 8% as compared with last year.

Construction of Phase I of the Guangzhou-Zhuhai West Superhighway (the Guangzhou to Shunde section), an investment of the Group, has commenced in December 2001. Upon completion, it will become a principal highway on the west coast of the Pearl River Delta.

The Group's investments in transportation projects over the years are all located in the major cities of economic importance in the Pearl River Delta region. These road projects are inter-connected and together they form a highway network supplementing each other. The Group believes that the Guangdong Province will maintain its leading position in economic development and the Group's infrastructure investments will benefit from that.

Property

The rental situation of the Group's properties in Hong Kong remained steady despite the weak rental market. In the past year, Hopewell Centre maintained an average occupancy rate of 93%, which is comparable to that of last year. The occupancy rate of Hongkong International Trade and Exhibition Centre ("HITEC") increased to an average of 67%, an improvement of 4% over last year. The Group plans to expand the use of HITEC for commercial and retail purposes and is now in detailed discussion with Government on the change of land use. In view of Government's development plan for southeast Kowloon in the coming years, the enlarged usage of HITEC will complement the district's commercial development.

While the occupancy of these two properties remains stable, the rental rate is under downward pressure due to overall weakness in the market. In view of this, the Group has been taking measures to reduce their operating and financial expenses with encouraging results. During the period under review, the property business accounted for 24% of the Group's earnings before interest and tax.

Hospitality

In the period, visitors to Hong Kong from Japan, Europe and USA decreased due to the weak economic situation in these countries. On the other hand, visitors from the Mainland have increased substantially due to growth in per capita income and the relaxation in outbound travel policies. This provided support to the tourist and hotel industries in Hong Kong. During the year, average occupancy rate of Panda Hotel increased to 74%. However,

overall revenue for the year, affected by the 911 incident and intense competition in the industry, decreased by 8% due to lower rates. The hospitality business accounted for 3% of the Group's earnings before interest and tax.

Construction

The Group continued its efforts to complete the construction works of several school projects previously undertaken. During the year, the Group has taken up a subcontract for part of the construction works of a commercial building currently in progress.

Other Developments

The Group continued its efforts to achieve a satisfactory resolution for the Tanjung Jati B Power Plant project in Indonesia and the Bangkok Elevated Road and Train System in Thailand by negotiating with the relevant parties.

Finance

In the past few years, the Group has worked persistently to improve its financial situation by reducing debts and lowering financial costs and interest expenses. With the strong support of PRC banks towards infrastructure projects, the Group has in the past year assisted two joint venture companies to obtain a ten-year loan each at lower interest rate to refinance their respective debts. This has greatly reduced the interest expenses of the joint venture companies concerned and facilitated the early repayment of principal and interest of shareholders loan advanced by the Group.

In December 2001, the joint venture company for the Guangzhou East-South-West Ring Road has obtained a bank loan of RMB1.5 billion from a PRC bank. Part of the loan was used for project development and the remaining portion was used for the repayment of shareholders loan. As a result, HK\$286 million was repaid to the Group and the Group has used the same for the repayment of the Group's debts.

In February 2002, the joint venture company for Guangzhou-Shenzhen Superhighway obtained a bank loan from a PRC bank to repay shareholders loan advanced by the Group in the total sum of approximately US\$684 million. In the same month, the Group has, by way of Covenant Defeasance, deposited with the trustee of the 2004 and the 2007 Notes a sum equal to the total amount of all principal repayment (the outstanding unredeemed principal totalling approximately US\$566 million), interest and fees due and payable in future under the said Notes. Notice has also been given for the exercise of the option

for early redemption of the outstanding US\$372 million 2007 Notes on 15th August, 2002. Early redemption of the 2007 Notes will greatly lower interest expense of the Group as from the financial year 2002/03.

During the financial year, the Group reduced its interest expenses by 17%, as compared to last year. Total net debt over equity at the end of the financial year was 21%, down from last year's 56%. Resultant debt of HK\$933 million (Net debt after setting off interest bearing loans provided by the Group) is 6.8%. The above demonstrates the success of the Group in its efforts to achieve an appropriate net debt to equity ratio.

Prospects

With the slower than anticipated pace of recovery of the US economy, global interest rates are expected to remain at a relatively low level. This will be beneficial to the Group's continuing effort to lower interest expense. In the coming year, the Group will continue to take measures to improve its financial situation by adopting stringent cost control measures in order to further consolidate its financial position.

Due to the continuous sluggishness of the economy in Hong Kong and abroad, the stock and property markets in Hong Kong will continue to vacillate and the unemployment rate will stay high leading to harsh business operating environment. It will be difficult to be too optimistic about the prospects of businesses in Hong Kong. However, as the Mainland and Guangdong continue to post strong economic growth, the Group believes that its transportation projects in the Pearl River Delta region will continue to achieve stable growth.

After years of dedicated efforts, the Group's gearing ratio has been reduced to a reasonable level and its financial position reconsolidated. On 15th August, 2002, the Group exercised the option to early redeem the US\$372 million 2007 Notes. After the redemption, the Group's interest expenses will be significantly reduced, and this will be reflected in the Group's profit in the next and coming financial years.

In addition to the taking of active measures to consolidate its existing businesses, the Group is proactively pursuing business opportunities offered by the strengthening of economic ties between Guangdong, Hong Kong and Macau.

Change of Directors

With effect from 1st January, 2002, Mr. Eddie Ping Chang HO succeeded me as Managing Director of the Company while I continued to act as Chairman of the Board. On the same

date, Messrs. Josiah Chin Lai KWOK, Thomas Jefferson WU and Alan Chi Hung CHAN were appointed Deputy Managing Director, Chief Operating Officer and Executive Director of the Company respectively.

Mr. Henry Hin Moh LEE retired from his executive duties of the Company with effect from 31st December, 2001 and continues to serve as a Non-Executive Director. Mr. Joachim BURGER resigned as Executive Director of the Company with effect from 28th February, 2002.

The Board would like to welcome all the new appointees as well as to express appreciation towards the valuable contributions of Mr. Henry Hin Moh LEE and Mr. Joachim BURGER to the Company.

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 past 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

Hong Kong, 20th August, 2002