CITY DEVELOPMENTS LIMITED

CDL's Net Profit Increases 15% to $300 million Review of the performance of the company and its principal subsidiaries

March 30, 2001

Turnover for the Group for the year ended 31 December 2000 increased by 30% to $2.6 billion (1999: $2.0 billion). Operating profit before tax increased by 13% from $513.1 million to $578.4 million. After-tax profit attributable to shareholders before extraordinary items improved by 15% to $300.3 million (1999: $260.6 million). This represents earnings per share of 37.50 cents (1999: 32.53 cents). Book Net Tangible Assets were enhanced by 12% to $4.80 per share (1999: $4.28).

Despite the subdued property market, the property sector achieved an operating profit before tax of $256 million compared to the previous year of $268 million. With the slow market, management was able to pay more attention to the hotel sector which resulted in the expedient integration of the new hotel assets acquired in 1999 whilst ensuring organic growth from existing properties. These efforts, together with our strategy of diversification in the hotel sector, resulted in an increase of 71% in hotel pre-tax profit from $168 million to $288 million.

Unlike all the other listed Singapore property companies that do not depreciate their investment properties, the Group continues to adopt a conservative accounting policy of depreciating these properties. The total depreciation charge for the year amounted to $190 million (1999: $191 million).

Review of global diversification strategy

Year 2000 was yet another milestone for the Group in its journey towards global diversification. Back in the early 1990s, in a bid to even out the cyclical nature of property development earnings, the Group embarked upon a global diversification strategy via overseas hotel investments to broaden its earnings base.

In this global expansion plan, the Group draws from its expertise in the astute reading of property cycles to acquire hotel assets at attractive prices in key cities worldwide. As hotels can also be a property play, the Group can exploit any real estate opportunities present in these hotels. Today, the Group is one of the biggest hotel companies in the world with over 100 hotels globally.

The Group also managed to finance these expansions in various stages and via mechanisms such that minimal funding was required of shareholders. These expansions were also carefully paced in such a way that the Group has consistently achieved satisfactory profitability in the entire growth process over the last one decade.

From this global and diversified platform, the Group is well positioned to expand whenever opportunities arise or, in the event of a slowdown in any part of the global economy, consolidate where appropriate. This diversity will allow the Group to even out earnings fluctuations caused by varying economic conditions in countries in which the Group operates. Over the long term, these hotel investments would open the Group to other investment opportunities in these countries. As is the case in Korea, after the acquisition of Seoul Hilton, the Group was able to make use of its knowledge of the local market and, together with an American property fund, acquired two office buildings under development at attractive prices.

Pursuant to a restructuring exercise carried out in the year 2000, the Group now owns 52.4% of Millennium & Copthorne Hotels ("M&C"). The Group's total investment in M&C to date is $1.35 billion, which constitutes approximately 25% of the Group's total asset base of $5.5 billion inclusive of minority interests.

The restructuring also involved a return of capital from CDL Hotels International Limited and the amount received of some $840 million was used to fund the acquisition of M&C, resulting in a net outlay to the Group of approximately $500 million.

Property

Residential

Year 2000 began on a promising note but turned cautious in the second half due to news of the global oil crisis, the possible slowdown in the US economy and the prevailing overhang in supply. Though prices of residential properties remained relatively stable and made modest gains during the first half of the year, transaction volumes however were rather subdued. It was a 10-year record low of 4,762 units, as against an annual average take up rate of 7,000 units.

During the year under review, the Group launched The Equatorial, a condominium with the first i-home concept in Singapore. Approximately half of the project has been sold to date. In November, Sunshine Plaza Apartments, in which the Group acquired the remaining 40% stake from the joint venture partner at a discounted price, were successfully launched with over 96% of all the apartments sold to date. In addition, the Group continued the sale of its remaining units in Faber Crest, Summerhill and Thomson 800.

The Group's associated companies launched two other projects namely Dahlia Park at Changi and The Trevose during the year.

The Group continued to recognize profits progressively from development properties, namely Summerhill, Thomson 800, The Equatorial and Carissa Park.

Commercial / Retail

The office sector in Singapore performed well with rentals edging up due to the strong economy increased demand and limited supply. IT-related companies accounted for most of the demand, followed by financial institutions. However, demand tapered off slightly in the last quarter because of the slowdown in technology-related businesses and concern over the US economy.

The retail sector performed well in the first three quarters of the year on the back of the strong economy and record visitor arrivals. Towards the year-end, however, the poor stock market, regional uncertainties and the slowing US economy caused consumer sentiment to become muted.

Overall rental income for the Group remained flat due to its impending redevelopment plan for 1 Shenton Way (Robina House) which affected the occupancy and rental rate for this building. Chinatown Point which was affected by the ongoing MRT construction work and the divestment of 50% in 1999 of Lot One Shoppers' Mall also accounted for the flat rental income.

During the year, the Group together with its US partner invested in a strategic stake of 37.2% in Amarin Plaza Public Co Ltd. This property company owns various properties in Bangkok including offices, shopping centres and two luxurious hotels, namely Grand Hyatt Erawan and the J W Marriott Hotel.

Hotels

In the USA, the Group made good progress with the disposal of the non-core Regal hotels, acquired in December 1999. To date, the Group has sold eight out of the twelve identified for sale, achieving prices in line with its expectations. Work has begun on 12 Regal hotels that the Group is retaining to bring them up to Millennium standard. The refurbishment and rebranding of these 12 hotels will be completed by end of April.

International arrivals into Singapore grew to an all-time high of 7.6 million, up nearly 11% from the previous year, thereby boosting both occupancy and average room rates in this important market for M&C. Average room rates for the Group's five Singapore hotels increased by 21%, outperforming the industry increase of 6.5%.

Earlier this year, M&C in conjunction with Bass plc took part in a bidding invitation in London to acquire the Le Meridien hotel group from Granada Compass. It was intended that each party would acquire a specific portion of the group. After due diligence, a non-binding indicative bid was submitted. However, both parties subsequently decided to withdraw from the bid as they were not prepared to revise the price upward.

e-Commerce

Following the restructuring exercise mentioned above, CDL Hotels was subsequently re-launched as an e-Commerce business-to-business solutions company specializing in the hospitality sector under the new name of City e-Solutions Limited ("CES"). The restructuring, which was overwhelmingly endorsed by shareholders on 9 August 2000, became effective on 7 October 2000. It involved the transfer of the entire shareholding of M&C to its parent, City Developments Limited ("CDL") held through two wholly-owned subsidiaries; the allotment of bonus shares to shareholders; a capital reduction; and redistributing the cash received from this capital reduction to shareholders at HK95 cents per share.

CES has already begun implementing a workable and practical strategy to provide business solutions for the hospitality industry. It is an industry the Group understands well, and one which is facing major changes and opening up new opportunities that few other corporations in the world are as well poised to seize. As major hotel chains grow larger, small and medium-sized hotels are facing a technology gap which CES intends to fill in as an integrated solutions provider. With the financial resources made available following the restructuring, CES is gearing itself to be a global player in this field.

Commentary on current year prospects

Property

Residential

The Singapore economy is projected to grow at a healthy rate of between 5-6% in 2001. The residential property market in Singapore is operating within a subdued environment, albeit against conducive fundamentals such as the lowest interest rates in housing loans in history, the restoration of the CPF rate by 4 percentage points to 16% of wages and the government's continued emphases on recruiting foreign talent and developing Singapore into a IT and biotech hub in the region.

The government is implementing a broad policy framework for a stable property market in order to minimize any sudden and volatile swings in prices and values. Against this backdrop, the Group is of the opinion that although prices are not likely to escalate rapidly as they once did during the pre-crisis period, they are similarly unlikely to become severely depressed from the current levels, barring any drastic external adverse developments.

It is worthwhile to note that, following the recent volatility in the prices of financial assets worldwide particularly in the US, investors are beginning to pay attention to the merits of investing in real estate as these assets generally do not experience a sudden and sharp drop in capital values, unlike other assets like stocks and shares.

As more potential buyers take cognizance of the increasing attractiveness of property as a medium to long term investment vis-à-vis other forms of investments available, the Group is cautiously optimistic that buying sentiment will improve gradually. With a relatively average low cost landbank, the Group is able to strategise and selectively launch projects that will help to maintain its overall profit margins.

The underlying buying interest among potential purchasers of residential properties is still relatively healthy. In addition to a couple of developments by other property companies, this interest is also demonstrated in the earlier successful launches of the Group's Sunshine Plaza Apartments and the healthy take-up rate for our recent launch of Goldenhill Park, a 390-unit condominium at Lorong Chuan/Ang Mo Kio. The Group released 176 units under Phase I and sold 125 units within the first two weeks.

The Group is planning to release a 598-unit condominium at Upper Changi Road East and 51 units from Emery Point at Tanjong Katong later this year.

Commercial/Retail

The office sector is unlikely to experience the same take up rate experienced in 2000 due to a slowing economy and the shakeout in the IT-related industries. Demand in the medium term is expected to be good, with more international companies setting up base in Singapore in response to the deregulation of the financial and telecom sectors. No. 1 Shenton Way (former Robina House) will be redeveloped into a high-tech building with more lettable areas to meet market demands. This will enable the Group to maximise the under-utilised plot ratio of this building which was low at the point of purchase and has since been revised upwards from 7.4 to 11.76.

After the completion of the MRT station which will have a direct link to Chinatown Point, the capital and rental values of this complex should show good improvement.

Hotels

Most of the Group's properties in Asia and Australasia are expected to perform better benefiting in most cases from improvement in average room rates, occupancy and enhanced hotel products. This is particularly so in Singapore where international arrivals are expected to increase significantly over last year.

In the UK and USA, after an exceptionally strong year in 2000, the Group notes some softening in demand in a couple of its major markets. However, along with most of our competitors, the Group expects this softening to be temporary. Against this backdrop, the Group is implementing a targeted capital expenditure programme, focused marketing, and cost control to assure continued profitability.

The Group believes that the acquisition of the Regal Group in December 1999 will deliver enhanced and lasting value. Although the Regal Group was acquired in what was generally regarded to be a bullish market in the US, these Regal hotels were significantly under-performing due to inadequate managerial attention and a lack of capital investment. Under the Group's direction and through its investment programme, the Regal hotels have considerable potential to deliver improved revenues and profit. Even in the event of the continued softening in the US economy, these hotels after refurbishment will perform, at the very least, on par with their previous performance before the Group's acquisition. Overall, the Group looks forward to a good performance from the refurbished and rebranded Millennium hotels, particularly in high business-related periods.

e-Commerce

With the completion of the Group's reorganisation exercise, the Group will be laying the foundation this year for aggressive growth in 2002 and beyond, capturing the business opportunities that are available in the provision of solutions for the hospitality industry. Whilst costs relating to product development and sales acquisitions are unavoidable, they will be put in the context of achieving profitability as soon as possible. The Group will seek to attain the right balance between the growth in revenue and costs ensuring, at all times, a prudent management of expenses.

Group Prospects

Barring any unforeseen circumstances, the Group is expected to continue to perform satisfactorily.