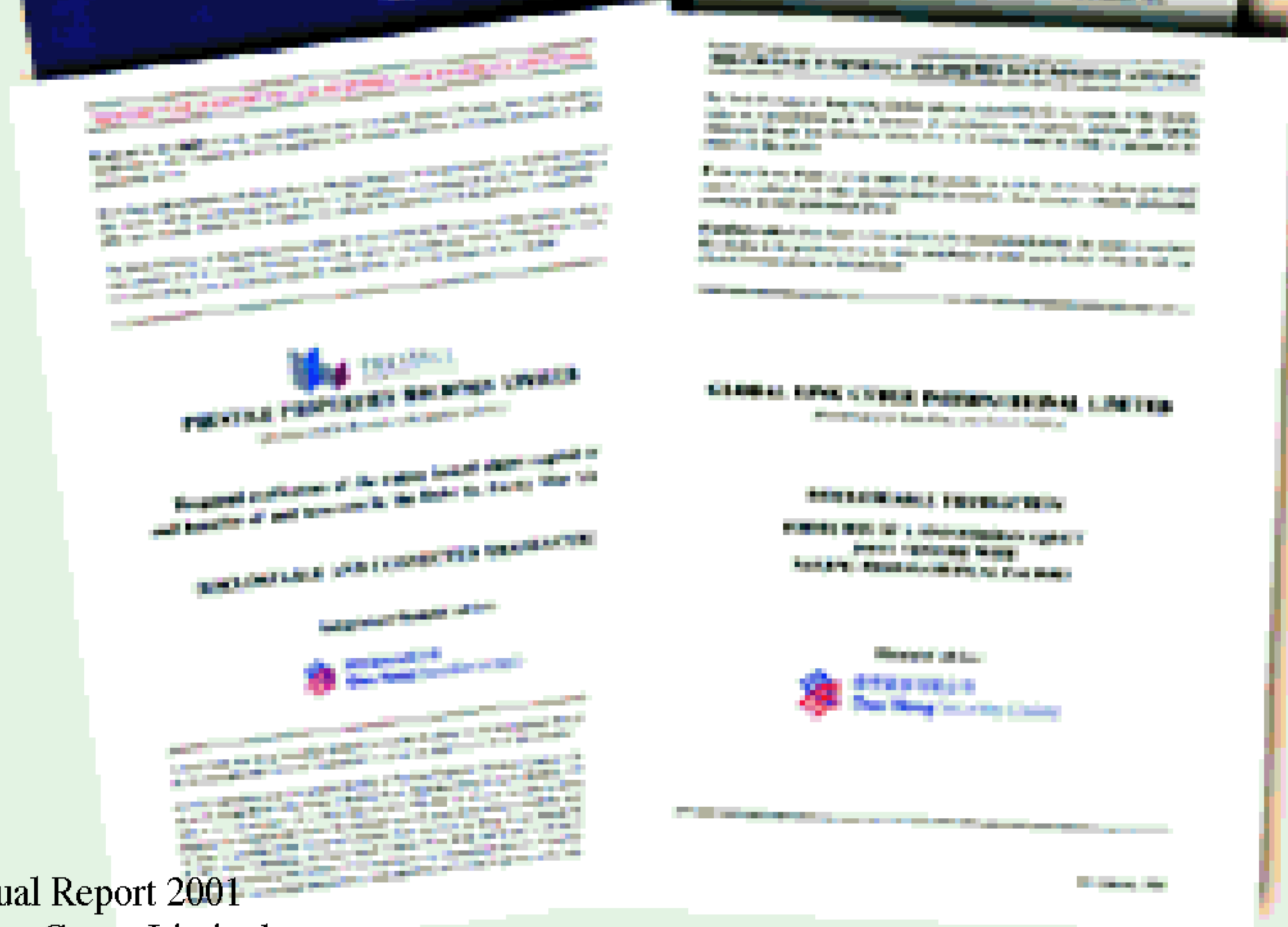
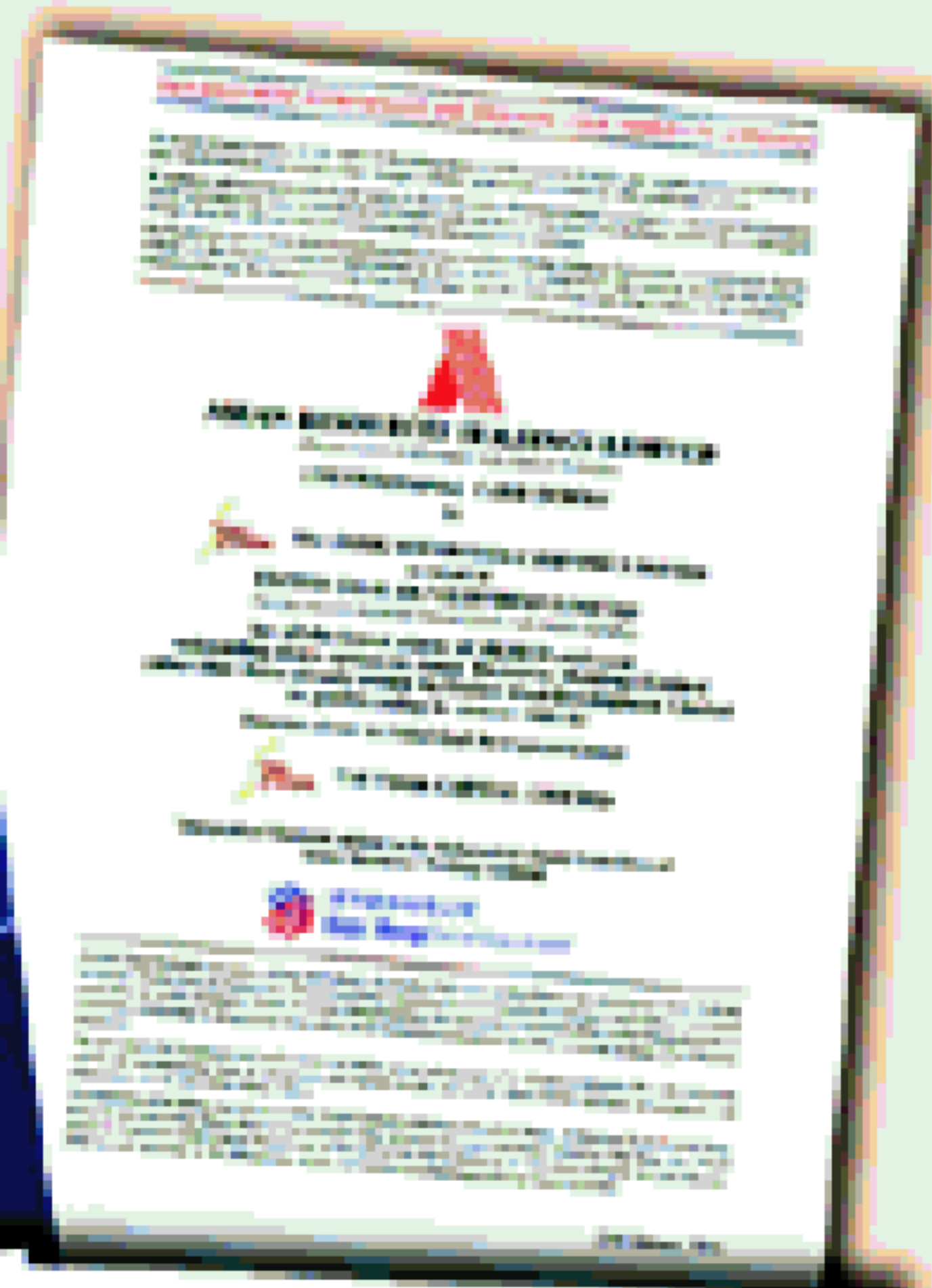
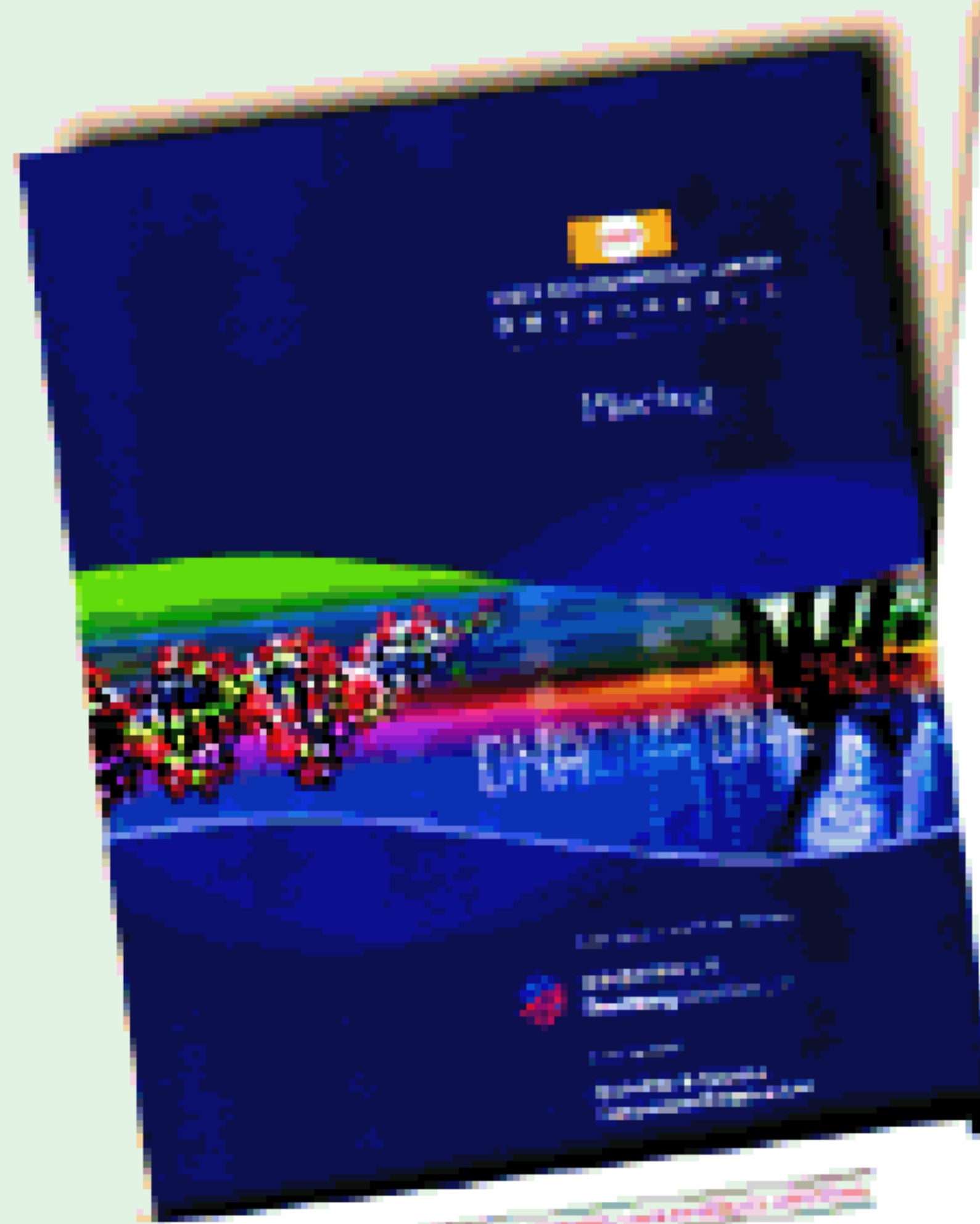


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Dao Heng Insurance Co., Limited (“DHI”)

The Hong Kong non-life insurance market was operating under competitive environment. In the financial year 2000/2001, DHI’s underwriting result was eroded by the increase in marketing expenses which however, had proven to be effective in the form of increasing sales. In fact, Direct Club membership has surpassed 100,000 in June 2001.

In the forthcoming financial years, we shall focus on “up-sell” programme to capitalize on the opportunities of this data base. DHI, DHS and Dao Heng Fund Management Limited are working on an all year round marketing and sales campaign to up-sell higher value financial products to the Direct Club members.

The property market in Hong Kong is expected to remain sluggish in the next few years, DHI’s major source of income will shift from fire insurance to personal line insurance which is expected to account for 43% of the company’s total production in three years.

DHI will also explore business opportunities in the commercial banking areas. Profitable line of business such as Marine Cargo will be focused for development.

Dao Heng Fund Management Limited (“DHFM”)

DHFM has successfully launched the “Dao Heng Investment Fund Services” which features third party funds offering to compliment the Dao Heng Unit Trusts. The two flagship funds of DHFM namely Dao Heng Hong Kong Fund and Dao Heng China Fund, were well-received by investors, in particular, the Dao Heng Hong Kong Fund sales represented over 20% of total sales in Hong Kong in its sector. Aggressive promotion of the “Dao Heng Monthly Savings Plan” was successful and resulted in over 4,000 new accounts.

During the year under review, DHFM has actively participated in launching Mandatory Provident Fund Scheme (“MPF”) and become one of the top ten MPF service providers. In the second half of the financial year, emphasis was placed in the enrolment process, and in providing quality services to both employers

and employees. A call centre with Interactive Voice Response System was set up together with Bermuda Trust (Far East) Limited. A customer service team has been put in place to provide on-going services to the employees.

***Dao Heng Insurance Co., Ltd
offers a wide range of personal
line insurance products.***



Dao Heng Fund Management Ltd is one of the top ten MPF service providers in Hong Kong.

The MPF customer servicing team will continue to work closely with Bermuda Trust (Far East) Limited in providing quality service to both employers and employees in order to retain existing clients and attract more new clients.

New Unit Trust product will be launched to capture the huge potential client base generated from the MPF members. Additional third party fund houses will be included in our distribution list so as to broaden our fund offering range. Emphasis will also be on developing relationship with the Independent Financial Advisors so as to broaden our distribution channel.

DHFM, DHI and DHS will make use of the MPF business as a base to cross sell the Group's financial products and to develop institutional client base together with Friends Ivory & Sime Asia Limited ("FISA"). As at 30 June 2001, DHFM and FISA together have a total of approximately US\$1.7 billion of funds under management.

FINANCIAL COMMENTARY

Turnover

Overall turnover increased by 9.5% mainly due to the increase in property development and investment sectors (an increase of 58.3%). Turnover for the treasury and investment management sectors increased by 26.7% as a result of higher investment gain and dividend income on security investments. Turnover from stockbroking sector decreased by 27.2% while banking and financial sectors and insurance sectors increased by 5.2% and 4.3% respectively.

Borrowing

As at 30 June 2001, the Group maintained total borrowings of HK\$10 billion, of which approximately 63% comprises of unsecured borrowings.

The Group's bank loans, overdrafts and other borrowings were repayable as follows:

	Bank loans	Other borrowings	Total
	HK\$'000	HK\$'000	HK\$'000
On demand or within 1 year	3,407,609	2,045,727	5,453,336
After 1 year but within 2 years	1,854,593	492,024	2,346,617
After 2 years but within 5 years	2,178,501	470,637	2,649,138
After 5 years	—	—	—
	<u>4,033,094</u>	<u>962,661</u>	<u>4,995,755</u>
	<u>7,440,703</u>	<u>3,008,388</u>	<u>10,449,091</u>

The loans are secured by the following:

- legal mortgages on investment properties with a book value of HK\$952 million;
- legal mortgages on development properties with a book value of HK\$5,049 million; and
- certain equity investments with total carrying value of HK\$1,105 million.

As at 30 June 2001, the Group has net cash balance of HK\$12,902 million after netting off the total borrowings of HK\$10,449 million.

Contingent Liabilities

As at 30 June 2001, there were contingent liabilities in respect of guarantees given to bankers by the Company to secure banking facilities to the extent of HK\$2,973 million granted to group companies.

As at 30 June 2001, there were three put option agreements entered into by the Company whereby imGO was granted the right (“Options”) to require the Company to purchase all (but not part) of imGO’s interest in the shares in each of the property holding companies at an aggregate consideration of about HK\$607 million. The Options are exercisable during the period from 30 May 2001 to 29 November 2001.

Capital Commitments

As at 30 June 2001, the Group had outstanding capital commitments as follows:

	HK\$’000
Authorised and contracted for	24,304
Authorised but not contracted for	—
	<hr/>
	24,304
	<hr/> <hr/>

Capital and Finance

The Group’s consolidated shareholders’ funds as at 30 June 2001 after adjusted for the major items set out below, amounted to HK\$32,110 million, representing a net asset value of HK\$75.2 per share. The major adjustments are as follows:

1. Profit on disposal of a subsidiary amounting to HK\$22,630 million;
2. Realisation of reserves of HK\$1,849.5 million upon disposal of subsidiaries;
3. Net revaluation surplus for investment properties of HK\$57 million;
4. Realisation of revaluation surplus of HK\$37.8 million upon the disposal of investment properties by an associate;
5. Written back of revaluation reserves of associates amounting to HK\$13.8 million;
6. Share of subsidiaries’ and associates’ capital reserves of HK\$47.7 million;
7. Net dilution loss on investment in subsidiaries and associates of HK\$175.4 million;
8. Net exchange loss on investment in subsidiaries and associates of HK\$1,252.7 million.

TREASURY MANAGEMENT

The Group practices prudent financial management. Appropriate financial instruments, including interest rate and currency swaps will be used to manage our interest rate and foreign currency exposures.

HUMAN RESOURCES AND TRAINING

The Group, including its subsidiaries in Hong Kong and overseas, employed approximately 500 employees as at 30 June 2001. The Group continued to follow a measured approach towards the size of its workforce and is committed to provide its staff with ongoing development programmes.

The remuneration policy for the Group's employees is reviewed by management on a regular basis. Remuneration packages are structured to take into account the level and composition of pay and general market conditions in the respective countries and businesses in which the Group operates. Bonus and other merit payments are linked to the financial performance of the Group and individual performance as incentives to optimise performance. In addition, share options have been granted to certain eligible directors and employees of the Group in accordance with the terms of the approved share option schemes adopted by the Group.



The in-house magazine of the Group - GuocoPost



The Group took part in the Community Chest's yearly charitable event "Walk for Millions".



Staff members attended a talk on Personal Data Protection Principles.