REVIEW OF OPERATIONS

TREASURY AND INVESTMENT STRATEGIES

As part of the overall investment process, the Group has also strengthened its treasury operations so as to prudently manage its liquidity in anticipation of core investment opportunities. During the financial year, the Group has established an operating infrastructure to manage its investment funds arising from the disposal of Dao Heng Bank Group in an efficient and effective manner with proper risk management in place.

Considering the general slow down in the global economies coupled with deteriorating fundamentals and recent US corporate governance scandals, the Group took a prudent stance towards investment, which with the benefit of hindsight, has been proved to be correct.

As seen in table below, most market major indices except KLSE have declined significantly in this financial year. The indices declined further in the range of 12% to 21% subsequent to 30 June 2002 and even the gain by the KLSE could not be sustained with the KLSE dropping back by about 12% since 1 July 2002.

Table: Major Stock Indices

Major Indices	1 July 2001	30 June 2002	Change
Dow Jones	10,502	9,243	(12.0%)
Nasdaq	2,161	1,463	(32.3%)
London FTSE	5,643	4,656	(17.5%)
NIKKEI	12,969	10,622	(18.1%)
Hong Kong	13,043	10,599	(18.7%)
STI	1,727	1,553	(10.1%)
KLSE	593	725	22.3%

To direct the prudent reinvestment of the proceeds received from the disposal of Dao Heng Bank Group, the Board established an Investment Committee to formulate and refine the Group's investment strategies. The Investment Committee also oversees and directs the ongoing investment process and regularly reviews the Group's risk related policies and controls.

With the Group's increased interest in treasury activity, the Group undertook to further strengthen its financial management capabilities and controls. It established policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, foreign exchange, interest rate and market risks. The internal audit department assures compliance with these policies, procedures and regulatory requirements by regular audits.

The Investment Committee devised investment policies and parameters covering core investment, time deposits, money market instruments, fixed income, equities and financial instruments. The Group also adopted stringent concentration risks control guidelines including setting limits for country risk, counterparty, currency and duration. In evaluating the credit risk of the counterparties, their financial strength with reference to their credit ratings and settlement ability are the primary considerations.

In view of the volatility of the currency markets, the Group is exercising close and active monitoring of its foreign currency exposures. Appropriate financial instruments are utilized to manage its interest rate and foreign currency exposures including standard interest rate and currency swaps. It should be emphasized that the Investment Committee policy specifically prohibits exotic financial instruments.

Ultimately, the major objective of the Group is to invest in core businesses that will create value for its shareholders. As such, the Group's management is continuously exploring new investment opportunities to lay the foundation for sustainable growth and scalability. To that end, value investment opportunities are being evaluated with particular focus on distressed companies with good assets and prospects where the Group's highly disciplined approach to financial and operating management will create value. It is the view of the Group that markets will provide good investment opportunities. While the Group has core businesses in the financial services and property sectors, it will consider investments in new sectors that satisfy the Investment Committee's investment criteria for profitable growth and returns for shareholders.

PROPERTY DIVISION

To streamline and posture the Group's property business for growth opportunities, the Group has entered into a restructuring with First Capital Corporation Ltd ("FCC"), which will now focus on property. The transactions include the transfer of the Group's 55% interest in Guoco Properties Limited ("GPL") and 30% interest in Guoman Hotel & Resort Holdings Sdn Bhd ("GHRH") to FCC and the acquisition from FCC of its approximately 9.6% interest in Overseas Union Enterprise Limited ("OUE").

The shareholders of FCC in the general meeting held on 7 October 2002 have approved the transactions. The acquisition of the interest in OUE has been completed on 9 October 2002. The disposal transactions of interests in GPL and GHRH are expected to be completed in December 2002.

First Capital Corporation Ltd - 54.69% owned by the Group

The Singapore operating environment for FCC was most competitive and challenging in this financial year. There was an excess supply of residential property units coupled with weak demand. Compared to the last financial year, FCC Group's turnover however decreased only slightly by 3% to S$234.1 million for the year ended 30 June 2002. An operating loss after tax of S$179.9 million was recorded in comparison with S$24.2 million in the last financial year. FCC Group's associated companies contributed a profit of S$33.1 million, an increase of 4% over the last financial year, which was mainly from its 34.54% associate, Benchmark Group PLC.

REVIEW OF OPERATIONS

In line with FCC's intended focus on property and property-related activities in key investment countries of Singapore, the United Kingdom and China, FCC divested its non-core property assets, ceased its fund management and advisory services and has sold down its short term trading portfolio during the financial year. Subsequent to the financial year-end, FCC also concluded a sale and purchase agreement for the sale of its interest in its insurance subsidiary to an unrelated third party.

Guoco Properties Limited - 55% owned by the Group and 45% by FCC

GPL has a 75% interest in Corporate Square, a 17-storey office development located along Financial Street of Beijing. Approximately 60% of the office space in Corporate Square was sold and about 23% of the office areas had been leased out. Management of GPL continues to actively market the remaining office space for sale at currently improved prevailing market prices.

GPL has a 98% interest in the development of a high-end, 300-unit residential development in Shanghai. The site is strategically situated on prime land within the most up-market shopping belt along Huai Hai Zhong Lu in Luwan District, Shanghai.

As reported above, the Group will soon transfer its interest in GPL to FCC.

FINANCIAL INDUSTRY GROUP

The Group has concentrated on adding value and enhancing its existing financial industry businesses by utilizing the Group's experience in the financial industry sector in Asia. While the Group has continuously assessed core investment opportunities in the sector, it has chosen not to invest as current values and market outlook are still not favourable.

Hong Leong Credit Berhad ("HLC") - 23.31% owned by the Group

HLC achieved a profit before taxation of approximately RM779.8 million for this financial year, an increase of 35.5% over the last financial year. All divisions in the HLC Group reported profits for the financial year.

The banking division recorded a pre-tax profit of RM705.8 million, an increase of 14.9% over the last financial year. The insurance division achieved a pre-tax profit of RM98.5 million, an increase of 321% over the last financial year mainly due to the improved performance of its investments.

The stock broking division recorded a pre-tax profit of RM3.8 million as compared to a RM30.1 million loss in the prior year. The improved results are substantially due to lower operating costs attributable to streamlining and increased trading volume.

The property division recorded a pre-tax profit of RM30.1 million as compared to RM11.4 million in the previous financial year.

Hong Kong Financial Services Subsidiaries

When the Group sold Dao Heng Bank Group to Development Bank of Singapore Ltd ("DBS") in the last financial year, it announced that it would enter into negotiation to sell the remaining Hong Kong financial service businesses to DBS. During the current financial year, DBS advised the Group that it had decided not to buy those assets.

Consequently, these subsidiaries have jointly organised the implementation of Dao Heng • Wealth Management, a multi-product wealth management distribution platform that provides integrated and customer-centric wealth management services and financial planning. Recognising that the financial services subsidiaries already have an existing base of clients many of whom will benefit from such wealth management service, a Customer Relationship Management System has been implemented with associated statistical and behavioral modules to offer the right products and services to customers.

A series of wealth management programmes were launched in September 2002, including innovative monthly savings plans for long-term wealth creation, and yield-enhancing products for shorter-term investors. A balanced and prudent approach will be adopted to manage these assets.

In the wake of the deteriorating Hong Kong economic environment, diminishing market turnover and continuing high unemployment rate, the financial services subsidiaries comprising Dao Heng Securities Limited, Dao Heng Fund Management Limited and Dao Heng Insurance Co., Limited are facing increasing challenges. In order to enhance productivity, this financial services group is undertaking major cost control measure and other initiatives to streamline its operations.

FINANCIAL COMMENTARY

Turnover

An increase in turnover of 11% to HK$2,086 million from continuing operations was achieved. This was mainly attributable to the increase in treasury, fund and investment management activities of 242% or HK$508 million, arising primarily from an increase in interest income of HK$413 million and dividend income of HK$132 million. Turnover from the property development sector decreased by 20%. The securities, commodities and brokerage sector however declined by 41%.

Treasury, fund and investment management sector accounted for about 89% of the contribution from operations while the property development sector and property investment sector contributed approximately 5% each.

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Borrowings

By 30 June 2002, the Group had reduced its total borrowings by 41% to HK$6,195 million from HK$10,449 million as at 30 June 2001. Unsecured borrowing comprises 47% of total borrowings. All borrowings are by FCC and primarily represent FCC's property loans.

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	2,136,658	595,093	2,731,751
After 1 year but within 2 years	2,166,094	484,842	2,650,936
After 2 years but within 5 years	601,872	210,691	812,563
	2,767,966	695,533	3,463,499
	4,904,624	1,290,626	6,195,250

The loans are secured by the following:

- legal mortgages on investment properties with a book value of HK$640 million;
- legal mortgages on development properties with a book value of HK$3,699 million; and
- certain equity investments with total carrying value of HK$1,115 million.

As at 30 June 2002, the Group has net cash balance of HK$7,170 million after netting off the total borrowings of HK$6,195 million.

Contingent Liabilities

As at 30 June 2002, there were contingent liabilities in respect of guarantees given to bankers by the Group and the Company to secure banking facilities to the extent of HK$324 million (2001:HK$320 million) and HK$165 million (2001:HK$2,973 million) respectively granted to group companies and certain investee companies of the Group.

Capital and Finance

The Group's consolidated shareholders' funds as at 30 June 2002 after adjusting for the major items set out below, amounted to HK$27,906 million. The major adjustments are as follows:

- realisation of reserves of HK$4,962 million upon the share repurchase by the Company;
- cancellation of share capital of HK$417 million upon the share repurchase by the Company; and
- revaluation deficit for investment properties of HK$232 million.

HUMAN RESOURCES AND TRAINING

Including its subsidiaries in Hong Kong and overseas, the Group employed approximately 430 employees as at 30 June 2002. The Group continued to follow a disciplined approach so as to achieve an optimal and efficient workforce size. While streamlining exercises are being carried out to ensure a rightsized workforce, ongoing development of its existing staff is emphasized to enhance their productivity and quality of services.

Management on a regular basis reviews the remuneration policy for the Group's employees. 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 to encourage productive staff contribution. Share options may also be granted from time to time to eligible employees in accordance with the share option scheme adopted by the Company to provide incentive to optimise their performance and foster loyalty towards the Group.