

Review of Operations

INTRODUCTION

The core businesses of the Company and its subsidiaries and associates consist of property investment, property development, hospitality related activities and financial services. The Company is a subsidiary of Allied Group Limited (“Allied Group”), another publicly listed company in Hong Kong and investment holding company, which is engaged in consumer finance, property investment and development and financial services businesses through its operating subsidiaries and associates.

FINANCIAL REVIEW

The turnover of the Group for the year 2000 was HK\$265.4 million, which was an increase of 15.1% compared with the year 1999.

There was a loss attributable to shareholders of HK\$396.1 million for the year, compared to a profit of HK\$130.6 million for the preceding year. This is mainly due to provisions for impairment losses arising from a revaluation of the Group’s properties.

Financial Resources and Liquidity

The banking and treasury policies of the Group are centrally managed by the head office. The Group is principally financed by net cash inflow from operating activities and banking facilities granted by the banks. The banking facilities of the Group are reviewed from time to time and new banking facilities will be secured or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

At 31st December, 2000, the Group’s net bank borrowings amounted to HK\$1,780.2 million (1999: HK\$1,564.2 million), representing bank borrowings of HK\$1,803.9 million (1999: HK\$1,660.9 million) less bank deposits, bank balances and cash of HK\$23.7 million (1999: HK\$96.7 million) and the Group had net assets of HK\$4,979.7 million (1999: HK\$5,562.6 million). Accordingly, the Group’s ratio of net bank borrowings to net assets was 35.7% (1999: 28.1%).

The bank borrowings of the Group at 31st December, 2000 and 1999 are repayable as follows:

	2000 HK\$’000	1999 HK\$’000
Within one year or on demand	896,051	823,639
More than one year but not exceeding two years	210,933	397,176
More than two years but not exceeding five years	423,423	168,689
More than five years	273,508	271,422
	<u>1,803,915</u>	<u>1,660,926</u>

During the year, the Group had re-arranged the terms of the banking facilities including the conversion of certain project and construction loans into mortgage loans. The new mortgage loan facilities offer more favourable terms and a longer term of loan repayment compared with the previous banking facilities.

The current trend of the bank interest rate reduction in Hong Kong would reduce the interest burden of the Group as the Group’s banking facilities are charged at floating rates.

FINANCIAL REVIEW (CONT'D)*Risk of Foreign Exchange Fluctuation*

The Group's borrowings and operating activities are primarily denominated in Hong Kong dollars. Accordingly, the Group has no significant exposure to foreign exchange fluctuations.

Acquisition and Disposal of Subsidiaries

During the year, the Group acquired two wholly-owned, property holding subsidiaries at the total consideration of HK\$126.7 million. In addition, the Group disposed of two property based subsidiaries at the total consideration of HK\$72.2 million.

Disposal of a Jointly Controlled Entity

During the year, the Group discharged all its obligations to a jointly controlled entity in the People's Republic of China ("PRC") at the settlement amount of HK\$81.0 million.

Contingent Liabilities

At 31st December, 2000, the Group had given guarantees to banks of HK\$245.0 million in respect of credit facilities utilised by a subsidiary of an associate.

Pledge of Assets

At 31st December, 2000, certain of the Group's investment properties, hotel property, properties under development, properties under development for sale and properties held for sale with an aggregate carrying value of HK\$3,520.8 million (1999: HK\$3,848.6 million), and securities in respect of a listed associate with an aggregate carrying value of HK\$1,889.4 million (1999: HK\$1,699.5 million) were pledged to secure loans and general banking facilities to the extent of HK\$1,981.8 million (1999 : HK\$1,846.7 million) granted to the Group. Facilities amounting to HK\$1,759.7 million (1999: HK\$1,610.6 million) were utilised at 31st December, 2000. At 31st December, 2000, certain of the Group's bank deposits of HK\$0.7 million (1999: HK\$67.3 million) were pledged to secure banking facilities amounting to HK\$0.7 million (1999: HK\$67.2 million).

OPERATIONAL REVIEW*Hong Kong*

China Online Centre, a commercial/office building situated at 333 Lockhart Road in Wanchai, was completed during the year and is almost fully let. The Group has completed the purchase of Hua Yuan Building ("Hua Yuan"), an existing commercial/residential building located directly opposite the Allied Kajima Building and Century Hong Kong Hotel in Wanchai. The works being carried out to renovate Hua Yuan as quality apartments are scheduled to be finished around the middle of this year.

The marketing campaign for St. George Apartments on Waterloo Road, Kowloon is expected to be re-launched later in the year.

The PRC

The divestment programme on the Group's remaining non-core property development projects in the PRC is nearly complete with the disposal of property interests in Shanghai, Dalian and Yantai.

OPERATIONAL REVIEW (CONT'D)*Hospitality Related Activities*

The Century Inn North Point, at Java Road and wholly-owned by the Group, was completed during the year and is enjoying good occupancy rates. Planning for amalgamation of the site on Java Road adjacent to the hotel is proceeding.

In respect of the two hotels held by the Group through Allied Kajima Limited, the Century Hong Kong Hotel enjoyed good results for the year, with increases in both occupancy and room rates, due to the recovery of the hotel industry in Hong Kong. However, the performance of the Westin Philippine Plaza Hotel was affected by the devaluation of the Philippine Peso as well as the local economy.

Details of all major properties are contained in the schedule headed "Particulars of Major Properties".

Financial Services

The Group's listed associate, Sun Hung Kai & Co. Limited ("Sun Hung Kai"), reported a 46.6% decrease in profit to HK\$116.2 million for the year, largely due to a one-off provision for unrealised losses concerning the disposal of a block of shares of Tian An China Investments Company Limited ("Tian An"). Its stockbroking business experienced a strong year with solid growth in turnover, broking commissions and profit contribution. In addition to the existing Mongkok branch, the Tsuen Wan and North Point branches were opened during the year and another branch in Kwun Tong was recently opened. Following the introduction of the AMS/3 online trading platform of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), a straight-through internet-based order processing service was launched at the end of 2000. Other operating divisions have performed to expectation and, in particular, the term lending business continued to grow significantly as compared with the previous year and produced a significant contribution to profit, while securities financing continued to constitute an important part of Sun Hung Kai's business portfolio.

An ordinary resolution to consider the grant to the Company a mandate to acquire additional Sun Hung Kai shares not exceeding 5% of the latter's share capital was approved by shareholders of Allied Group in its extraordinary general meeting. Details of the required mandate were contained in the shareholders' circular of the Company dated 24th October, 2000.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest and top suppliers contributed 96.7% and 64.9% respectively of the total purchases in the year under review. The aggregate sales attributable to the Group's five largest and top customers accounted for 59.9% and 30.2% respectively of the total turnover. Included in the five largest suppliers and customers are wholly-owned subsidiaries of Sun Hung Kai and Tian An. Other than this, no Directors, their associates, or shareholders of the Company who to the knowledge of the Directors own more than 5% of the Company's share capital, have an interest in any of the five largest suppliers or customers.

EMPLOYEES

The total number of staff of the Group at 31st December, 2000 was 922 (1999: 786). Total staff costs, including Director's emoluments, amounted to HK\$45.0 million (1999: HK\$41.5 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to an employee provident fund, medical subsidies and a discretionary bonus scheme.

BUSINESS OUTLOOK

For the first time since the beginning of the Asian financial turmoil in 1997, Hong Kong banks were able to lower the interest rates successively in the past few months. This has been made possible by similar decreases in rates in the United States due to a declining economy in that country. This much-needed stimulation, as well as the more flexible housing policies of the Government, should help to stabilise the local property market. On the other hand, the U. S. economy, which has been the main driving force for global economic growth, is a cause for concern in 2001 and will inevitably affect other economies. We are hopeful that any slowdown in economic growth in Hong Kong will be compensated by the positive effects of the PRC's forthcoming entry into the World Trade Organisation and its projected average annual economic growth rate of 7% over the next five years under the Tenth Five-Year Plan. We consider that 2001 is a challenging year. However, the Board remains cautiously optimistic on the long term future prospects of the Hong Kong property market and has confidence that having made the appropriate provisions, the Group is well placed to continue its development.

**Patrick S. W. Lee***Chief Executive*

Hong Kong, 11th April, 2001