Introduction

The Company is primarily an investment holding company, with a stated strategy of focusing its management and financial resources on its core businesses of property investment and development and financial services. The Company's interests in property investment and development in Hong Kong are mainly held through its present 63.32% holding in Allied Properties and in respect of property investment and development in the People's Republic of China ("PRC"), through the 43.27% holding in Tian An China Investments Company Limited ("Tian An") held by Sun Hung Kai & Co. Limited ("Sun Hung Kai"). The Company's financial services business is mainly conducted through its 50.91% holding in United Asia Finance Limited ("UAF") as well as Allied Properties' current 49.81% holding in Sun Hung Kai.

Financial Review

For the year ended 31st December, 2000, the turnover of the Group was HK$1,267.5 million, an increase of approximately 25.6% over the 1999 turnover of HK$1,008.9 million. The profit attributable to shareholders, however, was adversely affected due to deficit and provisions for impairment losses primarily relating to Hong Kong properties held by Allied Properties amounting to HK$560.5 million at the Group level. As a consequence, there was a loss attributable to shareholders of HK$119.2 million for the year, compared to a profit of HK$237.1 million for the previous year.

Despite the loss, the Group's shareholders' funds increased by 7.6% to HK$4,312.7 million (1999: HK$4,008.5 million), primarily due to cash received of HK$390.4 million on conversion of warrants into ordinary shares of the Company.

Segmental Information

Detailed segmental information in respect of the Group's turnover and contribution to (loss) profit from operations is shown in Note 3 to the financial statements.

Financial Resources, Liquidity and Capital Structure

The Group's capital expenditure and investments for the year were primarily funded from capital injection by means of conversion of warrants by warrantholders, net cash inflow from operating activities and loans and advances from banks.

At 31st December, 2000, the net assets of the Group amounted to HK$4,312.7 million, representing an increase of HK$304.1 million from that of 1999. The Group's short-term bank deposits, bank balances and cash also increased from HK$232.9 million in 1999 to HK$283.4 million in 2000. The Group's bank loans, overdrafts and other borrowings increased to HK$2,364.7 million (1999: HK$2,208.2 million) of which the portion due on demand or within one year increased to HK$1,456.8 million (1999: HK$1,370.9 million), and the remaining long term portion increased to HK$907.9 million (1999: HK$837.3 million). The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 1.75 times, which improved from the 1.22 times applicable in the previous year. The Group's gearing ratio (net bank and other borrowings/net assets) was maintained at 48.3 % (1999: 49.3%).

Risk of Foreign Exchange Fluctuation

Other than the Group's finance business (the foreign exchange risk for which will be referred to later), the Group's other borrowings and operating activities are primarily denominated in Hong Kong dollars. Accordingly, the Group has no other 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 PRC at a settlement amount of HK$81.0 million.

Acquisition of an Associate

During the year, the Group acquired an associate, which is engaged in the money-lending business, at a consideration of HK$65.0 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$3,542.8 million (1999: HK$3,908.2 million), securities in respect of a listed associate with an aggregate carrying value of HK$1,889.4 million (1999: HK$1,699.5 million), loans and advances to consumer finance customers and bank balance of HK$551.0 million (1999: HK$383.8 million) together with certain securities in respect of a listed subsidiary held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK$1,957.7 million (1999: HK$1,957.7 million) were pledged to secure loans and general banking facilities to the extent of HK$2,696.7 million (1999: HK$2,510.4 million) granted to the Group. Facilities amounting to HK$2,310.7 million (1999: HK$2,141.4 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

Financial Services

UAF, consumer finance arm of the Group, continued its strong growth with increases in its loan portfolio and profit contribution. During the year, four new branches were opened in Sai Ying Pun, Kwun Tong, Cheung Sha Wan and North Point, bringing the total number of branches to 26. UAF's total loan portfolio now exceeds HK$2.1 billion. In addition to the branch outlets, UAF launched loan products which could be transacted over digital phones and internet platforms, using the latest computer technology. In June 2000, through a wholly-owned subsidiary, UAF joined with Sun Hung Kai to acquire, in equal shares, the entire beneficial interest in Miliconcept Credit Limited, an established licensed money lender. Accordingly, the company has been rebranded as SHK Finance Limited ("SHK Finance") and at present, it has eleven branch outlets across Hong Kong. The Group has high expectations that SHK Finance will become a major force in the consumer finance market in the years to come.

Operational Review (Cont'd)

Financial Services (Cont'd)

Allied Properties' listed associate, Sun Hung Kai, reported a 46.6% decrease in profit to HK$116.2 million, largely due to a one-off provision for unrealised losses concerning the disposal of a block of Tian An shares. 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 Allied Properties a mandate to acquire additional Sun Hung Kai shares not exceeding 5% of the latter's share capital was approved by shareholders in the extraordinary general meeting of the Company, as convened by a shareholders' circular dated 24th October, 2000.

Properties

Allied Properties reported a loss attributable to its 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 its diversified property portfolio.

On the positive side, the major projects undertaken by Allied Properties are on course. China Online Centre and Century Inn North Point, a commercial/office building and a hotel situated at 333 Lockhart Road in Wanchai and on Java Road respectively and both being Allied Properties group's wholly-owned properties, were completed during the year and are enjoying good occupancy rates. Planning for amalgamation of the site on Java Road adjacent to the hotel is proceeding. 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 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.

Major Suppliers and Customers

The Group's five largest and top suppliers contributed 96.6% and 61.7% respectively of the total purchases in the year under review. The aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the total turnover of 2000. No Directors, former Director, 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

At 31st December, 2000, the total number of staff of the Group was 1,361 (1999: 1,138). Total staff costs, including Director's emoluments, amounted to HK$151.5 million (1999: HK$140.2 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.

Management of Risks in respect of the Group's Money-lending Business

(a) Credit risk management

Credit risk is the risk that a customer of the Group will be unable or unwilling to meet a commitment when it falls due. It arises from any lending activities undertaken. The management implements lending guidelines and credit policies to keep credit exposure in check. Control systems including internal audit functions are in place to check and ensure compliance with such guidelines and policies. The executives review credit exposure reports and bad debts provision policies periodically and adjustments to credit policies and guidelines are made where appropriate.

(b) Foreign exchange risk management

The management adopts a conservative policy to limit its foreign exchange exposure to a certain percentage of its total assets. The Group also assesses the risk of exposure according to the fluctuation in foreign exchange rate of the currency concerned. When circumstances justify, the Group will hedge its exposure as appropriate.

(c) Market risk

Market risk is the risk that interest rates, commodity or equity prices will move in a direction adversely affecting the Group's financial position. The Group will take positions on market risk related financial instruments as circumstances justify. However, the Group adopts a conservative view on exposure to market risk related financial instruments and it monitors its exposure to the market risk on a regular basis.

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. 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, including Hong Kong. We are hopeful that any slowdown in economic growth will be shortlived and should 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 2001 a challenging year. However, with prudent management and a clear strategy, the Board is confident that the Group is well placed to continue its growth in its operating businesses.

Lee Seng Hui

Lee Seng Hui
Chief Executive
11th April, 2001