

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

- 1 Hotel Operations
- 2 Finance
- 3 Employees

1 HOTEL OPERATIONS

1.1 OVERVIEW

Total turnover for the year increased by \$16.9 million to \$281.1 million, an advance of 6%. Since operating expenses have been maintained at the same level as the previous year, this increase in turnover is fully reflected in profit before tax which amounted to \$73.7 million compared to the previous year's \$51.4 million. Net profit attributable to shareholders increased 55% to \$33 million.

Hong Kong Tourism Board (HKTB) statistics show that overall visitor arrivals for the fiscal year increased by 14% to 13.5 million. Mainland China continued to be the major source of tourists with close to 4 million arrivals, representing 30% of total tourist arrivals (a 1% increase from the previous fiscal year).

Taiwan continued to be Hong Kong's second major source of tourists with 2.5 million visitors, representing 18% of the total. Of the total arrivals, tourists from South and Southeast Asia represented 13%, Japan 11%, Europe, Africa and the Middle East 9%, America 9%, Macau & Korea 7%, Australia, New Zealand and the South Pacific 3%.

HKTB statistics for the fiscal year also revealed that a staggering 4.6 million of the total visitor arrivals were "same day travellers". This meant that 34% of all visitors did not patronise any of Hong Kong's hotels.

Two factors had a negative effect on the industry in general. Although the hotel industry's average occupancy rate for the year under review was 82%, which was very close to the previous year's average, the first half of 2001 proved extremely difficult. Firstly, the effect of the slowdown in world economies was seen during the January to June 2001 period, when

the industry only managed an average 79% occupancy rate compared to the same period in the previous year (82%). Secondly, in Mainland China where the economy remained robust, the strong US dollar made tour prices to Thailand and Malaysia comparable with a trip to Hong Kong, and we lost tourist traffic as a result.



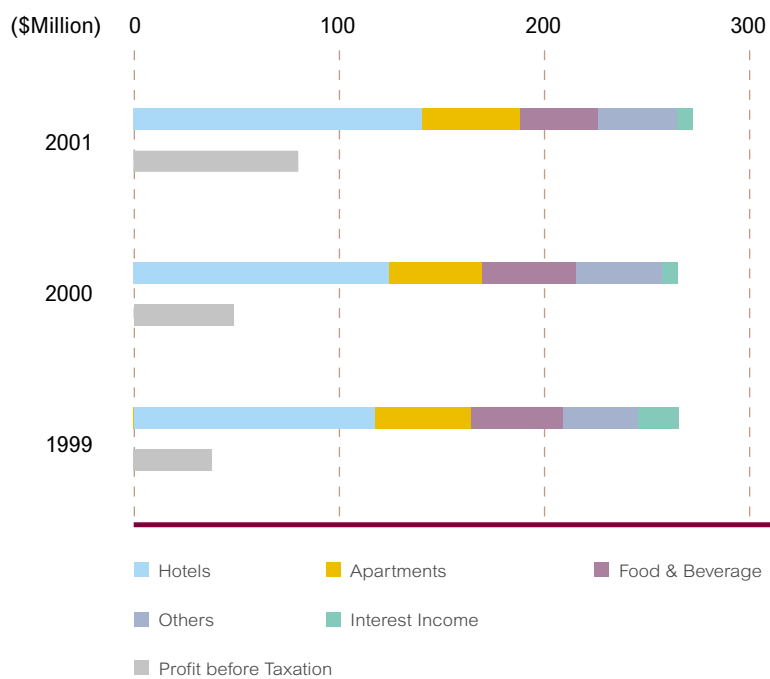
CLUB GRAND

GROUP PERFORMANCE

	2001	2000	Change	
	\$Million	\$Million	\$Million	%
Turnover	281.1	264.2	+16.9	+6
Profit before Taxation	73.7	51.4	+22.3	+43
Net Profit attributable to Shareholders	33.0	21.3	+11.7	+55

TURNOVER AND PROFIT BEFORE TAXATION

FOR THE YEAR ENDED 30 JUNE



1.2 HOTELS

All our hotels continue to exceed the industry average occupancy level of 82%. At the Grand Plaza Hotel where business and frequent travellers represented 38% of the guest mix, the average occupancy rate was 83%. Over 50% of guests chose the Grand Tower Hotel's package deals and occupancy was 84%. The Wesley attracted many guests looking for monthly accommodation (40%), and the average occupancy rate was 88%.

Average room rates improved at the Grand Plaza Hotel (24%), Grand Tower Hotel (21%), and The Wesley (24%).

1.3 SERVICED APARTMENTS

At Grand Plaza Apartments average room rates improved by 13%, and the average occupancy rate was 92%.

The Bay Bridge in Yau Kom Tau, Tsuen Wan, with its 438 rooms provides budget accommodation for young executives and families. This property is managed on behalf of Hang Lung Development Co., Ltd. During the year under review, average room rates fell by 2%, and the average occupancy rate was 85%.

1.4 FOOD AND BEVERAGE

Our food and beverage business depends heavily on local Hong Kong customers, and as in previous years, locals continued to exhibit restraint in their spending habits. Consequently, this area of our business has shown little improvement in the past year. However, we have been controlling our costs in recent years through rationalisation of manpower and centralisation of work functions. These measures have been implemented in all departments with good results.

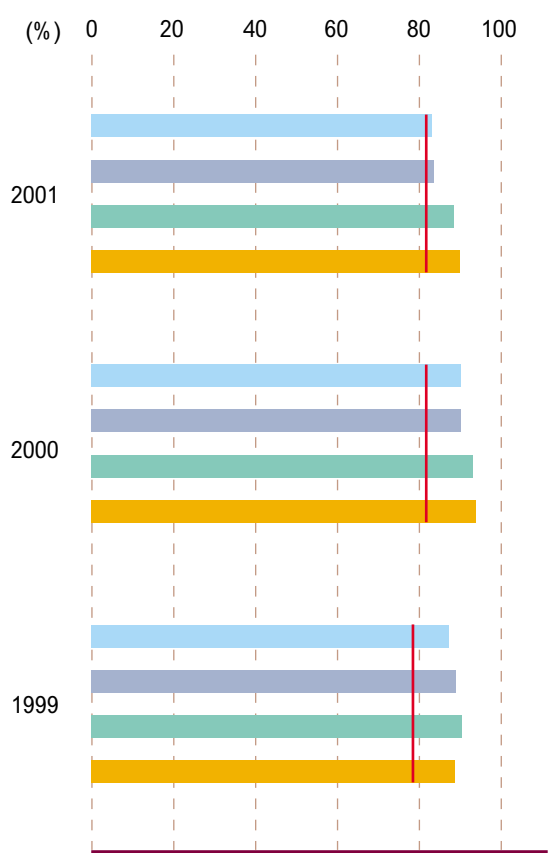
The total revenue from our food and beverage outlets for the year under review was \$37.1 million, a decrease of 15% on the previous year's figure.

FOOD AND BEVERAGE

	Turnover		Change	
	2001	2000		
	\$Million	\$Million	\$Million	%
Food and Beverage (coffee shops and lounges)	37.1	43.5	-6.4	-15

AVERAGE OCCUPANCY RATES

FOR THE YEAR ENDED 30 JUNE



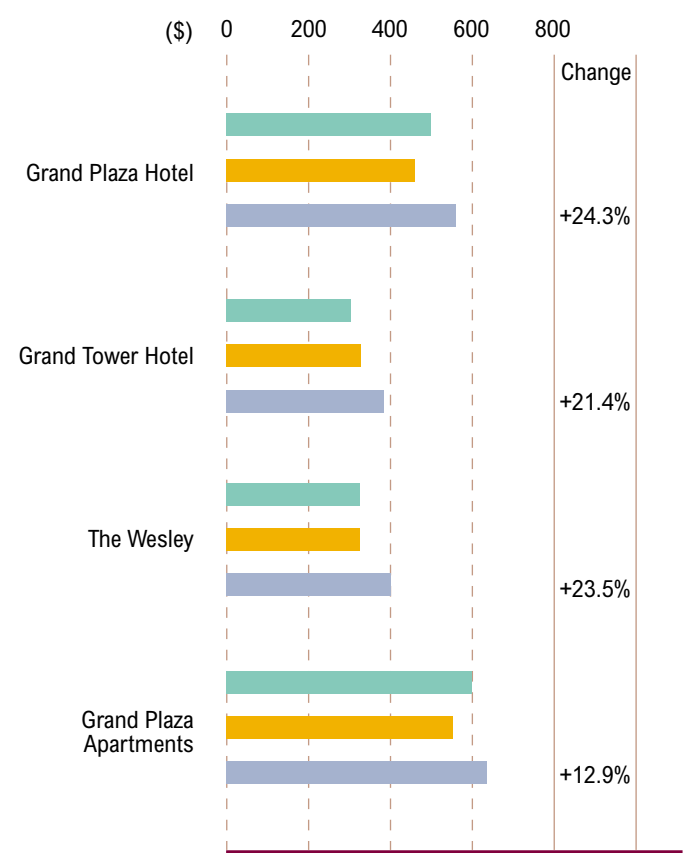
■ Grand Plaza Hotel ■ Grand Tower Hotel
■ The Wesley ■ Grand Plaza Apartments

— Industry Average*

* Compiled from monthly Hotel Room Occupancy Reports released by the Hong Kong Tourism Board, Research Publication.

AVERAGE ROOM RATES

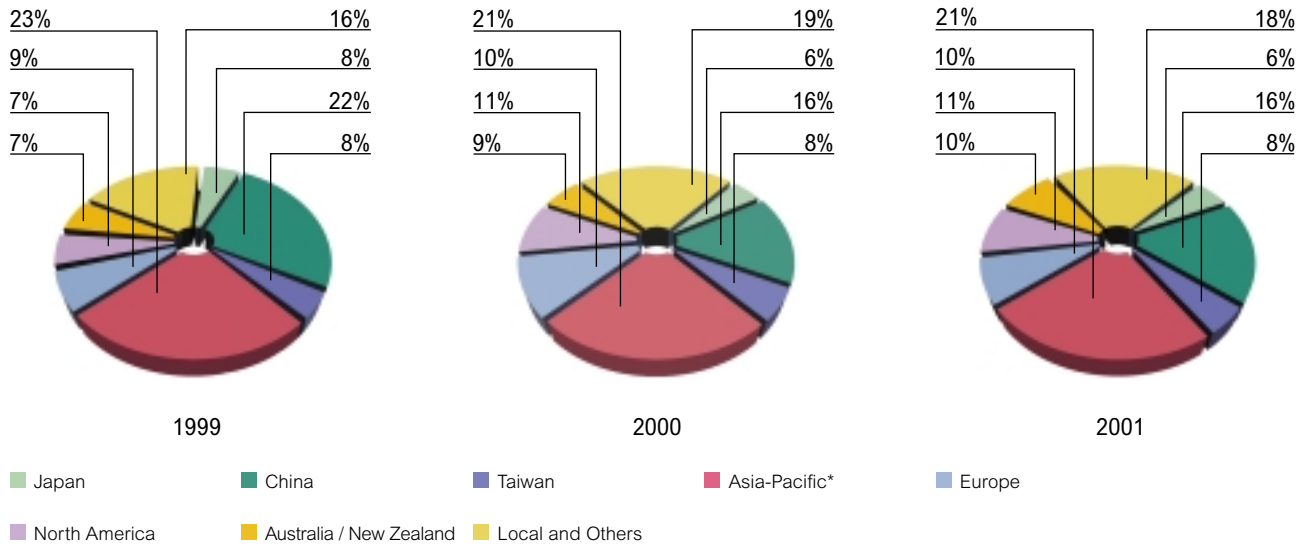
FOR THE YEAR ENDED 30 JUNE



■ 1999 ■ 2000 ■ 2001

THE GROUP'S GUESTS BY COUNTRY OF ORIGIN

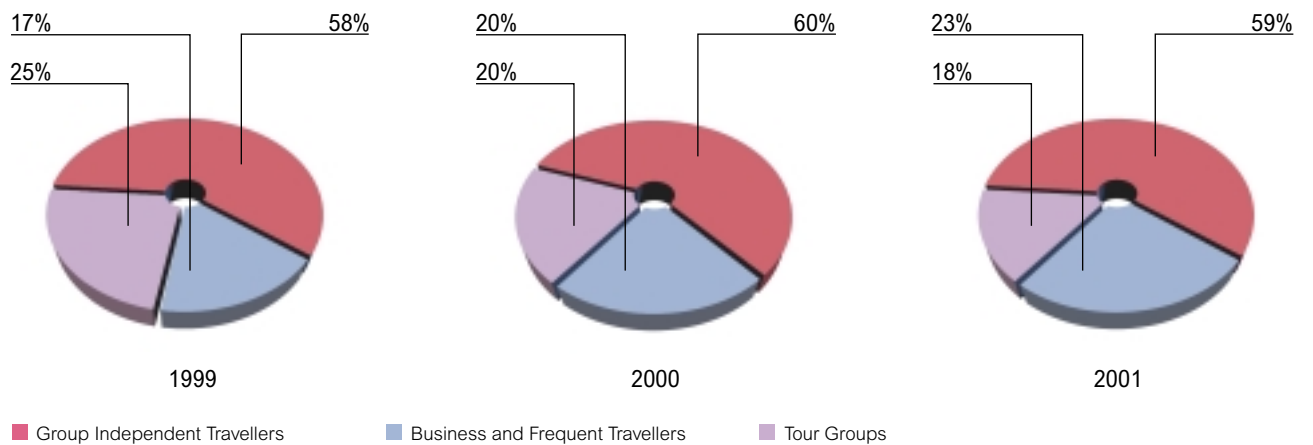
FOR THE YEAR ENDED 30 JUNE



* Excluding Japan, China and Taiwan

THE GROUP'S GUESTS BY TYPE

FOR THE YEAR ENDED 30 JUNE





GRAND HOTEL
大華酒店

大華酒店
大華酒店
大華酒店





*The most noble life is one in service of others.
It venerates the object of patronage
and glorifies the servant.*

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

2 FINANCE

2.1 CAPITAL STRUCTURE

The Group's net assets were financed by internal resources through share capital and revenue reserves. Total equity attributable to shareholders was \$1,662.6 million as of 30 June 2001, representing an increase of 1% over last year.

2.2 FINANCE AND TREASURY OPERATIONS

The Group maintained its long-standing policy of conservative and prudent financial and treasury management. The Group enjoyed a healthy financial position with no debt and its net cash balance as at 30 June 2001 amounted to \$116.3 million. Surplus funds were placed in Hong Kong dollar time deposits with reputable banks.

10-YEAR FINANCIAL SUMMARY

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Change of 2001 over 2000
	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	%
Turnover #	328.8	353.2	361.7	422.2	485.4	521.0	399.7	276.9	264.2	281.1	+6
Profit from											
Operations	105.5	115.7	137.4	163.5	233.9	255.1	123.6	39.4	51.0	73.8	+45
Net Profit											
attributable											
to Shareholders	105.8	103.2	127.7	152.9	212.2	229.2	119.2	39.8	21.3	33.0	+55
Dividends	109.1	109.1	109.1	122.7	139.7	149.9	78.4	25.9	14.3	21.8	+52
Special Cash Bonus	409.0	—	—	—	—	—	381.7	—	—	—	—
Profit Margin	32%	33%	38%	39%	48%	49%	31%	14%	19%	26%	+7
Assets											
Fixed Assets (after											
depreciation)	1,794.9	1,760.6	1,733.9	1,713.4	1,675.8	1,655.7	1,629.1	1,610.6	1,596.7	1,593.2	—
Cash and											
Deposits with Banks	258.8	147.9	201.2	291.8	408.1	543.2	500.0	131.7	161.5	118.8	-26
Other Assets	26.1	29.6	36.4	37.4	49.1	40.2	27.6	23.3	25.4	22.4	-12
	2,079.8	1,938.1	1,971.5	2,042.6	2,133.0	2,239.1	2,156.7	1,765.6	1,783.6	1,734.4	-3
Liabilities											
Bank Loans and											
Overdrafts	150.6	1.1	—	0.9	1.9	1.9	1.0	0.9	2.8	2.5	-11
Proposed Final											
Dividend	68.2	68.2	68.2	78.4	92.0	98.8	27.3	14.3	7.5	11.6	+55
Special Cash											
Bonus	—	—	—	—	—	—	381.7	—	—	—	—
Other Liabilities	84.3	98.0	113.9	143.7	147.0	167.0	116.2	106.0	121.9	57.7	-53
	303.1	167.3	182.1	223.0	240.9	267.7	526.2	121.2	132.2	71.8	-46
Net Assets	1,776.7	1,770.8	1,789.4	1,819.6	1,892.1	1,971.4	1,630.5	1,644.4	1,651.4	1,662.6	+1

10-YEAR FINANCIAL SUMMARY (continued)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Change of 2001 over 2000
	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	\$Million	%
<i>Financed by:</i>											
Share Capital	68.2	68.2	68.2	68.2	68.2	68.2	68.2	68.2	68.2	68.2	—
Share Premium and Capital Reserves	955.7	955.7	955.7	955.7	955.7	955.7	955.7	955.7	955.7	955.7	—
Revenue Reserves	752.8	746.9	765.5	795.7	868.2	947.5	606.6	620.5	627.5	638.7	+2
Shareholders' Funds	1,776.7	1,770.8	1,789.4	1,819.6	1,892.1	1,971.4	1,630.5	1,644.4	1,651.4	1,662.6	+1
	¢	¢	¢	¢	¢	¢	¢	¢	¢	¢	
Earnings per Share											
'A' share	16.09	15.14	18.74	22.43	31.13	33.63	17.49	5.84	3.12	4.84	+55
'B' share	1.61	1.51	1.87	2.24	3.11	3.36	1.75	0.58	0.31	0.48	+55
Dividends per Share											
'A' share	16.00	16.00	16.00	18.00	20.50	22.00	11.50	3.80	2.10	3.20	+52
'B' share	1.60	1.60	1.60	1.80	2.05	2.20	1.15	0.38	0.21	0.32	+52
Special Cash Bonus per Share											
'A' share	60.00	—	—	—	—	—	56.00	—	—	—	—
'B' share	6.00	—	—	—	—	—	5.60	—	—	—	—
Pay-out Ratio	99%*	106%	85%	80%	66%	65%	66%*	65%	67%	66%	-1

Turnover includes interest income from the year ended 30 June 1998 onwards

* Before special cash bonus

3 EMPLOYEES

To comply with the Mandatory Provident Fund Schemes Ordinance, our MPF Scheme came into operation from 1 December 2000, and our existing ORSO Scheme was granted MPF-exempt status. Staff members were given a one-off opportunity to select their preferred scheme. To assist employees in making an informed decision, nineteen MPF communications seminars were conducted. Communication kits and videotapes about the MPF-exempt ORSO Scheme and new MPF Scheme were prepared to ensure full understanding of the different benefits provided.

Employers of casual employees in certain industries, including catering, are required to arrange for these employees to participate in an MPF Scheme regardless of the duration of their employment. The regular catering employees in the Group are offered the choice of joining either the Group's ORSO Scheme or a master trust MPF Scheme. The calculation of contributions and vesting arrangement of the latter are identical to those of the Group's MPF Scheme.

A separate industry scheme has been set up for the casual employees. The scale of contributions made for the daily-paid casual employees is between \$7.50 to \$30 per day by both the employer and employee. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme.

The process of improving guest relations through better staff training and special interest workshops is ongoing. During the year under review, training staff designed and organised a series of seminars that provided common guidelines and goals for serving our

guests. These included Courtesy Workshops in Putonghua and English, Supervisory Training, and Telephone Courtesy & Manner training. Staff were invited to attend talks in Food Hygiene, Fire Fighting & Prevention, and Occupational Health & Safety. Special training was also provided in Hotel Security. All training workshops are part of the Company's overall programme to improve individual staff performance by implementing a very demanding, but standardised, code of procedures and behaviour.

In the interest of generating excellent relations between management and staff, it has long been company policy to officially recognise outstanding performance by our personnel. This was achieved through awards for Employee of the Month, Employee of the Year, and Supervisor of the Year, as well as Long Service Awards. To foster closer understanding between management and staff, the Company also organised special celebrations including the Staff Birthday Party, Staff Christmas Party, and a barbecue outing.

As in previous years, our staff chose to support the community through blood donations. They also hosted another Hotel Familiarisation Visit for Travel and Tourism Students organised by The Travel and Tourist Education Programme (HK) Ltd.

During the year under review, Group employees numbered 827.