REVIEW OF OPERATIONS

TREASURY, FUND AND INVESTMENT MANAGEMENT

During the period under review, the Treasury, Fund and Investment Management segment generated a profit before interest, taxation and minority interests of about HK$484 million, representing an increase of approximately 206% over the corresponding period last year. The Company continued to operate as an investment holding company and to seek opportunities to reinvest the cash proceeds arising from the disposal of Dao Heng Bank Group into assets that are consistent with the Company's objective of generating superior returns. However, we believe that, with the tragic events in America and the challenging economic conditions for the entire global community, there is still downward pressure on asset prices. We had therefore adopted a conservative cash management process so as to conserve funds until appropriate investment opportunities arise.

FIRST CAPITAL CORPORATION LTD ("FCC") – 54.69% OWNED BY THE GROUP

For the six months ended 31 December 2001, the FCC Group recorded an after tax loss of S$183.3 million against an after tax profit of S$29.3 million in the previous corresponding period. This loss is mainly attributable to:–

- Realised losses and provisions for foreseeable losses aggregating S$110 million on its Singapore residential development projects;

- A realised loss of S$22 million on the sale of A-Z Building;

- Unrealised mark-to-market losses on the FCC Group's financial assets (such as equities, bonds, and derivatives) of S$57 million due to fair value accounting under SAS 33 as the market prices of many of the FCC Group's financial assets as at 31 December 2001 were below the benchmark market prices as at 1 July 2001.

The FCC Group's associates in London and China contributed positively to the FCC Group and a profit before tax of S$31.7 million was derived from associated companies.

The FCC Group continued to focus on its core competency in property development and property investment. Progress has been made in the divestment of non-core property assets with the sales of A-Z Building and its remaining 5 office units in Parkway Parade in July 2001 and January 2002 respectively. First Capital Fund Management Pte Ltd, FCC's wholly-owned subsidiary, had ceased its fund management and advisory services on 31 December 2001 and the FCC Group has been actively selling down its investment in trading securities.

REVIEW OF OPERATIONS (CONT'D)

FIRST CAPITAL CORPORATION LTD ("FCC") – 54.69% OWNED BY THE GROUP (CONT'D)

The FCC Group currently has four launched developments on the market: Aquarius By The Park, Sanctuary Green, The Gardens at Bishan and The Ladyhill (in which the FCC Group has 40% interest). Temporary Occupation Permit for Phase 2 of Aquarius By The Park was obtained during the financial period. As at 7 March 2002, the FCC Group has achieved sales of 99% in Aquarius By The Park, 43% in Sanctuary Green and 56% in The Gardens at Bishan.

imGO LIMITED ("imGO") – 17.61% OWNED BY THE GROUP AND 6.64% BY FCC

imGO continued to develop and prudently expanded its investment portfolio in the wireless communication sector during the period under review. Maximizing an economic climate that offers favourable pricing, imGO has applied its investment strategies to companies that are both innovative and market leaders in system design and technology research and development for specific target markets.

In November 2001, imGO had exercised its option ("Put Option") to require the Company to purchase all of imGO's interests in the shares in the property owning companies at an aggregate consideration of about HK$606.7 million. The properties subject to this Put Option are located at The Center, Wu Chung House and Overseas Trust Bank Building in Hong Kong.

GUOCO PROPERTIES LIMITED ("GPL") – 55% OWNED BY THE GROUP AND 45% BY FCC

GPL has a 75% interest in Corporate Square, a 17-storey office development in Beijing. Approximately 53% of the office space in Corporate Square were sold and about 40% of the office areas had been leased out. Management of GPL continues to actively market the remaining office space for sale at prevailing market prices.

GPL has recently embarked on a new high-end residential development in Shanghai. The site is situated on prime land within the most upmarket shopping belt in Shanghai's Luwan District. GPL has a 98% interest in the development.

REVIEW OF OPERATIONS (CONT'D)

HONG LEONG CREDIT BERHAD ("HLC") – 23.34% OWNED BY THE GROUP

The HLC Group achieved a profit before taxation of RM377.4 million for the six months ended 31 December 2001, an increase of RM73.2 million or 24% over the previous corresponding period which recorded RM304.2 million. Moving forward, with the recovering economy, the HLC Group is expected to perform satisfactorily for the year ending 30 June 2002.

For the period under review, the banking and finance division, Hong Leong Bank Group ("HLBG"), reported an increase in pre-tax profits from RM313.2 million to RM378.2 million. The higher profit for HLBG is mainly attributable to higher Islamic Banking income and non-interest income earned during the period.

Insurance division reported an increase of RM26.1 million from a pre-tax profit of RM15.3 million for the previous corresponding period to RM41.4 million for the period under review. This was mainly due to the write back of the provision for diminution in value of investments. The insurance division recorded RM345.4 million (2000: RM366.0 million) and RM273.7 million (2000: RM289.1 million) in combined gross premium and combined net premium respectively for the six months period ended 31 December 2001.

The stockbroking division incurred a pre-tax loss of RM3.1 million for the six months period ended 31 December 2001 as compared to a pre-tax loss of RM10.1 million in the previous corresponding period. The reduced loss is substantially due to lower operating costs and improved Kuala Lumpur Stock Exchange trading volume of 7.5% as compared to previous corresponding period.

The property division incurred a pre-tax loss of RM3.8 million for the six months period ended 31 December 2001, compared to a profit of RM7.8 million achieved in the previous corresponding period. Its performance continued to be affected by the soft property market which resulted in a slowdown of sales launches and construction activities.

OTHER FINANCIAL SERVICES

Wealth Management

A wealth management initiative is being undertaken with the joint resources of the financial services subsidiaries of the Group. This new initiative will incorporate e-finance advisory capabilities for multi-products in order to provide integrated and customer centric wealth management services and protection. In particular, the CRM and peripheral statistical and behavioural modules will help to segment our product offerings. These financial services subsidiaries together with Friends Ivory & Sime Asia Limited are actively expanding their product horizons to cater for the individual customer's needs.

REVIEW OF OPERATIONS (CONT'D)

OTHER FINANCIAL SERVICES (CONT'D)

Dao Heng Securities Limited ("DHS")

The adverse market conditions affecting turnover and investment sentiment have resulted in reduced profitability of DHS's operations. In order to maintain its competitive advantage, DHS continued to put effort into technology development and implementation to enhance customer services via a wide range of trading channels. In July 2001, DHS launched pioneering wireless PDA stock trading services and it will also provide automated securities trading function through any telephone system in early 2002.

DHS corporate finance has during the period further secured its position as a provider of financial advisory services to medium size public companies as well as an active sponsor for local and PRC-related medium size companies for IPOs on the main board and GEM of The Stock Exchange of Hong Kong Limited.

Dao Heng Insurance Co., Limited ("DHI")

The Hong Kong non-life insurance market was operating in a very competitive environment during the period under review. To mitigate the impact of the contraction of the local consumer market and of reinsurance capacity on an international basis, DHI continued to focus on the implementation of its business plans and launched a series of marketing campaigns for up-selling and cross-selling insurance products to its existing Direct Club customers. DHI was able to achieve its business target both in terms of premium income and underwriting profit for the period under review.

In the meantime, DHI successfully formed affinity partnership to distribute personal insurance products with a view to enlarging its customer base and achieving its corporate objective of becoming the leading personal line insurer in the market.

The property market in Hong Kong showed little sign of improvement during the six months ended 31 December 2001 and is expected to remain sluggish in the near future. However, under a continuous effort of DHI to develop other products and new sources of business, the growing income therefrom will counterweight the reduction in contribution from mortgage fire insurance business.

Dao Heng Fund Management Limited ("DHFM")

During the period under review, DHFM had successfully captured market needs with the launch of a guaranteed fund which was well received by investors. The increase of preliminary charges from guaranteed fund sales contributed significantly to the positive results of DHFM for the period.

REVIEW OF OPERATIONS (CONT'D)

OTHER FINANCIAL SERVICES (CONT'D)

Dao Heng Fund Management Limited ("DHFM") (Cont'd)

The Mandatory Provident Fund Scheme client serving team continued to provide quality services both on the employer and employee levels, as client retention is of most important for the long term growth of the business. All service standards committed by the serving team have been achieved. DHFM plans to expand the portfolio size by offering incentive to Dao Heng Bank Group and other channels for business referral, and looking at opportunity of acquiring portfolios from other smaller service provider.

During the period under review, DHFM had successfully expanded the distribution network of unit trust products by partnering with various banks and independent financial advisers. New sale channels are being established to enhance our product penetration. Going forward, DHFM will focus on sourcing more financial products including DHFM's own products as well as distributing a much wider range of third party funds including guaranteed funds and hedged funds.

FINANCIAL COMMENTARY

TURNOVER

Continuing operations

Overall turnover of continuing operations increased by HK$314 million or 39% mainly due to increase in turnover of treasury, fund and investment management and property development segments by HK$291 million and HK$31 million respectively.

Discontinued operations

Turnover under discontinued operations represented the turnover for banking and financing generated from Dao Heng Bank Group Limited which was disposed in June 2001.

BORROWINGS

As at 31 December 2001, the Group maintained total borrowings of approximately HK$6.6 billion, of which approximately 49% comprises unsecured borrowings.

FINANCIAL COMMENTARY (CONT'D)

BORROWINGS (CONT'D)

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

	Bank loans HK$'000	Other borrowings HK$'000	Total HK$'000
On demand or within 1 year	2,457,343	209,505	2,666,848
After 1 year but within 2 years	1,128,360	440,920	1,569,280
After 2 years but within 5 years	1,820,081	495,425	2,315,506
	2,948,441	936,345	3,884,786
	5,405,784	1,145,850	6,551,634

The loans are secured by the following:

- legal mortgages on investment properties with a book value of HK$685 million;
- legal mortgages on development properties with a book value of HK$4,295 million; and
- certain equity investments with total carrying value of HK$971 million.

As at 31 December 2001, the Group has net cash balance of HK$7,143 million.

CONTINGENT LIABILITIES

As at 31 December 2001, there were contingent liabilities in respect of guarantees given to bankers by the Group to secure banking facilities to the extent of HK$309 million (30 June 2001: HK$320 million) granted to certain investee companies of the Group.

As at 31 December 2001, there were contingent liabilities in respect of guarantees given to bankers by the Company to secure banking facilities to the extent of HK$165 million (30 June 2001: HK$2,973 million) granted to group companies.

FINANCIAL COMMENTARY (CONT'D)

CAPITAL COMMITMENTS

As at 31 December 2001, the Group had outstanding capital commitments as follows:

	HK$'000
Authorised and contracted for	16,211

CAPITAL AND FINANCE

The Group's consolidated shareholders' funds as at 31 December 2001, after reflecting the current period retained profits and adjusting for the major items set out below amounted to HK$27,128 million.

The major adjustments are as follows:

– realisation of reserves of HK$4,960 million upon the share repurchase by the Company; and
– cancellation of share capital of HK$417 million upon the share repurchase by the Company.

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 430 employees as at 31 December 2001. The Group continued to follow a measured approach to achieve an optimal and efficient 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. Share options may also be granted in accordance with the approved share option scheme adopted by the Company to eligible employees to reward their contribution and foster loyalty towards the Group.

OUTLOOK

Characterised by global economy downturn and poor consumer sentiment, the period under review was affected by volatility heightened by the tragic events in America. We believe that the uncertainty which clouded the world markets will eventually lift and the global economy is expected to see recovery in the second half of the year. With strict adherence to the conservative cash management process during the period, preservation of funds was achieved to position the Group to invest in appropriate investment opportunities. The Group will strive to achieve superior long-term sustainable shareholders return by investing globally in businesses and industries where our capital, management expertise and competencies can add value.