OPERATING REVIEW

Property investment in Hong Kong and China

Most of the leases in the Group's flagship property, Dah Sing Financial Centre, in Wanchai, Hong Kong were renewed in 2000 for periods on average of three years. As a result this building has achieved an average occupancy rate of over 94% throughout the year.

The warehouse in the Jiuting Industrial district, Shanghai has a gross floor area of 17,474 sq.m.

The group expanded its China property investments by acquiring an existing warehouse in the Jiuting industrial district in Shanghai in 2000. The warehouse has a gross floor area of 17,474 square metres and is leased to a multi-national logistics company. The Group is assessing the potential of developing the adjacent site. Results of feasibility studies and market surveys are currently being evaluated.

Property development in Hong Kong and China

Causeway Bay, HK

Previously a hotel development was planned for this 438 square metres site but the weak demand outlook makes this scheme unviable. Accordingly the Group has reviewed alternatives and presently believes an office development is the best use and to a lesser extent residential accommodation.

Sheung Shui, HK

The Group has a 55% interest in this project. The site area is 9,024 square metres and it is intended to build three blocks with a total residential floor area of 45,120 square metres. Construction will commence immediately as soon as agreement on land premium has been reached with the Government.

Guangzhou, PRC

The development of Westmin Plaza is progressing on schedule. There are three phases, of which Phase I comprising three blocks totaling about 40,000 square metres of residential apartments and commercial areas will be completed in the third quarter of 2002. Pre-sales of Phase I commenced in August 2001 and to-date over 85% residential units have been contracted. Profit on sales of Phase I will be booked in 2002.

Chengdu, PRC

The development of the New Century Plaza commercial/office building is expected to be completed in the first quarter of 2003. This project comprises an office tower of 29 storeys situated above 6-level podium intended for retail use. Superstructure works are completed and building services and internal finishing works are in progress. The group owns a 50% interest in this property.

Property investment in Australasia

In line with the previously announced strategies, five non-core properties in Australia and nine non-core properties in New Zealand were sold for a total consideration of HK$632 million (NZD195 million). Sales proceeds were applied to debt reduction. While the Australian portfolio's market value increased marginally over 2001, the New Zealand portfolio has suffered through a revaluation writedown of HK$200 million (NZD61.7 million) or 13% from book values at the beginning of 2001.

The completion of the refurbishment of 345 George Street Sydney has, together with the renewal of key leases in the building, contributed to a net revaluation gain of HK$30 million (AUD7.5 million) excluding refurbishment costs.

Property development in Australasia

In Auckland, New Zealand, the traditional Central Business District has expanded in recent years to include the Viaduct Harbour area. At the centre of the Viaduct Harbour area is Maritime Square where during 2001, Trans Tasman Properties Limited ("TTP") completed at a profit, the construction and sale of a six-storey office building. At the western end of the Viaduct Harbour area, TTP is conducting feasibility studies for the progressive re-development of a site which could produce a gross floor area of up to 75,000 square metres if fully developed as a multi-use office park scheme. Consultation and negotiations with the Auckland City Council and potential tenants are being advanced.

Prime office property at 601 Bourke Street, Melbourne

During 2001, Australian Growth Properties Limited ("AGP") acquired an existing prime property located at 601 Bourke Street, Melbourne. An extensive refurbishment programme office was completed in February 2002 and leasing of the 8,155 square metres building has commenced.

E-businesses

In New Zealand, the Professional Service Brokers Limited ("PSB") Group, operating through a wholly owned subsidiary GSB Supplycorp Ltd ("GSB"), is the recognized market leader in acting as the procurement service provider for over 400 New Zealand government departments and state owned enterprises. For the past 10 years, GSB has offered these services through non-electronic means. Starting 2001 these services were also provided via the internet.

Concurrently, the PSB Group is integrating its marketplace businesses with its consulting and technology service activities under a single "PSB Group" brand name. It is now launching the PSB Group branded services in New Zealand targeting both public and private sector customers. Four divisions of the PSB Group are promoting the PSB concept by marketing differentiated services as follows:

— GSB Supplycorp — offering a full suite of e-service initiatives based on CommerceOne technologies to the New Zealand public sector.

— Conexa — a private sector version of GSB Supplycorp e-Services working in conjunction with PSB Consulting.

— PSB Consulting — offering a full service Strategic Procurement and Sourcing Consultancy incorporating the use of an independent consultancy network.

— Supplynet — a licensee of CommerceOne technology and the Asia/Pacific region leader in implementing e-market place solutions.

In Hong Kong, e-commerce Logistics Limited ("ECL") proved its growing reputation by being rated by IDC, the global research consultancy, #1 overall in the provision of e-logistic services in the Greater China region. ECL's major customers include multi-national corporations Samsung Electronics (in Hong Kong) and UPS Logistics (in Taiwan) and from March 2002, Midway Enterprises, one of the leading vertically integrated distributors and marketers of branded consumer products, especially children merchandise, in China nationwide (up to six locations in China).

Garment business

The Group's garment business was adversely affected by the slowdown in the U.S. economy last year. Unimilo, the garment manufacturing subsidiary is initiating a more aggressive marketing and cost control programme to raise profitability.

FINANCIAL REVIEW

The Group had HK$1,395 million cash and unutilized facilities of HK$1,205 million at the end of 2001 to meet its commitments and provide for working capital. The slight decrease of the current ratio from 1.39 at 31st December, 2000 to 1.30 at 31st December, 2001 was mainly due to the reclassification of loans under non-current liabilities to current liabilities.

At 31st December, 2001, shareholders' funds of the Group amounted to HK$2,625 million representing a decrease of 13% from the end of the previous financial year. The decrease is mainly attributable to property writedowns in New Zealand and Hong Kong, and deficit arising from exchange translation of the group's interests in New Zealand and Australia.

FINANCIAL REVIEW (Continued)

Banks loans to TTP and AGP are denominated in NZD and AUD respectively. At 31st December, 2001, the TTP Group had drawn down bank loans of HK$1,610 million (NZD497 million) secured mainly by properties valued at HK$3,346 million (NZD1,033 million). In Hong Kong properties valued at HK$2,356 million and fixed deposits of HK$1,039 million were pledged for banking facilities extended to subsidiaries.

As at the balance sheet date, bank loans and other borrowings had the following maturities:

	2001	2000
	HK$ million	*HK$ million*
Within 1 year	1,258	859
More than 1 year, but within 2 years	70	2,271
More than 2 years, but within 5 years	1,496	769
After 5 years	1,006	265
Total	3,830	4,164

Refinancing

The bank loan for financing Dah Sing Financial Centre was re-negotiated for an amount of HK$1,200 million at more favourable terms and repayable over seven years.

In Australia, following the completion of the 363 George Street development in November 2000, AGP successfully negotiated a new three-year HK$796 million (AUD200 million) facility.

In New Zealand, TTP has recently concluded negotiations for a new HK$842 million (NZD260 million) 3.5 years term facility to fund the New Zealand property portfolio.

The renewal of major credit facilities on a medium and long term basis provides the Group with capacity and flexibility to undertake development and investment opportunities consistent with its strategy to remain a long-term investor in property.

Treasury policies

The Group adheres to prudent treasury policies. The ratio of non-current liabilities to shareholders' fund plus minority interests was 0.67 at 31st December, 2001 (31st December, 2000: 0.75). The decrease is mainly attributable to reduction of non-current liabilities resulting from the sale of 14 non-core properties in New Zealand and Australia.

The Group's borrowings are principally on a floating rate basis. However, when requested by lenders under banking arrangements or at times when interest rates are volatile, hedging instruments including swaps and forwards are used to manage interest rate exposure.

Capital movements in subsidiaries

The minority shareholders of TTP voted against a proposal in February 2001 to exchange ordinary shares for property bonds. A proposal to exchange convertible notes of TTP for secured property bonds of a longer maturity was accepted. As at 31st December, 2001, the Group held a 54.8% interest in TTP and through TTP, a 50.01% interest in AGP.

AGP continued the on-market share buy-back programme commenced in 2000 and purchased a further 7,801,696 ordinary shares in 2001 at a cost of AUD4.2 million or an average of AUD0.535 per share.

AGP made two bonus issues to the holders of ordinary shares to compensate them for any benefit that would otherwise have accrued to TTP as holder of dividend deferred ordinary shares resulting from the on-market share buy-backs in 2000 and 2001. In November 2001, bonus issue of 19,825,901 shares was made to ordinary shareholders in relation to the 2000 year and a further bonus issue of 3,594,280 shares was made on 15th March, 2002.

Lu Wing Chi
Managing Director
Hong Kong, 4th April, 2002