

BUSINESS REVIEW AND PROSPECTS**Business review**

The operating environment remained challenging for the first half of the year. The global economic slowdown, volatile stock markets and stagnant local property market have affected the local economy. However, in this lacklustre operating environment, the Group has improved its overall performance successfully during the period. With substantial savings in finance costs and less provisions for bad and doubtful debts required for its banking operations, the Group recorded a loss attributable to shareholders of HK\$37.4 million for the period under review, approximately 61 per cent. less than that incurred for the last corresponding period.

Although the local property market was largely stagnant, the Group's investment properties still managed to enjoy a very high level of occupancy throughout the period under review and provided a stable recurrent income base for the Group. "Lippo Plaza", a grade A office and retail complex situated at Huaihai Zhong Road, Shanghai, the People's Republic of China has achieved nearly full occupancy during the period under review and the renewed rental rate is increasing very satisfactorily.

Superstructure works for the mixed residential and retail development situated at Village Road, Happy Valley, Hong Kong known as "Le Village" are nearing completion. The response to the pre-sale of this property, which commenced in June 2001, was very satisfactory as over 60 per cent. of the residential units have now been sold. Virtually all of the remaining residential units at another development known as "Regent on the Hill" located at Hammer Hill Road, Diamond Hill, Kowloon have been sold. The Group has a 50 per cent. interest in each of the above projects.

The HKCB Bank Holding Company Limited ("HKCB Holding"), a listed subsidiary of the Company, and its subsidiaries (together "HKCB Holding Group") achieved a profit attributable to shareholders of HK\$123.2 million for the period under review. The above 2001 interim profit included no significant non-recurring items, whereas the corresponding 2000 figure included total non-recurring gains of approximately HK\$215 million, comprising profit on disposal of its investment in a former associate in the insurance business and the unrealised gain on the listed shares in The Hong Kong Exchanges and Clearing Limited previously held by HKCB Holding Group. Excluding the effects of these non-recurring gains, the 2001 interim profit would have represented an increase of 131.6 per cent. over the same period last year.

BUSINESS REVIEW AND PROSPECTS *(continued)***Business review** *(continued)*

With respect to recent market rumours in relation to possible merger and acquisition activities concerning HKCB Holding, as previously announced by HKCB Holding, HKCB Holding is currently in discussions with CITIC Ka Wah Bank Limited in relation to a possible acquisition opportunity involving certain of the subsidiaries of HKCB Holding. However, no terms of any agreement have been agreed and no legally binding offer in this connection has been received by HKCB Holding or the Company to date. Should any agreement be concluded, the Company shall provide full information to its shareholders and the investing public, so that they are fully informed on the matter. (Please see the Note below.)

Note:

The Directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained herein under this particular point and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in this particular point have been arrived at after due and careful consideration and there are no other facts not contained under this particular point the omission of which would make any of their statements included under this particular point misleading.

Auric Pacific Group Limited, a listed subsidiary of the Company in Singapore, and its subsidiaries (together "Auric Group"), achieved a total turnover of S\$61.2 million, including S\$56.6 million generated from food operations, representing only a slight decrease of 1.4 per cent. over last period amidst an increasingly competitive environment. Interest and dividend income remained as a stable source of income to Auric Group whereas provisions were made against certain of its investments. Auric Group recorded a loss attributable to shareholders of S\$6.4 million.

Turnover of The Hong Kong Building and Loan Agency Limited, a listed subsidiary of the Company, and its subsidiaries (together "HKBLA Group") decreased significantly in the first half of 2001 as compared to that of the last corresponding period due to the disposal of a significant portion of its mortgage loan portfolio in the second half of 2000. The generally weak investment environment as well as the sluggish level of demand for residential loans have contributed to a highly competitive situation in the mortgage loan sector. HKBLA Group achieved an operating profit of HK\$5.2 million before accounting for unrealised holding loss on other investments in securities of HK\$18.6 million and recorded loss attributable to shareholders of HK\$13.3 million when such loss was included.

Prospects

The outlook of the global and local economies are clouded with uncertainty. The impending recession in the US economy, sluggish property market and falling global and local stock markets may have negative impact on the local economy. The uncertainty is further aggravated by the recent tragedy befalling upon Washington DC and New York, U.S.A. The economic and political repercussions of the calamity have yet to be fathomed with any degree of certainty. It is expected that Hong Kong will have to experience a tough and prolonged period of adverse operational environment. In view of such situation, the Group will position its businesses and investments more conservatively. It will also streamline its investments and strengthen its financial resources to meet the challenges and difficulties ahead.