MANAGEMENT DISCUSSION AND ANALYSIS

Although the Hong Kong economy has experienced a slight recovery last year, the growth slowed down significantly in 2001, reflected in falling property and consumer prices. With a global economic downturn, the operating environment of Hong Kong and other Asian countries remained difficult. The Group has been striving for better performance and achieved a profit from operating activities of HK$41.3 million for the six months ended 30th June, 2001, against last period's loss of HK$1.3 million. Net loss attributable to shareholders reduced by 14 per cent. to HK$33.1 million (2000 – HK$38.7 million).

Turnover

Turnover for the period increased by 9.6 per cent. to HK$928 million (2000 – HK$847 million), of which 35 per cent. (2000 – 23 per cent.), 26 per cent. (2000 – 32 per cent.) and 27 per cent. (2000 – 29 per cent.) were generated from treasury investments (comprising securities investments and interest income), food businesses and banking businesses respectively.

Profit from operating activities

Competition among local banks was much intense over the period. Due to the Group's dedicated effort to reduce the level of non-performing loans of the banking operations, which dropped from 9.1 per cent. at last year end to 6.9 per cent. at 30th June, 2001, charge for bad and doubtful debts relating to banking operations declined substantially by 44 per cent. to HK$62.3 million (2000 – HK$111.4 million). However, with poor market sentiment in the stock markets, the Group made total provisions of HK$67.4 million (2000 – net unrealised gain of HK$6.5 million) for its securities investments. As a result, operating profit before finance costs dropped by 13 per cent. to HK$91.7 million (2000 – HK$106 million).

Finance costs

Since the Group had restructured its borrowings in the second half of last year to obtain cheaper financing, finance costs were greatly reduced. Moreover, The Hong Kong Building and Loan Agency Limited ("HKBLA"), a listed subsidiary of the Group, repaid all its bank loan which amounted to HK$750 million as at 30th June, 2000 in the second half of last year by applying the proceeds from the disposal of mortgage loan assets to a banking subsidiary of the Group. HKBLA was then totally debt-free and no finance costs (2000 – HK$36 million) were incurred by it during the period. With the successive interest rate reductions during the first half of the year, total finance costs decreased by 53 per cent. to HK$50.4 million (2000 – HK$107.3 million).

Net asset value

As at 30th June, 2001, total assets of the Group dropped slightly to HK$10 billion from HK$10.2 billion as at 31st December, 2000. Net asset value of the Group was more or less the same as that of last year end and amounted to HK$2.9 billion (31st December, 2000 – HK$3 billion). Net asset value per share stood at HK$6.66 (31st December, 2000 – HK$6.77).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity ratio and total borrowings

As at 30th June, 2001, total cash and bank balances amounted to HK$853 million (31st December, 2000 – HK$1,164 million). Liquidity ratio remained at a very healthy level of 3.15 (31st December, 2000 – 3.09).

Total borrowings of the Group as at 30th June, 2001 reduced by 7 per cent. to HK$1,208 million (31st December, 2000 – HK$1,299 million), comprising secured bank loans of HK$1,064 million (31st December, 2000 – HK$1,157 million) and commercial papers issued of HK$144 million (31st December, 2000 – HK$142 million). The maturity profile of the borrowings spread over a period of seven years with HK$0.3 billion repayable within one year, HK$0.7 billion within two to five years and HK$0.2 billion within six to seven years.

Changes in accounting policies

Following the adoption of the respective new and revised accounting standards issued by the Hong Kong Society of Accountants, certain accounting polices of the Group were changed with details as set out in Note 1 to the interim financial statements. There were no significant impact on the profit and loss account nor the balance sheet of the Group except that impairment losses in respect of goodwill arising on acquisition of subsidiaries and associates previously eliminated against reserves totalling HK$46,233,000 were quantified and recognised retrospectively in periods prior to 1st January, 2001. Prior period adjustments were made accordingly with details as set out in Note 9 to the interim financial statements, which involved restatement of certain reserve accounts and did not affect the shareholders' funds of the Group.

Conclusion

Currently, the Group has a very strong and healthy financial position. It has been seeking various investment opportunities and will continue to take cautious action in making any new investments. At the same time, it will keep improving its operating performance in order to enhance the value of its existing assets.