

CHAIRMAN'S STATEMENT

For the 2001/02 financial year we faced the challenge of generating an acceptable return after our major asset, Dao Heng Bank Group, had been divested at the end of our previous financial year. In the context of this divestiture, associated streamlining initiatives and the slump in global financial markets, I believe the Group has made a considerable achievement in attaining a level of operating profits and earnings per share comparable to the level before the disposal.

The collapse of asset prices globally makes the sale of Dao Heng Bank Group a timely transaction. We realised excellent capital value from an asset we built up over 19 years. Going forward, it is our intention to continue to create shareholders' value by prudently optimising our investment opportunities.

Precisely for this reason, we have not been tempted to rush into new investments, a course of action that has undoubtedly been correct thus far. This is no ordinary economic cycle. Rather, it is a seismic shock whose waves continue to shake the foundations of the global economies. It has been, and continues to be our view that recovery will be slow and selective. While we cannot obviously catch the bottom, we will invest when the right opportunities appear.

FINANCIAL RESULTS

The consolidated profit attributable to shareholders, after taxation and minority interests amounted to HK\$1,581 million. Basic earnings per share were HK\$4.31. Consolidated shareholders' funds as at 30 June 2002 were HK\$27.9 billion.

At the forthcoming Annual General Meeting, the Board of Directors will recommend the payment of a final dividend of HK\$0.70 per share which together with the interim dividend of HK\$0.40 per share paid during the year, makes a total dividend of HK\$1.10 per share, a 37.5% increase over last year's level. Total dividend for the year amounted to HK\$356 million.

SHARE REPURCHASE

Recognising that the radical change in the composition of the Group's assets may not have suited all existing shareholders, we sought ways to provide an exit. In doing so, we aimed to reward both those choosing the exit route and those remaining invested.

Accordingly, in November 2001, the Group repurchased 24.8% of its existing capital in a share buy back scheme. The final transaction price of HK\$50 per share represented a 12.1% premium over the market price average for the 60 days preceding the offer. The offer was over subscribed.

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The successful share repurchase scheme returned HK\$5.4 billion to shareholders. At the same time it improved the Group's capital structure and balance sheet. Subsequently the Group has attracted a solid array of leading blue chip global investors whom we welcome. We believe that this testifies to the Group's strong track record and displays confidence in its prospects.

STREAMLINING INITIATIVES

All sound businesses must adopt a policy of continuous improvement in productivity and cost effectiveness. The Group has long had such a corporate wide program, the "Quality and Productivity Program", which is an ingrained part of our corporate culture. The current environment, however, calls for a more aggressive approach. We are undergoing dynamic macro-economic change and the Group has endured forty-six months of deflation in Hong Kong which has reduced its economy by 12%. Bold right sizing and streamlining have been essential. The Group has therefore taken advantage of this period of external and internal adjustments to restructure and streamline the entire organisation and its operations, being mindful of the need to optimise the return on the Group's resources by focusing on the "Right Thing".

As part of these initiatives, we launched a series of restructuring transactions, to transform First Capital Corporation Ltd ("FCC") into the Group's core property unit. FCC now has an enlarged portfolio and a wider presence, extending its Singapore and UK operations to tap growth opportunities in China and Malaysia. While FCC reported a loss of S\$179.9 million for the year, mainly due to realised losses and provision for foreseeable diminution of values in Singapore property, we believe these strategic moves will position FCC to resume profitable focused growth.

Hong Leong Credit Berhad ("HLC"), a 23.3% associate of the Group and currently our largest core business, performed well. HLC achieved a profit before taxation of approximately RM779.8 million, an increase of 35.5% over the previous financial year. The banking division continued its trend of higher profit performance. Insurance also achieved a higher pre-tax profit, due to the improved performance of its investments. The stock broking division reversed its pre-tax loss of the previous financial year on lower operating costs and increased trading volumes.

Subsequent to the year reported, HLC undertook to streamline its operation into a pure financial services group by divesting its interest in Hong Leong Property Berhad ("HLP"). This was accomplished by distributing its shares in HLP directly to HLC's shareholders, thus rewarding them for their support. Going forward, the Group will continue to support HLC's growth as its core financial arm.

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As previously announced at the time of our sale of Dao Heng Bank Group to Development Bank of Singapore Ltd ("DBS"), the Group had agreed to enter into negotiations with DBS regarding the possible sale of the Group's other Hong Kong financial service companies. During the financial year, DBS advised us that they had elected not to proceed with the negotiations. As a consequence, we undertook to establish Dao Heng • Wealth Management, capitalising on the infrastructure, expertise and customer bases at Dao Heng Securities Limited, Dao Heng Insurance Co., Limited and Dao Heng Fund Management Limited to provide an integrated wealth management operation encompassing securities, fund management, general insurance and insurance broking. We are in the process of establishing a uniquely customer centric direct sales force, an integrated call centre and marketing driven IT-supported distribution channels to deliver this service.

We also took the opportunity to realise the value of our investment in imGO Limited. Presented with an attractive offer, the Group divested approximately 21.3% of its interest in this company, retaining approximately 3% as a portfolio investment. The Group realised a profit of approximately HK\$105 million over its book cost on this disposal.

Finally, we have amicably agreed with Friends Ivory & Sime plc ("FIS") to dissolve our joint venture, Friends Ivory & Sime Asia Limited. This facilitates FIS's strategic consolidation of their acquisition of the UK asset management business of Royal & SunAlliance. At the same time it enables Dao Heng Fund Management Limited to pursue a customer centric best of class strategy.

INVESTMENTS

We recognised that effective management of the Group's substantial investment fund would be critical to short-term earnings, just as its subsequent investment in new businesses would be the key to long-term sustainability. To this end, an Investment Committee, which I personally chair and includes the Group's most senior executives with broad financial, investment, risk management and operating experience, was established. This Committee was mandated by the Board to guide the overall process governing the Group's core investments and treasury operations. The Committee instituted a formal process with a clearly defined strategy and operating parameters, and has retained independent consultants to act as advisors.

On the treasury side, we intend through a conservative approach to preserve the fund for future direct investments. In pursuing these, we will exercise prudence and look for optimal entry times. We wish to identify opportunities to buy into the sustainable growth that will ensure the creation of superior shareholder value. Already, the Group has conducted extensive research, examining sectors beyond our traditional areas of property and financial services.

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CORPORATE GOVERNANCE

In a world where issues of corporate governance are front-page news, the Group can be justifiably proud of its adherence to not just the letter but also the intent of the regulations that govern the Group. We constantly examine ways to improve our standards of good governance and transparency.

OUTLOOK

The outlook for the global economies remains fraught with uncertainties, evidenced by an unprecedented range of globally destabilising events. These include the possibility of military action in the Middle East and elsewhere, action relating to global terrorism, and the possibility of a double or multiple dip recession in the United States exacerbated by accounting and corporate governance issues. Further, the prospects of earnings impairment, major currency realignments, credit issues and diminishing consumer confidence could continue to dampen recovery.

While Asia is not immune to these challenges, it is reasonable to anticipate that Greater China's engine of domestic growth will help moderate these negative influences. As a consequence, the Asian regional economies are forecasted to grow by 5.9% this year and 6.1% next year, more than double the expected world economic expansion rate of 2.8%.

We believe that the Group is particularly well positioned to take advantage of this difficult economic environment. The scenario is likely to offer an increasing number of companies that are distressed either financially or on a cost-competitive basis or with respect to growth in their traditional markets. Prices for such assets may continue to fall. We will seek to make well-timed entries to take advantage of such opportunities and grow the value of the assets to the substantial benefit of our shareholders.

APPRECIATION

During this year of transition and global change, I am particularly appreciative of the wise counsel, continuing dedication and exceptional commitment of my fellow directors, the management and staff of the Group. With their continued commitment, I am confident the Group will continue to prosper as it embarks on this next exciting leg of its journey.

Quek Leng Chan

Executive Chairman

17 October 2002