I am pleased to report that in our fourth year of transforming the Company into an investment organisation, we have made further progress towards realising our Group vision of achieving long term sustainable return to shareholders. We have carried this out by investing in global capital markets and in core businesses with an Asian focus where our management's knowledge and competencies can add value. We are making sure and steadfast progress in strengthening our investment infrastructure and developing our synergistic investment processes. The enhanced competence of our investment teams and refined risk management framework have again contributed to another year of strong performance.

FINANCIAL RESULTS

The consolidated profit attributable to shareholders, after taxation and minority interests amounted to HK$3,231 million, representing an increase of 32.4% over that of last year. Earnings per share rose 32.2% to HK$9.82. This is a record profit for the Company apart from the one-off exceptional gain on disposal of Dao Heng Bank Group achieved in year 2001.

SHAREHOLDERS' RETURNS

The directors will recommend the payment of a final dividend of HK$3.00 per share at the forthcoming Annual General Meeting. This together with the interim dividend of HK$0.80 per share paid during the year makes a total dividend of HK$3.80 per share. Total dividend for the year amounted to HK$1,250 million, representing a substantial increase of 26.7% as compared with the previous year. We aim to maintain a balanced and steady growth in dividend distributions to shareholders to achieve a consistent and sustainable investment yield.

I am pleased to note that the market has recognised the progressive improvements in the financial performance and strength of the Group whereby the share price of the Company has risen approximately 83.9% over the last three years, advancing from HK$43.5 as at 30 June 2002 to HK$80.0 as at 30 June 2005, outperforming the Hang Seng Index by over 50% in the corresponding period.

CORPORATE EVENTS

As part of our strategies to achieve our mission, streamlining and restructuring of our corporate organisation and operations were continuously undertaken to optimise resources and to create synergies. This was achieved either through enhancement of operating entities, restructuring or, where appropriate, divestment of non-core assets.

To streamline our insurance interest, Dao Heng Insurance Co., Limited ("DHI") was divested and sold to Hong Leong Assurance Berhad ("HLAB") which is a wholly-owned subsidiary of Hong Leong Credit Berhad ("HLCB"). The purpose of the transaction was to pool together the relevant insurance business resources and expertise within the HLCB Group to create the synergy for the benefit of future business development of both DHI and HLAB. DHI will benefit from HLAB's expertise on a wider range of products and long-term business development. The Group would continue to have an indirect interest in DHI via its holding of approximately 25.7% interests in HLCB which wholly owns HLAB.

The Group had acquired a controlling interest of approximately 61.4% in Camerlin Group Berhad ("CGB") through a mandatory general offer triggered by acquisitions of CGB shares from related companies as well as conversion of its interests in CGB's irredeemable convertible unsecured loan stocks.

CGB is an investment holding company listed on Bursa Malaysia Securities Berhad. The major asset of CGB is a 22.3% investment in its associated company, BIL International Limited ("BIL") which is an investment holding company with primary listing on the Singapore Exchange and secondary listings on the London and New Zealand Stock Exchanges. BIL's core operating assets comprise Thistle Hotels Group and other investment projects.

The Group further acquired approximately 10.1% interests in BIL in July 2005, triggering a mandatory general offer on BIL. This offer will close on 30 September 2005. The Group had through further market purchases increased its direct and indirect shareholdings in BIL to 43.7% up to 15 September 2005. Being the single largest shareholder of BIL, we are confident that the Group can work with BIL's management to review and improve its operational performance and optimise the returns on BIL's asset base.

HIGHLIGHTS OF OPERATIONS

GuocoLand Limited ("GLL")

The transformation of GuocoLand Limited into a regional property company has taken shape. The GLL Group's main strategy is to focus its core property operations in key identified geographical markets where there is good potential for growth and where returns on investment are attractive and sustainable. In executing this initiative, the GLL Group has established experienced embedded management teams in its core property markets of Singapore, China and Malaysia.

In Singapore, there are many opportunities for sizable property developers with the financial capacity to undertake exciting, scalable landmark property development projects. The GLL Group is working intensively to pursue these opportunities to build size, resilience, and our branding as a premier property company.

With continuous economic growth in the PRC and the increasing affordability of its people, basic demands for residential properties will remain strong. Having established property operations in Shanghai and Beijing, the GLL Group continues to expand its China operations in other major cities where there is a fast-growing middle class and a strong demand for good quality housing. In line with this strategy, the GLL Group has made its first inroads into Nanjing, a major city in the thriving Yangtze River delta and prosperous Jiangsu province.

Its associated company, GuocoLand (Malaysia) Berhad had also recently announced that it will be setting up a Real Estate Investment Trust with the investment objectives of acquiring and investing in a portfolio of quality yield-accretive commercial real estate.

Hong Leong Credit Berhad ("HLCB")

Our associated company, HLCB continues to progress on its journey towards becoming an integrated financial services group. Its approach was two pronged: business co-operation and product bundling through its "Integrated Sales Organisation" forum, and business and operational integration through its "Centres of Excellence" concept. It is currently consolidating certain operations such as its IT and data centres as well as building management. For implementation, HLCB has set up regional teams in the areas of treasury, investment banking and private banking.

HLCB's subsidiary company, Hong Leong Bank Berhad ("HLBB")'s transformation initiatives focusing on personal financial services, wealth management, reconfiguration of branches as well as establishment of a regional treasury platform have yielded significant results. Non-interest and fee related income recorded a robust growth of 48% in the current year to stand at RM344 million. Total assets grew by 17.5% to reach RM57.6 billion as at 30 June 2005.

HLBB also reached another critical milestone in being granted an Islamic banking licence by Bank Negara of Malaysia. It is a universal licence under the Malaysia's dual banking infrastructure, not only for Islamic financing business but also allows HLBB to make inroad into the Islamic debt capital markets. With the establishment of Hong Leong Islamic Bank Berhad, the HLBB Group is well positioned to tap into the fast growing global Islamic banking sector leveraging on its existing domestic and regional platforms spanning Malaysia, Singapore and Hong Kong.

TREASURY AND INVESTMENT ACTIVITIES

Our treasury and investment activities had another year of good performance. The year under review witnessed a challenging investment environment, characterised by persistently and exceptionally high oil prices, continued hikes in US interest rates and high volatility in financial markets. Despite all the headwinds mentioned for the year, the investment teams were able to capture market opportunities and produce creditable returns to the Group.

We are constantly enhancing our market coverage and research capability to extend our investment universe. We are also exploring direct investment opportunities in the PRC and other markets. A more structured and refined investment classification was established for all our strategic equity and direct investments. Special focus was placed on searching for opportunities under the categories of events-triggered stocks and undervalued situations as well as those counters with attractive sector exposures.

CORPORATE GOVERNANCE

The Board has adopted the Code of Corporate Governance Practices which provides guidelines to reinforce our corporate governance principles. Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of local and international developments to instill best practices. To us, maintaining high standards of corporate governance practices is not just complying with the letter of the provisions but also the intent of the regulations to enhance corporate performance and accountability.

OUTLOOK

Looking ahead, the investment climate remains uncertain. The high oil prices are exerting more pressure on global markets and Asia is vulnerable given its high dependency on oil imports. In the US, its economy has so far been resilient but a number of its structural issues, such as the twin deficits, remain unresolved. Low nominal interest rates continue to support equity valuation but prices are already fairly valued, with markets such as Australia trading near all time highs and most European markets at 3-year highs. On the other hand, there are opportunities around. Japan presents an interesting case as the economy and its corporate sector are producing more evidence of a turnaround. Exchange rate reforms for China and Malaysia present both threats and opportunities and we believe there is potential to explore in various sectors.

In China, economic growth may slow down marginally due to the implementation of macro control policies on the property market earlier this year, impact of a higher currency and problems from recent fuel shortages. However, there should not be any major concern as growth is still expected to be around 8% in both 2005 and 2006. This is positive for Hong Kong given the increasing integration of the two economies. Rising interest rates in the US will also affect the Hong Kong property market but so far property prices have stayed firm, reflecting the revival in the underlying economy and an improved employment market. China and Hong Kong will continue to be a major focus within our investment universe.

It will be a challenge to repeat the good investment results of last year but the Group remains confident that it is well-positioned to continue to deliver value to our shareholders.

APPRECIATION

I thank my fellow directors for their wise counsel and support throughout the year. I am appreciative of the hard work and commitment of the dedicated management and staff team whose efforts had enabled the transformation of the Group to what it is today. Last but not the least, I would like to thank our customers, bankers and shareholders whose confidence in us has provided great support for our next stage of development.

Quek Leng Chan
Executive Chairman

16 September 2005