

Chairman's Statement

I am pleased to report that the Group had completed another good year. Last financial year was the fifth year in which the Group was transformed into an investment holding and proprietary asset management company. The Group now has four main businesses, namely Proprietary Asset Management, Property Development and Investment, Hospitality and Leisure and Financial Services. It is our intention to focus on these companies and to grow their respective businesses. We will also continue to identify core businesses to acquire in sectors where the Group has competency to manage and create synergistic value.

The Group achieved an average annual return of 10% on shareholders' funds for the last five years. Last year was an exceptional year. The performance had shown improvement year on year over the period. However, I would like to caution shareholders not to expect the same growth annually as the very nature of our Proprietary Asset Management business is dependent on market conditions and forces, and will be volatile from year to year, and even from period to period. Nevertheless, I am pleased to say that the progress in our core businesses are shaping up well as pillars for future growth and expansion.

FINANCIAL RESULTS

The consolidated profit attributable to shareholders for the year ended 30 June 2006, after taxation and minority interests amounted to HK\$5,637 million, representing an increase of 75% over that of last year. Earnings per share rose 75% to HK\$17.22.

The directors will recommend a final dividend of HK\$3.00 per share and a special dividend of HK\$1.00 per share at the forthcoming Annual General Meeting. This special dividend payment to be paid is a recognition of shareholders' support and patience giving us adequate time to transform our businesses successfully to achieve creditable profit growth and capital value over the past five years.

These final and special dividend distributions together with the interim dividend of HK\$1.00 per share already paid make a total dividend for the year amounting to HK\$5.00 per share, representing an extraordinary increase of 32% compared to that paid last year.

VALUE CREATION

In the fifth year of transformation into an investment and proprietary asset management company, we had stayed steadfastly on course with a clear vision to achieve superior, long-term sustainable returns for shareholders. The results have been encouraging as we move ahead in this direction.

Notable was the astute and timely share buy-back in November 2001 of 107 million Guoco shares for HK\$5.35 billion which had the effect of increasing the net asset value per share as at 30 June 2001 by HK\$8.3 to HK\$83.5. Since then with yearly profit generation and asset appreciation, our net asset value per share reached HK\$112 as at 30 June 2006.

Shareholders funds increased 38% from HK\$26.7 billion as at 30 June 2001, as adjusted for the share buy-back to HK\$36.9 billion as at 30 June 2006, even after taking into account of the stream of annual dividend distribution totalling HK\$3.5 billion paid out of an aggregate profit of HK\$14.1 billion earned over the last five years. Dividend distributions were made in line with our aim to maintain a balanced and steady growth bearing in mind the new accounting standards and the inherent volatility in market conditions.

It is gratifying to note our share price had doubled increasing 101% over the last five years from HK\$45.7 per share as at 30 June 2001 to HK\$91.90 as at 30 June 2006 outperforming the Hang Seng Index by over 76% in the same period.

Our market capitalisation had grown in tandem from HK\$19.5 billion to HK\$30.2 billion as at 30 June 2006, an increase of 55% over five years versus the corresponding 25% increase of the Hang Seng Index or expressed in another way, a CAGR of 9% over five years compared to the corresponding 4.5% growth of the Hang Seng Index.

STRATEGIC BUSINESS DEVELOPMENT

While Proprietary Asset Management had made substantial contributions to our bottom line, the other three core businesses had been streamlined and re-structured to enhance their respective profitability and capital value creation, and they had done well too.

Our Proprietary Asset Management is conducted by the Company while the other core businesses in Property Development and Investment, Hospitality and Leisure are undertaken by our subsidiaries GuocoLand Limited and BIL International Limited respectively. As for Financial Services it is undertaken in our associate company Hong Leong Credit Berhad (now name changed to Hong Leong Financial Group Berhad to reflect its current scope of business and activities).

Proprietary Asset Management

We have devoted much effort and resources to build and hone over time the software system, investment infrastructure and synergistic analytical tools needed to develop an unique systematic investment process covering risk, control and timely processing of information for our Proprietary Asset Management.

Our investment management team with varied training, discipline and experience in local and various major overseas, and currency markets had performed ably to optimise returns both for the short and long term balanced against timing and risk.

Property Development and Investment – GuocoLand Limited (“GLL”)

Property Development and Investment under our subsidiary GLL continues to be an important core business contributing to the underlying creation of capital value for Guoco. Various re-structuring initiatives had been undertaken to strengthen GLL towards transforming it into a premier Asian property company with commensurate global high standards and quality. GLL has now embedded property businesses and established strong branding recognition in Singapore, China, Malaysia and Vietnam.

GLL significantly increased its land bank in China to one million sq.m. currently in the strategic cities Beijing, Shanghai and Nanjing for signature project investments and developments aimed at making more prominent our brand name. GLL had in the past year acquired GuocoLand (Malaysia) Berhad (“GLM”) through a mandatory general offer and successfully made it a subsidiary of GLL. With this new strategic direction, GLM will be transformed into a significant property developer in Malaysia.

Hospitality and Leisure Business – BIL International Limited (“BIL”)

Through a successful corporate exercise during the year, we had acquired control of BIL to add its Hospitality and Leisure operations covering 10,400 Thistle hotel rooms throughout the UK as a new core business for Guoco. The BIL wholly-owned Thistle Hotels Group owns, leases and manages 49 hotels in the UK with 20 of them comprising 6,000 rooms located in London where several large Thistle hotels are landmarks in the capital. Thistle is the largest full service hotel operator in London.

A significant milestone was attained in February this year when BIL was granted licences under The Gaming Act 1968 by the Gambling Commission of Great Britain enabling us to own and operate casinos in selected Thistle Hotels and other sites in sixteen locations.

Planning for setting up and operating these gaming and entertainment centres is now in progress. This is an exciting development programme on the horizon and when it is rolled out would add a new dimension to our business in a growing industry for gaming, entertainment and leisure.

Financial Services – Hong Leong Financial Group Berhad (“HLFG”)

Hong Leong Financial Group Berhad is the re-named modern entity of the former Hong Leong Credit Berhad. This is much more than a cosmetic change in name for our financial services core business. HLFG has embarked

on various coordinated implementation programmes to realise its vision to transform into an information technology aided, cost-effective and efficient integrated financial services provider. This revamp is now on and is progressing well.

The granting of two prized financial services licences to us is most encouraging for our financial business scope expansion. Hong Leong Bank Berhad (“HLB”) was granted the Islamic banking licence in 2005 and had set up Hong Leong Islamic Bank Berhad. It is well positioned to tap into the fast growing global Islamic financial sector. Also, with the granting of a Takaful licence by Bank Negara, Hong Leong Assurance and HLB via a joint venture set up with Tokio Marine & Nichido Fire Insurance Co. Ltd can make further inroads into the Takaful business in Malaysia and overseas.

CORPORATE GOVERNANCE

Besides adopting the Code of Corporate Governance Practices which provides guidelines for our corporate governance principles, we have also made efforts to review and enhance our Group's internal controls to instill best practices. Management and staff clearly understand the need to maintain high standards of corporate governance practices. This management approach is apparent in the processes and structure by which our business and the affairs of the Company are directed and managed. This, we believe will go towards improving corporate performance and accountability and thereby enhances long term shareholder value for the benefit of all shareholders.

OUTLOOK

Changing macroeconomic conditions and geopolitical situations continue to pose new challenges to investors. Sentiment had swung from optimism to pessimism towards the close of our financial year in June 2006 and investors were uncertain as to whether we were just facing a correction within a bull market, or in fact confronting the beginning of a cyclical downturn following a global multi-year bull market. With interest rates rising in the US and Europe and about to start rising in Japan then, the investment environment became uncertain and volatility in the coming year is likely to stay high.

We have captured the bulk of the profits in our equity investments in the last upturn and have taken a more defensive stance in our portfolio at the moment. Our investment teams will continue using our, by now, well-defined fundamental investment approach to look for solid and long-term investment opportunities for the Group.

Meanwhile, we are closely tuned to market conditions to look for opportunistic value stock picking for short-term, and accumulation of equity positions where we believe sustainable long term returns can be achieved.

For our other three core businesses, we are cautiously optimistic on the property sector in our embedded markets in Singapore and Malaysia, and believe there are pockets of opportunities in the PRC and Vietnam for land bank acquisitions while India and Indonesia could have attractions to merit our attention.

For the hospitality and leisure sector, we are in a good position in the UK with refreshed mandates for management there to take BIL to the next level especially with our new gaming licences in hand and the prospect of positioning our large hotel holdings for the longer term towards the 2012 London Olympics.

Our financial services pursued through HLFG has the potential and the appropriate platform to grow into a premier integrated banking, insurance and financial services conglomerate on home ground in Malaysia.

On balance, we reckon the coming year to be challenging but not without its windows of opportunities even though we are now at the higher end of market valuation with increased volatilities. Under the circumstance, we will remain nimble and continue to work diligently on areas and products that we know well bearing in mind always the longer term objective of creating capital value for shareholders.

APPRECIATION

I thank my fellow directors for their wise counsel and support throughout the year. I express my appreciation for the hard work and commitment of our management and staff team whose efforts and dedication to performance excellence are indispensable in the transformation of the Group to what it is today. I would like to thank also our customers, bankers and shareholders whose confidence in us has provided great support for our next stage of development.

Furthermore, I am pleased to note besides achieving good results this year and keeping up our performance record, the Company and its staff in Hong Kong has joined hands to participate and contribute to fund-raising activities for the less fortunate in society and their efforts were honoured with the Platinum and the prestigious President's Award by The Community Chest.

Quek Leng Chan
Executive Chairman

15 September 2006