

The importance of the 2001 financial year cannot be overstated. The disposal of the Dao Heng Bank Group ("DHBG") in June 2001 was an event of historical significance for the Group and its shareholders. It represents the culmination of an extraordinarily successful investment spanning nearly 20 years, from our acquisition in 1982 of a small and relatively obscure local bank. We took this institution and turned it into one of the most modern, well-recognized and important listed banking groups in Hong Kong, with a market capitalization and turnover by December 1999 to propel it into the ranks of the Hang Seng Index.

This achievement represents a commitment to managing a business to maximize its potential both as a business and as an investment. We imported the latest developments in every area, from technology to marketing, to increase market share and improve margins. We also took every opportunity to expand through acquisition. In 1989 we doubled the size of DHBG by taking over Hang Lung Bank, again doubling its size in 1993 through the acquisition of Overseas Trust Bank. The name Dao Heng became synonymous with leadership in many areas of banking, widely recognized as one of the strongest, most diversified franchises in Hong Kong.

It had become increasingly apparent that the Hong Kong banking sector would finally follow the global trend towards consolidation with the advent of the last phase of banking deregulation in Hong Kong. The Board and management examined in great detail the best way of using this trend to build on the success of DHBG, which by 2000 had come to account for 90% of Guoco's assets. However, market conditions were not producing the same compelling acquisition opportunities we had found in the past.

When the Development Bank of Singapore ("DBS") expressed an interest to acquire DHBG, we saw this as an opportunity for DHBG to lead in the banking consolidation under a strong banking parent. We went into negotiation with DBS on 1 April 2001, resulting in the sale of DHBG in June of this year. I am glad that we had passed ownership of the bank to a group such as DBS which will undoubtedly be able to bring DHBG to greater heights. DBS had retained all the senior staff and I would like to wish them well and thank them for their hard work, discipline and dedication in assisting DHBG to be what it is.

FINANCIAL RESULTS

The sale of DHBG has been the overriding feature of the Group's financial results. We recorded a profit on the disposal of HK\$22.6 billion. A cash payment of HK\$21.4 billion was received on 29 June 2001. However, the Group continues to maintain a 20% shareholding in DHBG via a shareholding in DBS Diamond. This shareholding has a put option valued at HK\$10.8 billion available to the Group and a call option available to DBS, both exercisable within seven days following 31 December 2002.

The Group has taken the opportunity of this one-off exceptional gain to undertake a thorough and critical appraisal of all our investment assets and to make prudent provisions for investments in subsidiaries, associates and jointly controlled entities. As a result, the Group has reported consolidated profit attributable to shareholders, after taxation and minority interests amounting to HK\$21.3 billion. Basic earnings per share were HK\$49.83. Consolidated shareholders' funds have expanded to HK\$32.1 billion, representing an increase of 176% over the previous financial year.

At the forthcoming Annual General Meeting, the Board of Directors will recommend the payment of a final dividend of HK\$0.60 per share which together with the interim dividend of HK\$0.20 per share paid during the year, makes a total dividend for the year of HK\$341 million or HK\$0.80 per share, a 14% increase over last year's level.

PROPOSED SHARE REPURCHASE SCHEME

On 8 September 2001, the Group announced a share repurchase plan by way of a tender exercise. Under the provisions of the plan, the Group has undertaken to repurchase up to 10 percent of the outstanding shares of the Company and may, at its option, repurchase up to 25 percent of the outstanding shares of the Company.

At the time of the announcement, the Company's shares were trading in a range of their historical high. A repurchase price range of HK\$46.00 to HK\$51.00 was set after fully considering various factors, including precedents of similar transactions established by other blue-chip companies, and the desire to maintain the financial strength of the Group. This price range represents a premium to the 30, 60 and 90-day market trading averages immediately preceding the announcement.

A comprehensive offer circular will be dispatched to shareholders so that they may objectively consider the offer. In approving the plan, the Board sought to provide the liquidity to facilitate the sale of shares by those shareholders that may wish to exit their investment in the Group.

THE GROUP'S HONG KONG FINANCIAL SERVICE COMPANIES

As previously announced, the Group had agreed to enter into negotiations with DBS regarding the possible sale of its other Hong Kong financial service companies. While the Group has an obligation to enter into negotiations, the outcome is by no means certain. We believe these businesses offer considerable potential in their own right.

Accordingly, we are taking steps to strengthen their distribution networks. In the past, the distribution of the products and services of these companies were, to a varying degree, undertaken by DHBG. Going forward, the Group intends to be less reliant upon DHBG and is undertaking various initiatives to turn these companies into a cohesive integrated financial services operation incorporating innovative technology and a new marketing structure, so as to ensure their sustained profitability and growth.

OTHER GROUP COMPANIES

The Operations Review section of this annual report will provide a more comprehensive discussion of the Group's other operations. However, I wish to say that the Group's investment disciplines will apply to all the Group's investments. As such, we will continue to enhance those operations which meet our investment criteria and exit those which do not.

FUTURE INVESTMENT STRATEGY

The Group's track record of creating substantial value for shareholders through investing in opportunities and actively managing them to their full potential speaks for itself. The Company will continue to operate as an investment holding company and to maintain its listing on the Hong Kong Stock Exchange. With these objectives in mind, the Group will seek to reinvest the majority of the cash proceeds of the DHBG transaction into assets that are consistent with the Board's objective of generating superior returns. In the past, a substantial portion of our investments was committed to the

development of DHBG. Going forward, the Group intends to adopt a more active investment style as regards its investments, which should enable it to achieve greater value creation.

For the time being, as we believe asset prices may undergo further adjustment, we have adopted a conservative cash management process so as to conserve funds until appropriate investment opportunities arise. The Group will also take advantage of this window of opportunity to carefully assess a variety of industrial sectors to identify those that will provide superior overall returns for shareholders.

OUTLOOK

The evolution of our investment strategy in a much more active direction may not become immediately apparent. The recent tragic events in America will clearly have far reaching implications, with economic consequences for the entire global community, including the Asian and Greater China communities. Clearly, these unprecedented events have brought forward the timing of the global economic downturn that we had previously anticipated would occur in 2001/2002. Nevertheless, the clouds of uncertainty that now hang over world markets will eventually lift as global events unfold. It is my belief that insightful patience and prudence will ultimately be rewarded with superior investment opportunities. Further, the approval of China's entry into the World Trade Organisation has resulted in China being widely regarded as having one of the best economic outlooks for the foreseeable future. Management will pursue investment opportunities based on established Group disciplines.

APPRECIATION

As in prior years, I would like to take this opportunity to thank my fellow directors and the management and staff of the Group for their wise counsel, on-going dedication and exceptional commitment. This year I particularly wish to offer my sincere appreciation to management for their outstanding achievement. It is this commitment that gives me confidence that the Group will continue to prosper.

Quek Leng Chan

Executive Chairman

12 October 2001