

The directors have pleasure in presenting their report together with the audited statement of accounts for the year ended 30 June 2001.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries which materially affected the results or assets of the Group during the financial year include commercial banking, retail banking and financing; property development, investment and management; stock, commodity and bullion broking; insurance and fund management. The Group disposed its interest in Dao Heng Bank Group Limited (“DHBG”) on 29 June 2001 as set out in Note 3 on the accounts. Hence, the activities of commercial banking, retail banking and financing in relation to DHBG were discontinued. The principal activities of the associates which materially affected the results of the Group during the year include banking and financing; insurance and stockbroking; property development and merchant banking.

The analysis of the principal activities and geographical locations of operations of the Company and its subsidiaries during the financial year is set out in Note 5 on the accounts.

## ACCOUNTS

The consolidated net profit of the Group for the year ended 30 June 2001 and the state of the Company’s and the Group’s affairs at that date are set out in the accounts on pages 36 to 90.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers and suppliers of the Group accounted for less than 30% of the total turnover and purchases of the Group respectively.

## CHARITABLE DONATIONS

Donations made by the Group during the year amounted to US\$188,000 (2000: US\$161,000).

## DIVIDENDS

An interim dividend of HK\$0.20 (2000: HK\$0.15) per share totalling HK\$85,326,000 (2000: HK\$63,995,000) was paid on 17 April 2001. The directors are recommending payment of a final dividend in respect of the year ended 30 June 2001 of HK\$0.60 (2000: HK\$0.55) per share totalling HK\$256,255,000 (2000: HK\$234,647,000).

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23 November 2001 to 29 November 2001, both days inclusive, during which period no share transfers will be registered.

To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrars in Hong Kong not later than 4:00 p.m. on 22 November 2001.

## SHARE CAPITAL AND OPTIONS

### The Company

Under an executive share option scheme (“Executive Share Option Scheme”) adopted by the Company on 30 July 1991, the directors of the Company may, subject to such conditions as they may think fit, offer to grant options to the eligible employees of the Group to subscribe at such price for such number of shares in the Company as they may determine.

There were 9,800,000 share options granted on 6 December 1999 which were exercisable at HK\$20.33 per ordinary share of the Company as at 1 July 2000. During the year, a total of 460,000 ordinary shares of US\$0.50 each in the capital of the Company were issued at a price of HK\$20.33 per share, as a result of exercise by certain grantees of options granted under the Executive Share Option Scheme. There were 200,000 share options lapsed during the year as a result of resignation of grantees. As at 30 June 2001, there were 9,140,000 share options outstanding granted under the Executive Share Option Scheme which are exercisable during the period from 12 November 1999 to 12 February 2004. The Executive Share Option Scheme expired on 30 July 2001 other than those granted options.

Details of the share capital of the Company are shown in Note 33 on the accounts.

### First Capital Corporation Ltd (“FCC”, a 54.4% subsidiary of the Company)

During the year, 172,834 non-redeemable convertible cumulative preference shares (“NCCPS”) were converted into 172,834 ordinary shares of S\$1.00 each in the capital of FCC. The NCCPS were issued on 9 February 1999 which carried the rights to a cumulative preference dividend of 7% per annum and the right to convert into ordinary shares of FCC for 5 years from the date of issue based on the conversion ratio of one ordinary share for every one NCCPS held.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## FIXED ASSETS

Movements in fixed assets during the year are set out in Note 18 on the accounts.

## RESERVES

Movements in the reserves of the Company and the Group during the year are set out in Note 34 on the accounts.

## SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in Note 19 on the accounts.

## DIRECTORS

The Board of Directors meets regularly and members of the Board receive information between meetings about the developments in the Company's business. It is responsible for devising and implementing the overall group strategy, acquisition and divestment policy, and the approval of major capital expenditure projects and consideration of significant financing matters. It regularly reviews the financial performance and business of the Group.

The directors during the financial year and up to the date of this report were:

Quek Leng Chan - *Executive Chairman*

Kwek Leng Hai - *President, CEO*

Sat Pal Khattar\*\*

Kwek Leng San\*

Peter Anthony Wakefield\*

(appointed on 15 December 2000)

Tan Lim Heng

James Eng, Jr.

(appointed on 23 July 2001)

Harry Richard Wilkinson\*\*

Jamal Al-Babtain\*

Mishal Abdulah Abdulaziz Al Masad\*

(resigned on 10 November 2000)

Randolph Gordon Sullivan

(resigned on 23 July 2001)

\* *Non-executive director*

\*\* *Independent non-executive director*

In accordance with Clause 77 of the Company's Bye-Laws, Messrs Peter Anthony Wakefield and James Eng, Jr. will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Clauses 82 and 83 of the Company's Bye-Laws, Mr Sat Pal Khattar will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

None of the directors has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

The non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation at annual general meetings in accordance with the Bye-Laws of the Company.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2001, the interests of the directors in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### Interests in the shares of the Company

Director	Number of shares				Total interests
	Personal interests	Family interests	Corporate interests	Other interests	
Quek Leng Chan	220,000	–	138,234,740*	–	138,454,740
Kwek Leng Hai	1,320,000	–	–	–	1,320,000
Sat Pal Khattar	582,330	–	–	–	582,330
Kwek Leng San	143,200	–	–	–	143,200
Tan Lim Heng	270,000	–	–	–	270,000
Randolph Gordon Sullivan (Remark)	11,000	–	–	–	11,000

\* These shares represented the interest of Guoline Overseas Limited (137,046,740 shares) and another company (1,188,000 shares) with respect to which Mr Quek Leng Chan had a corporate interest pursuant to the SDI Ordinance.

### Interests in share options granted by the Company

Director	No. of share options
Quek Leng Chan	3,000,000
Kwek Leng Hai	3,000,000
Sat Pal Khattar	300,000
Kwek Leng San	300,000
Tan Lim Heng	780,000
Harry Richard Wilkinson	180,000
Randolph Gordon Sullivan (Remark)	100,000

On 6 December 1999, the directors were granted share options pursuant to the Company's Executive Share Option Scheme adopted on 30 July 1991. Such share options are exercisable at the subscription price of HK\$20.33 during the period from 12 November 1999 to 12 February 2004. During the year, Messrs Tan Lim Heng and Harry Richard Wilkinson had respectively exercised 220,000 and 120,000 share options in the Company.

Remark: Mr Randolph Gordon Sullivan resigned as a director of the Company on 23 July 2001. He exercised 40,000 share options on 12 July 2001, the outstanding 60,000 share options were lapsed following his resignation.

## DIRECTORS' INTERESTS IN SECURITIES (CONT'D)

### Interests in the securities of associated corporations

Director	Name of Company	Number of shares				Total interests
		Personal interests	Family interests	Corporate interests	Other interests	
Quek Leng Chan	First Capital Corporation Ltd	662,261	–	200,559,299 (Note 1)	–	201,221,560
	First Capital Corporation Ltd (NCCPS**)	53,833	–	34,383,489 (Note 1)	–	34,437,322
	Hong Leong Credit Berhad	4,451,000	–	337,817,645 (Note 2)	–	342,268,645
	Guoco Holdings (Philippines), Inc.	–	–	866,610,220 (Note 1)	–	866,610,220
	imGO Limited	–	–	739,934,824 (Note 1)	–	739,934,824
Kwek Leng Hai	First Capital Corporation Ltd	1,180,261	–	–	–	1,180,261
	First Capital Corporation Ltd (NCCPS**)	53,833	–	–	–	53,833
	Hong Leong Credit Berhad	359,500	–	–	–	359,500
	Guoco Holdings (Philippines), Inc.	5,000,000	–	–	–	5,000,000
Sat Pal Khattar	First Capital Corporation Ltd	–	–	100,000	–	100,000
	First Capital Corporation Ltd (NCCPS**)	–	–	3,494,908	–	3,494,908
Tan Lim Heng	Hong Leong Credit Berhad	117,000	–	–	–	117,000
	imGO Limited	19,840,000	–	–	–	19,840,000

#### Notes:

1 These shares represented the interest of the Company with respect to which Mr Quek Leng Chan had a corporate interest pursuant to the SDI Ordinance.

2 These shares represented the interest of Guoco Group Limited and other companies to which Mr Quek Leng Chan had a corporate interest pursuant to the SDI Ordinance.

\*\* NCCPS - Non-redeemable convertible cumulative preference shares.

Certain directors hold qualifying shares in certain subsidiaries in trust for other subsidiaries of the Company.

### Interests in share options granted by Hong Leong Credit Berhad (“HLCB”)

Mr Quek Leng Chan was granted an option on 6 January 2000 by HLCB to subscribe for 400,000 shares in HLCB at the subscription price of RM5.19 during the period from 24 December 1999 to 23 December 2004. During the year, he did not exercise any option to acquire shares in HLCB.

Apart from the above, as at 30 June 2001, there were no other interest or rights recorded in the register required to be kept under Section 29 of the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, those persons (other than the directors of the Company) having an interest of 10% or more in the Company's issued share capital as recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance or as otherwise known to the directors of the Company, were as follows:

Name	Number of shares held in the Company			Note
	Direct interests	Deemed interests	Total interests	
Guoline Overseas Limited ("GOL") Government of Kuwait Investment Authority	137,046,740	–	137,046,740	
Kuwait Investment Office	74,069,451	–	74,069,451	
Guoline Capital Assets Limited ("GCA")	–	137,046,740	137,046,740	1
Hong Leong Company (Malaysia) Berhad ("HLCM")	–	138,234,740	138,234,740	1 & 2
HL Holdings Sdn. Bhd.	–	138,234,740	138,234,740	3
Hong Leong Investment Holdings Pte Ltd	–	138,234,740	138,234,740	3
Kwek Holdings Pte Ltd	–	138,234,740	138,234,740	4

Notes:

- GOL is a wholly-owned subsidiary of GCA which in turn is a wholly-owned subsidiary of HLCM. By virtue of Section 8 of the SDI Ordinance, both GCA and HLCM are deemed to have an interest in 137,046,740 shares held by GOL in the Company.
- The interests of HLCM represented the shares held by GOL and another company to which HLCM had a corporate interest pursuant to the SDI Ordinance.
- HL Holdings Sdn. Bhd. and Hong Leong Investment Holdings Pte Ltd were deemed to be interested in 138,234,740 shares in the Company with respect to their interests in HLCM pursuant to Section 8 of the SDI Ordinance.
- Kwek Holdings Pte Ltd was deemed to be interested in 138,234,740 shares in the Company with respect to its interest in Hong Leong Investment Holdings Pte Ltd pursuant to Section 8 of the SDI Ordinance.

## BOARD AUDIT COMMITTEE

The Board Audit Committee comprises Messrs Harry Richard Wilkinson (Chairman), Sat Pal Khattar and Kwek Leng Hai, two of whom are independent non-executive directors. The Board Audit Committee oversees the financial reporting process and the adequacy and effectiveness of the Company's system of internal controls.

The Board Audit Committee meets with the Company's external auditors and the internal auditor, and reviews the audit plans, the internal audit programme, the results of their examination and findings on their evaluation of the system of internal controls. It also reviews interests in contracts and connected transactions. The Board Audit Committee reviews the financial statements of the Company and the consolidated financial statements of the Group and the auditors' report thereon and submits them to the Board of Directors. There were three Board Audit Committee meetings held during the year.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice adopted by the Company based on the guidelines set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

## INTEREST CAPITALISED

Interest capitalised during the year by the Group in respect of development properties amounted to approximately US\$28.1 million (2000: approximately US\$12.6 million).

## INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

### Sale and purchase agreement

On 7 June 2001, Beijing Minghua Property Development Co, Ltd. ("Beijing Minghua"), a subsidiary of the Company entered into the following agreements in respect of the sale of certain units of Corporate Square, No.35 Financial Street, Xi Cheng District, Beijing, the People's Republic of China ("Corporate Square"):

- (a) a sale and purchase agreement was entered into between Beijing Minghua and inter alia, Beijing Huarong Property Co. Ltd. ("BHPC") as one of the joint purchasers for Unit 23, 11/F., Block B of Corporate Square for a consideration of US\$286,437; and
- (b) a sale and purchase agreement was entered into between Beijing Minghua and BHPC as purchaser for Units 24, 27 and 28, 11/F., Block B and 2 carparking spaces of the Corporate Square for an aggregate consideration of US\$929,539.

The sale of such units are in the ordinary and usual course of business of Beijing Minghua and the terms of the agreements were determined on normal commercial terms, fair and reasonable and in the best interests of the Company.

Beijing Minghua is a 75% owned subsidiary of Guoco Properties Limited ("GPL") which is owned as to 55% by the Company and 45% by FCC.

BHPC is a subsidiary of Beijing Huarong Investment Co. Ltd. ("Huarong") which is a substantial shareholder of Beijing Minghua. Pursuant to the Listing Rules, both of these sale and purchase agreements constitute connected transactions of the Company.

### Service agreements

- 1 DHB Limited ("DHBL", a former subsidiary) has a management services agreement dated 27 September 1982 with Hong Leong Overseas (H.K.) Limited ("HLO"), under which in consideration of HLO providing certain management services to companies in the DHBL group, DHBL pays to HLO a fee calculated based on a percentage of pre-tax profits. Following the disposal of DHBG (the holding company of DHBL) on 29 June 2001, the earliest possible date on which the management services agreement can be terminated is 30 June 2002. To facilitate the transition, HLO and DHBL have agreed to extend the management services agreement with DHBL until 31 December 2002 on the same terms.
- 2 On 21 August 2001, the Company entered into a service agreement with HLO for the provision of certain services by HLO to the Company, its subsidiaries and associated companies from time to time but excluding DBS Diamond Holdings Ltd. and its subsidiaries. The services to be provided under the agreement include formulation of strategy and planning, overview of investment and financial management, treasury and risk management services and technical assistance with respect to operating practices and procedures, accounting and other services. The consideration for the services provided was fixed at HK\$100,000 per month (or such other amount as may be agreed from time to time between HLO and the Company) and an annual fee equal to three per cent. of the annual consolidated profits before tax of the Group for each financial year. The agreement is for a term of one year and shall be automatically renewable, on the same terms, for additional, consecutive terms of one year each unless either party provides written notice of at least six months.

The agreement replaced the previous services agreements between HLO and certain operating subsidiaries of the Group. The agreement was entered into in the ordinary course of business of the Company and the terms of the agreement were determined on an arms-length basis and were fair and reasonable so far as the shareholders of the Company are concerned.

## INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (CONT'D)

### Service agreements (Cont'd)

HLO is an indirect wholly-owned subsidiary of HLCM, a substantial shareholder of the Company. Messrs Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are directors interested in the agreement as shareholders and directors of HLCM.

- 3 Dao Heng Bank Limited ("DHB", a former subsidiary) entered into a service agreement in 1993 with Guoco Management Company Limited for the provision of various management, administrative, financial and legal services to companies in the Group on a cost reimbursement basis. Either party may terminate the agreement by giving not less than three months' notice in writing.

### Loan to subsidiaries and associated companies

As at 30 June 2001, the Company and its 54.4% owned subsidiary, FCC had made interest free advances, for general funding purposes and on a pro rata basis, to GPL (a subsidiary which is 55% owned by the Company and 45% owned by FCC) in the aggregate amounts of US\$98.2 million and US\$80.4 million respectively.

As at 30 June 2001, GPL had made interest free advances, for general funding purposes, in the sums of US\$4.5 million, US\$6.7 million, US\$12.2 million and US\$8.5 million to its 90% owned subsidiaries, China Fine Development Limited, Top Known International Limited, Eagleman Development Limited and Superwell Properties Limited respectively. The balance of the share capital of these subsidiaries was held by a party not related to the Group.

As at 30 June 2001, GPL had made interest free advances of US\$91.7 million to Beijing Minghua. The balance of the share capital of Beijing Minghua was held by a party not related to the Group.

### Others

DHB group and Hong Leong Bank Berhad ("HLBB") group have, from time to time, provided services to the Company and its connected persons (as defined in the Listing Rules) in the ordinary course of its banking business including, inter alia, loan advances, deposits, cheque clearing, remittance, the provision of account services in a variety of currencies, nominee and custodian services and occasionally short term credit accommodation. All services provided by DHB group and HLBB group are in the ordinary course of business and on normal commercial terms. Following the acceptance of offer made by DBS Diamond Holdings Ltd., DHB group of companies ceased to be subsidiaries of the Company on 29 June 2001.

The Group regularly conducts banking, investment, insurance, stockbroking and other activities in the ordinary course of business and on normal commercial terms with subsidiaries of, and companies related to, HLCM. Messrs Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are directors interested in such transactions as shareholders and directors of HLCM.

Apart from the above, no contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company operates an executive share option scheme ("Scheme") enabling eligible employees, including directors of the Company, to acquire shares in the Company. Messrs Quek Leng Chan, Kwek Leng Hai, Sat Pal Khattar, Kwek Leng San, Tan Lim Heng, Harry Richard Wilkinson and the Company's former director, Mr Randolph Gordon Sullivan were granted options to subscribe for shares in the Company pursuant to the Scheme. During the year, Messrs Tan Lim Heng and Harry Richard Wilkinson acquired shares in the Company by exercising options.



## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES** (CONT'D)

DHBG operated a share option scheme ("DHBG Scheme") enabling eligible employees, including certain directors of the Company, to acquire shares in DHBG. Messrs Quek Leng Chan, Kwek Leng Hai, Sat Pal Khattar, Kwek Leng San, Harry Richard Wilkinson and the Company's former director, Mr Randolph Gordon Sullivan, were granted options to subscribe for shares in DHBG pursuant to the DHBG Scheme. During the year, Messrs Sat Pal Khattar and Harry Richard Wilkinson acquired shares in DHBG by exercising options. Subsequent to 30 June 2001, Messrs Quek Leng Chan, Kwek Leng Hai, Sat Pal Khattar, Kwek Leng San and Randolph Gordon Sullivan have exercised all their options.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Messrs Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are also directors of HLCM, a substantial shareholder of the Company, which is one of the largest conglomerates based in Malaysia and is engaged in a diverse range of business, including financial services, manufacturing, property investment and development. Messrs Kwek Leng Hai and Tan Lim Heng are also directors of imGO Limited which is engaged in property investment in Hong Kong.

The above directors are considered as having interests in business apart from the Group's business, which is likely to compete, directly or indirectly, with the Group's business under paragraph 8.10 of the Listing Rules.

## **PROPERTIES**

Particulars of the major development properties and investment properties of the Group are shown on pages 91 to 92.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda.

## **INVESTOR RELATIONS**

The Company encourages two way communication with both its institutional and private investors. Extensive information about the Company's activities is provided in the Annual Report and the Interim Report which are sent to shareholders. There is regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcome and are dealt with in an informative and timely manner.

In order to promote effective communication, the Company maintains its website of which financial and other information relating to the Group and its business are disclosed.

## **AUDITORS**

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

**Kwek Leng Hai**  
*President, CEO*

Hong Kong, 12 October 2001