

The past year was not an easy period for business, particularly in the environment of Hong Kong. The low interest rate scenario and the numerous events occurring in the world had its effect on the Group moving forward. We were not able to relate the performance of the stock markets to the economic and geo-political fundamentals in major countries. As such, we were quite reluctant to take on new investments. We thought the best way in this kind of situation would be to maintain liquidity, keeping the powder dry, so to speak. Hence, we ended up the year basically intact with the funds in the Group, except for a small sum in portfolio investments.

Importantly for our Group, Hong Kong has finally begun to realize its vision of becoming the regional hub for an economically integrated Pearl River Delta. With China's legal and business framework becoming increasingly regulated and conforming to international standards following its entry to World Trade Organisation, the Mainland will provide a more favourable business environment. Hong Kong's political infrastructure is also maturing. China's introduction of Closer Economic Partnership Arrangement (CEPA) has demonstrated China's very tangible and constructive support for the future growth of Hong Kong. CEPA is broadly recognized as insuring Hong Kong's transition to an even more significant and sustainable role as China continues to evolve as a more influential global contributor.

Anticipating this improved environment, the Group has undertaken key strategic initiatives to streamline further its set-up and skills to manage the Group. These actions, coupled with the preservation of its capital during challenging global conditions, have well positioned the Group to evaluate investment proposals, manage risk and create shareholders' value.

### FINANCIAL RESULTS

The consolidated profit attributable to shareholders, after taxation and minority interests amounted to HK\$1,225 million to give an earnings per share of HK\$3.76. Consolidated shareholders' funds as at 30 June 2003 were HK\$28,865 million.

At the forthcoming Annual General Meeting of the Company, 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. Total dividend for the year amounted to HK\$360 million.

### DISPOSAL OF 20% INTEREST IN DBS DIAMOND HOLDINGS LIMITED

In January 2003, the disposal of the Group's 20% interest in DBS Diamond Holdings Limited, the immediate holding company of Dao Heng Bank Group Limited, was completed following the exercise of the call option by the Development Bank of Singapore Ltd. The Group received sale proceeds totalling HK\$10.78 billion.

### STREAMLINING AND RESTRUCTURING INITIATIVES

The Group continues to build the foundation for sustainable growth and scalability in pursuit of prime value. It is imperative for the Group to manage effectively its business and to initiate innovative business ideas to create competitive edge and operational efficiency. In order to achieve these objectives, a series of streamlining and restructuring exercises were conducted by the Group last financial year to consolidate the Group's resources so that these resources can be better invested in opportunities that can maximize the return to shareholders. These initiatives should also enhance the value of the Group's existing investments.

Strategic corporate exercises have been made to transform First Capital Corporation Ltd into the Group's core property unit with its name changed appropriately to "GuocoLand Limited" ("GLL"). With an enlarged portfolio and a strengthened balance sheet, GLL is strategically positioned to extend its Singapore and UK operations to tap the growth opportunities in China. Non-core investments were divested while resources were allocated to capture the opportunities arising from the cyclical movements of these markets. These initiatives proved to be effective in bringing GLL to profitability, with a net profit of S\$94.2 million achieved for the year against a net loss of S\$179.9 million incurred in the prior year.

As a further initiative of this strategy to rationalise and consolidate the property and property-related activities of the Guoco Group in GLL, the Company and Hong Leong Company (Malaysia) Berhad ("HLCM") had entered into a conditional sale and purchase agreement with GLL in September 2003 for the sale of approximately 11.28% and 28.30% respective shareholdings in Hong Leong Properties Berhad ("HLPB") (in aggregate 39.58%) to GLL. The consideration will be satisfied by the issue of ordinary shares in the share capital of GLL which would dilute the Company's interest in GLL after the transaction from 61.48% to 57.96%.

The above exercise will enable GLL to have a presence in the Malaysian property market via HLPB, a property group with an embedded management team and good knowledge of the Malaysian property market. GLL will henceforth be focusing in four key countries, namely, Singapore, China, the United Kingdom and Malaysia. GLL is then positioned to capitalise on market potential in line with the different property cycles of these four identified property centres.

Hong Leong Credit Berhad ("HLCB"), the Group's 25.3% owned associated company and the current largest core business, undertook to streamline its operation into a pure financial services group by the demerger of HLPB. HLCB rewarded its shareholders through a capital distribution of its approximately 45% interest in HLPB, enabling them to participate directly in HLPB's equity while preserving the intrinsic value of HLCB. Being the Group's core financial arm, HLCB is diligently pursuing business and appropriate investment opportunities to expand its horizon with the support of the Group.

The financial services subsidiaries, comprising Dao Heng Securities Limited, Dao Heng Fund Management Limited and Dao Heng Insurance Co., Limited, had implemented bold rightsizing and streamlining exercises. Concurrently, effective allocation of resources was made in light of market opportunities and business potentials. With various prudent initiatives undertaken, the financial services companies have positioned themselves to work towards improvement in profitability on the expectation of better market conditions ahead.

### INVESTMENTS

The Investment Committee continues to provide guidance and directives in relation to the Group's investment and treasury operations. A formal process with clearly defined strategies and operating parameters was instituted by the Committee to manage the substantial investment funds. Strategic plans were formulated with the view to enhance the value of the Group's assets and investments.

Owing to the volatile and unpredictable global economic and political outlook during the year, assets and capital preservation remained the primary objective of our investment strategies. I am pleased to report that with strict adherence to the conservative cash management approach and risk management parameters, the Group achieved an acceptable level of return against the current low interest rate environment, without exposing to any undue risk.

Considering the prevailing outlook, the risk-reward of investment opportunities did not justify any major entry during the year under review. As an investment holding company, it remains our intention to seek various value investments that will enhance shareholders' value. We will continue to expand our team and strengthen the infrastructure to enable us to identify structured investment opportunities on a global basis.

### CORPORATE GOVERNANCE

The Group remains committed to high standards of corporate governance. With this objective in mind, the business and affairs of the Group are managed so as to create long term shareholders' value through enhancing corporate performance and accountability. Continued efforts are being made in reinforcing the Group's various controls and procedures in light of regulatory requirements and international developments to instill best practices.

### OUTLOOK

China's economic importance and status have gained global recognition following its successful accession to World Trade Organisation. It will be an engine of global growth and a contributor to global prosperity. With CEPA, Hong Kong can play a more significant role to accelerate economic development together with China. While general market conditions are becoming more encouraging, caution still prevails as global economies remain challenging. We believe they will continue to undergo fundamental corrections. The Group intends to capitalize on this window of opportunity to seek a variety of value investment options that will sustain the Group's growth and ensure the creation of superior shareholders' value.

### APPRECIATION

I would like to thank my fellow directors for their guidance and support and to express my appreciation to the management team and diligent employees for their commitment and loyal service. I also wish to thank our customers, bankers and shareholders for their continued support.

**Quek Leng Chan**  
*Executive Chairman*

17 October 2003