TREASURY AND INVESTMENT STRATEGIES

The Board has established an Investment Committee to oversee and to direct the Group's ongoing investment process and to regularly review its risk related policies and controls. The Investment Committee regularly reviewed investment policies and parameters covering core investment, time deposits, money market instruments, fixed income, equities, financial instruments, interest rate and foreign currency exposures. The Group has maintained stringent concentration risks controls covering limits for country risk, counter party, currency as well as duration.

For most of the year under review, the US economy continued to be affected by weak corporate spending, slowdown in private consumption together with the Iraqi conflict. Business sentiment was further dampened by geopolitical risks, terrorism as well as the outbreak of SARS in the region. As a result, we have decided not to undertake any major investment and have continued our cash management policy to preserve our strategic fund pool during the year. Meanwhile, the Group had taken the opportunity to expand its investment infrastructure to manage its treasury operations and investment funds.

With the benefit of hindsight, the year-to-year decline in most of the major market indices as illustrated by the table below appeared to support the investment stance maintained by the Group during the year:

Table: Major Stock Indices

	30 June 2002	30 June 2003	% Change
Dow Jones Ind.	9,243	8,985	(2.8)
Nasdaq	1,463	1,623	10.9
London FTSE	4,656	4,031	(13.4)
NIKKEI	10,622	9,083	(14.5)
Hang Seng Index	10,599	9,577	(9.6)
STI	1,553	1,448	(6.8)
KLSE	725	692	(4.6)

Despite recent emerging signs of recovery in the US after the end of the Iraqi conflict, the improved confidence had yet to be translated into actual corporate spending. Business investments still remained lukewarm. Even the high-growth Chinese economy inevitably faced a SARS-induced slowdown which has subsequently recovered and resumed its steady economic growth. In Hong Kong, Closer Economic Partnership Arrangement (CEPA) with China and other initiatives undertaken by the SAR Government will help to alleviate deflation and unemployment problems that are still persisting but are now expected to be resolved over time. In fact, Hong Kong's future role as the economic hub for the Pearl River Delta is now clearly evolving.

The Investment Committee considered that the congruence between market forces and fundamentals would ultimately take place. However, it also recognizes that there are under-valued companies in any market environment. Consequently the Investment Committee directed the management to perform detailed analyses to identify markets with good potential value and to identify solid companies with good underlying intrinsic value.

The Group is well positioned with a strong balance sheet capable of supporting new investment initiatives. Going forward, we believe that more favourable opportunities will arise as a consequence of changes in global political and economic development. The Group will continue to seek new investment opportunities in order to build the foundation for sustainable growth and to continue its efforts to maximize profit and build prime value through enhancement of its existing assets and new investments.

PROPERTY DIVISION

GuocoLand Limited ("GLL") - 61.5% owned by the Group

To establish a competitive position in the property sector and to streamline its operational efficiency, the Group has successfully completed a series of streamlining and restructuring transactions to transform GLL into a regional property player. The company also changed its name from "First Capital Corporation Ltd" to "GuocoLand Limited" in December 2002 to clearly convey its role as the Group's core property unit. With proper allocation of resources and disciplined management, GLL is now well poised for growth opportunities and to accommodate fluctuations in property cycles in markets spanning Singapore, China, Malaysia and UK.

The beginning of the financial year looked promising with the easing of the Central Provident Fund rules in Singapore in September 2002, making homes more affordable. Singapore developers sold 2,346 residential units in the third quarter of 2002, the highest number in all quarters of the financial year. The Singapore property market however cooled off thereafter with buying interest only returning during the months of May to July 2003 in response to major developers launching their projects following the substantial control of SARS. Overall, private residential property prices fell 1.8% in 2002 and 1.5% in the first half of 2003.

Notwithstanding the difficult conditions in the regional economies, relatively good progress was made in GLL. Its turnover increased by 56% to S$364.9 million for the financial year ended 30 June 2003. The turnover was mainly attributable to units sold in Sanctuary Green and The Gardens at Bishan.

For the financial year under review, GLL reported a net profit of S$94.2 million compared with a net loss of S$179.9 million in the previous corresponding year. GLL's net profit for the financial year was mainly due to:-

- profit of S$16 million on the residential development projects in Singapore;
- profit of S$25 million arising from the disposal of its interest in Century Square Holdings Pte Ltd ("CSH");
- net profit of S$25 million arising from the disposal of interest in a development site at Suzhou; and
- unrealised mark-to-market gains of S$22 million on financial assets.

GLL also made a net provision for foreseeable losses of S$15 million on its residential development projects in Singapore.

GLL's associated companies contributed a profit of S$24.4 million. The profit contribution for the current financial year was mainly from its 34.54% associate, Benchmark Group PLC, which is listed on the London Stock Exchange and from its 40% associate, Razgrad Pte Ltd, which owns The Ladyhill, a residential development project in Singapore.

During the financial year, GLL had been actively divesting most of its non-core and non-strategic assets, including its 97.7% interests in its insurance subsidiary and its 9.6% interests in Overseas Union Enterprise Limited ("OUE").

GLL's borrowings decreased by S$348 million from S$1,404 million to S$1,056 million as at 30 June 2003 mainly from the proceeds from disposal of its interests in its insurance subsidiary, OUE, CSH and in a development site in Suzhou. The reduction in GLL's borrowings coupled with the lower interest rate environment, has resulted in a 67% decrease in GLL's interest costs charged to the profit and loss account, from S$31.3 million to S$10.3 million.

Guoco Properties Limited ("GPL") is GLL's property development, investment and management flagship in China. The property development projects it currently undertaken are in the key gateway cities of Shanghai and Beijing. Central Park, a prestigious residential project located parallel to Huai Hai Middle Road, Shanghai, is expected to be launched for sale around early 2004. In May 2003, GPL entered into an agreement to form a joint venture for the development of a land parcel at the Fifth Mile of Zhenwumiao in the Xicheng district in Beijing. The area of the land parcel is approximately 13,000 sq. m. while the gross saleable area is estimated to be approximately 47,000 sq. m. It is primarily for residential development and can accommodate a condominium of up to 15 storeys with clubhouse and carpark facilities.

In Singapore, GLL currently has seven launched residential developments in the market: Sanctuary Green, The Gardens at Bishan, Bishan Point, Le Crescendo, Leonie Studio, The Ladyhill (in which GLL has 40% interest) and The Boulevard Residence (in which GLL has 40% interest). As at 18 September 2003, GLL has achieved sales of 52% in Sanctuary Green, 83% in The Gardens at Bishan, 88% in Bishan Point, 40% in Le Crescendo, 5% in Leonie Studio, 44% in The Ladyhill and 22% in The Boulevard Residence. In China, Corporate Square, GLL's commercial project in Beijing, is currently 63% sold.

There was no acquisition of development site during the year under review. GLL's land bank as at 30 June 2003 constituting unlaunched projects stood at approximately 300,000 sq. ft., equivalent to 222 residential units. GLL has a further 880,000 sq. ft. of unsold launched properties, equivalent to 675 residential units.

FINANCIAL INDUSTRY GROUP

Hong Leong Credit Berhad ("HLCB") - 25.3% owned by the Group

Amid the setback of the regional economies, the Malaysian government had implemented a series of economic stimulus package which included an interest rate cut and a host of market friendly developments. The stimulus package together with easing external concerns, kick started an improvement in the economy and hence, saw the Kuala Lumpur Stock Exchange (KLSE) Composite Index making a dramatic U-turn.

At the same time, intensifying competition, low interest regime and structural changes in the financial services industry together with uncertainties across the globe had led to an increasingly challenging climate. This climate had put pressure on revenue growth and resulted in a narrowing of margins. The HLCB Group took the following steps to mitigate the downside impact:

- achieved a significant reduction in provision for loan loss due to intensified recovery efforts;
- continued to be prudent in the acquisition of assets and investments; and
- re-examined pricing strategies and repositioned its products where necessary.

In addition, the relentless cost down initiatives undertaken during the year has paid off as operating costs were trimmed organically.

Amid such challenging environment, the HLCB Group has held up well by recording a modest growth of 2.4% in profit before tax to reach RM802.7 million compared with RM783.8 million in the last financial year.

The banking and finance division continued to contribute significantly to the HLCB Group's earnings and reported a profit before taxation of RM801.9 million, a 12.9% increase as compared with RM710.1 million in last financial year. This increase was mainly due to the HLCB Group's ongoing control on operating costs and prior year adjustment relating to change in accounting policies for dealers' handling fees and income taxes.

The insurance division registered a lower profit before tax of RM82.5 million compared with RM98.5 million in the last financial year. This reduction was primarily due to lower investment income as a result of weak market sentiment in the KLSE for most part of the year.

The stockbroking division recorded a higher loss before taxation of RM29.7 million compared with a profit before taxation of RM3.8 million in the last financial year. This was principally due to the significant write-offs of property and equipment as part of its cost rationalisation exercise and provisions made for doubtful debts.

The HLCB Group's share of profit before tax in the property division amounted to RM8.1 million compared with RM17.5 million in the last financial year.

Whilst increased domestic activity is expected to spur economic growth, still greater challenges are ahead given the ongoing liberalisation of the financial and capital markets. Nevertheless, the HLCB Group has made good progress to position itself for this dynamic landscape and will continue to focus on those fundamentals to reinforce HLCB Group's strong franchise in banking, insurance, asset management and stockbroking.

To enable the HLCB Group's transformation to a pure financial services group, in August 2002 HLCB proposed the capital distribution of all its interests (approximately 45%) in Hong Leong Properties Berhad ("HLPB") to its shareholders. The proposal was approved by its shareholders in March 2003 and completed in July 2003 after the approval of the High Court of Malaya. The Group has received approximately 79 million shares in HLPB from the distribution.

Hong Kong Financial Services Subsidiaries

Our financial services subsidiaries comprising Dao Heng Securities Limited, Dao Heng Fund Management Limited and Dao Heng Insurance Co., Limited, continued to face a challenging operating environment.

The overall performance of the Hong Kong stock market has been clouded by the Iraqi conflict, the outbreak of SARS and political issues in Hong Kong. The generally poor investment sentiment, worse-than-expected corporate earnings and the deteriorating unemployment rate had adversely affected the turnover of the stock market. Furthermore, the deregulation of brokerage commission rate with effect from 1 April 2003 has intensified market competition.

Decreasing subscription and increasing redemption from clients, coupled with the lower net asset value due to market performance contributed to the reduction of asset size for most of the unit trust funds in the market. Mandatory Provident Fund is the only growth area, due to the regular monthly contribution inflow.

The financial services companies had taken steps to reposition their business dynamics to cope with the structural change of their respective markets and adopted strategic moves to shift in focus to solidify their trusted positions with their niche client groups. Various exigent rationalisation measures including rightsizing initiatives and enhancement of information technology systems had contributed to significant cost saving and improvement in productivity. Extensive effort has also been dedicated to develop new distribution channels for strategic sectors with opportunities and potentials. These companies have therefore positioned themselves to work towards improvement or a return to profitability on the expectation of better market conditions ahead.

FINANCIAL COMMENTARY

Turnover

Overall turnover increased by HK$251 million or 12%, mainly attributable to the increase of 51% or HK$500 million in income from sale of properties. Turnover from the treasury, fund and investment management sector and the insurance sector declined by 21% and 40% respectively.

Treasury, fund and investment management sector accounted for approximately 88% of the contribution from operations.

Borrowings

By 30 June 2003, the Group had reduced its total borrowings by 25% to HK$4,673 million from HK$6,195 million as at 30 June 2002. Unsecured borrowing comprised 38% of the total borrowings. All borrowings belonged to GLL and primarily represented GLL's property project loans.

The Group's bank loans, overdrafts and other borrowings were repayable as follows:

	Bank loans	Other borrowings	Total
	HK$'000	HK$'000	HK$'000
On demand or within 1 year	2,503,111	486,751	2,989,862
After 1 year but within 2 years	424,523	353,390	777,913
After 2 years but within 5 years	782,638	122,842	905,480
	1,207,161	476,232	1,683,393
	3,710,272	962,983	4,673,255

The loans are secured by the following:

- legal mortgages on investment properties with a book value of HK$577 million;
- legal mortgages on development properties with a book value of HK$3,725 million; and
- certain equity investments with total carrying value of HK$594 million.

As at 30 June 2003, the Group has net cash balance of HK$18,198 million after netting off the total borrowings of HK$4,673 million.

Contingent Liabilities

As at 30 June 2003, there were contingent liabilities in respect of guarantees given to bankers by the Group and the Company to secure banking facilities to the extent of HK$313 million (2002: HK$324 million) and HK$165 million (2002: HK$165 million) respectively granted to group companies and certain investee companies of the Group.

Capital and Finance

The Group's consolidated shareholders' funds as at 30 June 2003 after adjusting for the major items set out below, amounted to HK$28,865 million. The major adjustments are as follows:

- increase in share capital and share premium of HK$64 million upon the exercise of share options during the year; and
- net exchange difference of HK$34 million.

HUMAN RESOURCES AND TRAINING

The Group, including its subsidiaries in Hong Kong and overseas, employed approximately 330 employees as at 30 June 2003, about 23% decrease from the last financial year as a result of the rightsizing and streamlining initiatives. The Group continued to follow a measured approach towards achieving an optimal and efficient size of its workforce and is committed to provide its staff with ongoing development programmes to enhance productivity and work quality.

The remuneration policy for the Group's employees is reviewed by management on a regular basis. Remuneration packages are structured to take into account the level and composition of pay and general market conditions in the respective countries and businesses in which the Group operates. Bonus and other merit payments are linked to the financial performance of the Group and individual achievement as incentives to optimise performance. Share options may also be granted in accordance with the share option scheme or plan adopted by the Company to eligible employees to reward their contribution and foster loyalty towards the Group.