

# REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 June 2003.

## 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 year include property development and investment; stock broking and commodities trading; insurance and fund management services; and treasury and investment management. 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 locations of operations of the Company and its subsidiaries during the year is set out in Note 14 on the financial statements.

## FINANCIAL STATEMENTS

The consolidated net profit of the Group for the year ended 30 June 2003 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 37 to 89.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the total turnover of the Group. The information in respect of the Group's purchases attributable to the major suppliers during the year is as follows:

	Percentage of the Group's total purchases
The largest supplier	37%
Five largest suppliers in aggregate	82%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major suppliers.

## CHARITABLE DONATIONS

Donations made by the Group during the year amounted to US\$81,000 (2002: US\$68,000).

## DIVIDENDS

An interim dividend of HK\$0.40 (2002: HK\$0.40) per share totalling HK\$130,885,000 (2002: HK\$129,633,000) was paid on 14 April 2003. The directors are recommending payment of a final dividend in respect of the year ended 30 June 2003 of HK\$0.70 (2002: HK\$0.70) per share totalling HK\$229,048,000 (2002: HK\$226,857,000).

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 November 2003 to 20 November 2003, 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 14 November 2003.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are shown in Note 31 on the financial statements.

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

During the year, the Company did not redeem, and neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.

## FIXED ASSETS

Movements in fixed assets during the year are set out in Note 15 on the financial statements.

## RESERVES

Movements in the reserves of the Company and the Group during the year are set out in Note 32 on the financial statements.

## SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in Note 16 on the financial statements.

## DIRECTORS

The Board of Directors meets regularly and members of the Board receive information between meetings about the developments in the Company's business. The Board 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 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\*

Tan Lim Heng

Harry Richard Wilkinson\*\*

Jamal Al-Babtain\*

James Eng, Jr.

Tung Hsi Hui, Frank\*\*

\* *Non-executive director*

\*\* *Independent non-executive director*

In accordance with Clause 99 of the Company's Bye-Laws, Messrs Kwek Leng San, Harry Richard Wilkinson and Peter Anthony Wakefield will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves 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.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were disclosed as follows in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”):

### (a) The Company

Director	Number of shares/underlying shares (Long Position)				Notes
	Personal interests	Family interests	Corporate interests	Total interests	
Quek Leng Chan	1,656,325	—	150,629,522	152,285,847	1
Kwek Leng Hai	2,820,775	—	—	2,820,775	2
Sat Pal Khattar	691,125	—	—	691,125	3
Kwek Leng San	209,120	—	—	209,120	4
Tan Lim Heng	559,230	—	—	559,230	5
James Eng, Jr.	565,443	—	—	565,443	6
Harry Richard Wilkinson	70,000	—	—	70,000	7
Tung Hsi Hui, Frank	200	—	—	200	8

#### Notes:

- (1) The total interests of 152,285,847 shares/underlying shares, which represented a deemed shareholding of approximately 46.54% of the total issued share capital of the Company, comprised 138,430,640 ordinary shares of the Company, 13,255,207 underlying shares of other unlisted derivatives and 600,000 underlying shares of unlisted physically settled options granted by the Company with details as set out against his own name under the “Share Options” section below.  
  
The corporate interests of 150,629,522 shares/underlying shares were interests held by certain corporations of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.
- (2) The personal interests of 2,820,775 shares/underlying shares, which represented a deemed shareholding of approximately 0.86% of the total issued share capital of the Company, comprised 2,220,775 ordinary shares of the Company and 600,000 underlying shares of unlisted physically settled options granted by the Company with details as set out against his own name under the “Share Options” section below.
- (3) The personal interests of 691,125 shares/underlying shares, which represented a deemed shareholding of approximately 0.21% of the total issued share capital of the Company, comprised 631,125 ordinary shares of the Company and 60,000 underlying shares of unlisted physically settled options granted by the Company with details as set out against his own name under the “Share Options” section below.
- (4) The personal interests of 209,120 shares/underlying shares, which represented a deemed shareholding of approximately 0.06% of the total issued share capital of the Company, comprised 149,120 ordinary shares of the Company and 60,000 underlying shares of unlisted physically settled options granted by the Company with details as set out against his own name under the “Share Options” section below.
- (5) The personal interests of 559,230 shares/underlying shares, which represented a deemed shareholding of approximately 0.17% of the total issued share capital of the Company, comprised 359,230 ordinary shares of the Company and 200,000 underlying shares of unlisted physically settled options granted by the Company with details as set out against his own name under the “Share Options” section below.
- (6) The personal interests of 565,443 shares/underlying shares, which represented a deemed shareholding of approximately 0.17% of the total issued share capital of the Company, comprised 365,443 ordinary shares of the Company and 200,000 underlying shares of unlisted physically settled options granted by the Company with details as set out against his own name under the “Share Options” section below.
- (7) The personal interests of 70,000 shares/underlying shares, which represented a deemed shareholding of approximately 0.02% of the total issued share capital of the Company, comprised 10,000 ordinary shares of the Company and 60,000 underlying shares of unlisted physically settled options granted by the Company with details as set out against his own name under the “Share Options” section below.
- (8) The personal interests represented 200 ordinary shares of the Company.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

### (b) Associated corporations

#### *GuocoLand Limited ("GLL")*

Director	Number of shares/underlying shares (Long Position)					Notes
	Personal interests	Family interests	Corporate interests	Other interests	Total interests	
Quek Leng Chan	14,047,224	—	396,339,980	—	410,387,204	1
Kwek Leng Hai	10,042,617	—	—	—	10,042,617	2a
	—	—	—	8,808,523	8,808,523	2b
Sat Pal Khattar	—	—	6,993,635	—	6,993,635	3a
	—	—	—	3,398,727	3,398,727	3b

*Notes:*

- (1) The total interests of 410,387,204 shares/underlying shares, which represented a deemed shareholding of approximately 79.68% of the total issued share capital of GLL, comprised 330,511,571 ordinary shares of GLL, 53,833 underlying shares of listed physically settled options due in 2004 and 79,821,800 underlying shares of listed physically settled options due in 2005.

The corporate interests of 396,339,980 shares/underlying shares were interests held by certain subsidiaries of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interest in the Company as described in part (a) above.

- (2a) The personal interests represented 10,042,617 ordinary shares of GLL.
- (2b) The other interests represented 8,808,523 4.5% non-redeemable convertible cumulative preference shares 2005 of GLL.
- (3a) The corporate interests represented 6,993,635 ordinary shares of GLL.
- (3b) The other interests represented 3,398,727 4.5% non-redeemable convertible cumulative preference shares 2005 of GLL.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

### (b) Associated corporations (Cont'd)

#### *Hong Leong Credit Berhad ("HLCB")*

Director	Number of shares/underlying shares (Long Position)				Notes
	Personal interests	Family interests	Corporate interests	Total interests	
Quek Leng Chan	11,046,600	—	835,644,954	846,691,554	1
Kwek Leng Hai	916,800	—	—	916,800	2
Tan Lim Heng	245,700	—	—	245,700	3

#### *Notes:*

- (1) The total interests of 846,691,554 shares/underlying shares, which represented a deemed shareholding of approximately 81.41% of the total issued share capital of HLCB, comprised 840,999,354 ordinary shares of HLCB, 159,000 underlying shares of listed physically settled options issued by HLCB exercisable between 24 December 1999 and 23 December 2004 at an exercise price of RM2.74 per share and 5,533,200 underlying shares of other unlisted derivatives.

The corporate interests of 835,644,954 shares/underlying shares were held as to 263,334,646 shares/underlying shares by certain subsidiaries of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 572,310,308 shares/underlying shares by certain corporations of which Mr Quek Leng Chan was entitled to control, directly or indirectly, one-third or more of the voting power.

- (2) The personal interests of 916,800 shares/underlying shares, which represented a deemed shareholding of approximately 0.09% of the total issued share capital of HLCB, comprised 756,000 ordinary shares of HLCB and 160,800 underlying shares of listed physically settled options issued by HLCB exercisable between 20 August 1997 and 27 June 2007 at an exercise price of RM4.99 per share.
- (3) The personal interests represented 245,700 ordinary shares of HLCB.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

### (c) Interests of Mr Quek Leng Chan in other associated corporations

Associated Corporations	Number of shares/underlying shares (Long Position)				Notes
	Personal interests	Family interests	Corporate interests	Total interests	
Benchmark Group PLC ("BGP")	—	—	37,524,363	37,524,363	1
Guoman Hotel & Resort Holdings Sdn Bhd ("GHRH")	—	—	277,000,000	277,000,000	2
HLG Asset Management Philippines, Inc ("HLGAM")	—	—	48,000,000	48,000,000	3
Hume Concrete Philippines, Inc ("HCPI")	—	—	100,000	100,000	4
Hume Holdings, Inc ("HHI")	—	—	100,000	100,000	5
Luck Hock Venture Holdings, Inc. ("LHVHI")	—	—	75,000	75,000	6
McQuay Philippines Sales & Service, Inc ("MPSS")	—	—	20,000,000	20,000,000	7
OYL Holdings, Inc ("OYLH")	—	—	100,000	100,000	8
Philippine Malaysia Water Consortium, Inc. ("PMWC")	—	—	3,250,000	3,250,000	9
PICOP Holdings, Inc ("PICOPH")	—	—	100,000	100,000	10
Prime Orion Philippines, Inc ("POPI")	121,000,000	—	866,610,220	987,610,220	11

*Notes:*

- (1) The corporate interests of 37,524,363 shares/underlying shares, representing a deemed shareholding of approximately 38.51% of the total issued share capital of BGP, comprised 33,657,790 ordinary shares of BGP and 3,866,573 underlying shares of listed physically settled options which represented conversion rights attached to the options convertible between 1 October 2003 and 31 October 2013 at a conversion price of GBP3.233 per share.

37,522,024 shares/underlying shares of these corporate interests were held by a subsidiary of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 2,339 shares/underlying shares were held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.

- (2) The corporate interests of 277,000,000 shares, which represented 100.00% of the total issued share capital of GHRH, comprised 83,100,000 shares held by a subsidiary of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 193,900,000 shares held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.

- (3) The corporate interests of 48,000,000 shares, which represented 96.00% of the total issued share capital of HLGAM, comprised 27,500,000 shares held by an associated corporation of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 20,500,000 shares held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

### (c) Interests of Mr Quek Leng Chan in other associated corporations (Cont'd)

- (4) The corporate interests of 100,000 shares, which represented 100.00% of the total issued share capital of HCPI, comprised 60,000 shares held by an associated corporation of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 40,000 shares held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.
- (5) The corporate interests of 100,000 shares, which represented 100.00% of the total issued share capital of HHI, comprised 80,000 shares held by an associated corporation of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 20,000 shares held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.
- (6) The corporate interests of 75,000 shares, which represented 60.00% of the total issued share capital of LHVHI, comprised 25,000 shares held by an associated corporation of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 50,000 shares held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.
- (7) The corporate interests of 20,000,000 shares, which represented 100.00% of the total issued share capital of MPSS, comprised 6,000,000 shares held by an associated corporation of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 14,000,000 shares held by corporations of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.
- (8) The corporate interests of 100,000 shares, which represented 100.00% of the total issued share capital of OYLH, comprised 60,000 shares held by an associated corporation of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 40,000 shares held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.
- (9) The corporate interests of 3,250,000 shares, which represented 65.00% of the total issued share capital of PMWC, comprised 1,000,000 shares held by an associated corporation of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 2,250,000 shares held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.
- (10) The corporate interests of 100,000 shares, which represented 100.00% of the total issued share capital of PICOPH, comprised 60,000 shares held by an associated corporation of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and 40,000 shares held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.
- (11) The total interests of 987,610,220 shares represented approximately 41.72% of the total issued share capital of POPI.

The corporate interests of 866,610,220 shares were held by certain subsidiaries of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above.

### (d) Interests of Mr Quek Leng Chan in debentures of associated corporation

Mr Quek Leng Chan was deemed to be interested in the corporate interests of GBP12,501,045 of debentures in BGP, comprising GBP12,500,000 of debentures held by a subsidiary of the Company, in respect of which Mr Quek Leng Chan was taken to have a duty of disclosure under the SFO by virtue of his interests in the Company as described in part (a) above and GBP1,045 of debentures held by a corporation of which Mr Quek Leng Chan was entitled to control one-third or more of the voting power.

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

Save as disclosed above, as at 30 June 2003, none of the directors of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO required to be disclosed in accordance with the Listing Rules.

## SHARE OPTIONS

### The Company

#### *Executive Share Option Scheme*

The Company adopted an executive share option scheme (“ESOS”) on 30 July 1991 to provide eligible employees including directors of the Company or any full-time employees in the service of the Company or a subsidiary of the Group with the opportunity to participate in the growth of the Company thereby achieving the purpose of attracting and motivating the Group’s high calibre and eligible employees. Pursuant to the terms of the ESOS, the directors of the Company might, subject to such conditions as they may think fit, offer to grant options to any eligible employees, to subscribe for ordinary shares of US\$0.50 each in the capital of the Company.

The exercise price per share would not be less than 80% of the average of the last dealt prices of the shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the five business days immediately preceding the date of offer of such share options or the nominal value of the shares, whichever was higher. A nominal consideration of HK\$1 was payable on the acceptance of the share option within 21 days inclusive of and from the date of making such offer. Option could be exercised from the date of grant and ending on the tenth anniversary of the date on which the option was granted.

The aggregate number of shares issued and issuable upon the exercise of all share options would not exceed 10% of the number of shares in issue from time to time. No share option would be granted to any one person, which, if exercised in full, would result in the total number of shares already issued and issuable to that person under all share options previously granted to him exceeding 25% of the maximum aggregate number of shares in respect of which share options might be granted under the ESOS.

On 6 December 1999, share options for the exercise of an aggregate of 9,800,000 shares at HK\$20.33 per share were granted to certain directors of the Company and employees of the Group pursuant to the ESOS. The closing market price per share on that date was HK\$23.60. As at 30 June 2003, the number of shares issuable upon exercise of all outstanding options was 1,840,000 which represented approximately 0.56% of the shares in issue of the Company. Details of the share options granted to directors and employees which remained outstanding during the year are as follows:

Grantee	No. of share options		Exercise period of share options	No. of shares acquired on exercise of share options during the year	Weighted closing price immediately before the date of exercise HK\$
	as at 1 July 2002	as at 30 June 2003			
Quek Leng Chan	600,000	—	12 November 2002 to 12 February 2004	600,000	46.50
	600,000	600,000	12 November 2003 to 12 February 2004	—	
	1,200,000	600,000		600,000	
	1,200,000	600,000		600,000	
Kwek Leng Hai	450,000	—	12 November 2000 to 12 February 2004	450,000	46.50
	600,000	—	12 November 2001 to 12 February 2004	600,000	46.50
	600,000	—	12 November 2002 to 12 February 2004	600,000	46.50
	600,000	600,000	12 November 2003 to 12 February 2004	—	
	2,250,000	600,000		1,650,000	
	2,250,000	600,000		1,650,000	



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## SHARE OPTIONS (Cont'd)

### The Company (Cont'd)

#### Executive Share Option Scheme (Cont'd)

Grantee	No. of share options		Exercise period of share options	No. of shares acquired on exercise of share options during the year	Weighted closing price immediately before the date of exercise HK\$
	as at 1 July 2002	as at 30 June 2003			
Sat Pal Khattar	60,000	—	12 November 1999 to 12 February 2004	60,000	47.50
	60,000	—	12 November 2000 to 12 February 2004	60,000	47.50
	60,000	—	12 November 2001 to 12 February 2004	60,000	47.50
	60,000	—	12 November 2002 to 12 February 2004	60,000	47.50
	60,000	60,000	12 November 2003 to 12 February 2004	—	
	<u>300,000</u>	<u>60,000</u>		<u>240,000</u>	
Kwek Leng San	60,000	—	12 November 2002 to 12 February 2004	60,000	45.60
	60,000	60,000	12 November 2003 to 12 February 2004	—	
	<u>120,000</u>	<u>60,000</u>		<u>60,000</u>	
Tam Lim Heng	200,000	—	12 November 2002 to 12 February 2004	200,000	47.50
	200,000	200,000	12 November 2003 to 12 February 2004	—	
	<u>400,000</u>	<u>200,000</u>		<u>200,000</u>	
Harry Richard Wilkinson	60,000	—	12 November 2001 to 12 February 2004	60,000	47.50
	60,000	—	12 November 2002 to 12 February 2004	60,000	47.50
	60,000	60,000	12 November 2003 to 12 February 2004	—	
	<u>180,000</u>	<u>60,000</u>		<u>120,000</u>	

## SHARE OPTIONS (Cont'd)

### The Company (Cont'd)

#### Executive Share Option Scheme (Cont'd)

Grantee	No. of share options		Exercise period of share options	No. of shares acquired on exercise of share options during the year	Weighted closing price immediately before the date of exercise HK\$
	as at 1 July 2002	as at 30 June 2003			
James Eng, Jr.	200,000	—	12 November 2002 to 12 February 2004	200,000	47.50
	200,000	200,000	12 November 2003 to 12 February 2004	—	
	400,000	200,000		200,000	
Employees (Note)	120,000	—	12 November 2002 to 12 February 2004	60,000	47.50
	120,000	60,000	12 November 2003 to 12 February 2004	—	
	240,000	60,000		60,000	

*Note:* The outstanding 120,000 share options with an exercise price of HK\$20.33 per share lapsed following the resignation of an eligible employee during the year.

No option was granted during the year under the ESOS which had expired on 30 July 2001, other than those already granted.

#### Share Option Scheme

A new share option scheme (the “New Scheme”) was adopted by the Company on 29 November 2001 for the purpose of providing any employee or director of the Company or any of its subsidiaries or associated companies (the “Eligible Employee”) the opportunity of participating in the growth and success of the Group. The number of shares that may be issued upon exercise of all share options to be granted under the New Scheme shall not in aggregate exceed 32,721,137 which represents 10% of the shares in issue of the Company on the date of this report. The maximum entitlement for any Eligible Employee in respect of the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12 months period up to the date of the latest grant does not exceed 1% of the shares of the Company in issue.

The option price per share payable upon exercise of any share option will be determined by the directors upon the grant of the share option. It will not be less than the greatest of (a) the average closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the day of offer of such a share option; (b) the closing price of a share as stated in the Stock Exchange’s daily quotation sheet on the day of offer of such a share option; and (c) the nominal value of a share.

A nominal consideration of HK\$1 is payable on acceptance of the share option within 21 days inclusive of, and from the date of making such offer. The exercise period of the share option shall fall within the period from the date of grant and ending on the tenth anniversary of the date of grant in respect of such offer. No share option may be granted more than ten years after 29 November 2001, the date on which the New Scheme was adopted by the Company.

No option was granted to any Eligible Employee pursuant to the New Scheme during the year.

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## SHARE OPTIONS (Cont'd)

### The Company (Cont'd)

#### *Share Option Plan*

On 16 December 2002, the Company adopted a share option plan (the "Share Option Plan") for the purpose of motivating the employees and directors of the group companies and the employees of associated companies (the "Participants") and allowing them to participate in the growth of the Company through the grant of options over existing shares.

Unlike a traditional employee share option scheme, the Share Option Plan does not involve options over unissued shares of the Company and thereby avoids the uncertainty for the shareholders of potential dilutionary effect on the Company's issued share capital from time to time. A trust (the "Trust") has been set up for the purpose of acquiring existing shares of the Company to satisfy outstanding options from time to time while a wholly owned subsidiary of the Company as the trustee is responsible for administering the Trust.

The number of shares that may be transferred upon exercise of all share options to be granted under the Share Option Plan shall not in aggregate exceed 32,721,137 which represents 10% of the shares in issue of the Company as at the date of this report. The maximum entitlement for any Participant in respect to the total number of shares transferred and to be transferred upon exercise of options granted and to be granted in any 12 months period up to the date of the latest grant will not exceed 1% of the shares of the Company in issue at any date of grant.

The exercise price of an option for the purchase of share will not be less than the greatest of (a) the average closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the day of offer of such a share option; (b) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the day of offer of such a share option, which must be a business day; and (c) the nominal value of a share.

A nominal consideration of HK\$1 is payable on acceptance of the share option within 21 days from the date of making such offer. The exercise period of the share option shall fall within the period from the date of grant and ending on the tenth anniversary of the date of grant of such option. No share option may be granted more than ten years after 16 December 2002, the date on which the Share Option Plan was adopted by the Company.

No option was granted to any Participant pursuant to the Share Option Plan 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 or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SHARE OPTIONS (Cont'd)

### GuocoLand Limited

GLL's Executive Share Option Scheme (the "Option Scheme") was approved by the shareholders of GLL on 31 December 1998 and further approved by the shareholders of the Company on 1 February 1999. The Option Scheme provides an opportunity for the employees of the GLL Group who have contributed to the growth and development of the GLL Group to participate in the equity of GLL.

A committee (the "Committee") comprising directors of GLL who are presently not participants of the Option Scheme shall select full time employees of the GLL Group and the executive directors of GLL ("GLL Employees") to become participants in the Option Scheme. The aggregate number of shares in GLL over which the Committee may grant options under the Option Scheme on any date, when added to the number of shares issued and issuable in respect of all options granted under the Option Scheme, shall not exceed 5% of the issued share capital of GLL on the day preceding that date. The total number of shares available for issue under the Option Scheme was 20,390,734, representing 3.96% of the issued share capital of GLL as at the date of this report.

The maximum entitlement of any GLL Employee shall not exceed 25% in aggregate of the total number of GLL shares which have been issued and are to be issued by GLL pursuant to the exercise of options under the Option Scheme. The grant of option to a GLL Employee shall be accepted within 30 days from the date on which an option is granted accompanied by a payment of S\$1 as consideration. The Option Scheme shall continue to be in force at the discretion of the Committee, subject to a maximum period of 15 years commencing on 31 December 1998.

The exercise price per GLL share shall be the average of the closing prices of GLL's shares on Singapore Exchange Securities Trading Limited for each of the last five market days immediately prior to the date of grant of the option or the nominal value of the GLL shares, whichever is the higher. An option shall be exercisable on the date after (a) the second anniversary of the date of grant (for GLL Employees who have been employed for less than one year) and (b) the first anniversary of the date of grant (for all other GLL Employees) and to end on a date not later than 10 years after the date of grant.

On 27 April 1999, 5,380,000 options were granted to GLL Employees including executive directors, which are exercisable at S\$2.28 per share. As at 1 July 2002, 4,110,000 options were outstanding. The date of expiration of the option is 26 April 2009. During the year, no additional options were granted pursuant to the Option Scheme and no GLL shares were issued as a result of the exercise of options. However, 670,000 options lapsed due to the cessation of employment by GLL Employees from GLL Group, who had been granted options under the Option Scheme. Therefore, the number of outstanding options as at 30 June 2003 was 3,440,000.

# REPORT OF THE DIRECTORS

## DISCLOSABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at 30 June 2003, other than the interests and short positions of the directors of the Company as disclosed above, the persons who had interests or short positions in the shares and underlying shares of 5% or more in the Company's issued share capital as recorded in the register maintained by the Company under Section 336 of the SFO are as follows:

Shareholders	Capacity	Number of shares/underlying Shares (Long Position)	Notes
Government of Kuwait Investment Authority Kuwait Investment Office	Direct interest	71,172,395	
Hong Leong Company (Malaysia) Berhad ("HLCM")	Interest of controlled corporations	150,629,522	1
HL Holdings Sdn Bhd ("HLH")	Interest of controlled corporations	150,629,522	2
Hong Leong Investment Holdings Pte. Ltd. ("HLInv")	Interest of controlled corporations	150,629,522	2
Kwek Holdings Pte Ltd ("KH")	Interest of controlled corporations	150,629,522	3
Deutsche Bank Aktiengesellschaft ("DBA")	Interest of a controlled corporation	17,853,642	4

### Notes:

- (1) These interests, representing a deemed shareholding of approximately 46.03% of the total issued share capital of the Company, comprised 137,374,315 ordinary shares of the Company and 13,255,207 underlying shares of unlisted cash settled derivatives.

These interests were held by the following companies of which HLCM controlled, directly or indirectly, one-third or more of the voting power:

Number of shares/underlying shares	Directly held by
138,480,588	Guoline Overseas Limited ("GOL")
7,320,359	Hong Leong (Netherlands Antilles) N.V. ("HLNA")
4,501,000	Guoinvest International Limited ("Guoinvest")
327,575	MPI (BVI) Limited

Guoline Capital Assets Limited, a wholly owned subsidiary of HLCM, was deemed to be interested in 150,301,947 shares/underlying shares of the Company held by GOL, Guoinvest and HLNA which were its wholly owned subsidiaries.

- (2) HLH and HLInv were deemed to be interested in the interests held by HLCM as they were entitled to exercise one-third or more of the voting power in HLCM.
- (3) KH was deemed to be interested in the interests held by HLInv as it was entitled to exercise one-third or more of the voting power in HLInv.
- (4) These interests were held by DBA through its controlled corporation, Deutsche Bank AG, London Branch. These interests, representing a deemed shareholding of approximately 5.46% of the total issued share capital of the Company, comprised 10,761,639 ordinary shares of the Company and 7,092,003 underlying shares of unlisted cash settled derivatives. In addition, DBA held 101 shares of the Company in short position, representing approximately 0.00% of the issued share capital of the Company.

Save as disclosed above, as at 30 June 2003, the Company had not been notified by any person (other than the directors of the Company) who had interests or short positions in the shares or underlying shares of the Company of 5% or more which would fall to be discloseable pursuant to Part XV of the SFO or as recorded in the register maintained by the Company under Section 336 of the SFO.

## BOARD AUDIT COMMITTEE

A Board Audit Committee was established on 9 October 1998 with written terms of reference.

The Board Audit Committee comprises Messrs Harry Richard Wilkinson (Chairman), Sat Pal Khattar and Kwek Leng Hai. Messrs Harry Richard Wilkinson and Sat Pal Khattar 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 control.

The Board Audit Committee meets with the Company's external auditors and the internal auditors, and reviews the audit plans, the internal audit programme, the results of their examinations and their evaluations of the system of internal control. 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 its views to the Board of Directors. Three Board Audit Committee meetings were held during the year.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company complied throughout the year with the Code of Best Practice adopted by the Company based on the guidelines set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors are not appointed for a specific term but their terms of office are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Company's Bye-Laws.

## INTEREST CAPITALISED

Interest capitalised during the year by the Group in respect of development properties amounted to approximately US\$16.0 million (2002: approximately US\$20.8 million).

## INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

### Services agreements

#### (a) *Services Agreement dated 21 August 2001*

On 21 August 2001, the Company entered into a services agreement (the "Services Agreement") with Hong Leong Overseas (H.K.) Limited ("HLO"), which was renamed as GOMC Limited ("GOMC") in February 2003, for the provision of certain services by GOMC to the Company and its subsidiaries and associated companies from time to time. The services agreed to be provided under the Services 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 GOMC and the Company) and an annual fee equal to 3% of the annual consolidated profits before tax of the Group for each financial year. The Services 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.

GOMC 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 Services Agreement as shareholders and directors of HLCM.

The Company applied for and the Stock Exchange granted a conditional waiver from strict compliance with the disclosure requirements of connected transactions as stipulated under Rule 14.25(1) of the Listing Rules in respect of the future connected transactions arising from the renewal of the Services Agreement (the "GOMC Transactions").

## INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Cont'd)

### Services agreements (Cont'd)

The independent non-executive directors of the Company reviewed the GOMC Transactions during the year and confirmed that:

- (1) the GOMC Transactions were:
  - (i) entered into by the Company in the ordinary and usual course of its business;
  - (ii) conducted on terms that were fair and reasonable so far as the shareholders of the Company are concerned; and
  - (iii) entered into in accordance with the terms of the agreements governing the GOMC Transactions;
- (2) the aggregate amount of the GOMC Transactions was approximately HK\$43,754,000 for the year ended 30 June 2003 and did not exceed the cap amount of 3% of the book value of the consolidated audited net tangible assets of the Company and its subsidiaries as at 30 June 2003.

#### (b) *Services Agreement dated 6 June 2003*

On 6 June 2002, the Company entered into a services agreement (the "Services Agreement") with GuocoLand Limited ("GLL") for the provision of certain services by the Company to GLL and its subsidiaries and associated companies from time to time. The services agreed to be provided under the Services Agreement include overview of GLL's corporate strategies and planning and oversight of investment and financial management disciplines, treasury and risk management, human resource and management development, development of quality and productivity programmes and other operating practices and procedures. The consideration for the services provided was fixed at HK\$50,000 per month (or such other amount as may be agreed from time to time between GLL and the Company) and an annual fee equal to 3% of the annual consolidated profits before tax of GLL for each financial year. The Services Agreement was automatically renewable after the financial year end date of 30 June 2003 for additional, consecutive terms of one year each unless either party provides written notice of at least six months.

GLL is an indirect 61.5% subsidiary of the Company. Messrs Quek Leng Chan, Kwek Leng Hai and Sat Pal Khattar are directors interested in the Services Agreement as shareholders and directors of GLL.

The Company applied for and the Stock Exchange granted a conditional waiver from strict compliance with the disclosure requirements of connected transactions as stipulated under Rule 14.25(1) of the Listing Rules in respect of the future connected transactions arising from the renewal of the Services Agreement (the "GLL Transactions").

The independent non-executive directors of the Company reviewed the GLL Transactions during the year and confirmed that:

- (1) the GLL Transactions were:
  - (i) entered into by the Company in the ordinary and usual course of its business;
  - (ii) conducted on terms that were fair and reasonable so far as the shareholders of the Company are concerned; and
  - (iii) entered into in accordance with the terms of the Service Agreement governing the GLL Transactions;
- (2) the aggregate amount of the GLL Transactions was approximately HK\$13,478,000 for the year ended 30 June 2003 and did not exceed the cap amount of the higher of HK\$10,000,000 or 3% of the book value of the consolidated audited net tangible assets of the Company and its subsidiaries as at 30 June 2003.

## INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Cont'd)

### Sale and purchase agreement

On 25 September 2003, the Company and HLCM (collectively as the vendors) entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") with GLL (as the purchaser) for the disposal of 79,000,394 and 198,222,563 ordinary shares of RM0.50 each in the issued share capital of Hong Leong Properties Berhad ("HLPB") by the Company and HLCM respectively to GLL at a purchase price of RM0.57 per share, equivalent to the simple average of the closing prices of HLPB Shares quoted on the Kuala Lumpur Stock Exchange for the 30 consecutive trading days prior to the date of the Sale and Purchase Agreement. The aggregate purchase consideration under Sale and Purchase Agreement amounted to approximately RM158 million.

The purchase consideration is to be satisfied through the issue by GLL to the Company and HLCM respectively of 17,554,260 and 44,045,989 new shares of S\$1 each in the share capital of GLL at an issue price of S\$1.18 per share, equivalent to the simple average of the closing prices of GLL shares quoted on Singapore Exchange Securities Trading Limited for the 30 consecutive trading days prior to the date of the Sale and Purchase Agreement.

The restructure exercise consolidates HLPB Shares held by the Group and the HLCM group into GLL to allow GLL to build up its presence in the property market of Malaysia via its participation in HLPB, a listed property group with established management team and good local knowledge of the Malaysian property market.

GLL is an indirect 61.5% subsidiary of the Company. HLCM is a deemed substantial shareholder holding approximately 41.98% of the issued share capital of the Company. Messrs Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are interested in the above transaction as directors and shareholders of HLCM.

### Share Option Plan

The Company obtained shareholders' approval to adopt the Share Option Plan on 16 December 2002 and a trust for the Share Option Plan (the "Trust") was established. The Trust will acquire existing issued shares of the Company (the "Existing Shares") for the purpose of satisfying outstanding options to be granted pursuant to the Share Option Plan. The Company will make loans to the Trust from time to time to enable the Trust to acquire the Existing Shares for the purpose of the Trust pursuant to a trust deed (the "Trust Deed") between the Company and a trustee of the Trust (the "Trustee", a wholly owned subsidiary of the Company).

The grant of loans to the Trust pursuant to the Trust Deed and the grant of options to the participants pursuant to the Share Option Plan from time to time constitute connected transactions under Chapter 14 of the Listing Rules. During the year, no loan was made by the Company to the Trust and no option was granted pursuant to the Share Option Plan.

### Loans to subsidiary

Further to the completion of the transfer of 55% interest in Guoco Properties Limited ("GPL") to GLL in December 2002, GPL becomes a wholly owned subsidiary of GLL. Shareholder's loan of approximately US\$81.5 million previously granted to GPL by the Company was assigned to GLL. Consequently, there was no loan to non-wholly owned subsidiary granted by GGL as at 30 June 2003.



# REPORT OF THE DIRECTORS

## INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Cont'd)

### Others

- (1) On 28 June 2002, GLL proposed a rights issue (the "Rights Issue") of one ordinary rights share and one non-redeemable convertible cumulative preference share 2005 at an issue price of S\$1 each for every four existing ordinary shares held in GLL. The Company undertook to procure the subscription and payment for the rights shares under its entitlement and also for the excess shares ("Excess Shares") not taken up under the Rights Issue (the "Excess Undertaking"). The total number of Excess Shares subscribed by the Company was 41,566,000 with the total subscription money amounting to approximately S\$41.6 million (equivalent to approximately US\$23.5 million).
- (2) The Hong Leong Bank Berhad ("HLBB") group has, 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 HLBB group are in the ordinary course of business and on normal commercial terms.

The Group regularly conducts 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 directors and shareholders 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.

### Directors' interests in competing business

Messrs Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are 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.

Mr Tan Lim Heng is a non-executive director and a shareholder of Shanghai Land Holdings Limited, a former associated company of the Company, which is engaged in property investment and development in the PRC.

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 90 to 91.

## 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 reports and the interim reports which are sent to shareholders. There are regular dialogues 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 on 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, 17 October 2003