TREASURY AND INVESTMENT STRATEGIES

The Investment Committee has been mandated by the Board to oversee and direct the Group's investment process and to regularly review its risk related policies and controls. Investment policies and parameters are in place to govern core investment, time deposits, money market instruments, fixed income, equities and other financial instruments. The Group also adopted stringent concentration risk control guidelines to limit country risk, counterparty, currency and duration. Regular audits performed by the internal audit department further ensure compliance with these policies, procedures and regulatory requirements.

The twelve months to June 2004 was a rewarding but volatile period for equity investments. The revival of sentiment in Asia and a return to global growth provided much needed stimulus to stock markets. However, due to political and economic uncertainties in the last few months, most markets ended with some of the earlier gains depleted.

The Group continued to increase its resources in treasury and investment management during the year by expanding its team as well as by adding more research capabilities. Our disciplined approach was further refined with a more rigorous investment process and risk control in place.

While from time to time we would engage in portfolio trading for a shorter term investment horizon, our focus is to look for strategic under-valued or turnaround situations that can offer relatively low risk but yet substantial long-term returns. During the year, the Investment Committee concentrated its attention in Asia Pacific, as it believed this region offered the best potential. After performing due diligence and in most cases specific company visits, investments were made in a number of interesting situations in selective countries with satisfactory returns achieved during the year.

Financial markets are faced with a number of uncertainties including rising interest rates, high oil prices and a managed slow down of the China economy. This is likely to introduce more volatility to markets and we may encounter more challenges in the coming months. However, we believe there are under-valued situations in any market condition and it is the objective of the Investment Committee to identify such opportunities for the benefit of the Group.

PROPERTY DIVISION

GuocoLand Limited ("GLL") — 62.4% owned by the Group

GLL's revenue decreased by 18% to S$300.1 million for the financial year ended 30 June 2004, mainly due to lower sales from its launched projects in Singapore. Despite the decrease in revenue, GLL reported a consolidated net profit of S$120.0 million for the financial year ended 30 June 2004, an increase of 27% compared to the previous financial year.

GLL's cost of sales decreased by 24% to S$255.9 million for the financial year ended 30 June 2004 due to lower sales and a write back of S$18.3 million for foreseeable losses on its residential properties in Singapore and China compared to a S$14.3 million provision for such losses in the previous financial year.

Other operating income amounted to S$82.8 million, of which S$70.4 million arose from the disposal of GLL's interests in Benchmark Group PLC ("Benchmark"). In the previous financial year, other operating income of S$84.2 million included profits of S$49.3 million from the disposal of its interest in an associate and a development site at Suzhou as well as a mark-to-market gain of S$22.0 million on financial assets.

The increase in other operating expenses from S$0.7 million to S$18.6 million was mainly due to a revaluation loss of S$9.1 million on investment properties, a mark-to-market loss of S$4.8 million on financial assets and a provision of S$3.9 million on long-term equity investments. Finance costs decreased by 36% to S$6.6 million due to lower level of borrowings and lower interest rates.

GLL's associates contributed profit before tax of S$23.0 million, a 6% decrease over the previous financial year. Profit contribution from associates was primarily from Benchmark.

GLL currently has eight launched developments on the market: Sanctuary Green, The Gardens at Bishan, Bishan Point, Le Crescendo, Leonie Studio, Nathan Place, The Ladyhill (in which GLL has 40% interest) and The Boulevard Residence (in which GLL has 40% interest). As at 19 August 2004, GLL has achieved sales of 54% in Sanctuary Green, 94% in The Gardens at Bishan, 90% in Bishan Point, 41% in Le Crescendo, 5% in Leonie Studio, 78% in Nathan Place, 49% in The Ladyhill and 22% in The Boulevard Residence. GLL recently entered into a conditional collective sale and purchase agreement to acquire Greenacres Condominium which can be redeveloped into a residential condominium subject to, inter alia, completion of the purchase and the relevant planning approvals being obtained.

In China, the sales permits for two blocks of condominium units in Central Park development in Shanghai had been obtained and GLL is working towards launching sales when the sales permit for the remaining block is obtained.

Resettlement is in progress at a land parcel in the Feng Sheng area district, within the Xicheng District of Beijing, where GLL has signed a conditional agreement to acquire a 98% interest in the site which is primarily for residential development. As certain terms in a conditional agreement to acquire the development rights to a residential land parcel located at the Fifth Mile of Zhenwumiao in Beijing had not been satisfied, the agreement had been terminated and the vendor had refunded all monies paid thereunder.

GLL is focused on enhancing and strengthening its presence in its core business centres of Singapore, China and Malaysia. It will build upon its existing businesses and strive to deliver sustainable and attractive returns to shareholders. In addition to its embedded property operations in these centres, GLL will continue to look for other real estate opportunities such as property fund management to enhance its earnings.

FINANCIAL INDUSTRY GROUP

Hong Leong Credit Berhad ("HLCB") — 25.7% owned by the Group

HLCB Group recorded a lower pre-tax profit of MYR719.0 million as compared to MYR802.7 million in the previous year. However, profit after tax and minority interest increased by 3.8%, from MYR374.2 million in the previous year to MYR388.5 million in the current year. This was mainly due to higher investment profits and surplus distribution from the insurance division, a return to profitability of the stockbroking division as well as a gain on a deemed disposal of shares, recognized for at HLCB Group level as a result of a special issue of shares to Bumiputra investors by the banking subsidiary.

The banking and finance division recorded a pre-tax profit of MYR528.7 million, a decline of MYR273.2 million as compared to MYR801.9 million in the previous corresponding year. Turnover declined by MYR90.2 million as a result of the narrower interest margins earned as well as lower contribution from hire purchase business due to its declining loan base. Non-interest income recorded a marginal decline of MYR1.9 million despite the treasury losses of MYR32 million suffered as a result of the weakness in the bond market during the first quarter of the financial year due to higher commission and fee-based income. Loan loss provision increased by MYR155.8 million mainly due to provisions made for several restructured and rescheduled non-performing loans in the third quarter.

The insurance division registered a profit before tax of MYR124.1 million for the financial year ended 30 June 2004 compared to a profit before tax of MYR82.5 million for the previous corresponding financial year. This was principally due to higher gross premiums, which grew by 12% to MYR936 million as well as higher surplus transferred from the life business and better market sentiments, which resulted in higher gains on sales of investments.

The stockbroking division registered a profit before taxation of MYR30.7 million compared to a loss of MYR29.7 million in the previous financial year. Improved market turnover in the current year and a lower cost-base from the rightsizing of its operations in the previous financial year, enabled it to achieve improved results for the current financial year. Operating revenue increased to MYR88.4 million, an increase of 97.8% from MYR44.7 million in the previous financial year, on the back of a higher Bursa Malaysia turnover of MYR279.6 billion in the current financial year compared to MYR102.9 billion in the previous financial year.

Hong Kong Financial Services Subsidiaries

The Group's Hong Kong financial services subsidiaries, Dao Heng Securities Limited ("DHS") and Dao Heng Insurance Co., Limited ("DHI") have emerged leaner and more productive after their rightsizing exercises, restructure of operations and transformation of business models to reposition themselves to meet the new business dynamics.

DHS faced the challenges brought on by brokerage commission deregulation and the revamped laws and regulations with further improvements in its Online brokerage trading service technology and capitalized on more corporate financial advisory work necessitated by the revised Listing Rules. Additional research services provided to its targeted core of high-net-worth clients proved successful to help them achieve better returns, and at the same time, increased turnover volume of DHS.

DHI continues to transform itself from a bancassurance business into a direct and broker/agent model by focusing its effort in the development of its own call center and new distribution channels. In May 2004, DHI won two prestigious Customer Relationship Excellence Awards from Asia Pacific Customer Service Consortium: the Best Use of Call Center Technology of the Year 2003 (Financial Services) in the corporate category and the Customer Relationship Management Director of the Year 2003 in the individual category.

To face the intense competition from bancassurance providers and major players going forward, DHI is refining its business model to achieve critical top line growth to sustain growth and profitability. This necessitates DHI strengthening its cross-selling/up-selling program to increase market share and customer loyalty, and to build open market business by enhancing its market presence amongst brokers and agents, and forming strategic business alliances for personal line business.

Going forward, the financial services subsidiaries will continue to build on their good track record and trusted names to make further inroads into their respective markets with the benefit of advanced technology and Group business networking relationship.

FINANCIAL COMMENTARY

Borrowings

By 30 June 2004, the Group had reduced its total borrowings by 5% to HK$4,446 million from HK$4,673 million as at 30 June 2003. Unsecured borrowing comprises 49% of total borrowings. All borrowings belonged to GLL and primarily represented GLL's property project loans.

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

	Bank loans	**Other borrowings**	**Total**
	HK$'000	HK$'000	HK$'000
On demand or within 1 year	1,860,690	362,333	2,223,023
After 1 year but within 2 years	701,010	90,425	791,435
After 2 years but within 5 years	647,930	783,151	1,431,081
	1,348,940	873,576	2,222,516
	3,209,630	1,235,909	4,445,539

The loans are secured by the following:

a. legal mortgages on investment properties with a book value of HK$554 million;

b. legal mortgages on development properties with a book value of HK$2,889 million; and

c. certain equity investments with total carrying value of HK$440 million.

As at 30 June 2004, the Group has net cash balance of HK$18,148 million after netting off the total borrowings of HK$4,446 million.

Contingent liabilities

As at 30 June 2004, there were contingent liabilities in respect of guarantees given to bankers by the Company to secure banking facilities to the extent of HK$161 million (2003: HK$313 million by the Group and HK$165 million by the Company) 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 2004 after adjusting for the major items set out below, amounted to HK$30,682 million. The major adjustments are as follows:

a. increase in share capital and share premium of HK$38 million upon the exercise of share options during the year;

b. share of subsidiaries' and associates' capital reserves movement of HK$233 million; and

c. net exchange difference of HK$78 million.

HUMAN RESOURCES AND TRAINING

The Group, including its subsidiaries in Hong Kong and overseas, employed approximately 340 employees as at 30 June 2004. 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 approved share option scheme or plan adopted by the Company to eligible employees to reward their contribution and foster loyalty towards the Group.