RESULTS

The Board of Directors of Guoco Group Limited ("the Company" or "the Group") is pleased to announce the unaudited consolidated net profit of the Group, after exceptional items, taxation and minority interests, for the six months ended 31st December, 1998 together with comparative figures for the corresponding period last year as follows:

	Note	**Six months ended 31.12.1998 (unaudited) *HK$'000***	Six months ended 31.12.1997 (unaudited) *HK$'000*
Turnover	1	**7,262,406**	6,813,957
Operating profit before exceptional items		**358,229**	1,160,336
Exceptional items	2	**(104,924)**	(274,146)
Operating profit after exceptional items		**253,305**	886,190
Share of (losses)/profits of associated companies		**(46,601)**	110,733
Profit before taxation		**206,704**	996,923
Taxation	3	**(122,720)**	(351,564)
Profit after taxation		**83,984**	645,359
Minority interests		**(21,058)**	(282,609)
Profit attributable to shareholders		**62,926**	362,750
Dividend		**(42,663)**	(85,326)
Retained profit for the period		**20,263**	277,424
Earnings per share	4	**HK$0.15**	HK$0.85

Notes:

1. Group turnover for the period includes reinsurance, brokerage, underwriting and other commission, interest income, insurance premiums earned, dividend income, rental income and net investment income, property development income and the value of goods sold. It also includes net interest income, commissions, fees and other revenues earned from banking.

2. Exceptional items

	Six months ended 31.12.1998 *HK$'000*	Six months ended 31.12.1997 *HK$'000*
Exchange loss on foreign currency monetary assets and liabilities excluding banking operations	**(28,844)**	(274,146)
Written back of provision for investments less net loss on disposal of investments	**71,378**	–
Provision for diminution in value of properties	**(72,981)**	–
Provision for investment in associated company	**(74,477)**	–
	(104,924)	(274,146)

3. Taxation

	Six months ended 31.12.1998 *HK$'000*	Six months ended 31.12.1997 *HK$'000*
Hong Kong profits tax	**92,536**	152,743
Overseas taxation	**37,134**	82,059
Deferred taxation	**(5,594)**	48,233
Share of associated companies' taxation	**(1,356)**	68,529
	122,720	351,564

Provision for Hong Kong profits tax is based on the estimated assessable profits for the period at the rate of 16% (1997: 16.5%). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallize in the foreseeable future.

4. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders for the period ended 31st December, 1998 of HK$62,926,000 (1997: HK$362,750,000) and on the 426,631,086 shares (1997: 426,631,086 shares) in issue during the period.

5. The accounts of the Company are maintained in United States dollars. The accounting figures shown above have been translated from United States dollars into Hong Kong dollar equivalents at the rates ruling at the respective financial period ends for presentation purposes only (1998: US$1=HK$7.7475; 1997: US$1=HK$7.7495).

6. Post balance sheet event

The exercise of the put option to dispose of the Group's interest in ABN AMRO Asia (Holdings) Ltd was completed on 1st February, 1999. The resultant exceptional gain of US$166 million will be taken up in the Group's second half results of the financial year.

REVIEW OF ACTIVITIES

Against the backdrop of the prevailing financial malaise, the Group has consolidated its operations during the period under review. Amongst the various initiatives was the exercise of the put option to dispose of the Group's interest in ABN AMRO Asia (Holdings) Ltd resulting in an exceptional profit of US$166 million (HK$1,286 million) for the Group which will be taken up in the second half of the financial year. The funds will be used to reduce bank borrowings and to strengthen the Group's existing businesses with growth potential.

Dao Heng Bank Group Limited ("DHBG")

Financial services remain the backbone of the Group's core business. DHBG which accounts for 78% of the Group's turnover, achieved an acceptable level of profit despite the economic downturn.

DHBG, the Group's 71.73% owned Hong Kong listed subsidiary, recorded an unaudited interim consolidated net profit of HK$506 million, representing a 38.4% decrease from the corresponding period for the previous fiscal year.

Net interest income declined 7.6%, due primarily to higher funding costs which were not fully covered by increased interest income earnings. As a result, the net interest margin declined 13 basis points to 2.26% for the period. The drop in net interest income however was more than fully compensated by a strong performance in other operating income, which grew 27.6% as a result of a one time net gain of HK$152 million from the early redemption of US$81 million face value in the Dao Heng Bank Limited US$350 million subordinated bond issue maturing in the year 2007. With operating expenses maintained at a similar level, operating profit before provisions registered a modest increase of 3.1%. The cost to income ratio improved to 38.8% from 39.6% in the comparable period last year.

DHBG experienced increased problem loans in its trade finance, corporate, taxi, PRC and credit card portfolios. Much of DHBG's credit exposure is secured by tangible assets, and its preferred course of action is to work with its customers to the maximum extent possible if the customer's financial condition is considered to be viable. Hence the total level of rescheduled advances has grown considerably. DHBG has a modest level of exposure to China related customers. As of 31st December, 1998, gross loans to PRC related entities totalled approximately 0.84% of total assets. About 44% of this exposure was covered by tangible security and less than HK$30 million was granted to the ITIC sector.

DHBG's domestic branch network has been reconfigured to better serve its customers by providing them with multiple options for satisfying their individual banking needs. These delivery channel options encompass a wide network of personal banking branches throughout the SAR, an advanced call centre, a widespread ATM network, an in-store banking centre, as well as an array of credit and debit card services. Together these diverse delivery channels provide DHBG's customers with the capability to access our financial services on a virtual 24 hour, 365 day a year basis.

The Personal Banking Division of DHBG is in the process of reconfiguring its branches into a more modern and customer friendly format as a tangible demonstration of our corporate motto, "Reaching Out to You." This repositioning will also support DHBG's strategy of broadening its revenue base through the sale of a full range of financial service products.

DHBG's Direct Banking Division is in the forefront of applying information technology to the task of providing new delivery channel opportunities to its customers. Additional telemarketing and teleservicing products are continuously being added to serve DHBG's customers. The in-store banking centre at Sogo Department Store is also proving to be a valuable alternative to reach out to customers due to its convenient location and seven day a week availability. Likewise the Park'N Shop ATM kiosks provide further options for customers to access Dao Heng Bank Group services.

DHBG's Premier Banking and Global Private Banking Divisions are giving it the capability to further differentiate its product and service offerings to meet diverse customer needs and preferences. A milestone was reached in the evolution of DHBG's credit card business with the intra-group transfer of the card business from OTB Card Company to Dao Heng Bank Limited in January 1999.

The Commercial Banking Division is now engaged in streamlining its operations to provide greater responsiveness to its customers needs in order to help them compete in an increasingly difficult market environment. Evidence of DHBG's support to this important segment was shown by the joining of both Dao Heng Bank and Overseas Trust Bank in the government sponsored SME scheme.

Dao Heng Finance provides hire purchase and leasing facilities to DHBG's customers, most notably to the transportation sector. The taxi financing business, in which Dao Heng Finance is one of the market leaders, is undergoing its most challenging operating conditions in recent memory. Dao Heng Finance is committed to helping its customers get through this difficult period and is working with them to this end.

Corporate Banking Division serves the needs of larger businesses including listed companies. While corporate loan demand has been somewhat slack during the period, the division continues to develop its customer base by offering a wide range of products including structured finance and advisory services through its Investment Banking Division.

DHBG's Treasury Division was relaunched as "Dao Heng Markets" in October 1998 to better reflect the enlarged scope and scale of its market activities. Primary among these are its active market making status in Hong Kong Government Exchange Fund Bills and Notes and as well as in The Hong Kong Mortgage Corporation's fixed income securities.

First Capital Corporation Ltd ("FCC")

The performance of FCC, the Group's 57.99% owned listed subsidiary in Singapore, continues to be affected by the depressed residential property market. FCC's operating profit before tax (before interest and exchange loss) is 96% lower at S$2.2 million (HK$10.3 million) compared to the previous corresponding period. Foreseeable losses of about S$30.1 million (HK$140.6 million) was provided for some of the development properties. As a result of the improvement in the stock market in the 4th quarter of 1998, FCC wrote back S$12.3 million (HK$57.5 million) of provisions for diminution in value of short-term quoted investments.

Although sentiment in the residential property market in Singapore is improving, the state of the Singapore economy is dependent on the regional economies. The countries in the region are still adjusting to the problems from last year's financial crisis. The operating environment for the second half year is expected to continue to be difficult and challenging.

Other Property Interests

During the period under review, the Group's listed property subsidiary in Hong Kong, Guoco Land Limited ("GLL"), which is 53% owned by the Group and 20% by FCC, recorded loss before tax of HK$104 million. GLL continues to derive steady recurring rental income from its Hong Kong investment properties. The property projects under joint venture arrangements with major property developers in Tai Hang Road and Tsim Sha Tsui are targeted to be completed in December 2000 and November 2001 respectively. The property project in Tai Po of which GLL has a 30% interest was put up for sale in September last year at prevailing competitive market price. The response was encouraging and the remaining units are expected to be sold in the first quarter of this year. It is anticipated that the forthcoming HKSAR Government land sales will provide a benchmark indicator of future Hong Kong property values. In line with the Group's prudent normal accounting policies, property portfolios will be objectively assessed and appropriately valued to market as of the Group's financial year end.

Guoco Properties Limited ("GPL") a 45%/55% joint venture between FCC and the Company, holds a 75% stake in Corporate Square, a 17-storey office development in Finance Street, Beijing. As at to date, approximately 30% of the office space has either been sold or leased.

Guoco Holdings (Philippines), Inc. ("GHPI")

GHPI, the Group's 36.61% associate listed on the Philippines Stock Exchange incurred a consolidated net loss of P493 million (HK$97.6 million) for the six months ended December 1998. The loss was attributable to higher financing cost resulting from higher interest rates and labour costs as well as the Peso depreciation which increased raw material costs. These cost factors, which affected all of GHPI's operating divisions, outweighed the 9% improvement in consolidated revenues from P3.4 billion (HK$0.67 billion) to P3.7 billion (HK$0.73 billion). Necessary measures for rightsizing of investments and reduction of gearing and operating costs are being undertaken to improve financial performance.

Pepsi-Cola Products Philippines, Inc. ("PCPPI"), a subsidiary of GHPI, has entered into an agreement with an indirect subsidiary of PepsiCo Inc. ("PCI") to acquire an equity interest in PCPPI. The completion of this transaction together with the Group's existing investment in PCPPI will result in PCI and the Group holding a 32.8% and 26.5% respective interest in this company. The purpose of this capital injection is to strengthen PCPPI's long term fundamentals.

Hong Leong Credit Berhad ("HLC")

HLC, the Group's 20.88% associate listed on the Kuala Lumpur Stock Exchange, achieved a consolidated profit before tax and minority interests (PBT) of RM18.0 million (HK$36.7 million) for the first 6 months of the financial year. After accounting for minority interests' share of profit and tax, HLC recorded a profit of RM1.0 million (HK$2.0 million). Earnings per share for the period was RM0.2 sen (HK$0.4 cents) compared to a loss per share of RM13.3 sen (HK$27.1 cents) in the same period last year.

HLC's banking and finance group's pre-tax profit dropped 25.4% to RM73 million (HK$148.8 million) against the same period last year. Net Non Performing Loans (NPL) ratio for the banking and finance group was 9.5%. The capital adequacy ratio stood at 11.8% which is well above the minimum requirement.

HLC's insurance division reported a strong increase in pre-tax profit of RM50.0 million (HK$101.9 million). The property division of HLC reported a lower pre-tax profit of RM20.2 million (HK$41.2 million). Earnings were affected by the slowdown in the construction sector.

HLC's PBT was reduced mainly by a RM66.0 million (HK$134.6 million) loss from its stockbroking business arising from bad debt provisioning and by the share of loss amounting to RM19.9 million (HK$40.6 million) in its associated company, Perdana Merchant Bankers, also mainly arising from loan provisioning.

Other Financial Services

The business of Dao Heng Securities Limited ("DHS"), the Group's stockbroking vehicle, while affected by the low daily turnover volume, still managed to produce a satisfactory result. No loss in the share margin finance business has been incurred as a result of prudent and disciplined operational control.

Dao Heng Insurance Co., Limited's ("DHI") business continues to be affected adversely by the economic downturn. In particular, the depressed property market affected the company's fire insurance business. However, DHI has reported acceptable profit during the period. DHI is successfully expanding its product line by cross-selling personal lines of insurance products through DHBG's various retail distribution channels.

Dao Heng Fund Management Limited is undertaking necessary steps to assure sound infrastructure to participate in the Mandatory Provident Fund business.

OUTLOOK

The financial turmoil in the region since mid 1997 has entered a phase which is generally characterised as a malaise. While the underlying market fundamentals are being addressed, the timing of a market recovery is difficult to predict. The Group will nonetheless continue to rationalise its operations. One initiative was the exercise of the put option to dispose of the Group's interest in ABN AMRO Asia (Holdings) Ltd. In view of the difficult economic scenarios in the countries in which the Group operates, the surplus from the sale of its interest in ABN AMRO Asia (Holdings) Ltd will cushion such provisions which the Board may have to address at the end of the year in accordance with the Group's accounting policies.

YEAR 2000 PROJECT

The Year 2000 issue originates from a common design limitation in information technology products, i.e. computer systems and equipment with embedded electronic chips, where only the last two digits of the year are recorded, rather than the entire four. As a result, these time-sensitive systems may recognize a date using "00" as the year 1900, rather than the year 2000. This could cause a system failure, miscalculations or equipment malfunction, resulting in possible disruption to the normal processing of business transactions or manufacturing of products, on or beyond the first day of the year 2000.

Through a designated team and as of 31st December, 1998, the Group has completed, for its Banking and Financial Services Operations, the validation and implementation of its mission-critical systems (including hardware and software) for Year 2000 compliance, meaning that these systems should perform, function and manage data involving dates without being abnormally affected by dates spanning the period prior to, during and after the year 2000. For the rest of the Group, the aim is to complete similar activities by 31st March, 1999.

Since the problem can affect all computer systems as well as equipment with embedded electronic chips, the Group's business operations may also be disrupted by the non-compliance of other entities such as suppliers, business partners, creditors, borrowers and customers. Therefore the Group is in the process of testing and validating various external interfaces with counterparties and participating in industry-wide testing activities. In addition, it is following up with external counterparties that have either quoted a future compliant date or not responded to a previous request for Year 2000 compliance certification.

However, there is no way to prevent a failure of the systems of other companies on which the Group's business transactions rely, from having an adverse effect on the Group. As such, the Group is reviewing its legal contract terms for possible non-compliance protection and also establishing contingency plans to address this possibility. Testing of the contingency plan and other remaining activities are expected to be completed by 30th June, 1999, except where activities are dictated by industry-wide schedules.

The total Year 2000 project cost for the Group is estimated at approximately HK$30.9 million, a decrease of HK$3.1 million from previous estimates. The variance is due to the decision to invest in new replacement systems with expanded functionality, best attributable to business expansion rather than for the sole purpose of Year 2000 compliance. As is usual, the capital expenditure of acquiring improved hardware and software systems will be capitalized as fixed assets, while other project costs for modifying existing systems will be expensed as incurred. Up to the period ending 31st December, 1998, the Group has incurred approximately HK$14.4 million in capital expenditure and HK$4.4 million in expenses. As at 31st December, 1998, HK$4.1 million has been contracted but not accounted for in the accounts for the six months period ended on that date. The Group expects a further amount of HK$8.0 million will be spent to complete this compliance project.

DIVIDEND

The Directors have declared an interim dividend of HK$0.10 per share amounting to HK$42,663,000 (1997/98 interim dividend: HK$0.20 per share amounting to HK$85,326,000) for the financial year ending 30th June, 1999 which will be payable on 16th April, 1999 to the shareholders whose names appear on the Register of Members on 15th April, 1999.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 1998, 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")) or in any rights to subscribe for the securities of the Company 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 or as otherwise known to the Directors were as follows:

Interests in the shares of the Company

	Number of shares				
Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Total Interests**
Quek Leng Chan	220,000	–	135,005,740*	–	135,225,740
Kwek Leng Hai	1,320,000	–	–	–	1,320,000
Sat Pal Khattar	582,330	–	–	–	582,330
Kwek Leng San	143,200	–	–	–	143,200
Randolph Gordon Sullivan	11,000	2,000	–	–	13,000
Tan Lim Heng	50,000	–	–	–	50,000

* These shares represented the interest of Guoline Overseas Limited (133,817,740 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 the securities of the associated corporations

		Number of shares/warrants				
Director	**Name of Company**	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Total Interests**
Quek Leng Chan	Dao Heng Bank Group Limited	11,000	–	496,854,664*	–	496,865,664
	Guoco Land Limited	–	–	184,983,706*	–	184,983,706
	Guoco Land Limited (Warrants)	–	–	22,793,281*	–	22,793,281
	First Capital Corporation Ltd	179,445	–	172,778,299*	–	172,957,744
	Hong Leong Credit Berhad	3,218,000	–	347,922,309*	–	351,140,309
	Guoco Holdings (Philippines), Inc.	–	–	866,610,220*		866,610,220
Kwek Leng Hai	Dao Heng Bank Group Limited	66,000	–	–	–	66,000
	First Capital Corporation Ltd	179,445	–	–	–	179,445
	Hong Leong Credit Berhad	359,500	–	–	–	359,500
	Guoco Holdings (Philippines), Inc.	5,000,000	–	–	–	5,000,000
Sat Pal Khattar	Dao Heng Bank Group Limited	11,000	–	–	–	11,000
	First Capital Corporation Ltd	2,963,917	–	–	–	2,963,917
Kwek Leng San	Dao Heng Bank Group Limited	7,000	–	–	–	7,000
Randolph Gordon Sullivan	Dao Heng Bank Group Limited	180,000	–	–	–	180,000
Tan Lim Heng	Guoco Land Limited	4,960,000	–	–	–	4,960,000
	Hong Leong Credit Berhad	117,000	–	–	–	117,000

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

Certain Directors held qualifying shares in certain subsidiaries in trust for other subsidiaries of the Company.

Interests in share options in Dao Heng Bank Group Limited

Director	**No. of share options**
Quek Leng Chan	2,000,000
Kwek Leng Hai	4,000,000
Sat Pal Khattar	2,000,000
Kwek Leng San	300,000
Randolph Gordon Sullivan	2,000,000
Harry Richard Wilkinson	300,000

On 29th April, 1998, Dao Heng Bank Group Limited ("DHBG"), a subsidiary of the Company granted share options to the abovementioned directors who are also directors of DHBG, pursuant to the Share Option Scheme adopted on 22nd November, 1993. Such share options are exercisable at a price of HK$21.82 per share during the period from 15th April, 1998 to 15th July, 2002.

During the period under review, none of the directors exercised any share options in DHBG.

Apart from the above, as at 31st December, 1998, there was no other interest or right recorded in the register required to be kept under section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 1998, 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, were as follows:

	Number of shares held in the Company			
Name	**Direct Interests**	**Deemed Interests**	**Total Interests**	*Note*
Guoline Overseas Limited ("GOL")	133,817,740	–	133,817,740	
Government of Kuwait, Investment Authority Kuwait Investment Office	74,069,451	–	74,069,451	
Guoline Capital Assets Limited ("GCA")	–	133,817,740	133,817,740	1
Hong Leong Company (Malaysia) Berhad ("HLCM")	–	133,817,740	133,817,740	1
HL Holdings Sdn. Bhd.	–	133,817,740	133,817,740	2
Hong Leong Investment Holdings Pte Ltd	–	133,817,740	133,817,740	2
Kwek Holdings Pte Ltd	–	133,817,740	133,817,740	3

Notes:

1. 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 133,817,740 shares held by GOL in the Company.
2. HL Holdings Sdn. Bhd. and Hong Leong Investment Holdings Pte Ltd were deemed to be interested in 133,817,740 shares in the Company with respect to which HLCM was interested as a result of their interests in HLCM pursuant to Section 8 of the SDI Ordinance.
3. Kwek Holdings Pte Ltd was deemed to be interested in 133,817,740 shares in the Company in respect of its interest in Hong Leong Investment Holdings Pte Ltd pursuant to Section 8 of the SDI Ordinance.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

No Director of the Company is aware of information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as adopted by the Company, at any time during the six months ended 31st December, 1998.

In compliance with the additional requirement of The Stock Exchange of Hong Kong Limited to the Code of Best Practice adopted by the Company, a Board Audit Committee has been established on 9th October, 1998.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 12th April, 1999 to 15th April, 1999, both days inclusive, during which period no transfer of shares can be effected.

In order to qualify for the above dividend, all share transfers accompanied by the requisite share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Central Registration Hong Kong Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 9th April, 1999.

By Order of the Board
Doris W. N. Wong
Company Secretary

Hong Kong, 18th March, 1999