

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in investment holding, the provision of mortgage finance and other related services and treasury investments. The activities and other particulars of the principal subsidiaries are set out in Note 23 to the financial statements.

There were no significant changes in the nature of these activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activity and geographical area for the year ended 31st December, 2001 is set out in Note 4 to the financial statements.

RESULTS AND DIVIDENDS

The results and details of cash flows of the Group for the year ended 31st December, 2001 and the state of affairs of the Group and the Company as at 31st December, 2001 are set out in the financial statements on pages 14 to 37.

The Directors have resolved not to recommend the payment of any final dividend (2000 – 2 cents per share, totalling HK\$4,500,000) nor special dividend (2000 – 18 cents per share, totalling HK\$40,500,000) for the year ended 31st December, 2001. No interim dividend was declared for the year (2000 – Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31st December, 2001 is set out on page 38.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 14 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 21 to the financial statements.

RESERVES

Details of movements in reserves during the year and details of the distributable reserves are set out in Note 22 to the financial statements.

As at 31st December, 2001, there were no reserves of the Company available for distribution, calculated in accordance with Section 79B of the Companies Ordinance (2000 – HK\$74,530,000, restated to adjust for proposed dividends of HK\$45,000,000, details of which are set out in Note 12 to the financial statements).

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SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in Note 23 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Mr. Ning Gaoning (*Chairman*)

Mr. Leon Chan Nim Leung*

Mr. David T. Yeh

Mr. Lee Jark Pui, O.B.E., J.P.

Mr. Jonathan Miles Foxall

Mr. Ng Tai Chiu

Mr. Chan Wai Lam

Mr. Hugh Moss Gerald Forsgate, C.B.E., J.P.* (deceased on 21st October, 2001)

* *independent non-executive Directors*

On 8th March, 2002, Mr. Michael Chan Kwok Shung was appointed an independent non-executive Director of the Company.

In accordance with Article 80 of the Company's Articles of Association, Messrs. Ning Gaoning and Leon Chan Nim Leung will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with Article 85 of the Company's Articles of Association, Mr. Michael Chan Kwok Shung will retire from office at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ning Gaoning, aged 43, was appointed Chairman of the Company in August 1998. He has a bachelor of arts degree in economics from Shandong University in China and a master of business administration degree in finance from the University of Pittsburgh in the United States of America. Mr. Ning is the Vice Chairman and President of China Resources (Holdings) Company Limited and China Resources National Corp. as well as the Chairman of China Resources Enterprise, Limited, a Hang Seng Index Constituent Stock, whose focus is on the distribution of consumer and industrial products in Hong Kong and the Chinese Mainland. He is also a Director of Lippo China Resources Limited ("LCR").

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BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Mr. Leon Chan Nim Leung, aged 46, was appointed an independent non-executive Director of the Company in December 1994. He is a practising lawyer and presently the principal partner of Messrs. Y.T. Chan & Co. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1980 and is a member of the Solicitors Disciplinary Tribunal. Mr. Chan was also admitted as a solicitor in England in 1984 and in Victoria, Australia in 1985. He is also an independent non-executive Director of Lippo Limited (“Lippo”), LCR and Hongkong Chinese Limited (formerly known as The HKCB Bank Holding Company Limited).

Mr. Michael Chan Kwok Shung, aged 41, was appointed an independent non-executive Director of the Company in March 2002. He holds a bachelor of laws degree from The University of Hong Kong and a master of business administration degree from the University of Western Ontario, Canada. Mr. Chan is a practising solicitor and presently a consultant of the international law firm Jones, Day, Reavis & Pogue. He was admitted as a solicitor in Hong Kong in 1986 and a solicitor in England in 1990. He is also a notary public of Hong Kong.

Mr. David T. Yeh, aged 50, was appointed a Director of the Company in August 2000. He holds a bachelor of arts degree from St. John’s University in Minnesota, the United States of America. He has over 20 years’ experience in retail, commercial and merchant banking in Hong Kong and the United States of America. Mr. Yeh is also a Director of Lippo, First Tower Corporation, Skyscraper Realty Limited, No. 1 Dragon Ltd. (“No. 1 Dragon”) and HKCB Corporation Limited (“HKCB Corporation”).

Mr. Lee Jark Pui, O.B.E., J.P., aged 62, was appointed a Director of the Company in August 2000. Mr. Lee holds a bachelor of arts degree (Hons) from The University of Hong Kong. Mr. Lee worked for the Hong Kong Government and was the Secretary-General of The Chinese Manufacturers’ Association of Hong Kong. He has served and contributed to the local community for over 30 years. Mr. Lee is currently the Chairman of The Legal Aid Services Council, The Agency for Volunteer Service and the International Chamber of Commerce – Hong Kong, China Business Council. Mr. Lee is also a Director of Lippo.

Mr. Jonathan Miles Foxall, aged 48, was appointed a Director of the Company in August 2000. He is also a Director of No. 1 Dragon and HKCB Corporation. Mr. Foxall holds a bachelor of arts degree in geography from Liverpool University in the United Kingdom. He is a Fellow of the Royal Institute of Chartered Surveyors and a Fellow of the Hong Kong Institute of Surveyors. Mr. Foxall has 26 years’ experience in the property industry, of which 16 years have been spent in Hong Kong.

Mr. Ng Tai Chiu, aged 48, was appointed a Director of the Company in August 2000. He is a qualified accountant. Mr. Ng holds a master’s degree in International Banking and Financial Studies from the Heriot-Watt University in the United Kingdom. Mr. Ng is a fellow member of the Hong Kong Society of Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators. Mr. Ng has over 20 years’ experience in the accounting and corporate finance field in Hong Kong.

Mr. Chan Wai Lam, aged 57, holds a bachelor of arts degree from The University of Hong Kong. He joined the Company in 1968 and was appointed a Director of the Company in March 1991. Mr. Chan has over 20 years’ experience in mortgage loan lending.

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DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31st December, 2001, the interests of the Directors of the Company in the equity or debt securities of the Company's associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as set out below.

Lippo Limited

Name	Type of interest	Number of shares of HK\$0.10 each in Lippo Limited
Jonathan Miles Foxall	Personal	18,000
Lee Jark Pui	Family	48

Hongkong Chinese Limited (formerly known as The HKCB Bank Holding Company Limited)

Name	Type of interest	Number of shares of HK\$1.00 each in Hongkong Chinese Limited
Lee Jark Pui	Personal	350
	Family	350

Save as disclosed herein, as at 31st December, 2001, none of the Directors or the chief executive of the Company were beneficially interested in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which are required to be recorded in the register kept by the Company under Section 29 of the SDI Ordinance or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(continued)*

As at 31st December, 2001, the following Directors of the Company held options as stated below:

Name	Number of shares of HK\$0.10 each in Lippo China Resources Limited in respect of which options have been granted*
Jonathan Miles Foxall	6,000,000
David T. Yeh	9,000,000

* The options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Share Option Scheme for Employees (the "LCR Scheme") adopted by Lippo China Resources Limited ("LCR"). Such options can be exercised on or before 23rd June, 2007 in accordance with the rules of the LCR Scheme to subscribe for shares in LCR at an initial exercise price of HK\$5.30 per share (subject to adjustment). Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each option is entitled to subscribe for six shares of HK\$0.10 each in LCR at an exercise price of HK\$0.883 per share (subject to adjustment). None of the options were exercised by any of the above Directors during the year.

Save as disclosed herein, as at 31st December, 2001, none of the Directors or the chief executive of the Company nor their spouses or children under 18 years of age was granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, according to the register of interests kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the followings were directly or indirectly beneficially interested in 10 per cent. or more in the issued share capital of the Company:

Name	Number of shares of HK\$1.00 each	Approximate percentage
Lanius Limited ("Lanius")	168,746,038	75
Lippo Cayman Limited ("Lippo Cayman")	168,746,038	75
Lippo Capital Limited ("Lippo Capital")	168,746,038	75
Lippo Limited ("Lippo")	168,746,038	75
First Tower Corporation ("First Tower")	168,746,038	75
Skyscraper Realty Limited ("Skyscraper")	168,746,038	75
Lippo China Resources Limited ("LCR")	168,746,038	75
No. 1 Dragon Ltd. ("No. 1 Dragon")	157,496,038	70
HKCB Corporation Limited ("HKCB Corporation")	157,496,038	70

Note:

- (i) By virtue of Section 8 of the SDI Ordinance:
- (a) Lanius, Lippo Cayman, Lippo Capital, Lippo, First Tower and Skyscraper were deemed to have the same beneficial interests in the shares of the Company as LCR and LCR's interest included the interest of No. 1 Dragon; and
 - (b) No. 1 Dragon was deemed to have the same beneficial interest in the shares of the Company as HKCB Corporation.
- (ii) As at 31st December, 2001, Lippo Cayman had, under a share mortgage, charged 49 per cent. of its interest in Lippo Capital to Ranbridge Finance Limited, a wholly-owned subsidiary of Sun Hung Kai & Co. Limited ("SHK"). AP Emerald Limited ("AP Emerald") holds more than one-third of the issued share capital of SHK. AP Emerald is a wholly-owned subsidiary of Grace Crown Limited which in turn is a wholly-owned subsidiary of Allied Properties (H.K.) Limited ("APL"). APL is a subsidiary of Allied Group Limited.
- (iii) Subsequent to the balance sheet date, on 17th January, 2002, Hongkong Chinese Limited ("HKCL", formerly known as The HKCB Bank Holding Company Limited), a subsidiary of LCR, disposed of the entire issued share capital of The Hongkong Chinese Bank, Limited, which owns 11,250,000 shares of HK\$1.00 each in, representing 5 per cent. of the issued share capital of, the Company. Following the above disposal, LCR was deemed to be interested in 157,496,038 shares of HK\$1.00 each in, representing approximately 70 per cent. of the issued share capital of, the Company. By virtue of Section 8 of the SDI Ordinance, Lanius, Lippo Cayman, Lippo Capital, Lippo, First Tower and Skyscraper were deemed to have the same beneficial interests in the shares of the Company as LCR.

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DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in Note 26 to the financial statements, there were no other contracts of significance in relation to the Company's business, to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party, subsisting at the end of the year or at any time during the year, and in which a Director or the controlling shareholders or any of their respective subsidiaries, directly or indirectly, had a material interest.

SERVICE CONTRACTS OF DIRECTORS

None of the Directors of the Company has a service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following Directors were considered to have interests in the following businesses which are likely to compete with the business of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as set out below:

Mr. Ning Gaoning ("Mr. Ning") was a former Director of Hongkong Chinese Limited ("HKCL", formerly known as The HKCB Bank Holding Company Limited) which, through its subsidiaries including, inter alia, The Hongkong Chinese Bank, Limited ("HKCB"), of which Mr. Ning was also a former Director, was partly engaged in the business of mortgage finance. Mr. Chan Wai Lam ("Mr. Chan") was also a former Director of a wholly-owned subsidiary of each of HKCL and HKCB which were partly engaged in the business of mortgage finance. In January 2002, HKCL completed the disposal of its entire interest in HKCB and its subsidiaries together with the mortgage finance business of its wholly-owned subsidiary as mentioned above and, Mr. Ning and Mr. Chan resigned their respective directorships in HKCL, HKCB and the relevant subsidiaries (as the case may be). HKCL is a fellow subsidiary of the Company.

As the Board of Directors of the Company was independent from the boards of the aforesaid companies and none of the above Directors can control the Board of the Company, the Group is capable of carrying its businesses independently of, and at arms length from the businesses of such companies.

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in Note 7 to the financial statements.

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

During the year, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

MAJOR CUSTOMERS

During the year, the percentage of income attributable to the Group's five largest customers combined was less than 30 per cent. of the Group's aggregate income.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group and the employer's retirement benefit costs charged to the consolidated profit and loss account for the year are set out in Note 8 to the financial statements.

AUDITORS

The financial statements for the year ended 31st December, 1999 were audited by PricewaterhouseCoopers. Subsequently, PricewaterhouseCoopers resigned as auditors of the Company and Ernst & Young were appointed as auditors of the Company to fill the casual vacancy so arising. The financial statements for the years ended 31st December, 2000 and 2001 were audited by Ernst & Young who will retire at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year, except that non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association. Mr. Hugh Moss Gerald Forsgate, the independent non-executive Director of the Company, passed away on 21st October, 2001. Mr. Michael Chan Kwok Shung was appointed an independent non-executive Director of the Company to take the place of the late Mr. Forsgate on 8th March, 2002.

The Company has established an audit committee (the "Committee") in accordance with paragraph 14 of the Code and the members of the Committee were Messrs. Hugh Moss Gerald Forsgate and Leon Chan Nim Leung, independent non-executive Directors of the Company. As Mr. Hugh Moss Gerald Forsgate passed away on 21st October, 2001, Mr. Michael Chan Kwok Shung, who was appointed an independent non-executive Director, was appointed as a member of the Committee to take the place of the late Mr. Forsgate. The Committee met regularly during the year.

On behalf of the Board

David Yeh

Director

Hong Kong, 18th March, 2002