

REPORT OF DIRECTORS

The Directors of Liu Chong Hing Investment Limited (the "Directors") have pleasure in presenting to the Shareholders their annual report together with the audited financial statements for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company are property investment and investment holding. The principal activities of the subsidiaries and associates are shown in Note 15 and Note 16 to the financial statements respectively. There was no significant change in the principal activities of the Company and the Group during the year.

RESULTS AND STATE OF AFFAIRS

The results of the Group for the year ended 31st December, 2002 and the state of the Company's

and the Group's affairs at that date are set out on pages 39 to 79 of this annual report.

DIVIDENDS

An interim cash dividend of HK\$0.10 per share was paid to shareholders on 18th September, 2002. The Directors now recommend a final cash dividend of HK\$0.06 per share making a total cash dividend of HK\$0.16 per share for the year.

COMMENTARY ON ANNUAL RESULTS

The directors announce that the consolidated net profit for the year of 2002 is HK\$80,362,000 representing a decrease of 57.3% over the previous year.

BANKING OPERATION

For the year 2002 the Group's banking associate, Liu Chong Hing Bank Limited (the "Bank") reported a profit after taxation of \$309,494,000, representing a 10.5% decrease over the previous year.

The decrease in profit reflected Hong Kong's declining economy over the course of 2002. Persistent deflation, poor consumer sentiment, and lower business investment activities all added up to a grim economic picture. On top of all this, lower profit margins resulting from increasing competition and falling interest rates put further pressure on the Bank's profitability.

Looking ahead, 2003 looks like it will be another challenging year as uncertainty remains over the course of the global economic picture. Looming threats of war in the Middle East and poor investment sentiment weigh heavily on businesses in most sectors. In addition, the ever increasing competition within the banking industry remains

and this will inevitably put a lid on profit margins. We expect the Bank to continue to perform consistently over the next year.

PROPERTY INVESTMENT AND DEVELOPMENT

INVESTMENT PROPERTIES

The year 2002 continued to be another relatively quiet year for Hong Kong's property market. Both prices and rentals have succumbed to the forces of deflation. Despite this market environment, the Group has managed to maintain a high occupancy rate in its investment properties during the year. Overall rental revenue decreased by 2.9% for the year 2002.

Chong Hing Square, a popular ginza-type retail development situated in the heart of Mongkok, Kowloon, offers 184,000 sq. ft. of retail and recreational space. This 20-storey building has been 99% let, and its rental revenue has decreased by 3.1% when compared with last year.

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Le Palais
A, B, C Promotion
activities of
Le Palais

For our Chong Yip Shopping Centre located in Western District, Hong Kong, rental revenue has decreased by 2.3%. This is arguably the best located shopping centre in Western District, with 41,000 sq. ft. of retail and recreational area. The property in year 2002 was 86% let, we expect to maintain the present occupancy rate.

Western Harbour Centre, an office building at No. 181, Connaught Road West, Hong Kong, is conveniently located close to the entrance/exit of

the Western Harbour Tunnel. This 28-storey building offers 140,000 sq. ft. of office space with stunning harbour view. It has been 90% let, and its rental revenue has decreased by 7.1% over the previous year.

The Group also received rental income from Fairview Court, a 6-unit luxury low-rise apartment building at No. 94, Repulse Bay Road, Hong Kong and it has been fully let at present.

Liu Chong Hing Bank Building, which the Group has a 45.11% interests, has been vacated in preparation for re-development. Situated in the heart of Central on 24, Des Voeux Road Central, Hong Kong, this is the flagship property of the Group. Demolition works for this building is due to commence in the 2nd quarter of 2003.

DEVELOPMENT PROPERTIES

The Group's other PRC development project is Le Palais, a 1,500,000 sq. ft. gross floor area residential complex located at Donghu Road in the scenic Dongshan District of Guangzhou. This project has now completed which provides 844 luxury apartments plus 300 car parks and full clubhouse recreational facilities. Sale of this prestigious development has already begun and 214 units have been sold so far, with another 39 units leased out.

The Belcher's, the Group's joint venture project with Shun Tak Holdings Limited, Sun Hung Kai Properties Limited, and New World Development Company Limited, continued to be sold. 70% flat units has been sold up to 31st December, 2002. The Group owns 10% of this development.

The Group's redevelopment project, Double Haven in Kau To Shan, Shatin, provides 14 single and 18 semi-detached luxury houses with clubhouse and

swimming pool facilities. So far 25 houses has been sold up to present fetching total cash proceeds of HK\$383.6 million.

The Group's development of a grade-A commercial office building in Nanjing Xilu, Shanghai, has finished piling works and superstructure will begin soon. The project is expected to be completed by 2006. The property will provide 594,300 sq. ft. of commercial and office space in a prime business location.

INSURANCE BUSINESS

The Group's insurance business reported a 15% decrease in profit over the previous year. Despite increasing competition within the industry, we expect it will make steady progress in the year ahead.

ISO9001: 2000 CERTIFICATE ACHIEVEMENT

Liu Chong Hing Property Management and Agency Limited, a wholly owned subsidiary of the Company, has successfully been awarded ISO9001: 2000 Certificate in 2003. This management and agency company has always been the objective of providing quality property management services to our client with the main theme of "Professional Management, Quality Services, Enterprise and Customers' Satisfaction".

REDEVELOPMENT OF LIU CHONG HING BANK BUILDING

Liu Chong Hing Bank Building located at 24 Des Voeux Road Central, Hong Kong, owned by Liu Chong Hing Bank Limited (the "Bank"), has been decided to re-develop in 2003. The operations of



Double Haven
 D, E, F Activities jointly run with Metro Broadcast for promoting Double Haven
 G Double Haven's promotion activities

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A. Liu Chong Hing Bank Building

the Company together with the Bank will move to New World Tower in Central until the new building has been completed.

The construction cost of the re-development project is estimated approximately HK\$200 million. The proposed building is a 27-storey commercial building with a gross floor area of 110,000 sq. ft. The whole project is expected to complete at the end of 2006.

CAPITAL STRUCTURE

The group's shareholders' funds as at 31st December, 2002 amounted to HK\$5,672 million, representing a decrease of HK\$419 million when compared with last year. The decrease in shareholders' funds was mainly due to the increase in net profit of HK\$80 million for the year and the movement of reserve comprising of dividend payment of HK\$76 million, release of revaluation surplus to income statement of HK\$324 million and revaluation deficits of HK\$85 million against the investment property revaluation reserve.

FINANCE AND TREASURY OPERATIONS

As at 31st December, 2002, the group's consolidated net debt being the bank borrowing less cash and bank balances were decreased by HK\$220 million to HK\$2,242.7 million. On the other hand, the total cash deposits and bank balances were increased by HK\$51.9 million to HK\$335.5 million.

The improvement of cash flow was mainly due to the net cash inflow from the sale of Double Haven, Le Palais and the repayment of shareholder loan from The Belcher's. The total cash proceeds from the sale of Double Haven and Le Palais for the year was about HK\$384 million and HK\$87 million respectively. A total of HK\$136.5 million being the repayment of shareholders loan was returned from the investment in The Belcher's project.

In such, the group's debt ratio had been improved and its debt-to-equity ratio maintained at 40% as of the balance sheet date.

The management is well aware that a higher gearing level will not only undermine the Company's long-term stability but also will restrict its flexibility for any new business venture. Given that the management do not intend to make any significant investment within the near future until completion and sale of various major development projects.

Almost all of the group's borrowings are in Hong Kong dollars and the interest rates are set on floating rate basis. For this reason, the Company's interest expenses had been reduced in line with the global reduction of interest rate. As at 31st December, 2002, about one-fifth of total bank borrowings are entered into interest hedging instrument so as to avoid interest rate volatility and uncertainty. Given the above arrangement, the group's management is confident about the management of currency and interest rate risk.

LIQUIDITY AND FUNDING

The Group has maintained a prudent policy in regard to liquidity and funding. The Directors are confident that the Group will maintain flexible and adequate sources of funding to support all the Group's investment and development projects.

LOOKING AHEAD

The Group will continue to act prudently in the year ahead and to look for new and profitable opportunities.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 64% of the Group's purchases attributable to the Group's five largest suppliers was less than 30% and the Group's turnover attributable



- B. ISO 9001: 2000 Award Presentation Ceremony
- C. ISO 9001: 2000 Certificate presented by BSI Pacific Limited
- D. Chong Hing Square Chinese New Year activities
- E. Chong Hing Square Christmas decoration

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to the Group's five largest customers was less than 30%. None of the directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Movements in investment properties and property, plant and equipment during the year are set out in Notes 12 and 13 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES IN THE COMPANY

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited, details of which are set out in Note 24 to the financial statements. The Directors considered that the repurchases would increase the net asset value per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 25th April, 2002, which replace the previous share option scheme, for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24th April, 2012. Under the Scheme, the Company may grant options to eligible employees, including executive directors of the

Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside eligible third parties at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the 5th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's share on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant, or the closing price of the shares on the date of grant.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

SUBSIDIARIES AND ASSOCIATES

Particulars relating to the subsidiaries and associates are set out in Notes 15 and 16 to the financial statements respectively.

RESERVES

Movements in reserves of the Group during the year are set out in Consolidated Statement of changes in

equity and the movements in reserves of the Company during the year are set out in Note 25 to the financial statements.

DIRECTORS

The Directors of the Company during the year are shown on page 28 of this annual report.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

Mr. Woo Pak Chuen, Mr. Peter Alan Lee Vine, Mr. Liu Chun Ning, Wilfred and Mr. Liu Kam Fai,

Winston shall retire by rotation in accordance with Article 99 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31st December, 2002, the beneficial interests of the Directors and Chief Executives of the Company and of their associates in the shares of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(a) The Company

Name of Director	Personal interests	Family interests	Corporate interests	Total interests
	Number of ordinary shares held			
Mr. Liu Lit Man, <i>Chairman</i>	4,991,200	–	171,600,000 <i>(Note 1)</i>	176,591,200
Mr. Liu Lit Mo, <i>Managing Director</i>	7,580,000	–	174,600,000 <i>(Notes 1 and 2)</i>	182,180,000
Mr. Liu Lit Chi	141,668	–	216,864,222 <i>(Notes 1 and 3)</i>	217,005,890
Mr. Peter Alan Lee Vine	24,000	–	–	24,000
Mr. Peter Ng Ping Kin	36,000	–	–	36,000
Mr. Liu Lit Chung	–	–	171,600,000 <i>(Note 1)</i>	171,600,000
Mr. Andrew Liu	600,000	–	–	600,000
Mr. Winston Liu Kam Fai	2,244,607	–	–	2,244,607

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Notes:

- 171,600,000 shares in the Company are beneficially held by Liu's Holdings Limited, of which Mr. Liu Lit Man, Liu Lit Mo, Liu Lit Chi and Liu Lit Chung are amongst its shareholders. The above numbers of shares are duplicated for each of these directors.
- Eternal Wealth Ltd., of which Mr. Liu Lit Mo and his associates are shareholders, beneficially holds

3,000,000 shares in the Company, and thus is included in the corporate interests of Mr. Liu Lit Mo.

- Alba Holdings Limited, of which Mr. Liu Lit Chi and his associates are shareholders, beneficially holds 45,264,222 shares in the Company, and thus is included in the corporate interests of Mr. Liu Lit Chi.

(b) Associates

Liu Chong Hing Bank Limited

Name of Director	Personal interests	Family interests	Corporate interests	Total interests
	Number of ordinary shares held			
Mr. Liu Lit Man, <i>Executive Chairman</i>	3,447,928	–	236,233,628 <i>(Note 1)</i>	239,681,556
Mr. Liu Lit Mo, <i>Vice Chairman</i>	1,009,650	–	236,233,628 <i>(Note 1)</i>	237,243,278
Mr. Liu Lit Chi <i>Managing Director & Chief Executive Officer</i>	313,248	–	238,496,839 <i>(Notes 1 and 2)</i>	238,810,087
Mr. Peter Alan Lee Vine	1,200	–	–	1,200
Mr. Liu Lit Chung	173,000	–	236,233,628 <i>(Note 1)</i>	236,406,628
Mr. Andrew Liu	60,000	–	–	60,000

Notes:

- The corporate interests in 236,233,628 shares are attributed as follows:

- 196,233,628 shares held by the Company's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of

- Mr. Liu Lit Man, Liu Lit Mo, Liu Lit Chi and Liu Lit Chung is deemed under the SDI Ordinance to be interested through Liu's Holdings Limited, a private company holding approximately 45% of the Company's issued and fully-paid share capital; and
- (ii) 40,000,000 shares held by The Bank of Tokyo-Mitsubishi, Limited ("Bank of Tokyo-Mitsubishi"). Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Mr. Liu Lit Man, Liu Lit Mo, Liu Lit Chi and Liu Lit Chung in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SDI Ordinance to be interested in such shares.
2. 2,263,211 shares are held by Alba Holdings Limited, shareholders of which include Mr. Liu Lit Chi and his associates. Accordingly, Mr. Liu Lit Chi is deemed under the SDI Ordinance to be interested in such shares.
- C. The Company leased the 5th floor and a portion of the 14th floor of the Liu Chong Hing Bank Building from the Bank. On the other hand, the Bank and its subsidiaries leased several floors of Western Harbour Centre from the Company.
- D. The Company through its wholly-owned subsidiary, Liu Chong Hing Insurance Company Limited, provided insurance agency and underwriting services to members of the Group. In addition, the Company's another wholly-owned subsidiary, Liu Chong Hing Property Management and Agency Limited, has provided property management, property consultant and property maintenance services to the Bank Group.
- Messrs. Liu Lit Man, Liu Lit Mo, Liu Lit Chi, Peter Alan Lee Vine, Peter Ng Ping Kin, Liu Lit Chung, Andrew Liu and Winston Liu Kam Fai are interested, directly or indirectly, in the respective share capitals of the Company and/or the Bank.

In the opinion of the Directors who do not have any interest, whether directly or indirectly, in the above transactions, the transactions were conducted in the ordinary course of business of the Group on normal commercial terms.

CONNECTED PARTY TRANSACTIONS

The connected party transactions between the Group and the Liu Chong Hing Bank Group during the year are described as follows:

- A. The Bank handled routine banking transactions for the Group. Services provided by the Bank are cheque clearing, current, savings and deposit accounts, remittances, and other banking facilities.
- B. Members of the Bank Group provided securities and futures brokerage, nominee and data processing services to members of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business, to which the Company or any of the Company's subsidiaries was a party and in which a Director of the Company had, whether directly or indirectly, a material interest, subsisted at the end of the year or at any time during the year.

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At no time during the year was the Company or any of the Company's subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable within one year without payment of compensation (other than statutory compensation).

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that at 31st December, 2002, the Company had not been notified of interest, being ten per cent or more of the issued share capital of the Company, save and except as disclosed under Directors' interests in share capital of the Company and its associated corporations.

GROUP BORROWINGS AND INTEREST CAPITALISED

Details of bank loans, overdrafts and other borrowings repayable within five years are set out in Note 22 to the financial statements.

Interest capitalised to properties under development during the year amounted to HK\$69,789,000 (2001: HK\$153,698,000).

AUDIT COMMITTEE

The members of the Audit Committee are shown on page 28. The principal duties of the Audit Committee are reviewing the internal controls and the financial reporting requirements of the Group. The Committee is satisfied with the Company's internal control procedures and the financial reporting disclosures.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December, 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDITORS

The financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu who have expressed their willingness to continue in office. Accordingly, a resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Liu Lit Mo

Managing Director

Hong Kong, 13th March, 2003