

The Directors present their report together with the audited financial statements for the year ended 31st December, 2002.

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 principal activities and other particulars of the principal subsidiaries are set out in Note 20 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, 2002 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, 2002 and the state of affairs of the Group and the Company as at 31st December, 2002 are set out in the financial statements on pages 13 to 39.

The Directors have resolved not to recommend the payment of any final dividend for the year ended 31st December, 2002 (2001 — Nil). No interim dividend was declared for the year (2001 — 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, 2002 is set out on page 40.

FIXED ASSETS

Details of movements in the fixed assets during the year are set out in Note 12 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 18 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 19 to the financial statements.

As at 31st December, 2002, there were no reserves of the Company available for distribution, calculated in accordance with Section 79B of the Companies Ordinance (2001 — Nil).

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in Note 20 to the financial statements.

Report of the Directors

DIRECTORS

The Directors of the Company during the year were:

Mr. Ning Gaoning (*Chairman*)

Mr. Leon Nim Leung Chan*

Mr. Michael Kwok Shung Chan* (appointed on 8th March, 2002)

Mr. David T. Yeh

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

Mr. Jonathan Miles Foxall

Mr. Tai Chiu Ng

Mr. Wai Lam Chan

* *independent non-executive Directors*

In accordance with Article 80 of the Company's Articles of Association, Messrs. David T. Yeh and Jark Pui Lee will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ning Gaoning, aged 44, 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 Corporation 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 mainland. He is also a Director of Lippo China Resources Limited ("LCR").

Mr. Leon Nim Leung Chan, aged 47, 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.

Mr. Michael Kwok Shung Chan, aged 42, 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. 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 51, 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").

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

Mr. Jark Pui Lee, O.B.E., J.P., aged 63, 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 49, 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 27 years' experience in the property industry, of which 17 years have been spent in Hong Kong.

Mr. Tai Chiu Ng, aged 49, was appointed a Director of the Company in August 2000. He is a qualified accountant. Mr. Ng holds a master's degree in Business (Electronic Commerce) from Curtin University of Technology in Australia, a master's degree in International Banking and Financial Studies from the Heriot-Watt University in the United Kingdom and a doctor's degree in Business Administration from the University of Hull 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. Wai Lam Chan, aged 58, 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.

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

As at 31st December, 2002, 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 ("Lippo")

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

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

(Continued)

Hongkong Chinese Limited ("HKCL")

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

Save as disclosed herein, as at 31st December, 2002, 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.

As at 31st December, 2002, 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, 2002, none of the Directors or the chief executive of the Company nor their spouses or children under 18 years of age were 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, 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 following companies 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")	167,220,038	74.3
Lippo Cayman Limited ("Lippo Cayman")	167,220,038	74.3
Lippo Capital Limited ("Lippo Capital")	167,220,038	74.3
Lippo Limited ("Lippo")	167,220,038	74.3
First Tower Corporation ("First Tower")	167,220,038	74.3
Skyscraper Realty Limited ("Skyscraper")	167,220,038	74.3
Lippo China Resources Limited ("LCR")	167,220,038	74.3
No. 1 Dragon Ltd. ("No. 1 Dragon")	167,220,038	74.3
HKCB Corporation Limited ("HKCB Corporation")	167,220,038	74.3

Note:

By virtue of Section 8 of the SDI Ordinance, Lanius, Lippo Cayman, Lippo Capital, Lippo, First Tower, Skyscraper, LCR and No. 1 Dragon were deemed to have the same beneficial interests in the shares of the Company as HKCB Corporation.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in Note 23 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.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries has been made.

On 16th December, 2002, a tenancy agreement ("Tenancy Agreement") was entered into by the Company in respect of letting of office premises from a fellow subsidiary of the Company. Details of the transaction are disclosed in Note 23(c) to the financial statements. The independent non-executive Directors have confirmed that (i) the above tenancy was entered into in accordance with the terms of the Tenancy Agreement by the relevant parties in the ordinary and usual course of their business; (ii) the above tenancy was undertaken on normal commercial terms and on terms that were fair and reasonable so far as the shareholders of the Company were concerned; and (iii) the rental to be paid in respect of the Tenancy Agreement for each financial year would not exceed the higher of HK\$10 million and 3 per cent. of the book value of the consolidated net tangible assets of the Company as disclosed in its consolidated financial statements. The auditors of the Company have also confirmed that (i) the Tenancy Agreement has received the approval of the relevant boards of directors; (ii) the Tenancy Agreement is in

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DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS *(Continued)*

accordance with the pricing policies stated in the financial statements of the Company; (iii) the above tenancy was entered into in accordance with the terms of the Tenancy Agreement; and (iv) the rental paid did not exceed the rental as agreed in the Tenancy Agreement.

SERVICE CONTRACTS OF DIRECTORS

No Directors of the Company proposed for re-election at the forthcoming annual general meeting have 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 competed or were likely to compete with the businesses 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") which, through its subsidiaries including, inter alia, The Hongkong Chinese Bank, Limited ("HKCB", now renamed as CITIC Ka Wah Bank Limited), of which Mr. Ning was also a former Director, was partly engaged in the business of mortgage finance. Mr. Wai Lam Chan ("Mr. Chan") was also a former Director of a wholly-owned subsidiary of each of HKCL and HKCB which was 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.

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 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 former independent non-executive Director of the Company, passed away on 21st October, 2001. Mr. Michael Kwok Shung Chan 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. Mr. Michael Kwok Shung Chan, 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 members of the Committee are Messrs. Michael Kwok Shung Chan and Leon Nim Leung Chan, independent non-executive Directors of the Company, and the Committee met regularly during the year. The Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the audited financial statements for the year ended 31st December, 2002.

On behalf of the Board

David T. Yeh

Director

Hong Kong, 26th March, 2003