

Chairman's Statement

BUSINESS REVIEW

2002 was a difficult and challenging year for Hong Kong. Deflation prevailed throughout the year. As Hong Kong moved further into closer economic convergence with the cheaper neighbouring provinces of China, the year saw further migration of businesses across the border as well as further downward pressure on key asset prices in Hong Kong, including properties and stocks. Prospects of an early economic recovery were further hindered by the spreading uncertainties and slowdown on the global economic front. The result was a weak Hong Kong economy characterised by poor market sentiment and low consumer confidence. This was reflected in the continuing sluggishness of both the property and stock markets. Unemployment rate and personal bankruptcy cases rose sharply. In common with other companies in the investment banking and financial services sector, the Group faced a difficult business environment in 2002.

Against this background, the Group recorded a consolidated loss of HK\$111,368,000 for the year ended 31st December, 2002, representing a reduction of 42 per cent. as compared to a loss of HK\$192,480,000 in 2001.

The sluggish local stock market has adversely affected the business and performance of Lippo Securities Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries, which are principally engaged in underwriting, securities brokerage, corporate finance, investment advisory and other related financial services.

On 17th January, 2002, the Company successfully completed the disposal of The Hongkong Chinese Bank, Limited and its subsidiaries to CITIC Ka Wah Bank Limited at an aggregate consideration of HK\$4.2 billion. A special interim distribution of HK\$1.45 per share, totalling approximately HK\$2 billion, was made to the shareholders on 28th January, 2002. On 8th February, 2002, the name of the Company was changed from "The HKCB Bank Holding Company Limited" to "Hongkong Chinese Limited".

On 27th May, 2002, the Group successfully acquired an 85 per cent. equity interest in Finibanco (Macau), S.A.R.L., a licensed bank in Macau, for MOP190 million (equivalent to approximately HK\$185 million). The bank was renamed "The Macau Chinese Bank Limited" ("MCB") on 8th January, 2003. This acquisition is in line with the Company's objective of creating further value for shareholders and building up its role in the investment banking and financial services sector. China's accession to the World Trade Organization and Macau's close proximity to the Pearl River Delta are expected to substantially enhance Macau's position as a key regional commercial and financial centre in the region. MCB will offer a platform for the Company to extend its financial services at an important traffic and commercial hub at the mouth of the Pearl River Delta and provide a good opportunity for the Company to expand into the Chinese financial services market.

On 28th May, 2002, the Group acquired an 85 per cent. equity interest in ImPac Asset Management (Holdings) Ltd. which, through its subsidiaries, provides investment and management advisory services in relation to mutual funds in Hong Kong and Asia. The acquisition has established a firm presence for the Group in the fund management business.

OUTLOOK

The outlook for the economy in 2003 is clouded by the turbulent international political situation, particularly arising from the war in Iraq. The concerns have generated an uncertain economic atmosphere for 2003, both globally and regionally. Locally, the concerns have been exacerbated by the recent outbreak of Atypical Pneumonia in Hong Kong and neighbouring countries. Against this background, we expect that the Hong Kong economy will remain weak for 2003.

Despite the challenging business environment, the Group remains optimistic about the long term prosperity of Hong Kong and the Pearl River Delta region. Accordingly, the Group will explore new market opportunities and new income sources which are compatible with its long term growth strategy. It will continue to seek potential acquisitions and alliances. With its strong and healthy financial position, the Group is well positioned to explore investment opportunities in the financial and investment sectors.

On 30th January, 2003, the Group acquired a 20 per cent. interest in the Convoy Group which is providing independent financial planning services in Hong Kong. Through this alliance, Convoy Group will be able to leverage on the diversified financial services and extensive business network of the Lippo Group and strengthen further its leading position in the independent financial planning industry. The Group's interest in the Convoy Group has subsequently increased to approximately 23 per cent.

Given the present uncertain economic environment, management will adopt a cautious and prudent approach in assessing new investment opportunities.

I take this opportunity to thank the shareholders for their continued support and my fellow directors and all the staff for their dedication and hard work during the year.

Dr. Mochtar Riady

Chairman

23rd April, 2003