

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries and associates are principally engaged in investment holding, fund management, underwriting, insurance, corporate finance, securities broking, securities investment, treasury investment, money lending, banking and other financial services.

On 17th January, 2002, the Group disposed of its entire interest in The Hongkong Chinese Bank, Limited and its subsidiaries, which were mainly engaged in the provision of commercial banking, retail banking and other related financial services.

On 27th May, 2002, the Group acquired an 85 per cent. equity interest in Finibanco (Macau), S.A.R.L. (now known as The Macau Chinese Bank Limited), a licenced credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China, which is engaged in the provision of banking, financial and other related services.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders of the Company on 22nd January, 2002, the name of the Company was changed from The HKCB Bank Holding Company Limited to Hongkong Chinese Limited with effect from 8th February, 2002.

RESULTS AND DIVIDENDS/DISTRIBUTIONS

The results 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 18 to 78.

On 17th January, 2002, the Directors have declared a special interim distribution of HK\$1.45 per share for the year ended 31st December, 2002, totalling HK\$1,959,729,000, which was paid on 28th January, 2002.

An interim distribution of HK1.5 cents (2001 — interim dividend of HK1.5 cents) per share for the year ended 31st December, 2002 was paid on 22nd October, 2002.

The Directors recommend a final distribution of HK3 cents (2001 — HK3 cents) per share for the year ended 31st December, 2002, totalling HK\$40,496,000 (2001 — HK\$40,546,000). Together with the interim distribution paid, total distribution for the year ended 31st December, 2002 will amount to HK\$1.495 (2001 — HK4.5 cents) per share, totalling HK\$2,020,498,000 (2001 — HK\$60,819,000).

Report of the Directors

SUMMARY OF GROUP 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 80.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st December, 2002 are set out in the financial statements on pages 76 and 77.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 to the financial statements.

SHARE OPTION SCHEME

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to Note 26 to the financial statements.

In order to motivate the employees of the Group, the Company had adopted a share option scheme for employees (the "Share Option Scheme") on 21st September, 1992.

As at 1st January, 2002, none of the then Directors, chief executive or substantial shareholders of the Company or their respective associates had any interests in options to subscribe for shares in the Company, whilst employees of the Group had the following interests in options to subscribe for shares in the Company. Each option gave the holder the right to subscribe for one share in the Company at the following exercise price (subject to adjustments should there be changes in the share capital structure of the Company).

Date of grant of options	Number of options outstanding at 1st January, 2002	Exercise price per share	Period during which options were exercisable
9th March, 1994	490,000	HK\$2.59	September 1994 to March 2004
4th August, 1999	100,000	HK\$2.40	February 2000 to August 2009

No options had been exercised by the option holders and all of them lapsed in January 2002 in accordance with the rules of the Share Option Scheme since all the holders were no longer employees of the Group. Under the rules of the Share Option Scheme, no more options can be granted from and the Share Option Scheme expired on the tenth anniversary date of its adoption, that is, 21st September, 2002.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year and details of the distributable reserves are set out in Note 27 to the financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and of the Group during the year are set out in Note 18 to the financial statements.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group are set out in Note 19 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations of HK\$5,913,000 (2001 — HK\$6,024,000).

DIRECTORS

The Directors of the Company during the year were:

Dr. Mochtar Riady (*Chairman*)

Mr. Ning Gaoning

(Deputy Chairman, resigned on 17th January, 2002)

Mr. Raymond Lee Wing Hung

(Managing Director and Chief Executive, resigned on 17th January, 2002)

Mr. Stephen Riady

Mr. John Lee Luen Wai

Mr. Leon Chan Nim Leung *

Mr. Albert Saychuan Cheok *

(appointed on 17th January, 2002)

Mr. Jesse Leung Nai Chau

(appointed on 31st May, 2002)

Mr. Kor Kee Yee

(appointed on 23rd December, 2002)

Mr. Ralph Keung Chi Wang

(resigned on 17th January, 2002)

Mr. Gerard Joseph McMahon

(resigned on 17th January, 2002)

Mr. Stephen Edward Clark *

(resigned on 17th January, 2002)

Mr. James Riady

(retired on 28th May, 2002)

* *independent non-executive Directors*

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Jesse Leung Nai Chau and Mr. Kor Kee Yee retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Leon Chan Nim Leung retires from office at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

Report of the Directors

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Mochtar Riady (also known as Dr. Lee Man Tjin), aged 73, is the founder and the Chairman of the group of companies controlled by the Riady family. Dr. Riady is the father of Mr. Stephen Riady. Dr. Riady has over 30 years' banking and financial institution experience in Indonesia, Hong Kong, Singapore, Taiwan and the United States of America. He was appointed a Director in 1992 and is the Chairman of the Company. He is also the Honorary Chairman of Lippo China Resources Limited ("LCR") and a director of Lippo Cayman Limited ("Lippo Cayman") and Lippo Capital Limited ("Lippo Capital").

Mr. Stephen Riady, aged 42, was appointed a Director of the Company in 1992. Mr. Riady is a son of Dr. Mochtar Riady. He is also the Chairman of Lippo Limited ("Lippo"), the Deputy Chairman and Managing Director of LCR, the Group Managing Director of Auric Pacific Group Limited ("Auric") and a director of Lanius Limited, Lippo Cayman, Lippo Capital, First Tower Corporation ("First Tower"), Skyscraper Realty Limited and HKCL Holdings Limited ("HKCL Holdings", formerly known as Lippo CRE (Financial Services) Limited). He is a graduate of the University of Southern California and holds an Honorary Degree of Doctor of Business Administration from Napier University in the United Kingdom. Mr. Riady is a banker by profession, with over 15 years' experience in retail, commercial and merchant banking in North America and in the Southeast Asian region.

Mr. John Lee Luen Wai, aged 54, was appointed a Director of the Company in 1992. Mr. Lee is also the Managing Director of Lippo and a director of LCR, First Tower, Greenroot Limited, HKCL Holdings and Auric. He is a qualified accountant and was a partner of one of the leading international accounting firms in Hong Kong. He has extensive experience in corporate finance and capital market.

Mr. Leon Chan Nim Leung, aged 47, an independent non-executive Director of the Company, was appointed a Director in 1992. 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, LCR and The Hong Kong Building and Loan Agency Limited.

Mr. Albert Saychuan Cheok, aged 52, was appointed an independent non-executive Director of the Company in January 2002. Mr. Cheok graduated from the University of Adelaide, Australia, with a First Class Honours degree in Economics. He is a banker with 28 years of experience in banking in the Asia-Pacific region, particularly in Australia, Hong Kong, Thailand and Malaysia. Mr. Cheok currently is the Chairman of Bangkok Bank Berhad in Malaysia.

Mr. Jesse Leung Nai Chau, aged 52, was appointed a Director of the Company in May 2002. Mr. Leung holds a Master's Degree in Business Administration. He is a fellow of the Institute of Chartered Accountants in England and Wales as well as the Hong Kong Society of Accountants. Mr. Leung has extensive experience in public practice, finance and commerce. He is also a director of Dan Form Holdings Company Ltd.

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

Mr. Kor Kee Yee, aged 54, was appointed a Director of the Company in December 2002. Mr. Kor holds a Master's Degree in Business Administration from Asia International Open University (Macau). He has over 30 years' comprehensive banking experience.

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 and its 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.

The Company

Name	Type of interest	Number of shares of HK\$1.00 each in the Company
Mochtar Riady	Note (i)	961,012,440
Stephen Riady	Note (i)	961,012,440
Kor Kee Yee	Personal	59,900
John Lee Luen Wai	Personal	200
	Family	200

Lippo Limited ("Lippo")

Name	Type of interest	Number of shares of HK\$0.10 each in Lippo
Mochtar Riady	Notes (i) and (ii)	248,297,776
Stephen Riady	Notes (i) and (ii)	248,297,776
John Lee Luen Wai	Personal	825,000
Kor Kee Yee	Personal	14,737

Report of the Directors

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

(Continued)

Lippo China Resources Limited ("LCR")

Name	Type of interest	Number of shares of HK\$0.10 each in LCR
Mochtar Riady	Notes (i), (ii) and (iii)	6,141,720,389
Stephen Riady	Notes (i), (ii) and (iii)	6,141,720,389
Jesse Leung Nai Chau	Personal	3,000,000
Kor Kee Yee	Personal	400,000

Notes:

- (i) As at 31st December, 2002, Lippo Cayman Limited ("Lippo Cayman") was indirectly interested in 961,012,440 shares of HK\$1.00 each in, representing approximately 71.1 per cent. of, the issued share capital of the Company. Lippo Cayman is wholly owned by Lanius Limited ("Lanius"), the trustee of a trust, the beneficiaries of which include Dr. Mochtar Riady, Mr. Stephen Riady and their respective family members.
- (ii) As at 31st December, 2002, Lippo Cayman, and through its wholly-owned subsidiaries, Lippo Capital Limited ("Lippo Capital"), J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in an aggregate of 248,297,776 shares of HK\$0.10 each in, representing approximately 56.7 per cent. of, the issued share capital of Lippo.
- (iii) As at 31st December, 2002, Lippo was indirectly interested in 6,141,720,389 shares of HK\$0.10 each in, representing approximately 66.7 per cent. of, the issued share capital of LCR.
- (iv) As at 31st December, 2002, LCR was indirectly interested in 167,220,038 shares of HK\$1.00 each in, representing approximately 74.3 per cent. of, the issued share capital of The Hong Kong Building and Loan Agency Limited.
- (v) As at 31st December, 2002, Dr. Mochtar Riady and Mr. Stephen Riady were deemed to be interested in 3,734,044,218 shares of HK\$0.10 each in AcrossAsia Multimedia Limited ("AAM"), an associated corporation (within the meaning of the SDI Ordinance) of the Company.
- (vi) As at 31st December, 2002, Mr. John Lee Luen Wai was interested in 230,000 shares of HK\$0.10 each in AAM and was deemed to be interested in 300,000 shares of US\$1.00 each in KeyTrend Technology Holdings Limited, an associate of AAM.
- (vii) As at 31st December, 2002, Mr. Jesse Leung Nai Chau was deemed to be interested in 4,550,000 ordinary "A" shares of HK\$1.00 each and 24,000,000 ordinary "B" shares of HK\$0.50 each in Maxipo International Limited, an associated corporation (within the meaning of the SDI Ordinance) of the Company.
- (viii) Dr. Mochtar Riady and Mr. Stephen Riady were also deemed to be interested in the share capital of the associated corporations (within the meaning of the SDI Ordinance) of the Company held through Lippo Cayman under the provisions of the SDI Ordinance.

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

(Continued)

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, Mr. John Lee Luen Wai, a Director of the Company, held 1,500,000 options granted to him on 23rd June, 1997 at a consideration of HK\$1.00 under the Share Option Scheme for Employees adopted by LCR (the "LCR Scheme"). Such options can be exercised on or before 23rd June, 2007 in accordance with the rules of the LCR Scheme. Holder of each such 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). Accordingly, Mr. John Lee Luen Wai is entitled to subscribe for 9,000,000 shares of HK\$0.10 each in LCR. No options had been exercised by Mr. John Lee Luen Wai 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 rights 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 AND 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, according to the register of substantial shareholders' interests kept by the Company under Section 16(1) of the SDI Ordinance, and so far as is known to the Directors, the persons (other than a Director or chief executive of the Company) who were, directly or indirectly, beneficially interested in 10 per cent. or more of the issued share capital of the Company were as set out below.

Name	Number of shares of HK\$1.00 each in the Company	Approximate percentage
Lanius	961,012,440	71.1
Lippo Cayman	961,012,440	71.1
Lippo Capital	961,012,440	71.1
Lippo	961,012,440	71.1
First Tower Corporation ("First Tower")	961,012,440	71.1
Skyscraper Realty Limited ("Skyscraper")	961,012,440	71.1
LCR	961,012,440	71.1
HKCL Holdings Limited ("HKCL Holdings")	794,428,440	58.8

Notes:

- (i) 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 interests in the shares of the Company as LCR. These interests are the same as the interests of Dr. Mochtar Riady and Mr. Stephen Riady in the Company as disclosed in the section headed "Directors' interests in the securities of the Company and associated corporations".
- (ii) LCR's interests in the shares of the Company include the interest of HKCL Holdings, the immediate holding company of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in Note 36 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.

CONNECTED TRANSACTIONS

On 16th December, 2002, three tenancy agreements (“Tenancy Agreements”) were entered into by the Company and its subsidiaries respectively in respect of letting of office premises from the fellow subsidiaries of the Company. Details of the transactions are disclosed in Note 36(d) to the financial statements. The independent non-executive Directors have confirmed that (i) the above tenancies were entered into in accordance with the terms of the Tenancy Agreements by the relevant parties in the ordinary and usual course of their business; (ii) the above tenancies were 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) each of the rentals to be paid in respect of each of the Tenancy Agreements 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 Agreements have received the approval of the relevant boards of directors; (ii) the Tenancy Agreements are in accordance with the pricing policies stated in the financial statements of the Company; (iii) the above tenancies were entered into in accordance with the terms of the Tenancy Agreements; and (iv) the rentals paid did not exceed the rentals as agreed in the Tenancy Agreements.

AUDIT COMMITTEE

As part of the initiatives towards good corporate governance, the Board of Directors of the Company established an Audit Committee in 1998. The authority and duties of the Audit Committee are laid down in written terms of reference.

The Audit Committee comprises the two independent non-executive Directors of the Company. The committee meets regularly with the executive Directors, senior management and external auditors of the Company to consider corporate governance, regulatory compliance, internal control and financial reporting matters.

COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year except that non-executive Directors are not appointed for a specific term but are subject to retirement by rotation in the Company’s annual general meetings in accordance with Bye-law 87 of the Company’s Bye-laws.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Bye-laws or the laws of Bermuda.

Report of the Directors

MANAGEMENT CONTRACTS

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

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers combined and that of sales attributable to the Group's five largest customers combined were less than 30 per cent. of the Group's aggregate purchases and sales respectively.

AUDITORS

During the year, PricewaterhouseCoopers resigned as auditors of the Company and Ernst & Young were appointed as auditors to fill the causal vacancy so arising. There have been no other changes of auditors in the past three financial years. 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.

On behalf of the Board

John Lee Luen Wai

Director

Hong Kong, 23rd April, 2003