

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31st December, 2003.

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 Company's 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, 2003 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, 2003 and the state of affairs of the Group and the Company as at 31st December, 2003 are set out in the financial statements on pages 15 to 39.

The Directors have resolved not to recommend the payment of any final dividend for the year ended 31st December, 2003 (2002 – Nil). No interim dividend was declared for the year (2002 – 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, 2003 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.

RESERVE

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

As at 31st December, 2003, there were no reserves of the Company available for distribution, calculated in accordance with Section 79B of the Companies Ordinance (2002 – Nil).

SUBSIDIARIES

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

DIRECTORS

The Directors of the Company during the year were:

Mr. Ning Gaoning (*Chairman*)
Mr. Leon Nim Leung Chan*
Mr. Michael Kwok Shung Chan*
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. Wai Lam Chan and Jonathan Miles Foxall 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 45, 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 President of China Resources National Corporation. He is also the Chairman of China Resources Enterprise, Limited and China Resources Land Limited and a Director of Lippo China Resources Limited ("LCR"). Mr. Ning also holds directorship in a number of companies including China Resources Power Holdings Company Limited, China Resources Logic Limited, China Resources Cement Holdings Limited, BOC International Holdings Limited, SABMiller plc and HIT Investments Limited.

Mr. Leon Nim Leung Chan, aged 48, 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.

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

Mr. Michael Kwok Shung Chan, aged 43, 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 52, 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. Jark Pui Lee, O.B.E., J.P., aged 64, 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 50, 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 28 years' experience in the property industry, of which 18 years have been spent in Hong Kong.

Mr. Tai Chiu Ng, aged 50, 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 59, 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31st December, 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO 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 under the Rules Governing the Listing of Securities on the Stock Exchange (the "Model Code") were as follows:

1. *Interests in shares of the Company's associated corporations*

Lippo Limited

Name of Director	Number of ordinary shares of HK\$0.10 each			Approximate percentage of total interests in the issued share capital
	Personal interest		Total interests	
	(held as beneficial owner)	Family interest (interest of spouse)		
Jark Pui Lee	–	48	48	0.00

Hongkong Chinese Limited

Name of Director	Number of ordinary shares of HK\$1.00 each			Approximate percentage of total interests in the issued share capital
	Personal interest		Total interests	
	(held as beneficial owner)	Family interest (interest of spouse)		
Jark Pui Lee	350	350	700	0.00

2. *Interests in underlying shares of the Company's associated corporation*

Lippo China Resources Limited

Name of Director	Capacity and nature of interest	Number of underlying shares of HK\$0.10 each in respect of which options have been granted*	Approximate percentage of the issued share capital
David T. Yeh	Personal (held as beneficial owner)	9,000,000	0.09

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(Continued)*

2. *Interests in underlying shares of the Company's associated corporation (Continued)*

- * 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 Share Option Scheme") adopted by Lippo China Resources Limited ("LCR"). Such options vested after two months from the date when the options were deemed to be granted and accepted and are exercisable from 23rd August, 1997 to 23rd June, 2007 in accordance with the rules of the LCR Share Option Scheme to subscribe for ordinary 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 ordinary 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 and the quantity of options held by each of the above Directors as at 1st January, 2003 and 31st December, 2003 remained unchanged.

The above interests in the underlying shares were held pursuant to unlisted physically settled equity derivatives. As at 31st December, 2003, none of the Directors or chief executive of the Company had any interests in the underlying shares in respect of cash settled or other equity derivatives of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

All the interests stated above represent long positions. Save as disclosed herein, as at 31st December, 2003, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed herein, as at 31st December, 2003, none of the Directors or chief executive of the Company nor their spouses or minor children 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 Part XV of the SFO).

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.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE

As at 31st December, 2003, so far as is known to the Directors of the Company, the following substantial shareholders (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and other persons, other than the Directors or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO") as follows:

Interests of substantial shareholders (as defined under the Listing Rules) and other persons in the shares of the Company

Name	Number of ordinary shares of HK\$1.00 each	Approximate percentage of the Company's issued share capital
<i>Substantial shareholders:</i>		
Lippo China Resources Limited ("LCR")	168,313,038	74.80
Lippo Limited ("Lippo")	168,313,038	74.80
Lippo Cayman Limited ("Lippo Cayman")	168,313,038	74.80
Lanius Limited ("Lanius")	168,313,038	74.80
Dr. Mochtar Riady	168,313,038	74.80
Madam Lidya Suryawaty	168,313,038	74.80
<i>Other persons:</i>		
CITIC Ka Wah Bank Limited ("CITIC Ka Wah")	11,250,000	5.00
CITIC International Financial Holdings Limited ("CIFH")	11,250,000	5.00
China International Trust and Investment Corporation ("CITIC")	11,250,000	5.00

Note:

- (i) 168,313,038 ordinary shares of the Company were held by HKCB Corporation Limited directly as beneficial owner which was wholly-owned by LCR through its wholly-owned subsidiary, No. 1 Dragon Ltd. LCR was a 71.07 per cent. owned subsidiary of Skyscraper Realty Limited which in turn was a wholly-owned subsidiary of First Tower Corporation ("First Tower"). First Tower was a wholly-owned subsidiary of Lippo. Lippo Cayman, and through its wholly-owned subsidiaries, Lippo Capital Limited (which owned approximately 49.97 per cent. interest in the issued share capital of Lippo), J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in approximately 56.78 per cent. of the issued share capital of Lippo.
- (ii) Lanius was the registered shareholder of the entire issued share capital of Lippo Cayman and was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder. The beneficiaries of the trust included Dr. Mochtar Riady and his family members. Madam Lidya Suryawaty is the spouse of Dr. Mochtar Riady. Dr. Mochtar Riady was not the registered holder of any shares in the issued share capital of Lanius.
- (iii) LCR's interests in the ordinary shares of the Company were recorded as the interests of Lippo, Lippo Cayman, Lanius, Dr. Mochtar Riady and Madam Lidya Suryawaty.
- (iv) 11,250,000 ordinary shares of the Company were held by CITIC Ka Wah directly as beneficial owner. CITIC Ka Wah was a wholly-owned subsidiary of CIFH which in turn was a 54 per cent. owned subsidiary of CITIC.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE *(Continued)*

All the interests stated above represent long positions. Save as disclosed herein, as at 31st December, 2003, none of the substantial shareholders (as defined under the Listing Rules) or other persons, other than the Directors or chief executive of the Company, had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors were considered to have interests in any business which competed or was 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.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

On 16th December, 2002, a tenancy agreement (the "Tenancy Agreement") was entered into between the Company and Prime Power Investment Limited ("Prime Power"), a fellow subsidiary of the Company, pursuant to which Prime Power agreed to let to the Company a portion of Room 2301, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 3,316 square feet for a term of two years from 1st February, 2003 to 31st January, 2005, both days inclusive, at a monthly rental of HK\$55,709, exclusive of rates, service charges and all other outgoings, for office use. Further details of the tenancy are disclosed in Note 23(a) 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 or 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 accordance with the pricing policy 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.

Save as disclosed herein and 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.

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' 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 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.

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.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") in accordance with paragraph 14 of 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. The members of the Committee are Messrs. Leon Nim Leung Chan and Michael Kwok Shung 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, 2003.

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 as required by paragraph 7 of the Code 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.

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.

On behalf of the Board

David T. Yeh

Director

Hong Kong, 9th March, 2004