

Chairman's Statement

I hereby present to the shareholders the annual report of the Company for the year ended 31st December, 2002.

BUSINESS REVIEW

2002 remained a difficult and challenging year for Hong Kong with record high unemployment rate, persistently declining property prices, sluggish stock market and dampened private consumption. The economy of Hong Kong was also clouded by prolonged deflation and further deterioration of global economic conditions exacerbated by a lack of consumer and investor confidence. Amid these adverse economic conditions which have aggravated asset value depreciation, some of the Group's asset values were inevitably subject to continuous downward adjustments. Against this background, the Group recorded a consolidated loss attributable to shareholders of HK\$271 million for the year under review, a reduction of approximately 51 per cent. from last year's loss of HK\$551 million.

The conditions of the local property market continued to deteriorate during the year. Local property rental rates were adjusted downwards in response to the decline in the overall economy and market conditions. Nevertheless, the average occupancy rate of the Group's investment properties was consistently maintained at a very high level. The property rentals continued to provide a stable recurrent income base for the Group. "Lippo Plaza", a grade A office and retail complex situated at Huahai Zhong Road, Shanghai, the People's Republic of China ("China") has achieved nearly full occupancy during the year and the renewed rental rates have been promising. The Group has a 66.5 per cent. effective interest in this investment.

The 724 megawatt (net) coal-fired Meizhou Wan power plant project in Putian City, Fujian Province, China, in which the Group has a 25 per cent. interest, has been physically completed and started to generate electricity. However, its formal commercial operation has been postponed due to the ongoing re-negotiation of the electricity tariff and other terms with the Fujian provincial authorities and the local power company. The postponement of the formal commercial operation of the power plant project, despite its physical completion and revenue-generating operation, is not in accordance with the terms of its project financing. During the year, an interim agreement with the local power company regarding the electricity tariff and other terms has been reached. The project company has been working closely with the lenders, the Fujian provincial authorities and the local power company with a view to resolving all the issues amicably.

In early 2002, Export and Industry Bank, Inc., an associate of the Company in the Philippines, completed a legal merger with Urban Bank, Inc. and Urbancorp Investments, Inc. The new merged bank was named as Export and Industry Bank, Inc. (new "EIB"). After the merger, total assets of new EIB increased significantly by 2.6 times and the results improved over the year, contributing a profit of HK\$23 million to the Group for the year as compared with a loss of HK\$31 million in 2001.

The operating environment in Singapore and South-east Asia was also difficult during the year. Auric Pacific Group Limited, a listed subsidiary of the Company in Singapore, recorded a net loss attributable to shareholders of S\$17 million for the year, a decrease of 11 per cent. as compared to a net loss of S\$19 million for 2001.

Hongkong Chinese Limited ("HKCL"), a listed subsidiary of the Company, and its subsidiaries ("HKCL Group") recorded a consolidated net loss of HK\$111 million for the year, as compared to a loss of HK\$192 million in 2001.

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

Pursuant to an agreement entered into by the Group on 31st October, 2001, HKCL successfully completed the disposal of The Hongkong Chinese Bank, Limited ("HKCB") and its subsidiaries to CITIC Ka Wah Bank Limited on 17th January, 2002 for an aggregate consideration of HK\$4.2 billion, representing approximately 30 per cent. premium over the then consolidated net assets of HKCB.

With the disposal of HKCB and its subsidiaries, HKCL Group has a very strong financial position. To enhance the shareholders' value, the Company increased its interest in HKCL. On 17th January, 2002, the Company completed the acquisition from China Resources Enterprise, Limited of the remaining 50 per cent. interest in Lippo CRE (Financial Services) Limited (now known as HKCL Holdings Limited), the holding company of HKCL, and approximately 5.8 per cent. interest in HKCL for an aggregate consideration of approximately HK\$1.8 billion. Furthermore, on 21st August, 2002, the Company entered into an agreement with independent third parties for the acquisition of an additional 6.5 per cent. interest in HKCL for an aggregate consideration of approximately HK\$57 million. At the end of the year, the Company was interested in approximately 71.1 per cent. of the then issued share capital of HKCL.

On 27th May, 2002, the HKCL 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 HKCL Group'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 HKCL 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 HKCL to expand into the Chinese financial services market.

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On 28th May, 2002, the HKCL 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 HKCL Group in the fund management business.

Given the difficult economic environment, The Hong Kong Building and Loan Agency Limited ("HKBLA"), a listed subsidiary of the Company, recorded a net loss attributable to shareholders of HK\$16.3 million for the year, representing a reduction of 49 per cent. as compared with 2001. Due to persistently weak demand for loans, total loan portfolio of HKBLA reduced. With further decline in property prices and soaring personal bankruptcies, HKBLA has been closely monitoring the quality of its loan portfolio, keeping bad debt level to a minimal. HKBLA is still debt free throughout the year and continues to maintain a strong financial position.

PROSPECTS

Looking ahead, 2003 will be a more difficult year. The global economy is affected by the turbulent international political situation and the sluggish U.S. economy. Hong Kong will still have to face economic uncertainties amid a prolonged deflationary environment. The local economy is further adversely affected by the recent outbreak of Atypical Pneumonia in Hong Kong and its neighbouring countries.

In view of the difficult operating environment, the Group will maintain a prudent and conservative approach in cost management. The Group will continue to adopt a cautious and prudent approach in assessing potential new business opportunities. Despite the challenging business environment, the Group remains optimistic about the long term prosperity of Hong Kong and Pearl River Delta region. With a strong and healthy financial position, the Group is well positioned to explore investment opportunities which are compatible with its long term growth strategy.

APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere gratitude and appreciation to the management and all of our staff for their loyalty, hard work and dedication to the Group.

Dr. Mochtar Riady
Honorary Chairman

25th April, 2003