

On 17th January, 2002, Hongkong Chinese Limited ("HKCL"), a listed subsidiary of the Company, completed the disposal (the "Disposal") of The Hongkong Chinese Bank, Limited ("HKCB"), which increased the net assets of the Group by HK\$0.2 billion. On the same date, the Group completed the acquisition (the "Acquisition") of 35.2 per cent. effective interest in HKCL, giving rise to a goodwill of HK\$79.9 million charged to the profit and loss account. However, it was later offset by a gain of HK\$130 million, representing a negative goodwill arising on acquisition of an additional 6.5 per cent. interest in HKCL. At the end of the year, the Group's effective interest in HKCL increased to 71.1 per cent.

The Disposal took place at an opportune time in view of the subsequent further deterioration of asset quality and narrowing of interest margins suffered by the banking industry in Hong Kong in 2002. Nevertheless, the adverse conditions in the local property and stock markets continued to affect the Group's performance during the year. As a result, the Group recorded a net loss attributable to shareholders for the year of HK\$271 million, representing a reduction of 51 per cent. from last year's loss of HK\$551 million.

RESULTS FOR THE YEAR

Turnover for the year dropped 37 per cent. to HK\$1.1 billion (2001 — HK\$1.8 billion) mainly due to the decrease attributable to banking and money lending businesses as a result of the Disposal. Property investment, securities and treasury investment and food businesses remained principal sources of revenue of the Group, contributing 10 per cent. (2001 — 6 per cent.), 24 per cent. (2001 — 21 per cent.) and 51 per cent. (2001 — 29 per cent.), respectively, of the total turnover. Contribution from banking and money lending businesses reduced significantly to 4 per cent. (2001 — 37 per cent.). The Group has been diversifying its businesses into various sectors.

Property

Given the uncertainty in the local property market, a total provision of HK\$370 million (2001 — HK\$233 million) for diminution in value of properties was made against the Group's property portfolio in Hong Kong. The loss was mitigated by a net revaluation surplus of HK\$110 million (2001 — HK\$11 million) arising from the Group's overseas properties.

Despite the impact on property value, rental income remained a stable income source of the Group. With higher renewal rates and satisfactory occupancy level for Lippo Plaza in Shanghai, the People's Republic of China ("China"), rental income rose 9.6 per cent.

Securities and treasury investment

During the year, turnover from securities investment reduced 40 per cent., largely reflected lower investment activities in the face of the generally uncertain and depressed global and regional economic environment. As a result, a total provision of HK\$67 million (2001 — HK\$61 million) for diminution in value of investment securities was made and the Group incurred net realised and unrealised holding losses on other investments in securities totalling HK\$61 million (2001 — HK\$75 million). However, despite interest rate reducing further in 2002, the Group was able to diversify into better yielding investments and achieved satisfactory results. Income from treasury investment increased 30 per cent.

Discussion and Analysis of Annual Results

Food businesses

Food businesses mainly comprise wholesale distribution of food and allied fast-moving consumer goods and food manufacturing in Singapore. Despite weak consumer sentiments, turnover from food distribution businesses rose 9.4 per cent.

Banking

Income from banking businesses for the year included results from HKCB and its subsidiaries up to the Disposal in January 2002 and The Macau Chinese Bank Limited (formerly known as Finibanco (Macau), S.A.R.L.) since its acquisition by the Group in May 2002.

In early 2002, Export and Industry Bank, Inc. ("EIB"), an associate of the Company in the Philippines, completed a legal merger with Urban Bank, Inc. and Urbancorp Investments, Inc. Pursuant to the merger, the Group's interest in EIB decreased from 37 per cent. (before minority interests) to 21 per cent., resulting in a profit on dilution of shareholding of HK\$16 million. Total assets of EIB increased significantly by 2.6 times and the results improved over the year, contributing a profit of HK\$23 million (2001 — loss of HK\$31 million) included in the Group's share of results of associates.

Other

Share of results of associates also included a loss attributable to the Group's 25 per cent. interest in the Meizhou Wan power plant project in Fujian Province, China. Since expenses incurred were no longer capitalised upon completion of the construction work in 2001 whereas negotiation of the electricity tariff was still in process, there was a shortfall in revenue and resulted in a loss of HK\$24 million (2001 — HK\$89 million) shared by the Group.

FINANCIAL POSITION

As at 31st December 2002, total assets of the Group dropped 14 per cent. to HK\$8.1 billion (2001 — HK\$9.4 billion) as a consequence of the aforesaid provisions made for diminution in value of the Group's assets and the special interim distribution made by HKCL to the minority shareholders. Despite the net loss incurred for the year, net asset value of the Group and consolidated net asset value per share remained the same as last year at HK\$4.2 billion and HK\$0.46, respectively, as the Group's net assets increased as a result of the Disposal.

The financial position of the Group strengthened over the year with an aggregate of certificates of deposit held and cash and bank balances amounted to HK\$2.5 billion (2001 — HK\$1.3 billion, adjusted to include cash and bank balances of HKCL and its subsidiaries, other than HKCB and its subsidiaries). As at 31st December, 2002, liquidity ratio decreased slightly but remained at a very healthy level of 2.8:1 (2001 — 3.1:1).

As part of the financing arrangement for the Acquisition, total bank loans increased to HK\$1,123 million (2001 — HK\$937 million). Nevertheless, gearing ratio (total borrowings, net of minority interests, to shareholders' equity) was still well below the average among companies in the same industry and stood at 23 per cent. (2001 — 19 per cent.). Total borrowings of the Group comprised secured and unsecured bank loans of HK\$1,113 million (2001 — HK\$937 million) and HK\$10 million (2001 — Nil), respectively, and an unsecured loan note of HK\$58.5 million (2001 — HK\$73.5 million) issued by the Company to Lippo Limited, an intermediate holding company of the Company.

All bank loans carried interest at floating rates, 38 per cent. (2001 — 28 per cent.) of which was repayable within one year. Certain leasehold land and buildings, investment properties and shares in certain subsidiaries owned by the Group and certain securities owned by margin clients of the Group have been pledged to secure banking facilities made available to the Group. All bank loans (2001 — 75 per cent.) were denominated in United States dollars or Hong Kong dollars. When appropriate, hedging instruments including forward contracts, swaps and currency loans are used to manage foreign exchange exposures.

Other than those attributable to banking operations, the Group had no material capital commitments or contingent liabilities outstanding as at 31st December, 2002 (2001 — Nil).

CHANGES IN ACCOUNTING POLICIES

Certain accounting policies of the Group and disclosure practices were changed as a result of the adoption of the new and revised accounting standards issued by the Hong Kong Society of Accountants with details as set out in Note 2 to the financial statements. These had no material impact on the results nor net asset value of the Group.

STAFF AND REMUNERATION

As at 31st December, 2002, the Group had 740 employees (2001 — 1,300 employees). Total staff costs incurred during the year amounted to HK\$191 million (2001 — HK\$412 million). The Group offers competitive remuneration packages to its employees. Certain employees of the Group were granted options under share option schemes of their respective companies.

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. Against this background, we expect that the Hong Kong economy will remain weak in 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. 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 which are compatible with its long term growth strategy.

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