

Report of the Directors

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, property investment and development, food businesses, 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 licensed 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.

The activities and other particulars of the principal subsidiaries and those of the principal associates are set out in the financial statements on pages 93 to 103 and pages 104 to 105, respectively.

Apart from the above, 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, 2002 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, 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 19 to 105.

No interim dividend was declared (2001 — Nil) and the Directors have resolved not to recommend the payment of any final dividend for the year ended 31st December, 2002 (2001 — Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years ended 31st December, 2002, as restated and reclassified as appropriate, is set out on page 112.

FIXED ASSETS

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

INVESTMENT PROPERTIES

Details of movements in the investment properties during the year are set out in Note 19 to the financial statements.

BANK LOANS

Details of bank loans are summarised in Note 33 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of the share capital and warrants of the Company are set out in Note 30 to the financial statements.

There are no provisions for pre-emptive rights under the Company's Articles of Association which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SHARE OPTION SCHEMES

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, detailed disclosures relating to the share option schemes of the Company and its subsidiaries have been moved to Note 31 to the financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves during the year and details of the distributable reserves are set out in Note 32 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

LOAN NOTE

Details of the loan note are set out in Note 34 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in the financial statements on pages 93 to 103.

INTEREST CAPITALISED

No interest expenses were capitalised during the year (2001 — HK\$4,000) in respect of the Group's properties under development.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$12,139,000 (2001 — HK\$22,042,000).

Report of the Directors

DIRECTORS

The Directors of the Company during the year were:

Dr. Mochtar Riady (*Honorary Chairman*)

Mr. James Riady (*Chairman*)

Mr. Stephen Riady (*Deputy Chairman and Managing Director*)

Mr. Ning Gaoning

Mr. John Luen Wai Lee

Mr. Leon Nim Leung Chan*

Mr. Edwin Neo* (appointed on 8th March, 2002)

Mr. Lee Seng Huang (resigned on 3rd December, 2002)

* *independent non-executive Directors*

In accordance with Article 94 of the Company's Articles of Association, Dr. Mochtar Riady and Mr. Leon Nim Leung Chan 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

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 Messrs. James Riady and 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 the Honorary Chairman of the Company in 1992. He is also the Chairman of Hongkong Chinese Limited ("HKCL") and a director of Lippo Cayman Limited ("Lippo Cayman") and Lippo Capital Limited ("Lippo Capital"). Details of the interests of Dr. Mochtar Riady in the Company are disclosed in the section headed "Directors' interests in the securities of the Company and associated corporations".

Mr. James Riady, aged 46, is the Deputy Chairman of the group of companies controlled by the Riady family. Mr. Riady is a son of Dr. Mochtar Riady and a brother of Mr. Stephen Riady. He holds a Bachelor of Commerce degree from the University of Melbourne, Australia. He was appointed the Chairman of the Company in 1992. He is also the Chairman of Auric Pacific Group Limited ("Auric"). Details of the interests of Mr. James Riady in the Company are disclosed in the section headed "Directors' interests in the securities of the Company and associated corporations".

Mr. Stephen Riady, aged 42, has been the Deputy Chairman and Managing Director of the Company since 1992. Mr. Riady is a son of Dr. Mochtar Riady and a brother of Mr. James Riady. He is also the Chairman of Lippo Limited ("Lippo"), the Group Managing Director of Auric and a director of HKCL, Lanius Limited, Lippo Cayman, Lippo Capital, First Tower Corporation ("First Tower") and Skyscraper Realty 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. Details of the interests of Mr. Stephen Riady in the Company are disclosed in the section headed "Directors' interests in the securities of the Company and associated corporations".

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

Mr. Ning Gaoning, aged 44, was appointed a Director of the Company in December 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 China Resources National Corporation as well as the Chairman of China Resources Enterprise, Limited, a Hang Seng Index Constituent Stock, whose focus is on the distribution of consumer and industrial products in Hong Kong and the mainland. He is also the Chairman of The Hong Kong Building and Loan Agency Limited ("HKBLA").

Mr. John Luen Wai Lee, aged 54, was appointed a Director of the Company in 1992. Mr. Lee is also the Managing Director of Lippo and a director of HKCL, First Tower 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 Nim Leung Chan, aged 47, was appointed an independent non-executive Director of the Company in 1997. 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, HKCL and HKBLA.

Mr. Edwin Neo, aged 53, was appointed an independent non-executive Director of the Company in March 2002. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1976 and of the Supreme Court of England and Wales in 1993. Mr. Neo is a practising lawyer and a notary public and is presently the sole proprietor of Hoosenally & Neo, Solicitors & Notaries. He is also an independent non-executive director of Lippo.

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.

Report of the Directors

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

(Continued)

The Company

Name	Type of interest	Number of shares of HK\$0.10 each in the Company
Mochtar Riady	Notes (i) and (ii)	6,141,720,389
James Riady	Notes (i) and (ii)	6,141,720,389
Stephen Riady	Notes (i) and (ii)	6,141,720,389

Lippo Limited ("Lippo")

Name	Type of interest	Number of shares of HK\$0.10 each in Lippo
Mochtar Riady	Note (i)	248,297,776
James Riady	Note (i)	248,297,776
Stephen Riady	Note (i)	248,297,776
John Luen Wai Lee	Personal	825,000

Hongkong Chinese Limited ("HKCL")

Name	Type of interest	Number of shares of HK\$1.00 each in HKCL
Mochtar Riady	Notes (i), (ii) and (iii)	961,012,440
James Riady	Notes (i), (ii) and (iii)	961,012,440
Stephen Riady	Notes (i), (ii) and (iii)	961,012,440
John Luen Wai Lee	Personal	200
	Family	200

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

(Continued)

Note:

- (i) As at 31st December, 2002, Lippo Cayman Limited ("Lippo Cayman"), and through its wholly-owned subsidiaries, Lippo Capital Limited, 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. Lippo Cayman is wholly owned by Lanius Limited, the trustee of a trust, the beneficiaries of which include Dr. Mochtar Riady, Mr. James Riady, Mr. Stephen Riady and their respective family members.
- (ii) 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 the Company.
- (iii) As at 31st December, 2002, the Company was directly and indirectly interested in an aggregate of 961,012,440 shares of HK\$1.00 each in, representing approximately 71.1 per cent. of, the then issued share capital of HKCL.
- (iv) As at 31st December, 2002, the Company 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, Mr. James 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 Luen Wai Lee 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) Dr. Mochtar Riady, Mr. James 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.
- (viii) Certain Directors have non-beneficial personal equity interests in certain subsidiaries of the Company held for the benefit of the Group solely for the purpose of holding the requisite qualifying shares.

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 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.

Report of the Directors

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

(Continued)

As at 31st December, 2002, the following Director of the Company held the options, as stated below:

Name	Number of shares of HK\$0.10 each in the Company in respect of which options have been granted*
John Luen Wai Lee	9,000,000

- * The options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Share Option Scheme for Employees adopted by the Company (the "Share Option Scheme"). Such options can be exercised on or before 23rd June, 2007 in accordance with the rules of the Share Option Scheme to subscribe for shares in the Company 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 shares of HK\$0.10 each in the Company at an exercise price of HK\$0.883 per share (subject to adjustment). None of the options were exercised by the above Director 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 was granted or had exercised any right 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, according to the register of interests kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the persons who were, directly or indirectly, beneficially interested in 10 per cent. or more in the issued share capital of the Company were as set out below.

Name	Number of shares of HK\$0.10 each	Approximate percentage
Skyscraper Realty Limited ("Skyscraper")	6,141,720,389	66.7
First Tower Corporation ("First Tower")	6,141,720,389	66.7
Lippo Limited ("Lippo")	6,141,720,389	66.7
Lippo Capital Limited ("Lippo Capital")	6,141,720,389	66.7
Lippo Cayman Limited ("Lippo Cayman")	6,141,720,389	66.7
Lanius Limited ("Lanius")	6,141,720,389	66.7

Note:

- (i) By virtue of Section 8 of the SDI Ordinance, Lanius, Lippo Cayman, Lippo Capital, Lippo and First Tower were deemed to have the same beneficial interests in the shares of the Company as Skyscraper.
- (ii) The above interests are the same as the interests of Dr. Mochtar Riady, Mr. James Riady and Mr. Stephen Riady as disclosed in the section headed "Directors' interests in the securities of the Company and associated corporations".

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following person was considered to have interests in the businesses which competed or were likely to compete with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as set out below.

Mr. Lee Seng Huang, a former Director, is also a director of Sun Hung Kai & Co. Limited which, through its subsidiaries, is partly engaged in the businesses of securities broking, securities trading and the provision of financial, insurance consultancy and other related services. Mr. Lee Seng Huang resigned as Director of the Company on 3rd December, 2002.

As the Board of Directors of the Company was independent from the board of the aforesaid company and the above former Director did not control the Board of the Company, the Group is capable of carrying its businesses independently and at arm's length from the businesses of such company.

Report of the Directors

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in Note 42 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.

On 16th December, 2002, five tenancy agreements (the "Tenancy Agreements") were entered into between the group companies in respect of the letting of office premises. Details of the Tenancy Agreements are disclosed in Note 42(h) 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 relevant 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 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.

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 Notes 9 and 10 to the financial statements, respectively.

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 BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group and the employer's retirement benefits costs charged to the consolidated profit and loss account for the year are set out in Note 11 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. Mr. Hugh Moss Gerald Forsgate, a former member of the Committee, passed away on 21st October, 2001. Mr. Edwin Neo, who was appointed an independent non-executive Director, was appointed as a member of the Committee to take the place of the late Mr. Forsgate. The members of the Committee are Messrs. Leon Nim Leung Chan and Edwin Neo, 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, 2002.

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 of Hong Kong Limited throughout the year, except that non-executive Directors are not appointed for a specific term 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. Mr. Hugh Moss Gerald Forsgate, a former independent non-executive Director of the Company, passed away on 21st October, 2001. Mr. Edwin Neo was appointed an independent non-executive Director of the Company to take the place of the late Mr. Forsgate on 8th March, 2002.

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

John Luen Wai Lee

Director

Hong Kong, 25th April, 2003