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$0.1 billion. On the same date, Lippo China Resources Limited ("LCR"), the holding company of HKCL and another listed subsidiary of the Company, 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, LCR's effective interest in HKCL increased to 71.1 per cent.

Despite the Disposal taking 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, the adverse conditions in the local property and stock markets continued to affect the Group's performance during the year. Nevertheless, since the Group was able to recognise certain revaluation surplus arising from its overseas properties, net loss attributable to shareholders for the year was reduced significantly by 91 per cent. to HK$29.6 million (2001 — HK$335 million).

RESULTS FOR THE YEAR

Turnover for the year dropped 39 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 — 5 per cent.), 24 per cent. (2001 — 23 per cent.) and 51 per cent. (2001 — 28 per cent.), respectively, of the total turnover. Contribution from banking and money lending businesses reduced significantly to 4 per cent. (2001 — 36 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$174 million (2001 — HK$153 million) for diminution in value of properties was made against the Group's property portfolio in Hong Kong. The loss was compensated by a net revaluation surplus of HK$191 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 10 per cent.

Discussion and Analysis of Annual Results

Securities and treasury investment

During the year, turnover from securities investment reduced 48 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$68 million (2001 — HK$67 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$65 million (2001 — HK$78 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 investments increased 35 per cent.

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 LCR in the Philippines, completed a legal merger with Urban Bank, Inc. and Urbancorp Investments, Inc. Pursuant to the merger, LCR'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 to LCR. 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 LCR'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 LCR.

FINANCIAL POSITION

As at 31st December 2002, total assets of the Group dropped 12 per cent. to HK$8.1 billion (2001 — HK$9.3 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 its minority shareholders. Net asset value of the Group and consolidated net asset value per share increased slightly to HK$2.7 billion (2001 — HK$2.6 billion) and HK$6.2 (2001 — HK$6.0), respectively.

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$2.6 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 27 per cent. (2001 — 22 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 commercial papers issued by the Group of HK$121 million (2001 — HK$78 million).

41 per cent. (2001 — 33 per cent.) of the total borrowings was repayable within one year. All borrowings carried interest at floating rates except 35 per cent. (2001 — 55 per cent.) of the commercial papers which interest rate was fixed. 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.) and commercial papers 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 760 employees (2001 — 1,300 employees). Total staff costs incurred during the year amounted to HK$195 million (2001 — HK$417 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.

Discussion and Analysis of Annual Results

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.