

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 91 to 102 and pages 103 to 104, 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 21 to 104.

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.

## Report of the Directors

### 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 AND OTHER BORROWING

Details of bank loans and other borrowing are summarised in Note 34 to the financial statements.

### SHARE CAPITAL

Details of the share capital of the Company are set out in Note 31 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 subsidiaries of the Company have been moved to Note 32 to the financial statements.

### WARRANTS

On 20th July, 1999, Lippo China Resources Limited ("LCR"), a listed subsidiary of the Company, issued 1,226,798,498 units new warrants with an aggregate subscription value of approximately HK\$429,380,000 pursuant to the rights issue of shares in 1999 in the proportion of two warrants for every five rights shares taken up. The warrants entitled the registered holders to subscribe in cash for up to 1,226,798,498 new shares of HK\$0.10 each in LCR at an initial subscription price of HK\$0.35 per share (subject to adjustment). Due to the rights issue of shares in 2000, the exercise price of the warrants was adjusted to HK\$0.32 per share (subject to adjustment). The warrants were exercisable at any time within a period of three years commencing on and including 23rd July, 1999.

As at 1st January, 2002, there were outstanding warrants with an aggregate subscription value of approximately HK\$429,356,000. The exercise in full of the warrants with an aggregate subscription value of approximately HK\$429,356,000 resulted in the issue of 1,341,737,956 shares of HK\$0.10 each in LCR. On 22nd July, 2002, the subscription rights attached to all the outstanding warrants expired and following such date, the warrants ceased to be valid for any purpose. Up to 22nd July, 2002, no warrants were cancelled or exercised.

### RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves during the year and details of the distributable reserves are set out in Note 33 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in the financial statements on pages 91 to 102.

## 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\$12,184,000 (2001 — HK\$22,042,000).

## HONORARY CHAIRMAN

On 25th April, 2003, the Directors of the Company appointed Dr. Mochtar Riady ("Dr. Riady") as Honorary Chairman of the Company in recognition of Dr. Riady's valuable contribution to the Company during the previous years. Dr. Riady was not appointed as a director or officer of the Company, has no executive or management function within the Company and will not attend or vote at meetings of Directors. He will not have any involvement in the day-to-day management, oversight or other operation of the Company.

## DIRECTORS

The Directors of the Company during the year were:

Mr. Stephen Riady (*Chairman*)

Mr. John Luen Wai Lee (*Managing Director*)

Mr. Jark Pui Lee, O.B.E., J.P.

Mr. David T. Yeh

Mr. Leon Nim Leung Chan\*

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

Dr. Mochtar Riady (retired on 28th May, 2002)

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

Mr. Felix Kuo We Ma (resigned on 8th March, 2002)

\* *independent non-executive Directors*

In accordance with Article 99 of the Company's Articles of Association, Mr. Stephen Riady will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

## Report of the Directors

### BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Stephen Riady**, aged 42, has been the Chairman of the Company since 1991. He is also the Deputy Chairman and Managing Director of Lippo China Resources Limited (“LCR”), the Group Managing Director of Auric Pacific Group Limited (“Auric”) and a director of Hongkong Chinese Limited (“HKCL”), Lanius Limited, Lippo Cayman Limited and Lippo Capital 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”.

**Mr. John Luen Wai Lee**, aged 54, has been the Managing Director of the Company since 1991. Mr. Lee is also a director of LCR, HKCL 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. Jark Pui Lee**, O.B.E., J.P., aged 63, was appointed a Director of the Company in 1992. He is also a director of The Hong Kong Building and Loan Agency Limited (“HKBLA”). 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. David T. Yeh**, aged 51, was appointed a Director of the Company in 1991. He is also a director of HKBLA. He holds a Bachelor of Arts degree from St. John’s University in Minnesota, the United States of America. Mr. Yeh has over 20 years’ experience in retail, commercial and merchant banking in Hong Kong and the United States of America.

**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 LCR, 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 LCR.

## 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.

### The Company

Name	Type of interest	Number of shares of HK\$0.10 each in the Company
Stephen Riady	Note (i)	248,297,776
Jark Pui Lee	Family	48
John Luen Wai Lee	Personal	825,000

### Lippo China Resources Limited ("LCR")

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

### Hongkong Chinese Limited ("HKCL")

Name	Type of interest	Number of shares of HK\$1.00 each in HKCL
Stephen Riady	Notes (i), (ii) and (iii)	961,012,440
Jark Pui Lee	Personal	350
	Family	350
John Luen Wai Lee	Personal	200
	Family	200

## Report of the Directors

### 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 the Company. Lippo Cayman is wholly owned by Lanius Limited, the trustee of a trust, the beneficiaries of which include Mr. Stephen Riady and his family members.
- (ii) As at 31st December, 2002, the Company 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 LCR.
- (iii) As at 31st December, 2002, LCR 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, LCR 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, Mr. Stephen Riady was 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) Mr. Stephen Riady was 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.

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

(Continued)

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

Name	Number of shares of HK\$0.10 each in LCR in respect of which options have been granted*
John Luen Wai Lee	9,000,000
David T. Yeh	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 LCR (the "LCR Share Option Scheme"). Such options can be exercised on or before 23rd June, 2007 in accordance with the rules of the LCR Share Option Scheme to subscribe for 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 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.

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 were 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.

## Report of the Directors

### 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
Lippo Capital Limited ("Lippo Capital")	218,500,000	49.9
Lippo Cayman Limited ("Lippo Cayman")	248,297,776	56.7
Lanius Limited ("Lanius")	248,297,776	56.7

*Note:*

- (i) By virtue of Section 8 of the SDI Ordinance, Lanius was deemed to have the same beneficial interest in the shares of the Company as Lippo Cayman, a wholly-owned subsidiary of Lanius, and Lippo Cayman's interest included the interest of Lippo Capital, a wholly-owned subsidiary of Lippo Cayman.
- (ii) The interests of Lippo Cayman and Lanius are the same as the interests of 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.



### **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(f) 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 Director of the Company proposed for re-election at the forthcoming annual general meeting has 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).

## Report of the Directors

### 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**

*Managing Director*

Hong Kong, 25th April, 2003