

# NOTES TO THE FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. Its subsidiaries and associates are principally engaged in investment holding, fund management, underwriting, insurance, corporate finance, securities broking, securities investment, treasury investment, money lending, commercial banking and other financial services.

In the opinion of the Directors, the ultimate holding company of the Company is Lippo Cayman Limited which is incorporated in the Cayman Islands.

## 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 (revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). This change in accounting policy has been made retrospectively. The principal impact of the revision of this SSAP on these financial statements is that:

Measurement and recognition:

- a deferred tax asset has been recognised for tax losses arising in the prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised. The recognition of such deferred tax asset has resulted in an increase in the Group's deferred tax assets and distributable reserves as at 1st January, 2002 by HK\$92,000,000, and consequently the release of goodwill previously eliminated against consolidated reserves upon disposal of subsidiaries during the year ended 31st December, 2002 has decreased by HK\$92,000,000, as detailed in the consolidated summary statement of changes in equity.

Disclosure:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in Note 12 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of the above changes are included in the accounting policy for deferred tax in Note 3(m) to the financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain securities investments as further explained below.

**(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests shown in the consolidated profit and loss account and the consolidated balance sheet represent the interests of outsider shareholders in the results and net assets of the Company's subsidiaries, respectively.

**(c) Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. Interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

**(d) Associates**

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20 per cent. of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(e) Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 2 to 20 years. Goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses which may be present. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the policy stated above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is released and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**(f) Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(f) Impairment of assets** *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**(g) Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost to that asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	1%
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	12% to 25%

The gain or loss on disposal or retirement of a fixed asset, other than investment properties, recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(h) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, with any rental income being negotiated at arm's length. Such properties are stated at their open market values on the basis of annual professional valuations at the end of each financial year and are not depreciated except where the unexpired terms of the leases are 20 years or less, in which case the then carrying amounts are amortised on the straight-line basis over the respective remaining lease terms. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**(i) Investment securities**

Investment securities are investments in equity securities, debt securities and investment funds which are intended to be held on a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, the carrying amount of the security is reduced to its fair value, as determined by the Directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment losses cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(j) Held-to-maturity securities**

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any impairment losses which reflect their credit risk.

Premiums and discounts arising on acquisition of held-to-maturity securities are amortised over the period to maturity and are included as part of interest income. Profits or losses on realisation of held-to-maturity securities are accounted for in the profit and loss account as they arise.

**(k) Other investments in securities**

Other investments in securities are those securities which are not classified as investment securities nor held-to-maturity securities, and are stated at their fair values on the basis of their quoted prices at the balance sheet date, on an individual investment basis. Unrealised holding gains or losses arising from changes in fair values of securities are dealt with in the profit and loss account as they arise.

**(l) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged;
- (iii) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable;
- (iv) dividend income, when the shareholders' right to receive payment has been established; and
- (v) commission income is accounted for, in the period when receivable, unless it is charged to cover the costs of a continuing service to, or risk borne for, customers, or is interest income in nature. In this case, commission income is recognised on a prorata basis over the relevant period.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(m) Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(n) Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

**(o) Employee benefits***Paid leave entitlement*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward at the balance sheet date.

*Retirement benefits costs*

Employer's contributions made by the Group to the Mandatory Provident Fund schemes operated for the benefits of employees of the Group as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

**(p) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(q) Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates, denominated in foreign currencies are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows or at an approximation thereto, the weighted average exchange rates for the year. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

**(r) Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents represent cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**(s) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(t) Dividends and distributions**

Final dividends and distributions proposed by the Directors are classified as a separate allocation of distributable reserves within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends and distributions have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends and distributions are simultaneously proposed and declared because the Company's memorandum of association and bye-laws grant the Directors the authority to declare interim dividends and distributions. Consequently, interim dividends and distributions are recognised immediately as a liability when they are proposed and declared.

**(u) Accounting for banking operations**

Banking operations represent operations carried out through The Macau Chinese Bank Limited ("MCB") since its acquisition by the Group on 27th May, 2002 and The Hongkong Chinese Bank, Limited and its subsidiaries up to its disposal by the Group on 17th January, 2002. The principal accounting policies which are specific to the banking operations are described below.

*(i) Advances to customers, banks and other financial institutions*

Advances to customers, banks and other financial institutions are reported in the balance sheet at the principal amount outstanding net of provisions for bad and doubtful debts. Advances to banks and other financial institutions include placements with banks and other financial institutions of more than one year.

All advances are recognised when cash is advanced to borrowers.

Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the profit and loss account on the straight-line basis over the terms of the loans, or, where relevant, the early repayment penalty period.

*(ii) Finance leases and hire purchase contracts*

The amounts due from customers in respect of finance leases and hire purchase contracts are included in the balance sheet at net investment which represents the total rentals receivable under finance leases and hire purchase contracts less unearned income. Finance income implicit in the rentals receivable is credited to the profit and loss account over the lease period so as to produce an approximately constant periodic rate of return on the net investment for each accounting period.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (u) Accounting for banking operations *(Continued)*

##### (iii) *Off-balance sheet financial instruments*

Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the banking operations in the foreign exchange, interest rate and equity markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gain or loss arising is recognised in the profit and loss account. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

Unrealised gains and losses on transactions which are marked to market are included under assets and liabilities, respectively, in the balance sheet.

### 4. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary segment reporting format and geographical segment as the secondary segment reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. In respect of geographical segment reporting, turnover is based on the location of customers, and assets and capital expenditure are based on the location of the assets. Descriptions of the business segments are as follows:

- (a) the treasury investment segment includes investments in cash and bond markets;
- (b) the securities investment segment includes dealings in securities and disposals of investments;
- (c) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (d) the banking businesses segment engages in the provisions of commercial and retail banking;
- (e) the insurance business segment engages in the underwriting of general insurance business;
- (f) the fund management segment includes the provision of fund management services; and
- (g) the "other" segment comprises principally money lending and the letting of properties.

## NOTES TO THE FINANCIAL STATEMENTS

## 4. SEGMENT INFORMATION (Continued)

An analysis of the Group's segment information by business segment is set out below:

Group	Treasury	Securities	Corporate	Banking	Insurance	Fund	Other	Inter-	Consolidated
	investment	investment	finance and securities broking	businesses	business	management		segment elimination	
2003	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue									
External	51,461	460,092	56,828	21,434	27,997	1,492	2,113	-	621,417
Inter-segment	706	-	-	-	-	-	-	(706)	-
Total	52,167	460,092	56,828	21,434	27,997	1,492	2,113	(706)	621,417
Segment results	50,097	91,310	4,784	4,808	(110)	9,538	(5,792)	706	155,341
Unallocated corporate expenses									(38,380)
Share of results of associates	-	-	-	-	-	-	(6,488)	-	(6,488)
Profit before tax									110,473
Tax									(5,182)
Profit before minority interests									105,291
Minority interests									776
Net profit from ordinary activities attributable to shareholders									106,067

## NOTES TO THE FINANCIAL STATEMENTS

## 4. SEGMENT INFORMATION (Continued)

Group									Consolidated HK\$'000
	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Insurance business HK\$'000	Fund management HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	
2003									
Segment assets	1,308,931	1,216,007	796,547	216,722	28,233	21,080	26,965	-	3,614,485
Interests in associates	-	-	1,340	-	-	-	47,204	-	48,544
Unallocated assets									17,931
Total assets									3,680,960
Segment liabilities	-	59,937	730,312	-	26,624	124	120	-	817,117
Unallocated liabilities									17,727
Total liabilities									834,844
Other segment information:									
Capital expenditure	-	-	14	26,982	-	-	1,596	-	28,592
Depreciation	-	539	665	820	-	23	215	-	2,262
Provision for bad and doubtful debts relating to:									
Banking operations	-	-	-	3,753	-	-	-	-	3,753
Non-banking operations	-	-	1,916	-	-	-	-	-	1,916
Provision for impairment loss on investment securities	-	20,000	-	-	-	-	-	-	20,000
Write-back of provision for loss on guaranteed return arrangement for fund management	-	-	-	-	-	10,868	-	-	10,868
Amortisation of goodwill	-	-	-	3,240	-	-	378	-	3,618
Deficit on revaluation of investment properties	-	-	-	-	-	-	316	-	316
Unallocated:									
Capital expenditure									1,458
Depreciation									168

## NOTES TO THE FINANCIAL STATEMENTS

## 4. SEGMENT INFORMATION (Continued)

Group									Consolidated HK\$'000
	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Insurance business HK\$'000	Fund management HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	
2002									
Revenue									
External	55,257	59,261	55,020	31,225	48,227	2,783	8,514	-	260,287
Inter-segment	759	-	-	277	-	-	58	(1,094)	-
Total	56,016	59,261	55,020	31,502	48,227	2,783	8,572	(1,094)	260,287
Segment results	55,830	(5,766)	(30,846)	1,244	64	(89,295)	1,308	293	(67,168)
Unallocated corporate expenses									(43,390)
Share of results of associates	-	-	82	-	-	-	(215)	-	(133)
Loss before tax									(110,691)
Tax									(427)
Loss before minority interests									(111,118)
Minority interests									(250)
Net loss from ordinary activities attributable to shareholders									(111,368)

## NOTES TO THE FINANCIAL STATEMENTS

## 4. SEGMENT INFORMATION (Continued)

Group									Consolidated HK\$'000
	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Insurance business HK\$'000	Fund management HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	
2002									
Segment assets	2,171,955	298,944	583,127	212,852	28,085	21,769	75,111	–	3,391,843
Interests in associates	–	–	1,333	–	–	–	62,784	–	64,117
Unallocated assets									25,247
Total assets									3,481,207
Segment liabilities	–	–	500,898	–	26,358	138,423	492	–	666,171
Unallocated liabilities									8,233
Total liabilities									674,404
Other segment information:									
Capital expenditure	–	–	–	–	1	17	–	–	18
Depreciation	194	79	2,098	2,051	45	18	124	–	4,609
Provision for bad and doubtful debts relating to:									
Banking operations	–	–	–	1,832	–	–	2,193	–	4,025
Non-banking operations	–	–	19,734	–	–	117	–	–	19,851
Provision for loss on guaranteed return arrangement for fund management	–	–	–	–	–	88,290	–	–	88,290
Amortisation of goodwill	–	–	–	1,890	–	204	–	–	2,094
Write-back of deficit on revaluation of investment properties	–	–	–	–	–	–	748	–	748
Loss on disposal of subsidiaries	–	–	–	8,950	93	–	1,502	–	10,545
Unallocated:									
Capital expenditure									2,485
Depreciation									16
Provision for impairment loss of goodwill									3,330

#### 4. SEGMENT INFORMATION (Continued)

##### Geographical segments

An analysis of the Group's segment information by geographical segment is set out below:

##### Group

2003	Hong Kong <i>HK\$'000</i>	Singapore <i>HK\$'000</i>	Other <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	323,672	234,896	62,849	621,417
Segment assets	2,651,119	16,962	964,335	3,632,416
Interest in associates	26,904	3,143	18,497	48,544
Total assets				3,680,960
Capital expenditure	1,637	1,431	26,982	30,050
2002	Hong Kong <i>HK\$'000</i>	Singapore <i>HK\$'000</i>	Other <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	240,983	141	19,163	260,287
Segment assets	2,702,979	15,041	699,070	3,417,090
Interest in associates	54,222	8,562	1,333	64,117
Total assets				3,481,207
Capital expenditure	2,503	–	–	2,503



## NOTES TO THE FINANCIAL STATEMENTS

**5. TURNOVER**

Turnover represents the aggregate of gross income on treasury investment which includes interest income on bank deposits and held-to-maturity securities, gross proceeds from sales of investments, gross income from underwriting and securities broking, interest and other income from money lending business, gross income from fund management, gross premiums from insurance business, dividend income and net interest income, commissions, dealing income and other revenues from banking subsidiaries, after eliminations of all significant intra-group transactions.

An analysis of the turnover of the Group by principal activity is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Treasury investment	51,461	55,257
Securities investment	460,092	59,261
Corporate finance and securities broking	56,828	55,020
Banking businesses	17,263	31,225
Insurance business	27,997	48,227
Fund management	1,492	2,783
Other	2,113	8,514
	<b>617,246</b>	<b>260,287</b>

Turnover attributable to banking businesses represents turnover generated from MCB, a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China. Turnover attributable to banking businesses for the last corresponding year represents turnover generated from MCB since its acquisition by the Group in May 2002 and that generated from The Hongkong Chinese Bank, Limited up to its disposal by the Group in January 2002. Turnover attributable to banking businesses is analysed as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest income	12,442	40,718
Interest expenses	(2,023)	(14,918)
Commission income	5,400	3,847
Commission expenses	–	(274)
Net dealing income and other revenues	1,444	1,852
	<b>17,263</b>	<b>31,225</b>

**6. NET UNREALISED GAIN ON TRANSFER OF INVESTMENT SECURITIES AND HELD-TO-MATURITY SECURITIES TO OTHER INVESTMENTS IN SECURITIES**

During the year, investment securities of a total cost of HK\$54,681,000 and held-to-maturity securities of a total amortised cost of HK\$357,153,000 were transferred to other investments in securities at market value to reflect the Group's current intention to sell the investments in response to changes in market conditions, resulting in a gain at the date of transfer of HK\$20,483,000 (2002 – Nil).

## NOTES TO THE FINANCIAL STATEMENTS

**7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

Profit/(Loss) from operating activities is arrived at after crediting/(charging):

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Gross rental income	324	296
Less: Outgoings	(128)	–
Net rental income	196	296
Staff costs – <i>Note (a)</i> :		
Wages and salaries	(55,448)	(64,983)
Retirement benefit costs	(3,058)	(3,017)
Less: Forfeited contributions	73	374
Net retirement benefit costs	(2,985)	(2,643)
Total staff costs	(58,433)	(67,626)
Interest income – <i>Note (b)</i> :		
Listed investments	22,301	9,579
Unlisted investments	10,163	2,353
Other	18,997	43,399
Dividend income from listed investments	4,745	181
Provision for impairment losses on unlisted investments:		
Investment securities	(20,000)	–
Held-to-maturity securities	–	(273)
Net realised and unrealised holding gains/(losses) on other investments in securities – <i>Note (c)</i> :		
Listed	80,649	(3,771)
Unlisted	16,582	911
Net unrealised gain on transfer of investment securities and held-to-maturity securities to other investments in securities:		
Listed	12,946	–
Unlisted	7,537	–
Depreciation:		
Banking operations	(820)	(2,146)
Other	(1,610)	(2,479)
Loss on disposal of fixed assets	–	(10)
Exchange gains/(losses) – net	(2,101)	622
Write-back of deficit/(Deficit) on revaluation of investment properties	(316)	748
Auditors' remuneration	(1,076)	(901)
Minimum lease payments under operating lease rentals in respect of land and buildings	(8,225)	(12,188)
Amortisation of goodwill arising from acquisition of subsidiaries – <i>Note (d)</i>	(3,618)	(2,094)

## NOTES TO THE FINANCIAL STATEMENTS

**7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES** *(Continued)*

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 8 to the financial statements.
- (b) The amounts exclude the income relating to banking operations of the Group.
- (c) The amounts in prior year included net unrealised holding loss of HK\$6,448,000 which was previously grouped under "Cost of sales" and is now separately disclosed on the face of the consolidated profit and loss account. The separate disclosure was deemed appropriate to conform with the current year's presentation.
- (d) The amortisation of goodwill recognised in the profit and loss account for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

**8. DIRECTORS' EMOLUMENTS**

Directors' emoluments for the year disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance are as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive Directors:		
Directors' fees	39	–
Basic salaries, housing and other allowances and benefits in kind	4,275	6,099
Bonuses paid and payable	–	9,685
Retirement benefits costs	36	40
	<b>4,350</b>	<b>15,824</b>
Non-executive Directors:		
Directors' fees	279	240
	<b>4,629</b>	<b>16,064</b>

The number of Directors whose emoluments fell within the following bands is as follows:

	Group	
	2003	2002
<b>Emoluments bands (HK\$):</b>	<b>Number of</b>	<b>Number of</b>
	<b>Directors</b>	<b>Directors</b>
Nil – 1,000,000	4	9
1,000,001 – 1,500,000	1	1
1,500,001 – 2,000,000	2	–
2,500,001 – 3,000,000	–	1
3,500,001 – 4,000,000	–	1
7,500,001 – 8,000,000	–	1
	<b>7</b>	<b>13</b>

**8. DIRECTORS' EMOLUMENTS** *(Continued)*

Emoluments paid to independent non-executive Directors amounted to HK\$279,000 (2002 – HK\$240,000) during the year.

There were no arrangements under which a Director waived or agreed to waive any emoluments during the year.

**9. SENIOR EXECUTIVES' EMOLUMENTS**

The emoluments of the five (2002 – two) highest paid employees are as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Basic salaries, housing and other allowances and benefits in kind	8,987	3,533
Bonuses paid and payable	11,150	3,150
Retirement benefits costs	289	227
	<b>20,426</b>	<b>6,910</b>

The five highest paid individuals for the year are not Directors whereas they included three Directors in the prior year, details of whose emoluments are set out in Note 8 to the financial statements.

The number of non-director highest paid employees whose emoluments fell within the following bands is as follows:

<b>Emoluments bands (HK\$):</b>	Group	
	2003 <b>Number of individuals</b>	2002 Number of individuals
2,500,001 – 3,000,000	1	1
3,000,001 – 3,500,000	1	–
3,500,001 – 4,000,000	1	–
4,000,001 – 4,500,000	–	1
4,500,001 – 5,000,000	1	–
5,500,001 – 6,000,000	1	–
	<b>5</b>	<b>2</b>

**10. RETIREMENT BENEFITS COSTS**

The Group previously operated several defined contribution schemes pursuant to the Occupational Retirement Schemes Ordinance which were replaced by the Mandatory Provident Fund schemes (the "MPF schemes") in December 2000 when the Mandatory Provident Fund Schemes Ordinance became effective. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contributions made to the MPF schemes are based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions or to offset against future administration expenses, in accordance with the rules of the schemes.

During the year, the amounts of forfeited employer contributions under the MPF schemes utilised to reduce the amount of employer contributions or for payments of administrative expenses amounted to HK\$73,000 (2002 – HK\$374,000). The amounts of forfeited voluntary contributions available to offset future employer contributions to the above schemes were not material at the year end. The retirement benefits scheme costs charged to the profit and loss account represent employer contributions paid and payable by the Group to the schemes and amounted to HK\$2,985,000 (2002 – HK\$2,643,000).

**11. FINANCE COSTS**

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans wholly repayable within five years	<u>4,700</u>	<u>4,228</u>

*Note:* The above amounts exclude interest expense incurred by banking subsidiaries of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

## 12. TAX

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong:		
Charge for the year	–	203
Underprovisions in prior years	<b>3,464</b>	219
	<b>3,464</b>	422
Overseas:		
Charge for the year	<b>1,329</b>	5
Share of tax attributable to an associate	<b>389</b>	–
Total charge for the year	<b>5,182</b>	427

Hong Kong profits tax has been provided for at the rate of 17.5 per cent. (2002 – 16 per cent.) on the estimated assessable profits arising in Hong Kong for the year. Overseas taxes have been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

The Group has tax losses arising in Hong Kong of HK\$123,012,000 (2002 – HK\$79,561,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses.

At 31st December, 2003, there was no significant unrecognised deferred tax liability (2002 – Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

A reconciliation of the tax charge applicable to profit/(loss) before tax using the statutory rate for the country in which the Company and its subsidiaries are domiciled to the tax charge/(credit) is as follows.

## NOTES TO THE FINANCIAL STATEMENTS

**12. TAX (Continued)**

	Group	
	2003 HK\$'000	2002 HK\$'000
Profit/(Loss) before tax	<u>110,473</u>	<u>(110,691)</u>
Tax at the statutory tax rate of 17.5% (2002 – 16.0%)	19,333	(17,711)
Effect of different tax rates in other jurisdictions	3,726	1,986
Adjustments in respect of current tax of previous periods	3,464	219
Income not subject to tax	(36,345)	(10,994)
Expenses not deductible for tax	2,041	16,637
Tax losses from previous periods recognised	–	–
Tax losses utilised from previous periods	–	(2,027)
Tax losses not recognised	12,963	12,317
Tax charge at the group's effective rate of 4.7% (2002 – 0.39%)	<u>5,182</u>	<u>427</u>

For a company operated in Macau, corporate taxes have been calculated on the estimated assessable profits for the year at the effective rate of 15.75 per cent. (2002 – 15.75 per cent.).

**13. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit/(loss) from ordinary activities attributable to shareholders includes the profit for the year dealt with in the financial statements of the Company amounting to HK\$41,456,000 (2002 – loss of HK\$89,688,000).

**14. EARNINGS/(LOSS) PER SHARE****(a) Basic earnings/(loss) per share**

Basic earnings/(loss) per share is calculated based on (i) the net profit from ordinary activities attributable to shareholders of HK\$106,067,000 (2002 – loss of HK\$111,368,000); and (ii) the weighted average number of 1,347,972,000 shares (2002 – the number of 1,351,537,000 shares) in issue during the year.

**(b) Diluted earnings/(loss) per share**

No diluted earnings/(loss) per share is presented for the years ended 31st December, 2003 and 2002 as there were no dilutive potential ordinary shares during these years.

**15. DISTRIBUTIONS**

	<b>Group and Company</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim distribution, declared and paid, of HK1.5 cents (2002 – HK1.5 cents) per ordinary share	20,202	20,273
Special interim distribution, declared and paid, of HK\$1.45 per ordinary share	–	1,959,729
	<b>20,202</b>	<b>1,980,002</b>
Final distribution, proposed, of HK3 cents (2002 – HK3 cents, paid) per ordinary share	40,405	40,405

**16. GOODWILL****Group**

	<i>HK\$'000</i>
<b>Cost:</b>	
At 1st January, 2003	69,305
Additions during the year	630
At 31st December, 2003	69,935
<b>Accumulated amortisation and impairment loss:</b>	
At 1st January, 2003	5,424
Provided for the year	3,618
At 31st December, 2003	9,042
<b>Net book value:</b>	
At 31st December, 2003	60,893
At 31st December, 2002	63,881



**17. FIXED ASSETS****Group**

	Leasehold improvements, furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>
<hr/>	
<b>Cost:</b>	
At 1st January, 2003	46,185
Additions during the year	3,068
Exchange adjustments	(226)
	<hr/>
At 31st December, 2003	49,027
	<hr/>
<b>Accumulated depreciation:</b>	
At 1st January, 2003	42,635
Provided for the year	1,610
Exchange adjustments	(222)
	<hr/>
At 31st December, 2003	44,023
	<hr/>
<b>Net book value:</b>	
At 31st December, 2003	5,004
	<hr/>
At 31st December, 2002	3,550
	<hr/>

**17. FIXED ASSETS** *(Continued)***Company**

	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>
<hr/>	
<b>Cost:</b>	
At 1st January, 2003	925
Additions during the year	<u>1,453</u>
At 31st December, 2003	<u>2,378</u>
<b>Accumulated depreciation:</b>	
At 1st January, 2003	585
Provided for the year	<u>167</u>
At 31st December, 2003	<u>752</u>
<b>Net book value:</b>	
At 31st December, 2003	<u>1,626</u>
At 31st December, 2002	<u>340</u>

## NOTES TO THE FINANCIAL STATEMENTS

**18. INVESTMENT PROPERTIES**

	Group	
	2003 HK\$'000	2002 HK\$'000
Freehold land and buildings situated outside Hong Kong:		
Balance at beginning of the year	7,336	6,786
Surplus on revaluation	59	748
Exchange adjustments	(345)	(198)
Balance at end of the year	7,050	7,336
Medium term leasehold land and buildings situated in Hong Kong:		
Additions during the year	10,075	–
Deficit on revaluation	(375)	–
Balance at end of the year	9,700	–
Total	16,750	7,336

Based on a professional valuation as at 31st December, 2003 made by Professional Asset Valuers, Incorporated, property appraisers, the investment property situated outside Hong Kong was valued on an open market, existing use basis at HK\$7,050,000 (2002 – HK\$7,336,000).

Based on a professional valuation as at 31st December, 2003 made by Mr. Jonathan Miles Foxall, chartered surveyor and a director of certain fellow subsidiaries of the Company, the investment property in Hong Kong was valued on an open market, existing use basis at HK\$9,700,000 (2002 – Nil).

The net revaluation deficit of HK\$316,000 (2002 – surplus of HK\$748,000) has been charged (2002 – credited) to the profit and loss account.

**19. INTERESTS IN ASSOCIATES**

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets in unlisted companies	41,518	61,789
Goodwill on acquisition less amortisation ( <i>Note</i> )	10,440	5,749
Due from associates	1,180	1,173
Provisions for impairment losses	53,138 (4,594)	68,711 (4,594)
	48,544	64,117
Share of post-acquisition reserves at the balance sheet date	16,209	23,086

**19. INTERESTS IN ASSOCIATES** *(Continued)*

The share of post-acquisition reserves represents that portion attributable to the Group before minority interests therein. The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	28,435	53,913

Details of the principal associates are set out on page 78.

*Note:*

**Group**

	Goodwill on acquisition of associates <i>HK\$'000</i>
<b>Cost:</b>	
At 1st January, 2003	6,087
Additions during the year	9,358
At 31st December, 2003	15,445
<b>Accumulated amortisation:</b>	
At 1st January, 2003	338
Provided for the year	4,667
At 31st December, 2003	5,005
<b>Net book value:</b>	
At 31st December, 2003	10,440
At 31st December, 2002	5,749

## NOTES TO THE FINANCIAL STATEMENTS

## 20. INVESTMENT SECURITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities, at cost:				
Listed in Hong Kong	28,750	–	28,750	–
Unlisted	154,060	75,000	–	–
	<b>182,810</b>	75,000	<b>28,750</b>	–
Provision for impairment loss for unlisted equity securities	(20,000)	–	–	–
	<b>162,810</b>	75,000	<b>28,750</b>	–
Unlisted debt securities, at cost	5,413	3,165	3,165	3,165
Unlisted investment funds, at cost	3,644	54,681	–	–
	<b>171,867</b>	132,846	<b>31,915</b>	3,165
Market value of listed investments at the balance sheet date	41,400	–	41,400	–
An analysis of the issuers of investment securities is as follows:				
Equity securities:				
Corporate entities	162,810	75,000	28,750	–
Debt securities:				
Club debentures	3,165	3,165	3,165	3,165
Corporate entities	2,248	–	–	–
	<b>5,413</b>	3,165	<b>3,165</b>	3,165

During the year, investment securities of a total cost of HK\$54,681,000 were transferred to other investments in securities at market value at the date of transfer to reflect the Group's current intention to sell the investments in response to changes in market conditions.

## NOTES TO THE FINANCIAL STATEMENTS

**20. INVESTMENT SECURITIES** (Continued)

As at 31st December, 2003, particulars of the Group's investments in equity security which exceed 20 per cent. of the nominal value of the other company's issued shares disclosed pursuant to section 129(1) of the Hong Kong Companies Ordinance is as follows:

Name of company	Place of incorporation	Class of shares	Percentage of issued share capital held by the Group
Vigor Online Offshore Limited	British Virgin Islands	Ordinary shares	32.3

**21. HELD-TO-MATURITY SECURITIES**

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Debt securities, at amortised cost:				
Listed outside Hong Kong	–	207,540	–	7,870
Unlisted	–	158,630	–	81,796
	–	366,170	–	89,666
Provision for impairment losses	–	(11,018)	–	(11,018)
	–	355,152	–	78,648
Market value of listed securities at balance sheet date	–	208,050	–	975
An analysis of the issuers of the held-to-maturity securities is as follows:				
Central governments and central banks	–	27,075	–	–
Banks and other financial institutions	–	111,725	–	–
Corporate entities	–	216,352	–	78,648
	–	355,152	–	78,648

During the year, held-to-maturity securities of a total amortised cost of HK\$357,153,000 were transferred to other investments in securities at market value at the date of transfer to reflect the Group's current intention to sell the investments in response to changes in market conditions, resulting in a gain at the date of transfer of HK\$11,882,000 (2002 – Nil).

## NOTES TO THE FINANCIAL STATEMENTS

**22. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS**

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operation are shown separately in the consolidated financial statements. The financial information in respect of banking operation shown below is based on the audited financial statements of MCB for the year ended 31st December, 2003.

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Cash and short-term funds	(a)	254,807	70,535
Placements with banks and other financial institutions maturing between one and twelve months		368,320	11,467
Other investments in securities	(b)	13,646	–
Advances and other accounts	(c)	156,079	166,719
Held-to-maturity securities	(d)	9,672	9,757
Fixed assets	(e)	27,057	895
		<b>829,581</b>	<b>259,373</b>
Deposits and balances of banks and other financial institutions		–	(3)
Current, fixed, savings and other deposits of customers		(666,290)	(109,010)
Other accounts and provisions		(7,210)	(1,389)
		<b>(673,500)</b>	<b>(110,402)</b>
		<b>156,081</b>	<b>148,971</b>

Note:

**(a) Cash and short-term funds**

	2003 HK\$'000	2002 HK\$'000
Cash and balances with banks and other financial institutions	219,402	23,975
Treasury bills	35,405	46,560
	<b>254,807</b>	<b>70,535</b>

## NOTES TO THE FINANCIAL STATEMENTS

**22. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS** (Continued)**(b) Other investments in securities**

	2003 HK\$'000	2002 HK\$'000
Debt securities, at market value:		
Listed outside Hong Kong	13,646	–
An analysis of the issuers of the other investments in securities is as follows:		
Corporate entities	13,646	–

**(c) Advances and other accounts**

	2003 HK\$'000	2002 HK\$'000
Advances to customers	156,643	173,241
Other accounts	3,190	2,940
Accrued interest	1,296	1,402
Provisions for bad and doubtful debts	(5,050)	(10,864)
	156,079	166,719

Non-performing loans, which represent the gross amount of advances, net of suspended interest, on which interest has been placed in suspense or on which interest accrual has ceased, are as follows:

	2003 HK\$'000	2002 HK\$'000
Non-performing loans:		
Gross advances	–	9,985
Less: provisions	–	(8,003)
	–	1,982
	2003 HK\$'000	2002 HK\$'000
Rescheduled advances	3,464	–
Market value of collateral held	3,627	–



## NOTES TO THE FINANCIAL STATEMENTS

## 22. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (Continued)

## (d) Held-to-maturity securities

	2003 HK\$'000	2002 HK\$'000
Debt securities, at amortised cost:		
Listed outside Hong Kong	9,672	9,757
Market value of listed debt securities	10,891	9,949
An analysis of the issuers of the held-to-maturity securities is as follows:		
Banks and other financial institutions	9,672	9,757

## (e) Fixed assets

	Land and buildings HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>			
At 1st January, 2003	–	6,366	6,366
Additions during the year	25,047	1,935	26,982
Disposals during the year	–	(3,034)	(3,034)
At 31st December, 2003	25,047	5,267	30,314
<b>Accumulated depreciation:</b>			
At 1st January, 2003	–	5,471	5,471
Provided for the year	21	799	820
Disposals during the year	–	(3,034)	(3,034)
At 31st December, 2003	21	3,236	3,257
<b>Net book value:</b>			
At 31st December, 2003	25,026	2,031	27,057
At 31st December, 2002	–	895	895

## NOTES TO THE FINANCIAL STATEMENTS

## 23. OTHER INVESTMENTS IN SECURITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Listed equity securities, at market value:				
Hong Kong	274,979	59,634	100,036	48,950
Overseas	10,503	16,284	2,662	11,897
	<b>285,482</b>	75,918	<b>102,698</b>	60,847
Debt securities:				
Listed, at market value:				
Hong Kong	8,441	–	–	–
Overseas	287,614	3,120	4,988	3,120
Unlisted, at fair value	211,800	39	86,995	–
	<b>507,855</b>	3,159	<b>91,983</b>	3,120
Unlisted investment funds, at fair value	240,553	87,021	–	–
	<b>1,033,890</b>	166,098	<b>194,681</b>	63,967
An analysis of the issuers of other investments in securities is as follows:				
Equity securities:				
Public sector entities	8,862	–	–	–
Banks and other financial institutions	123,220	–	75,920	–
Corporate entities	153,400	75,918	26,778	60,847
	<b>285,482</b>	75,918	<b>102,698</b>	60,847
Debt securities:				
Central governments and central banks	16,948	39	–	–
Banks and other financial institutions	199,957	–	79,289	–
Corporate entities	275,702	3,120	12,694	3,120
Other	15,248	–	–	–
	<b>507,855</b>	3,159	<b>91,983</b>	3,120

**24. DEBTORS, PREPAYMENTS AND DEPOSITS**

Included in the balances are trade debtors with the aged analysis as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Outstanding balances with ages:		
Repayable on demand	274,775	195,474
Within 30 days	10,313	2,624
Between 31 and 60 days	238	406
Between 61 and 90 days	400	4,122
Between 91 and 180 days	839	3,169
Over 180 days	11,887	13,669
	<b>298,452</b>	<b>219,464</b>

Trading terms with customers are either on a cash basis or credit. For those customers who trade on credit, invoices are normally payable within 90 days of issuance. Outstanding balances with ages over 180 days include claims receivable in respect of the Group's insurance underwriting business which is broadly consistent with the claims payable included in the trade creditors of the Group. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

**25. SHARE CAPITAL****Shares**

	Group and Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<b>Authorised:</b>		
2,000,000,000 (2002 – 2,000,000,000) ordinary shares of HK\$1.00 each	<b>2,000,000</b>	<b>2,000,000</b>
<b>Issued and fully paid:</b>		
1,346,829,094 (2002 – 1,351,537,094) ordinary shares of HK\$1.00 each	<b>1,346,829</b>	<b>1,351,537</b>

During the year, a total of 4,708,000 shares of HK\$1.00 each were repurchased on The Stock Exchange of Hong Kong Limited and were cancelled by the Company. The discount of HK\$1,743,000 arising from such repurchase has been credited to the distributable reserves and an amount of HK\$4,708,000 was transferred from distributable reserves to the capital redemption reserve account as set out in Note 26 to the financial statements.

The repurchases of the Company's shares during the year were effected by the Directors with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

## 26. RESERVES

## Group

	Share premium account HK\$'000	Capital redemption reserve (Note (d)) HK\$'000	Legal reserve (Note (e)) HK\$'000	Distributable reserves (Note (c)) HK\$'000	Exchange equalisation reserve HK\$'000	Total HK\$'000
At 1st January, 2002	50,988	7,052	–	2,687,272	(11,970)	2,733,342
Prior period adjustment as a result of change in accounting policy in respect of deferred tax with details stated in Note 2 to the financial statements	–	–	–	92,000	–	92,000
As restated	50,988	7,052	–	2,779,272	(11,970)	2,825,342
Exchange differences on consolidation	–	–	–	–	(432)	(432)
Loss for the year (Note (b))	–	–	–	(111,368)	–	(111,368)
Release of goodwill previously eliminated against consolidated reserves upon disposal of subsidiaries (restated)	–	–	–	735,266	–	735,266
2001 final distribution, declared and paid	–	–	–	(40,546)	–	(40,546)
2002 special interim distribution, declared and paid	–	–	–	(1,959,729)	–	(1,959,729)
2002 interim distribution, declared and paid	–	–	–	(20,273)	–	(20,273)
At 31st December, 2002 and 1st January, 2003	50,988	7,052	–	1,382,622	(12,402)	1,428,260
Transfer of reserve	–	–	845	(845)	–	–
Repurchase of shares	–	4,708	–	(2,965)	–	1,743
Exchange differences on consolidation	–	–	–	–	(969)	(969)
Profit for the year (Note (b))	–	–	–	106,067	–	106,067
2002 final distribution, declared and paid	–	–	–	(40,405)	–	(40,405)
2003 interim distribution, declared and paid	–	–	–	(20,202)	–	(20,202)
At 31st December, 2003	50,988	11,760	845	1,424,272	(13,371)	1,474,494

## NOTES TO THE FINANCIAL STATEMENTS

## 26. RESERVES (Continued)

## Company

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>(Note (d))</i> <i>HK\$'000</i>	Distributable reserves <i>(Note (c))</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2002	50,988	7,052	3,463,209	3,521,249
Loss for the year <i>(Note 13)</i>	–	–	(89,688)	(89,688)
2001 final distribution, declared and paid	–	–	(40,546)	(40,546)
2002 special interim distribution, declared and paid	–	–	(1,959,729)	(1,959,729)
2002 interim distribution, declared and paid	–	–	(20,273)	(20,273)
At 31st December, 2002 and 1st January, 2003	50,988	7,052	1,352,973	1,411,013
Profit for the year <i>(Note 13)</i>	–	–	41,456	41,456
Repurchase of shares	–	4,708	(2,965)	1,743
2002 final distribution, declared and paid	–	–	(40,405)	(40,405)
2003 interim distribution, declared and paid	–	–	(20,202)	(20,202)
<b>At 31st December, 2003</b>	<b>50,988</b>	<b>11,760</b>	<b>1,330,857</b>	<b>1,393,605</b>

## Note:

- (a) Cancellation of the share premium account and transfer to distributable reserves

Pursuant to a special resolution passed at a special general meeting of the Company on 2nd December, 1997, the entire amount standing to the credit of the share premium account of HK\$3,630,765,000 was cancelled (the "Cancellation"). The credit arising from the Cancellation was transferred to distributable reserves. The balance of the reserves arising from the Cancellation could be applied towards any capitalisation issues of the Company in future, or for making distributions to shareholders of the Company.

**26. RESERVES** *(Continued)*

- (b) Consolidated profit/(loss) for the year attributable to shareholders is retained/(accumulated) as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
The Company and its subsidiaries	112,944	(111,235)
Associates	(6,877)	(133)
	<b>106,067</b>	<b>(111,368)</b>

- (c) Distributable reserves of the Group at 31st December, 2003 comprise accumulated losses of HK\$3,607,000 (2002 – HK\$108,829,000) and the remaining balance arising from the Cancellation of HK\$1,427,879,000 (2002 – HK\$1,491,451,000). Included in the distributable reserves of the Group at 31st December, 2003 was an amount of a proposed final distribution for the year then ended of HK\$40,405,000 (2002 – HK\$40,496,000) declared after the balance sheet date.

Distributable reserves of the Company at 31st December, 2003 comprise contributed surplus of HK\$134,329,000 (2002 – HK\$134,329,000), accumulated losses of HK\$231,351,000 (2002 – HK\$272,807,000) and the remaining balance arising from the Cancellation of HK\$1,427,879,000 (2002 – HK\$1,491,451,000). Included in the distributable reserves of the Company at 31st December, 2003 was an amount of a proposed final distribution for the year then ended of HK\$40,405,000 (2002 – HK\$40,496,000) declared after the balance sheet date.

As a result of the repurchase of shares by the Company with details as set out in Note 25 to the financial statements, the final distribution actually paid for the year ended 31st December, 2002 amounted to HK\$40,405,000.

- (d) The capital redemption reserve is not available for distribution to shareholders.
- 
- (e) The legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates.

## NOTES TO THE FINANCIAL STATEMENTS

**27. BANK LOANS**

	Group	
	2003 HK\$'000	2002 HK\$'000
Repayable within one year:		
Secured ( <i>Note</i> )	–	11,000
Unsecured	10,000	10,000
	<b>10,000</b>	<b>21,000</b>

*Note:* The bank loan of HK\$11,000,000 as at 31st December, 2002 was secured by certain securities owned by margin clients of the Group.

**28. CREDITORS AND ACCRUALS**

Included in the balances are trade creditors with the aged analysis as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Outstanding balances with ages:		
Repayable on demand	691,367	459,255
Within 30 days	70,503	831
Between 31 and 60 days	207	918
Between 61 and 90 days	696	4,890
Between 91 and 180 days	3,810	5,889
Over 180 days	13,703	13,406
	<b>780,286</b>	<b>485,189</b>

The outstanding balances that are repayable on demand include client payable relating to cash balances held on trust for the customers in respect of the Group's securities broking business. As at 31st December, 2003, total client trust bank balances amounted to HK\$430,558,000 (2002 – HK\$253,930,000).

**29. INTERESTS IN SUBSIDIARIES**

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	1	1
Due from subsidiaries	1,987,239	1,904,304
Due to subsidiaries	(89,912)	(136,884)
	<b>1,897,328</b>	1,767,421
Provisions for impairment losses	(103,569)	(84,248)
	<b>1,793,759</b>	1,683,173

The balances with subsidiaries are unsecured and have no fixed terms of repayment. Certain balances bear interest at rates reflecting the respective costs of funds within the Group.

Details of the principal subsidiaries are set out on pages 75 to 77.



## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit/(loss) before tax to cash from/(used in) operations

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Profit/(Loss) before tax		110,473	(110,691)
Adjustments for:			
Share of results of associates		6,488	133
Loss on disposal of:			
Fixed assets	7	–	10
Subsidiaries		–	10,545
Provisions for impairment losses:			
Investment securities	7	20,000	–
Held-to-maturity securities	7	–	273
Goodwill		–	3,330
Net unrealised gain on transfer of investment securities and held-to-maturity securities to other investments in securities	6	(20,483)	–
Provision/(Write-back of provision) for loss on guaranteed return arrangement for fund management		(10,868)	88,290
Deficit/(Write-back of deficit) on revaluation of investment properties	7	316	(748)
Interest expenses		4,700	3,884
Interest income		(51,461)	(55,331)
Dividend income	7	(4,745)	(181)
Depreciation	7	1,610	2,479
Amortisation of goodwill	7	3,618	2,094
Operating profit/(loss) before working capital changes		59,648	(55,913)
Increase in other investments in securities		(473,662)	(140,414)
Decrease/(Increase) in loans and advances		23,372	(49,597)
Increase in debtors, prepayments and deposits		(73,115)	(115,107)
Increase in creditors and accruals		307,868	132,870
Decrease/(Increase) in bank deposits with original maturity over three months		309,221	(309,221)
Decrease/(Increase) in certificates of deposit held		1,000,000	(160,000)
Increase in client trust bank balances		(176,628)	(39,429)
Decrease in provision for loss on guaranteed return arrangement for fund management		(117,985)	–
		858,719	(736,811)
Profit attributable to banking operations		(8,439)	(13,890)
Cash from/(used in) operations		850,280	(750,701)

## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

**(b) Banking operations**

As set out in Note 22 to the financial statements, due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operation is shown separately. Accordingly, details of the cash flows in respect of the banking operation is not disclosed in the cash flow statement of the Group. Details of the significant cash flows between the banking operation and the other Group companies are set out below:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receipts on disposal of loans and advances to banking operations	–	183,970
Advances to banking operations	–	(53,913)
Repayment of bank loan	–	(69,000)
	–	61,057

**(c) Disposal of subsidiaries**

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposal of:		
Assets less liabilities attributable to banking operations (restated)	–	3,458,600
Loss on disposal	–	(10,545)
Release of goodwill on disposal (restated)	–	735,266
Consideration received	–	4,183,321

Satisfied by:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration and net inflow of cash and cash equivalents	–	3,343,321
Certificates of deposit	–	840,000
	–	4,183,321

**30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)****(d) Acquisition of subsidiaries**

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Fixed assets	–	29
Cash and bank balances	–	24
Assets less liabilities attributable to banking operations	–	146,011
Debtors, prepayments and deposits	–	205
Creditors and accruals	–	(229)
Minority interests	–	(21,906)
	–	124,134
Goodwill arising on acquisition	–	69,305
Cash consideration paid	–	193,439

An analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration paid	–	(193,439)
Cash and bank balances acquired	–	24
Net outflow of cash and cash equivalents	–	(193,415)

The subsidiaries acquired during the prior year contributed turnover of HK\$9,362,000 and a profit after tax of HK\$1,662,000 to the Group in that year.

**(e) Major non-cash transaction**

During the year, investment securities with a total cost of HK\$54,681,000 and held-to-maturity securities with a total amortised cost of HK\$357,153,000 were transferred to other investments in securities at their respective market values at the date of transfer.

## NOTES TO THE FINANCIAL STATEMENTS

## 31. MATURITY PROFILE OF ASSETS AND LIABILITIES

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31st December, 2003</b>							
<b>Assets</b>							
Debt securities:							
Investment securities	-	-	-	2,248	-	3,165	5,413
Other investments in securities	5,486	52,694	23,610	346,732	79,333	-	507,855
Loan and advances	91,888	-	-	-	-	-	91,888
Client trust bank balances	207,923	222,635	-	-	-	-	430,558
Cash and bank balances	148,965	1,186,151	-	-	-	-	1,335,116
Assets less liabilities attributable to banking operations:							
Cash and short-term funds	219,402	35,405	-	-	-	-	254,807
Placements with banks and other financial institutions maturing between one and twelve months	-	368,320	-	-	-	-	368,320
Debt securities:							
Held-to-maturity securities	-	-	-	-	9,672	-	9,672
Other investments in securities	-	-	-	-	4,735	8,911	13,646
Advances to customers	25,312	99,037	10,418	3,240	13,586	-	151,593
	<b>698,976</b>	<b>1,964,242</b>	<b>34,028</b>	<b>352,220</b>	<b>107,326</b>	<b>12,076</b>	<b>3,168,868</b>
<b>Liabilities</b>							
Bank loans	-	10,000	-	-	-	-	10,000
Assets less liabilities attributable to banking operations:							
Current, fixed, savings and other deposits of customers	566,394	92,381	7,515	-	-	-	666,290
	<b>566,394</b>	<b>102,381</b>	<b>7,515</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>676,290</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 31. MATURITY PROFILE OF ASSETS AND LIABILITIES (Continued)

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2002							
<b>Assets</b>							
Debt securities:							
Investment securities	-	-	-	-	-	3,165	3,165
Held-to-maturity securities	-	-	-	294,935	60,217	-	355,152
Other investments in securities	-	-	39	-	3,120	-	3,159
Loan and advances	115,260	-	-	-	-	-	115,260
Certificates of deposit held	-	1,000,000	-	-	-	-	1,000,000
Client trust bank balances	3,548	250,382	-	-	-	-	253,930
Cash and bank balances	65,118	769,331	-	-	-	-	834,449
Assets less liabilities attributable to banking operations:							
Cash and short-term funds	16,183	54,352	-	-	-	-	70,535
Placements with banks and other financial institutions maturing between one and twelve months	-	-	11,467	-	-	-	11,467
Debt securities:							
Held-to-maturity securities	-	-	-	-	9,757	-	9,757
Advances to customers	49,021	49,739	24,592	36,055	2,970	-	162,377
	249,130	2,123,804	36,098	330,990	76,064	3,165	2,819,251
<b>Liabilities</b>							
Bank loans	-	21,000	-	-	-	-	21,000
Assets less liabilities attributable to banking operations:							
Deposits and balances of banks and other financial institutions	3	-	-	-	-	-	3
Current, fixed, savings and other deposits of customers	10,228	81,479	4,500	12,803	-	-	109,010
	10,231	102,479	4,500	12,803	-	-	130,013

**32. CONTINGENT LIABILITIES****Group**

As at 31st December, 2003, the Group had contingent liabilities relating to its banking subsidiary of HK\$40,073,000 (2002 – HK\$74,578,000), comprising guarantees and other endorsements of HK\$11,337,000 (2002 – HK\$39,978,000) and liabilities under letters of credit on behalf of customers of HK\$28,736,000 (2002 – HK\$34,600,000).

**Company**

As at 31st December, 2003, guarantees provided by the Company in respect of banking facilities granted to its subsidiaries amounted to HK\$245,000,000 (2002 – HK\$255,000,000).

**33. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

The Group leases its investment properties under operating lease arrangements with leases negotiated for terms of two years. At 31st December, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	708	–
In the second to fifth years, inclusive	13	–
	721	–

**33. OPERATING LEASE ARRANGEMENTS** *(Continued)***(b) As lessee**

The Group leases certain properties under lease agreements which are non-cancellable. The leases expire on various dates until 28th February, 2006 and the leases for properties contain provision for rental adjustments. As at 31st December, 2003, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	5,168	6,232	516	728
In the second to fifth years, inclusive	209	5,232	–	516
	<b>5,377</b>	<b>11,464</b>	<b>516</b>	<b>1,244</b>

**34. CAPITAL COMMITMENTS**

The Group had the following commitments at the balance sheet date:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Other capital commitments:		
Contracted, but not provided for	66,582	–
	<b>66,582</b>	<b>–</b>

The Company did not have any material commitments as at the balance sheet date (2002 – Nil).

**35. CONNECTED AND RELATED PARTY TRANSACTIONS**

Listed below are connected transactions disclosed in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited and related party transactions disclosed in accordance with the Statement of Standard Accounting Practice 20 "Related party disclosures".

- (a) During the year, Lippo Securities Holdings Limited ("LSHL"), being a wholly-owned subsidiary of the Company, paid rental expenses of HK\$2,416,000 (2002 – HK\$4,601,000) to Prime Power Investment Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by LSHL, and the Company and ImPac Asset Management (HK) Limited ("ImPac"), now a wholly-owned subsidiary of the Company, paid rental expenses of HK\$728,000 (2002 – HK\$212,000) and HK\$232,000 (2002 – HK\$90,000) to Porbandar Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by the Company and ImPac, respectively. The above rentals were determined by reference to open market rentals.

Details of the tenancy agreements between group companies in respect of the letting of office premises are disclosed in the section headed "Directors' and controlling shareholders' interests in contracts" in the Report of the Directors.

- (b) As at 31st December, 2003, an overseas affiliate of the Company had the following balances with MCB:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Included under the following item as referred to in Note 22 to the financial statements:		
Current, fixed, savings and other deposits of customers	<b>(195,313)</b>	–

The Directors are of the opinion that these transactions were undertaken on terms similar to those offered to unrelated customers in the ordinary course of business of the relevant companies.

- (c) As at 31st December, 2003, the Group had balances with its associates as set out in Note 19 to the financial statements.



**35. CONNECTED AND RELATED PARTY TRANSACTIONS** *(Continued)*

- (d) A share sale and purchase agreement dated 25th July, 2003 was entered into between Lippo Asia Limited ("Lippo Asia", which held an 85 per cent. interest in the issued share capital of ImPac Asset Management (Holdings) Ltd. ("ImPac AMH")), a wholly-owned subsidiary of the Company, and ImPac Partners Ltd. (the "SSP Agreement") under which Lippo Asia agreed to acquire from ImPac Partners Ltd. the remaining 15 per cent. interest in the issued share capital of ImPac AMH which it did not already own for a cash consideration of HK\$2,065,000. The transaction was completed on 25th July, 2003, as a result of which ImPac AMH became a wholly-owned subsidiary of Lippo Asia. The consideration was arrived at after arm's length negotiation by reference to the unaudited consolidated net tangible asset value of ImPac AMH as at 30th June, 2003. The transaction envisaged by the SSP Agreement constituted a connected transaction for the Company under the Listing Rules. All the disclosure requirements under the Listing Rules in respect thereof had been complied with by the Company.

**36. COMPARATIVE AMOUNTS**

As explained in Note 2 to the financial statements, due to the adoption of the revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

**37. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 20th April, 2004.