

Notes to Financial Statements

1. Principal activities

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are investment holding, sale and purchase of long-term listed investments and trading of short-term listed investments.

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by (i) the revaluation of investment properties and listed investments at market value and (ii) the revaluation of unlisted investments at fair value.

In the current year, the Group has adopted the revised Statement of Standard Accounting Practice 12 "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003. The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of profit or loss, which were expected with reasonable probability to crystallise in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exception. The adoption of SSAP 12 (revised) has no material financial effect on current and prior years. Comparative figures have been reclassified to conform with current year's presentation.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 December, with the exception of unconsolidated subsidiaries the accounting policy of which is set out in note 2(f). The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal respectively. All material inter-company transactions and balances are eliminated on consolidation.

(d) Goodwill/Negative goodwill

Goodwill or negative goodwill represents the excess or deficit of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries or associates at the date of acquisition.

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(d) Goodwill/Negative goodwill (Cont'd)

Goodwill on acquisitions is capitalised and amortised on a straight line basis over its estimated useful life not exceeding 20 years.

Negative goodwill on acquisitions is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable or amortisable.

In respect of associates, the carrying amount of interests in associates includes the goodwill/negative goodwill less amortisation and any impairment loss.

Goodwill on acquisitions that occurred prior to 1 January 2001 continued to be held in reserves.

On disposal of a subsidiary or an associate, any attributable amount of goodwill/negative goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the gain or loss on disposal.

(e) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, controls more than half of the voting power or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost or at Directors' valuation less any impairment loss.

(f) Unconsolidated subsidiaries

Unconsolidated subsidiary is a subsidiary which is acquired and held exclusively with a view to its subsequent disposal in the near future therefore the control of which is intended to be temporary. Unconsolidated subsidiaries are stated at fair value which is estimated by the Directors by reference to their net asset value. Gains and losses on unconsolidated subsidiaries are included in the profit and loss account in the period in which they arise.

(g) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group's investments in associates are accounted for in the consolidated financial statements under the equity method. The Group's investments in associates are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the net assets of the associates and less any impairment loss. The consolidated profit and loss account reflects the Group's share of post-acquisition results of the associates for the year.

Investments in associates are accounted for by the Company using the cost method. In the Company's balance sheet, investments in associates are stated at cost less any impairment loss.

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(h) Listed and unlisted investments

Listed investments held for long-term purpose and trading purpose are stated at fair value, which is generally the market value, at the balance sheet date. Changes in fair value of the investments held for long-term purpose are recognised directly in the long-term investment revaluation reserve in the period in which the changes occur, until the investments are sold or otherwise disposed of, or until the value of the investments is determined to be impaired, at which time the cumulative gain or loss is accounted for in the profit and loss account for the year. Gains and losses on listed investments held for trading purpose are included in the profit and loss account in the period in which they arise.

Unlisted investments held for long-term purpose are stated at fair value, which is estimated by the Directors by reference to the net asset value of the investments, at the balance sheet date. Changes in fair value of the investments are recognised directly in the long-term investment revaluation reserve in the period in which the changes occur, until the investments are sold or otherwise disposed of, or until the value of the investments is determined to be impaired, at which time the cumulative gain or loss is accounted for in the profit and loss account for the year.

Upon disposal of long-term listed and unlisted investments, the gain or loss representing the difference between net sales proceeds and the carrying amount of the relevant investment together with any surplus/deficit transferred from the long-term investment revaluation reserve is dealt with in the profit and loss account. Impairment loss previously transferred from the long-term investment revaluation reserve to the profit and loss account is written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is the cost of purchase. Net realisable value represents the estimated selling price less selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Fixed assets

Investment properties

Investment properties are interests in land and buildings which are held for their investment potential. Investment properties are stated at their open market value based on an annual independent professional valuation at the balance sheet date. Surpluses arising on revaluations are credited to the investment property revaluation reserve and deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account on a portfolio basis. Gain or loss on disposal of an investment property, representing the difference between the net sales proceeds and the carrying amount of the relevant asset together with any revaluation reserve balance remaining attributable to the relevant asset, is recognised in the profit and loss account. No depreciation is provided on investment property held on lease with unexpired term of more than twenty years.

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(j) Fixed assets (Cont'd)

Other properties

Other properties are stated at cost less accumulated depreciation and any impairment loss.

Land held on long and medium term lease is depreciated over the unexpired term of the lease. Buildings are depreciated on a straight line basis over 50 years or the remaining term of the lease, if shorter.

Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and any impairment loss. Depreciation is provided to write off the cost of other fixed assets less their estimated residual value, on a straight line basis over their estimated useful lives at the following annual rates:

Equipment and motor vehicles	10 – 20%
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Gain or loss on disposal of a fixed asset other than investment property is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profit and is shown as a movement in reserves.

(k) Impairment of assets

At the balance sheet date, assets are reviewed to assess whether there is any indication that assets are impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised in the profit and loss account.

Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(l) Revenue recognition

Major categories of revenue are recognised in the financial statements on the following bases: Sales of listed and unlisted investments are recognised when the title to the investment is transferred and the buyer takes legal possession of the investment.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is accrued on a time proportion basis on the principal outstanding and at the applicable rate.

Rental receivable under operating lease is credited, on a straight line basis, over the lease terms to the profit and loss account.

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(m) Taxation (Cont'd)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(n) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental expenses in respect of operating leases are charged to the profit and loss account on the straight line basis over the lease terms.

(o) Retirement costs

The Group's contributions to mandatory provident fund are expensed as incurred.

(p) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange 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 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 rates for the year. The balance sheets of overseas subsidiaries and associates are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the reserve.

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is determined on arm's length basis.

Unallocated items mainly comprise corporate assets, corporate liabilities, corporate and financing expenses.

(r) Related parties

Two 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.

(s) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at bank and in hand, net of outstanding bank overdrafts and short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

3. Turnover

Analysis of the Group's turnover is as follows:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Revenue from sales of listed investments	327,959	27,606
Revenue from sales of unlisted investments	4,595	—
Dividends from listed investments	7,504	11,974
Dividends from unlisted investments	2,328	1,945
Interest income	8,036	2,349
Rental income	2,996	2,978
	<u>353,418</u>	<u>46,852</u>

Notes to Financial Statements (Cont'd)

4. Segment reporting

(a) Business segments

The Group comprises the following business segments:

- Share investment and dealing — investment in listed and unlisted securities, purchase and sales of long-term and short-term listed securities
- Other operation — property investment

	Share investment and dealing		Other operation		Elimination		Consolidated	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment Revenue								
Turnover	351,003	44,254	2,996	2,978	(581)	(380)	353,418	46,852
Other revenue and income	8,732	1,652	—	—	—	—	8,732	1,652
Total revenue	<u>359,735</u>	<u>45,906</u>	<u>2,996</u>	<u>2,978</u>	<u>(581)</u>	<u>(380)</u>	<u>362,150</u>	<u>48,504</u>
Segment results	<u>179,375</u>	<u>(123,068)</u>	<u>5,619</u>	<u>253</u>	<u>(3,400)</u>	<u>2,000</u>	<u>181,594</u>	<u>(120,815)</u>
Impairment loss on investment in associate							—	(17,030)
Provision for advance to associate							—	(559)
Loss on disposals of fixed assets							—	(880)
Loss on disposal of associate							—	(302)
Finance costs							(11,626)	(20,590)
Share of results of associates							(44,481)	(75,697)
Profit (loss) before taxation							125,487	(235,873)
Taxation							(6,936)	(3,315)
Profit (loss) before minority interests							118,551	(239,188)
Minority interests							1,780	—
Profit (loss) attributable to shareholders							<u>120,331</u>	<u>(239,188)</u>
Segment assets	932,909	1,504,500	39,437	35,021	(24,186)	(23,655)	948,160	1,515,866
Interests in associates							537,628	222,825
Unallocated assets							766	766
Total assets							<u>1,486,554</u>	<u>1,739,457</u>
Segment liabilities	12,639	526,129	24,556	24,222	(24,186)	(23,655)	13,009	526,696
Unallocated liabilities							174,130	2,556
Minority interests							53,597	—
							<u>240,736</u>	<u>529,252</u>
Other segment information								
Capital expenditure	776	16,797	—	—	—	—	776	16,797
Depreciation	222	180	—	—	—	—	222	180
Provision for impairment in value of long-term investments	13,353	3,889	—	—	—	—	13,353	3,889
Unrealised loss on unconsolidated subsidiaries	20,203	140,000	—	—	—	—	20,203	140,000

Notes to Financial Statements (Cont'd)

4. Segment reporting (Cont'd)

(b) Geographical segments

Over 90% of the Group's revenue, assets and capital expenditure are derived from operations carried out in Hong Kong.

5. Operating profit (loss) before finance costs

	2003 HK\$'000	2002 HK\$'000
Operating profit (loss) before finance costs is stated after (crediting) charging:		
Gross rental income from investment properties	(2,996)	(2,978)
Outgoings	<u>135</u>	<u>344</u>
	(2,861)	(2,634)
Auditors' remuneration	616	633
Staff costs	2,398	3,563
Depreciation	222	180
Rental of properties under operating leases	52	499
Fixed assets written off	39	—
Loss on dissolution of investee companies	—	32
Unrealised gain on listed investments held for trading purpose	(6,764)	(1,455)

6. Directors' remuneration

	2003 HK\$'000	2002 HK\$'000
Fee		
Independent Non-executive Directors	60	60
Other Directors	97	90
Other emoluments (Executive Directors)		
Salaries and allowances	4,291	4,026
Contributions to retirement scheme	<u>146</u>	<u>134</u>
	<u>4,594</u>	<u>4,310</u>
	2003	2002
	Number of Directors	Number of Directors
HK\$ Nil — HK\$1,000,000	7	6
HK\$4,000,001 — HK\$4,500,000	<u>1</u>	<u>1</u>
	<u>8</u>	<u>7</u>

There was no arrangement under which a Director had waived or agreed to waive any remuneration. Pursuant to an Annual Bonus Scheme approved by the Board, Mr. Tan Boon Seng was eligible to an annual cash bonus determinable under the terms of that Scheme. No such cash bonus was provided for the year (2002: nil).

Notes to Financial Statements (Cont'd)

7. Five highest-paid employees

During the year, the five highest-paid employees in the Group included two (2002: one) Directors, details of whose emoluments are included in the disclosure of Directors' remuneration. The details of the remaining three (2002: four) highest-paid non-director employees are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other emoluments	1,060	1,534
Long-service payment	—	565
Contributions to retirement scheme	53	74
	<u>1,113</u>	<u>2,173</u>

The emoluments of each of the non-director employees were below HK\$1,000,000 for 2003 and 2002.

8. Finance costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts	10,957	18,366
Loan facility arrangement fees	936	2,224
	<u>11,893</u>	<u>20,590</u>

9. Net gain on disposals of long-term investments

	2003 HK\$'000	2002 HK\$'000
Profit on disposals of long-term investments	30,131	9,713
Amount transferred from long-term investment revaluation reserve	120,628	6,052
	<u>150,759</u>	<u>15,765</u>

Notes to Financial Statements (Cont'd)

10. Taxation

(a) Income tax expense is made up as follows:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Current tax		
Company and subsidiaries		
Overseas taxation	2,095	3,283
Share of associates' taxation	4,841	32
	<u>6,936</u>	<u>3,315</u>

No Hong Kong profits tax has been provided for the Company and its subsidiaries for the 2003/04 year of assessment (2002/03: no provision) as no assessable profit was earned during the year.

Overseas taxation represents withholding tax provided at 28% on dividend income received by the Group from overseas listed investments.

In March 2003, the Hong Kong Government announced an increase in the profits tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the financial statements for the year ended 31 December 2003.

(b) The reconciliation between tax expense and accounting profit (loss) of the Group in the financial statements is as follows:

	2003 HK\$'000	2002 HK\$'000
Profit (loss) before taxation	<u>125,487</u>	<u>(235,873)</u>
Tax at the domestic tax rate of 17.5% (2002: 16%)	21,960	(37,740)
Tax effect of net (income) expenses that are not (taxable) deductible in determining taxable profit	(23,000)	36,596
Tax effect of unrecognised tax losses in the year	1,040	1,144
Overseas withholding tax	2,095	3,283
Share of associates' taxation	4,841	32
Total tax expenses	<u>6,936</u>	<u>3,315</u>

Notes to Financial Statements (Cont'd)

10. Taxation (Cont'd)

(c) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the balance sheet and the movement during the year are as follows:

	Accelerated tax depreciation	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000
<u>Group</u>			
At 1.1.2002	123	(123)	—
Charge (credit) to profit and loss account for the year	30	(30)	—
At 31.12.2002	153	(153)	—
Charge (credit) to profit and loss account for the year	82	(82)	—
Effect of change in tax rate	14	(14)	—
At 31.12.2003	<u>249</u>	<u>(249)</u>	<u>—</u>

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority.

	<u>Group</u>	
	2003	2002
	HK\$'000	HK\$'000
Deferred tax assets recognised	(249)	(153)
Deferred tax liabilities recognised	249	153
	<u>—</u>	<u>—</u>

(d) At the balance sheet date, the Group had unused tax losses of HK\$35,032,000 (2002: HK\$28,606,000) available for set off against future taxable profit. A deferred tax asset has been recognised in respect of HK\$1,423,000 (2002: HK\$956,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$33,609,000 (2002: HK\$27,650,000) due to unpredictability of future taxable profit streams. The tax losses do not expire under current tax legislation.

11. Profit (loss) attributable to shareholders

The profit (loss) attributable to shareholders includes an amount of HK\$117,909,000 (2002: loss of HK\$221,511,000) which has been dealt with in the financial statements of the Company.

12. Dividends

	2003	2002
	HK\$'000	HK\$'000
Interim dividend paid – nil (2002: 1 cent per share)	—	3,388
Final dividend proposed – 1 cent per share (2002: nil)	2,133	—
	<u>2,133</u>	<u>3,388</u>

Notes to Financial Statements (Cont'd)

13. Earnings (loss) per share

The calculation of earnings (loss) per share is based on profit attributable to shareholders of HK\$120,331,000 (2002: loss of HK\$239,188,000) and the weighted average of 338,765,471 (2002: 338,784,441) shares of HK\$1 each in issue during the year.

14. Fixed assets

Group	Land and	Investment	Equipment	Total
	buildings in Hong Kong — long lease	properties in Hong Kong — long lease	and motor vehicles	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation				
At professional valuation	—	35,000	—	35,000
At cost	16,784	—	1,500	18,284
At 31.12.2002	16,784	35,000	1,500	53,284
Additions	—	—	776	776
Disposals	—	—	(418)	(418)
Revaluation surplus	—	4,400	—	4,400
At 31.12.2003	16,784	39,400	1,858	58,042
Accumulated depreciation				
At 31.12.2002	125	—	1,412	1,537
Provision	125	—	97	222
Write-back	—	—	(379)	(379)
At 31.12.2003	250	—	1,130	1,380
Net book amount				
At 31.12.2003	16,534	39,400	728	56,662
At 31.12.2002	16,659	35,000	88	51,747

Cost or valuation of properties at 31 December 2003 was made up as follows:

Group	Land and	Investment	Total
	buildings in Hong Kong — long lease	properties in Hong Kong — long lease	
	HK\$'000	HK\$'000	HK\$'000
At cost	16,784	—	16,784
At 2003 professional valuation	—	39,400	39,400
	16,784	39,400	56,184

The investment properties in Hong Kong were revalued as at 31 December 2003, on an open market value basis, by DTZ Debenham Tie Leung Limited, independent professional valuers.

Notes to Financial Statements (Cont'd)

15. Goodwill

	2003 HK\$'000	Group 2002 HK\$'000
Goodwill carried in reserves		
At cost	61	61

16. Interests in subsidiaries

	2003 HK\$'000	Company 2002 HK\$'000
Unlisted shares, at cost	25,320	25,320
Less: Impairment loss	(16,043)	(16,043)
	9,277	9,277
Amounts due from subsidiaries	1,869,091	1,729,755
Less: Provision	(930,670)	(903,978)
	947,698	835,054

Amounts due from subsidiaries were unsecured, non-interest bearing and with no fixed term of repayment.

Details of the subsidiaries are as follows:

Unlisted companies	Principal activities	Issued and paid up ordinary share capital/ registered capital	Place of incorporation/ operation	Percentage of equity interest held	
				by the Company	by the subsidiary
Diamond Way Inc.	Investment holding	US\$1	Liberia	—	100
HK 8 Limited	Investment holding	US\$1	Liberia	—	100
HK 9 Limited	Investment holding	US\$1	Liberia	—	100
HK 12 Limited	Investment holding	US\$1	Liberia	—	100
HK 28 Limited	Investment holding	US\$1	Liberia	—	100
HK 38 Limited	Investment holding	US\$1	Liberia	—	100
HK 68 Limited	Investment holding	US\$1	Liberia	—	100
HK 333 Limited	General investment	US\$1	Liberia	—	100
HK 368 Limited	Investment holding	US\$1	Liberia	—	100
HK 888 Limited	Investment holding	US\$1	Liberia	—	100
Kwai Ling Enterprises Company Limited	General investment	HK\$7,700,000	Hong Kong	60	40
Lee Hing Investment Company, Limited	Property investment and investment holding	HK\$2,000,000	Hong Kong	100	—
Sinonet Holdings Limited	Investment holding	US\$1	British Virgin Islands	100	—
Tek Lee Nominees Limited	Property investment	HK\$2	Hong Kong	—	100
Wang Tak Company Limited	Investment holding	HK\$1,000,000	Hong Kong	100	—
Argent Holdings Ltd.	Investment holding	US\$30,257	British Virgin Islands	—	91

Notes to Financial Statements (Cont'd)

17. Interests in associates

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments		
Share of net assets (liabilities)	268,555	(45,370)
Less: Impairment loss	(17,030)	(17,030)
	<u>251,525</u>	<u>(62,400)</u>
Subordinated loan to an associate	131,031	129,656
Amounts due from associates	159,918	160,415
Less: Provision	(2,603)	(2,603)
	<u>539,871</u>	<u>225,068</u>
Amounts due to associates	(2,243)	(2,243)
	<u><u>537,628</u></u>	<u><u>222,825</u></u>
	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments		
Shares, at cost	394	394
Less: Impairment loss	(394)	(394)
	<u>—</u>	<u>—</u>
Amounts due from associates	157,069	157,069
Less: Provision	(5,923)	(7,196)
	<u><u>151,146</u></u>	<u><u>149,873</u></u>

Subordinated loan to an associate and amounts due from and due to associates were unsecured, non-interest bearing and with no fixed term of repayment.

Details of the associates are as follows:

Unlisted companies	Principal activities	Place of incorporation/ operation	Percentage of equity interest held by the Group
Bo Tat Tak Enterprises Limited	Property development and investment	Hong Kong	50
Cheer Star Development Limited	Hotel operation	Hong Kong	28
Double Golden Sdn. Bhd.	General investment	Malaysia	50
Ichiban Properties Limited	Investment holding	British Virgin Islands	50
Infinity Goal Limited	Property development	Hong Kong	35
Key Finance Limited	Investment holding	British Virgin Islands	50
Parkway M & A Capital Corporation	Investment holding	British Virgin Islands	39
Phil Inc.	Dormant	U.S.A.	20
Start Hold Limited	Investment holding	Hong Kong	33
Silverlink Holdings Limited	Investment holding	British Virgin Islands	52

Notes to Financial Statements (Cont'd)

17. Interests in associates (Cont'd)

To provide shareholders with information on the results and financial positions of the Company's significant associate, Silverlink Holdings Limited, a summary of its audited consolidated financial statements for the year ended 31 December 2003 is set out on pages 43 to 45. That associate was not audited by H. C. Watt & Company Limited.

18. Long-term investments

	2003	Group	2002
	HK\$'000	_____	HK\$'000
(a) Unlisted investments			
Shares, at cost	96,521		104,259
Less: Provision for impairment in value	(71,964)	(64,051)
Change in fair value transferred to long-term investment revaluation reserve	—	(1,452)
	_____		_____
Fair value	24,557		38,756
Amounts due to investee companies	(350)	(350)
	_____		_____
	24,207		38,406
Debt securities, at fair value	234,000		—
	_____		_____
	258,207		38,406
	=====		=====

Amounts due to investee companies were unsecured, non-interest bearing and with no fixed term of repayment.

Debt securities represent 37.736% participation rights under the US\$79.5 million Note issued by Silverlink Holdings Limited ("Silverlink") on 27 November 2002.

The US\$79.5 million Note is secured, convertible, interest-bearing at 5% per annum and with premium at 10% per annum on the principal amount outstanding payable in arrears on the date of repayment, 30 June 2008. The Noteholder can convert the principal amount into shares of Silverlink by a formula up to the maximum shareholding of 99.99% of the issued share capital of Silverlink.

The participation rights include but not limited to the right to interests payable on the US\$79.5 million Note at the rate of 5% per annum payable quarterly and Silverlink Shares upon conversion of the principal amount outstanding at the time of conversion. As a participant, the Group only participates in the rights upon the exercise of such rights by the Noteholder and cannot exercise any of the rights under the US\$79.5 million Note independently. The Group will receive payments due under the US\$79.5 million Note or Silverlink Shares through the Noteholder, instead of from Silverlink directly.

Notes to Financial Statements (Cont'd)

18. Long-term investments (Cont'd)

	2003 HK\$'000	2002 HK\$'000
(b) Listed investments		
Listed shares, at cost —		
Hong Kong	377,514	427,770
Overseas	319,096	550,982
	<u>696,610</u>	<u>978,752</u>
Less: Provision for impairment in value	(371,316)	(515,992)
Change in fair value transferred to long-term investment revaluation reserve	132,224	222,794
	<u>457,518</u>	<u>685,554</u>
Market value	<u>457,518</u>	<u>685,554</u>
	2003 HK\$'000	2002 HK\$'000
Total of (a) and (b)	<u>715,725</u>	<u>723,960</u>

19. Disclosure under Section 129(2) of the Companies Ordinance

At 31 December 2003, the Group held shares in the below-mentioned body corporate, the value of which was in excess of one-tenth of the Group's total assets:

Listed company	Place of incorporation	Percentage of equity interest held by the Group
Resorts World Berhad	Malaysia	1.09

20. Inventories

	2003 HK\$'000	Group 2002 HK\$'000
Unsold properties	<u>766</u>	<u>766</u>

Unsold properties of HK\$766,000 (2002: HK\$766,000) were carried at cost. Full provision of HK\$12,736,000 (2002: \$12,736,000) has been made for certain unsold properties.

Notes to Financial Statements (Cont'd)

21. Listed investments and other asset

	2003 HK\$'000	Group <u> </u>	2002 HK\$'000
(a) Listed investments			
Listed shares, at cost —			
Overseas	2,661		2,661
Unrealised gain	12,420		5,656
		<u> </u>	
Market value	15,081		8,317
(b) Other asset			
Club debenture, at cost	295		295
		<u> </u>	
	<u>15,376</u>		<u>8,612</u>

22. Interests in unconsolidated subsidiaries

	2003 HK\$'000	Group <u> </u>	2002 HK\$'000
Unlisted shares, at cost	798,281		798,281
Less: Unrealised loss	(180,203)		(160,000)
		<u> </u>	
Fair value	618,078		638,281
Less: Repurchase of shares	(308,328)		—
Reclassified	(309,750)		—
		<u> </u>	
	<u>—</u>		<u>638,281</u>

On 15 July 2003, two unconsolidated subsidiaries, Argent Holdings Ltd. (“Argent”) and Silverlink Holdings Limited (“Silverlink”) entered into an agreement for the repurchase of 5,000,000 shares in Silverlink by Silverlink for a cash consideration of US\$40 million and of which US\$30 million was used to finance the acquisition of 37.736% participation rights under US\$79.5 million Note issued by Silverlink on 27 November 2002.

After the above reorganisation, interests in Argent and Silverlink were reclassified as interests in subsidiary and associate respectively.

Notes to Financial Statements (Cont'd)

23. Debtors, deposits and prepayments

The Group maintains a defined credit policy on its trade debtors.

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade debtors				
Below 30 days	3,109	109	—	—
31 to 60 days	114	105	—	—
61 to 90 days	117	108	—	—
91 to 365 days	991	918	—	—
Over 365 days	14,241	13,001	—	—
Other debtors, deposits and prepayments	888	580	698	—
	<u>19,460</u>	<u>14,821</u>	<u>698</u>	<u>—</u>

24. Creditors, deposits and accruals

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade creditors	—	—	—	—
Other creditors, deposits and accruals	4,682	46,439	1,965	1,976
	<u>4,682</u>	<u>46,439</u>	<u>1,965</u>	<u>1,976</u>

25. Secured bank loans

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank loans	181,821	479,066
Amount payable within one year classified under current liabilities	(843)	(468,822)
	<u>180,978</u>	<u>10,244</u>
Repayment period of bank loans		
Within one year	843	468,822
One to two years	864	843
Two to five years	174,301	2,658
Over five years	5,813	6,743
	<u>181,821</u>	<u>479,066</u>

Notes to Financial Statements (Cont'd)

26. Share capital

	2003 HK\$'000	2002 HK\$'000
Authorised		
Ordinary shares of HK\$1 each	<u>410,000</u>	<u>410,000</u>
Issued and fully paid		
Ordinary shares of HK\$1 each		
Balance at beginning of year	338,765	339,291
Repurchase of shares	<u>—</u>	<u>(526)</u>
Balance at end of year	<u>338,765</u>	<u>338,765</u>

27. Reserves

Company

	Capital redemption reserve	Share premium	Capital reserve	Property revaluation reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1.1.2002	8,926	316,006	53,585	3,000	484,992	866,509
Loss for the year	—	—	—	—	(221,511)	(221,511)
Dividend	—	—	—	—	(3,388)	(3,388)
Realised on disposal of property	—	—	—	(3,000)	3,000	—
Premium and brokerage expenses paid on share repurchases	—	—	—	—	(519)	(519)
Transfer to capital redemption reserve upon share repurchases	<u>526</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(526)</u>	<u>—</u>
At 31.12.2002	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>—</u>	<u>262,048</u>	<u>641,091</u>
At 1.1.2003	9,452	316,006	53,585	—	262,048	641,091
Profit for the year	—	—	—	—	117,909	117,909
Dividend	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,133)</u>	<u>(2,133)</u>
At 31.12.2003	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>—</u>	<u>377,824</u>	<u>756,867</u>

Notes to Financial Statements (Cont'd)

27. Reserves (Cont'd)

Group

	Capital redemption reserve	Share premium	Capital reserve	Investment property revaluation reserve	Property revaluation reserve	Long-term investment revaluation reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1.1.2002	8,926	316,006	53,585	14,725	3,000	94,107	499,672	990,021
Realised on disposals of long-term listed investments	—	—	—	—	—	(6,052)	—	(6,052)
Realised on disposal of property	—	—	—	—	(3,000)	—	3,000	—
Revaluation surplus (deficit)	—	—	—	(2,000)	—	132,741	—	130,741
Share of associate's reserve	—	—	—	—	—	(175)	—	(175)
Loss for the year	—	—	—	—	—	—	(239,188)	(239,188)
Dividend	—	—	—	—	—	—	(3,388)	(3,388)
Premium and brokerage expenses paid on share repurchases	—	—	—	—	—	—	(519)	(519)
Transfer to capital redemption reserve upon share repurchases	526	—	—	—	—	—	(526)	—
At 31.12.2002	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>12,725</u>	<u>—</u>	<u>220,621</u>	<u>259,051</u>	<u>871,440</u>
Retained by:								
Company and subsidiaries	9,452	316,006	53,585	12,725	—	221,342	334,213	947,323
Associates	—	—	—	—	—	(721)	(75,162)	(75,883)
	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>12,725</u>	<u>—</u>	<u>220,621</u>	<u>259,051</u>	<u>871,440</u>
At 1.1.2003	9,452	316,006	53,585	12,725	—	220,621	259,051	871,440
Realised on disposals of long-term listed investments	—	—	—	—	—	(119,373)	—	(119,373)
Realised on disposals of long-term unlisted investment	—	—	—	—	—	(1,255)	—	(1,255)
Revaluation surplus	—	—	—	4,400	—	18,157	—	22,557
Transfer to profit and loss account upon impairment in value of long-term investments	—	—	—	—	—	13,353	—	13,353
Profit for the year	—	—	—	—	—	—	120,331	120,331
Dividend	—	—	—	—	—	—	(2,133)	(2,133)
At 31.12.2003	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>17,125</u>	<u>—</u>	<u>131,503</u>	<u>377,249</u>	<u>904,920</u>
Retained by:								
Company and subsidiaries	9,452	316,006	53,585	17,125	—	132,224	504,082	1,032,474
Associates	—	—	—	—	—	(721)	(126,833)	(127,554)
	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>17,125</u>	<u>—</u>	<u>131,503</u>	<u>377,249</u>	<u>904,920</u>

Notes to Financial Statements (Cont'd)

28. Reserves available for distribution to shareholders

At balance sheet date, the reserves of the Company available for distribution to shareholders, as calculated under the provisions of Section 79B of the Companies Ordinance, amounted to HK\$377,824,000 (2002: HK\$262,048,000).

29. Notes to consolidated cash flow statement

(a) Reconciliation of profit (loss) before taxation to net cash used in operating activities is set out below:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Cash flows from operating activities		
Profit (loss) before taxation	125,487	(235,873)
Adjustments for:		
Depreciation	222	180
Share of results of associates	44,481	75,697
Loss on disposal of associate	—	302
Impairment loss on investment in associate	—	17,030
Provision for advance to associate	—	559
Loss on dissolution of investee companies	—	32
Net gain on disposals of long-term investments	(150,759)	(15,765)
Unrealised loss on unconsolidated subsidiaries	20,203	140,000
Profit arising from repurchase of shares in unconsolidated subsidiary	(3,349)	—
Loss on disposals of fixed assets	—	880
Fixed assets written off	39	—
(Write back) of provision for impairment in value of long-term investments	(44,105)	3,889
Amount transferred from long-term investment revaluation reserve on impairment in value of long-term investments	13,353	—
Unrealised gain on listed investments held for trading purpose	(6,764)	(1,455)
Interest expenses	10,957	18,366
Interest income	(8,036)	(2,349)
Dividend income	(9,832)	(13,919)
Operating loss before working capital changes	(8,103)	(12,426)
Decrease in listed investments held for trading purpose	—	438
(Increase) decrease in debtors, deposits and prepayments	(308)	504
Increase in creditors, deposits and accruals	643	106
Cash used in operations	(7,768)	(11,378)
Dividend received from associate	2,350	100
Dividends received	9,832	13,919
Interest received	3,705	1,110
Interest paid	(49,957)	(18,749)
Overseas tax paid	(2,095)	(3,283)
Net cash used in operating activities	(43,933)	(18,281)

Notes to Financial Statements (Cont'd)

29. Notes to consolidated cash flow statement (Cont'd)

(b) Non-cash transactions

On 15 July 2003, the Group reclassified its interests in unconsolidated subsidiaries of HK\$309,750,000 to interests in associates resulting in the following non-cash transactions:—

	HK\$'000
Interests in associates	365,596
Minority interests	(55,377)
Creditors, deposits and accruals	(469)
	<u>309,750</u>

30. Pledge of assets

The Group pledged certain investment properties, other properties, listed shares, debt securities and bank deposits together with certain shares in subsidiary and associate as security for banking facilities extended to the Group in the sum of HK\$523,200,000 (2002: HK\$757,200,000). At the balance sheet date, the facilities utilized amounted to HK\$181,821,000 (2002: HK\$521,177,000).

The Group pledged the shares in an associate as part of the security for bank loans granted to the associate. The Group has also subordinated and assigned its loan to the associate of HK\$131,031,000 (2002: HK\$129,656,000) to the bank as security.

31. Related party transactions

Other than the transactions and balances disclosed elsewhere in the financial statements, the Group had no material transactions with related parties during the year.

32. Retirement scheme

All the employees of the Group are members of the Mandatory Provident Fund Scheme. Under the Mandatory Provident Fund Scheme, the Group and its employees each made contributions to the scheme calculated at 5% of the employees' relevant income on a monthly basis. The amount of contributions charged to the profit and loss account for the year was HK\$260,000 (2002: HK\$289,000).

33. Future minimum rental payments receivable

The future minimum rental payments receivable under non-cancellable leases are as follows:

	2003	Group 2002
	HK\$'000	HK\$'000
Within one year	2,050	2,078
Between two and five years	3,441	—
	<u>5,491</u>	<u>2,078</u>

The Group's operating leases are for terms of two to three years.

Notes to Financial Statements (Cont'd)

34. Contingent liabilities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees for credit facilities granted to —				
subsidiaries	—	—	479,200	713,200
an associate	41,250	41,250	41,250	41,250
	<u>41,250</u>	<u>41,250</u>	<u>520,450</u>	<u>754,450</u>

35. Post balance sheet event

On 19 November 2003, the Company received a conditional irrevocable offer from Parkway Holdings Limited (“Parkway”), a substantial shareholder of the Company, to procure the sale to the Company of an aggregate of 125,332,186 shares of the Company owned by the group of Parkway, being the entire interests of Parkway in the Company and representing about 37% of the issued share capital of the Company, at HK\$2.28 per share for a total consideration of about HK\$285,757,000 (without taking into account any of the interest payable on the Notes). The consideration will be satisfied in full at completion of the Share Repurchase by way of a cash payment of about HK\$57,151,000 and the issue of three Notes for the aggregate principal amount of HK\$228,606,000. The Share Repurchase was approved by Independent Shareholders and completed in January 2004. The financial effect would be the decrease in the net asset value of the Group by approximately HK\$287,000,000 (without taking into account any of the interest payable on the Notes) for the year ending 31 December 2004.

36. Approval of financial statements

The financial statements were approved by the Board of Directors on 22 April 2004.