

## 1. GENERAL

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Company are property investment and investment holding. The principal activities of the principal subsidiaries and associates are shown in notes 17 and 18, respectively.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of goodwill previously eliminated against or credited to reserves or unamortised goodwill is included in the determination of the profit or loss on disposal.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### NEGATIVE GOODWILL

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions after 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

#### INVESTMENT PROPERTIES

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation deficit, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than properties under development are stated at cost or valuation less depreciation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation surplus arising on revaluation of land and buildings is credited to the other property revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the deficit previously charged. A deficit in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment, other than properties under development, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

|  |   |
|--|---|
| Leasehold land   | Over the term of the lease                      |
| Buildings  | Over the shorter of the term of the lease or 3% |
| Plant and machinery  | 10%   |
| Furniture, fixtures, motor vehicles and computer equipment | 10 - 20%  |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### PROPERTIES UNDER DEVELOPMENT

Land for properties under development is stated at cost less accumulated impairment losses. Where a piece of land is transferred from another class, it is stated at its carrying value at the time of the transfer and the value is treated as the deemed cost of the land. No further valuation of the land will be carried out subsequent to its reclassification. Development expenditure is stated at the aggregate amount of costs, including interest expenses capitalised during the development period. Provision for anticipated losses is made, where appropriate. No depreciation is provided on properties under development.

#### INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

#### INVESTMENTS IN ASSOCIATES

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

When a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### INVESTMENTS IN SECURITIES

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

#### PROPERTIES HELD FOR SALE

Properties held for sale are stated at the lower of cost and the estimated market value.

#### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average cost method.

#### IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation increase under that standard.

#### REVENUE RECOGNITION

(i) *Property development*

When properties are developed for sale, income is recognised only when the sale agreement is unconditional or when the relevant occupation permit is issued by the relevant authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as receipt in advance and is included in trade and other payables.

(ii) *Premium income*

Premium is recognised in the insurance revenue account on an accrual basis.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****REVENUE RECOGNITION (CONTINUED)***(iii) Return on investments*

Dividend from investee companies is recognised when the Group's rights to receive the relevant payment have been established, whilst interest income is recognised on a time basis that takes into account the effective yield on the relevant deposits.

*(iv) Operating lease income*

Rental income under operating leases is credited to the income statement on a straight-line basis over the relevant lease term.

*(v) Sales of goods*

Sales of goods are recognised when goods are delivered and title has passed.

*(vi) Management fee*

Management fee income is recognised when services are rendered.

*(vii) Agency fee*

Agency fee income is recognised when services are rendered.

*(viii) Sales of securities*

Sales of investments in securities are recognised on trade-date basis.

**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 income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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 investments 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 asset 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 to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### OPERATING LEASES

All leases other than finance leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

#### BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme (the "ORSO Scheme") for qualifying staff of certain companies in the Group, the assets of which are held in a separate trustee administered fund. Payments to the scheme are charged as an expense as they fall due.

Certain of the Group's employees have been enrolled in a Mandatory Provident Fund Scheme ("MPF Scheme"). The contributions payable in respect of the current year to the fund are charged as an expense as they fall due.

#### FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### 4. TURNOVER

Turnover represents the aggregate of the following amounts received and receivable during the year:

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| Proceeds from disposal of properties           | <b>159,391</b>   | 250,104          |
| Gross rental income                            | <b>101,749</b>   | 112,151          |
| Gross insurance premium                        | <b>36,476</b>    | 33,647           |
| Sales of goods                                 | <b>29,118</b>    | 25,722           |
| Property management and agency fees            | <b>13,876</b>    | 13,867           |
| Interest income                                | <b>12,700</b>    | 26,248           |
| Dividend income from investments in securities | <b>11,182</b>    | 2,062            |
| Proceeds from disposal of listed investments   | <b>10,628</b>    | 18,138           |
|  | <b>375,120</b>   | 481,939          |

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### BUSINESS SEGMENTS

The Group is currently engaged in six business activities – property investment, property development, property management, treasury investment and banking, trading and manufacturing, and insurance business. These activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

|   | Year ended 31 December 2004        |                                     |                                    |                                       |  |                                   |                  | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|------------------------------------|-------------------------------------|------------------------------------|---------------------------------------|--|-----------------------------------|------------------|--------------------------|--------------------------|
|   | Continuing operations              |                                     |                                    |                                       |  | Discontinuing<br>operations       |                  |                          |                          |
|   | Property<br>investment<br>HK\$'000 | Property<br>development<br>HK\$'000 | Property<br>management<br>HK\$'000 | Treasury                              |  | Insurance<br>business<br>HK\$'000 |                  |                          |                          |
|   |                                    |                                     |                                    | investment<br>and banking<br>HK\$'000 | Trading and<br>manufacturing<br>HK\$'000 |                                   |                  |                          |                          |
| <b>REVENUE</b>  |                                    |                                     |                                    |                                       |  |                                   |                  |                          |                          |
| External sales  | 101,749                            | 159,391                             | 13,876                             | 34,510                                | 29,118                                   | 36,476                            | –                | 375,120                  |                          |
| Inter-segment sales   | 864                                | –                                   | 4,635                              | 247,242                               | –  | 822                               | (253,563)        | –                        |                          |
| <b>Total revenue</b>  | <b>102,613</b>                     | <b>159,391</b>                      | <b>18,511</b>                      | <b>281,752</b>                        | <b>29,118</b>                            | <b>37,298</b>                     | <b>(253,563)</b> | <b>375,120</b>           |                          |
| Inter-segment sales are charged at prevailing market rates. |                                    |                                     |                                    |                                       |  |                                   |                  |                          |                          |
| <b>RESULT</b>   |                                    |                                     |                                    |                                       |  |                                   |                  |                          |                          |
| Segment result  | 78,172                             | (69,532)                            | 2,882                              | (22,853)                              | 234                                      | 3,248                             | –                | (7,849)                  |                          |
| Finance costs   |                                    |                                     |                                    |                                       |  |                                   |                  | (22,176)                 |                          |
| Share of results of associates                              | 50                                 | –                                   | –                                  | 190,132                               | –  | –                                 | –                | 190,182                  |                          |
| Profit before taxation                                      |                                    |                                     |                                    |                                       |  |                                   |                  | 160,157                  |                          |
| Income tax expense  |                                    |                                     |                                    |                                       |  |                                   |                  | (55,768)                 |                          |
| Profit after taxation                                       |                                    |                                     |                                    |                                       |  |                                   |                  | 104,389                  |                          |

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

## BALANCE SHEET

As at 31 December 2004

|                                       | Continuing operations           |                                  |                                 |                                       |  | Discontinuing                     | Consolidated     |
|---------------------------------------|---------------------------------|----------------------------------|---------------------------------|---------------------------------------|--|-----------------------------------|------------------|
|                                       | Property investment<br>HK\$'000 | Property development<br>HK\$'000 | Property management<br>HK\$'000 | Treasury                              | Trading and<br>manufacturing<br>HK\$'000 | Insurance<br>business<br>HK\$'000 |                  |
|                                       |                                 |                                  |                                 | investment<br>and banking<br>HK\$'000 |  |                                   |                  |
| <b>ASSETS</b>                         |                                 |                                  |                                 |                                       |  |                                   |                  |
| Segment assets                        | 3,302,505                       | 1,298,834                        | 1,750                           | 841,823                               | 52,653                                   | 11,851                            | 5,509,416        |
| Interests in associates               | 1,853                           | -                                | -                               | 2,799,364                             | -  | -                                 | 2,801,217        |
| Taxation recoverable                  |                                 |                                  |                                 |                                       |  |                                   | 1,070            |
| Unallocated corporate assets          |                                 |                                  |                                 |                                       |  |                                   | 25,422           |
| <b>Consolidated total assets</b>      |                                 |                                  |                                 |                                       |  |                                   | <b>8,337,125</b> |
| <b>LIABILITIES</b>                    |                                 |                                  |                                 |                                       |  |                                   |                  |
| Segment liabilities                   | 38,406                          | 38,343                           | 2,924                           | 1,290                                 | 6,568                                    | 29,182                            | 116,713          |
| Deferred taxation                     |                                 |                                  |                                 |                                       |  |                                   | 31,034           |
| Unallocated corporate liabilities     |                                 |                                  |                                 |                                       |  |                                   | 2,199,216        |
| <b>Consolidated total liabilities</b> |                                 |                                  |                                 |                                       |  |                                   | <b>2,346,963</b> |

## OTHER INFORMATION

Year ended 31 December 2004

|  | Continuing operations           |                                  |                                 |                                       |  | Discontinuing      | Consolidated |                                   |
|--|---------------------------------|----------------------------------|---------------------------------|---------------------------------------|--|--------------------|--------------|-----------------------------------|
|  | Property investment<br>HK\$'000 | Property development<br>HK\$'000 | Property management<br>HK\$'000 | Treasury                              | Trading and<br>manufacturing<br>HK\$'000 | Others<br>HK\$'000 |              | Insurance<br>business<br>HK\$'000 |
|  |                                 |                                  |                                 | investment<br>and banking<br>HK\$'000 |  |                    |              |                                   |
| Allowance for properties held for sale   | -                               | 10,000                           | -                               | -                                     | -  | -                  | -            | 10,000                            |
| Capital additions  | 135                             | 84,172                           | -                               | -                                     | -  | 616                | 59           | 84,982                            |
| Deficit on revaluation of leasehold land and buildings charged to the income statement | -                               | 19,912                           | -                               | -                                     | -  | -                  | -            | 19,912                            |
| Depreciation   | 1,584                           | 3,495                            | -                               | -                                     | 1,179                                    | 730                | 103          | 7,091                             |
| Impairment loss recognised in respect of investment securities                         | -                               | -                                | -                               | 20,000                                | -  | -                  | -            | 20,000                            |
| Loss on disposal of property, plant and equipment                                      | -                               | 35                               | -                               | -                                     | -  | -                  | -            | 35                                |



## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

|   | Year ended 31 December 2003        |                                     |                                    |                                       |  |                                   |                  | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|------------------------------------|-------------------------------------|------------------------------------|---------------------------------------|--|-----------------------------------|------------------|--------------------------|--------------------------|
|   | Continuing operations              |                                     |                                    |                                       |  | Discontinuing<br>operations       |                  |                          |                          |
|   | Property<br>investment<br>HK\$'000 | Property<br>development<br>HK\$'000 | Property<br>management<br>HK\$'000 | Treasury                              |  | Insurance<br>business<br>HK\$'000 |                  |                          |                          |
|   |                                    |                                     |                                    | investment<br>and banking<br>HK\$'000 | Trading and<br>manufacturing<br>HK\$'000 |                                   |                  |                          |                          |
| <b>REVENUE</b>  |                                    |                                     |                                    |                                       |  |                                   |                  |                          |                          |
| External sales  | 112,151                            | 250,104                             | 13,867                             | 46,448                                | 25,722                                   | 33,647                            | -                | 481,939                  |                          |
| Inter-segment sales   | 864                                | -                                   | 4,635                              | 353,717                               | -  | 671                               | (359,887)        | -                        |                          |
| <b>Total revenue</b>  | <b>113,015</b>                     | <b>250,104</b>                      | <b>18,502</b>                      | <b>400,165</b>                        | <b>25,722</b>                            | <b>34,318</b>                     | <b>(359,887)</b> | <b>481,939</b>           |                          |
| Inter-segment sales are charged at prevailing market rates. |                                    |                                     |                                    |                                       |  |                                   |                  |                          |                          |
| <b>RESULT</b>   |                                    |                                     |                                    |                                       |  |                                   |                  |                          |                          |
| Segment result  | (19,795)                           | 4,217                               | 3,431                              | 59,929                                | (1,797)                                  | 4,378                             | -                | 50,363                   |                          |
| Finance costs   |                                    |                                     |                                    |                                       |  |                                   |                  | (59,245)                 |                          |
| Share of results of associates                              | 90                                 | -                                   | -                                  | 165,616                               | -  | -                                 | -                | 165,706                  |                          |
| Profit before taxation                                      |                                    |                                     |                                    |                                       |  |                                   |                  | 156,824                  |                          |
| Income tax expense  |                                    |                                     |                                    |                                       |  |                                   |                  | (46,539)                 |                          |
| Profit after taxation                                       |                                    |                                     |                                    |                                       |  |                                   |                  | 110,285                  |                          |

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

## BALANCE SHEET

As at 31 December 2003

|                                   | Continuing operations |                      |                     |                                 |                           | Discontinuing                    | Consolidated |
|-----------------------------------|-----------------------|----------------------|---------------------|---------------------------------|---------------------------|----------------------------------|--------------|
|                                   | Property investment   | Property development | Property management | Treasury investment and banking | Trading and manufacturing | operations<br>Insurance business |              |
|                                   | HK\$'000              | HK\$'000             | HK\$'000            | HK\$'000                        | HK\$'000                  | HK\$'000                         | HK\$'000     |
| <b>ASSETS</b>                     |                       |                      |                     |                                 |                           |                                  |              |
| Segment assets                    | 2,643,242             | 2,168,544            | 3,902               | 1,145,502                       | 36,887                    | 14,264                           | 6,012,341    |
| Interests in associates           | 3,011                 | -                    | -                   | 2,669,545                       | -                         | -                                | 2,672,556    |
| Unallocated corporate assets      |                       |                      |                     |                                 |                           |                                  | 21,395       |
| Consolidated total assets         |                       |                      |                     |                                 |                           |                                  | 8,706,292    |
| <b>LIABILITIES</b>                |                       |                      |                     |                                 |                           |                                  |              |
| Segment liabilities               | 42,209                | 519,402              | 5,714               | 1,272                           | 2,124                     | 21,416                           | 592,137      |
| Provision for taxation            |                       |                      |                     |                                 |                           |                                  | 3,853        |
| Deferred taxation                 |                       |                      |                     |                                 |                           |                                  | 33,874       |
| Unallocated corporate liabilities |                       |                      |                     |                                 |                           |                                  | 2,241,604    |
| Consolidated total liabilities    |                       |                      |                     |                                 |                           |                                  | 2,871,468    |

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)**

**OTHER INFORMATION**

|  | Year ended 31 December 2003     |                                  |                                 |                                    |                                       |                    |                                |                          |
|--|---------------------------------|----------------------------------|---------------------------------|------------------------------------|---------------------------------------|--------------------|--------------------------------|--------------------------|
|  | Continuing operations           |                                  |                                 |                                    |                                       |                    | Discontinuing operations       |                          |
|  | Property investment<br>HK\$'000 | Property development<br>HK\$'000 | Property management<br>HK\$'000 | Treasury                           |                                       | Others<br>HK\$'000 | Insurance business<br>HK\$'000 | Consolidated<br>HK\$'000 |
|  |                                 |                                  |                                 | investment and banking<br>HK\$'000 | Trading and manufacturing<br>HK\$'000 |                    |                                |                          |
| Capital additions  | 1,948                           | 105,049                          | -                               | -                                  | 171                                   | 300                | 85                             | 107,553                  |
| Depreciation   | 1,587                           | 1,727                            | -                               | -                                  | 1,527                                 | 852                | 117                            | 5,810                    |
| Impairment loss recognised in respect of investment securities | -                               | -                                | -                               | 8,160                              | -                                     | -                  | -                              | 8,160                    |
| Loss on disposal of property, plant and equipment              | -                               | -                                | -                               | -                                  | 60                                    | 104                | 1                              | 165                      |
| Loss on disposal of investment properties                      | 111,539                         | -                                | -                               | -                                  | -                                     | -                  | -                              | 111,539                  |

**GEOGRAPHICAL SEGMENTS**

The Group's operations are located in Hong Kong and other parts of the People's Republic of China (the "PRC"). Certain of the Group's property development and trading and manufacturing business are located in the PRC. Others are located in Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

|                                | Sales revenue by geographical market        |                                      | Contribution to profit before taxation      |                                      |
|--------------------------------|---|--------------------------------------|---|--------------------------------------|
|                                | Year ended<br><b>31.12.2004</b><br>HK\$'000 | Year ended<br>31.12.2003<br>HK\$'000 | Year ended<br><b>31.12.2004</b><br>HK\$'000 | Year ended<br>31.12.2003<br>HK\$'000 |
| Hong Kong                      | <b>175,438</b>                              | 199,561                              | <b>54,437</b>                               | (18,479)                             |
| PRC                            | <b>199,682</b>                              | 282,378                              | <b>(84,462)</b>                             | 9,597                                |
|                                | <b>375,120</b>                              | 481,939                              | <b>(30,025)</b>                             | (8,882)                              |
| Share of results of associates |   |                                      | <b>190,182</b>                              | 165,706                              |
| Profit before taxation         |   |                                      | <b>160,157</b>                              | 156,824                              |

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### GEOGRAPHICAL SEGMENTS (CONTINUED)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and properties under development, analysed by the geographical area in which the assets are located:

|           | Carrying amount<br>of segment assets |                                 | Additions to property,<br>plant and equipment<br>and properties<br>under development |                                 |
|-----------|--------------------------------------|---------------------------------|--|---------------------------------|
|           | As at<br>31.12.2004<br>HK\$'000      | As at<br>31.12.2003<br>HK\$'000 | As at<br>31.12.2004<br>HK\$'000  | As at<br>31.12.2003<br>HK\$'000 |
| Hong Kong | 3,407,972                            | 3,834,122                       | 810  | 2,334                           |
| PRC       | 2,126,755                            | 2,196,560                       | 84,172   | 105,219                         |
| Others    | 1,181                                | 3,054                           | –  | –                               |
|           | <b>5,535,908</b>                     | 6,033,736                       | <b>84,982</b>  | 107,553                         |

### 6. (LOSS) PROFIT FROM OPERATIONS

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| (Loss) profit from operations has been arrived at after charging:                                |                  |                  |
| Directors' emoluments (Note 10)  | 15,121           | 13,008           |
| Other staff costs  | 14,821           | 17,119           |
| Staff retirement scheme contributions, net of HK\$161,000<br>(2003: Nil) forfeited contributions | 834              | 1,163            |
| Total staff costs  | 30,776           | 31,290           |
| Auditors' remuneration   | 1,325            | 1,149            |
| Depreciation   | 7,091            | 5,810            |
| Loss on disposal of property, plant and equipment  | 35               | 165              |
| Operating lease rentals in respect of land and buildings   | 1,482            | 1,516            |
| and after crediting:   |                  |                  |
| Net rental income from properties  | 88,296           | 103,650          |
| Realised gain on disposal of other investments   | 3,745            | 8,392            |

## 7. FINANCE COSTS

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| Interest on borrowings wholly repayable within five years:   |                  |                  |
| Bank loans   | <b>33,400</b>    | 95,522           |
| Other borrowings   | <b>8,353</b>     | 1,397            |
|  | <b>41,753</b>    | 96,919           |
| Less: Amount capitalised as cost of properties under development at a capitalisation rate of 2.45% (2003: 2.86%) per annum | <b>(19,577)</b>  | (37,674)         |
|  | <b>22,176</b>    | 59,245           |

## 8. SHARE OF RESULTS OF ASSOCIATES

|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------------------|------------------|
| Share of results of associates comprises:                           |                  |                  |
| Share of results of associates                                      | <b>189,726</b>   | 165,706          |
| Release of negative goodwill arising on acquisition of an associate | <b>456</b>       | –                |
|   | <b>190,182</b>   | 165,706          |

## 9. DISCONTINUING OPERATIONS

On 3 March 2005, the Company and Liu Chong Hing Bank Limited ("LCH Bank"), an associate of the Company, entered into a conditional sale and purchase agreement pursuant to which LCH Bank agreed to acquire from the Company the entire issued share capital of Liu Chong Hing Insurance Company Limited ("LCH Insurance") for a total consideration of HK\$212 million. Upon completion, LCH Insurance will become a wholly-owned subsidiary of LCH Bank.

The results of LCH Insurance represent the Group's entire results of insurance business and a portion of results of treasury investment and banking business. The results of insurance business for the year were as follows:

|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------------------|------------------|
| Turnover                                    | <b>37,298</b>    | 34,318           |
| Administrative and other operating expenses | <b>(34,050)</b>  | (29,940)         |
| Profit before taxation                      | <b>3,248</b>     | 4,378            |
| Income tax expense                          | <b>(513)</b>     | (809)            |
| Profit for the year                         | <b>2,735</b>     | 3,569            |

**9. DISCONTINUING OPERATIONS (CONTINUED)**

The carrying amounts of the assets and liabilities of the insurance business are as follows:

|                   | <b>2004</b><br>HK\$'000 | 2003<br>HK\$'000 |
|-------------------|-------------------------|------------------|
| Total assets      | <b>11,851</b>           | 14,264           |
| Total liabilities | <b>29,182</b>           | 21,416           |

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

(a) Directors' emoluments:

|                                 | <b>2004</b><br>HK\$'000 | 2003<br>HK\$'000 |
|---------------------------------|-------------------------|------------------|
| Fees                            | <b>800</b>              | 800              |
| Other emoluments:               |                         |                  |
| Salary and other benefits       | <b>13,664</b>           | 11,607           |
| Retirement scheme contributions | <b>657</b>              | 601              |
| Total emoluments                | <b>15,121</b>           | 13,008           |

The amounts disclosed above include directors' fee of HK\$440,000 (2003: HK\$400,000) payable to independent non-executive directors.

Emoluments of directors were within the following bands:

| Range                          | <b>No. of directors</b> |      |
|--------------------------------|-------------------------|------|
|                                | <b>2004</b>             | 2003 |
| Not exceeding HK\$1,000,000    | <b>10</b>               | 10   |
| HK\$1,000,001 to HK\$1,500,000 | –                       | 1    |
| HK\$1,500,001 to HK\$2,000,000 | <b>1</b>                | 1    |
| HK\$2,000,001 to HK\$2,500,000 | <b>1</b>                | 1    |
| HK\$2,500,001 to HK\$3,000,000 | <b>1</b>                | –    |
| HK\$5,500,001 to HK\$6,000,000 | –                       | 1    |
| HK\$6,500,001 to HK\$7,000,000 | <b>1</b>                | –    |

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)**

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2003: five) individuals were directors of the Company whose emoluments are included in the disclosure set out in note (a) above. The aggregate emoluments of the five highest paid individuals were as follows:

|                                 | <b>2004</b><br>HK\$'000 | 2003<br>HK\$'000 |
|---------------------------------|-------------------------|------------------|
| Salary and other benefits       | <b>14,548</b>           | 11,233           |
| Retirement scheme contributions | <b>552</b>              | 560              |
| <b>Total emoluments</b>         | <b>15,100</b>           | 11,793           |

Emoluments of the five highest paid individuals were within the following bands:

| Range                          | <b>No. of individuals</b> |      |
|--------------------------------|---------------------------|------|
|                                | <b>2004</b>               | 2003 |
| Not exceeding HK\$1,000,000    | –                         | 1    |
| HK\$1,000,001 to HK\$1,500,000 | –                         | 1    |
| HK\$1,500,001 to HK\$2,000,000 | <b>2</b>                  | 1    |
| HK\$2,000,001 to HK\$2,500,000 | <b>1</b>                  | 1    |
| HK\$2,500,001 to HK\$3,000,000 | <b>1</b>                  | –    |
| HK\$5,500,001 to HK\$6,000,000 | –                         | 1    |
| HK\$6,500,001 to HK\$7,000,000 | <b>1</b>                  | –    |

(c) During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.

**11. INCOME TAX EXPENSE**

|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------------------|------------------|
| The charge comprises:                                     |                  |                  |
| Hong Kong Profits Tax                                     |                  |                  |
| Current year  | <b>12,069</b>    | 16,490           |
| (Over)underprovision in prior years                       | <b>(3)</b>       | 54               |
|   | <b>12,066</b>    | 16,544           |
| Deferred taxation (note 26)                               |                  |                  |
| Current year  | <b>11,903</b>    | 3,212            |
| Attributable to increase in tax rate                      | –                | 1,364            |
|   | <b>11,903</b>    | 4,576            |
| Taxation attributable to the Company and its subsidiaries | <b>23,969</b>    | 21,120           |
| Share of taxation attributable to associates              | <b>31,799</b>    | 25,419           |
|   | <b>55,768</b>    | 46,539           |

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| Profit before taxation   | <b>160,157</b>   | 156,824          |
| Hong Kong Profits Tax at the rate of 17.5%   | <b>28,027</b>    | 27,444           |
| Tax effect of share of results of associates   | <b>(1,483)</b>   | (3,579)          |
| Tax effect of expenses not deductible for tax purpose  | <b>36,163</b>    | 24,029           |
| Tax effect of income not taxable for tax purpose   | <b>(6,536)</b>   | (17,552)         |
| (Over)underprovision in respect of prior years   | <b>(3)</b>       | 54               |
| Tax effect of tax losses not recognised  | <b>29</b>        | 14,779           |
| Tax effect of utilisation of tax losses previously not recognised                            | <b>(1,593)</b>   | –                |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions           | <b>1,164</b>     | –                |
| Increase in opening deferred tax liability resulting from an increase in applicable tax rate | –                | 1,364            |
| Tax charge for the year  | <b>55,768</b>    | 46,539           |



## 12. DIVIDENDS

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| Interim dividend paid at HK\$0.07 (2003: HK\$0.06) per share   | <b>26,501</b>    | 22,715           |
| Proposed final dividend at HK\$0.10 (2003: HK\$0.10) per share | <b>37,858</b>    | 37,858           |
|  | <b>64,359</b>    | 60,573           |

The final cash dividend of HK\$0.10 (2003: HK\$0.10) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

## 13. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of HK\$104,351,000 (2003: HK\$103,780,000) and on 378,583,440 (2003: 378,583,440) ordinary shares in issue during the year.

## 14. INVESTMENT PROPERTIES

|                        | THE<br>GROUP<br>HK\$'000 | THE<br>COMPANY<br>HK\$'000 |
|------------------------|--------------------------|----------------------------|
| <b>VALUATION</b>       |                          |                            |
| At 1 January 2004      | 3,258,150                | 680,000                    |
| Deficit on revaluation | (34,100)                 | –                          |
| At 31 December 2004    | 3,224,050                | 680,000                    |

The investment properties were revalued as at 31 December 2004 on an open market value basis by Vigers Hong Kong Ltd., an independent firm of professional valuers. The resulting deficit of the Group of approximately HK\$34,100,000 (2003: surplus of approximately HK\$39,017,000) arising on revaluation have been transferred to the investment property revaluation reserve.

There is no surplus nor deficit arising on revaluation of the Company's investment properties for the year ended 31 December 2004.

All investment properties are held for rental income or intended to be held for rental income under operating leases.

A summary of the carrying values of investment properties is as follows:

|                                     | THE GROUP        |                  | THE COMPANY      |                  |
|-------------------------------------|------------------|------------------|------------------|------------------|
|                                     | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Held under:                         |                  |                  |                  |                  |
| Long leases in Hong Kong            | <b>2,616,749</b> | 2,592,849        | <b>680,000</b>   | 680,000          |
| Long-term land use right in the PRC | <b>588,301</b>   | 648,301          | –                | –                |
| Medium-term leases in Hong Kong     | <b>19,000</b>    | 17,000           | –                | –                |
|                                     | <b>3,224,050</b> | 3,258,150        | <b>680,000</b>   | 680,000          |

**15. PROPERTY, PLANT AND EQUIPMENT**

|                            | Leasehold<br>land and<br>buildings<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Furniture,<br>fixtures,<br>motor vehicles<br>and computer<br>equipment<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------|--|------------------------------------|--|-------------------|
| <b>THE GROUP</b>           |  |                                    |  |                   |
| COST/VALUATION             |  |                                    |  |                   |
| At 1 January 2004          | 83,968   | 27,309                             | 33,428   | 144,705           |
| Additions                  | –  | –                                  | 3,589  | 3,589             |
| Disposals                  | –  | –                                  | (828)  | (828)             |
| Deficit on revaluation     | (27,784)                                       | –                                  | –  | (27,784)          |
| <b>At 31 December 2004</b> | <b>56,184</b>                                  | <b>27,309</b>                      | <b>36,189</b>  | <b>119,682</b>    |
| COMPRISING                 |  |                                    |  |                   |
| At cost                    | –  | 27,309                             | 36,189   | 63,498            |
| At valuation - 2004        | 56,184   | –                                  | –  | 56,184            |
|                            | 56,184   | 27,309                             | 36,189   | 119,682           |
| DEPRECIATION               |  |                                    |  |                   |
| At 1 January 2004          | –  | 11,237                             | 22,827   | 34,064            |
| Charged for the year       | 2,214  | 1,179                              | 3,698  | 7,091             |
| Eliminated on disposals    | –  | –                                  | (793)  | (793)             |
| Deficit on revaluation     | (2,214)  | –                                  | –  | (2,214)           |
| <b>At 31 December 2004</b> | <b>–</b>                                       | <b>12,416</b>                      | <b>25,732</b>  | <b>38,148</b>     |
| NET BOOK VALUES            |  |                                    |  |                   |
| <b>At 31 December 2004</b> | <b>56,184</b>                                  | <b>14,893</b>                      | <b>10,457</b>  | <b>81,534</b>     |
| At 31 December 2003        | 83,968   | 16,072                             | 10,601   | 110,641           |

A summary of the net book values of land and buildings held by the Group, which are all situated in the PRC, is as follows:

|                             | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|-----------------------------|------------------|------------------|
| Held under:                 |                  |                  |
| Long-term land use rights   | <b>52,674</b>    | 80,458           |
| Medium-term land use rights | <b>3,510</b>     | 3,510            |
|                             | <b>56,184</b>    | 83,968           |

## 15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

|                            | Land and<br>building held<br>in the PRC<br>under a long-term<br>land use right<br>HK\$'000 | Furniture,<br>fixtures,<br>motor vehicles<br>and computer<br>equipment<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------|--|--|-------------------|
| <b>THE COMPANY</b>         |  |  |                   |
| COST/VALUATION             |  |  |                   |
| At 1 January 2004          | 364  | 10,488   | 10,852            |
| Additions                  | –  | 617  | 617               |
| Disposals                  | –  | (387)  | (387)             |
| <b>At 31 December 2004</b> | <b>364</b>   | <b>10,718</b>  | <b>11,082</b>     |
| COMPRISING                 |  |  |                   |
| At cost                    | –  | 10,718   | 11,082            |
| At valuation – 2004        | 364  | –  | –                 |
|                            | 364  | 10,718   | 11,082            |
| DEPRECIATION               |  |  |                   |
| At 1 January 2004          | –  | 8,870  | 8,870             |
| Charged for the year       | 8  | 721  | 729               |
| Eliminated on disposals    | –  | (386)  | (386)             |
| Surplus on revaluation     | (8)  | –  | (8)               |
| <b>At 31 December 2004</b> | <b>–</b>   | <b>9,205</b>   | <b>9,205</b>      |
| NET BOOK VALUES            |  |  |                   |
| <b>At 31 December 2004</b> | <b>364</b>   | <b>1,513</b>   | <b>1,877</b>      |
| At 31 December 2003        | 364  | 1,618  | 1,982             |

The land and buildings were revalued as at 31 December 2004 on an open market value basis by Vigers Hong Kong Ltd., an independent firm of professional valuers. The resulting deficit arising on revaluation of the Group amounting to approximately HK\$25,570,000 has been dealt with as follows:

- (i) a deficit of approximately HK\$25,658,000 shared by the Group has been charged to the other property revaluation reserve and the income statement amounting to approximately HK\$5,658,000 and HK\$20,000,000, respectively; and
- (ii) a surplus of approximately HK\$88,000 has been credited to the income statement.

The resulting surplus arising on revaluation of the Company amounting to HK\$8,000 has been credited to other property revaluation reserve.

The amount of land and buildings of the Group and of the Company that would have been included in the financial statements at the balance sheet date had the assets been carried at cost less accumulated depreciation is approximately HK\$78,009,000 and HK\$177,000 (2003: HK\$78,982,000 and HK\$181,000), respectively.

## 16. PROPERTIES UNDER DEVELOPMENT

|  | THE GROUP        |                  |
|--|------------------|------------------|
|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Land situated in the PRC and held under medium-term land use rights, at cost | 345,990          | 345,990          |
| Development expenditure to date  | 492,478          | 411,085          |
|  | <b>838,468</b>   | 757,075          |

Included in properties under development is net interest capitalised of approximately HK\$246,062,000 (2003: HK\$226,485,000).

## 17. INTERESTS IN SUBSIDIARIES

|  | THE COMPANY      |                  |
|--|------------------|------------------|
|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Unlisted shares/capital contribution, at cost                    | 286,413          | 286,408          |
| Less: Impairment loss recognised                                 | (34,372)         | (34,372)         |
|  | <b>252,041</b>   | 252,036          |
| Amounts due from subsidiaries, less allowance for doubtful debts | 2,644,638        | 2,590,229        |
|  | <b>2,896,679</b> | 2,842,265        |

The amounts are unsecured and have no fixed repayment terms. The amounts are interest free at 31 December 2004 (2003: HK\$55,820,044 bore interest at prevailing market rate and the remaining balance was interest free). In the opinion of the Company's directors, the amounts due from subsidiaries will not be repayable in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current assets.

Particulars of the Company's principal subsidiaries as at 31 December 2004 are as follows:

| Name of subsidiary                     | Place of incorporation or establishment/ operations | Issued ordinary share capital/ registered capital | Proportion of nominal value of issued capital/registered capital held by the Company |            | Principal activity  |
|--|---|---|--|------------|---------------------|
|  |   |   | Directly   | Indirectly |                     |
|  |   |   | %  | %          |                     |
| Liu Chong Hing Estate Company, Limited | Hong Kong   | HK\$10,000,000                                    | 100  | –          | Investment holding  |
| Liu Chong Hing Godown Company, Limited | Hong Kong   | HK\$72,000,000                                    | 100  | –          | Property investment |

## 17. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name of subsidiary                                    | Place of incorporation or establishment/ operations | Issued ordinary share capital/ registered capital | Proportion of nominal value of issued capital/registered capital held by the Company |              | Principal activity             |
|---|---|---|--|--------------|--------------------------------|
|   |   |   | Directly %   | Indirectly % |                                |
| Liu Chong Hing Insurance Company Limited              | Hong Kong   | HK\$50,000,000                                    | 100  | –            | Insurance business             |
| Liu Chong Hing Property Management and Agency Limited | Hong Kong   | HK\$1,000,000                                     | 100  | –            | Property management and agency |
| Abaleen Enterprises Limited                           | Hong Kong   | HK\$100,000                                       | 100  | –            | Property investment            |
| Alain Limited (“Alain”)                               | Hong Kong   | HK\$9,500   | 100  | –            | Investment holding             |
| Bonsun Enterprises Limited                            | Hong Kong   | HK\$2,000,000                                     | 100  | –            | Property investment            |
| Chong Yip Finance Limited                             | Hong Kong   | HK\$1,000,000                                     | 100  | –            | Money lending                  |
| Devon Realty Limited                                  | Hong Kong   | HK\$200   | 100  | –            | Property investment            |
| Donington Company Limited                             | Hong Kong   | HK\$200   | 100  | –            | Property investment            |
| Gem Gain Enterprises Limited                          | Hong Kong   | HK\$30  | 100  | –            | Investment holding             |
| Great Earnest Limited                                 | Hong Kong   | HK\$200   | 100  | –            | Property investment            |
| Heng Kin Investment Limited                           | Hong Kong   | HK\$2   | 100  | –            | Property investment            |
| Jacot Limited   | Hong Kong   | HK\$2   | 100  | –            | Investment holding             |
| Ko Yew Company Limited                                | Hong Kong   | HK\$200   | 100  | –            | Property investment            |
| Luxpolar Limited                                      | Hong Kong   | HK\$2   | –  | 100          | Property investment            |
| Marble Kingdom Limited                                | Hong Kong   | HK\$2   | 100  | –            | Investment holding             |
| Queen Profit International Investment Limited         | Hong Kong   | HK\$61,540  | 83.75  | –            | Investment holding             |
| Speed World Investment Limited                        | Hong Kong   | HK\$100   | –  | 60           | Investment holding             |
| Top Team Limited                                      | Hong Kong   | HK\$200   | 100  | –            | Investment holding             |
| Wealth Good Investment Limited                        | Hong Kong   | HK\$2   | 100  | –            | Investment holding             |
| Yue Tung Ching Kee Company Limited                    | Hong Kong   | HK\$2,000,000                                     | 100  | –            | Property investment            |

## 17. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name of subsidiary  | Place of incorporation or establishment/ operations | Issued ordinary share capital/ registered capital | Proportion of nominal value of issued capital/registered capital held by the Company |              | Principal activity                  |
|---|---|---|--|--------------|-------------------------------------|
|   |   |   | Directly %   | Indirectly % |                                     |
| Guangzhou Chong Hing Property Development Company Limited ("Guangzhou Chong Hing")          | PRC   | RMB170,000,000                                    | –  | 60           | Property development                |
| Maanshan Gaoke Magnetic Material Company Limited ("Maanshan Gaoke")                         | PRC   | RMB41,000,000                                     | –  | 51.5         | Manufacturing of magnetic materials |
| Shanghai Huang Pu Liu Chong Hing Property Development Company Limited ("Shanghai Huang Pu") | PRC   | US\$27,000,000                                    | –  | 95           | Property development                |
| China Link Technologies Limited   | British Virgin Islands/ Hong Kong                   | US\$100   | 100  | –            | Investment holding                  |
| Determined Resources Limited  | British Virgin Islands/ Hong Kong                   | US\$1,000   | 100  | –            | Share investment                    |
| Terryglass Limited  | British Virgin Islands/ Thailand                    | US\$1,000   | 100  | –            | Investment holding                  |

Guangzhou Chong Hing is a sino-foreign cooperative enterprise while Maanshan Gaoke and Shanghai Huang Pu are sino-foreign equity joint ventures established in the PRC.

None of the subsidiaries had any debt security subsisting at 31 December 2004 or at any time during the year.

The Company's directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the above list contains only the particulars of subsidiaries which principally affect the results or net assets of the Group.

## 18. INTERESTS IN ASSOCIATES

|  | THE GROUP        |                  | THE COMPANY      |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Unlisted shares, at cost                     | –                | –                | 3                | 3                |
| Share of net assets of associates which are  |                  |                  |                  |                  |
| – listed in Hong Kong                        | 2,808,034        | 2,669,545        | –                | –                |
| – unlisted                                   | 1,853            | 3,011            | –                | –                |
| Negative goodwill (Note)                     | (8,670)          | –                | –                | –                |
|  | 2,801,217        | 2,672,556        | 3                | 3                |
| Market value of listed shares at 31 December | 2,323,734        | 2,354,804        | –                | –                |

Note:

HK\$'000

### GROSS AMOUNT

Arising on acquisition of additional interest in an associate during the year and at 31 December 2004

9,126

### AMORTISATION

Released for the year and at 31 December 2004

(456)

### CARRYING AMOUNT

At 31 December 2004

8,670

Particulars of the Group's principal associates as at 31 December 2004 are as follows:

| Name of associate                                 | Form of business structure | Place of incorporation/ operations | Class of share held | Proportion of nominal value of issued capital held by the Company |              | Principal activity  |
|---|----------------------------|------------------------------------|---------------------|---|--------------|---------------------|
|   |                            |                                    |                     | Directly %  | Indirectly % |                     |
| Liu Chong Hing Bank Limited (listed in Hong Kong) | Incorporated               | Hong Kong                          | Ordinary            | –   | 45.5         | Banking business    |
| Falconmate Limited                                | Incorporated               | Hong Kong                          | Ordinary            | 50.0  | –            | Property investment |
| Pelham Hill Limited                               | Incorporated               | Hong Kong                          | Ordinary            | 25.0  | –            | Investment holding  |

The Company's directors are of the opinion that a complete list of the particulars of all associates will be of excessive length and therefore the above list contains only the particulars of associates which principally affect the results or net assets of the Group.

**18. INTERESTS IN ASSOCIATES (CONTINUED)**

The following details have been extracted from the audited financial statements of the Group's principal associate, LCH Bank, and its subsidiaries (hereinafter collectively referred to as the "LCH Bank Group").

Consolidated results of LCH Bank Group for the year ended 31 December 2004 are as follows:

|   | <b>2004</b>      | 2003      |
|---|------------------|-----------|
|   | HK\$'000         | HK\$'000  |
| Interest income   | <b>990,813</b>   | 1,034,173 |
| Interest expense  | <b>(341,316)</b> | (363,995) |
| Net interest income   | <b>649,497</b>   | 670,178   |
| Other operating income  | <b>268,053</b>   | 213,840   |
| Operating income  | <b>917,550</b>   | 884,018   |
| Operating expenses  | <b>(462,341)</b> | (463,154) |
| Operating profit before provisions and disposal of long-term assets | <b>455,209</b>   | 420,864   |
| Charge for bad and doubtful debts                                   | <b>(51,175)</b>  | (62,803)  |
| Net losses from disposal of property and equipment                  | <b>(43)</b>      | (2,664)   |
| Net gains from disposal of other securities and an associate        | <b>3,863</b>     | 22,192    |
| Provision for impairment loss in respect of other securities        | –                | (7,809)   |
| Profit from operations  | <b>407,854</b>   | 369,780   |
| Share of results of jointly controlled entities                     | <b>11,319</b>    | (2,000)   |
| Profit from ordinary activities before taxation                     | <b>419,173</b>   | 367,780   |
| Taxation  | <b>(70,170)</b>  | (56,305)  |
| Net profit for the year   | <b>349,003</b>   | 311,475   |

LCH Bank Group has selected the alternative treatment for securities other than held-to-maturity securities upon adoption of Statement of Standard Accounting Practice No. 24 "Accounting for investments in securities" issued by the HKICPA, under which the valuation movements of non-trading securities are dealt with in equity while those of trading securities are dealt with in the income statement. This accounting policy is not consistent with the benchmark treatment adopted by the Group. No adjustment has been made to achieve a consistent policy upon the equity accounting of the results of LCH Bank Group as it is not practicable to quantify the adjustment required.



## 18. INTERESTS IN ASSOCIATES (CONTINUED)

Consolidated financial position of LCH Bank Group as at 31 December 2004:

|   | 2004<br>HK\$'000  | 2003<br>HK\$'000 |
|---|-------------------|------------------|
| <b>Assets</b>   |                   |                  |
| Cash and short-term funds                                       | <b>13,606,947</b> | 12,001,888       |
| Placements with banks and other financial institutions          |                   |                  |
| maturing between one and twelve months                          | <b>1,544,695</b>  | 1,243,771        |
| Trading securities  | <b>234,663</b>    | 220,969          |
| Advances and other accounts                                     | <b>20,246,034</b> | 20,081,543       |
| Held-to-maturity securities                                     | <b>3,388,300</b>  | 3,104,561        |
| Certificates of deposit held                                    | <b>1,309,515</b>  | 1,292,407        |
| Other securities  | <b>377,847</b>    | 319,947          |
| Interest in an associate  | –                 | 396,448          |
| Interests in jointly controlled entities                        | <b>68,875</b>     | 66,238           |
| Investment properties   | <b>69,360</b>     | 47,868           |
| Property and equipment  | <b>1,264,949</b>  | 1,165,276        |
| <b>Total assets</b>   | <b>42,111,185</b> | 39,940,916       |
| <b>Liabilities</b>  |                   |                  |
| Deposits and balances of banks and other financial institutions | <b>1,559,633</b>  | 1,035,392        |
| Deposits from customers   | <b>33,951,631</b> | 32,591,590       |
| Other accounts and provisions                                   | <b>279,129</b>    | 271,327          |
| Deferred taxation   | <b>106,179</b>    | 85,085           |
| Taxation  | <b>11,187</b>     | 13,114           |
| <b>Total liabilities</b>  | <b>35,907,759</b> | 33,996,508       |
| <b>Net assets</b>   | <b>6,203,426</b>  | 5,944,408        |

## 19. INVESTMENTS IN SECURITIES

|   | Held-to-maturity securities |                  | Investment securities |                  | Other investments |                  | Total            |                  |
|---|-----------------------------|------------------|-----------------------|------------------|-------------------|------------------|------------------|------------------|
|   | 2004<br>HK\$'000            | 2003<br>HK\$'000 | 2004<br>HK\$'000      | 2003<br>HK\$'000 | 2004<br>HK\$'000  | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| <b>THE GROUP</b>                                    |                             |                  |                       |                  |                   |                  |                  |                  |
| Equity securities:                                  |                             |                  |                       |                  |                   |                  |                  |                  |
| Listed in Hong Kong                                 | -                           | -                | -                     | -                | 72,686            | 68,817           | 72,686           | 68,817           |
| Listed overseas                                     | -                           | -                | -                     | -                | 1,181             | 3,054            | 1,181            | 3,054            |
| Unlisted  | -                           | -                | 62,309                | 80,749           | 248,168           | 230,810          | 310,477          | 311,559          |
|   | -                           | -                | 62,309                | 80,749           | 322,035           | 302,681          | 384,344          | 383,430          |
| Unlisted debt securities                            | 66,280                      | 50,700           | -                     | -                | -                 | -                | 66,280           | 50,700           |
| Total:  |                             |                  |                       |                  |                   |                  |                  |                  |
| Listed in Hong Kong                                 | -                           | -                | -                     | -                | 72,686            | 68,817           | 72,686           | 68,817           |
| Listed overseas                                     | -                           | -                | -                     | -                | 1,181             | 3,054            | 1,181            | 3,054            |
| Unlisted  | 66,280                      | 50,700           | 62,309                | 80,749           | 248,168           | 230,810          | 376,757          | 362,259          |
|   | 66,280                      | 50,700           | 62,309                | 80,749           | 322,035           | 302,681          | 450,624          | 434,130          |
| Market value of listed securities:                  |                             |                  |                       |                  |                   |                  |                  |                  |
| Listed in Hong Kong                                 | -                           | -                | -                     | -                | 72,686            | 68,817           | 72,686           | 68,817           |
| Listed overseas                                     | -                           | -                | -                     | -                | 1,181             | 3,054            | 1,181            | 3,054            |
|   | -                           | -                | -                     | -                | 73,867            | 71,871           | 73,867           | 71,871           |
| Carrying amount analysed for reporting purposes as: |                             |                  |                       |                  |                   |                  |                  |                  |
| Current   | 7,800                       | -                | -                     | -                | 3,880             | 3,438            | 11,680           | 3,438            |
| Non-current   | 58,480                      | 50,700           | 62,309                | 80,749           | 318,155           | 299,243          | 438,944          | 430,692          |
|   | 66,280                      | 50,700           | 62,309                | 80,749           | 322,035           | 302,681          | 450,624          | 434,130          |
| <b>THE COMPANY</b>                                  |                             |                  |                       |                  |                   |                  |                  |                  |
| Equity securities:                                  |                             |                  |                       |                  |                   |                  |                  |                  |
| Listed in Hong Kong                                 | -                           | -                | -                     | -                | 3,880             | 3,438            | 3,880            | 3,438            |
| Listed overseas                                     | -                           | -                | -                     | -                | 241               | 622              | 241              | 622              |
| Unlisted  | -                           | -                | 2,715                 | 1,725            | 87,060            | 74,702           | 89,775           | 76,427           |
|   | -                           | -                | 2,715                 | 1,725            | 91,181            | 78,762           | 93,896           | 80,487           |
| Unlisted debt securities                            | 66,280                      | 50,700           | -                     | -                | -                 | -                | 66,280           | 50,700           |
| Total:  |                             |                  |                       |                  |                   |                  |                  |                  |
| Listed in Hong Kong                                 | -                           | -                | -                     | -                | 3,880             | 3,438            | 3,880            | 3,438            |
| Listed overseas                                     | -                           | -                | -                     | -                | 241               | 622              | 241              | 622              |
| Unlisted  | 66,280                      | 50,700           | 2,715                 | 1,725            | 87,060            | 74,702           | 156,055          | 127,127          |
|   | 66,280                      | 50,700           | 2,715                 | 1,725            | 91,181            | 78,762           | 160,176          | 131,187          |
| Market value of listed securities:                  |                             |                  |                       |                  |                   |                  |                  |                  |
| Listed in Hong Kong                                 | -                           | -                | -                     | -                | 3,880             | 3,438            | 3,880            | 3,438            |
| Listed overseas                                     | -                           | -                | -                     | -                | 241               | 622              | 241              | 622              |
|   | -                           | -                | -                     | -                | 4,121             | 4,060            | 4,121            | 4,060            |
| Carrying amount analysed for reporting purposes as: |                             |                  |                       |                  |                   |                  |                  |                  |
| Current   | 7,800                       | -                | -                     | -                | 3,880             | 3,438            | 11,680           | 3,438            |
| Non-current   | 58,480                      | 50,700           | 2,715                 | 1,725            | 87,301            | 75,324           | 148,496          | 127,749          |
|   | 66,280                      | 50,700           | 2,715                 | 1,725            | 91,181            | 78,762           | 160,176          | 131,187          |

## 20. ADVANCES TO INVESTEE COMPANIES

The advances are unsecured and have no fixed repayment terms. Of the advances, HK\$170,047,000 (2003: HK\$159,121,000) bears interest at prevailing market interest rate and the remaining balance is interest free. In the opinion of the Company's directors, the investee companies will not fully repay the advances in the next twelve months of the balance sheet date and, accordingly, the advances have been classified as non-current assets.

## 21. LOANS RECEIVABLE

|  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------------------|------------------|
| Loans receivable   | 9,627            | 30,167           |
| Less: Amount due within one year included in trade and other receivables | (6,138)          | (3,959)          |
|  | <b>3,489</b>     | 26,208           |

The Group offers loans to third parties and buyers of properties sold by the Group and the repayment of the loans is specified in the respective loan agreements.

## 22. INVENTORIES

|                  | THE GROUP        |                  |
|------------------|------------------|------------------|
|                  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Raw materials    | 1,710            | 1,164            |
| Work in progress | 845              | 1,411            |
| Finished goods   | 5,778            | 3,093            |
|                  | <b>8,333</b>     | 5,668            |

The cost of inventories recognised as an expense during the year amounted to approximately HK\$25,458,000 (2003: HK\$24,204,000).

## 23. TRADE AND OTHER RECEIVABLES

The Group operates a controlled credit policy and allows an average credit period of 30 – 90 days to its trade customers who satisfy the credit evaluation. The aged analysis of trade receivables of HK\$70,117,000 (2003: HK\$56,962,000) which are included in trade and other receivables is as follows:

|                            | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Within 30 days             | 61,111           | 44,139           |
| Between 31 days to 90 days | 3,612            | 4,460            |
| Over 90 days               | 5,394            | 8,363            |
|                            | <b>70,117</b>    | 56,962           |

## 24. BORROWINGS

|   | THE GROUP          |                  | THE COMPANY        |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | 2004<br>HK\$'000   | 2003<br>HK\$'000 | 2004<br>HK\$'000   | 2003<br>HK\$'000 |
| Bank loans  |                    |                  |                    |                  |
| Secured   | <b>221,050</b>     | 320,000          | <b>178,000</b>     | 320,000          |
| Unsecured   | <b>1,961,000</b>   | 1,821,250        | <b>1,961,000</b>   | 1,821,250        |
| Secured loan from LCH Bank Group                                    | –                  | 98,000           | –                  | 98,000           |
| Total bank borrowings   | <b>2,182,050</b>   | 2,239,250        | <b>2,139,000</b>   | 2,239,250        |
| Amounts due to associates (note (i))                                | <b>1,211</b>       | 476,324          | <b>1,211</b>       | 2,343            |
| Amounts due to minority shareholders<br>(note (ii))                 | <b>15,946</b>      | 8,487            | –                  | –                |
|   | <b>2,199,207</b>   | 2,724,061        | <b>2,140,211</b>   | 2,241,593        |
| The maturity of borrowings is as follows:                           |                    |                  |                    |                  |
| Bank borrowings   |                    |                  |                    |                  |
| On demand or within one year  | <b>1,045,000</b>   | 772,500          | <b>1,045,000</b>   | 772,500          |
| More than one year but not<br>exceeding two years                   | <b>552,000</b>     | 1,102,750        | <b>552,000</b>     | 1,102,750        |
| More than two years but not<br>exceeding five years                 | <b>585,050</b>     | 364,000          | <b>542,000</b>     | 364,000          |
| Total bank borrowings   | <b>2,182,050</b>   | 2,239,250        | <b>2,139,000</b>   | 2,239,250        |
| Less: Amount due within one year<br>shown under current liabilities | <b>(1,045,000)</b> | (772,500)        | <b>(1,045,000)</b> | (772,500)        |
|   | <b>1,137,050</b>   | 1,466,750        | <b>1,094,000</b>   | 1,466,750        |
| Amounts due to associates (note (i))                                | <b>1,211</b>       | 476,324          | <b>1,211</b>       | 2,343            |
| Amounts due to minority shareholders<br>(note (ii))                 | <b>15,946</b>      | 8,487            | –                  | –                |
| Amounts due after one year  | <b>1,154,207</b>   | 1,951,561        | <b>1,095,211</b>   | 1,469,093        |

## Notes:

- (i) These borrowings are unsecured, bear interest at prevailing market rates and have no fixed repayment terms. The respective creditors will not demand repayment in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities.
- (ii) These borrowings are unsecured, non-interest bearing and have no fixed repayment terms. The respective creditors will not demand repayment in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities.

## 25. TRADE AND OTHER PAYABLES

At the balance sheet date, included in trade and other payables are trade payables of HK\$36,615,000 (2003: HK\$49,167,000) and the aged analysis is as follows:

|                            | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Within 30 days             | 19,375           | 34,755           |
| Between 31 days to 90 days | 2,620            | 2,741            |
| Over 90 days               | 14,620           | 11,671           |
|                            | <b>36,615</b>    | 49,167           |

## 26. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and the Company and movements thereon during the current and prior reporting periods.

|   | THE GROUP                                      |  |   |                        |                   | THE COMPANY                                    |
|---|--|--|---|------------------------|-------------------|--|
|   | Accelerated<br>tax<br>depreciation<br>HK\$'000 | Other<br>taxable<br>temporary<br>differences<br>HK\$'000 | Revaluation<br>of<br>properties<br>HK\$'000 | Tax losses<br>HK\$'000 | Total<br>HK\$'000 | Accelerated<br>tax<br>depreciation<br>HK\$'000 |
| At 1 January 2003   | 14,555   | -  | -   | -                      | 14,555            | 8,533  |
| Charge (credit) to income statement for the year            | 3,212  | 17,481   | -   | (17,481)               | 3,212             | 2,146  |
| Charge to equity for the year                               | -  | -  | 14,743                                      | -                      | 14,743            | -  |
| Effect of change in tax rate charged<br>to income statement | 1,364  | -  | -   | -                      | 1,364             | 799  |
| At 31 December 2003   | 19,131   | 17,481   | 14,743                                      | (17,481)               | 33,874            | 11,478   |
| Charge (credit) to income statement for the year            | 2,933  | 9,651  | -   | (681)                  | 11,903            | 2,232  |
| Credit to equity for the year                               | -  | -  | (14,743)                                    | -                      | (14,743)          | -  |
| At 31 December 2004   | 22,064   | 27,132   | -   | (18,162)               | 31,034            | 13,710   |

**26. DEFERRED TAXATION (CONTINUED)**

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

|                          | THE GROUP        |                  |
|--------------------------|------------------|------------------|
|                          | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Deferred tax liabilities | <b>(49,196)</b>  | (36,821)         |
| Deferred tax assets      | <b>18,162</b>    | 2,947            |
|                          | <b>(31,034)</b>  | (33,874)         |

At the balance sheet date, the Group had unused tax losses of HK\$313 million (2003: HK\$320 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$55 million (2003: HK\$53 million) of such losses. No deferred tax asset has been recognised in respect of remaining HK\$258 million (2003: HK\$267 million) due to the unpredictability of future profit streams.

**27. SHARE CAPITAL**

|                               | 2004 & 2003<br>HK\$'000 |
|-------------------------------|-------------------------|
| Ordinary shares of HK\$1 each |                         |
| Authorised:                   |                         |
| At 1 January and 31 December  | 600,000                 |
| Issued and fully paid:        |                         |
| At 1 January and 31 December  | 378,583                 |

## 28. RESERVES

|  | Investment<br>property<br>revaluation<br>reserve<br>HK\$'000 | Other<br>property<br>revaluation<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Dividend<br>reserve<br>HK\$'000 | Accumulated<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|--|--|---|--|---------------------------------|------------------------------------|-------------------|
| <b>THE COMPANY</b>   |  |   |  |                                 |                                    |                   |
| At 1 January 2003  | 296,387  | 184   | 2,955  | 22,715                          | 620,777                            | 943,018           |
| Surplus on revaluation not recognised<br>on the income statement | -  | 8   | -  | -                               | -                                  | 8                 |
| Profit for the year  | -  | -   | -  | -                               | 277,503                            | 277,503           |
| Dividend declared  | -  | -   | -  | 60,573                          | (60,573)                           | -                 |
| Dividend paid  | -  | -   | -  | (45,430)                        | -                                  | (45,430)          |
| At 31 December 2003  | 296,387  | 192   | 2,955  | 37,858                          | 837,707                            | 1,175,099         |
| Surplus on revaluation not recognised<br>on the income statement | -  | 8   | -  | -                               | -                                  | 8                 |
| Profit for the year  | -  | -   | -  | -                               | 82,547                             | 82,547            |
| Dividend declared  | -  | -   | -  | 64,359                          | (64,359)                           | -                 |
| Dividend paid  | -  | -   | -  | (64,359)                        | -                                  | (64,359)          |
| At 31 December 2004  | 296,387  | 200   | 2,955  | 37,858                          | 855,895                            | 1,193,295         |

The Company's reserves available for distribution to shareholders at 31 December 2004 amounted to HK\$893,753,000 (2003: HK\$875,565,000), being its accumulated profits and dividend reserve at that date.

## 29. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 25 April 2002, which replace the previous share option scheme, for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24 April 2012. Under the Scheme, the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company at HK\$10 per option. Additionally, the Company may, from time to time, grant share options to outside eligible third parties at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the 5th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's share on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant, or the closing price of the shares on the date of grant.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

### 30. PLEDGE OF ASSETS

#### THE GROUP

At the balance sheet date, certain investment properties of the Group with an aggregate carrying amount of HK\$1,109,000,000 (2003: HK\$1,087,000,000) were pledged to banks to secure general banking facilities granted to the Group.

#### THE COMPANY

At the balance sheet date, the investment properties of the Company with an aggregate carrying amount of HK\$680,000,000 (2003: HK\$680,000,000) were pledged to banks to secure general banking facilities made available to the Company. In addition, the Company also pledged the shares of a subsidiary in favour of a bank against facilities granted to that subsidiary.

### 31. CAPITAL COMMITMENTS

|   | THE GROUP        |                  | THE COMPANY      |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Capital expenditure in respect of property development expenditure contracted for but not provided in the financial statements                        | <b>582,566</b>   | 592,605          | –                | –                |
| Capital expenditure in respect of the contributions to the capital of an investee company contracted for but not provided in the financial statements | <b>20,147</b>    | 47,982           | <b>20,147</b>    | 47,982           |
|   | <b>602,713</b>   | 640,587          | <b>20,147</b>    | 47,982           |



## 32. OPERATING LEASE COMMITMENTS

### THE GROUP AS LESSEE

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

|                                       | THE GROUP        |                  | THE COMPANY      |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Within one year                       | 192              | 80               | 192              | 80               |
| In the second to fifth year inclusive | 80               | –                | 80               | –                |
|                                       | <b>272</b>       | 80               | <b>272</b>       | 80               |

Operating lease payments represent rentals for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed throughout the leases period.

### THE GROUP AS LESSOR

Property rental income earned by the Group during the year amounted to approximately HK\$102 million (2003: HK\$112 million). Most of the properties held have committed tenants for the next one to five years.

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

|                                       | THE GROUP        |                  | THE COMPANY      |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Within one year                       | 73,354           | 81,051           | 14,324           | 15,774           |
| In the second to fifth year inclusive | 45,521           | 81,920           | 9,400            | 14,119           |
|                                       | <b>118,875</b>   | 162,971          | <b>23,724</b>    | 29,893           |

## 33. RETIREMENT BENEFITS SCHEME

The Group operates an ORSO Scheme for the qualifying employees of certain companies in the Group and in December 2000, enrolled all other eligible employees into the MPF Scheme. The ORSO Scheme is registered under the Occupational Retirement Scheme Ordinance. The assets of both schemes are held separately from those of the Group, in funds under the control of trustees.

The contributions payable to the fund by the Group are charged to income statement at rates specified in the rules of the ORSO Scheme. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. At the balance sheet date, there was no forfeited contributions (2003: Nil) arising upon employees leaving the ORSO Scheme which are available to reduce the contributions payable in the future years.

The retirement benefits cost for the MPF charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

**34. RELATED PARTY DISCLOSURES**

During the year, the Group entered into the following significant transactions with related parties:

|   | <b>2004</b><br>HK\$'000 | 2003<br>HK\$'000 |
|---|-------------------------|------------------|
| Income receivable from an associate     |                         |                  |
| Rental income                           | <b>7,728</b>            | 8,225            |
| Management and other service fee income | <b>4,071</b>            | 4,153            |
| Interest income                         | <b>53</b>               | 1,052            |
|   | <b>11,852</b>           | 13,430           |
| Expenses payable to an associate        |                         |                  |
| Interest expenses                       | <b>322</b>              | 16,913           |
| Rental expenses                         | <b>1,334</b>            | 2,224            |
|   | <b>1,656</b>            | 19,137           |

The prices of the above transactions were determined by the directors with reference to market prices or prices for similar transactions with unrelated third parties.

Also, pursuant to a sale and purchase agreement entered into between the Company and LCH Bank on 16 March 2004, the Company acquired from LCH Bank approximately 47.37% of the issued share capital of Alain, which was held as to approximately 52.63% by the Company and 47.37% by LCH Bank and a shareholder's loan of approximately HK\$130 million advanced by LCH Bank to Alain together with interest accrued thereon, at a consideration of HK\$132 million. Details of this acquisition are set out in the Company's announcement dated 16 March 2004.

In addition, at 31 December 2004, the Group had outstanding balances with related parties, details of which are set out in the balance sheets and note 24.

Furthermore, at 31 December 2004, certain investment properties of the Group with an aggregate net book value of HK\$429 million (2003: HK\$407 million) have been pledged to LCH Bank Group to secure banking facilities granted to the Group.

**35. POST BALANCE SHEET EVENT**

On 3 March 2005, the Company and LCH Bank entered into a conditional sale and purchase agreement pursuant to which LCH Bank agreed to acquire from the Company the entire issued share capital of LCH Insurance for a total consideration of HK\$212 million. Upon completion, LCH Insurance will become a wholly-owned subsidiary of LCH Bank.