

Notes to Financial Statements

1. Principal activities

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

2. Significant accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and modified by (i) the revaluation of investment properties and listed investments at market value and (ii) the revaluation of unlisted investments at fair value.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("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 already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

An associate, Silverlink Holdings Limited, has changed its accounting policy in respect of depreciation of hotel properties. Details of the change are shown on page 45. The change in accounting policy has resulted in prior year adjustment. Accordingly, the Group's opening retained profit and property revaluation reserve as at 1 January 2004 have been decreased by HK\$3,322,000 and increased by the same amount respectively.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal respectively. All material inter-company transactions and balances are eliminated on consolidation.

(c) Goodwill/Negative goodwill

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

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

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

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

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

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

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

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

(d) Subsidiaries

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

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

(e) Associates

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

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

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

(f) Listed and unlisted investments

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

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(f) Listed and unlisted investments (Cont'd)

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

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

(g) Inventories

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

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

(h) Fixed assets

Investment properties

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

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(h) Fixed assets (Cont'd)

Other properties

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

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

Other fixed assets

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

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

(i) Impairment of assets

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

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

(j) Revenue recognition

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

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

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

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

(k) Taxation

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

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

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(k) Taxation (Cont'd)

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered.

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

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

(l) Operating leases

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

(m) Retirement costs

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

(n) Foreign currencies

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

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

Notes to Financial Statements (Cont'd)

2. Significant accounting policies (Cont'd)

(o) Segment reporting

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

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

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

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

(p) Related parties

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

(q) Cash and cash equivalents

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

3. Turnover

Analysis of the Group's turnover is as follows:

	2004 HK\$'000	2003 HK\$'000
Revenue from sales of listed investments	228,768	327,959
Revenue from sales of unlisted investments	—	4,595
Dividends from listed investments	7,905	7,504
Dividends from unlisted investments	3,120	2,328
Interest income –		
Debt securities	11,734	5,428
Others	1,651	2,608
Rental income	2,145	2,996
	<u>255,323</u>	<u>353,418</u>

Notes to Financial Statements (Cont'd)

4. Segment reporting

(a) Business segments

The Group comprises the following business segments:

Share investment and dealing — investment in listed and unlisted securities, purchases and sales of long-term and short-term listed securities

Other operation — property investment

	Share investment and dealing		Other operation		Elimination		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)
Segment Revenue								
Turnover	253,178	351,003	2,145	2,996	—	(581)	255,323	353,418
Other revenue and income	2,111	8,732	4,315	—	(2,658)	—	3,768	8,732
Total revenue	<u>255,289</u>	<u>359,735</u>	<u>6,460</u>	<u>2,996</u>	<u>(2,658)</u>	<u>(581)</u>	<u>259,091</u>	<u>362,150</u>
Segment results	<u>153,286</u>	<u>179,375</u>	<u>6,383</u>	<u>5,619</u>	<u>(2,658)</u>	<u>(3,400)</u>	157,011	181,594
Finance costs							(4,522)	(11,626)
Share of results of associates							(17,891)	(48,100)
Profit before taxation							134,598	121,868
Taxation							(9,945)	(6,936)
Profit before minority interests							124,653	114,932
Minority interests							1,288	2,077
Profit attributable to shareholders							<u>125,941</u>	<u>117,009</u>
Segment assets	788,688	932,909	24,000	39,437	—	(24,186)	812,688	948,160
Interests in associates							526,124	537,628
Unallocated assets							766	766
Total assets							<u>1,339,578</u>	<u>1,486,554</u>
Segment liabilities	1,710	12,639	411	24,556	—	(24,186)	2,121	13,009
Unallocated liabilities							232,212	174,130
Minority interests							53,986	53,597
							<u>288,319</u>	<u>240,736</u>
Other segment information								
Capital expenditure	802	776	—	—	—	—	802	776
Depreciation	378	222	—	—	—	—	378	222
Provision for impairment in value of long-term investments	1,091	13,353	—	—	—	—	1,091	13,353
Unrealised loss on unconsolidated subsidiaries	—	20,203	—	—	—	—	—	20,203

Notes to Financial Statements (Cont'd)

4. Segment reporting (Cont'd)

(b) Geographical segments

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

5. Operating profit before finance costs

	2004 HK\$'000	2003 HK\$'000
Operating profit before finance costs is stated after (crediting) charging:		
Gross rental income from investment properties	(2,145)	(2,996)
Outgoings	<u>25</u>	<u>135</u>
	(2,120)	(2,861)
Auditors' remuneration	508	616
Staff costs	2,075	2,398
Depreciation	378	222
Bad debts	753	—
Loss on dissolution of subsidiary	39	—
Rental of properties under operating leases	—	52
Fixed assets written off	—	39
Unrealised gain on listed investments held for trading purpose	(1,078)	(6,764)
Surplus on disposals of fixed assets	(1,682)	—

6. Directors' remuneration

	2004 HK\$'000	2003 HK\$'000
Fee		
Independent Non-executive Directors	200	60
Other Directors	320	97
Other emoluments (Executive Directors)		
Salaries and allowances	4,642	4,291
Contributions to retirement scheme	<u>163</u>	<u>146</u>
	<u>5,325</u>	<u>4,594</u>
	2004	2003
	Number of Directors	Number of Directors
HK\$ Nil — HK\$1,000,000	7	7
HK\$4,000,001 — HK\$4,500,000	<u>1</u>	<u>1</u>
	<u>8</u>	<u>8</u>

There was no arrangement under which a Director had waived or agreed to waive any remuneration. Pursuant to an Annual Bonus Scheme approved by the Board, Mr. Tan Boon Seng was eligible to an annual cash bonus determinable under the terms of that Scheme. No such cash bonus was provided for the year (2003: nil).

Notes to Financial Statements (Cont'd)

7. Five highest-paid employees

During the year, the five highest-paid employees in the Group included two (2003: two) Directors, details of whose emoluments are included in the disclosure of Directors' remuneration. The details of the remaining three (2003: three) highest-paid non-director employees are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other emoluments	1,060	1,060
Contributions to retirement scheme	53	53
	<u>1,113</u>	<u>1,113</u>

The emoluments of each of the non-director employees were below HK\$1,000,000 for 2004 and 2003.

8. Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	2,533	10,957
Interest on Notes payables (wholly repayable within 5 years)	2,205	–
Loan facility arrangement fees	32	936
	<u>4,770</u>	<u>11,893</u>

9. Net gain on disposals of long-term investments

	2004 HK\$'000	2003 HK\$'000
Profit on disposals of long-term investments	47,155	30,131
Amount transferred from long-term investment revaluation reserve	79,736	120,628
	<u>126,891</u>	<u>150,759</u>

10. Taxation

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

	2004 HK\$'000	2003 HK\$'000
Current tax		
Company and subsidiaries		
Overseas taxation	1,411	2,095
Share of associates' taxation	8,534	4,841
	<u>9,945</u>	<u>6,936</u>

Notes to Financial Statements (Cont'd)

10. Taxation (Cont'd)

No Hong Kong profits tax has been provided for the Company and its subsidiaries for the 2004/05 year of assessment (2003/04: no provision) as no assessable profits was earned during the year.

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

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

	2004 HK\$'000	2003 HK\$'000 (Restated)
Profit before taxation	134,598	121,868
Tax at the domestic tax rate of 17.5%	23,555	21,327
Tax effect of net income that is not taxable in determining taxable profit	(25,194)	(22,367)
Tax effect of unrecognised tax losses in the year	1,639	1,040
Overseas withholding tax	1,411	2,095
Share of associates' taxation	8,534	4,841
Total tax expenses	<u>9,945</u>	<u>6,936</u>

- (c) Deferred tax assets and liabilities recognised

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
<u>Group</u>			
At 1.1.2003	153	(153)	—
Charge (credit) to profit and loss account for the year	82	(82)	—
Effect of change in tax rate	14	(14)	—
At 31.12.2003	249	(249)	—
(Credit) charge to profit and loss account for the year	(123)	123	—
At 31.12.2004	<u>126</u>	<u>(126)</u>	<u>—</u>

Notes to Financial Statements (Cont'd)

10. Taxation (Cont'd)

(d) At the balance sheet date, the Group had unused tax losses of HK\$43,567,000 (2003: HK\$35,032,000) available for set off against future taxable profit. A deferred tax asset has been recognised in respect of HK\$718,000 (2003: HK\$1,423,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$42,849,000 (2003: HK\$33,609,000) due to unpredictability of future taxable profit streams. The tax losses do not expire under current tax legislation.

11. Profit attributable to shareholders

The profit attributable to shareholders includes an amount of HK\$167,800,000 (2003: HK\$117,909,000) which has been dealt with in the financial statements of the Company.

12. Dividends

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid – 1 cent per share (2003: nil)	2,109	—
Final dividend proposed – 1 cent per share (2003: 1 cent per share)	2,133	2,133
	<u>4,242</u>	<u>2,133</u>

13. Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of HK\$125,941,000 (2003: HK\$117,009,000 (restated)) and the weighted average of 217,797,516 (2003: 338,765,471) shares of HK\$1 each in issue during the year.

Notes to Financial Statements (Cont'd)

14. Fixed assets

<u>Group</u>	Land and buildings in Hong Kong — long lease	Investment properties in Hong Kong — long lease	Equipment and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation				
At professional valuation	—	39,400	—	39,400
At cost	16,784	—	1,858	18,642
At 31.12.2003	16,784	39,400	1,858	58,042
Additions	—	—	802	802
Disposals	—	(19,400)	(938)	(20,338)
Revaluation surplus	—	4,000	—	4,000
At 31.12.2004	16,784	24,000	1,722	42,506
Accumulated depreciation				
At 31.12.2003	250	—	1,130	1,380
Provision	125	—	253	378
Write back	—	—	(938)	(938)
At 31.12.2004	375	—	445	820
Net book amount				
At 31.12.2004	16,409	24,000	1,277	41,686
At 31.12.2003	16,534	39,400	728	56,662

Cost or valuation of properties at 31 December 2004 was made up as follows:

<u>Group</u>	Land and buildings in Hong Kong — long lease	Investment properties in Hong Kong — long lease	Total
	HK\$'000	HK\$'000	HK\$'000
At cost	16,784	—	16,784
At 2004 professional valuation	—	24,000	24,000
	16,784	24,000	40,784

The investment properties in Hong Kong were revalued as at 31 December 2004, on an open market value basis, by DTZ Debenham Tie Leung Limited, independent professional valuers. The investment properties were held for use in operating leases.

Notes to Financial Statements (Cont'd)

15. Goodwill

	Group	
	2004 HK\$'000	2003 HK\$'000
Goodwill carried in reserves		
At cost		
At the beginning of year	61	61
Released on dissolution	(39)	—
At the end of year	<u>22</u>	<u>61</u>

16. Interests in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	20,700	25,320
Less: Impairment loss	(16,043)	(16,043)
	4,657	9,277
Amounts due from subsidiaries	1,924,921	1,869,091
Less: Provision	(872,075)	(930,670)
	<u>1,057,503</u>	<u>947,698</u>

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

Details of the subsidiaries are as follows:

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

Notes to Financial Statements (Cont'd)

17. Interests in associates

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments		
Share of net assets	263,139	268,555
Less: Impairment loss	(17,030)	(17,030)
	<u>246,109</u>	<u>251,525</u>
Subordinated loan to an associate	131,031	131,031
Amounts due from associates	153,810	159,918
Less: Provision	(2,603)	(2,603)
	<u>528,347</u>	<u>539,871</u>
Amount due to an associate	(2,223)	(2,243)
	<u>526,124</u>	<u>537,628</u>
	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments		
Shares, at cost	394	394
Less: Impairment loss	(394)	(394)
	<u>—</u>	<u>—</u>
Amounts due from associates	150,961	157,069
Less: Provision	(3,245)	(5,923)
	<u>147,716</u>	<u>151,146</u>

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

Details of the associates are as follows:

Unlisted companies	Principal activities	Place of incorporation/ operation	Issued and paid up ordinary share capital/ registered capital	Percentage of equity interest held	
				by the Company	by the Group
Bo Tat Tak Enterprises Limited	Property development and investment	Hong Kong	47,000 ordinary shares of HK\$100	—	50
Cheer Star Development Limited*	Hotel operation	Hong Kong	10,000 ordinary shares of HK\$1	—	28
Double Golden Sdn. Bhd.*	General investment	Malaysia	RM2	—	50
Ichiban Properties Limited*	Investment holding	British Virgin Islands	2 shares of US\$1	50	50
Infinity Goal Limited*	Property development	Hong Kong	10,000 ordinary shares of HK\$1	—	35
Key Finance Limited*	Investment holding	British Virgin Islands	81,591,755 'A' shares of HK\$0.01 and 81,591,755 'B' shares of HK\$0.01	—	100
Parkway M & A Capital Corporation*	Investment holding	British Virgin Islands	4,500,000 shares of US\$1	—	39
Phil Inc.*	Dormant	U.S.A.	100,000 common shares of US\$1	20	20
Start Hold Limited*	Investment holding	Hong Kong	6 ordinary shares of HK\$1	—	33
Silverlink Holdings Limited*	Investment holding	British Virgin Islands	10,720,913 ordinary shares of US\$1	—	57

* Companies not audited by H. C. Watt & Company Limited.

Notes to Financial Statements (Cont'd)

17. Interests in associates (Cont'd)

As the Group does not have control of the board of directors of Silverlink Holdings Limited, the Group's investment in Silverlink Holdings Limited is accounted for as an associate.

To provide shareholders with information on the results and financial positions of the Company's significant associate, Silverlink Holdings Limited, a summary of its unaudited consolidated financial statements for the year ended 31 December 2004 is set out on pages 43 to 45.

18. Long-term investments

	2004	Group	2003
	HK\$'000	2004	HK\$'000
(a) Unlisted investments			
Shares, at cost	97,539		96,521
Less: Provision for impairment in value	(75,787)		(71,964)
Change in fair value transferred to long-term investment revaluation reserve	65		—
Fair value	21,817		24,557
Amount due to investee company	(348)		(350)
	21,469		24,207
Debt securities, at fair value	234,000		234,000
	255,469		258,207

Amount due to investee company was unsecured, non-interest bearing and with no fixed term of repayment.

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

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

The participation rights include but not limited to the right to interests payable on the US\$79.5 million Note at the rate of 5% per annum payable quarterly and Silverlink Shares upon conversion of the principal amount outstanding at the time of conversion. As a participant, the Group only participates in the rights upon the exercise of such rights by the Noteholder and cannot exercise any of the rights under the US\$79.5 million Note independently. The Group will receive payments due under the US\$79.5 million Note or Silverlink Shares through the Noteholder, instead of from Silverlink directly. As at 31 December 2004, interest receivable in arrears amounted to HK\$8,775,000.

Notes to Financial Statements (Cont'd)

18. Long-term investments (Cont'd)

	2004 HK\$'000	2003 HK\$'000
(b) Listed investments		
Listed shares, at cost —		
Hong Kong	143,974	377,514
Overseas	251,987	319,096
	<u>395,961</u>	<u>696,610</u>
Less: Provision for impairment in value	(133,074)	(371,316)
Change in fair value transferred to long-term investment revaluation reserve	77,485	132,224
	<u>340,372</u>	<u>457,518</u>
Market value	<u>340,372</u>	<u>457,518</u>
	2004 HK\$'000	2003 HK\$'000
Total of (a) and (b)	<u>595,841</u>	<u>715,725</u>

19. Inventories

	2004 HK\$'000	Group	2003 HK\$'000
Unsold properties	<u>766</u>	<u> </u>	<u>766</u>

Unsold properties of HK\$766,000 (2003: HK\$766,000) were carried at cost. Full provision of HK\$12,736,000 (2003: \$12,736,000) has been made for certain unsold properties.

20. Listed investments and other asset

	2004 HK\$'000	Group	2003 HK\$'000
(a) Listed investments			
Listed shares, at cost —			
Overseas	2,661		2,661
Unrealised gain	13,498		12,420
	<u>16,159</u>		<u>15,081</u>
Market value	<u>16,159</u>		<u>15,081</u>
(b) Other asset			
Club debenture, at cost	295		295
	<u>295</u>		<u>295</u>
	<u>16,454</u>		<u>15,376</u>

Notes to Financial Statements (Cont'd)

21. Debtors, deposits and prepayments

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade debtors				
Below 30 days	*3,884	3,109	—	—
31 to 60 days	—	114	—	—
61 to 90 days	—	117	—	—
91 to 365 days	*5,850	991	—	—
Over 365 days	—	14,241	—	—
Other debtors, deposits and prepayments	165	888	—	698
	<u>9,899</u>	<u>19,460</u>	<u>—</u>	<u>698</u>

* Trade debtors included interest receivable of HK\$8,775,000 from debt securities as mentioned in note 18(a).

22. Creditors, deposits and accruals

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade creditors	—	—	—	—
Other creditors, deposits and accruals	5,091	4,682	3,275	1,965
	<u>5,091</u>	<u>4,682</u>	<u>3,275</u>	<u>1,965</u>

23. Notes payable

	Group and Company	
	2004 HK\$'000	2003 HK\$'000
Notes payable	228,606	—
Amount payable within one year classified under current liabilities	(28,576)	—
	<u>200,030</u>	<u>—</u>
Repayment period		
Within one year	28,576	—
One to two years	28,576	—
Two to five years	171,454	—
	<u>228,606</u>	<u>—</u>

In January 2004, the Company issued three Notes for aggregate principal amount of HK\$228,606,000 in respect of off-market repurchase of 125,332,186 of its own shares as announced in an announcement made by the Company dated 19 November 2003. Notes are unsecured, interest-bearing at 1% per annum and repayable as above with the extension period. The extension period shall be not more than 12 months from January 2007 for the outstanding principal amount of HK\$142,879,000 with interest rate of 3% per annum.

Notes to Financial Statements (Cont'd)

24. Share capital

	2004 HK\$'000	2003 HK\$'000
Authorised		
Ordinary shares of HK\$1 each	<u>410,000</u>	<u>410,000</u>
Issued and fully paid		
Ordinary shares of HK\$1 each		
Balance at beginning of year	338,765	338,765
Repurchase of shares	(125,429)	—
Balance at end of year	<u>213,336</u>	<u>338,765</u>

During the year, the Company has repurchased a total of 97,000 of its own shares on The Stock Exchange of Hong Kong Limited and 125,332,186 shares off-market as announced in an announcement made by the Company dated 19 November 2003. The particular of the repurchases are as follows:

Month of repurchases	Number of shares	Price per share paid HK\$	Aggregate consideration paid HK\$
2004			
January	125,332,186	2.28	285,757,384
February	97,000	2.075	201,275
	<u>125,429,186</u>		<u>285,958,659</u>

The above-mentioned shares were cancelled upon repurchases and, accordingly, the issued share capital of the Company was diminished by the nominal value of these shares. The premium and brokerage expenses paid on repurchases were charged against retained profit and an amount equivalent to the nominal value of the shares cancelled was transferred from retained profit to the capital redemption reserve as shown in note 25.

25. Reserves

Company

	Capital redemption reserve	Share premium	Capital reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1.1.2003	9,452	316,006	53,585	262,048	641,091
Profit for the year	—	—	—	117,909	117,909
Dividend	—	—	—	(2,133)	(2,133)
At 31.12.2003	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>377,824</u>	<u>756,867</u>
At 1.1.2004	9,452	316,006	53,585	377,824	756,867
Profit for the year	—	—	—	167,800	167,800
Dividends	—	—	—	(4,242)	(4,242)
Premium and brokerage expenses paid on share repurchases	—	—	—	(162,284)	(162,284)
Transfer to capital redemption reserve upon share repurchases	125,429	—	—	(125,429)	—
At 31.12.2004	<u>134,881</u>	<u>316,006</u>	<u>53,585</u>	<u>253,669</u>	<u>758,141</u>

Notes to Financial Statements (Cont'd)

25. Reserves (Cont'd)

Group

	Capital redemption reserve	Share premium	Capital reserve	Investment property revaluation reserve	Property revaluation reserve	Long-term investment revaluation reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000 (Restated)	HK\$'000 (Restated)
At 1.1.2003	9,452	316,006	53,585	12,725	—	220,621	259,051	871,440
Realised on disposals of long-term listed investments	—	—	—	—	—	(119,373)	—	(119,373)
Realised on disposals of long-term unlisted investments	—	—	—	—	—	(1,255)	—	(1,255)
Revaluation surplus	—	—	—	4,400	—	18,157	—	22,557
Share of associate's reserve	—	—	—	—	3,322	—	—	3,322
Transfer to profit and loss account upon impairment in value of long-term investments	—	—	—	—	—	13,353	—	13,353
Profit for the year	—	—	—	—	—	—	117,009	117,009
Dividend	—	—	—	—	—	—	(2,133)	(2,133)
At 31.12.2003	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>17,125</u>	<u>3,322</u>	<u>131,503</u>	<u>373,927</u>	<u>904,920</u>
Retained by:								
Company and subsidiaries	9,452	316,006	53,585	17,125	—	132,224	504,082	1,032,474
Associates	—	—	—	—	3,322	(721)	(130,155)	(127,554)
	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>17,125</u>	<u>3,322</u>	<u>131,503</u>	<u>373,927</u>	<u>904,920</u>
At 1.1.2004								
As previously reported	9,452	316,006	53,585	17,125	—	131,503	377,249	904,920
Prior year adjustment (note 2(a))	—	—	—	—	3,322	—	(3,322)	—
As restated	<u>9,452</u>	<u>316,006</u>	<u>53,585</u>	<u>17,125</u>	<u>3,322</u>	<u>131,503</u>	<u>373,927</u>	<u>904,920</u>
Realised on disposals of long-term listed investments	—	—	—	—	—	(79,736)	—	(79,736)
Realised on disposal of property	—	—	—	2,659	—	—	—	2,659
Release of goodwill	—	—	—	—	—	—	39	39
Revaluation surplus	—	—	—	4,000	—	23,971	—	27,971
Transfer to profit and loss account upon impairment in value of long-term investments	—	—	—	—	—	1,091	—	1,091
Share of associates' reserves	—	—	—	—	18,710	721	—	19,431
Profit for the year	—	—	—	—	—	—	125,941	125,941
Dividends	—	—	—	—	—	—	(4,242)	(4,242)
Premium and brokerage expenses paid on share repurchases	—	—	—	—	—	—	(162,284)	(162,284)
Transfer to capital redemption reserve upon share repurchases	125,429	—	—	—	—	—	(125,429)	—
At 31.12.2004	<u>134,881</u>	<u>316,006</u>	<u>53,585</u>	<u>23,784</u>	<u>22,032</u>	<u>77,550</u>	<u>207,952</u>	<u>835,790</u>
Retained by:								
Company and subsidiaries	134,881	316,006	53,585	23,784	—	77,550	359,890	965,696
Associates	—	—	—	—	22,032	—	(151,938)	(129,906)
	<u>134,881</u>	<u>316,006</u>	<u>53,585</u>	<u>23,784</u>	<u>22,032</u>	<u>77,550</u>	<u>207,952</u>	<u>835,790</u>

Notes to Financial Statements (Cont'd)

26. Reserves available for distribution to shareholders

At balance sheet date, the reserves of the Company available for distribution to shareholders, as calculated under the provisions of Section 79B of the Companies Ordinance, amounted to HK\$255,802,000 (2003: HK\$379,957,000), without taking into account of proposed final dividend for the year.

27. Notes to consolidated cash flow statement

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

	2004 HK\$'000	2003 HK\$'000 (Restated)
Cash flows from operating activities		
Profit before taxation	134,598	121,868
Adjustments for:		
Depreciation	378	222
Bad debts	753	—
Loss on dissolution of subsidiary	39	—
Share of results of associates	17,891	48,100
Net gain on disposals of long-term investments	(126,891)	(150,759)
Unrealised loss on unconsolidated subsidiaries	—	20,203
Profit arising from repurchase of shares in unconsolidated subsidiary	—	(3,349)
Surplus on disposals of fixed assets	(1,682)	—
Fixed assets written off	—	39
Write back of provision for impairment in value of long-term investments	(14,039)	(44,105)
Amount transferred from long-term investment revaluation reserve on impairment in value of long-term investments	1,091	13,353
Unrealised gain on listed investments held for trading purpose	(1,078)	(6,764)
Interest expenses	4,738	10,957
Interest income	(13,385)	(8,036)
Dividend income	(11,025)	(9,832)
Operating loss before working capital changes	(8,612)	(8,103)
Decrease (increase) in debtors, deposits and prepayments	13,033	(308)
(Decrease) increase in creditors, deposits and accruals	(659)	643
Cash from (used in) operations	3,762	(7,768)
Dividend received from associate	100	2,350
Dividends received	11,025	9,832
Interest received	10,091	3,705
Interest paid	(3,670)	(49,957)
Overseas tax paid	(1,411)	(2,095)
Net cash from (used in) operating activities	<u>19,897</u>	<u>(43,933)</u>

Notes to Financial Statements (Cont'd)

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

(b) Non-cash transactions

In January 2004, the Company repurchased 125,332,186 of its own shares off-market as announced on 19 November 2003. The consideration was HK\$285,757,000 and was satisfied by way of a cash payment of HK\$57,151,000 and the issue of three Notes for aggregate principal amount of HK\$228,606,000.

28. Pledge of assets

The Group pledged properties of HK\$16,409,000 (2003: HK\$35,934,000) together with certain listed shares, with a total net book value of HK\$138,000,000 (2003: HK\$787,000,000) as security for banking facilities extended to the Group in the sum of HK\$119,200,000 (2003: HK\$523,200,000). The facilities were not utilised at the balance sheet date (2003: HK\$181,821,000).

The Group pledged the shares in an associate as part of the security for bank loan granted to the associate. The Group has also subordinated and assigned its loan to the associate of HK\$131,031,000 (2003: HK\$131,031,000) to the bank as security.

29. Related party transactions

(a) In January 2004, the Company repurchased 125,332,186 of its own shares at HK\$2.28 per share from Parkway Holdings Limited, a substantial shareholder of the Company.

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

30. Retirement scheme

All the employees of the Group are members of the Mandatory Provident Fund Scheme. Under the Mandatory Provident Fund Scheme, the Group and its employees each made contributions to the scheme calculated at 5% of the employees' relevant income on a monthly basis. The amount of contributions charged to the profit and loss account for the year was HK\$262,000 (2003: HK\$260,000).

31. Future minimum rental payments receivable

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

	2004	Group	2003
	HK\$'000	_____	HK\$'000
Within one year	2,203		2,050
Between two and five years	1,440		3,441
	<u>3,643</u>		<u>5,491</u>

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

Notes to Financial Statements (Cont'd)

32. Contingent liabilities

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees for credit facilities granted to —				
subsidiaries	—	—	89,200	479,200
an associate	41,250	41,250	41,250	41,250
	<u>41,250</u>	<u>41,250</u>	<u>130,450</u>	<u>520,450</u>

33. Comparative figures

Comparative figures have been restated or reclassified as a result of change in accounting policy of an associate or to conform with current year's presentation.

34. Approval of financial statements

The financial statements were approved by the Board of Directors on 27 April 2005.