

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. Its subsidiaries, associates and a jointly controlled entity are principally engaged in investment holding, property investment and development, fund management, underwriting, corporate finance, securities broking, securities investment, treasury investment, money lending, banking and other related financial services.

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

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, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

3. SUMMARY OF 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 ("SSAPs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain securities investments as further explained below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st December, 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

(c) Subsidiaries

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

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

(d) Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as :

- (i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20 per cent. of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Group holds, directly or indirectly, less than 20 per cent. of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(e) Jointly controlled entity**

A jointly controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

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

(f) Associates

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

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

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

(g) Goodwill

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

Goodwill arising from acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not exceeding 20 years. Goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses which may be present. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

(g) Goodwill *(Continued)*

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

(h) Negative goodwill

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

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

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

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

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

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

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

(j) Fixed assets and depreciation

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

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

(j) Fixed assets and depreciation *(Continued)*

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

Land and buildings	1%
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 33 $\frac{1}{3}$ %
Motor vehicles	20% to 25%

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

(k) Investment properties

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

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

(l) Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis. Other properties under development are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(m) Investment securities**

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

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

(n) Other investments in securities

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

(o) Property held for sale

Property held for sale is stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis.

(p) Revenue recognition

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

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged;
- (iii) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable;

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

(p) Revenue recognition *(Continued)*

- (iv) dividend income, when the shareholders' right to receive payment has been established; and
- (v) commission income is accounted for, in the period when receivable, unless it is charged to cover the costs of a continuing service to, or risk borne for, customers, or is interest income in nature. In this case, commission income is recognised on a pro rata basis over the relevant period.

(q) Income tax

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

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

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

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

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

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

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

(r) Provisions

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

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

(s) Employee benefits*Paid leave entitlement*

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

Retirement benefits costs

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

(t) Operating leases

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

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

(u) Foreign currencies

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

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

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

(v) Cash and cash equivalents

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

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

(w) Related parties

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

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

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

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

(y) Accounting for banking operation

Banking operation represent operation carried out through The Macau Chinese Bank Limited ("MCB"). The principal accounting policies which are specific to the banking operation are described below:

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

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

All advances are recognised when cash is advanced to borrowers.

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

(ii) Finance leases and hire purchase contracts

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

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

(y) Accounting for banking operation *(Continued)*

(iii) *Off-balance sheet financial instruments*

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

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

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

4. SEGMENT INFORMATION

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

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

- (a) the property investment and development segment includes letting and development of properties;
- (b) the treasury investment segment includes investments in cash and bond markets;
- (c) the securities investment segment includes dealings in securities and disposal of investments;
- (d) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;

4. SEGMENT INFORMATION *(Continued)*

- (e) the banking business segment engages in the provision of commercial and retail banking services;
- (f) the information technology segment engages in the development of computer hardware and software; and
- (g) the “other” segment comprises principally money lending and fund management services.

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

Group

2004	Property investment and development HK\$'000	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Information technology HK\$'000	Inter-segment Other HK\$'000	elimination HK\$'000	Consolidated HK\$'000
Revenue									
External	2,056	12,988	1,073,582	65,045	16,198	900	7,143	-	1,177,912
Inter-segment	-	906	-	1,453	-	-	-	(2,359)	-
Total	2,056	13,894	1,073,582	66,498	16,198	900	7,143	(2,359)	1,177,912
Segment results	(2,486)	12,327	(5,263)	4,077	3,972	(10,817)	(2,225)	-	(415)
Unallocated corporate expenses									(55,967)
Share of results of associates	-	-	-	-	-	(2,379)	(2,930)	-	(5,309)
Loss before tax									(61,691)
Tax									(4,743)
Loss before minority interests									(66,434)
Minority interests									1,477
Net loss from ordinary activities attributable to shareholders									(64,957)

4. SEGMENT INFORMATION (Continued)

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

Group

2004	Property investment and development HK\$'000	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Information technology HK\$'000	Inter-segment Other HK\$'000	elimination HK\$'000	Consolidated HK\$'000
Segment assets	226,930	721,008	1,507,047	721,143	232,696	3,567	20,394	-	3,432,785
Interests in associates	-	-	-	1,334	-	-	25,832	-	27,166
Interests in a jointly controlled entity	7,313	-	-	-	-	-	-	-	7,313
Unallocated assets									20,330
Total assets									3,487,594
Segment liabilities	2,672	-	110,250	622,890	-	22	2,805	-	738,639
Unallocated liabilities									12,417
Total liabilities									751,056
Other segment information:									
Capital expenditure	4,948	-	-	781	-	101	1,012	-	6,842
Depreciation	(564)	-	(402)	(681)	(785)	(267)	(241)	-	(2,940)
Write-back of provision/ (Provisions) for bad and doubtful debts relating to:									
Banking operation	-	-	-	-	666	-	-	-	666
Non-banking operations	-	-	-	(1,203)	-	-	-	-	(1,203)
Provision for impairment loss in investment securities	-	-	(2,776)	-	-	-	-	-	(2,776)
Net unrealised holding loss on other investments in securities	-	-	(61,303)	-	-	-	-	-	(61,303)
Negative goodwill recognised as income/(Amortisation of goodwill) arising from acquisition of subsidiaries	-	-	-	-	(3,356)	(806)	146	-	(4,016)
Write-back of deficit on revaluation of investment properties	316	-	-	-	-	-	-	-	316
Unallocated:									
Capital expenditure									922
Depreciation									(431)
Provision for impairment loss in an associate									(16,603)

4. SEGMENT INFORMATION *(Continued)*

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

Group

2003	Property investment and development <i>HK\$'000</i>	Treasury investment <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Corporate finance and securities broking <i>HK\$'000</i>	Banking business <i>HK\$'000</i>	Information technology <i>HK\$'000</i>	Other <i>HK\$'000</i>	Inter-segment elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue									
External	323	51,461	460,092	56,828	21,434	-	31,279	-	621,417
Inter-segment	-	706	-	1,008	-	-	-	(1,714)	-
Total	323	52,167	460,092	57,836	21,434	-	31,279	(1,714)	621,417
Segment results	(515)	50,097	91,310	4,784	4,808	(6,422)	10,573	706	155,341
Unallocated corporate expenses									(38,380)
Share of results of associates	-	-	-	-	-	(5,419)	(1,069)	-	(6,488)
Profit before tax									110,473
Tax									(5,182)
Profit before minority interests									105,291
Minority interests									776
Net profit from ordinary activities attributable to shareholders									106,067

4. SEGMENT INFORMATION (Continued)

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

Group

2003	Property investment and development HK\$'000	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Information technology HK\$'000	Other HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Segment assets	16,750	1,308,931	1,216,007	796,547	216,722	4,166	55,362	–	3,614,485
Interests in associates	–	–	–	1,340	–	3,143	44,061	–	48,544
Unallocated assets									17,931
Total assets									3,680,960
Segment liabilities	–	–	59,937	730,312	–	120	26,748	–	817,117
Unallocated liabilities									17,727
Total liabilities									834,844
Other segment information:									
Capital expenditure	–	–	–	14	26,982	–	1,596	–	28,592
Depreciation	–	–	(539)	(665)	(820)	–	(238)	–	(2,262)
Provision for bad and doubtful debts relating to:									
Banking operation	–	–	–	–	(3,753)	–	–	–	(3,753)
Non-banking operations	–	–	–	(1,916)	–	–	–	–	(1,916)
Provision for impairment loss on investment securities	–	–	(20,000)	–	–	–	–	–	(20,000)
Net unrealised holding gain on other investments in securities	–	–	54,926	–	–	–	–	–	54,926
Write-back of provision for loss on guaranteed return arrangement for fund management	–	–	–	–	–	–	10,868	–	10,868
Amortisation of goodwill arising from acquisition of subsidiaries	–	–	–	–	(3,240)	–	(378)	–	(3,618)
Deficit on revaluation of investment properties	(316)	–	–	–	–	–	–	–	(316)
Unallocated:									
Capital expenditure									1,458
Depreciation									(168)

4. SEGMENT INFORMATION (Continued)**Geographical segments**

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

Group

2004	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Japan HK\$'000	Other HK\$'000	Consolidated HK\$'000
Revenue	551,467	216,778	120,181	289,486	1,177,912
Segment assets	1,696,399	571,149	201,857	983,710	3,453,115
Interests in associates	17,477	–	–	9,689	27,166
Interests in a jointly controlled entity	–	–	–	7,313	7,313
Total assets					3,487,594
Capital expenditure	2,816	–	–	4,948	7,764
2003	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Japan HK\$'000	Other HK\$'000	Consolidated HK\$'000
Revenue	323,672	234,896	–	62,849	621,417
Segment assets	2,651,119	16,962	19,878	944,457	3,632,416
Interests in associates	26,904	3,143	–	18,497	48,544
Total assets					3,680,960
Capital expenditure	1,637	1,431	–	26,982	30,050

5. TURNOVER

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

5. TURNOVER *(Continued)*

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Property investment and development	2,056	323
Treasury investment	12,988	51,461
Securities investment	1,073,582	460,092
Corporate finance and securities broking	65,045	56,828
Banking business	16,198	17,263
Information technology	900	–
Other	7,143	31,279
	1,177,912	617,246

Turnover attributable to banking business represents turnover generated from MCB, a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China. Turnover attributable to banking business is analysed as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest income	11,247	12,442
Interest expenses	(1,777)	(2,023)
Commission income	5,793	5,400
Net dealing income and other revenues	935	1,444
	16,198	17,263

6. NET UNREALISED GAIN/(LOSS) ON TRANSFER OF INVESTMENT SECURITIES AND HELD-TO-MATURITY SECURITIES TO OTHER INVESTMENTS IN SECURITIES

During the year, investment securities of a total cost of HK\$19,019,000 (2003 – investment securities of a total cost of HK\$54,681,000 and held-to-maturity securities of a total amortised cost of HK\$357,153,000) were transferred to other investments in securities at market value or fair value to reflect the Group's current intention to sell the investments in response to changes in market conditions, resulting in a loss at the date of transfer of HK\$7,856,000 (2003 – gain of HK\$20,483,000).

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Gross rental income	2,056	323
Less: Outgoings	(1,378)	(128)
Net rental income	678	195
Staff costs (Note (a)):		
Wages and salaries	(53,952)	(55,448)
Retirement benefit costs	(3,221)	(3,058)
Less: Forfeited contributions	181	73
Net retirement benefit costs	(3,040)	(2,985)
Total staff costs	(56,992)	(58,433)
Interest income (Note (b)):		
Listed investments	19,259	22,301
Unlisted investments	1,171	10,163
Other	12,988	18,997
Dividend income:		
Listed investments	16,452	4,745
Unlisted investments	478	–
Provision for impairment losses on unlisted investment securities	(2,776)	(20,000)
Net realised gain on unlisted investment securities	340	–
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	(66,968)	80,649
Unlisted	33,111	16,582
Other unlisted investment income	5,253	–
Net unrealised gain/(loss) on transfer of investment securities and held-to-maturity securities to other investments in securities:		
Listed	(3,766)	12,946
Unlisted	(4,090)	7,537
Depreciation:		
Banking operation	(785)	(820)
Other	(2,586)	(1,610)
Loss on disposal of fixed assets	(415)	–
Exchange gains/(losses) – net	6,933	(2,101)
Write-back of deficit/(Deficit) on revaluation of investment properties	316	(316)
Auditors' remuneration	(1,342)	(1,076)
Minimum lease payments under operating lease rentals in respect of land and buildings	(8,827)	(8,225)
Amortisation of goodwill arising from acquisition of subsidiaries (Note (c))	(4,245)	(3,618)
Negative goodwill recognised as income (Note (c))	229	–

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

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 8 to the financial statements.
- (b) The amounts exclude income relating to the banking operation of the Group.
- (c) The amortisation of goodwill and negative goodwill recognised as income for the year are included under "Other operating expenses" on the face of the consolidated profit and loss account.

8. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Directors' fees	389	318
Basic salaries, housing and other allowances and benefits in kind	12,367	4,275
Bonuses paid and payable	1,200	—
Retirement benefits costs	36	36
	13,992	4,629

Included in Directors' emoluments were fees of HK\$180,000 (2003 – HK\$279,000) paid to the independent non-executive Directors in respect of the year.

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

	Group	
	2004	2003
Emoluments bands (HK\$):	Number of Directors	Number of Directors
Nil – 1,000,000	5	4
1,000,001 – 1,500,000	1	1
1,500,001 – 2,000,000	1	2
2,500,001 – 3,000,000	1	—
7,500,001 – 8,000,000	1	—
	9	7

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

9. SENIOR EXECUTIVES' EMOLUMENTS

The emoluments of the three (2003 – five) highest paid employees are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing and other allowances and benefits in kind	11,105	8,987
Bonuses paid and payable	–	11,150
Retirement benefits costs	314	289
	11,419	20,426

The five highest paid individuals for the year included two Directors (2003 – Nil), details of whose emoluments are set out in Note 8 to the financial statements.

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

	Group	
	2004	2003
Emoluments bands (HK\$):	Number of individuals	Number of individuals
2,000,001 – 2,500,000	1	–
2,500,001 – 3,000,000	–	1
3,000,001 – 3,500,000	1	1
3,500,001 – 4,000,000	–	1
4,500,001 – 5,000,000	–	1
5,500,001 – 6,000,000	1	1
	3	5

10. RETIREMENT BENEFITS COSTS

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

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

During the year, the amounts of forfeited employer contributions under the MPF schemes utilised to reduce the amount of employer contributions or for payments of administrative expenses amounted to HK\$181,000 (2003 – HK\$73,000). The amounts of forfeited voluntary contributions available to offset future employer contributions against the above schemes were not material at the year end. The retirement benefits scheme costs charged to the profit and loss account represent employer contributions paid and payable by the Group to the schemes and amounted to HK\$3,040,000 (2003 – HK\$2,985,000).

11. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	4,873	4,700

The amount excludes interest expense incurred by a banking subsidiary of the Group.

12. TAX

	Group	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong:		
Underprovision in prior years	2,059	3,464
Overseas:		
Charge for the year	1,095	1,329
Underprovision in prior years	381	–
	1,476	1,329
Share of tax attributable to an associate:		
Hong Kong	1,208	389
Total charge for the year	4,743	5,182

No provision for Hong Kong profits tax has been made as the Group has available tax losses brought forward from prior years to offset the estimated assessable profits generated during the year. Hong Kong profits tax for the prior year had been provided for at the rate of 17.5 per cent. on the estimated assessable profits arising in Hong Kong during that year. Overseas taxes have been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Group has tax losses arising in Hong Kong of HK\$120,726,000 (2003 – HK\$123,012,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses.

At 31st December, 2004, there was no significant unrecognised deferred tax liability (2003 – Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, a jointly controlled entity or associates as the Group had no liability to additional tax should such amounts be remitted.

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

12. TAX (Continued)

A reconciliation of the tax charge applicable to profit/(loss) before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries, associates and a jointly controlled entity are domiciled to the tax charge is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Profit/(Loss) before tax	(61,691)	110,473
Tax at the statutory tax rate of 17.5 per cent. (2003 – 17.5 per cent.)	(10,796)	19,333
Effect of different tax rates in other jurisdictions	1,118	3,726
Adjustments in respect of current tax of previous years	2,441	3,464
Income not subject to tax	(14,943)	(36,345)
Expenses not deductible for tax	15,738	2,041
Tax losses utilised from previous years	(1,533)	–
Tax losses not recognised	12,718	12,963
Tax charge at the Group's effective rate of 7.7 per cent. (2003 – 4.7 per cent.)	4,743	5,182

For a company operated in Macau, corporate taxes have been calculated on the estimated assessable profits for the year at the rate of 15.75 per cent. (2003 – 15.75 per cent.).

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

The net profit/(loss) from ordinary activities attributable to shareholders includes the loss for the year ended 31st December, 2004 dealt with in the financial statements of the Company amounting to HK\$27,241,000 (2003 – net profit of HK\$41,456,000) as set out in Note 27 to the financial statements.

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

Basic earnings/(loss) per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$64,957,000 (2003 – net profit of HK\$106,067,000); and (ii) the weighted average number of 1,346,829,000 shares (2003 – 1,347,972,000 shares) in issue during the year.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented for the years ended 31st December, 2004 and 2003 as there were no dilutive potential ordinary shares during these years.

15. DISTRIBUTIONS

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Interim, declared and paid, of HK1.5 cents (2003 – HK1.5 cents) per ordinary share	20,202	20,202
Final, proposed, of HK3 cents (2003 – HK3 cents, paid) per ordinary share	40,405	40,405
	60,607	60,607

The proposed final distribution for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

16. GOODWILL**Group**

	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At 1st January, 2004	69,935	–
Additions during the year	1,049	(1,373)
At 31st December, 2004	70,984	(1,373)
Accumulated amortisation and impairment/(Recognition as income):		
At 1st January, 2004	9,042	–
Amortisation provided/(Recognised as income) for the year	4,245	(229)
At 31st December, 2004	13,287	(229)
Net book value:		
At 31st December, 2004	57,697	(1,144)
At 31st December, 2003	60,893	–

17. FIXED ASSETS**Group**

**Leasehold
improvements,
furniture, fixtures,
equipment and
motor vehicles**
HK\$'000

Cost:

At 1st January, 2004	49,027
Additions during the year	7,764
Acquisition of subsidiaries	1,317
Disposal of a subsidiary	(1,181)
Disposals during the year	(1,506)
Exchange adjustments	44

At 31st December, 2004**55,465****Accumulated depreciation:**

At 1st January, 2004	44,023
Provided for the year	2,586
Acquisition of subsidiaries	333
Disposal of a subsidiary	(1,175)
Disposals during the year	(1,091)
Exchange adjustments	85

At 31st December, 2004**44,761****Net book value:****At 31st December, 2004****10,704**

At 31st December, 2003

5,004

17. FIXED ASSETS *(Continued)***Company****Furniture, fixtures,
equipment and
motor vehicles**
*HK\$'000***Cost:**

At 1st January, 2004	2,378
Additions during the year	922

At 31st December, 2004	3,300
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Accumulated depreciation:

At 1st January, 2004	752
Provided for the year	413

At 31st December, 2004	1,165
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Net book value:

At 31st December, 2004	2,135
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At 31st December, 2003	1,626
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18. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Medium term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of year	9,700	–
Additions during the year	–	10,075
Surplus/(Deficit) on revaluation	5,100	(375)
Balance at end of year	14,800	9,700
Long term leasehold land and buildings situated in Hong Kong:		
Additions during the year	71,682	–
Surplus on revaluation	2,161	–
Balance at end of year	73,843	–
Freehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	7,050	7,336
Surplus on revaluation	516	59
Exchange adjustments	(65)	(345)
Balance at end of year	7,501	7,050
Total	96,144	16,750

Based on professional valuations as at 31st December, 2004 made by Mr. Jonathan Miles Foxall, chartered surveyor and a director of certain subsidiaries of the Company, the investment properties in Hong Kong were valued on an open market, existing use basis at HK\$88,643,000 (2003 – HK\$9,700,000).

Based on a professional valuation as at 31st December, 2004 made by Professional Asset Valuers, Incorporated, property appraiser, the investment property situated outside Hong Kong was valued on an open market, existing use basis at HK\$7,501,000 (2003 – HK\$7,050,000).

19. PROPERTIES UNDER DEVELOPMENT

	Group	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings situated outside Hong Kong, at cost:		
Additions during the year	97,193	–
Exchange adjustments	2,574	–
Balance at end of year	99,767	–
Land and buildings held under the following lease terms:		
Leasehold (<i>Note</i>)	62,367	–
Freehold	37,400	–
	99,767	–

Note: The lease terms of the properties under development situated outside Hong Kong are 99 years.

20. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets in unlisted companies	33,169	41,518
Goodwill from acquisition less amortisation	2,596	10,440
Negative goodwill arising from acquisition less recognition	(291)	–
Due from associates	2,767	1,180
	38,241	53,138
Provisions for impairment losses	(11,075)	(4,594)
	27,166	48,544
Share of post-acquisition reserves at the balance sheet date	5,145	16,209

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

20. INTERESTS IN ASSOCIATES *(Continued)*

The amounts of goodwill and negative goodwill arising from the acquisition of associates are as follows:

Group	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>
Cost:		
At 1st January, 2004	15,445	–
Additions during the year	5,178	(354)
At 31st December, 2004	20,623	(354)
Accumulated amortisation and impairment/ (recognition as income):		
At 1st January, 2004	5,005	–
Amortisation provided/(Recognised as income) for the year	6,132	(63)
Impairment provided for the year	6,890	–
At 31st December, 2004	18,027	(63)
Net book value:		
At 31st December, 2004	2,596	(291)
At 31st December, 2003	10,440	–
	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	28,435

Details of the principal associates are set out on page 86.

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group
	2004
	2003
	HK\$'000
	HK\$'000
Due from a jointly controlled entity	7,313
	–

The balance with the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Details of the jointly controlled entity are set out on page 87.

22. INVESTMENT SECURITIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities, at cost:				
Listed in Hong Kong	28,750	28,750	28,750	28,750
Unlisted	152,060	154,060	–	–
	180,810	182,810	28,750	28,750
Provision for impairment loss for unlisted equity securities	(20,000)	(20,000)	–	–
	160,810	162,810	28,750	28,750
Unlisted debt securities, at cost	7,680	5,413	3,165	3,165
Provision for impairment loss for unlisted debt securities	(2,776)	–	–	–
	4,904	5,413	3,165	3,165
Unlisted investment funds, at cost	199,944	3,644	–	–
	365,658	171,867	31,915	31,915
Market value of listed investments at the balance sheet date	47,725	41,400	47,725	41,400
An analysis of the issuers of investment securities is as follows:				
Equity securities:				
Corporate entities	160,810	162,810	28,750	28,750
Debt securities:				
Club debentures	3,165	3,165	3,165	3,165
Corporate entities	1,739	2,248	–	–
	4,904	5,413	3,165	3,165

22. INVESTMENT SECURITIES *(Continued)*

As at 31st December, 2004, particulars of the Group's investments in equity securities which exceed 20 per cent. of the nominal value of the investee company's issued shares disclosed pursuant to Section 129(1) of the Hong Kong Companies Ordinance is as follows:

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

23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operation are shown separately in the consolidated financial statements. The financial information in respect of banking operation shown below is based on the audited financial statements of MCB for the year ended 31st December, 2004.

	<i>Note</i>	Group	
		2004	2003
		HK\$'000	<i>HK\$'000</i>
Cash and short-term funds	(a)	83,908	254,807
Placements with banks and other financial institutions maturing between one and twelve months		–	368,320
Other investments in securities	(b)	24,673	13,646
Advances and other accounts	(c)	152,127	156,079
Held-to-maturity securities	(d)	9,643	9,672
Fixed assets	(e)	26,272	27,057
		296,623	829,581
Current, fixed, savings and other deposits of customers		(117,641)	(666,290)
Other accounts and provisions		(3,571)	(7,210)
		(121,212)	(673,500)
		175,411	156,081

23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION *(Continued)*

Note:

(a) Cash and short-term funds

	2004 HK\$'000	2003 <i>HK\$'000</i>
Cash and balances with banks and other financial institutions	60,143	219,402
Treasury bills	23,765	35,405
	83,908	254,807

(b) Other investments in securities

	2004 HK\$'000	2003 <i>HK\$'000</i>
Listed equity securities, at market value:		
Hong Kong	3,128	–
Overseas	759	–
	3,887	–
Debt securities:		
Listed outside Hong Kong, at market value	9,190	13,646
Unlisted, at fair value	7,769	–
	16,959	13,646
Unlisted investment funds, at fair value	3,827	–
	24,673	13,646
An analysis of the issuers of other investments in securities is as follows:		
Equity securities:		
Corporate entities	3,887	–
Debt securities:		
Corporate entities	9,190	13,646
Banks and other financial institutions	7,769	–
	16,959	13,646

23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION *(Continued)**Note: (Continued)***(c) Advances and other accounts**

	2004 HK\$'000	2003 HK\$'000
Advances to customers	153,071	156,643
Other accounts	2,956	3,190
Accrued interest	1,240	1,296
Provisions for bad and doubtful debts	(5,140)	(5,050)
	152,127	156,079

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

	2004 HK\$'000	2003 HK\$'000
Rescheduled advances	3,342	3,464
Market value of collateral held	3,564	3,627

(d) Held-to-maturity securities

	2004 HK\$'000	2003 HK\$'000
Debt securities, at amortised cost:		
Listed outside Hong Kong	9,643	9,672
Market value of listed debt securities	10,877	10,891
An analysis of the issuers of held-to-maturity securities is as follows:		
Banks and other financial institutions	9,643	9,672

23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION *(Continued)**Note: (Continued)***(e) Fixed assets**

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1st January, 2004	25,047	5,267	30,314
Disposals during the year	–	(2,780)	(2,780)
At 31st December, 2004	25,047	2,487	27,534
Accumulated depreciation:			
At 1st January, 2004	21	3,236	3,257
Provided for the year	250	535	785
Disposals during the year	–	(2,780)	(2,780)
At 31st December, 2004	271	991	1,262
Net book value:			
At 31st December, 2004	24,776	1,496	26,272
At 31st December, 2003	25,026	2,031	27,057

24. OTHER INVESTMENTS IN SECURITIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity securities, at market value:				
Hong Kong	248,326	274,979	90,733	100,036
Overseas	40,092	10,503	7,102	2,662
	288,418	285,482	97,835	102,698
Debt securities:				
Listed, at market value:				
Hong Kong	–	8,441	–	–
Overseas	225,245	287,614	4,601	4,988
Unlisted, at fair value	157,605	211,800	50,033	86,995
	382,850	507,855	54,634	91,983
Investment funds:				
Listed overseas, at market value	229,252	240,553	176,671	–
Unlisted, at fair value	243,728	–	7,893	–
	472,980	240,553	184,564	–
	1,144,248	1,033,890	337,033	194,681
An analysis of the issuers of other investments in securities is as follows:				
Equity securities:				
Public sector entities	493	8,862	–	–
Banks and other financial institutions	6,341	123,220	1,848	75,920
Corporate entities	281,584	153,400	95,987	26,778
	288,418	285,482	97,835	102,698
Debt securities:				
Central governments and central banks	13,869	16,948	–	–
Banks and other financial institutions	105,239	199,957	23,213	79,289
Corporate entities	214,609	275,702	31,421	12,694
Others	49,133	15,248	–	–
	382,850	507,855	54,634	91,983

25. DEBTORS, PREPAYMENTS AND DEPOSITS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Repayable on demand	32,835	274,775
Within 30 days	95,347	10,313
Between 31 and 60 days	–	238
Between 61 and 90 days	–	400
Between 91 and 180 days	–	839
Over 180 days	–	11,887
	128,182	298,452

Trading terms with customers are either on cash basis or credit. For those customers who trade on credit, a credit period is allowed according to relevant business practice. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

In prior year, outstanding balances with ages over 180 days include claims receivable in respect of the Group's insurance underwriting business which is broadly consistent with the claims payable included in the trade creditors of the Group. During the year, the Group disposed of such insurance underwriting business, which did not have significant impact on the net asset value or the profit and loss account of the Group.

26. SHARE CAPITAL**Shares**

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Authorised:		
2,000,000,000 (2003 – 2,000,000,000) ordinary shares of HK\$1.00 each	2,000,000	2,000,000
Issued and fully paid:		
1,346,829,094 (2003 – 1,346,829,094) ordinary shares of HK\$1.00 each	1,346,829	1,346,829

26. SHARE CAPITAL *(Continued)***Shares** *(Continued)*

During the prior year, a total of 4,708,000 shares of HK\$1.00 each were repurchased on The Stock Exchange of Hong Kong Limited and were cancelled by the Company. The discount of HK\$1,743,000 arising from such repurchase has been credited to the distributable reserves and an amount of HK\$4,708,000 was transferred from distributable reserves to the capital redemption reserve account as set out in Note 27 to the financial statements.

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

27. RESERVES**Group**

	Share premium account HK\$'000	Capital redemption reserve (Note (d)) HK\$'000	Legal reserve (Note (e)) HK\$'000	Investment property revaluation reserve HK\$'000	Distributable reserves (Note (c)) HK\$'000	Exchange equalisation reserve HK\$'000	Total HK\$'000
At 1st January, 2003	50,988	7,052	–	–	1,382,622	(12,402)	1,428,260
Transfer of reserve	–	–	845	–	(845)	–	–
Repurchase of shares	–	4,708	–	–	(2,965)	–	1,743
Exchange differences on consolidation	–	–	–	–	–	(969)	(969)
Profit for the year (Note (b))	–	–	–	–	106,067	–	106,067
2002 final distribution, declared and paid	–	–	–	–	(40,405)	–	(40,405)
2003 interim distribution, declared and paid	–	–	–	–	(20,202)	–	(20,202)
At 31st December, 2003 and 1st January, 2004	50,988	11,760	845	–	1,424,272	(13,371)	1,474,494
Surplus on revaluation of investment properties	–	–	–	7,461	–	–	7,461
Transfer of reserve	–	–	1,208	–	(1,208)	–	–
Exchange differences on consolidation	–	–	–	–	–	3,114	3,114
Loss for the year (Note (b))	–	–	–	–	(64,957)	–	(64,957)
2003 final distribution, declared and paid	–	–	–	–	(40,405)	–	(40,405)
2004 interim distribution, declared and paid	–	–	–	–	(20,202)	–	(20,202)
At 31st December, 2004	50,988	11,760	2,053	7,461	1,297,500	(10,257)	1,359,505

27. RESERVES *(Continued)***Company**

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>(Note (d)) HK\$'000</i>	Distributable reserves <i>(Note (c)) HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	50,988	7,052	1,352,973	1,411,013
Profit for the year <i>(Note 13)</i>	–	–	41,456	41,456
Repurchase of shares	–	4,708	(2,965)	1,743
2002 final distribution, declared and paid	–	–	(40,405)	(40,405)
2003 interim distribution, declared and paid	–	–	(20,202)	(20,202)
At 31st December, 2003 and 1st January, 2004	50,988	11,760	1,330,857	1,393,605
Loss for the year <i>(Note 13)</i>	–	–	(27,241)	(27,241)
2003 final distribution, declared and paid	–	–	(40,405)	(40,405)
2004 interim distribution, declared and paid	–	–	(20,202)	(20,202)
At 31st December, 2004	50,988	11,760	1,243,009	1,305,757

Note:

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

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

27. RESERVES (Continued)*Note: (Continued)*

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
The Company and its subsidiaries	(58,440)	112,944
Associates	(6,517)	(6,877)
	(64,957)	106,067

- (c) Distributable reserves of the Group at 31st December, 2004 comprise accumulated losses of HK\$69,772,000 (2003 – HK\$3,607,000) and the remaining balance arising from the Cancellation of HK\$1,367,272,000 (2003 – HK\$1,427,879,000). Included in the distributable reserves of the Group at 31st December, 2004 was an amount of a proposed final distribution for the year then ended of HK\$40,405,000 (2003 – HK\$40,405,000) declared after the balance sheet date.

Distributable reserves of the Company at 31st December, 2004 comprise contributed surplus of HK\$134,329,000 (2003 – HK\$134,329,000), accumulated losses of HK\$258,592,000 (2003 – HK\$231,351,000) and the remaining balance arising from the Cancellation of HK\$1,367,272,000 (2003 – HK\$1,427,879,000). Included in the distributable reserves of the Company at 31st December, 2004 was an amount of proposed final distribution for the year then ended of HK\$40,405,000 (2003 – HK\$40,405,000) declared after the balance sheet date.

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

28. BANK LOANS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Repayable within one year:		
Secured (Note)	188,761	–
Unsecured	20,000	10,000
	208,761	10,000
	Company	
	2004	2003
	HK\$'000	HK\$'000
Repayable within one year:		
Secured (Note)	108,761	–
	108,761	–

Note: The bank loans as at 31st December, 2004 were secured by certain securities of the Group and certain securities owned by margin clients of the Group.

29. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Repayable on demand	486,189	691,367
Within 30 days	21,217	70,503
Between 31 and 60 days	–	207
Between 61 and 90 days	–	696
Between 91 and 180 days	–	3,810
Over 180 days	–	13,703
	507,406	780,286

The outstanding balances that are repayable on demand include client payables relating to cash balances held on trust for the customers in respect of the Group's securities broking business. As at 31st December, 2004, total client trust bank balances amounted to HK\$389,123,000 (2003 – HK\$430,558,000).

30. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	44,953	1
Due from subsidiaries	2,201,677	1,987,239
Due to subsidiaries	(137,067)	(89,912)
	2,109,563	1,897,328
Provisions for impairment losses	(103,569)	(103,569)
	2,005,994	1,793,759

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

Details of the principal subsidiaries are set out on pages 82 to 85.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

		Group	
	Note	2004 HK\$'000	2003 HK\$'000
Profit/(Loss) before tax		(61,691)	110,473
Adjustments for:			
Share of results of associates		5,309	6,488
Loss/(Gain) on disposal of:			
Fixed assets	7	415	—
Investment securities	7	(340)	—
A subsidiary		140	—
Provisions for impairment losses:			
Investment securities	7	2,776	20,000
An associate		16,603	—
Net unrealised loss/(gain) on transfer of investment securities and held-to-maturity securities to other investments in securities	6	7,856	(20,483)
Write-back of provision for loss on guaranteed return arrangement for fund management		—	(10,868)
Deficit/(Write-back of deficit) on revaluation of investment properties	7	(316)	316
Interest expenses	11	4,873	4,700
Interest income		(33,418)	(51,461)
Dividend income	7	(16,930)	(4,745)
Depreciation	7	2,586	1,610
Amortisation of goodwill arising from acquisition of subsidiaries	7	4,245	3,618
Negative goodwill recognised as income	7	(229)	—
Operating profit/(loss) before working capital changes		(68,121)	59,648
Increase in other investments in securities		(99,195)	(473,662)
Increase in property held for sale		(10,140)	—
Decrease/(Increase) in loans and advances		(83,710)	23,372
Decrease/(Increase) in debtors, prepayments and deposits		119,363	(73,115)
Increase/(Decrease) in creditors, accruals and deposits received		(246,235)	307,868
Decrease in bank deposits with original maturity over three months		—	309,221
Decrease in certificates of deposit held		—	1,000,000
Decrease/(Increase) in client trust bank balances		41,435	(176,628)
Decrease in provision for loss on guaranteed return arrangement for fund management		—	(117,985)
Profit attributable to banking operation		(346,603) (7,246)	858,719 (8,439)
Cash from/(used in) operations		(353,849)	850,280

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)***(b) Disposal of a subsidiary**

	Group	
	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	6	—
Cash and bank balances	1,964	—
Debtors, prepayments and deposits	40,069	—
Creditors and accruals	(40,400)	—
Release of exchange reserve	4	—
Minority interests	(803)	—
	840	—
Loss on disposal of a subsidiary	(140)	—
Cash consideration received	700	—

An analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cash consideration received	700	—
Cash and bank balances disposed of	(1,964)	—
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(1,264)	—

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)***(c) Acquisition of subsidiaries**

	Group	
	2004	2003
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	984	—
Cash and bank balances	40,500	—
Debtors, prepayments and deposits	1,163	—
Creditors and accruals	(2,428)	—
Minority interests	(2,174)	—
	38,045	—
Reclassification from interest in an associate	(17,891)	—
	20,154	—
Negative goodwill arising from acquisition	(878)	—
	19,276	—

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cash consideration paid	(19,276)	—
Cash and bank balances acquired	40,500	—
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	21,224	—

(d) Major non-cash transaction

During the year, investment securities of a total cost of HK\$19,019,000 (2003 – investment securities of a total cost of HK\$54,681,000 and held-to-maturity securities of a total amortised cost of HK\$357,153,000) were transferred to other investments in securities at their respective market values or fair values at the date of transfer.

32. MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of assets and liabilities of the Group analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2004							
Assets							
Debt securities:							
Investment securities	-	-	-	1,739	-	3,165	4,904
Other investments in securities	-	-	28,722	234,815	70,180	49,133	382,850
Loans and advances	165,614	-	-	9,984	-	-	175,598
Client trust bank balances	43,244	345,879	-	-	-	-	389,123
Cash and bank balances	87,912	674,361	-	-	-	-	762,273
Assets less liabilities attributable to banking operation:							
Cash and short-term funds	44,475	39,433	-	-	-	-	83,908
Debt securities:							
Held-to-maturity securities	-	-	-	-	9,643	-	9,643
Other investments in securities	-	-	-	7,769	-	9,190	16,959
Advances to customers	28,598	61,854	21,573	23,326	12,580	-	147,931
	369,843	1,121,527	50,295	277,633	92,403	61,488	1,973,189
Liabilities							
Bank loans	-	193,213	15,548	-	-	-	208,761
Assets less liabilities attributable to banking operation:							
Current, fixed, savings and other deposits of customers	19,912	88,576	9,153	-	-	-	117,641
	19,912	281,789	24,701	-	-	-	326,402

32. MATURITY PROFILE OF ASSETS AND LIABILITIES (Continued)

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

33. CONTINGENT LIABILITIES**Group**

As at 31st December, 2004, the Group had contingent liabilities relating to its banking subsidiary of HK\$29,245,000 (2003 – HK\$40,073,000), comprising guarantees and other endorsements of HK\$15,528,000 (2003 – HK\$11,337,000) and liabilities under letters of credit on behalf of customers of HK\$13,717,000 (2003 – HK\$28,736,000).

Company

As at 31st December, 2004, guarantees provided by the Company in respect of banking facilities granted to its subsidiaries amounted to HK\$257,500,000 (2003 – HK\$245,000,000).

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

The Group leases its investment properties under operating lease arrangements with leases negotiated for terms of two years. At 31st December, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	2,900	708
In the second to fifth years, inclusive	16	13
	2,916	721

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

The Group leases certain properties under operating lease agreements which are non-cancellable. The leases expire on various dates until 30th November, 2008 and the leases for properties contain provision for rental adjustments. As at 31st December, 2004, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	6,529	5,168	1,434	516
In the second to fifth years, inclusive	7,877	209	1,016	–
	14,406	5,377	2,450	516

35. CAPITAL COMMITMENTS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Other capital commitments:		
Contracted, but not provided for	160,118	66,582

The Company did not have any material commitments at the balance sheet date (2003 – Nil).

36. CONNECTED AND RELATED PARTY TRANSACTIONS

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

- (a) During the year, Lippo Securities Holdings Limited ("LSHL"), being a wholly-owned subsidiary of the Company, paid rental expenses of HK\$2,311,000 (2003 – HK\$2,416,000) to Prime Power Investment Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by LSHL, and the Company and ImPac Asset Management (HK) Limited ("ImPac"), being a wholly-owned subsidiary of the Company, paid rental expenses of HK\$934,000 (2003 – HK\$728,000) and HK\$142,000 (2003 – HK\$232,000) to Porbandar Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by the Company and ImPac, respectively. The above rentals were determined by reference to open market rentals.

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

- (b) During the year, LSHL and its subsidiaries (the "LSHL Group") received commission income for dealing in listed securities in the market from The Hong Kong Building and Loan Agency Limited, being a fellow subsidiary of the Company, for itself and its subsidiaries, amounted to HK\$803,000 (2003 – HK\$441,000), Lippo China Resources Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to HK\$805,000 (2003 – HK\$75,000), Lippo Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to HK\$65,000 (2003 – HK\$2,000) and Lippo Cayman Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to HK\$25,000 (2003 – HK\$20,000). The commissions were in line with those offered by the LSHL Group to its customers.
- (c) At the balance sheet date, an overseas affiliate of the Company had the following balances with MCB:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Included under the following item as referred to in Note 23 to the financial statements:		
Current, fixed, savings and other deposits of customers	–	(195,313)

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

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

- (d) As at 31st December, 2004, the Group had balances with its associates and jointly controlled entity as set out in Note 20 and Note 21 respectively to the financial statements.

The transactions in respect of items (a) and (b) above are continuing connected transactions as defined in Chapter 14A of the Listing Rules. Further details of the transactions are disclosed in the section headed "Directors' and controlling shareholders' interests in contracts" in the Report of the Directors.

37. SUBSEQUENT EVENTS

- (a) On 21st January, 2005, the Group entered into agreement to purchase a property in Macau for a consideration of HK\$238,000,000 for residential redevelopment. The acquisition is expected to be completed on or before 28th April, 2005.
- (b) On 18th February, 2005, the Group accepted offer to acquire a property in Singapore for an aggregate consideration of S\$43,620,000 (equivalent to approximately HK\$207,614,000) for residential redevelopment. The acquisition is expected to be completed on or before 18th May, 2005.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20th April, 2005.