

Notes to the Financial Statements

1. CORPORATE INFORMATION

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

On 17th January, 2002, the Group disposed of its entire interest in The Hongkong Chinese Bank, Limited ("HKCB") and its subsidiaries, which were mainly engaged in the provision of commercial banking, retail banking and other related financial services.

On 27th May, 2002, the Group acquired an 85 per cent. equity interest in Finibanco (Macau), S.A.R.L. (now known as The Macau Chinese Bank Limited, "MCB"), a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China, which is engaged in the provision of banking, financial and other related 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 NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 1 (Revised)	:	"Presentation of financial statements"
SSAP 11 (Revised)	:	"Foreign currency translation"
SSAP 15 (Revised)	:	"Cash flow statements"
SSAP 33	:	"Discontinuing operations"
SSAP 34	:	"Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that consolidated summary statement of changes in equity is now presented on page 22 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(Continued)*

SSAP 11 (Revised) prescribes the basis for translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, associates and jointly controlled entities are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of this SSAP has had no material effect on the financial statements. Further details of this change are included in the accounting policy for “Foreign currencies” in Note 3(v) to the financial statements.

SSAP 15 (Revised) prescribes the basis for the presentation and content of the cash flow statement. The principal impact of the revision of this SSAP is that consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for “Foreign currencies” in Note 3(v) to the financial statements. The format of the consolidated cash flow statement set out on pages 24 to 25 of the financial statements has been revised in accordance with the new requirements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. This SSAP requires certain employee benefits like the accumulated paid leave entitlement to be accrued as at the balance sheet date. The adoption of this SSAP has had no material effect on the financial statements except that disclosures are now required in respect of the share option schemes of the Company and its subsidiaries, as detailed in Note 31 to the financial statements. These share option scheme disclosures are similar to Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of this SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

Notes to the Financial Statements

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st December, 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. With the exception of the balances referred to in Note 42(b) to the financial statements, 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.

(c) Subsidiaries

A subsidiary is a company, other than a jointly controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

(d) Associates

An associate is a company, not being a subsidiary 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.

(e) Jointly controlled entity

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

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

(e) **Jointly controlled entity** *(Continued)*

Joint venture agreements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities.

The Group's share of the post-acquisition results and reserves of the jointly controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in the jointly controlled entity is 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) **Goodwill**

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 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.

The above accounting policy has been adopted since 1st January, 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves.

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

The carrying amount of goodwill 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.

Notes to the Financial Statements

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

(g) Negative goodwill

Negative goodwill arising on 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.

The above accounting policy has been adopted since 1st January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve.

On disposal of subsidiaries and 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.

(h) Impairment of assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(i) 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 the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost to that asset.

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

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

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.

Notes to the Financial Statements

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

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

When an asset is reclassified from investment properties to leasehold land and buildings or vice versa, the asset is stated at the carrying amount as at the date of reclassification and the revaluation reserve attributable to that asset is reclassified from the investment property revaluation reserve to the other asset revaluation reserve or vice versa, as the case may be. Depreciation of such reclassified fixed assets is calculated based on that carrying amount and the portion of the depreciation charge attributable to the related revaluation surplus is transferred from the other asset revaluation reserve to retained profits. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

(j) **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 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.

(k) **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.

(l) **Capitalised borrowing costs**

Interest incurred on borrowings to finance the construction and development of properties under development is capitalised and is included in the carrying value of these assets. Interest is capitalised at the interest rate applicable to specific development borrowings.

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 amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

(n) Held-to-maturity securities

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

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

(o) 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 fair values at the balance sheet date. 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.

(p) Properties held for sale

Properties held 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.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to the Financial Statements

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

(r) 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) income from the sale of completed properties, on the exchange of legally binding unconditional sales contracts;
- (iii) sales from food businesses, on despatch of goods to customers;
- (iv) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged;
- (v) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable;
- (vi) dividend income, when the shareholders' right to receive payment has been established; and
- (vii) 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.

(s) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(t) 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.

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

(u) 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.

(v) 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 rate 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.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in Note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, associates and jointly controlled entities and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

Notes to the Financial Statements

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

(w) 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 balance sheet classification, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(x) 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.

(y) Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings 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 have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared because the Company's Memorandum and Articles of Association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(z) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Employee benefits (Continued)

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 Scheme Ordinance are charged to the profit and loss account when incurred. The assets of the retirement benefits schemes are held separately from those of the Group in independently administrated funds.

Share option schemes

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company and its subsidiaries as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company and its subsidiaries in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(aa) Accounting for banking operations

Banking operations represent operations carried out through MCB since its acquisition by the Group in May 2002 and that through Hongkong Chinese Limited ("HKCL"), a subsidiary of the Company, and its subsidiaries until the Group disposed of its entire interests in HKCB in January 2002. The principal accounting policies which are specific to the banking operations are described below.

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

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

All advances are recognised when cash is advanced to borrowers.

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

Notes to the Financial Statements

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

(aa) Accounting for banking operations *(Continued)*

(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.

(iii) *Off-balance sheet financial instruments*

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

Transactions undertaken for trading purposes are marked to market and the gains or losses arising are 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 reporting format and by geographical segment as the secondary reporting format.

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

- (a) the treasury investment segment includes investments in cash and bond markets;
- (b) the property investment and development segment includes letting of properties and sale of completed properties;
- (c) the securities investment segment includes dealings in securities and disposals of investments;
- (d) the food businesses segment engages in food manufacturing, wholesale distribution of food and allied fast-moving consumer goods;
- (e) the money lending segment includes the provision of finance;
- (f) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (g) the banking businesses segment engages in the provision of commercial and retail banking; and
- (h) the "other" segment comprises principally the underwriting of general insurance business, the provision of general insurance agency services and fund management services.

Notes to the Financial Statements

4. SEGMENT INFORMATION (Continued)

An analysis of the Group's segment revenue and segment results by business segment and by geographical segment is set out below:

Business segment

Group

	2002									
	Treasury investment	Property investment and develop-ment	Securities investment	Food businesses	Money lending	Corporate finance and securities broking	Banking businesses	Other	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
External	82,466	120,355	185,373	567,669	8,677	55,020	31,424	73,380	—	1,124,364
Inter-segment	3,464	9,857	—	—	41	—	78	—	(13,440)	—
Total	85,930	130,212	185,373	567,669	8,718	55,020	31,502	73,380	(13,440)	1,124,364
Segment results	78,043	116,988	(163,144)	(29,771)	15,069	(30,846)	553,939	(66,165)	(9,506)	464,607
Unallocated corporate expenses										(295,627)
Finance costs										(58,321)
Share of results of associates	—	304	—	—	—	82	23,184	(27,042)	—	(3,472)
Profit before tax										107,187
Tax										(398)
Profit before minority interests										106,789
Minority interests										(377,510)
Net loss from ordinary activities attributable to shareholders										(270,721)

Notes to the Financial Statements

4. SEGMENT INFORMATION (Continued)

Business segment (Continued)

Group

	2002									
	Treasury investment HK\$'000	Property investment and develop- ment HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Money lending HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consoli- dated HK\$'000
Segment assets	3,448,996	2,267,269	528,138	242,596	82,300	583,127	212,852	48,764	(46,958)	7,367,084
Interests in associates	—	8,653	—	—	—	1,333	98,248	348,850	—	457,084
Unallocated assets										230,075
Total assets										8,054,243
Segment liabilities	—	1,550,783	230,081	111,937	127,989	500,898	—	219,337	(1,874,951)	866,074
Unallocated liabilities										1,263,771
Total liabilities										2,129,845
Other information:										
Capital expenditure	(2,182)	(1,474)	—	(7,256)	—	—	—	(18)	—	(10,930)
Depreciation	(1,375)	(2,870)	(79)	(15,130)	(102)	(2,098)	(2,051)	(87)	—	(23,792)
Provisions for bad and doubtful debts relating to:										
Banking operations	—	—	—	—	(2,193)	—	(1,832)	—	—	(4,025)
Non-banking operations	—	—	—	—	—	(19,734)	—	(117)	—	(19,851)
Provisions for impairment losses:										
Investment securities	—	—	(66,865)	—	—	—	—	—	—	(66,865)
Fixed assets	—	—	—	(30,613)	—	—	—	—	—	(30,613)
Provision for loss on guaranteed return arrangement for fund management	—	—	—	—	—	—	—	(88,290)	—	(88,290)
Write-back of deficit on revaluation of investment properties	—	52,725	—	—	—	—	—	—	—	52,725
Amortisation of goodwill arising on acquisition of subsidiaries	—	—	—	—	—	—	(1,890)	(204)	—	(2,094)
Gain on dilution of shareholding in an associate	—	—	—	—	—	—	16,423	—	—	16,423
Provision against properties held for sale	—	(29,220)	—	—	—	—	—	—	—	(29,220)
Gain on disposal of subsidiaries	—	—	—	—	(966)	—	527,325	(633)	—	525,726
Unrealised holding losses on other investments in securities	—	—	(66,501)	—	—	—	—	—	—	(66,501)
Unallocated:										
Capital expenditure										(3,195)
Depreciation										(10,548)
Provisions for impairment losses:										
Fixed assets										(252,581)
Goodwill										(83,193)
Negative goodwill recognised as income										131,668

Notes to the Financial Statements

4. SEGMENT INFORMATION (Continued)

Business segment (Continued)

Group

	2001									
	Treasury investment HK\$'000	Property investment and develop- ment HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Money lending HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consoli- dated HK\$'000
Revenue										
External	63,275	103,717	307,598	518,925	211,025	68,916	448,007	59,531	—	1,780,994
Inter-segment	33,481	13,255	—	—	2,465	—	17,414	—	(66,615)	—
Total	96,756	116,972	307,598	518,925	213,490	68,916	465,421	59,531	(66,615)	1,780,994
Segment results	59,156	(3,025)	(173,898)	10,461	17,323	9,460	(46,141)	(71,968)	(7,683)	(206,315)
Unallocated corporate expenses										(212,542)
Finance costs										(69,105)
Share of results of associates	—	(3,230)	—	—	—	—	(31,105)	(109,587)	—	(143,922)
Loss before tax										(631,884)
Tax										(29,771)
Loss before minority interests										(661,655)
Minority interests										110,287
Net loss from ordinary activities attributable to shareholders										(551,368)

Notes to the Financial Statements

4. SEGMENT INFORMATION (Continued)

Business segment (Continued)

Group

	2001									
	Treasury investment HK\$'000	Property investment and develop- ment HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Money lending HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consoli- dated HK\$'000
Segment assets	1,510,744	1,984,254	677,377	267,296	1,170,075	404,200	3,570,900	25,028	(1,299,890)	8,309,984
Interests in associates	—	40,638	—	—	—	—	67,539	314,768	—	422,945
Unallocated assets										645,225
Total assets										9,378,154
Segment liabilities	—	2,083,648	234,376	110,797	704,153	184,852	756,753	52,999	(3,925,555)	202,023
Unallocated liabilities										1,134,055
Total liabilities										1,336,078
Other information:										
Capital expenditure	(2,239)	(1,469)	—	(6,738)	(2,114)	(1,862)	(15,126)	(13)	—	(29,561)
Depreciation	(2,113)	(3,707)	(778)	(14,585)	(3,236)	(1,388)	(44,208)	(116)	—	(70,131)
(Provisions)/Write-back of provisions for bad and doubtful debts relating to:										
Banking operations	—	—	—	—	(50,247)	(2,376)	(179,883)	—	—	(232,506)
Non-banking operations	—	—	—	6,810	(23,664)	—	—	—	—	(16,854)
Provisions for impairment losses:										
Investment securities	—	—	(61,464)	—	—	—	—	—	—	(61,464)
Goodwill	—	—	—	—	(12,182)	—	(14,867)	—	—	(27,049)
Jointly controlled entity	—	(3,000)	—	—	—	—	—	—	—	(3,000)
Associates	—	(8,600)	—	—	—	—	—	(33,000)	—	(41,600)
Provision for loss on guaranteed return arrangement for fund management	—	—	—	—	—	—	—	(72,242)	—	(72,242)
Deficit on revaluation of investment properties	—	(88,466)	—	—	—	—	(4,800)	—	—	(93,266)
Negative goodwill recognised as income	—	13,481	—	—	—	—	—	—	—	13,481
Unrealised holding losses on other investments in securities	—	—	(85,173)	—	—	—	—	—	—	(85,173)
Unallocated:										
Capital expenditure										(20,043)
Depreciation										(14,800)
Provisions for impairment losses on fixed assets										(117,458)

Notes to the Financial Statements

4. SEGMENT INFORMATION (Continued)

Geographical segment

Group

	2002				
	Hong Kong	Republic of	Mainland	Other	Total
	HK\$'000	Singapore	China	HK\$'000	HK\$'000
Revenue	395,983	599,487	74,513	54,381	1,124,364
Segment results	404,089	(110,623)	170,187	954	464,607
Segment assets	4,183,321	1,024,479	1,627,124	762,235	7,597,159
Interests in associates	61,728	9,481	271,263	114,612	457,084
Total assets					8,054,243
Capital expenditure	(3,346)	(9,439)	(72)	(1,268)	(14,125)

Group

	2001				
	Hong Kong	Republic of	Mainland	Other	Total
	HK\$'000	Singapore	China	HK\$'000	HK\$'000
Revenue	1,013,246	669,051	61,801	36,896	1,780,994
Segment results	(132,115)	(67,665)	7,423	(13,958)	(206,315)
Segment assets	6,094,547	1,193,090	1,247,855	419,717	8,955,209
Interests in associates	41,152	895	298,332	82,566	422,945
Total assets					9,378,154
Capital expenditure	(20,628)	(28,967)	—	(9)	(49,604)

5. TURNOVER

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

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Treasury investment	82,466	63,275
Property investment and development	113,687	103,717
Securities investment	185,373	307,598
Food businesses	567,669	518,925
Interest and other income		
from money lending business	8,677	211,025
Corporate finance and securities broking	55,020	68,916
Banking businesses	31,424	447,147
Other	72,298	52,818
	1,116,614	1,773,421

Turnover attributable to banking businesses during the year represents turnover generated from MCB since its acquisition by the Group in May 2002 and HKCB up to its disposal by the Group in January 2002 (2001 — HKCB). Turnover attributable to banking businesses is analysed as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest income	40,718	1,042,780
Interest expenses	(14,719)	(676,753)
Commission income	3,847	46,147
Commission expenses	(274)	(6,612)
Net dealing income and other revenues	1,852	41,585
	31,424	447,147

Notes to the Financial Statements

6. PROVISION FOR LOSS ON GUARANTEED RETURN ARRANGEMENT FOR FUND MANAGEMENT

A subsidiary of the Group has been appointed as an investment manager for a fund. In accordance with the management agreement, such fund was managed on a discretionary basis with a fixed annual guaranteed return provided by the Group. During the current and prior years, the performance of the fund was adversely affected by the volatile stock markets and uncertain economic environment. As a result, a provision has been made for the guarantee arrangement. Notice has been given by the Group to terminate the management agreement and the return guarantee with effect from June 2003.

7. GAIN ON DISPOSAL OF SUBSIDIARIES

On 17th January, 2002, the Group completed the disposal of its entire interest in HKCB and its subsidiaries (the "HKCB Group") for a total consideration of HK\$4.2 billion, which gave rise to a gain on disposal of subsidiaries, before minority interests, of HK\$525,726,000. HKCB Group contributed turnover of HK\$30,393,000 (2001 — HK\$664,125,000), profit before tax of HK\$10,929,000 (2001 — HK\$28,240,000) and profit after tax of HK\$10,721,000 (2001 — HK\$26,729,000) to the Group during the year.

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Gross rental income	113,687	103,717
Less: Outgoings	(16,140)	(15,959)
Net rental income	97,547	87,758
Staff costs — Note (a):		
Wages and salaries	(179,125)	(396,106)
Retirement benefits costs	(12,041)	(15,794)
Less: Forfeited contributions	540	167
Net retirement benefits costs	(11,501)	(15,627)
Total staff costs	(190,626)	(411,733)

Notes to the Financial Statements

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Continued)

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest income — Note (b):		
Listed investments	9,579	—
Unlisted investments	16,394	23,206
Other	56,493	30,200
Dividend income from listed investments	5,372	4,654
Provision for impairment losses on unlisted held-to-maturity securities	(273)	—
Provision for impairment losses on investment securities:		
Listed	(5,796)	(1,978)
Unlisted	(61,069)	(59,486)
Net realised and unrealised holding losses on other investments in securities:		
Listed	(44,242)	(52,398)
Unlisted	(16,459)	(22,289)
Depreciation:		
Banking operations	(2,146)	(50,075)
Other	(32,194)	(34,856)
Gain/(Loss) on disposal of fixed assets:		
Banking operations	—	(546)
Other	500	(4,336)
Gain on sale of properties	—	274
Exchange gains/(losses) — net	(4,278)	427
Cost of inventories sold	(437,758)	(394,032)
Auditors' remuneration	(3,051)	(5,218)
Minimum lease payments under operating lease rentals in respect of land and buildings	(13,963)	(27,698)
Amortisation of goodwill arising on acquisition of subsidiaries	(2,094)	—

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 9 to the financial statements.
(b) The amounts exclude income relating to banking operations of the Group.

Notes to the Financial Statements

9. DIRECTORS' EMOLUMENTS

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Executive Directors:		
Directors' fees	491	646
Basic salaries, housing and other allowances and benefits in kind	11,999	12,713
Bonuses paid and payable	4,300	12,000
Retirement benefits costs	24	25
	16,814	25,384
Non-executive Directors:		
Directors' fees	582	413
	17,396	25,797

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

	Group	
	2002 Number of Directors	2001 Number of Directors
Emoluments bands (HK\$)		
Nil — 1,000,000	5	5
1,000,001 — 1,500,000	—	1
2,500,001 — 3,000,000	1	—
3,000,001 — 3,500,000	—	1
4,000,001 — 4,500,000	1	—
8,000,001 — 8,500,000	—	1
9,000,001 — 9,500,000	1	—
12,000,001 — 12,500,000	—	1
	8	9

Emoluments paid to independent non-executive Directors amounted to HK\$502,000 (2001 — HK\$333,000) during the year.

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

Details of share options granted to the directors are set out in Note 31 to the financial statements.

10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid individuals included two (2001 — two) Directors, details of whose emoluments are set out in Note 9 to the financial statements. The emoluments of the remaining three (2001 — three) non-director highest paid employees are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Basic salaries, housing and other allowances and benefits in kind	9,219	10,716
Bonuses paid and payable	6,000	57,412
Retirement benefits costs	226	840
	15,445	68,968

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

	Group	
	2002	2001
Emoluments bands (HK\$)	Number of individuals	Number of individuals
3,500,001 — 4,000,000	1	1
4,000,001 — 4,500,000	1	—
7,500,001 — 8,000,000	1	—
23,000,001 — 23,500,000	—	1
41,500,001 — 42,000,000	—	1
	3	3

Details of share options granted to the non-director highest paid employees are set out in Note 31 to the financial statements.

Notes to the Financial Statements

11. RETIREMENT BENEFITS COSTS

The Group has 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 these 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 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\$540,000 (2001 — HK\$167,000). The amounts of forfeited voluntary contributions available to offset future employer contributions to the above schemes were not material at the year end. The retirement benefit 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\$11,501,000 (2001 — HK\$15,627,000).

12. FINANCE COSTS

	Group	
	2002	2001
	HK\$’000	HK\$’000
Interest on bank loans wholly repayable within five years	62,549	58,085
Interest on bank loans wholly repayable after five years	—	25,185
Less: Interest capitalised	—	(4)
	62,549	83,266

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

13. TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
The Company and its subsidiaries:		
Provision for the year:		
Hong Kong	2,408	13,586
Overseas	6,331	12,669
	8,739	26,255
Under/(Over) provisions for prior years:		
Hong Kong	1,594	4,522
Overseas	(10,983)	(597)
	(9,389)	3,925
	(650)	30,180
Share of tax attributable to overseas associates	1,048	(409)
Tax charge for the year	398	29,771

Hong Kong profits tax has been provided for at the rate of 16 per cent. (2001 — 16 per cent.) on the estimated assessable profits arising in Hong Kong for the year. Overseas taxes have been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof. No tax provision was required for the jointly controlled entity of the Group as it did not earn any assessable profits for the year (2001 — Nil).

No provision for deferred tax has been made because the net effect of timing differences was not material at the balance sheet date (2001 — Nil). As at 31st December, 2002, the Group had unrecognised deferred tax assets of HK\$32 million (2001 — HK\$98 million) in respect of tax losses and unabsorbed capital allowances.

14. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders includes the loss for the year ended 31st December, 2002 dealt with in the financial statements of the Company amounting to HK\$7,405,000 (2001 — HK\$592,987,000).

Notes to the Financial Statements

15. LOSS ACCUMULATED FOR THE YEAR

	Group	
	2002	2001
	HK\$'000	HK\$'000
Loss accumulated for the year by:		
The Company and its subsidiaries	266,201	407,855
Associates	4,520	143,513
	270,721	551,368

16. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$270,721,000 (2001 — HK\$551,368,000); and (ii) the number of 9,201,089,000 shares (2001 — 9,201,089,000 shares) in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented for the years ended 31st December, 2002 and 2001 as there were no dilutive potential ordinary shares.

17. GOODWILL

Group

	Goodwill	Negative
	Goodwill	Goodwill
	HK\$'000	HK\$'000
Cost:		
Additions during the year and at 31st December, 2002	149,168	(131,668)
Accumulated amortisation and impairment losses:		
Amortisation provided/ (Recognised as income) during the year	2,094	(131,668)
Impairment losses provided during the year	83,193	—
At 31st December, 2002	85,287	(131,668)
Net book value:		
At 31st December, 2002	63,881	—

18. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture, fixtures, plant and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1st January, 2002	741,266	31,167	78,727	8,365	859,525
Additions during the year	—	556	11,969	1,600	14,125
Acquisition of subsidiaries	—	—	336	—	336
Disposals during the year	—	—	(3,459)	(257)	(3,716)
Reclassification from assets less liabilities attributable to banking operations	—	17,490	25,101	912	43,503
Exchange adjustments	6,479	(19)	2,820	79	9,359
At 31st December, 2002	747,745	49,194	115,494	10,699	923,132
Accumulated depreciation and impairment losses:					
At 1st January, 2002	180,072	30,847	40,362	6,385	257,666
Provision for the year	15,074	1,580	15,118	422	32,194
Acquisition of subsidiaries	—	—	307	—	307
Impairment losses	283,194	—	—	—	283,194
Disposals during the year	—	—	(3,058)	(166)	(3,224)
Reclassification from assets less liabilities attributable to banking operations	—	16,131	23,010	855	39,996
Exchange adjustments	1,753	(16)	1,389	16	3,142
At 31st December, 2002	480,093	48,542	77,128	7,512	613,275
Net book value:					
At 31st December, 2002	267,652	652	38,366	3,187	309,857
At 31st December, 2001	561,194	320	38,365	1,980	601,859

Certain leasehold land and buildings have been mortgaged to secure banking facilities made available to the Group as set out in Note 33 to the financial statements.

Notes to the Financial Statements

18. FIXED ASSETS (Continued)

The net book value of leasehold land and buildings comprises:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	206,672	466,097
Leasehold land and buildings situated outside Hong Kong on:		
Short term lease	17,500	—
Medium term lease	22,970	75,125
Long term lease	20,510	19,972
	60,980	95,097
Total	267,652	561,194

Company

	Leasehold improve- ments HK\$'000	Furniture, fixtures, plant and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At 1st January, 2002	2,219	4,736	5,155	12,110
Additions during the year	—	120	—	120
At 31st December, 2002	2,219	4,856	5,155	12,230
Accumulated depreciation:				
At 1st January, 2002	2,202	4,714	5,155	12,071
Provision for the year	6	19	—	25
At 31st December, 2002	2,208	4,733	5,155	12,096
Net book value:				
At 31st December, 2002	11	123	—	134
At 31st December, 2001	17	22	—	39

19. INVESTMENT PROPERTIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of the year	614,956	703,539
Reclassification from fixed assets	—	87,077
Reclassification to fixed assets	—	(15,400)
Deficit on revaluation	(90,155)	(160,260)
Balance at end of the year	524,801	614,956
Medium term leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of the year	1,114,035	1,096,903
Surplus on revaluation	335,556	17,124
Exchange adjustments	(40)	8
Balance at end of the year	1,449,551	1,114,035
Freehold land and buildings situated outside Hong Kong:		
Reclassification from assets less liabilities attributable to banking operations	6,786	—
Surplus on revaluation	748	—
Exchange adjustments	(198)	—
Balance at end of the year	7,336	—
Total	1,981,688	1,728,991

Based on professional valuations as at 31st December, 2002 made by FPD Savills (Hong Kong) Limited, chartered surveyors, the investment properties in Hong Kong were valued on an open market, existing use basis at HK\$524,801,000 (2001 — HK\$614,956,000).

Based on professional valuations as at 31st December, 2002 made by the Putian City Shen Xin Certified Public Accountants, Jones Lang LaSalle Limited, DTZ Debenham Tie Leung International Property Advisers, RHL Appraisal Ltd. and Professional Asset Valuers, Incorporated, the investment properties situated outside Hong Kong were valued on an open market, existing use basis at HK\$1,456,887,000 (2001 — HK\$1,114,035,000).

Notes to the Financial Statements

19. INVESTMENT PROPERTIES (Continued)

The portion of the revaluation surplus attributable to the Group amounted to HK\$133,757,000 (2001 — revaluation deficit attributable to the Group amounted to HK\$148,283,000), of which HK\$81,032,000 has been credited to the investment property revaluation reserve account (2001 — HK\$59,817,000 has been debited to the investment property revaluation reserve account) as set out in Note 32 to the financial statements and HK\$52,725,000 has been written back to the profit and loss account (2001 — HK\$88,466,000 has been charged to the profit and loss account).

Certain investment properties have been mortgaged to secure banking facilities made available to the Group as set out in Note 33 to the financial statements.

20. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
Land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of the year	154,507	155,899
Additions during the year	18,982	395
Disposals during the year	(44,477)	(1,035)
Interest capitalised during the year	—	4
Exchange adjustments	(22)	(756)
Balance at end of the year	128,990	154,507
Provisions for impairment losses:		
Balance at beginning of the year	(126,710)	(126,710)
Disposals during the year	37,710	—
Balance at end of the year	(89,000)	(126,710)
Total	39,990	27,797
Land and buildings:		
Leasehold (Note)	16,710	23,900
Freehold	23,280	3,897
Total	39,990	27,797

Note: The lease terms of the properties under development situated outside Hong Kong are determined by their final intended use upon completion and vary from 40 to 70 years.

21. INTERESTS IN ASSOCIATES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets in unlisted companies	394,750	330,237
Due from associates	136,802	172,454
Due to associates	(2,155)	(2,138)
Goodwill arising on acquisition less amortisation	5,749	—
Negative goodwill arising on acquisition	(1,760)	—
	533,386	500,553
Provisions for impairment losses	(76,302)	(77,608)
	457,084	422,945
Share of post-acquisition deficits at the balance sheet date	(164,171)	(169,882)

The share of post-acquisition deficits represents that portion attributable to the Group before minority interests included therein.

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

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
Additions during the year and at 31st December, 2002	6,087	(1,760)
Accumulated amortisation:		
Amortisation provided during the year and at 31st December, 2002	338	—
Net book value:		
At 31st December, 2002	5,749	(1,760)

Notes to the Financial Statements

21. INTERESTS IN ASSOCIATES (Continued)

Included in the interests in associates was an amount of HK\$260 million relating to the Group's 25 per cent. interest in Fujian Pacific Electric Company Limited ("FPE") which is principally engaged in developing, constructing and operating a power plant in Putian City, Fujian Province, China. The power plant has been physically completed and in operation. However, its formal commercial operation has been postponed due to the ongoing re-negotiation of the electricity tariff and other terms with the Fujian provincial authorities and the local power company. The postponement of the formal commercial operation of the power plant project, despite its physical completion and revenue-generating operation, is not in accordance with the terms of its project financing. During the year, an interim agreement with the local power company regarding the electricity tariff and other terms has been reached. FPE has been working closely with the lenders, the Fujian provincial authorities and the local power company with a view to resolving all the issues amicably.

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	1
Due from associates	27,595	61,150
	27,596	61,151

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal associates are set out on pages 104 to 105.

22. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets in an unlisted company	1	1
Due from a jointly controlled entity	69,937	69,937
	69,938	69,938
Provisions for impairment losses	(69,938)	(69,938)
	—	—

The amount due from the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly controlled entity as at 31st December, 2002 were as follows:

Name	Form of business structure	Place of incorporation and operations	Percentage of equity interest attributable to the Group	Principal activity
Cenford Investments Limited	Corporate	Hong Kong	50	Property development

Notes to the Financial Statements

23. INVESTMENT SECURITIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities, at cost:				
Listed in Hong Kong	45,633	45,633	—	—
Listed outside Hong Kong	1,256,615	1,256,614	—	—
Unlisted	197,851	113,785	—	—
	1,500,099	1,416,032	—	—
Provisions for impairment losses	(1,341,794)	(1,315,551)	—	—
	158,305	100,481	—	—
Unlisted debt securities, at cost	10,975	7,810	7,810	7,810
Unlisted investment funds, at cost	215,141	223,109	—	—
Provisions for impairment losses	(38,580)	(68,260)	—	—
	176,561	154,849	—	—
Total	345,841	263,140	7,810	7,810
Market value of listed securities at 31st December	39,665	72,936	—	—

24. HELD-TO-MATURITY SECURITIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities, at amortised cost:				
Listed outside Hong Kong	207,540	—	—	—
Unlisted	420,146	354,550	—	319,869
	627,686	354,550	—	319,869
Provisions for impairment losses	(11,018)	—	—	—
	616,668	354,550	—	319,869
Portion included under current assets	(112,320)	(354,550)	—	(319,869)
Non-current portion	504,348	—	—	—
Market value of listed securities at 31st December	208,050	—	—	—

As at 31st December, 2001, included in held-to-maturity securities was an amount of HK\$22,194,000 which represented a commercial paper in a principal amount of US\$3 million acquired by the Group in the market for investment purpose. The commercial paper was issued by a fellow subsidiary of the Group in 1997, carried interest at 2.75 per cent. per annum above the London Interbank Offered Rate and was fully redeemed during the year.

Notes to the Financial Statements

25. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS

Due to the dissimilar nature of banking and non-banking operations, the assets less liabilities attributable to banking operations have been shown separately in the consolidated financial statements. The financial information in respect of banking operations shown below is based on the audited financial statements of MCB for the year ended 31st December, 2002.

The comparative balances represent the financial information in respect of Hongkong Chinese Limited ("HKCL"), a listed subsidiary of the Company, based on the consolidated financial statements of HKCL for the year ended 31st December, 2001.

		Group	
	Note	2002 HK\$'000	2001 HK\$'000
Cash and short-term funds		70,535	5,818,886
Placements with banks and other financial institutions maturing between one and twelve months		11,467	37,847
Certificates of deposit held		—	605,402
Other investments in securities	(a)	—	194,146
Advances, trade bills and other accounts		166,719	12,170,419
Held-to-maturity securities	(b)	9,757	465,298
Investment securities	(c)	—	25,836
Interests in associates		—	55,547
Fixed assets	(d)	895	1,261,591
		259,373	20,634,972
Deposits and balances of banks and other financial institutions		(3)	(60,880)
Current, fixed, savings and other deposits of customers		(109,010)	(14,589,883)
Certificates of deposit issued		—	(990,607)
Other accounts and provisions		(1,389)	(790,127)
		(110,402)	(16,431,497)
		148,971	4,203,475

25. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (Continued)

Following the disposal (the "Disposal") of the HKCB Group by HKCL in January 2002, the assets and liabilities of HKCL and its remaining subsidiaries, other than MCB, which were previously classified under "Assets less liabilities attributable to banking operations", were reclassified to respective assets and liabilities in the consolidated balance sheet of the Group. The comparative balances have not been reclassified as, in the opinion of the Directors, such balances were not material to the balance sheet of the Group.

The banking businesses were previously disclosed as discontinuing operations in the prior year due to the Disposal. However, the Group resumed its banking operations as a result of the acquisition of MCB during the year. Accordingly, the comparative balances have been restated to accord with the current year's presentation.

Note:

(a) Other investments in securities

	Group	
	2002	2001
	HK\$'000	HK\$'000
Debt securities:		
Listed, at market value	—	3,199
Unlisted, at fair value	—	3,874
	—	7,073
Equity securities:		
Listed, at market value	—	29,575
Unlisted, at fair value	—	123,719
	—	153,294
Unlisted investment funds, at fair value	—	33,779
	—	194,146

Notes to the Financial Statements

25. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (Continued)

(b) Held-to-maturity securities

	Group	
	2002	2001
	HK\$'000	HK\$'000
Debt securities, at amortised cost:		
Listed	9,757	207,167
Unlisted	—	297,493
	9,757	504,660
Less: Provisions for impairment losses	—	(39,362)
	9,757	465,298
Market value of listed securities at 31st December	9,949	178,601

(c) Investment securities

	Group	
	2002	2001
	HK\$'000	HK\$'000
Unlisted debt securities, at cost	—	11,590
Unlisted equity securities, at cost	—	14,246
	—	25,836

25. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (Continued)

(d) Fixed assets

Group

	Investment properties HK\$'000	Bank premises and other leasehold properties HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:				
At 1st January, 2002	102,381	1,210,920	288,936	1,602,237
Acquisition of a subsidiary	—	—	6,311	6,311
Disposals during the year	(102,381)	(1,210,920)	(288,936)	(1,602,237)
Additions during the year	—	—	55	55
At 31st December, 2002	—	—	6,366	6,366
Accumulated depreciation:				
At 1st January, 2002	—	154,630	186,016	340,646
Acquisition of a subsidiary	—	—	5,219	5,219
Charge for the year	—	861	1,285	2,146
Disposals during the year	—	(155,491)	(187,049)	(342,540)
At 31st December, 2002	—	—	5,471	5,471
Net book value:				
At 31st December, 2002	—	—	895	895
At 31st December, 2001	102,381	1,056,290	102,920	1,261,591

26. PROPERTIES HELD FOR SALE

As at 31st December, 2002, the carrying amount of properties held for sale carried at net realisable value is HK\$86,280,000 (2001 — HK\$115,500,000).

27. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	3,494	2,374
Finished goods and goods held for resale	61,117	60,266
	64,611	62,640

The carrying amount of inventories included in the above that is, carried at net realisable value amounted to HK\$6,035,000 (2001 — HK\$5,237,000).

Notes to the Financial Statements

28. OTHER INVESTMENTS IN SECURITIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Listed equity securities, at market value:		
Hong Kong	164,747	144,368
Overseas	28,940	13,803
	<u>193,687</u>	<u>158,171</u>
Debt securities:		
Listed outside Hong Kong, at market value	3,120	—
Unlisted, at fair value	6,478	261,963
	<u>9,598</u>	<u>261,963</u>
Unlisted investment funds, at fair value	<u>107,555</u>	<u>30,504</u>
	<u><u>310,840</u></u>	<u><u>450,638</u></u>

As at 31st December, 2001, included in the investment funds was an amount of HK\$5.9 million which represents an investment made by an independent fund manager on a discretionary basis in securities of a fellow subsidiary of the Group. The investment was disposed of during the year.

29. DEBTORS, PREPAYMENTS AND DEPOSITS

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Repayable on demand	195,474	—
Within 30 days	55,690	48,298
Between 31 and 60 days	45,392	45,148
Between 61 and 90 days	26,593	27,155
Between 91 and 180 days	7,213	8,067
Over 180 days	18,676	1,234
	349,038	129,902

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

The balance in the current year relating to trade receivable from corporate finance and securities broking segment of HK\$196,720,000. In the prior year, such balances were classified under "Assets less liabilities attributable to banking operations" as further explained in Note 25 to the financial statements.

Notes to the Financial Statements

30. SHARE CAPITAL

Shares

	Group and Company	
	2002	2001
	HK\$'000	HK\$'000
Authorised:		
28,000,000,000 (2001 — 28,000,000,000)		
shares of HK\$0.10 each	2,800,000	2,800,000
Issued and fully paid:		
9,201,088,716 (2001 — 9,201,088,716)		
shares of HK\$0.10 each	920,109	920,109

Warrants

As at 1st January, 2002, there were outstanding warrants with an aggregate subscription value of HK\$429,356,000. The warrants entitled the registered holders to subscribe in cash for up to approximately 1,341,738,000 new shares of HK\$0.10 each in the Company at a subscription price of HK\$0.32 per share (subject to adjustment). The warrants were exercisable at any time within a period of three years commencing on and including 23rd July, 1999. On 22nd July, 2002, the subscription rights attached to all the outstanding warrants expired and following such date, the warrants ceased to be valid for any purpose. Up to 22nd July, 2002, no warrants were cancelled or exercised.

31. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in Note 2 to the financial statements and under the heading "Employee benefits" in Note 3(z) to the financial statements. As a result, the following detailed disclosures relating to the share option schemes of the Company and its subsidiaries are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as such disclosures are also a requirement of the Listing Rules.

Pursuant to the Share Option Scheme for Employees of the Company (the "Share Option Scheme") approved and adopted by its shareholders on 2nd May, 1994 (the "Adoption Date"), the Directors of the Company may, at their discretion, grant to any employees (including Directors) of the Company and its subsidiaries options to subscribe for shares in the Company. The purpose of the adoption of the Share Option Scheme was to provide an incentive scheme to the employees of the Company and its subsidiaries. Under the rules of the Share Option Scheme, no more options can be granted from the tenth anniversary of the Adoption Date. The options can be exercisable after two months from the date on which the options are deemed to be granted and accepted and prior to the expiry of ten years from that date.

31. SHARE OPTION SCHEMES (Continued)

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10 per cent. of the number of issued shares of the Company from time to time, excluding the aggregate number of shares issued on exercise of options, and the maximum number of shares in respect of which options may be granted under the Share Option Scheme in any one financial year shall not exceed 5 per cent. of the total number of issued shares of the Company from time to time. In addition, the maximum number of shares in respect of which options may be granted under the Share Option Scheme to any grantee shall not exceed 25 per cent. of the number of shares subject to the Share Option Scheme at the time of grant. The exercise price for the share under the Share Option Scheme will be determined by the Directors of the Company at their absolute discretion but in any event shall not be less than 80 per cent. of the average of the closing price of the shares of the Company as stated on daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever is the greater. The consideration for the grant is HK\$1.00 per grantee which must be paid on acceptance to the Company by the grantee within 28 days after the date of offer of the option.

The following is a summary of movement in share options of the Company during the year:

Date of grant	Exercise price per share	Exercise period of share options	Quantity of share options outstanding at 1st January, 2002	Quantity of share options exercised/ lapsed during the year	Quantity of share options outstanding at 31st December, 2002
23rd June, 1997	HK\$0.883	August 1997 to June 2007	5,800,000	Nil	5,800,000

Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each share option is entitled to subscribe for six shares of HK\$0.10 each in the Company in cash at the above exercise price per share which is subject to adjustment.

As at 31st December, 2002, save for Mr. John Luen Wai Lee, a Director of the Company, held 1,500,000 options, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any options to subscribe for shares of the Company. The remaining 4,300,000 share options are held by directors of the Company's subsidiaries or employees of the Company or its subsidiaries.

Notes to the Financial Statements

31. SHARE OPTION SCHEMES *(Continued)*

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 920,108,871 shares of HK\$0.10 each, representing approximately 10 per cent. of the issued share capital of the Company. The exercise in full of 5,800,000 share options would, under the present capital structure of the Company, result in the issue of 34,800,000 shares of HK\$0.10 each, representing approximately 0.38 per cent. of the issued share capital of the Company.

Since no share options were granted under the Share Option Scheme during the year, no value of the share options granted has been disclosed.

On 1st September, 2001, Chapter 17 of the Listing Rules was amended whereby if the Company wishes to continue to grant share options under the Share Option Scheme on or after 1st September, 2001, it must also comply with the new requirements set out therein.

Details of the share option schemes of the subsidiaries of the Company are set out below.

- (a) Pursuant to the Share Option Scheme for Employees (the "HKCL Share Option Scheme") approved and adopted by the shareholders of Hongkong Chinese Limited ("HKCL"), a listed subsidiary of the Company, on 21st September, 1992 (the "HKCL Adoption Date"), the directors of HKCL might, at their discretion, grant to any full-time employees of HKCL and its subsidiaries (the "HKCL Group"), including full-time executive directors, options to subscribe for shares in HKCL. The purpose of the adoption of the HKCL Share Option Scheme was to motivate the employees of the HKCL Group. Under the rules of the HKCL Share Option Scheme, no more options could be granted from the tenth anniversary of the HKCL Adoption Date. The share options vested after six months and were exercisable for a period expiring on the tenth anniversary date after the options were granted and accepted.

The maximum number of shares in respect of which options might be granted under the HKCL Share Option Scheme should not exceed 10 per cent. of the number of issued shares of HKCL from time to time, excluding the aggregate number of shares which were issued pursuant to the HKCL Share Option Scheme, and the maximum number of shares in respect of which options might be granted in any one financial year should not exceed 5 per cent. of the total number of issued shares of HKCL from time to time. In addition, the maximum number of shares in respect of which options might be granted under the HKCL Share Option Scheme to any grantee should not exceed 25 per cent. of the number of shares of HKCL subject to the HKCL Share Option Scheme at the time of grant. The exercise price of options was determined by the board of directors of HKCL and should not be less than the higher of the nominal value of the shares of HKCL and 80 per cent. of the average closing prices of the shares of HKCL on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. The consideration for the grant was HK\$1.00 per grantee which must be paid on acceptance to HKCL by the grantee within 28 days after the date of offer of the options.

31. SHARE OPTION SCHEMES (Continued)

The following is a summary of movements in share options of HKCL during the year:

Date of grant	Exercise price per share	Exercise period of share options	Quantity of share options outstanding at 1st January, 2002	Quantity of share options lapsed during the year	Quantity of share options outstanding at 31st December, 2002
9th March, 1994	HK\$2.59	September 1994 to March 2004	490,000	490,000	Nil
4th August, 1999	HK\$2.40	February 2000 to August 2009	100,000	100,000	Nil
			590,000	590,000	Nil

The holder of each share option was entitled to subscribe for one share of HK\$1.00 in HKCL in cash at the above exercise price per share which was subject to adjustment. The above interests in options to subscribe for shares of HKCL were held by the employees of HKCL Group. During the year, no options were exercised by the option holders and all the above outstanding options lapsed in January 2002 in accordance with the rules of the HKCL Share Option Scheme as the holders of the options were no longer the employees of the HKCL Group. The HKCL Share Option Scheme expired on 21st September, 2002.

As at 31st December, 2002, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any options to subscribe for shares of HKCL.

Since no share options were granted under the HKCL Share Option Scheme during the year, no value of the share options granted has been disclosed.

- (b) Pursuant to the Executives' Share Option Scheme of Auric Pacific Group Limited ("Auric"), a listed subsidiary of the Company in Singapore, approved by the shareholders of Auric on 17th December, 1992 (the "Auric Share Option Scheme"), the directors of Auric might, at their discretion, grant to any employees of Auric or any of its subsidiaries (the "Auric Group") options to subscribe for shares in Auric. The purpose of the adoption of the Auric Share Option Scheme was to provide opportunities for full-time senior executives of the Auric Group of the rank of manager and above (including full-time executive directors of Auric) who have contributed to the growth and prosperity of the Auric Group to participate in the equity of Auric. The Auric Share Option Scheme continued in operation for a period of ten years from the date of adoption, that is, 17th December, 1992 and expired after 16th December, 2002. The share options should be held for one year from the date of grant before they could be exercised.

Notes to the Financial Statements

31. SHARE OPTION SCHEMES (Continued)

The total number of shares in respect of which Auric might grant options should at no time exceed 5 per cent. of the total issued share capital of Auric (the "Issue Limit"). The total number of shares for which Auric might grant options in any one financial year should not exceed 10 per cent. of the Issue Limit (the "Annual Limit") provided that any part of the Annual Limit not utilized might, subject to any necessary approvals, be carried forward to succeeding financial years and for this purpose, the unutilized Annual Limit of a financial year should be added to and form part of the Annual Limit of the next succeeding year. The maximum number of shares of Auric in respect of which options might be granted to any single executive for the entire duration of the Auric Share Option Scheme should not in aggregate exceed 1,000,000 shares of Auric. The maximum entitlement of each participant under the Auric Share Option Scheme is as follows:

Category	Maximum entitlement of shares of Auric
Chief Executive Officer	200,000
Chief Financial Officer	100,000
Divisional Directors	100,000
General Managers	30,000
Assistant General Managers	20,000
Business Managers	15,000

The exercise price for the shares under the Auric Share Option Scheme would be an amount equal to the greater of the nominal value of the shares of Auric and the average of the last transacted prices of the shares of Auric for the five consecutive market days on which dealings in shares took place on the Singapore Exchange Securities Trading Limited immediately preceding the date on which the share options were offered. The consideration for the grant was S\$1.00 per grantee which must be paid on acceptance to Auric within 30 days after the date of offer of the options.

31. SHARE OPTION SCHEMES (Continued)

The following is a summary of movements in share options of Auric during the year:

Date of grant	Exercise price per share	Exercise period of share options	Quantity of share options outstanding at 1st January, 2002	Quantity of share options lapsed during the year	Quantity of share options outstanding at 31st December, 2002
25th March, 1998	\$S1.02	March 1999 to March 2003	75,000	15,000	60,000
27th April, 1999	\$S1.53	April 2000 to April 2004	135,000	45,000	90,000
			210,000	60,000	150,000

The holder of each share option is entitled to subscribe for one share of \$S0.50 in Auric in cash at the above exercise price per share which is subject to adjustment. During the year, no options were exercised and options for 60,000 shares of \$S0.50 each lapsed as the holders of these options were no longer the employees of the Auric Group.

As at 31st December, 2002, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any options to subscribe for shares of Auric. The above interests in options to subscribe for shares of Auric were held by the employees of the Auric Group.

Since no share options were granted under the Auric Share Option Scheme during the year, no value of the share options granted has been disclosed.

Subsequent to the balance sheet date, 60,000 share options, which were granted on 25th March, 1998, lapsed on 24th March, 2003. The exercise in full of the remaining options which had been granted would, under the present capital structure of Auric, result in the issue of 90,000 shares of \$S0.50 each, representing 0.07 per cent. of the issued share capital of Auric.

Notes to the Financial Statements

32. RESERVES

Group

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Special capital reserve <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Other asset revaluation reserve <i>HK\$'000</i>	Exchange equalisation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	785,257	83,786	1,884,017	12,110	373,224	(149,745)	911,905	3,900,554
Deficit on revaluation of investment properties	—	—	—	(59,817)	—	—	—	(59,817)
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	—	—	—	—	(7,994)	—	7,994	—
Release of goodwill previously eliminated against consolidated reserves upon impairment losses	—	12,182	14,867	—	—	—	—	27,049
Reclassification of land and buildings to investment properties	—	—	—	47,707	(47,707)	—	—	—
Reserves (other than retained profits) attributable to banking operations	—	—	—	—	—	(168)	—	(168)
Exchange differences on consolidation	—	—	—	—	—	(23,595)	—	(23,595)
Loss for the year	—	—	—	—	—	—	(551,368)	(551,368)
As 31st December, 2001	785,257	95,968	1,898,884	—	317,523	(173,508)	368,531	3,292,655

32. RESERVES (Continued)

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Special capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2002	785,257	95,968	1,898,884	—	317,523	(173,508)	368,531	3,292,655
Surplus on revaluation of investment properties	—	—	—	81,032	—	—	—	81,032
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	—	—	—	—	(7,994)	—	7,994	—
Release of goodwill previously eliminated against consolidated reserves upon disposal of subsidiaries	—	(2,277)	177,064	—	—	—	—	174,787
Exchange differences on consolidation	—	—	—	—	—	7,701	—	7,701
Loss for the year	—	—	—	—	—	—	(270,721)	(270,721)
As 31st December, 2002	785,257	93,691	2,075,948	81,032	309,529	(165,807)	105,804	3,285,454

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 2nd December, 1997 and the subsequent confirmation by the court on 22nd December, 1997, the then entire amount standing to the credit of the share premium account of the Company in the amount of HK\$849,149,000 was cancelled on 23rd December, 1997 (the "Cancellation").

The credit arising from the Cancellation was transferred to a special capital reserve account. A summary of the terms of the undertaking given by the Company (the "Undertaking") in respect of the application of the special capital reserve is set out below:

- (1) The reserve is to be used for eliminating goodwill which has already arisen on the acquisition of subsidiaries and associates at the date of the Cancellation and that arising as a result of future acquisitions.

Notes to the Financial Statements

32. RESERVES (Continued)

- (2) The reserve (a) shall not be treated as realised profits; and (b) shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which were in existence on the date of the Cancellation provided that:
- (i) the Company shall be at liberty to apply the reserve for the same purposes as a share premium account may be applied; and
 - (ii) the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the subsequent confirmation by the court on 26th January, 1999, the then issued and fully paid-up share capital of the Company was reduced from approximately HK\$1,533,498,000 divided into 3,066,996,246 shares of HK\$0.50 each to approximately HK\$306,700,000 divided into 3,066,996,246 shares of HK\$0.10 each and an amount standing to the credit of the share capital account of the Company of approximately HK\$1,226,799,000 was cancelled and transferred to a special capital reserve account, the application of which is subject to the same conditions as specified in (2)(a) and (2)(b)(ii) of the terms of the Undertaking above.

As at 1st January, 2002, the balance of the special capital reserve subject to the Undertaking amounted to HK\$502,092,000. As a result of the disposal of subsidiaries as referred to in Note 7 to the financial statements, an amount of HK\$177,064,000 of the goodwill previously eliminated against this reserve account was realised and added back to the reserve. As at 31st December, 2002, the balance of the special capital reserve subject to the Undertaking was increased by HK\$177,064,000 and amounted to HK\$679,156,000.

The other asset revaluation reserve comprises revaluation surplus in respect of leasehold land and buildings which were reclassified from investment properties.

32. RESERVES (Continued)

In the opinion of the Directors, the realisation of any revaluation surplus arising on the disposal of the Group's investment properties and leasehold properties would not result in any material tax liability and, consequently, the amount of potential deferred tax thereon has not been quantified.

Company

	Share premium <i>HK\$'000</i>	Special capital reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	783,382	2,075,948	705	1,024,939	3,884,974
Loss for the year					
— Note 14	—	—	—	(592,987)	(592,987)
At 31st December, 2001 and 1st January, 2002	783,382	2,075,948	705	431,952	3,291,987
Loss for the year					
— Note 14	—	—	—	(7,405)	(7,405)
At 31st December, 2002	783,382	2,075,948	705	424,547	3,284,582

At 31st December, 2002, the Company's reserves available for distribution, calculated in accordance with Section 79B of the Companies Ordinance, amount to HK\$424,547,000 (2001— HK\$431,952,000). There was no movement in other distributable reserve as arisen from the release of the Undertaking during the year, the balance of which was amounted to HK\$1,396,792,000 as at 31st December, 2002.

Notes to the Financial Statements

33. BANK LOANS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans:				
Secured (<i>Note</i>)	1,113,059	936,829	584,500	419,358
Unsecured	10,000	—	—	—
	1,123,059	936,829	584,500	419,358
Repayable within one year	(430,508)	(261,358)	(242,900)	(261,358)
Non-current portion	692,551	675,471	341,600	158,000
Bank loans repayable:				
Within one year	430,508	261,358	242,900	261,358
In the second year	73,193	284,980	26,400	118,400
In the third to fifth years, inclusive	317,358	242,337	13,200	39,600
After five years	302,000	148,154	302,000	—
	1,123,059	936,829	584,500	419,358

Note: The bank loans are secured by shares in certain listed subsidiaries of the Group, first legal mortgages over certain investment properties and leasehold land and buildings of the Group and certain securities owned by margin clients of the Group.

34. LOAN NOTE

As at 1st January 2002, the Group had an outstanding loan note of HK\$73,500,000 (the "Loan Note") due to Lippo Limited ("Lippo"), an intermediate holding company of the Company. The Loan Note is repayable immediately upon Lippo's issuing a written notice of not less than 10 days, interest-bearing at best lending rate of The Hongkong and Shanghai Banking Corporation Limited and the interest thereon is payable monthly. During the year, the Group redeemed HK\$15,000,000 of the Loan Note at par in cash. As at 31st December, 2002, after the above redemption, the Group had an outstanding Loan Note of HK\$58,500,000.

35. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Repayable on demand	459,352	—
Within 30 days	38,606	38,646
Between 31 and 60 days	26,092	29,279
Between 61 and 90 days	13,993	6,865
Between 91 and 180 days	14,120	5,947
Over 180 days	15,446	3,019
	567,609	83,756

The balance in the current year relating to trade creditors from corporate finance and securities broking segment of HK\$459,255,000. In the prior year, such balances were classified under "Assets less liabilities attributable to banking operations" as further explained in Note 25 to the financial statements.

36. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	2,900,386	1,966,933
Shares listed in Hong Kong	242,754	—
	3,143,140	1,966,933
Due from subsidiaries	5,203,522	5,571,065
Due to subsidiaries	(1,585,673)	(1,592,064)
	6,760,989	5,945,934
Provisions for impairment losses	(2,146,514)	(1,944,692)
	4,614,475	4,001,242
Market value of listed shares at 31st December	99,950	—

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 93 to 103.

Notes to the Financial Statements

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'000	Group Restated 2001 HK\$'000
Profit/(Loss) before tax	107,187	(631,884)
Adjustments for:		
Share of results of associates	3,472	143,922
Loss/(Gain) on disposal of:		
Fixed assets	(500)	4,336
Properties under development	—	(274)
Subsidiaries	(525,726)	—
Associates	—	5,140
Investment securities	—	240
Gain on dilution of shareholding in an associate	(16,423)	—
Provisions/(Write-back of provisions) for impairment losses:		
Goodwill	83,193	27,049
Fixed assets	283,194	117,458
Associates	(2,668)	41,600
Jointly controlled entity	—	3,000
Investment securities	66,865	58,630
Held-to-maturity securities	273	—
Provision for loss on guaranteed return arrangement for fund management	88,290	72,242
Deficit/(Write-back of deficit) on revaluation of investment properties	(52,725)	88,466
Negative goodwill recognised as income	(131,668)	(13,481)
Interest expenses	62,205	64,055
Interest income	(82,466)	(53,406)
Dividend income	(5,372)	(4,654)
Depreciation	32,194	34,856
Amortisation of goodwill	2,094	—
Operating loss before changes in working capital	(88,581)	(42,705)
Decrease/(Increase) in properties held for sale	29,220	(500)
Decrease/(Increase) in inventories	2,100	(18,780)
Decrease in held-to-maturity securities	434,271	322,464
Increase in other investments in securities	(51,182)	(384,794)
Decrease/(Increase) in loans and advances	(50,408)	39,307
Decrease/(Increase) in debtors, prepayments and deposits	(82,928)	6,791
Increase in certificates of deposit held	(160,000)	—
Increase in client trust bank balances	(39,429)	—
Increase in bank deposits held over three months	(309,221)	—
Increase/(Decrease) in creditors, accruals and deposits received	132,406	(49,337)
	(183,752)	(127,554)
Loss/(Profit) attributable to banking operations	(13,890)	47,133
Cash used in operations	(197,642)	(80,421)

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Banking operations

As set out in Note 25 to the financial statements, due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations are shown separately. Accordingly, details of the cash flows in respect of the banking operations are not disclosed in the cash flow statement of the Group. Details of the significant cash flows between the banking operations and the other Group companies are set out below:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Dividends received from banking operations	—	61,568
Advances to banking operations	—	(256)
	—	61,312

(c) Disposal of subsidiaries

	Group	
	2002	2001
	HK\$'000	HK\$'000
Net assets disposal of:		
Assets less liabilities attributable		
to banking operations	3,485,273	—
Profit on disposal	525,726	—
Release of goodwill on disposal	174,787	—
Consideration received	4,185,786	—

Notes to the Financial Statements

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of subsidiaries (Continued)

Satisfied by:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Cash consideration received and net inflow of cash and cash equivalents	3,345,786	—
Certificates of deposit	840,000	—
	4,185,786	—

(d) Acquisition of subsidiaries

	Group	
	2002	2001
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	29	—
Properties held for sale	—	115,000
Cash and bank balances	24	2,006
Assets less liabilities attributable to banking operations	146,011	—
Debtors, prepayments and deposits	205	6,797
Creditors, accruals and deposits received	(229)	(1,346)
Minority interests	(21,906)	(54,894)
	124,134	67,563
Transferred from interests in associates	—	(49,082)
Goodwill arising on acquisition	69,305	—
Negative goodwill arising on acquisition	—	(13,481)
	193,439	5,000

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Acquisition of subsidiaries (Continued)

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Cash consideration paid	(193,439)	(5,000)
Cash and bank balances acquired	24	2,006
Net outflow of cash and cash equivalents	(193,415)	(2,994)

The subsidiaries acquired contributed turnover of HK\$9,362,000 (2001 — HK\$7,000) and profit after tax of HK\$1,662,000 (2001 — HK\$612,000) to the Group during the year.

(e) Major non-cash transaction

During the year, cash and bank balances of HK\$652,859,000 attributable to banking operations have been reclassified and grouped under cash and bank balances upon the disposal of HKCB in January 2002. In the prior year, investment securities with fair value of HK\$319,869,000 were transferred to held-to-maturity securities.

Notes to the Financial Statements

38. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities:

(a) Guarantees in respect of banking facilities

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees provided in respect of banking facilities granted to:				
Subsidiaries	—	—	98,075	92,088
An associate	11,765	11,100	11,765	11,100
Investee companies	2,925	2,924	2,925	2,924
	14,690	14,024	112,765	106,112

- (b) As at 31st December, 2002, the Group had entered into certain foreign exchange contracts. Pursuant to the contracts, the Group is committed to sell Japanese Yen with a principal sum of HK\$8,147,000 and to purchase United States Dollars with a principal sum of HK\$8,032,000. As at 31st December, 2001, the Group was committed to sell Japanese Yen with principal sums of HK\$131,177,000, to purchase Japanese Yen with a principal sum of HK\$15,575,000, to sell United States Dollars with principal sums of HK\$15,595,000 and to purchase United States Dollars with a principal sum of HK\$140,357,000. The transactions committed as at 31st December, 2001 were fully settled during the year.

(c) Details of the off-balance sheet exposures relating to banking operations

As at 31st December, 2002, the Group had contingent liabilities relating to its newly acquired banking subsidiary of HK\$74,578,000, comprising guarantees and other endorsements of HK\$39,978,000 and liabilities under letters of credit on behalf of customers of HK\$34,600,000.

38. CONTINGENT LIABILITIES (Continued)

- (c) Details of the off-balance sheet exposures relating to banking operations (Continued)
As at 31st December, 2001, the Group had the following contingent liabilities:

(i) *Contingent liabilities and commitments*

The following is a summary of the contract amounts of each significant class of contingent liabilities and commitments as at 31st December 2001:

Group	HK\$'000
Direct credit substitutes	20,882
Transaction-related contingencies	55,854
Trade-related contingencies	148,277
Forward forward deposits	77,852
Other commitments with an original maturity of:	
Under one year or which are unconditionally cancellable	2,711,893
One year and over	70,853
	<u>3,085,611</u>

(ii) *Derivatives*

The following was an analysis of the aggregate notional contract amounts of each significant type of derivatives outstanding as at 31st December, 2001:

Group	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts:			
Forward contracts	425,038	—	425,038
Currency swaps	63,915	30,878	94,793
Interest rate contracts:			
Interest rate swaps	—	173,881	173,881
	<u>488,953</u>	<u>204,759</u>	<u>693,712</u>

Notes to the Financial Statements

38. CONTINGENT LIABILITIES *(Continued)*

(c) Details of the off-balance sheet exposures relating to banking operations *(Continued)*

(ii) *Derivatives (Continued)*

The contract/notional amounts, credit risk weighted amounts, and replacement costs of the above off-balance sheet exposures as at 31st December, 2001 were as follows:

Group	Contract/ notional amount <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Replace- ment cost <i>HK\$'000</i>
Contingent liabilities and commitments	3,085,611	109,648	N/A
Derivatives:			
Exchange rate contracts	519,831	3,988	13,020
Interest rate contracts	173,881	790	1,207
	3,779,323	114,426	14,227

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date of prior year; they did not necessarily bear any direct correlation to the underlying risks of the exposures.

The Group did not enter into any bilateral netting agreements in the prior year and accordingly, the above amounts were shown on a gross basis.

The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contracts.

Replacement cost is the cost of replacing all contracts which had a positive value when marked to market (should the counterparty default on its obligations) and was obtained by aggregating all contracts with a positive mark-to-market value. Replacement cost was considered to be a close approximation of the credit risk for these contracts as at 31st December, 2001.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties and properties held for sale under operating lease arrangements with leases negotiated for terms ranging from 1 to 6 years. At 31st December 2002, the Group had total future minimum lease receivable under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	90,743	93,316
In the second to fifth years, inclusive	109,104	101,467
After five years	—	8,287
	199,847	203,070

(b) As lessee

The Group leases certain properties and motor vehicles under lease agreements that are non-cancellable. The leases expire on various dates until 15th December, 2032 and leases for properties and motor vehicles contain provision for rental adjustments. Future minimum lease payments under non-cancellable operating leases fall due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	6,075	17,247
In the second to fifth years, inclusive	11,419	14,393
After five years	20,262	4,862
	37,756	36,502

Notes to the Financial Statements

40. CAPITAL COMMITMENTS

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	6,194	4,151
Other capital commitments:		
Contracted, but not provided for	6,239	6,238
	12,433	10,389

The Company did not have any material commitments as at the balance sheet date (2001 — Nil).

41. LOANS TO OFFICERS

The aggregate amounts in respect of advances made by HKCB, a former banking subsidiary of the Company, to officers disclosed pursuant to Section 161B(4C) of the Companies Ordinance are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Balance outstanding as at 31st December	N/A	2,928
Maximum balances outstanding during the year	2,928	7,225

42. CONNECTED AND RELATED PARTY TRANSACTIONS

Listed below are connected transactions disclosed in accordance with the Listing Rules and related party transactions disclosed in accordance with SSAP 20 “Related party disclosures”.

- (a) During last year and up to the completion of the disposal (the “Disposal”) of HKCB, a former banking subsidiary of the Company, and its subsidiaries by the Group on 17th January, 2002, the Group entered into a number of transactions, including the taking of deposits and other ordinary banking transactions, in the normal course of business with (i) the holding companies of the Company, (ii) the fellow subsidiaries of the Company and (iii) a former substantial shareholder (the “Shareholder”) of a subsidiary of the Company and the holding companies, subsidiaries, fellow subsidiaries and associates of the Shareholder. These transactions were priced on the basis of the relevant market rates at the time of each transaction, and were under terms and conditions that would normally apply to independent customers of comparable standing. Subsequent to the Disposal, transactions between HKCB and the above relevant parties were no longer connected transactions or related party transactions of the Group.

As at 31st December, 2001, included in “Current, fixed, savings and other deposits of customers” as referred to in Note 25 to the financial statements was an amount due to connected parties of the Group, including holding companies and fellow subsidiaries of the Company and the Shareholder and their related companies, of HK\$2,512,803,000.

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.

No transactions were entered into during the year between MCB, the new banking subsidiary of the Company, and the holding companies and fellow subsidiaries of the Company since its acquisition by the Group.

- (b) As referred to in Note 25 to the financial statements, prior to the Disposal, the assets and liabilities of HKCL and its subsidiaries (the “HKCL Group”) were shown separately in the audited consolidated financial statements. As at 31st December, 2002, the Group had no balances with MCB. As at 31st December, 2001, the Group had balances of HK\$194,856,000 with the HKCL Group which had not been eliminated on consolidation which included “Current, fixed, savings and other deposits of customers” as referred to in Note 25 to the financial statements.

Notes to the Financial Statements

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

- (c) As at 31st December, 2002, the Group had balances with its associates and a jointly controlled entity, further details of which are set out in Notes 21 and 22 to the financial statements, respectively.
- (d) During the year, the Group received rental income amounting to HK\$4,215,000 (2001 — HK\$4,215,000) from Lippo, an intermediate holding company of the Company. The rental was determined by reference to the then open market rentals.
- (e) During the year, the Group paid to Lippo interest of HK\$3,170,000 (2001 — HK\$6,910,000). The interest was paid on the Loan Note due to Lippo as referred to in Note 34 to the financial statements. The interest rate was determined by reference to the then market lending rates.
- (f) On 17th January, 2002, the Company completed the acquisition of 25,000 shares of US\$1.00 each in, being the remaining 50 per cent. interest in, HKCL Holdings Limited (“HKCL Holdings”, formerly known as Lippo CRE (Financial Services) Limited), and 78,890,000 shares of HK\$1.00 each in, being approximately 5.8 per cent. interest in, HKCL, a subsidiary of the Company, for an aggregate consideration of HK\$1,809,196,036 pursuant to a conditional sale and purchase agreement dated 31st October, 2001 entered into between (1) China Resources Enterprise, Limited (“CRE”) and (2) the Company. The only material asset held by HKCL Holdings was its holding of 794,428,440 shares of HK\$1.00 each in, representing approximately 58.8 per cent. of the then issued share capital of, HKCL. HKCL Holdings was a then 50 per cent. owned subsidiary of the Company. CRE owned the remaining 50 per cent. of the issued share capital of HKCL Holdings and was therefore a then substantial shareholder of a subsidiary of the Company.
- (g) On 6th November, 2002, a guarantee was executed by the Company in favour of Wing Hang Bank, Limited (the “Bank”) in respect of banking facilities of up to HK\$8,200,000 offered by the Bank to the Company’s associate and its subsidiaries (the “Associates”) for daily business operations, pursuant to which the Company would guarantee the obligations and liabilities of the Associates under the above banking facilities of up to HK\$4,004,880 together with accrued interest which is in proportion to the Company’s beneficial interest in the Associates. Mr. Jesse Nai Chau Leung, a director of a subsidiary of the Company, also executed a personal guarantee in favour of the Bank to guarantee the obligations and liabilities of the Associates under the above banking facilities for HK\$4,200,000 together with accrued interest. The above banking facilities are unsecured and include (i) advance payments and trust receipts facilities on recourse, carrying interest at a rate of one per cent. per annum over the prime lending rate of the Bank or one per cent. per annum over the prevailing Hong Kong interbank offered rate, whichever is higher; and (ii) overdraft facilities repayable on demand, carrying interest at a rate of 1.5 per cent. per annum over the prime lending rate of the Bank or 1.5 per cent. per annum over the prevailing overnight Hong Kong interbank offered rate, whichever is higher.

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

(h) On 16th December, 2002, the following tenancy agreements were entered into:

- (i) a tenancy agreement was entered into between (1) Superform Investment Limited ("Superform"), a wholly-owned subsidiary of the Company, and (2) Lippo, pursuant to which Superform agreed to let to Lippo a portion of 24th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 11,028 square feet for a period of two years from 1st January, 2003 to 31st December, 2004, both days inclusive, at a monthly rental of HK\$176,448, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to the then prevailing open market rentals;
- (ii) a tenancy agreement was entered into between (1) Prime Power Investment Limited ("Prime Power"), a wholly-owned subsidiary of the Company, and (2) Lippo Securities Holdings Limited ("Lippo Securities Holdings"), a wholly-owned subsidiary of HKCL, pursuant to which Prime Power agreed to let to Lippo Securities Holdings Rooms 2302 - 2306, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 12,038 square feet for a period of two years from 18th January, 2003 to 17th January, 2005, both days inclusive, at a monthly rental of HK\$192,608, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to the then prevailing open market rentals;
- (iii) a tenancy agreement was entered into between (1) Porbandar Limited ("Porbandar"), a wholly-owned subsidiary of the Company, and (2) HKCL, pursuant to which Porbandar agreed to let to HKCL a portion of Room 4301, 43rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 3,676 square feet for a term of two years from 16th September, 2002 to 15th September, 2004, both days inclusive, at a monthly rental of HK\$60,654, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to the then prevailing open market rentals;
- (iv) a tenancy agreement was entered into between (1) Porbandar and (2) ImPac Asset Management (HK) Limited ("ImPac"), a subsidiary of HKCL, pursuant to which Porbandar agreed to let to ImPac a portion of Room 4301, 43rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 1,203 square feet for a term of two years from 12th August, 2002 to 11th August, 2004, both days inclusive, at a monthly rental of HK\$19,368, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to the then prevailing open market rentals; and

Notes to the Financial Statements

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

- (v) a tenancy agreement was entered into between (1) Prime Power and (2) The Hong Kong Building and Loan Agency Limited ("HKBLA"), a subsidiary of the Company, pursuant to which Prime Power agreed to let to HKBLA a portion of Room 2301, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 3,316 square feet for a period of two years from 1st February, 2003 to 31st January, 2005, both days inclusive, at a monthly rental of HK\$55,709, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to the then prevailing open market rentals.

The transactions referred to in items (a), (b), (c), (d), (e) and (h) above are related party transactions disclosed under SSAP 20 and those referred to in items (a), (f), (g) and (h) above constitute connected transactions disclosed under the Listing Rules.

In respect of the above transactions, the relationships between the Company, Lippo, HKCL and HKBLA, all of which are publicly listed companies in Hong Kong and the ultimate holding company of which is Lippo Cayman Limited, are defined, and the Directors' interests therein are separately reported.

43. COMPARATIVE AMOUNTS

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

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25th April, 2003.