

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, property management, fund management, underwriting, insurance, corporate finance, securities broking, securities investment, treasury investment, money lending, commercial banking and other financial services.

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

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 (revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). This change in accounting policy has been made retrospectively. The principal impact of the revision of this SSAP on these financial statements is that:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised in respect of the Group's certain land and buildings and investment properties; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will/would be sufficient future taxable profits against which such losses can be utilised.

Disclosure:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas, previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in Notes 12, 24 and 33 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

NOTES TO THE FINANCIAL STATEMENTS

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP") *(Continued)*

Following the adoption of SSAP 12 (revised), the deferred tax assets and deferred tax liabilities were quantified and recognised retrospectively in periods prior to 1st January, 2003. Accordingly, the following accounts were restated:

Group

	Deferred tax assets <i>HK\$'000</i>	Deferred tax liabilities <i>HK\$'000</i>	Minority interests <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>	Retained profits <i>HK\$'000</i>
At 1st January, 2002							
As previously reported	–	–	3,829,312	1,898,884	–	317,523	368,531
Prior period adjustment as a result of change in accounting policy in respect of deferred tax	110,919	38,187	71,289	27,048	–	(51,172)	25,567
As restated	110,919	38,187	3,900,601	1,925,932	–	266,351	394,098
Movements for the year previously reported	–	–	(2,110,477)	177,064	81,032	(7,994)	(262,727)
Adjustments for the year as a result of change in accounting policy in respect of deferred tax	(110,919)	77,824	(106,468)	(27,048)	(73,855)	1,279	17,349
At 31st December, 2002, restated	–	116,011	1,683,656	2,075,948	7,177	259,636	148,720

Further details of the above changes are included in the accounting policy for deferred tax in Note 3(q) to the financial statements.

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 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.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

(c) Subsidiaries

A subsidiary is a company 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.

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

(d) Associates

An associate is a company, not being a subsidiary 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.

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

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

Goodwill arising 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 2 to 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.

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the policy stated above.

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.

(f) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(f) Negative goodwill** *(Continued)*

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.

Prior to the adoption of SSAP 30 "Business Combination" in 2001, 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 the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisition subsequent to the adoption of the SSAP is treated according to the policy stated above.

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.

(g) 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(h) Fixed assets and depreciation**

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

Land and buildings	1%
Leasehold land and buildings	Over the remaining lease terms
Leasehold improvements	20%
Furniture, fixtures, plant and equipment	10% to 33 ¹ / ₃ %
Motor vehicles	12% to 25%

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(i) Investment properties**

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

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

(j) 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.

(k) 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.

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

(m) 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 on the basis of their quoted prices at the balance sheet date, on an individual investment basis. Unrealised holding gains or losses arising from changes in fair values of securities are dealt with in the profit and loss account as they arise.

(n) 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.

(o) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(p) Revenue recognition**

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

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) 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 prorata basis over the relevant period.

(q) Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences;

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

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

(s) 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.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(u) 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, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(v) 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.

(w) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(x) Employee benefits***Paid leave entitlement*

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

Retirement benefits costs

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(y) Accounting for banking operations**

Banking operations represent operations carried out through The Macau Chinese Bank Limited ("MCB") since its acquisition by the Group on 27th May, 2002 and The Hongkong Chinese Bank, Limited ("HKCB") and its subsidiaries up to its disposal by the Group on 17th 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.

(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 gain or loss arising is recognised in the profit and loss account. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

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

4. SEGMENT INFORMATION

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

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

- (a) the 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 corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (f) the banking businesses segment engages in the provision of commercial and retail banking; and
- (g) the "other" segment comprises principally the underwriting of general insurance business, money lending and the provision of property and fund management services.

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

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

Group

	2003								
	Treasury investment HK\$'000	Property investment and develop- ment HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Revenue									
External	75,593	283,752	700,474	630,054	56,828	21,434	47,988	-	1,816,123
Inter-segment	11,739	2,561	-	-	-	-	-	(14,300)	-
Total	87,332	286,313	700,474	630,054	56,828	21,434	47,988	(14,300)	1,816,123
Segment results	71,650	106,300	119,000	22,240	4,784	4,808	18,763	(1,712)	345,833
Unallocated corporate expenses									(50,069)
Finance costs									(33,568)
Share of results of associates	-	185	-	-	-	8,336	43,937	-	52,458
Profit before tax									314,654
Tax									(43,624)
Profit before minority interests									271,030
Minority interests									(67,848)
Net profit from ordinary activities attributable to shareholders									203,182

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4. SEGMENT INFORMATION (Continued)

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

Group

	2003								
	Treasury investment HK\$'000	Property investment and develop- ment HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Segment assets	2,332,927	2,074,125	1,594,624	375,549	796,547	216,722	103,454	–	7,493,948
Interests in associates	–	9,406	–	–	1,340	126,050	373,516	–	510,312
Unallocated assets									290,516
Total assets									8,294,776
Segment liabilities	–	1,508,019	264,716	161,914	730,312	–	324,570	(1,932,104)	1,057,427
Unallocated liabilities									1,263,449
Total liabilities									2,320,876
Other segment information:									
Capital expenditure	1,588	952	–	4,261	14	26,982	1,245	–	35,042
Depreciation	–	(2,216)	(2,117)	(9,656)	(665)	(820)	(196)	–	(15,670)
Provisions for bad and doubtful debts relating to:									
Banking operations	–	–	–	–	–	(3,753)	–	–	(3,753)
Non-banking operations	–	–	–	–	(1,916)	–	–	–	(1,916)
Provisions for impairment losses on investment securities	–	–	(32,596)	–	–	–	–	–	(32,596)
Write-back of provision for loss on guaranteed return arrangement for fund management	–	–	–	–	–	–	10,868	–	10,868
Amortisation of goodwill arising on acquisition of subsidiaries	–	–	–	(321)	–	(3,240)	(378)	–	(3,939)
Provision against properties held for sale	–	(11,280)	–	–	–	–	–	–	(11,280)
Net unrealised holding gain on other investments in securities	–	–	95,978	–	–	–	–	–	95,978
Unallocated:									
Capital expenditure									2,042
Depreciation									(6,372)
Negative goodwill recognised as income									40,580

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT INFORMATION *(Continued)*

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

Group

					Restated 2002				
	Treasury investment <i>HK\$'000</i>	Property investment and develop- ment <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Food businesses <i>HK\$'000</i>	Corporate finance and securities broking <i>HK\$'000</i>	Banking businesses <i>HK\$'000</i>	Other <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue									
External	82,466	120,355	185,373	567,669	55,020	31,424	82,057	–	1,124,364
Inter-segment	3,464	9,857	–	–	–	78	41	(13,440)	–
Total	85,930	130,212	185,373	567,669	55,020	31,502	82,098	(13,440)	1,124,364
Segment results	78,043	121,014	(163,144)	(29,771)	(30,846)	553,939	(51,096)	(9,506)	468,633
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									111,213
Tax									7,865
Profit before minority interests									119,078
Minority interests									(371,171)
Net loss from ordinary activities attributable to shareholders									(252,093)

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

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

Group

					Restated 2002				
	Treasury investment HK\$'000	Property investment and develop- ment HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Segment assets	3,448,996	2,267,269	528,138	242,596	583,127	212,852	131,064	(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	500,898	–	347,326	(1,874,951)	866,074
Unallocated liabilities									1,379,782
Total liabilities									2,245,856
Other segment information:									
Capital expenditure	2,182	1,474	–	7,256	–	–	18	–	10,930
Depreciation	(1,375)	(2,870)	(79)	(15,130)	(2,098)	(2,051)	(189)	–	(23,792)
Provisions for bad and doubtful debts relating to:									
Banking operations	–	–	–	–	–	(1,832)	(2,193)	–	(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	–	56,751	–	–	–	–	–	–	56,751
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	–	–	–	–	–	527,325	(1,599)	–	525,726
Net unrealised holding loss 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)

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

Group

	2003				
	Hong Kong	Republic of	Mainland	Other	Total
	HK\$'000	Singapore	China	HK\$'000	HK\$'000
Revenue	460,013	973,060	237,073	145,977	1,816,123
Segment assets	3,396,517	1,383,134	1,563,192	1,437,339	7,780,182
Interests in associates	34,218	4,059	317,840	154,195	510,312
Unallocated assets					4,282
Total assets					8,294,776
Capital expenditure	2,033	7,283	518	27,250	37,084

	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 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

NOTES TO THE FINANCIAL STATEMENTS

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 businesses, gross income from property management, 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 eliminations of all significant intra-group transactions.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Treasury investment	75,593	82,466
Property investment and development	283,752	113,687
Securities investment	700,474	185,373
Food businesses	630,054	567,669
Corporate finance and securities broking	56,828	55,020
Banking businesses	17,263	31,424
Other	47,988	80,975
	1,811,952	1,116,614

Turnover attributable to banking businesses represents turnover generated from MCB, a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China. Turnover attributable to banking businesses for the prior year represents turnover generated from MCB since its acquisition by the Group in May 2002 and that generated from HKCB, up to its disposal by the Group in January 2002. Turnover attributable to banking businesses is analysed as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest income	12,442	40,718
Interest expenses	(2,023)	(14,719)
Commission income	5,400	3,847
Commission expenses	—	(274)
Net dealing income and other revenues	1,444	1,852
	17,263	31,424

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

During the year, investment securities of a total cost of HK\$54,681,000 and held-to-maturity securities of a total amortised cost of HK\$402,191,000 were transferred to other investments in securities at market value to reflect the Group's current intention to sell the investments in response to changes in market conditions, resulting in a gain at the date of transfer of HK\$20,483,000 (2002 – Nil).

7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Gross rental income	116,868	113,687
Less: Outgoings	(17,816)	(16,140)
Net rental income	99,052	97,547
Staff costs – <i>Note (a)</i> :		
Wages and salaries	(172,698)	(179,125)
Retirement benefits costs	(12,333)	(12,041)
Less: Forfeited contributions	212	540
Net retirement benefits costs	(12,121)	(11,501)
Total staff costs	(184,819)	(190,626)
Interest income – <i>Note (b)</i> :		
Listed investments	25,845	9,579
Unlisted investments	19,323	16,394
Other	30,425	56,493

NOTES TO THE FINANCIAL STATEMENTS

7. PROFIT FROM OPERATING ACTIVITIES *(Continued)*

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Dividend income:		
Listed investments	13,722	5,372
Unlisted investments	976	–
Provision for impairment losses on unlisted held-to-maturity securities	–	(273)
Provision for impairment losses on investment securities:		
Listed	–	(5,796)
Unlisted	(32,596)	(61,069)
Net realised gain on listed investment securities	5,401	–
Net realised and unrealised holding gain/(loss) on other investments in securities – <i>Note (c)</i>		
Listed	126,815	(44,242)
Unlisted	16,016	(16,459)
Net unrealised gain on transfer of investment securities and held-to-maturity securities to other investments in securities:		
Listed	12,946	–
Unlisted	7,537	–
Depreciation:		
Banking operations	(820)	(2,146)
Other	(21,222)	(32,194)
Gain on disposal of fixed assets	436	500
Gain on disposal of properties	40,960	–
Exchange losses – net	(7,042)	(4,278)
Cost of inventories sold	(477,589)	(437,758)
Auditors' remuneration	(3,218)	(3,051)
Minimum lease payments under operating lease rentals in respect of land and buildings	(10,993)	(13,963)
Amortisation of goodwill arising from acquisition of subsidiaries – <i>Note (d)</i>	(3,939)	(2,094)

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 8 to the financial statements.
- (b) The amounts exclude income relating to the banking operations of the Group.
- (c) The amounts include net unrealised holding gain of HK\$95,978,000 (2002 – loss of HK\$66,501,000) which is grouped under "Cost of sales" on the face of the consolidated profit and loss account.
- (d) The amortisation of goodwill recognised in the consolidated profit and loss account for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

8. DIRECTORS' EMOLUMENTS

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Executive Directors:		
Directors' fees	177	491
Basic salaries, housing and other allowances and benefits in kind	10,817	11,999
Bonuses paid and payable	–	4,300
Retirement benefits costs	24	24
	11,018	16,814
Non-executive Directors:		
Directors' fees	845	582
	11,863	17,396

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

	Group	
	2003	2002
Emoluments bands (HK\$)	Number of Directors	Number of Directors
Nil – 1,000,000	4	5
2,000,001 – 2,500,000	2	–
2,500,001 – 3,000,000	–	1
4,000,001 – 4,500,000	–	1
6,500,001 – 7,000,000	1	–
9,000,001 – 9,500,000	–	1
	7	8

Emoluments paid to independent non-executive Directors amounted to HK\$765,000 (2002 – HK\$502,000) 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 a Director are set out in Note 31 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

9. SENIOR EXECUTIVES' EMOLUMENTS

The emoluments of the four (2002 – three) highest paid employees are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing and other allowances and benefits in kind	3,702	9,219
Bonuses paid and payable	15,950	6,000
Retirement benefits costs	93	226
	19,745	15,445

The five highest paid individuals for the year included one (2002 – two) Director, details of whose emoluments are set out in Note 8 to the financial statements.

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

	Group	
	2003	2002
Emoluments bands (HK\$)	Number of individuals	Number of individuals
3,500,001 – 4,000,000	–	1
4,000,001 – 4,500,000	1	1
4,500,001 – 5,000,000	1	–
5,000,001 – 5,500,000	1	–
5,500,001 – 6,000,000	1	–
7,500,001 – 8,000,000	–	1
	4	3

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

10. RETIREMENT BENEFITS COSTS

The Group previously operated several defined contribution schemes pursuant to the Occupational Retirement Schemes Ordinance which were replaced by the Mandatory Provident Fund schemes (the "MPF schemes") in December 2000 when the Mandatory Provident Fund Schemes Ordinance became effective. The assets of 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\$212,000 (2002 – HK\$540,000). 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 benefits scheme costs charged to the profit and loss account represent employer contributions paid and payable by the Group to the schemes and amounted to HK\$12,121,000 (2002 – HK\$11,501,000).

11. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	25,889	62,549
Interest on bank loans wholly repayable after five years	12,379	–
	38,268	62,549

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

NOTES TO THE FINANCIAL STATEMENTS

12. TAX

	Group	
	2003	Restated 2002
	HK\$'000	HK\$'000
Hong Kong:		
Charge for the year	1,273	2,408
Underprovisions in prior years	4,252	1,594
Deferred – <i>Note 24 and Note 33</i>	(3,577)	(27,182)
	1,948	(23,180)
Overseas:		
Charge for the year	22,545	6,331
Underprovisions/(Overprovisions) in prior years	5,182	(10,983)
Deferred – <i>Note 24 and Note 33</i>	2,165	18,919
	29,892	14,267
Share of tax attributable to associates:		
Hong Kong	389	–
Overseas	11,395	1,048
	11,784	1,048
Total charge/(credit) for the year	43,624	(7,865)

Hong Kong profits tax has been provided for at the rate of 17.5 per cent. (2002 – 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.

NOTES TO THE FINANCIAL STATEMENTS

12. TAX (Continued)

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Profit before tax	314,654	111,213
Tax at the statutory tax rate of 17.5 per cent. (2002 – 16.0 per cent.)	55,064	17,794
Effect of different tax rates in other jurisdictions	24,818	(3,822)
Effect on opening deferred tax of increase in tax rates	440	–
Adjustments in respect of current tax of previous periods	9,434	(9,389)
Income not subject to tax	(64,870)	(145,567)
Expenses not deductible for tax	29,233	102,935
Tax losses from previous periods recognised	(3,826)	–
Tax losses utilised from previous periods	(27,385)	(2,647)
Tax losses not recognised	20,716	32,831
Tax charge at the Group's effective rate of 13.9 per cent. (2002 – tax credit of 7.1 per cent.)	43,624	(7,865)

For the companies operated in Republic of Singapore, Mainland China and Republic of the Philippines, corporate taxes have been calculated on the estimated assessable profits for the year at the rate of 22 per cent., 33 per cent. and 32 per cent. (2002 – 22 per cent., 33 per cent. and 32 per cent.), respectively.

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

The net profit from ordinary activities attributable to shareholders includes the profit for the year ended 31st December, 2003 dealt with in the financial statements of the Company amounting to HK\$186,676,000 (2002 – loss of HK\$87,405,000, restated) as set out in Note 32 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

14. PROFIT RETAINED/(LOSS ACCUMULATED) FOR THE YEAR

	Group	
	2003	Restated 2002
	HK\$'000	HK\$'000
Profit retained/(Loss accumulated) for the year by:		
The Company and its subsidiaries	162,508	(247,573)
Associates	40,674	(4,520)
	203,182	(252,093)

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

Basic earnings/(loss) per share is calculated based on (i) the net profit from ordinary activities attributable to shareholders of HK\$203,182,000 (2002 – loss of HK\$252,093,000, restated); and (ii) the number of 9,201,089,000 shares (2002 – 9,201,089,000 shares) in issue during the year.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented for the years ended 31st December, 2003 and 2002 as there were no dilutive potential ordinary shares during these years.

16. DIVIDEND

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Final dividend, proposed, of HK0.2 cent (2002 – Nil) per ordinary share	18,402	–

NOTES TO THE FINANCIAL STATEMENTS

17. GOODWILL**Group**

	Goodwill <i>HK\$'000</i>	Negative Goodwill <i>HK\$'000</i>
Cost:		
At 1st January, 2003	149,168	(131,668)
Additions during the year	20,220	(40,580)
At 31st December, 2003	169,388	(172,248)
Accumulated amortisation and impairment losses:		
At 1st January, 2003	85,287	(131,668)
Amortised/(Recognised as income) for the year	3,939	(40,580)
Exchange adjustments	7	–
At 31st December, 2003	89,233	(172,248)
Net book value:		
At 31st December, 2003	80,155	–
At 31st December, 2002	63,881	–

NOTES TO THE FINANCIAL STATEMENTS

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, 2003	747,745	49,194	115,494	10,699	923,132
Additions during the year	–	248	7,398	2,456	10,102
Acquisition of subsidiaries	–	–	7,419	–	7,419
Disposals during the year	–	–	(10,466)	(1,270)	(11,736)
Exchange adjustments	1,686	(100)	509	54	2,149
At 31st December, 2003	749,431	49,342	120,354	11,939	931,066
Accumulated depreciation and impairment losses:					
At 1st January, 2003	480,093	48,542	77,128	7,512	613,275
Provided for the year	8,869	303	11,434	616	21,222
Disposals during the year	–	–	(8,247)	(384)	(8,631)
Exchange adjustments	887	(100)	285	10	1,082
At 31st December, 2003	489,849	48,745	80,600	7,754	626,948
Net book value:					
At 31st December, 2003	259,582	597	39,754	4,185	304,118
At 31st December, 2002	267,652	652	38,366	3,187	309,857

Certain leasehold land and buildings have been mortgaged to secure banking facilities made available to the Group as set out in Note 34 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

18. FIXED ASSETS (Continued)

The net book value of the leasehold land and buildings comprises:

	Group	
	2003 HK\$'000	2002 HK\$'000
Long term leasehold land and buildings situated in Hong Kong	202,413	206,672
Leasehold land and buildings situated outside Hong Kong on:		
Short term lease	15,239	17,500
Medium term leases	21,560	22,970
Long term leases	20,370	20,510
	57,169	60,980
Total	259,582	267,652

Company

	Leasehold improve- ments HK\$'000	Furniture, fixtures, plant and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At 1st January, 2003	2,219	4,856	5,155	12,230
Additions during the year	—	78	219	297
At 31st December, 2003	2,219	4,934	5,374	12,527
Accumulated depreciation:				
At 1st January, 2003	2,208	4,733	5,155	12,096
Provided for the year	6	37	30	73
At 31st December, 2003	2,214	4,770	5,185	12,169
Net book value:				
At 31st December, 2003	5	164	189	358
At 31st December, 2002	11	123	—	134

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT PROPERTIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Leasehold land and buildings situated in Hong Kong (<i>Note</i>):		
Balance at beginning of the year	524,801	614,956
Additions during the year	10,075	–
Disposals during the year	(13,800)	–
Deficit on revaluation	(4,830)	(90,155)
Balance at end of the year	516,246	524,801
Medium term leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of the year	1,449,551	1,114,035
Disposals during the year	(136,544)	–
Surplus on revaluation	81,014	335,556
Exchange adjustments	(5,838)	(40)
Balance at end of the year	1,388,183	1,449,551
Freehold land and buildings situated outside Hong Kong:		
Balance at beginning of the year	7,336	–
Reclassification from assets less liabilities attributable to banking operations	–	6,786
Surplus on revaluation	59	748
Exchange adjustments	(345)	(198)
Balance at end of the year	7,050	7,336
Total	1,911,479	1,981,688

Based on professional valuations as at 31st December, 2003 made by Mr. Jonathan Miles Foxall, chartered surveyor and a director of certain subsidiaries of the Company, the investment properties in Hong Kong were valued on an open market, existing use basis at HK\$516,246,000 (2002 – HK\$524,801,000).

Based on professional valuations as at 31st December, 2003 made by 廈門同建房地產評估諮詢事務所, 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\$1,395,233,000 (2002 – HK\$1,456,887,000).

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT PROPERTIES (Continued)

The portion of the revaluation surplus attributable to the Group amounted to HK\$48,814,000 (2002 – HK\$133,757,000), has been credited to the investment property revaluation reserve account as set out in Note 32 to the financial statements (2002 – HK\$77,006,000, restated, has been credited to the investment property revaluation reserve account and HK\$56,751,000, restated, has been written back to the consolidated profit and loss account).

Certain investment properties have been mortgaged to secure banking facilities made available to the Group as set out in Note 34 to the financial statements.

Note: At the balance sheet date, investment properties situated in Hong Kong of HK\$506,546,000 (2002 – HK\$524,801,000) and HK\$9,700,000 (2002 – Nil) were held under long term and medium term leases, respectively.

20. PROPERTIES UNDER DEVELOPMENT

	Group	
	2003	2002
	HK\$'000	HK\$'000
Land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of the year	128,990	154,507
Additions during the year	14,448	18,982
Disposals during the year	–	(44,477)
Reclassification to properties held for sale	(14,696)	–
Exchange adjustments	6,661	(22)
Balance at end of the year	135,403	128,990
Provisions for impairment losses:		
Balance at beginning of the year	(89,000)	(126,710)
Disposals during the year	–	37,710
Balance at end of the year	(89,000)	(89,000)
Total	46,403	39,990
Land and buildings:		
Leasehold (Note)	15,872	16,710
Freehold	30,531	23,280
	46,403	39,990

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.

NOTES TO THE FINANCIAL STATEMENTS

21. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets in a listed company	133,576	–
Share of net assets in unlisted companies	342,518	394,750
Goodwill arising on acquisition less amortisation	10,440	5,749
Negative goodwill arising on acquisition	(1,672)	(1,760)
Due from associates	51,781	136,802
Due to associates	(2,213)	(2,155)
	534,430	533,386
Provisions for impairment losses	(24,118)	(76,302)
	510,312	457,084
Market value of a listed company at 31st December	62,323	–
Share of post-acquisition deficits at the balance sheet date	(95,480)	(164,171)

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:		
At 1st January, 2003	6,087	(1,760)
Additions during the year	9,358	–
At 31st December, 2003	15,445	(1,760)
Accumulated amortisation:		
At 1st January, 2003	338	–
Amortised/(Recognised as income) for the year	4,667	(88)
At 31st December, 2003	5,005	(88)
Net book value:		
At 31st December, 2003	10,440	(1,672)
At 31st December, 2002	5,749	(1,760)

21. INTERESTS IN ASSOCIATES *(Continued)*

Included in the interests in associates was an amount of HK\$306 million in relation 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, the People's Republic of China ("China"). The power plant has been physically completed and in operation. However, its formal commercial operation had been postponed due to 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. In December 2003, FPE entered into a supplementary agreement with the local power company regarding the electricity tariff, the formal commercial operation period and other terms. In addition, FPE entered into new financing arrangements with certain domestic banks in China during the first quarter of 2004 for refinancing the project subject to certain conditions precedent to be satisfied as soon as possible.

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	1
Due from associates	20	27,595
	21	27,596

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 110 to 111.

NOTES TO THE FINANCIAL STATEMENTS

22. INVESTMENT SECURITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities, at cost:				
Listed in Hong Kong	29,077	45,633	—	—
Listed outside Hong Kong	427,445	1,256,615	—	—
Unlisted	269,712	197,851	—	—
	726,234	1,500,099	—	—
Provisions for impairment losses	(506,705)	(1,341,794)	—	—
	219,529	158,305	—	—
Unlisted debt securities, at cost	13,223	10,975	7,810	7,810
Unlisted investment funds, at cost	156,969	215,141	—	—
Provisions for impairment losses	(31,483)	(38,580)	—	—
	125,486	176,561	—	—
Total	358,238	345,841	7,810	7,810
Market value of listed investments at the balance sheet date	75,194	39,665	—	—

NOTES TO THE FINANCIAL STATEMENTS

22. INVESTMENT SECURITIES *(Continued)*

An analysis of the issuers of investment securities is as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:				
Banks and other financial institutions	709	3,888	–	–
Corporate entities	218,820	154,417	–	–
	219,529	158,305	–	–
Debt securities:				
Club debentures	10,975	10,975	7,810	7,810
Corporate entities	2,248	–	–	–
	13,223	10,975	7,810	7,810

During the year, investment securities of a total cost of HK\$54,681,000 were transferred to other investments in securities at market value at the date of transfer to reflect the Group's current intention to sell the investments in response to changes in market conditions.

As at 31st December, 2003, particulars of the Group's investments in equity securities which exceed 20 per cent. of the nominal value of the other company's issued shares disclosed pursuant to section 129(1) of the Companies Ordinance is as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

23. HELD-TO-MATURITY SECURITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Debt securities, at amortised cost:		
Listed outside Hong Kong	41,275	207,540
Unlisted	138,554	420,146
	179,829	627,686
Provisions for impairment losses	–	(11,018)
	179,829	616,668
Portion included under current assets	(93,563)	(112,320)
	86,266	504,348
Non-current portion		
Market value of listed securities at the balance sheet date	42,135	208,050
An analysis of the issuers of the held-to-maturity securities is as follows:		
Central governments and central banks	–	43,676
Public sector entities	–	2,245
Banks and other financial institutions	3,882	131,588
Corporate entities	175,947	439,159
	179,829	616,668

During the year, held-to-maturity securities of a total amortised cost of HK\$402,191,000 were transferred to other investments in securities at market value at the date of transfer to reflect the Group's current intention to sell the investments in response to changes in market conditions, resulting in a gain at the date of transfer of HK\$11,882,000 (2002 – Nil).

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED TAX ASSETS

	Group	
	2003	Restated 2002
	HK\$'000	HK\$'000
At 1st January		
Restated as a result of change in accounting policy in respect of deferred tax with details stated in Note 2 to the financial statements	–	110,919
Deferred tax credited/(charged) to profit and loss account for the year	4,282	(18,919)
Deferred tax charged to special capital reserve for the year	–	(92,000)
At 31st December	4,282	–

Deferred tax assets recognised during the year have arisen from unused tax losses available for offsetting against future taxable profit.

The Group has deductible temporary differences and tax losses of HK\$33,479,000 (2002 – HK\$115,617,000) and HK\$525,548,000 (2002 – HK\$474,099,000), respectively, that are available indefinitely for offsetting against future taxable profits of companies in which the losses arose. Deferred tax assets have not been recognised in respect of these deductible temporary differences and tax losses at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

25. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations, are 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, 2003.

	<i>Note</i>	Group	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and short-term funds	(a)	254,807	70,535
Placements with banks and other financial institutions maturing between one and twelve months		368,320	11,467
Other investments in securities	(b)	13,646	–
Advances and other accounts	(c)	156,079	166,719
Held-to-maturity securities	(d)	9,672	9,757
Fixed assets	(e)	27,057	895
		829,581	259,373
Deposits and balances of banks and other financial institutions		–	(3)
Current, fixed, savings and other deposits of customers		(666,290)	(109,010)
Other accounts and provisions		(7,210)	(1,389)
		(673,500)	(110,402)
		156,081	148,971

NOTES TO THE FINANCIAL STATEMENTS

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

Note:

(a) Cash and short-term funds

	2003 HK\$'000	2002 HK\$'000
Cash and balances with banks and other financial institutions	219,402	23,975
Treasury bills	35,405	46,560
	254,807	70,535

(b) Other investments in securities

	2003 HK\$'000	2002 HK\$'000
Debt securities, at market value:		
Listed outside Hong Kong	13,646	—
An analysis of the issuers of the other investments in securities is as follows:		
Corporate entities	13,646	—

(c) Advances and other accounts

	2003 HK\$'000	2002 HK\$'000
Advances to customers	156,643	173,241
Other accounts	3,190	2,940
Accrued interest	1,296	1,402
Provisions for bad and doubtful debts	(5,050)	(10,864)
	156,079	166,719

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

	2003 HK\$'000	2002 HK\$'000
Non-performing loans:		
Gross advances	—	9,985
Less: Provisions	—	(8,003)
	—	1,982

NOTES TO THE FINANCIAL STATEMENTS

25. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (Continued)**(c) Advances and other accounts** (Continued)

	2003 HK\$'000	2002 HK\$'000
Rescheduled advances	3,464	–
Market value of collateral held	3,627	–

(d) Held-to-maturity securities

	2003 HK\$'000	2002 HK\$'000
Debt securities, at amortised cost:		
Listed outside Hong Kong	9,672	9,757
Market value of listed debt securities	10,891	9,949
An analysis of the issuers of the held-to-maturity securities is as follows:		
Banks and other financial institutions	9,672	9,757

(e) Fixed assets

	Land and buildings HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:			
At 1st January, 2003	–	6,366	6,366
Additions during the year	25,047	1,935	26,982
Disposals during the year	–	(3,034)	(3,034)
At 31st December, 2003	25,047	5,267	30,314
Accumulated depreciation:			
At 1st January, 2003	–	5,471	5,471
Provided for the year	21	799	820
Disposals during the year	–	(3,034)	(3,034)
At 31st December, 2003	21	3,236	3,257
Net book value:			
At 31st December, 2003	25,026	2,031	27,057
At 31st December, 2002	–	895	895

NOTES TO THE FINANCIAL STATEMENTS

26. PROPERTIES HELD FOR SALE

As at 31st December, 2003, the carrying amount of properties held for sale carried at net realisable value is HK\$75,000,000 (2002 – HK\$86,280,000).

27. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	2,655	3,494
Finished goods and goods held for resale	118,146	61,117
	120,801	64,611

The carrying amount of inventories included in the above that is carried at net realisable value amounted to HK\$7,939,000 (2002 – HK\$6,035,000).

28. OTHER INVESTMENTS IN SECURITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Listed equity securities, at market value:		
Hong Kong	415,969	164,747
Overseas	84,491	28,940
	500,460	193,687
Debt securities:		
Listed, at market value:		
Hong Kong	8,441	–
Overseas	299,669	3,120
Unlisted, at fair value	256,661	6,478
	564,771	9,598
Unlisted investment funds, at fair value	277,575	107,555
	1,342,806	310,840

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER INVESTMENTS IN SECURITIES *(Continued)*

An analysis of the issuers of other investment in securities is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Equity securities:		
Public sector entities	15,507	8,978
Banks and other financial institutions	207,841	15,576
Corporate entities	277,112	169,133
	500,460	193,687
Debt securities:		
Central governments and central banks	16,948	39
Banks and other financial institutions	199,957	–
Corporate entities	332,618	9,559
Other	15,248	–
	564,771	9,598

29. DEBTORS, PREPAYMENTS AND DEPOSITS

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Repayable on demand	274,775	195,474
Within 30 days	85,773	55,690
Between 31 and 60 days	46,032	45,392
Between 61 and 90 days	25,027	26,593
Between 91 and 180 days	4,182	7,213
Over 180 days	14,543	18,676
	450,332	349,038

Trading terms with customers are either on a cash basis or credit. For those customers who trade on credit, invoices are normally payable within 90 days of issuance. 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.

30. SHARE CAPITAL

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Authorised:		
28,000,000,000 (2002 – 28,000,000,000)		
ordinary shares of HK\$0.10 each	2,800,000	2,800,000
Issued and fully paid:		
9,201,088,716 (2002 – 9,201,088,716)		
ordinary shares of HK\$0.10 each	920,109	920,109

31. SHARE OPTIONS

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.

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 of Hong Kong Limited (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, 2003	Quantity of share options exercised/lapsed during the year	Quantity of share options outstanding at 31st December, 2003
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.

31. SHARE OPTIONS *(Continued)*

As at 31st December, 2003, 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.

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 Rules Governing the Listing of Securities on the Stock Exchange 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 scheme of a subsidiary of the Company are set out below.

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.

31. SHARE OPTIONS *(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.

NOTES TO THE FINANCIAL STATEMENTS

31. SHARE OPTIONS *(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, 2003	Quantity of share options lapsed during the year	Quantity of share options outstanding at 31st December, 2003
25th March, 1998	S\$1.02	March 1999 to March 2003	60,000	60,000	Nil
27th April, 1999	S\$1.53	April 2000 to April 2004	90,000	Nil	90,000
			150,000	60,000	90,000

The holder of each share option is entitled to subscribe for one share of S\$0.50 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 S\$0.50 each lapsed on 24th March, 2003 as the options were no longer exercisable due to the expiry of the exercise period for options granted on 25th March, 1998.

As at 31st December, 2003, 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.

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 S\$0.50 each, representing 0.07 per cent. of the issued share capital of Auric.

NOTES TO THE FINANCIAL STATEMENTS

32. RESERVES

Group

	Share premium account HK\$'000	Capital reserve HK\$'000	Special capital reserve (Note (a)) HK\$'000	Legal reserve (Note (b)) HK\$'000	Investment property revaluation reserve HK\$'000	Other asset revaluation reserve (Note (c)) HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2002									
As previously reported	785,257	95,968	1,898,884	–	–	317,523	(173,508)	368,531	3,292,655
Prior period adjustment as a result of change in accounting policy in respect of deferred tax with details stated in Note 2 to the financial statements	–	–	27,048	–	–	(51,172)	–	25,567	1,443
As restated	785,257	95,968	1,925,932	–	–	266,351	(173,508)	394,098	3,294,098
Surplus on revaluation of investment properties (restated)	–	–	–	–	77,006	–	–	–	77,006
Deferred tax charge arising from surplus on revaluation of investment properties (restated)	–	–	–	–	(69,829)	–	–	–	(69,829)
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits (restated)	–	–	–	–	–	(6,715)	–	6,715	–
Release of goodwill previously eliminated against consolidated reserves upon disposal of subsidiaries (restated)	–	(2,277)	150,016	–	–	–	–	–	147,739
Exchange differences on consolidation	–	–	–	–	–	–	7,701	–	7,701
Loss for the year (restated)	–	–	–	–	–	–	–	(252,093)	(252,093)
At 31st December, 2002	785,257	93,691	2,075,948	–	7,177	259,636	(165,807)	148,720	3,204,622

NOTES TO THE FINANCIAL STATEMENTS

32. RESERVES (Continued)**Group**

	Share premium account HK\$'000	Capital reserve HK\$'000	Special capital reserve (Note (a)) HK\$'000	Legal reserve (Note (b)) HK\$'000	Investment property revaluation reserve (Note (c)) HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2003									
As previously reported	785,257	93,691	2,075,948	–	81,032	309,529	(165,807)	105,804	3,285,454
Prior period adjustment as a result of change in accounting policy in respect of deferred tax with details stated in Note 2 to the financial statements	–	–	–	–	(73,855)	(49,893)	–	42,916	(80,832)
As restated	785,257	93,691	2,075,948	–	7,177	259,636	(165,807)	148,720	3,204,622
Surplus on revaluation of investment properties	–	–	–	–	48,814	–	–	–	48,814
Deferred tax charge arising from surplus on revaluation of investment properties	–	–	–	–	(25,026)	–	–	–	(25,026)
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	–	–	–	–	–	(5,777)	–	5,777	–
Deferred tax charge arising from change in statutory tax rate on revaluation surplus of leasehold properties	–	–	–	–	–	(381)	–	–	(381)
Utilisation of tax loss	–	–	–	–	(11,160)	–	–	–	(11,160)
Release upon disposal of investment properties	–	–	–	–	(20,985)	–	–	–	(20,985)
Release of deferred tax charge on revaluation surplus upon disposal of investment properties	–	–	–	–	8,912	–	–	–	8,912
Transfer of reserve	–	–	–	621	–	–	–	(621)	–
Exchange differences on consolidation	–	–	–	–	–	–	(8,774)	–	(8,774)
Profit for the year	–	–	–	–	–	–	–	203,182	203,182
At 31st December, 2003	785,257	93,691	2,075,948	621	7,732	253,478	(174,581)	357,058	3,399,204

32. RESERVES *(Continued)*

Note:

(a) Special capital reserve

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.
- (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.

During the year, there was no movement of the special capital reserve subject to the Undertaking which amounted to HK\$679,156,000 as at 31st December, 2003 (31st December, 2002 – HK\$679,156,000).

(b) Legal reserve

The legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates.

(c) Other asset revaluation reserve

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

Following the adoption of SSAP 12 (revised), deferred tax in respect of certain leasehold land and building was recognised retrospectively in the years prior to 1st January, 2003 as details in Notes 2 and 33 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

32. RESERVES *(Continued)***Company**

	Share premium account <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, 2002	783,382	2,075,948	705	431,952	3,291,987
Loss for the year (restated) – <i>Note 13</i>	–	–	–	(87,405)	(87,405)
At 31st December, 2002 and 1st January, 2003 (restated)	783,382	2,075,948	705	344,547	3,204,582
Profit for the year – <i>Note 13</i>	–	–	–	186,676	186,676
At 31st December, 2003	783,382	2,075,948	705	531,223	3,391,258

At 31st December, 2003 the Company's reserves available for distribution, calculated in accordance with Section 79B of the Companies Ordinance, amounted to HK\$531,223,000 (2002 – HK\$344,547,000, restated). There was no movement in other distributable reserves as arising 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, 2003 (2002 – HK\$1,396,792,000).

Included in the distributable reserves of the Group and Company at 31st December, 2003 was an amount of a proposed final dividend for the year then ended of HK\$18,402,000 (2002 – Nil) declared after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

33. DEFERRED TAX LIABILITIES**Group**

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation, net of related depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2002					
As previously reported	–	–	–	–	–
Prior period adjustment as a result of change in accounting policy in respect of deferred tax with details stated in Note 2 to the financial statements:					
Charged to other asset revaluation reserve	–	51,172	–	–	51,172
Charged to investment property revaluation reserve	–	4,026	–	–	4,026
Charged/(Credited) to retained profits	4,094	(17,072)	(4,033)	–	(17,011)
As restated	4,094	38,126	(4,033)	–	38,187
Charged/(Credited) to consolidated profit and loss account for the year	600	(30,035)	2,253	–	(27,182)
Charged/(Credited) to investment property revaluation reserve for the year (Note)	–	121,788	(16,782)	–	105,006
At 31st December, 2002 and 1st January, 2003 (restated)	4,694	129,879	(18,562)	–	116,011
Charged/(Credited) to consolidated profit and loss account for the year	965	(106)	(154)	2,165	2,870
Charged to investment property revaluation reserve for the year (Note)	–	24,580	16,782	–	41,362
Charged to other asset revaluation reserve for the year	–	381	–	–	381
At 31st December, 2003	5,659	154,734	(1,934)	2,165	160,624

Note: The portion of the deferred tax liabilities, net of minority interests, of which HK\$27,274,000 (2002 – HK\$69,829,000) has been charged to investment property revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

34. BANK LOANS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans:				
Secured (<i>Note</i>)	967,985	1,113,059	726,786	584,500
Unsecured	10,000	10,000	–	–
	977,985	1,123,059	726,786	584,500
Repayable within one year	(277,723)	(430,508)	(181,786)	(242,900)
	700,262	692,551	545,000	341,600
Non-current portion				
Bank loans repayable:				
Within one year	277,723	430,508	181,786	242,900
In the second year	202,631	73,193	125,000	26,400
In the third to fifth years, inclusive	77,631	317,358	–	13,200
After five years	420,000	302,000	420,000	302,000
	977,985	1,123,059	726,786	584,500

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

35. LOAN NOTE

As at 1st January, 2003, the Group had an outstanding loan note of HK\$58,500,000 (the "Loan Note") due to Lippo Limited ("Lippo"), an intermediate holding company of the Company. The Loan Note was 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 was payable monthly. During the year, the Group redeemed all of the Loan Note at par in cash.

NOTES TO THE FINANCIAL STATEMENTS

36. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Repayable on demand	691,367	459,352
Within 30 days	142,093	38,606
Between 31 and 60 days	34,321	26,092
Between 61 and 90 days	8,338	13,993
Between 91 and 180 days	9,856	14,120
Over 180 days	15,189	15,446
	901,164	567,609

The outstanding balances that are repayable on demand include client payable relating to cash balances held on trust for the customers in respect of the Group's securities broking business. As at 31st December, 2003, total client trust bank balances amounted to HK\$430,558,000 (2002 – HK\$253,930,000).

37. INTERESTS IN SUBSIDIARIES

	Company	
	2003	Restated 2002
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	179,469	2,900,386
Shares listed in Hong Kong	242,754	242,754
	422,223	3,143,140
Due from subsidiaries	7,076,132	5,203,522
Due to subsidiaries	(1,189,938)	(1,585,673)
	6,308,417	6,760,989
Provisions for impairment losses	(1,495,264)	(2,226,514)
	4,813,153	4,534,475
Market value of listed shares at 31st December	171,582	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 99 to 109.

NOTES TO THE FINANCIAL STATEMENTS

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

		2003	Group Restated 2002
	Note	HK\$'000	HK\$'000
Profit before tax		314,654	111,213
Adjustments for:			
Share of results of associates		(52,458)	3,472
Gain on disposal of:			
Fixed assets	7	(436)	(500)
Investment properties	7	(40,960)	—
Subsidiaries		—	(525,726)
Investment securities	7	(5,401)	—
Gain on dilution of shareholding in an associate		—	(16,423)
Provisions/(Write-back of provisions) for impairment losses:			
Goodwill		—	83,193
Fixed assets		—	283,194
Associates		2,703	(2,668)
Investment securities	7	32,596	66,865
Held-to-maturity securities	7	—	273
Net unrealised gain on transfer of investment securities and held-to-maturity securities to other investments in securities	6	(20,483)	—
Provision/(Write-back of provision) for loss on guaranteed return arrangement for fund management		(10,868)	88,290
Write-back of deficit on revaluation of investment properties		—	(56,751)
Negative goodwill recognised as income		(40,580)	(131,668)
Interest expense		36,470	62,205
Interest income	7	(75,593)	(82,466)
Dividend income	7	(14,698)	(5,372)
Depreciation	7	21,222	32,194
Amortisation of goodwill	7	3,939	2,094
Operating profit/(loss) before working capital changes		150,107	(88,581)
Decrease in properties held for sale		11,280	29,220
Decrease/(Increase) in inventories		(25,527)	2,100
Decrease in held-to-maturity securities		56,944	434,271
Increase in other investments in securities		(593,043)	(51,182)
Decrease/(Increase) in loans and advances		28,157	(50,408)
Increase in debtors, prepayments and deposits		(105,060)	(82,928)
Decrease/(Increase) in certificates of deposit held		1,000,000	(160,000)
Increase in client trust bank balances		(176,628)	(39,429)
Decrease/(Increase) in bank deposits with original maturity over three months		309,221	(309,221)
Increase in creditors, accruals and deposits received		340,238	132,406
Decrease in provision for loss on guaranteed return arrangement for fund management		(117,985)	—
Profit attributable to banking operations		877,704 (8,439)	(183,752) (13,890)
Cash from/(used in) operations		869,265	(197,642)

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)***(b) Disposal of subsidiaries**

	Group	
	2003	Restated 2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Assets less liabilities attributable to banking operations	–	3,512,321
Profit on disposal	–	525,726
Release of goodwill on disposal	–	147,739
Consideration received	–	4,185,786

Satisfied by:

	Group	
	2003	2002
	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

NOTES TO THE FINANCIAL STATEMENTS

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	7,419	29
Inventories	29,629	–
Cash and bank balances	2,140	24
Assets less liabilities attributable to banking operations	–	146,011
Debtors, prepayments and deposits	–	205
Creditors, accruals and deposits received	(3,020)	(229)
Minority interests	(10,167)	(21,906)
	26,001	124,134
Goodwill arising on acquisition	19,591	69,305
Deferred cash settlement	(9,409)	–
	36,183	193,439

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Cash consideration paid	(36,183)	(193,439)
Cash and bank balances acquired	2,140	24
Net outflow of cash and cash equivalents	(34,043)	(193,415)

The subsidiaries acquired contributed turnover of HK\$21,677,000 (2002 – HK\$9,362,000) and a profit after tax of HK\$661,000 (2002 – HK\$1,662,000) to the Group during the year.

(d) Major non-cash transactions

During the year, the Group had the following major non-cash transactions:

- (1) Investment securities with a total cost of HK\$54,681,000 and held-to-maturity securities with a total amortised cost of HK\$402,191,000 were transferred to other investments in securities at their respective market values at the date of transfer.
- (2) Properties under development of HK\$14,696,000 was transferred to properties held for sale.

NOTES TO THE FINANCIAL STATEMENTS

39. MATURITY PROFILE OF ASSETS AND LIABILITIES

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2003							
Assets							
Debt securities:							
Investment securities	-	-	-	2,248	-	10,975	13,223
Held-to-maturity securities	-	51,329	42,234	82,384	3,882	-	179,829
Other investments in securities	5,486	52,694	23,610	373,640	97,462	11,879	564,771
Loans and advances	98,395	1,051	461	2,605	23,948	-	126,460
Client trust bank balances	207,923	222,635	-	-	-	-	430,558
Pledged time deposits	-	155,102	-	-	-	-	155,102
Cash and bank balances	276,450	1,686,442	-	-	-	-	1,962,892
Assets less liabilities attributable to banking operations:							
Cash and short-term funds	219,402	35,405	-	-	-	-	254,807
Placements with banks and other financial institutions maturing between one and twelve months	-	368,320	-	-	-	-	368,320
Debt securities:							
Held-to-maturity securities	-	-	-	-	9,672	-	9,672
Other investments in securities	-	-	-	-	4,735	8,911	13,646
Advances to customers	25,312	99,037	10,418	3,240	13,586	-	151,593
	832,968	2,672,015	76,723	464,117	153,285	31,765	4,230,873
Liabilities							
Bank loans	-	64,342	213,381	280,262	420,000	-	977,985
Assets less liabilities attributable to banking operations:							
Current, fixed, savings and other deposits of customers	566,394	92,381	7,515	-	-	-	666,290
	566,394	156,723	220,896	280,262	420,000	-	1,644,275

NOTES TO THE FINANCIAL STATEMENTS

39. MATURITY PROFILE OF ASSETS AND LIABILITIES *(Continued)*

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2002							
Assets							
Debt securities:							
Investment securities	–	–	–	–	–	10,975	10,975
Held-to-maturity securities	–	62,778	49,542	417,662	86,686	–	616,668
Other investments in securities	–	–	39	–	3,120	6,439	9,598
Loans and advances	131,856	1,475	2,116	6,029	52,310	–	193,786
Certificates of deposit held	–	1,000,000	–	–	–	–	1,000,000
Client trust bank balances	3,548	250,382	–	–	–	–	253,930
Pledged time deposits	–	–	155,817	–	–	–	155,817
Cash and bank balances	118,854	1,419,307	–	–	–	–	1,538,161
Assets less liabilities attributable to banking operations:							
Cash and short-term funds	16,183	54,352	–	–	–	–	70,535
Placements with banks and other financial institutions maturing between one and twelve months	–	–	11,467	–	–	–	11,467
Debt securities:							
Held-to-maturity securities	–	–	–	–	9,757	–	9,757
Advances to customers	49,021	49,739	24,592	36,055	2,970	–	162,377
	319,462	2,838,033	243,573	459,746	154,843	17,414	4,033,071
Liabilities							
Bank loans	–	197,900	232,608	390,551	302,000	–	1,123,059
Loan note	58,500	–	–	–	–	–	58,500
Assets less liabilities attributable to banking operations:							
Deposits and balances of banks and other financial institutions	3	–	–	–	–	–	3
Current, fixed, savings and other deposits of customers	10,228	81,479	4,500	12,803	–	–	109,010
	68,731	279,379	237,108	403,354	302,000	–	1,290,572

NOTES TO THE FINANCIAL STATEMENTS

40. 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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees provided in respect of banking facilities granted to:				
Subsidiaries	–	–	–	98,075
An associate	11,320	11,765	11,320	11,765
Investee companies	2,911	2,925	2,911	2,925
	14,231	14,690	14,231	112,765

- (b) As at 31st December, 2003, 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\$9,002,000 (2002 – HK\$8,147,000) and to purchase United States Dollars with a principal sum of HK\$8,899,000 (2002 – HK\$8,032,000). The transaction committed as at 31st December, 2002 was fully settled during the year.

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

As at 31st December, 2003, the Group had contingent liabilities relating to its banking subsidiary of HK\$40,073,000 (2002 – HK\$74,578,000), comprising guarantees and other endorsements of HK\$11,337,000 (2002 – HK\$39,978,000) and liabilities under letters of credit on behalf of customers of HK\$28,736,000 (2002 – HK\$34,600,000).

41. 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, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	102,086	90,743
In the second to fifth years, inclusive	87,752	109,104
	189,838	199,847

NOTES TO THE FINANCIAL STATEMENTS

41. OPERATING LEASE ARRANGEMENTS *(Continued)***(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 the leases for properties contain provision for rental adjustments. As at 31st December, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	11,951	6,075
In the second to fifth years, inclusive	26,987	11,419
After five years	18,496	20,262
	57,434	37,756

42. CAPITAL COMMITMENTS

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	123	6,194
Other capital commitments:		
Contracted, but not provided for	72,794	6,239
	72,917	12,433

The Company did not have any material commitments as at the balance sheet date (2002 – Nil).

43. SUBSEQUENT EVENT

On 29th March, 2004, a sale and purchase agreement was entered into by the Group to dispose of the properties held for sale situated principally on the first and second floors of World Trade Plaza, Chungking Mansion, 36-44 Nathan Road, Kowloon, Hong Kong to an independent third party for an aggregate consideration of HK\$110 million. Subject to the satisfaction of certain requirements under the above agreement, the completion of the sale shall take place at or before the end of June 2004.

44. CONNECTED AND RELATED PARTY TRANSACTIONS

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

- (a) As at 31st December, 2003, an overseas affiliate of the Company had the following balances with The Macau Chinese Bank Limited ("MCB"), a banking subsidiary of Hongkong Chinese Limited ("HKCL") which in turn is a subsidiary of the Company:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Included under the following item as referred to in Note 25 to the financial statements:		
Current, fixed, savings and other deposits of customers	(195,313)	—

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

- (b) As at 31st December, 2003, the Group had balances with its associates, further details of which are set out in Note 21 to the financial statements.
- (c) (i) During the year, the Group received rental income from Lippo Limited ("Lippo"), an intermediate holding company of the Company, of HK\$2,117,000 (2002 – HK\$4,215,000). The rental was determined by reference to the then open market rentals.
- (ii) Details of the tenancy agreement about the rental income received during the year in item (c)(i) above and other tenancy agreements between group companies in respect of the letting of office premises are disclosed in the section headed "Directors' and controlling shareholders' interests in contracts" in the Report of the Directors.
- (d) During the year, the Group paid to Lippo interest of HK\$1,462,000 (2002 – HK\$3,170,000). The interest was paid on the Loan Note due to Lippo as referred to in Note 35 to the financial statements. The interest rate was determined by reference to the then market lending rates.

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

- (e) A share sale and purchase agreement dated 25th July, 2003 was entered into between Lippo Asia Limited ("Lippo Asia", which held 85 per cent. interest in the issued share capital of ImPac Asset Management (Holdings) Ltd. ("ImPac AMH")), a wholly-owned subsidiary of HKCL, and ImPac Partners Ltd. under which Lippo Asia agreed to acquire from ImPac Partners Ltd. the remaining 15 per cent. interest in the issued share capital of ImPac AMH which it did not already own for a cash consideration of HK\$2,065,217. The transaction was completed on 25th July, 2003, as a result of which ImPac AMH became a wholly-owned subsidiary of Lippo Asia. The consideration was arrived at after arm's length negotiations by reference to the unaudited consolidated net tangible asset value of ImPac AMH as at 30th June, 2003.
- (f) (i) On 22nd August, 2003, the following loan agreements were entered into:
- (1) a loan agreement was entered into between the Company, as lender, and Jeremiah Holdings Limited ("Jeremiah"), a 60 per cent. owned subsidiary of the Company, as borrower, pursuant to which the Company had granted a loan in the principal sum of US\$5,363,000 (equivalent to approximately HK\$41,821,000) to Jeremiah ("First Jeremiah Loan") for the purpose of refinancing the indebtedness of Jeremiah's subsidiaries under their banking facilities due to United Overseas Bank Limited ("UOB"). The loan was charged with an interest at a rate of 1.5 per cent. per annum over the Hong Kong Inter-bank Offered Rate ("HIBOR") on daily basis. The loan was unsecured and for a term of one month from 22nd August, 2003;
 - (2) a loan agreement was entered into between Jeremiah, as lender, and Pantogon Holdings Pte Ltd ("Pantogon"), a wholly-owned subsidiary of Jeremiah, as borrower, pursuant to which Jeremiah had granted a loan in the principal sum of US\$1,722,000 (equivalent to approximately HK\$13,428,000) to Pantogon ("First Pantogon Loan") for the purpose of refinancing Pantogon's indebtedness under its banking facilities due to UOB. The loan was interest-free, unsecured and for a term of one month from 22nd August, 2003; and
 - (3) a loan agreement was entered into between Jeremiah, as lender, and Nine Heritage Pte Ltd ("Nine Heritage"), an 80 per cent. owned subsidiary of Jeremiah, as borrower, pursuant to which Jeremiah had granted a loan in the principal sum of US\$3,641,000 (equivalent to approximately HK\$28,393,000) to Nine Heritage ("First Nine Heritage Loan") for the purpose of refinancing Nine Heritage's indebtedness under its banking facilities due to UOB. The loan was interest-free, unsecured and for a term of one month from 22nd August, 2003.

44. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*(f) *(Continued)*

(ii) On 22nd September, 2003, the following loan facilities were granted:

- (1) a loan facility in the principal sum of up to HK\$120,000,000 (equivalent to approximately US\$15,363,000) was granted by Win Joyce Limited ("Win Joyce"), a wholly-owned subsidiary of the Company, as lender, to Jeremiah, as borrower, for financing the repayment of the First Jeremiah Loan and the indebtedness due to UOB by Jeremiah's subsidiaries ("Second Jeremiah Loan"). The loan was charged with an interest of an aggregate of 1.5 per cent. per annum plus one-month HIBOR and for a term of three months from 22nd September, 2003. As security for the granting of the aforesaid facility, on 22nd September, 2003, a deed of debenture was executed by each of Jeremiah ("Jeremiah Debenture") and Pantogon ("Pantogon Debenture") in favour of Win Joyce incorporating a first fixed and floating charge of all the undertaking, property, assets, goodwill, interests, claims, investments in any other companies, rights and revenues of and entitled by Jeremiah or Pantogon (as the case may be) whatsoever and wheresoever, both present and future;
- (2) a loan facility in the principal sum of up to US\$4,932,000 was granted by Jeremiah, as lender, to Pantogon, as borrower, to finance the repayment of the First Pantogon Loan and the indebtedness due to UOB ("Second Pantogon Loan"). The loan was interest-free and for a term of three months from 22nd September, 2003. In consideration for the granting of the aforesaid facility, Pantogon had executed the Pantogon Debenture in favour of Win Joyce; and
- (3) a loan facility in the principal sum of up to US\$10,431,000 was granted by Jeremiah, as lender, to Nine Heritage, as borrower, to finance the repayment of the First Nine Heritage Loan and the indebtedness due to UOB ("Second Nine Heritage Loan"). The loan was for a term of three months from 22nd September, 2003 and was charged at a premium of 0.84375 per cent. of the facility amount. In consideration for the granting of the aforesaid facility, Nine Heritage had executed a deed of debenture in favour of Jeremiah ("Nine Heritage Debenture") incorporating a first fixed and floating charge of all the undertaking, property, assets, goodwill, interests, claims, investments in any other companies, rights and revenues of and entitled by Nine Heritage whatsoever and wheresoever, both present and future.

44. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*(f) *(Continued)*

(iii) Subsequently, on 31st December, 2003, the following parties had agreed to revise certain terms of the Second Jeremiah Loan, Second Pantogon Loan and Second Nine Heritage Loan:

- (1) Win Joyce and Jeremiah had agreed to extend the maturity date of the Second Jeremiah Loan from 22nd December, 2003 to 22nd December, 2004 or the date of demand by Win Joyce, whichever is the earlier;
- (2) Pantogon had covenanted to pay the Second Pantogon Loan on 22nd December, 2004 or the date of demand by Jeremiah, whichever is the earlier; and
- (3) Nine Heritage had covenanted to pay the Second Nine Heritage Loan on 22nd December, 2004 or the date of demand by Jeremiah, whichever is the earlier and a premium of 2.55938 per cent. of the loan amount would be paid on the maturity date.

The Jeremiah Debenture, Pantogon Debenture and Nine Heritage Debenture would remain in full force and effect and continue to secure all outstanding amounts due under the Second Jeremiah Loan, Second Pantogon Loan and Second Nine Heritage Loan (as appropriate) notwithstanding the amendments of the aforesaid terms.

(g) Subsequent to the balance sheet date, the following loans were provided:

- (i) On 5th January, 2004, a loan agreement was made between APG Foods Pte Ltd ("APG Foods"), a wholly-owned subsidiary of Auric Pacific Group Limited ("Auric") which in turn is a subsidiary of the Company, and Chunex Pte Ltd ("Chunex"), a 75 per cent. owned subsidiary of APG Foods, in respect of a shareholder's loan in the principal sum of S\$1,500,000 (equivalent to approximately HK\$6,844,000) advanced to Chunex by APG Foods in proportion to APG Foods' interest in Chunex for its working capital. The shareholder's loan is unsecured, carries interest at a rate of 4 per cent. per annum and has no fixed term of repayment. SW Investments Holding Pte. Ltd. ("SWIPL"), holding the remaining interest in Chunex, also provided proportionate shareholder's loan to Chunex with the same terms as APG Foods.
- (ii) (1) On 7th January, 2004, Auric Pacific (M) Sdn Bhd ("Auric Pacific Malaysia"), a wholly-owned subsidiary of Auric, advanced a shareholder's loan in the principal sum of RM8,400,000 (equivalent to approximately HK\$17,160,000) to Auric Chun Yip Sdn Bhd ("ACY"), a 70 per cent. owned subsidiary of Auric Pacific Malaysia, in proportion to Auric Pacific Malaysia's interest in ACY for its working capital. The shareholder's loan is unsecured and has no fixed term of repayment. The shareholder's loan is currently interest-free until and unless mutually agreed between Auric Pacific Malaysia and ACY.

44. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*(g) (ii) *(Continued)*

- (2) On 7th January, 2004, Auric Pacific Malaysia advanced a shareholder's loan in the principal sum of RM2,520,000 (equivalent to approximately HK\$5,148,000) to Auric Pacific Food Processing Sdn Bhd ("APFP"), a 70 per cent. owned subsidiary of Auric Pacific Malaysia, in proportion to Auric Pacific Malaysia's interest in APFP for its working capital. The shareholder's loan is unsecured and has no fixed term of repayment. The shareholder's loan is currently interest-free until and unless mutually agreed between Auric Pacific Malaysia and APFP.

Sunbeam Food Sdn Bhd ("SFSB"), holding the remaining interest in ACY and APFP, also provided proportionate shareholder's loan to each of ACY and APFP with the same terms as provided by Auric Pacific Malaysia.

SWIPL and SFSB are regarded as associates of Mr. Wong Ah Kwong @ Wong Choon Kong who is the father of Mr. Sean Wong. Mr. Sean Wong is a director of Chunex, ACY and APFP.

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

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

Note:

RM	–	Malaysian ringgits
S\$	–	Singapore dollars
US\$	–	United States dollars

45. COMPARATIVE AMOUNTS

As further explained in Note 2 to the financial statements, due to the adoption of the revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments have been made and comparative amounts have been restated to conform with the current year's presentation.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23rd April, 2004.