

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

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

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 and certain securities investments as further explained below.

(b) Basis of consolidation

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

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

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

(c) Subsidiaries

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

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

(d) Joint venture companies

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

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

A joint venture company is treated as:

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

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

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

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

(f) Associates

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

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

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

(g) Goodwill

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

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

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

(g) **Goodwill** *(Continued)*

Prior to the adoption of Statement of Standard Accounting Practice ("SSAP") 30 "Business combinations" in 2001, goodwill arising from 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 from acquisitions subsequent to the adoption of the SSAP is treated according to the policy stated above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. 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, including goodwill remaining eliminated against consolidated reserve, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(h) **Negative goodwill**

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

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

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

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

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 combinations" in 2001, negative goodwill arising from 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 from acquisition subsequent to the adoption of the SSAP is treated according to the policy stated above.

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

(i) Impairment of assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Fixed assets and depreciation

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

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 $\frac{1}{3}$ %
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)***(k) Investment properties**

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

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

(l) Properties under development

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

(m) Investment securities

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

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

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

(n) Held-to-maturity securities

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

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

(o) Other investments in securities

Other investments in securities are those securities which are not classified as investment securities nor held-to-maturity securities, and are stated at fair values 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.

(p) Properties held for sale

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

(q) Inventories

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

(r) Revenue recognition

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

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income from the sale of completed properties, on the exchange of legally binding unconditional sales contracts;

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

(r) Revenue recognition *(Continued)*

- (iii) sales from food businesses, on despatch of goods to customers;
- (iv) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged;
- (v) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable;
- (vi) dividend income, when the shareholders' right to receive payment has been established; and
- (vii) commission income is accounted for, in the period when receivable, unless it is charged to cover the costs of a continuing service to, or risk borne for, customers, or is interest income in nature. In this case, commission income is recognised on a pro rata basis over the relevant period.

(s) Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- 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, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

(s) **Income tax** *(Continued)*

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, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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.

(t) **Provisions**

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(u) Operating leases**

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

(v) Foreign currencies

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

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

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

(w) Cash and cash equivalents

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

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

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

(x) Related parties

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

(y) Dividends

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

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

(z) Employee benefits

Paid leave entitlement

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***(z) Employee benefits** *(Continued)**Share option schemes*

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

(aa) Accounting for banking operation

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

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

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

All advances are recognised when cash is advanced to borrowers.

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

(ii) Finance leases and hire purchase contracts

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

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

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

(iii) Off-balance sheet financial instruments

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

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

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

4. SEGMENT INFORMATION

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

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

- (a) the 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 business segment engages in the provision of commercial and retail banking services; and
- (g) the "other" segment comprises principally money lending, the development of computer hardware and software and the provision of property and fund management services.

4. SEGMENT INFORMATION (Continued)

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

Group

	Treasury investment	Property investment and development	Securities investment	Food businesses	2004 Corporate finance and securities broking	Banking business	Other	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue									
External	28,401	254,129	1,537,405	870,448	63,437	16,198	23,258	-	2,793,276
Inter-segment	9,504	4,778	-	-	3,061	-	-	(17,343)	-
Total	37,905	258,907	1,537,405	870,448	66,498	16,198	23,258	(17,343)	2,793,276
Segment results	25,101	128,821	39,392	31,845	4,077	3,972	(6,600)	(5,102)	221,506
Unallocated corporate expenses									(124,873)
Finance costs									(24,387)
Share of results of associates	-	389	-	-	-	2,280	58,010	-	60,679
Profit before tax									132,925
Tax									(66,312)
Profit before minority interests									66,613
Minority interests									(20,753)
Net profit from ordinary activities attributable to shareholders									45,860

4. SEGMENT INFORMATION *(Continued)*

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

Group

	Treasury investment HK\$'000	Property investment and development HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	2004 Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Other HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Segment assets	1,892,409	2,570,303	1,963,325	440,494	721,143	232,696	63,664	-	7,884,034
Interests in associates	-	11,802	-	-	1,334	84,121	434,419	-	531,676
Interests in jointly controlled entities	-	7,393	-	-	-	-	-	-	7,393
Unallocated assets									271,544
Total assets									8,694,647
Segment liabilities	-	1,462,911	301,661	195,299	622,890	-	438,303	(2,006,726)	1,014,338
Unallocated liabilities									1,275,925
Total liabilities									2,290,263
Other segment information:									
Capital expenditure	-	5,820	62	7,826	781	-	1,113	-	15,602
Depreciation	-	(2,922)	(1,417)	(10,927)	(681)	(785)	(508)	-	(17,240)
Write-back of provision/ (Provisions) for bad and doubtful debts relating to:									
Banking operation	-	-	-	-	-	666	-	-	666
Non-banking operations	-	-	-	(1,827)	(1,203)	-	(3,484)	-	(6,514)
Write-back of provisions/ (Provisions) for impairment losses:									
Associates	-	4,736	-	-	-	-	(4,500)	-	236
Investment securities	-	-	49,207	-	-	-	-	-	49,207
Amortisation of goodwill arising from acquisition of subsidiaries	-	-	-	(4,511)	-	(3,356)	(888)	-	(8,755)
Negative goodwill recognised as income	-	-	-	-	-	-	229	-	229
Net unrealised holding loss on other investments in securities	-	-	(67,720)	-	-	-	-	-	(67,720)
Unallocated:									
Capital expenditure									1,801
Depreciation									(8,118)
Provision for impairment loss on an associate									(16,603)
Negative goodwill recognised as income									324

4. SEGMENT INFORMATION (Continued)

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

Group

	Treasury investment HK\$'000	Property investment and development HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	2003 Corporate finance and securities broking HK\$'000	Banking business 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	-	-	1,524	-	-	(15,824)	-
Total	87,332	286,313	700,474	630,054	58,352	21,434	47,988	(15,824)	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 (Note)									(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

Note: Amount includes negative goodwill recognised as income of HK\$40,580,000.

4. SEGMENT INFORMATION (Continued)

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

Group

	Treasury investment HK\$'000	Property investment and development HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	2003 Corporate finance and securities broking HK\$'000	Banking business 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 operation	–	–	–	–	–	(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 from 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

4. SEGMENT INFORMATION (Continued)

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

Group

	2004						Consolidated HK\$'000
	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Malaysia HK\$'000	Japan HK\$'000	Mainland China HK\$'000	Other HK\$'000	
Revenue	806,391	1,243,369	174,883	158,513	97,847	312,273	2,793,276
Segment assets	3,254,723	1,614,470	157,420	221,783	1,679,133	1,223,934	8,151,463
Interests in associates	25,825	918	7,168	–	406,092	91,673	531,676
Interests in jointly controlled entities	80	–	–	–	–	7,313	7,393
Unallocated assets							4,115
Total assets							8,694,647
Capital expenditure	3,463	7,517	647	–	821	4,955	17,403
	2003						Consolidated HK\$'000
	Hong Kong HK\$'000	Republic of Singapore HK\$'000	Malaysia HK\$'000	Japan HK\$'000	Mainland China HK\$'000	Other HK\$'000	
Revenue	460,013	973,060	73,510	–	237,073	72,467	1,816,123
Segment assets	3,396,517	1,383,134	372,546	19,878	1,563,192	1,044,915	7,780,182
Interests in associates	34,218	4,059	10,878	–	317,840	143,317	510,312
Unallocated assets							4,282
Total assets							8,294,776
Capital expenditure	2,033	7,283	–	–	518	27,250	37,084

5. TURNOVER

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

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Treasury investment	28,401	75,593
Property investment and development	254,129	283,752
Securities investment	1,537,405	700,474
Food businesses	870,448	630,054
Corporate finance and securities broking	63,437	56,828
Banking business	16,198	17,263
Other	23,258	47,988
	2,793,276	1,811,952

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

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

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

During the year, investment securities of a total cost of HK\$19,019,000 (2003 – investment securities of a total cost of HK\$54,681,000 and held-to-maturity securities of a total amortised cost of HK\$402,191,000) were transferred to other investments in securities at market value or fair value to reflect the Group's current intention to sell the investments in response to changes in market conditions, resulting in a loss at the date of transfer of HK\$7,856,000 (2003 – gain of HK\$20,483,000).

7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Gross rental income	126,260	116,868
Less: Outgoings	(18,024)	(17,816)
Net rental income	108,236	99,052
Staff costs (Note (a)):		
Wages and salaries	(193,880)	(172,698)
Retirement benefits costs	(13,143)	(12,333)
Less: Forfeited contributions	421	212
Net retirement benefits costs	(12,722)	(12,121)
Total staff costs	(206,602)	(184,819)
Interest income (Note (b)):		
Listed investments	21,609	25,845
Unlisted investments	5,258	19,323
Other	23,304	30,425
Dividend income:		
Listed investments	19,905	13,722
Unlisted investments	2,029	976

7. PROFIT FROM OPERATING ACTIVITIES *(Continued)*Profit from operating activities is arrived at after crediting/(charging): *(Continued)*

	Group	
	2004	2003
	HK\$'000	HK\$'000
Write-back of provisions/(Provisions) for impairment losses on investment securities:		
Listed	53,336	–
Unlisted	(4,129)	(32,596)
Other investment income:		
Listed	446	–
Unlisted	6,032	–
Net realised gain/(loss) on disposal of investment securities:		
Listed	–	5,401
Unlisted	(708)	–
Net realised and unrealised holding gain/(loss) on other investments in securities <i>(Note (c))</i> :		
Listed	(40,625)	126,815
Unlisted	29,310	16,016
Net unrealised gain/(loss) on transfer of investment securities and held-to-maturity securities to other investments in securities:		
Listed	(3,766)	12,946
Unlisted	(4,090)	7,537
Depreciation:		
Banking operation	(785)	(820)
Other	(24,573)	(21,222)
Gain on disposal of fixed assets	212	436
Gain on disposal of properties	35,042	40,960
Exchange gains/(losses) – net	6,789	(7,042)
Cost of inventories sold	(665,760)	(477,589)
Auditors' remuneration	(3,726)	(3,218)
Minimum lease payments under operating lease rentals in respect of land and buildings	(14,953)	(10,993)
Amortisation of goodwill arising from acquisition of subsidiaries <i>(Note (d))</i>	(8,755)	(3,939)

7. PROFIT FROM OPERATING ACTIVITIES *(Continued)*

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 8 to the financial statements.
- (b) The amounts exclude income relating to the banking operation of the Group.
- (c) The amounts include net unrealised holding loss of HK\$67,720,000 (2003 – gain of HK\$95,978,000) which is grouped under "Cost of sales" on the face of the consolidated profit and loss account.
- (d) The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

8. DIRECTORS' EMOLUMENTS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Directors' fees	1,357	1,022
Basic salaries, housing and other allowances and benefits in kind	18,528	10,817
Bonuses paid and payable	7,400	–
Retirement benefits costs	45	24
	27,330	11,863

Included in Directors' emoluments were fees of HK\$222,000 (2003 – HK\$765,000) paid to the independent non-executive Directors in respect of the year.

8. DIRECTORS' EMOLUMENTS *(Continued)*

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

Emoluments bands (HK\$)	Group	
	2004	2003
	Number of	Number of
	Directors	Directors
Nil – 1,000,000	5	4
2,000,001 – 2,500,000	1	2
4,000,001 – 4,500,000	1	–
6,500,001 – 7,000,000	–	1
7,500,001 – 8,000,000	1	–
11,000,001 – 11,500,000	1	–
	9	7

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 32 to the financial statements.

9. SENIOR EXECUTIVES' EMOLUMENTS

The emoluments of the two (2003 – four) highest paid employees are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing and other allowances and benefits in kind	6,435	3,702
Bonuses paid and payable	4,637	15,950
Retirement benefits costs	305	93
	11,377	19,745

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

9. SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

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

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

Details of share options granted to the non-director highest paid employees are set out in Note 32 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 the schemes are held separately from those of the Group in independently administered funds.

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

During the year, the amounts of forfeited employer contributions under the MPF schemes utilised to reduce the amount of employer contributions or for payments of administrative expenses amounted to HK\$421,000 (2003 – HK\$212,000). The amounts of forfeited voluntary contributions available to offset future employer contributions against the above schemes were not material at the year end. The retirement benefits scheme costs charged to the profit and loss account represent employer contributions paid and payable by the Group to the schemes and amounted to HK\$12,722,000 (2003 – HK\$12,121,000).

11. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years (<i>Note</i>)	21,185	25,889
Interest on bank loans wholly repayable after five years (<i>Note</i>)	10,176	12,379
Total interest	31,361	38,268
Less: Interest capitalised	(2,101)	–
	29,260	38,268

Note: The amounts exclude interest expense incurred by a banking subsidiary of the Group.

12. TAX

	Group	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong:		
Charge for the year	1,629	1,273
Underprovisions in prior years	3,354	4,252
Deferred (<i>Note 25 and Note 34</i>)	1,543	(3,577)
	6,526	1,948
Overseas:		
Charge for the year	20,891	22,545
Underprovisions in prior years	1,673	5,182
Deferred (<i>Note 25 and Note 34</i>)	(526)	2,165
	22,038	29,892
Share of tax attributable to associates:		
Hong Kong	1,208	389
Overseas	1,492	11,395
Deferred (<i>Note</i>)	35,048	–
	37,748	11,784
Total charge for the year	66,312	43,624

Note: The amount includes the Group's share of an associate's deferred tax assets written off of HK\$40,183,000 during the year (2003 – Nil).

12. TAX (Continued)

Hong Kong profits tax has been provided for at the rate of 17.5 per cent. (2003 – 17.5 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.

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Profit before tax	132,925	314,654
Tax at the statutory tax rate of 17.5 per cent. (2003 – 17.5 per cent.)	23,262	55,064
Effect of different tax rates in other jurisdictions	48,043	24,818
Effect on opening deferred tax of increase in tax rates	133	440
Adjustments in respect of current tax of previous years	4,808	9,434
Income not subject to tax	(39,152)	(64,870)
Expenses not deductible for tax	30,713	29,233
Tax losses from previous years recognised	–	(3,826)
Tax losses utilised from previous years	(15,293)	(27,385)
Tax losses not recognised	13,798	20,716
Tax charge at the Group's effective rate of 49.9 per cent. (2003 – 13.9 per cent.)	66,312	43,624

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 20 per cent., 33 per cent. and 32 per cent. (2003 – 22 per cent., 33 per cent. and 32 per cent.), respectively.

13. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders includes net profit for the year ended 31st December, 2004 dealt with in the financial statements of the Company amounting to HK\$102,177,000 (2003 – HK\$186,676,000) as set out in Note 33 to the financial statements.

14. PROFIT RETAINED FOR THE YEAR

	Group	
	2004	2003
	HK\$'000	HK\$'000
Profit retained for the year by:		
The Company and its subsidiaries	22,929	162,508
Associates	22,931	40,674
	45,860	203,182

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

Basic earnings per share is calculated based on (i) the net profit from ordinary activities attributable to shareholders of HK\$45,860,000 (2003 – HK\$203,182,000); and (ii) the weighted average number of 9,201,089,000 shares (2003 – 9,201,089,000 shares) in issue during the year.

(b) Diluted earnings per share

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

16. DIVIDEND

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Final dividend, proposed, of HK0.2 cent (2003 – HK0.2 cent, paid) per ordinary share	18,402	18,402

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

17. GOODWILL**Group**

	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>
Cost:		
At 1st January, 2004	169,388	(172,248)
Additions during the year	8,366	(3,303)
Exchange adjustments	(345)	–
At 31st December, 2004	177,409	(175,551)
Accumulated amortisation and impairment losses/ (Recognition as income):		
At 1st January, 2004	89,233	(172,248)
Amortisation provided/(Recognised as income) for the year	8,755	(553)
Exchange adjustments	159	–
At 31st December, 2004	98,147	(172,801)
Net book value:		
At 31st December, 2004	79,262	(2,750)
At 31st December, 2003	80,155	–

18. FIXED ASSETS**Group**

	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures, plant and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:					
At 1st January, 2004	749,431	49,342	120,354	11,939	931,066
Additions during the year	176	1,956	13,903	1,368	17,403
Acquisition of subsidiaries	15,691	572	12,237	–	28,500
Disposal of a subsidiary	–	(395)	(786)	–	(1,181)
Disposals during the year	–	(598)	(10,885)	(2,700)	(14,183)
Exchange adjustments	4,214	16	1,741	71	6,042
At 31st December, 2004	769,512	50,893	136,564	10,678	967,647
Accumulated depreciation and impairment losses:					
At 1st January, 2004	489,849	48,745	80,600	7,754	626,948
Provided for the year	10,739	588	12,313	933	24,573
Acquisition of subsidiaries	–	138	195	–	333
Disposal of a subsidiary	–	(395)	(780)	–	(1,175)
Disposals during the year	–	(183)	(9,019)	(2,699)	(11,901)
Exchange adjustments	2,555	19	1,116	22	3,712
At 31st December, 2004	503,143	48,912	84,425	6,010	642,490
Net book value:					
At 31st December, 2004	266,369	1,981	52,139	4,668	325,157
At 31st December, 2003	259,582	597	39,754	4,185	304,118

Certain leasehold land and buildings have been mortgaged to secure banking facilities made available to the Group as set out in Note 35 to the financial statements.

18. FIXED ASSETS *(Continued)*

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong	197,813	202,413
Leasehold land and buildings situated outside Hong Kong on:		
Short term lease	17,144	15,239
Medium term leases	31,744	21,560
Long term leases	19,668	20,370
	68,556	57,169
Total	266,369	259,582

Company

	Leasehold improvements	Furniture, fixtures, plant and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:				
At 1st January, 2004	2,219	4,934	5,374	12,527
Additions during the year	–	68	461	529
Disposals during the year	–	(75)	(1,340)	(1,415)
At 31st December, 2004	2,219	4,927	4,495	11,641
Accumulated depreciation:				
At 1st January, 2004	2,214	4,770	5,185	12,169
Provided for the year	5	53	59	117
Disposals during the year	–	(75)	(1,340)	(1,415)
At 31st December, 2004	2,219	4,748	3,904	10,871
Net book value:				
At 31st December, 2004	–	179	591	770
At 31st December, 2003	5	164	189	358

19. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Leasehold land and buildings situated in Hong Kong (<i>Note</i>):		
Balance at beginning of year	516,246	524,801
Additions during the year	71,682	10,075
Disposals during the year	–	(13,800)
Surplus/(Deficit) on revaluation	351,064	(4,830)
Balance at end of year	938,992	516,246
Medium term leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	1,388,183	1,449,551
Disposals during the year	(1,449)	(136,544)
Surplus on revaluation	27,768	81,014
Exchange adjustments	1,782	(5,838)
Balance at end of year	1,416,284	1,388,183
Freehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	7,050	7,336
Surplus on revaluation	516	59
Exchange adjustments	(65)	(345)
Balance at end of year	7,501	7,050
Total	2,362,777	1,911,479

Based on professional valuations as at 31st December, 2004 made by Mr. Jonathan Miles Foxall, chartered surveyor and a director of certain subsidiaries of the Company, the investment properties in Hong Kong were valued on an open market, existing use basis at HK\$938,992,000 (2003 – HK\$516,246,000).

Based on professional valuations as at 31st December, 2004 made by 廈門同建房地產評估諮詢有限公司, 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\$1,423,785,000 (2003 – HK\$1,395,233,000).

19. INVESTMENT PROPERTIES (Continued)

The portion of the revaluation surplus attributable to the Group amounted to HK\$368,076,000 (2003 – HK\$48,814,000) has been credited to the investment property revaluation reserve account as set out in Note 33 to the financial statements.

Certain investment properties have been mortgaged to secure banking facilities made available to the Group as set out in Note 35 to the financial statements.

Note: At the balance sheet date, investment properties situated in Hong Kong of HK\$924,192,000 (2003 – HK\$506,546,000) and HK\$14,800,000 (2003 – HK\$9,700,000) were held under long term and medium leases, respectively.

20. PROPERTIES UNDER DEVELOPMENT

	Group	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of year	135,403	128,990
Additions during the year	115,558	14,448
Interest capitalised during the year	2,101	–
Reclassification to properties held for sale	–	(14,696)
Exchange adjustments	3,572	6,661
Balance at end of year	256,634	135,403
Provisions for impairment losses:		
Balance at beginning and at end of year	(89,000)	(89,000)
Total	167,634	46,403
Land and buildings held under the following lease terms:		
Leasehold (<i>Note</i>)	78,060	15,872
Freehold	89,574	30,531
	167,634	46,403

Note: The lease terms of the properties under development situated outside Hong Kong of HK\$62,367,000 (2003 – Nil) are 99 years and those of HK\$15,693,000 (2003 – HK\$15,872,000) are determined by their final intended use upon completion and vary from 40 to 70 years.

21. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets in a listed company	85,704	133,576
Share of net assets in unlisted companies	431,804	342,518
Goodwill arising from acquisition less amortisation	4,951	10,440
Negative goodwill arising from acquisition less recognition	(1,875)	(1,672)
Due from associates	47,566	51,781
Due to associates	(2,988)	(2,213)
	565,162	534,430
Provisions for impairment losses	(33,486)	(24,118)
	531,676	510,312
Market value of a listed company at 31st December	47,410	62,323
Share of post-acquisition deficits at the balance sheet date	(77,402)	(95,480)

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

21. INTERESTS IN ASSOCIATES *(Continued)*

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

Group

	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>
Cost:		
At 1st January, 2004	15,445	(1,760)
Additions during the year	7,573	(354)
At 31st December, 2004	23,018	(2,114)
Accumulated amortisation and impairment losses/ (Recognition as income):		
At 1st January, 2004	5,005	(88)
Amortisation provided/(Recognised as income) for the year	6,172	(151)
Impairment provided for the year	6,890	–
At 31st December, 2004	18,067	(239)
Net book value:		
At 31st December, 2004	4,951	(1,875)
At 31st December, 2003	10,440	(1,672)

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	1
Due from associates	–	20
	1	21

Details of the principal associates are set out on pages 122 to 123.

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Due from jointly controlled entities	7,393	–

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

Details of the principal jointly controlled entity are set out on page 124.

23. INVESTMENT SECURITIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities, at cost:				
Listed in Hong Kong	29,077	29,077	–	–
Listed outside Hong Kong	427,448	427,445	–	–
Unlisted	246,208	269,712	–	–
	702,733	726,234	–	–
Provisions for impairment losses	(438,231)	(506,705)	–	–
	264,502	219,529	–	–
Unlisted debt securities, at cost	34,532	13,223	7,810	7,810
Provisions for impairment losses	(2,776)	–	–	–
	31,756	13,223	7,810	7,810
Unlisted investment funds, at cost	285,224	156,969	–	–
Provisions for impairment losses	(29,388)	(31,483)	–	–
	255,836	125,486	–	–
	552,094	358,238	7,810	7,810
Market value of listed investments at the balance sheet date	239,967	75,194	–	–

23. INVESTMENT SECURITIES *(Continued)*

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

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:				
Banks and other financial institutions	709	709	—	—
Corporate entities	263,793	218,820	—	—
	264,502	219,529	—	—
Debt securities:				
Club debentures	10,975	10,975	7,810	7,810
Corporate entities	20,781	2,248	—	—
	31,756	13,223	7,810	7,810

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

24. HELD-TO-MATURITY SECURITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Debt securities, at amortised cost:		
Listed outside Hong Kong	50,938	41,275
Unlisted	94,094	138,554
	145,032	179,829
Portion included under current assets	(82,216)	(93,563)
	62,816	86,266
Non-current portion	62,816	86,266
Market value of listed securities at the balance sheet date	50,938	42,135
An analysis of the issuers of the held-to-maturity securities is as follows:		
Banks and other financial institutions	6,260	3,882
Corporate entities	138,772	175,947
	145,032	179,829

25. DEFERRED TAX ASSETS

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	4,282	–
Credited/(Charged) to consolidated profit and loss account for the year	(190)	4,282
Exchange adjustments	23	–
At 31st December	4,115	4,282

The Group has deductible temporary differences and tax losses of HK\$28,100,000 (2003 – HK\$33,479,000) and HK\$600,507,000 (2003 – HK\$525,548,000), 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.

26. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION

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

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

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

Note:

(a) Cash and short-term funds

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

(b) Other investments in securities

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

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

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

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

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

(d) Held-to-maturity securities

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

26. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATION (Continued)

Note: (Continued)

(e) Fixed assets

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

27. PROPERTIES HELD FOR SALE

Properties held for sale which were carried at net realisable value at 31st December, 2003 amounted to HK\$75,000,000.

28. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	2,752	2,655
Finished goods and goods held for resale	103,028	118,146
	105,780	120,801

Inventories which were carried at net realisable value at the balance sheet date amounted to HK\$6,808,000 (2003 – HK\$7,939,000).

29. OTHER INVESTMENTS IN SECURITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Listed equity securities, at market value:		
Hong Kong	280,620	415,969
Overseas	104,770	84,491
	385,390	500,460
Debt securities:		
Listed, at market value:		
Hong Kong	–	8,441
Overseas	225,245	299,669
Unlisted, at fair value	163,875	256,661
	389,120	564,771
Investment funds:		
Listed overseas, at market value	229,252	–
Unlisted, at fair value	303,081	277,575
	532,333	277,575
	1,306,843	1,342,806
An analysis of the issuers of other investments in securities is as follows:		
Equity securities:		
Public sector entities	493	15,507
Banks and other financial institutions	44,883	207,841
Corporate entities	340,014	277,112
	385,390	500,460
Debt securities:		
Central governments and central banks	13,869	16,948
Banks and other financial institutions	105,239	199,957
Corporate entities	220,879	332,618
Others	49,133	15,248
	389,120	564,771

30. DEBTORS, PREPAYMENTS AND DEPOSITS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Repayable on demand	32,959	274,775
Within 30 days	221,626	85,773
Between 31 and 60 days	59,767	46,032
Between 61 and 90 days	37,746	25,027
Between 91 and 180 days	18,157	4,182
Over 180 days	1,061	14,543
	371,316	450,332

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

31. SHARE CAPITAL

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Authorised:		
28,000,000,000 (2003 – 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 (2003 – 9,201,088,716) ordinary shares of HK\$0.10 each	920,109	920,109

32. 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 might, 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 could be granted from the tenth anniversary of the Adoption Date. Accordingly, no more options can be granted under the Share Option Scheme since May 2004. The options can be exercisable after two months from the date on which the options were 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 might be granted under the Share Option Scheme should 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 might be granted under the Share Option Scheme in any one financial year should 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 might be granted under the Share Option Scheme to any grantee should 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 would be determined by the Directors of the Company at their absolute discretion but in any event should 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 was the greater. The consideration for the grant was 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, 2004	Quantity of share options exercised/lapsed during the year	Quantity of share options outstanding at 31st December, 2004
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 ordinary shares of HK\$0.10 each in the Company in cash at the above exercise price per share which is subject to adjustment.

32. SHARE OPTIONS *(Continued)*

As at 31st December, 2004, 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.

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 ("APG"), a listed subsidiary of the Company in Singapore, approved by the shareholders of APG on 17th December, 1992 (the "APG Share Option Scheme"), the directors of APG might, at their discretion, grant to any employees of APG or any of its subsidiaries (the "APG Group") options to subscribe for shares in APG. The APG 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 following is a summary of movements in share options of APG during the year:

Date of grant	Exercise price per share	Exercise period of share options	Quantity of share options outstanding at 1st January, 2004	Quantity of share options lapsed during the year	Quantity of share options outstanding at 31st December, 2004
27th April, 1999	S\$1.53	April 2000 to April 2004	90,000	90,000	Nil

The holder of each share option was entitled to subscribe for one share of S\$0.50 in APG in cash at the above exercise price per share. The above interests in options to subscribe for shares of APG were held by employees of the APG Group. During the year, no options were exercised and all the options lapsed.

As at 31st December, 2004, 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 APG.

33. RESERVES

Group

	Share premium account HK\$'000	Capital reserve (Note (a)) HK\$'000	Special capital reserve (Note (b)) HK\$'000	Legal reserve (Note(c)) HK\$'000	Investment property revaluation reserve HK'000	Other asset revaluation reserve (Note (d)) HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2003	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

33. RESERVES (Continued)**Group**

	Share premium account HK\$'000	Capital reserve (Note (a)) HK\$'000	Special capital reserve (Note(b)) HK\$'000	Legal reserve (Note(c)) HK\$'000	Investment property revaluation reserve HK'000	Other asset revaluation reserve (Note (d)) HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2004	785,257	93,691	2,075,948	621	7,732	253,478	(174,581)	357,058	3,399,204
Surplus on revaluation of investment properties	-	-	-	-	368,076	-	-	-	368,076
Deferred tax charge arising from surplus on revaluation of investment properties	-	-	-	-	(9,961)	-	-	-	(9,961)
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	-	-	-	-	-	(5,777)	-	5,777	-
Release upon disposal of investment properties	-	-	-	-	214	-	-	-	214
Release upon disposal of a subsidiary	-	-	-	(22)	4	-	144	-	126
Transfer of reserve	-	-	-	886	-	-	-	(886)	-
Exchange differences on consolidation	-	-	-	-	-	-	12,721	-	12,721
Profit for the year	-	-	-	-	-	-	-	45,860	45,860
2003 final dividend, declared and paid	-	-	-	-	-	-	-	(18,402)	(18,402)
At 31st December, 2004	785,257	93,691	2,075,948	1,485	366,065	247,701	(161,716)	389,407	3,797,838

33. RESERVES (Continued)

Note:

(a) Capital reserve

Certain amounts of goodwill and negative goodwill arising from the acquisition of subsidiaries in prior years remain eliminated against and credited to the capital reserve, respectively, as explained in Note 3(g) and Note 3(h) to the financial statements.

(b) 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.

As at 1st January, 2004, special capital reserve subject to the Undertaking amounted to HK\$679,156,000. During the year, such Undertaking was released since no debt or claim which was in existence on the date of the Cancellation remained unsettled. As at 31st December, 2004, no special capital reserve remained subject to the Undertaking (2003 – HK\$679,156,000).

(c) 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.

(d) 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.

33. RESERVES (Continued)**Company**

	Share premium account <i>HK\$'000</i>	Special capital reserve <i>(Note (b))</i> <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	783,382	2,075,948	705	344,547	3,204,582
Profit for the year (Note 13)	–	–	–	186,676	186,676
At 31st December, 2003 and 1st January, 2004	783,382	2,075,948	705	531,223	3,391,258
Profit for the year (Note 13)	–	–	–	102,177	102,177
2003 final dividend, declared and paid	–	–	–	(18,402)	(18,402)
At 31st December, 2004	783,382	2,075,948	705	614,998	3,475,033

At 31st December, 2004, the Company's reserves available for distribution, calculated in accordance with Section 79B of the Companies Ordinance, amounted to HK\$614,998,000 (2003 – HK\$531,223,000). As at 1st January, 2004, other distributable reserves as arising from the release of the Undertaking amounted to HK\$1,396,792,000. During the year, such Undertaking was released since no debt or claim which was in existence on the date of the Cancellation remained unsettled with other distributable reserves of HK\$679,156,000 arising from such release. As at 31st December, 2004, other distributable reserves as arising from the release of the Undertaking amounted to HK\$2,075,948,000 (2003 – HK\$1,396,792,000).

Included in the retained profits of the Group and the Company at 31st December, 2004 was an amount of a proposed final dividend for the year then ended of HK\$18,402,000 (2003 – HK\$18,402,000) declared after the balance sheet date.

34. 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, 2003	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 (<i>Note</i>)	–	24,580	16,782	–	41,362
Charged to other asset revaluation reserve for the year	–	381	–	–	381
At 31st December, 2003 and 1st January, 2004	5,659	154,734	(1,934)	2,165	160,624
Charged/(Credited) to consolidated profit and loss account for the year	714	(99)	42	170	827
Charged to investment property revaluation reserve for the year (<i>Note</i>)	–	14,835	–	–	14,835
Exchange adjustments	–	–	–	50	50
At 31st December, 2004	6,373	169,470	(1,892)	2,385	176,336

Note: The portion of the deferred tax liabilities, net of minority interests, of which HK\$9,961,000 (2003 – HK\$27,274,000) has been charged to investment property revaluation reserve.

35. BANK LOANS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans:				
Secured (<i>Note</i>)	1,151,635	967,985	775,000	726,786
Unsecured	47,631	10,000	–	–
	1,199,266	977,985	775,000	726,786
Repayable within one year	(471,654)	(277,723)	(164,000)	(181,786)
Non-current portion	727,612	700,262	611,000	545,000
Bank loans repayable:				
Within one year	471,654	277,723	164,000	181,786
In the second year	168,741	202,631	91,000	125,000
In the third to fifth years, inclusive	38,871	77,631	–	–
After five years	520,000	420,000	520,000	420,000
	1,199,266	977,985	775,000	726,786

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

36. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Repayable on demand	486,189	691,367
Within 30 days	76,645	142,093
Between 31 and 60 days	29,440	34,321
Between 61 and 90 days	5,571	8,338
Between 91 and 180 days	6,755	9,856
Over 180 days	563	15,189
	605,163	901,164

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

37. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	179,469	179,469
Shares listed in Hong Kong	242,754	242,754
	422,223	422,223
Due from subsidiaries	7,165,628	7,076,132
Due to subsidiaries	(1,190,763)	(1,189,938)
	6,397,088	6,308,417
Provisions for impairment losses	(1,368,923)	(1,495,264)
	5,028,165	4,813,153
Market value of listed shares at 31st December	274,864	171,582

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 109 to 121.

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit before tax to cash from operations**

		Group	
	<i>Note</i>	2004	2003
		HK\$'000	HK\$'000
Profit before tax		132,925	314,654
Adjustments for:			
Share of results of associates		(60,679)	(52,458)
Loss/(Gain) on disposal of:			
Fixed assets	7	(212)	(436)
Investment properties		(898)	(40,960)
Interests in subsidiaries		7,497	–
Investment securities	7	708	(5,401)
Provisions/(Write-back of provisions) for impairment losses:			
Associates		16,367	2,703
Investment securities		(49,207)	32,596
Net unrealised loss/(gain) on transfer of investment securities and held-to-maturity securities to other investments in securities	6	7,856	(20,483)
Write-back of provision for loss on guaranteed return arrangement for fund management		–	(10,868)
Interest expense		29,260	36,470
Interest income		(50,171)	(75,593)
Dividend income		(21,934)	(14,698)
Depreciation	7	24,573	21,222
Amortisation of goodwill arising from acquisition of subsidiaries	7	8,755	3,939
Negative goodwill recognised as income		(553)	(40,580)
Operating profit before working capital changes		44,287	150,107
Decrease in properties held for sale		79,264	11,280
Decrease/(Increase) in inventories		21,504	(25,527)
Decrease in held-to-maturity securities		48,818	56,944
Decrease/(Increase) in other investments in securities		54,072	(593,043)
Decrease/(Increase) in loans and advances		(78,263)	28,157
Decrease/(Increase) in debtors, prepayments and deposits		106,186	(105,060)
Decrease in certificates of deposit held		–	1,000,000
Decrease/(Increase) in client trust bank balances		41,435	(176,628)
Decrease in bank deposits with original maturity over three months		–	309,221
Increase/(Decrease) in creditors, accruals and deposits received		(257,480)	340,238
Decrease in provision for loss on guaranteed return arrangement for fund management		–	(117,985)
		59,823	877,704
Profit attributable to banking operation		(7,246)	(8,439)
Cash from operations		52,577	869,265

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

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

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

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

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	28,167	7,419
Inventories	1,238	29,629
Cash and bank balances	40,686	2,140
Bank loans	(10,397)	–
Debtors, prepayments and deposits	25,565	–
Creditors, accruals and deposits received	(15,072)	(3,020)
Minority interests	(9,662)	(10,167)
	60,525	26,001
Reclassification from interest in an associate	(17,891)	–
Goodwill arising from acquisition	7,317	19,591
Negative goodwill arising from acquisition	(878)	–
Deferred cash settlement	(21,223)	(9,409)
Cash consideration paid	27,850	36,183

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cash consideration paid	(27,850)	(36,183)
Cash and bank balances acquired	40,686	2,140
Net inflow/(outflow) of cash and cash equivalents	12,836	(34,043)

The subsidiaries acquired during the year contributed turnover of HK\$6,800,000 (2003 – HK\$21,677,000) and a loss after tax of HK\$8,423,000 (2003 – profit of HK\$661,000) to the Group since the date of their respective acquisition. In the case of the associate which was reclassified to a subsidiary, these turnover and profit after tax amounts exclude the former associate's contribution to the results prior to its becoming a subsidiary.

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)***(d) Major non-cash transactions**

During the year, investment securities of a total cost of HK\$19,019,000 (2003 – investment securities of a total cost of HK\$54,681,000 and held-to-maturity securities of a total amortised cost of HK\$402,191,000) were transferred to other investments in securities at their respective market values or fair values at the date of transfer.

39. MATURITY PROFILE OF ASSETS AND LIABILITIES

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

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2004							
Assets							
Debt securities:							
Investment securities	-	-	-	20,782	-	10,974	31,756
Held-to-maturity securities	-	40,465	41,751	56,556	6,260	-	145,032
Other investments in securities	-	-	28,722	234,815	70,180	55,403	389,120
Loans and advances	166,253	232	4,223	11,587	22,428	-	204,723
Client trust bank balances	43,244	345,879	-	-	-	-	389,123
Cash and bank balances	673,228	1,260,364	-	-	-	-	1,933,592
Assets less liabilities attributable to banking operation:							
Cash and short-term funds	44,475	39,433	-	-	-	-	83,908
Debt securities:							
Held-to-maturity securities	-	-	-	-	9,643	-	9,643
Other investments in securities	-	-	-	7,769	-	9,190	16,959
Advances to customers	28,598	61,854	21,573	23,326	12,580	-	147,931
	955,798	1,748,227	96,269	354,835	121,091	75,567	3,351,787
Liabilities							
Bank loans	-	249,127	222,527	207,612	520,000	-	1,199,266
Assets less liabilities attributable to banking operation:							
Current, fixed, savings and other deposits of customers	19,912	88,576	9,153	-	-	-	117,641
	19,912	337,703	231,680	207,612	520,000	-	1,316,907

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, 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 operation:							
Cash and short-term funds	219,402	35,405	–	–	–	–	254,807
Placements with banks and other financial institutions maturing between one and twelve months	–	368,320	–	–	–	–	368,320
Debt securities:							
Held-to-maturity securities	–	–	–	–	9,672	–	9,672
Other investments in securities	–	–	–	–	4,735	8,911	13,646
Advances to customers	25,312	99,037	10,418	3,240	13,586	–	151,593
	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 operation:							
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

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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees provided in respect of banking facilities granted to:				
An associate	–	11,320	–	11,320
An investee company	2,915	2,911	2,915	2,911
	2,915	14,231	2,915	14,231

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

- (c)** Pursuant to a letter of indemnity dated 18th June, 2004 from the Company amongst others in favour of its associate, the Company agreed to indemnify the associate in respect of certain claims made by the associate's contractor to a maximum contingent liability thereunder of US\$11,309,000 (equivalent to approximately HK\$87,917,000). On 28th March, 2005, the contingent liability ceased as a result of the settlement of the aforesaid claims between the associate and the contractor.

(d) Details of the off-balance sheet exposures relating to banking operation

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

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 one to eight years. At 31st December, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	94,935	102,086
In the second to fifth years, inclusive	51,812	87,752
	146,747	189,838

(b) As lessee

The Group leases certain properties and motor vehicles under operating lease agreements which 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, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	13,959	11,951
In the second to fifth years, inclusive	32,164	26,987
After five years	17,414	18,496
	63,537	57,434

42. CAPITAL COMMITMENTS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Capital commitments in respect of plant and equipment:		
Contracted, but not provided for	4,699	123
Other capital commitments:		
Contracted, but not provided for	166,337	72,794
	171,036	72,917

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

43. RELATED PARTY TRANSACTIONS

Listed below are related party transactions disclosed in accordance with the Statement of Standard Accounting Practice 20 "Related party disclosures".

- (a) At the balance sheet date, an overseas affiliate of the Company had the following balances with The Macau Chinese Bank Limited, a banking subsidiary of Hongkong Chinese Limited ("HCL") which in turn is a subsidiary of the Company:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Included under the following item as referred to in Note 26 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, 2004, the Group had balances with its associates and jointly controlled entities, further details of which are set out in Note 21 and Note 22 to the financial statements, respectively.

43. RELATED PARTY TRANSACTIONS *(Continued)*

- (c) During the prior year, the Group paid to Lippo Limited ("Lippo"), an intermediate holding company of the Company, an interest of HK\$1,462,000. The interest was paid on the outstanding loan note due to Lippo which was fully redeemed at par in cash during the prior year. The interest rate was determined by reference to the then prevailing market lending rates.
- (d)
 - (i) During the year, the Group received rental income of HK\$2,117,000 (2003 – HK\$2,117,000) from Lippo. The rental was determined by reference to the then prevailing open market rentals.
 - (ii) Details of the tenancy agreement about the rental income received during the year in item (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.

The transactions in respect of item (d) above also constitute connected transactions under the Listing Rules. Further details of the transactions are disclosed in the section headed "Directors' and controlling shareholders' interests in contracts" in the Report of the Directors.

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

44. SUBSEQUENT EVENTS

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

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22nd April, 2005.