



銀建國際實業有限公司
Silver Grant International Industries Ltd

ANNUAL REPORT 1997

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Silver Grant International Industries Limited (the "Company") will be held at Boardroom I, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 15th June, 1998 at 9:15 a.m. for the following purposes:—

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31st December, 1997.
2. To declare a final dividend.
3. To re-elect the retiring Directors and fix the Directors' remuneration.
4. To appoint auditors and authorise the Directors to fix their remuneration.

By order of the Board

Michael Tung

Secretary

Hong Kong, 8th May, 1998

Registered Office,
Suite 4901,
49th Floor,
Office Tower,
Convention Plaza,
1 Harbour Road,
Wanchai,
Hong Kong

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on behalf of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the registered office of the Company, Suite 4901, 49th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting.

Corporate Information

BOARD OF DIRECTORS

Wu Jian Chang (Chairman)
Hui Xiao Bing (Vice Chairman)
Gao Jian Min (Managing Director)
Xu Shi Quan
Cheung Chung Kiu
Yuen Wing Shing
Zhang Lu*
Kang Dian*
Tan Jiansheng (appointed on 20th May, 1998)
Su Tongnian (appointed on 20th May, 1998)
Lau Yat Ching (appointed on 20th May, 1998)
Fang Dacheng (resigned on 18th May, 1998)
Sheng Yong (resigned on 20th May, 1998)

* *Independent non-executive directors*

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants, Hong Kong

BANKERS

Sin Hua Bank Limited
The Kwangtung Provincial Bank
The Ka Wah Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

SECRETARY

Tung Tat Chiu, Michael

SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

SOLICITORS

Woo, Kwan, Lee & Lo

REGISTERED OFFICE

Suite 4901, 49th Floor,
Office Tower,
Convention Plaza,
1 Harbour Road,
Wanchai, Hong Kong.

Chairman's Statement

GROUP RESULTS

I am pleased to report profits attributable to shareholders for the year ended 31st December, 1997 is approximately HK\$201,688,000. This represents an increase of 45% over that of the previous year. Earnings per share is 26.3 cents compared with 24.6 cents in the previous year, representing an increase of 7%.

DIVIDEND

The directors of the Company ("Directors") recommend a final dividend of 6 cents per share for the year ended 31st December, 1997. Subject to the approval of shareholders at the Annual General Meeting to be held on 15th June, 1998, the final dividend will be paid on or before 22nd June, 1998 to shareholders as registered on 15th June, 1998.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 8th June, 1998 to 15th June, 1998 (both days inclusive), during which period no transfer of shares will be registered. In order to be qualified for the proposed final dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's registrars, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on 5th June, 1998.

BUSINESS REVIEW AND PROSPECTS

The profit of the Company and its subsidiaries (together, the "Group") for the year ended 31st December, 1997 amounted to approximately HK\$202 million as compared to approximately HK\$139 million in the previous year. The profit mainly comprised of a gain of approximately HK\$110 million from the disposal of 31,000,000 H shares of Qingling Motors Co. Ltd. ("Qingling") and a gain of approximately HK\$90 million from the deemed disposal of the Group's interest in Jiangxi Copper Company Limited ("JCC") upon its listing on The Stock Exchange of Hong Kong Limited ("HKSE") and London Stock Exchange Limited ("LSE").

In August 1997, the Group successfully issued US\$115 million of one percent. convertible guaranteed bonds due 2004 ("Bonds") for the purpose of financing the Group's investment in China Infra-Structure Investment Limited ("CII"), Beijing Wanfujing Retail Management Company Ltd, ("Wanfujing") and other investments.

In 1997, the Group disposed some of its interest in Qingling thereby reducing the Group's interest in Qingling from approximately 4% to 2.5% by the end of 1997. The proceeds and profit realised from the disposals amounted to HK\$138 million and HK\$110 million respectively. Despite the foregoing disposals, the Group maintains its intention to explore mutually beneficial and long-term business opportunities with Qingling and its major shareholders and, to that effect, the Group will remain a shareholder of Qingling.

One of the Group's investee company, JCC was successfully listed on the HKSE and LSE in June 1997. The Group's interest in JCC is held through International Copper Industry (China) Investment Limited ("ICC") of which the Group has a 50% interest. As a result of the listing, the ICC's shareholding in JCC was diluted to approximately 20.6% of its total registered capital from the original of approximately 28%. This dilution resulted in a deemed disposal of the Group's interest in JCC and consequently a gain of approximately HK\$90 million.

Chairman's Statement

CII, an associated company in which the Group owns 40% equity interest, has also made a number of new infrastructure investments in the PRC. The Group has contributed a total of HK\$312 million to CII in 1997 and a total of HK\$200 million in 1998 to finance its investments. In addition to Wuhan Bai Sha Zhou Bridge ("Wuhan Bridge") which CII acquired in 1996, CII has invested in four additional bridges and three toll roads. The current projects portfolio of CII is summarised as follows:

| Project | % interest in registered capital by CII | Total investment by CII (HK\$ million) |
|-----------------|------------------------------------------------|-----------------------------------------------|
| Wuhan Bridge | 50% | 934.6 |
| Shantou Bridge | 42% | 392.5 |
| Zhaoqing Bridge | 85% | 357.5 |
| State Road 320 | 76% | 332.5 |
| State Road 311 | 80% | 204.0 |
| Luohe Bridge | 70% | 117.4 |
| Chengdu Highway | 60% | 56.1 |
| Shahe Bridge | 85% | 52.3 |
| Total | | 2,446.9 |

A number of the above projects are already in operation and generate stable cashflow to CII. The profit generated by CII attributable to the Group amounted to HK\$13 million in 1997 and contributed to the increase in recurring operating income of the Group. The profit contribution is anticipated to continue to grow in future in tandem with the expansion of CII. The profitability of CII is also protected, in the case of certain projects, by profit guarantees given to CII by the relevant joint venture partners. CII is continuously identifying quality infrastructure projects to further expand its current portfolio.

Wangfujing, an associated company in which the Group owns 50% equity interest, has committed extensive effort to develop Wangfujing to become one of the highest quality nationwide chain department stores in the People's Republic of China ("PRC"). The successful soft opening of Wangfujing's two full-line department stores in Wuhan and Nantong in early 1998 has laid solid foundations for Wangfujing's future national expansion plan. Still in their initial stages of operation, the above two stores are currently actively streamlining their merchandise and service offerings and suppliers as well as fine tuning some detailed operation procedures after considering the recent changes to local market and competition environment.

Wangfujing is also exploring various licensing and franchising opportunities in the international market with an aim to offer distinctive and value-for-money merchandise to its customers.

In September 1997, the Group acquired the 15th Floor, Peregrine Tower, Lippo Centre, No. 89 Queensway, Hong Kong from China Everbright Financial Holdings Limited ("CE Financial") for a total consideration of HK\$159 million. The property has been used for rental purposes with the objective of generating stable rental income for the Group.

Chairman's Statement

In December, 1997, the Group acquired the residential floors of the South Tower of East Gate Plaza in the PRC (being the 4th to 31st floors) from Beijing Huajian Real Estate Co., Ltd for a total consideration of HK\$454 million. The Group was provided with a guaranteed return as a condition of the acquisition. The Group acquired this property mainly for rental purposes to increase its source of stable operating income. The Group believes that, through the acquisition, it will benefit from the long term growth of the PRC economy and demand for quality properties in Beijing.

To finance the capital requirement of its investments, the Company has issued 130,720,000 new shares to independent shareholders for a gross proceeds of HK\$480 million in April 1997. As earlier mentioned, the Group has also successfully issued US\$115 million of Bonds for the purpose of financing the Group's investment in CII, Wangfujing and other investments. In September 1997, the Group has further issued 78,000,000 new shares to Join Truth Limited ("Join Truth") for a gross proceeds of HK\$437 million and, as part of the transaction, CE Financial also subscribed for new shares in Join Truth, representing 24.69% in the registered share capital of Join Truth. Join Truth's current shareholding in the Company is approximately 48.2%.

Despite the occurrence of the Asian economic crisis, in the last quarter of 1997, the operations of the Group have not been significantly affected. The Group maintained its recurring operating income through investment in rental properties and infrastructure projects in the PRC. In addition, the management of the Group has been maintaining a considerable proportion of the Group's assets in the form of liquid assets to ensure a liquid financial position. As at 31st December, 1997, the cash and cash equivalent assets accounted for 32% of the net assets and operating income accounted for 41% of the net income. The Group has also repurchased US\$22 million principal amount of the Bonds at US\$12 million in 1998 to reduce the Group's foreign currency exposure.

The future strategy of the Group is to continue to expand its investments in infrastructure, retail, property rental and other industrial investment in the PRC. The Group is also aiming to further improve its quality of income by increasing the proportion of recurring operating income. While maintaining an aggressive expansion strategy, the Group would be very prudent in making investment decisions and would maintain a solid financial position with sufficient liquidity. The Group would also be actively exploring measures to reduce the foreign currency exposure including further repurchase of the outstanding Bonds.

APPRECIATION

I would like to take this opportunity to thank our shareholders for their continual support and to commend my fellow directors and staffs of their tremendous dedications and contributions to the Group.

By order of the Board
Wu Jian Chang
Chairman

Hong Kong, 8th May, 1998

Biographical Details of Directors

Mr. Wu Jian Chang, aged 58, is the deputy minister of Ministry of Metallurgical Industry. Mr. Wu is also the Chairman of ONFEM Holdings Limited and Oriental Metals (Holdings) Co., Ltd. Mr. Wu was the president of China National Nonferrous Metals Industry Corporation (“CNNC”). He has over 25 years working experience in engineering and in business administration. Mr. Wu has a bachelor’s degree in engineering from Zhong Nan University and joined CNNC in 1964.

Mr. Hui Xiao Bing, aged 45, is the general manager of China Everbright Financial Holdings Ltd. Mr. Hui was the president of China Construction Bank, Shenzhen branch. He previously worked for Research Centre for Economic Development of the State Council of the PRC and China Investment Consultancy Company. He has over 20 years experience in banking and finance. Mr. Hui graduated from Inner Mongolia Industrial University with a bachelor degree in engineering.

Mr. Gao Jian Min, aged 39, is the managing director of Pacific Economies Development Corp. He graduated from Qing Hua University with a bachelor degree in economics. He has over 10 years experience in property investment and development.

Mr. Fang Dacheng, aged 64, is the vice-chairman and managing director of China Nonferrous Metals Holdings (Hong Kong) Limited. He is also the director of ONFEM Holdings Limited. He graduated from the Northeast Technical Institute, majoring in mining. He is now a professor-grade senior engineer.

Mr. Xu Shi Quan, aged 51, is the deputy general manager of China Travel Service (Holdings) H.K. Ltd.. Mr. Xu was the senior economist of Bank of Communications and the president of its Hainan branch. Before joining Bank of Communications in 1988, he worked for the People’s Bank of China and The Industrial and Commercial Bank of China. He has over 25 years experience in banking and finance.

Mr. Cheung Chung Kiu, aged 34, is the Chairman of Yugang International Limited (“Yugang”) which is principally engaged in the China trade in consumer electronic products, auto parts and industrial equipment. Mr. Cheung has over 15 years experience in China Trade business and over 10 years experience in property investment and development. Mr. Cheung also has property interests in Hong Kong.

Mr. Yuen Wing Shing, aged 49, is the director of Yugang. Prior to joining Yugang in 1992, he worked for a major bank in Hong Kong as a senior manager for over 20 years where he has substantial experience in property investment and development and property finance.

Mr. Sheng Yong, aged 40, is the Deputy General Manager of China Construction Bank, Shenzhen Branch, International Department. He previously worked for Bank of China and China Great Wall Finance Company. He has over 16 years experience in banking and finance. Mr. Sheng holds a special college certificate on International Finance Management from The People’s University.

Mr. Zhang Lu*, aged 45, is the senior Vice-president and Treasurer of the Ka Wah Bank Ltd., Hong Kong. Mr. Zhang has worked in the Bank of China and Citic Industrial Bank. He is engaged in the banking business over 20 years.

Biographical Details of Directors

Mr. Kang Dian*, aged 49, is both the Chairman and managing director of Guangdong Capital Holdings Ltd. Mr. Kang is also the Consultant to the Finance & Securities Commission of All China Lawyers Association since 1996. He graduated from Graduate School of Social Science of China with a master's degree in Economics.

Mr. Lau Yat Ching, aged 54, is the executive deputy general manager of China Nonferrous Metals Holdings (HK) Ltd. Mr. Lau was the general manager of a major state enterprise. He has over 30 years management experience in production, import trading, futures trading, and the aluminium industry. He was appointed director on 20 May 1998.

Mr. Tan Jiansheng, aged 39, is the managing director of Well Kent (International) Holdings Co., Ltd. Mr. Tan previously worked for China Construction Bank. He graduated from Zhong Shan University with a master's degree in Economics. He has over 15 years experience in commercial and investment banking and finance. He was appointed director on 20 May 1998.

Mr. Su Tongnian, aged 41, is the financial controller of Well Kent (International) Holdings Co., Ltd. Mr. Su previously worked for China Construction Bank and Credit Lyonnais. He has both MBA and M.Phil degrees, with over 18 years experience in commercial and investment banking and finance. He was appointed director on 20 May 1998.

* Independent non-executive directors

Directors' Report

The Directors have pleasure in presenting their annual report and audited financial statements for the year ended 31st December, 1997.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in property and other investments. Details of the activities of the Company's subsidiaries and associated companies are set out in note 34 to the financial statements.

The Group's turnover and contribution to operating profit for the year ended 31st December, 1997 by principal activity and geographical market are as follows:

| | Turnover | Operating |
|----------------------------------------------------|-----------------------|----------------------|
| | HK\$'000 | profit |
| | | HK\$'000 |
| By principal activity: | | |
| Property leasing | 14,066 | 13,222 |
| Investments | <u>159,205</u> | <u>13,387</u> |
| | <u><u>173,271</u></u> | 26,609 |
| Exceptional items: | | |
| Profit on disposal of long term listed investments | | 110,410 |
| Deficit on revaluation of listed investments | | <u>(11,102)</u> |
| | | 125,917 |
| Interest expenses (net) | | (7,043) |
| Corporate expenses | | <u>(35,581)</u> |
| Operating profit | | <u><u>83,293</u></u> |
| By geographical market: | | |
| Hong Kong | 166,979 | 119,807 |
| The People's Republic of China (the "PRC") | <u>6,292</u> | <u>6,110</u> |
| | <u><u>173,271</u></u> | 125,917 |
| Interest expenses (net) | | (7,043) |
| Corporate expenses | | <u>(35,581)</u> |
| Operating profit | | <u><u>83,293</u></u> |

Directors' Report

RESULTS AND APPROPRIATIONS

The results of the Group and the appropriations of the Company are set out in the consolidated profit and loss account on page 16.

The directors recommend the payment of a final dividend of 6 cents per share to the shareholders whose names appear on the register of members on 15th June, 1998 and the retention of the remaining profit for the year amounting to HK\$148,147,000.

FINANCIAL SUMMARY

The results of the Group for the nine months ended 31st December, 1993 and for the four years ended 31st December, 1997 and the assets and liabilities of the Group at 31st December, 1993, 1994, 1995, 1996 and 1997 are set out on page 51.

FIXED ASSETS

During the year, the Group acquired a leasehold property in Hong Kong at a cost of HK\$163.8 million for investment purposes.

The Group's leasehold properties were revalued as at 31st December, 1997. The deficit on revaluation amounting to HK\$12.2 million has been charged to the asset revaluation reserve. The Group also revalued its investment properties as at 31st December, 1997. The deficit arising on the revaluation amounting to HK\$58.4 million has been charged to the investment properties revaluation reserve.

Details of the above and other movements in fixed assets of the Group and of the Company during the year are set out in note 13 to the financial statements.

In addition, the Group has entered into an agreement to acquire a leasehold property in the PRC for investment purposes and has paid deposits of HK\$454 million, representing the full purchase consideration, as at the balance sheet date. Details of the deposits paid are set out in note 14 to the financial statements.

PROPERTIES HELD FOR INVESTMENT PURPOSES

Details of properties held by the Group for investment purposes at 31st December, 1997 are set out on page 52.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the Company's subsidiaries and associated companies at 31st December, 1997 are set out in note 34 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital and share options of the Company are set out in notes 21 and 22 to the financial statements respectively.

Directors' Report

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 23 to the financial statements.

BORROWINGS

Details of bank borrowings and convertible bonds of the Group as at 31st December, 1997 are set out in notes 24 and 25 to the financial statements respectively.

No interest was capitalised by the Group during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Wu Jian Chang

Hui Xiao Bing

Gao Jian Min

Fang Dacheng

Xu Shi Quan

Cheung Chung Kiu

Yuen Wing Shing

Sheng Yong

Zhang Lu *

Kang Dian * (appointed on 8th May, 1998)

Leung Chun Ying * (resigned on 31st March, 1997)

Lou Chin Meng, Eric (resigned on 28th February, 1997)

* *Independent non-executive directors.*

The term of office of each director, including the independent non-executive directors, is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

In accordance with the provisions of the Company's Articles of Association, Messrs. Yuen Wing Shing, Sheng Yong and Zhang Lu retire by rotation and Kang Dian retire, being eligible, offer themselves for re-election.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

None of the directors held any interest in the share capital of the Company or its associated corporations and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the share option scheme (the "Scheme") of the Company adopted on 26th June, 1995, details of which are set out in note 22 to the financial statements, on 8th January, 1997, Mr. Gao Jian Min was granted options to subscribe for 5,000,000 shares in the Company at a subscription price of HK\$2.9 per share which are exercisable at any time from 8th January, 1997 up to and including 7th January, 2007.

As a result of the two for one bonus issue of shares approved at the extraordinary general meeting of the Company on 21st April, 1997, the number of shares issuable under the outstanding options held by Mr. Gao Jian Min and the subscription price of the option shares were adjusted to 15,000,000 shares and HK\$0.967 per share respectively.

No share option was exercised by Mr. Gao Jian Min during the year.

Other than as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

- (1) A service agreement dated 26th June, 1997 was entered into between Mr. Gao Jian Min and the Company. Pursuant to the terms and conditions set out therein, the Company agreed to employ Mr. Gao and Mr. Gao agreed to serve the Company as a managing director by providing the Company with the services as described in the service agreement for a term of two years commencing on 1st April, 1997 and expiring on 31st March, 1999 which terms shall continue thereafter until determined by either party giving to the other not less than 6 months prior written notice.
- (2) On 2nd September, 1997, a subscription agreement was entered into between the Company and Join Truth Limited, the major shareholder of the Company, in relation to the issue of 78,000,000 new shares of HK\$0.20 each in the share capital of the Company to Join Truth Limited for a total consideration of HK\$436.8 million in cash. These shares were allotted and issued to Join Truth Limited on 29th October, 1997.
- (3) On 27th November, 1997, a sale and purchase agreement was entered into between the Group and Beijing Huajian Real Estate Co., Limited ("Huajian") in respect of the purchase of a residential property in East Gate Plaza, Beijing, the PRC, from Huajian for a total consideration of US\$58,743,580. Mr. Hui Xiao Bing and Mr. Gao Jian Min are chairman and vice chairman of Huajian respectively. Mr. Hui Xiao Bing, Mr. Gao Jian Min and Mr. Xu Shi Quan have an effective interest of 21%, 18% and 18% in Huajian respectively through their interest in Silver Grant International Finance Limited which has a controlling interest in Huajian.

Directors' Report

CONNECTED TRANSACTIONS — *continued*

The property is expected to be completed on or before 30th June, 1998 and it will then be delivered to the Company. According to the sale and purchase agreement, the Group will have a guaranteed return in respect of the property which will be equal to an annual yield of 10% on the purchase consideration for the period from the date the Group fully settled the purchase consideration until 30th June, 1998, and an annual yield of 15% on the purchase consideration for the period from 1st July, 1998 to the end of the three year period from the date the Group fully settled the purchase consideration.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 1997, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholders had interests of 10% or more in the share capital of the Company:

| Name of shareholder | Number of ordinary shares | |
|---------------------------------------------------------------|---------------------------|-----------------|
| | Direct interest | Deemed interest |
| Join Truth Limited (<i>note 1</i>) | 430,124,400 | — |
| Silver Grant International Holdings Limited (<i>note 2</i>) | — | 430,124,400 |

Notes:

1. 430,124,400 shares in the Company are beneficially owned by Join Truth Limited which are held in the names of HKSCC Nominees Limited, other nominees and Join Truth Limited.
2. Silver Grant International Holdings Limited is interested in 430,124,400 shares in the Company through its ownership of 41.84% of the issued share capital of Join Truth Limited.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company had not been notified of any interests representing 10% or more of the issued share capital of the Company as at 31st December, 1997.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Details of the purchase of convertible bonds subsequent to the balance sheet date are set out in note 35 to the financial statements.

YEAR 2000 ISSUE

The Group has reviewed its computer system and has taken steps in 1997 to deal with the impact of year 2000. The Group has good reason to believe that it will be resolved timely before it would affect the operations.

Directors' Report

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the year ended 31st December, 1997 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the three years ended 31st December, 1997.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Gao Jian Min

MANAGING DIRECTOR

8th May, 1998

Auditors' Report

**Deloitte Touche
Tohmatsu**



**德勤·關黃陳方
會計師行**

Certified Public Accountants

26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

**TO THE SHAREHOLDERS OF
SILVER GRANT INTERNATIONAL INDUSTRIES LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 16 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

8th May, 1998

Consolidated Profit and Loss Account

For the year ended 31st December, 1997

| | NOTES | 1997 HK\$'000 | 1996 HK\$'000 |
|----------------------------------------------------|-------|-------------------|-------------------|
| TURNOVER | 3 | <u>173,271</u> | <u>60,682</u> |
| OPERATING PROFIT (LOSS) | 4 | | |
| Continuing operations excluding exceptional items | | (16,015) | (17,501) |
| Exceptional items | 5 | <u>99,308</u> | <u>182,710</u> |
| OPERATING PROFIT | | <u>83,293</u> | <u>165,209</u> |
| SHARE OF RESULTS OF ASSOCIATED COMPANIES | | | |
| Continuing operations excluding exceptional items | | 37,508 | (955) |
| Exceptional item | 6 | <u>90,090</u> | <u>—</u> |
| | | <u>127,598</u> | <u>(955)</u> |
| PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION | | 210,891 | 164,254 |
| TAXATION | 9 | <u>9,203</u> | <u>24,844</u> |
| PROFIT FOR THE YEAR | 10 | 201,688 | 139,410 |
| DIVIDENDS | 11 | <u>53,541</u> | <u>13,072</u> |
| PROFIT FOR THE YEAR, RETAINED | 23 | <u>148,147</u> | <u>126,338</u> |
| EARNINGS PER SHARE | 12 | <u>26.3 cents</u> | <u>24.6 cents</u> |

Consolidated Balance Sheet

At 31st December, 1997

| | NOTES | 1997 HK\$'000 | 1996 HK\$'000 |
|---------------------------------------|-------|-------------------------|-------------------------|
| FIXED ASSETS | 13 | 365,952 | 340,125 |
| DEPOSITS ON ACQUISITION OF A PROPERTY | 14 | 454,052 | — |
| DEFERRED EXPENDITURE | 15 | 24,777 | — |
| INTEREST IN ASSOCIATED COMPANIES | 17 | 1,030,786 | 405,675 |
| INVESTMENTS | 18 | 309,734 | 342,021 |
| NET CURRENT ASSETS (LIABILITIES) | 19 | <u>705,139</u> | <u>(27,086)</u> |
| | | <u>2,890,440</u> | <u>1,060,735</u> |
| Financed by: | | | |
| SHARE CAPITAL | 21 | 178,469 | 43,575 |
| RESERVES | 23 | <u>1,713,690</u> | <u>959,232</u> |
| SHAREHOLDERS' FUNDS | | 1,892,159 | 1,002,807 |
| SECURED BANK LOANS DUE AFTER ONE YEAR | 24 | 109,391 | 57,393 |
| CONVERTIBLE BONDS | 25 | 888,375 | — |
| DEFERRED TAXATION | 26 | <u>515</u> | <u>535</u> |
| | | <u>2,890,440</u> | <u>1,060,735</u> |

The financial statements on pages 16 to 50 were approved by the board of directors on 8th May, 1998 and are signed on its behalf by:

Gao Jian Min
DIRECTOR

Yuen Wing Shing
DIRECTOR

Balance Sheet

At 31st December, 1997

| | NOTES | 1997 HK\$'000 | 1996 HK\$'000 |
|---------------------------------------|-------|------------------|------------------|
| FIXED ASSETS | 13 | 282,808 | 178,475 |
| INTEREST IN SUBSIDIARIES | 16 | 442,307 | 337,492 |
| INTEREST IN ASSOCIATED COMPANIES | 17 | 121,317 | 108,634 |
| INVESTMENTS | 18 | 471 | 21 |
| NET CURRENT ASSETS (LIABILITIES) | 19 | <u>648,622</u> | <u>(18,568)</u> |
| | | <u>1,495,525</u> | <u>606,054</u> |
| Financed by: | | | |
| SHARE CAPITAL | 21 | 178,469 | 43,575 |
| RESERVES | 23 | <u>1,207,150</u> | <u>504,571</u> |
| SHAREHOLDERS' FUNDS | | 1,385,619 | 548,146 |
| SECURED BANK LOANS DUE AFTER ONE YEAR | 24 | 109,391 | 57,393 |
| DEFERRED TAXATION | 26 | <u>515</u> | <u>515</u> |
| | | <u>1,495,525</u> | <u>606,054</u> |

Gao Jian Min
DIRECTOR

Yuen Wing Shing
DIRECTOR

Consolidated Cash Flow Statement

For the year ended 31st December, 1997

| | <i>NOTE</i> | 1997 HK\$'000 | 1996 HK\$'000 |
|--------------------------------------------------------------------------|-------------|--------------------------------|------------------|
| NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES | 27 | <u>(137,802)</u> | <u>632</u> |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 25,122 | 2,833 |
| Interest paid | | (13,621) | (26,873) |
| Dividends paid | | <u>(13,072)</u> | <u>(36,375)</u> |
| NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | <u>(1,571)</u> | <u>(60,415)</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of fixed assets | | (168,565) | (52,065) |
| Deposits on acquisition of a property paid | | (454,052) | — |
| Investment in associated companies | | (116,220) | (400) |
| Advances to associated companies | | (440,413) | (86,532) |
| Purchase of club debenture | | (450) | — |
| Purchase of long term listed investments | | (81,205) | — |
| Sale of long term listed investments | | 138,165 | 235,022 |
| Sale of investment properties | | 65,933 | 50,655 |
| Sale of other fixed assets | | 14 | — |
| Advance to a joint venture partner | | — | (76,537) |
| Advance to a potential investee company settled | | <u>—</u> | <u>3,476</u> |
| NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES | | <u>(1,056,793)</u> | <u>73,619</u> |
| NET CASH (OUTFLOW) INFLOW BEFORE FINANCING ACTIVITIES | | <u>(1,196,166)</u> | <u>13,836</u> |

Consolidated Cash Flow Statement

For the year ended 31st December, 1997

| | <i>NOTES</i> | 1997 HK\$'000 | 1996 HK\$'000 |
|------------------------------------------------------------|--------------|----------------------------------|--------------------------|
| FINANCING ACTIVITIES | 28 | | |
| Proceeds from issue of shares | | 947,383 | 87,660 |
| Expenses on issue of shares | | (3,338) | (337) |
| Proceeds from issue of convertible bonds | | 888,375 | — |
| Expenses on issue of convertible bonds | | (27,530) | — |
| New bank loans raised | | 81,028 | 58,402 |
| Repayment of bank loans | | (90,435) | (127,600) |
| Repayment of other loan | | <u>—</u> | <u>(53,072)</u> |
| NET CASH INFLOW (OUTFLOW) FROM FINANCING ACTIVITIES | | <u>1,795,483</u> | <u>(34,947)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 599,317 | (21,111) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | <u>13,948</u> | <u>35,059</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 29 | <u><u>613,265</u></u> | <u><u>13,948</u></u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”).

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies, which have been adopted in preparing the financial statements, and which conform with accounting principles generally accepted in Hong Kong, are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries and associated companies acquired or disposed of during the year are included in the consolidated profit and loss account from or up to the effective dates of acquisition or disposal respectively.

Goodwill or capital reserve arising on consolidation, which represents respectively the excess or shortfall of the purchase consideration over the fair value of the Group’s share of the separable net assets at the date of acquisition, is written off or credited directly to reserves respectively in the year of acquisition.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company’s balance sheet at cost less provision for any permanent diminution in value, if necessary.

Associated companies

An associated company is a company, other than a subsidiary, in which the Group has a long-term equity investment and over which the Group is in a position to exercise significant influence in management, including participation in financial and operating policy decisions.

The consolidated profit and loss account includes the Group’s share of post-acquisition results of associated companies for the year using the equity method of accounting. In the consolidated balance sheet, investments in associated companies are stated at the Group’s share of the associated companies’ net assets.

The results of associated companies are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company’s balance sheet, investments in associated companies are stated at cost less provision for any permanent diminution in value, if necessary.

2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investment properties

Investment properties are properties which are held for their investment potential, any rental income being negotiated at arm's length. Investment properties are stated at their open market value based on an annual independent professional valuation at the balance sheet date.

Surpluses arising on the revaluation of investment properties are credited to the investment properties revaluation reserve. Deficits are set off first against surpluses on earlier revaluation on a portfolio basis, and thereafter are charged to the profit and loss account.

On disposal of an investment property, the balance on the investment properties revaluation reserve attributable to that property is transferred to the profit and loss account.

No depreciation is provided in respect of investment properties which are held under leases with unexpired terms of more than twenty years.

Fixed assets and depreciation

Fixed assets other than investment properties are stated at cost or valuation less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, 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 fixed asset, the expenditure is capitalised as an additional cost of the fixed asset. When assets are sold or retired, their cost or valuation and accumulated depreciation are eliminated from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

Any surplus arising on the revaluation of fixed assets other than investment properties is credited to the asset revaluation reserve. A decrease in net carrying amount arising on revaluation of an asset is charged to the profit and loss account to the extent that it exceeds the surplus, if any, held in the asset revaluation reserve relating to a previous revaluation of that particular asset. On the subsequent sale of assets, the attributable revaluation surplus is transferred to retained profits.

Notes to the Financial Statements

For the year ended 31st December, 1997

2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Fixed assets and depreciation — *continued*

Depreciation is provided to write off the depreciable amount of fixed assets other than investment properties, using the straight line method, over their estimated useful lives as follows:

| | |
|------------------------|--------------------------------------------------------------------------|
| Leasehold land | 50 years or over the term of the relevant lease, whichever is shorter |
| Leasehold buildings | 25 years or over the term of the relevant lease, whichever is shorter |
| Leasehold improvements | 3 years |
| Furniture and fixtures | 10 years |
| Office equipment | 5 years |
| Motor vehicles | 10 years |

Investments

Listed investments held for long term investment purposes are stated at valuation based on the market value at the balance sheet date. Surpluses arising on valuation are credited to the asset revaluation reserve. Deficits are set off first against surpluses on previous revaluations, and thereafter are charged to the profit and loss account. On disposal of a long term listed investment, the balance on the asset revaluation reserve attributable to that investment is transferred to the profit and loss account.

Unlisted investments held for long term investment purposes are stated at cost less provision for permanent diminution in value, if necessary.

Listed investments held for short term purposes are stated at the lower of cost and market value at the balance sheet date. Cost is calculated using the weighted average method.

Convertible bonds

Convertible bonds are stated at the amount of the consideration received on the issue of bonds. The financing cost recognised in the profit and loss account in respect of the bonds is calculated so as to give a constant rate of return on the outstanding balance. Direct issue costs are deferred and amortised on a straight line basis over the life of the bonds. When convertible bonds are fully converted before the maturity date, the unamortised direct issue costs are recognised immediately.

Revenue recognition

Rental income under operating leases is recognised on a straight line basis over the term of the leases.

Dividends from investments are recognised when the right to receive the dividend payment has been established.

2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Revenue recognition — *continued*

Income from the trading of securities is recognised upon the exercise of a legally binding and irrevocable contract of sale.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the period of the leases.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas operations maintained in currencies other than Hong Kong dollars are translated at exchange rates ruling on the balance sheet date. Exchange differences arising on consolidation are dealt with in the exchange reserve.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advances.

Notes to the Financial Statements

For the year ended 31st December, 1997

3. TURNOVER

Turnover represents the aggregate of rental income from leasing of properties, dividend income earned from long term investments and the gross proceeds received and receivable from trading of marketable securities during the year, and is summarised as follows:

| | 1997 HK\$'000 | 1996 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Property rental | 14,066 | 17,676 |
| Dividend income | 6,445 | 7,502 |
| Proceeds from trading of securities | <u>152,760</u> | <u>35,504</u> |
| | <u>173,271</u> | <u>60,682</u> |

4. OPERATING PROFIT (LOSS)

| | 1997 HK\$'000 | 1996 HK\$'000 |
|--------------------------------------------------------------------------------------------|------------------|------------------|
| Operating profit (loss) has been arrived at after charging: | | |
| Amortisation of deferred expenditure | 2,753 | — |
| Auditors' remuneration | 380 | 405 |
| Depreciation | 4,555 | 2,912 |
| Directors' remuneration (<i>note 7</i>) | 3,330 | 5,231 |
| Interest on bank loans and overdrafts wholly repayable: | | |
| — within five years | 10,935 | 22,108 |
| — over five years | 2,686 | 1,998 |
| Interest on convertible bonds | <u>26,198</u> | <u>—</u> |
| | <u>39,819</u> | <u>24,106</u> |
| Operating lease rentals paid in respect of land and buildings | — | 758 |
| and after crediting: | | |
| Gain on disposal of short term investments | 15,816 | 1,440 |
| Interest income | 32,776 | 3,325 |
| Rental income under operating leases, less outgoings of HK\$143,000 (1996: HK\$463,000) | <u>13,923</u> | <u>17,213</u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

5. EXCEPTIONAL ITEMS

The exceptional items comprise of:

| | 1997 HK\$'000 | 1996 HK\$'000 |
|---------------------------------------------------------------------------------------------------------|------------------|------------------|
| Profit on disposal of listed investments (<i>note</i>) | 110,410 | 163,396 |
| Deficit on valuation of long term listed investments based on market value at the balance sheet date | (11,102) | — |
| Profit on sale of investment properties | — | 19,314 |
| | <u>99,308</u> | <u>182,710</u> |

Note: During the year, the Group disposed of 31,000,000 (1996: 80,000,000) H shares of its investments in (Qingling Motors Co., Ltd.) (“Qingling Motors”) (see note 18) to provide funds for the Group’s other investment projects and to reduce the level of bank borrowings. Such disposals resulted in an exceptional gain of approximately HK\$110,410,000 (1996: HK\$163,396,000).

6. EXCEPTIONAL ITEM IN RESPECT OF SHARE OF RESULTS OF ASSOCIATED COMPANIES

The amount represents the gain of an associated company arising on the deemed disposal of its interest in Jiangxi Copper Company Limited (“JCC”) upon the listing of the shares of JCC on The Stock Exchange of Hong Kong Limited and the London Stock Exchange Limited during the year.

7. DIRECTORS’ REMUNERATION

| | 1997 HK\$'000 | 1996 HK\$'000 |
|-----------------------------------------|------------------|------------------|
| Directors’ fees: | | |
| Executive | 1,800 | 2,200 |
| Independent non-executive | 200 | 400 |
| | <u>2,000</u> | <u>2,600</u> |
| Other emoluments (executive directors): | | |
| Salaries and other benefits | 1,235 | 2,431 |
| Performance related incentive payments | 95 | 200 |
| | <u>1,330</u> | <u>2,631</u> |
| | <u>3,330</u> | <u>5,231</u> |

The directors’ remuneration shown above does not include the estimated monetary value of quarter provided rent free during the year to one of the executive directors. The estimated rental value of such accommodation was HK\$720,000 (1996: HK\$780,000).

Notes to the Financial Statements

For the year ended 31st December, 1997

7. DIRECTORS' REMUNERATION — *continued*

Remuneration of the directors were within the following bands:

| | No. of directors | |
|--------------------------------|------------------|-----------|
| | 1997 | 1996 |
| HK\$nil to HK\$1,000,000 | 10 | 9 |
| HK\$1,000,001 to HK\$1,500,000 | — | 2 |
| HK\$1,500,001 to HK\$2,000,000 | <u>1</u> | <u>—</u> |
| | <u>11</u> | <u>11</u> |

8. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included 1 (1996: 2) director, details of whose emoluments are set out in note 7 above. The emoluments of the remaining 4 (1996: 3) individuals are as follows:

| | 1997 | 1996 |
|----------------------------------------|--------------|--------------|
| | HK\$'000 | HK\$'000 |
| Salaries and other benefits | 2,132 | 1,647 |
| Performance related incentive payments | <u>164</u> | <u>109</u> |
| | <u>2,296</u> | <u>1,756</u> |

Their emoluments are within the following bands:

| | No. of employees | |
|--------------------------|------------------|----------|
| | 1997 | 1996 |
| HK\$nil to HK\$1,000,000 | <u>4</u> | <u>3</u> |

In addition to the above, two employees included above had exercised their options to subscribe for 15,000,000 ordinary shares of the Company each at HK\$0.967 per share on 5th June, 1997. The closing price of the Company's shares as quoted on the Hong Kong Stock Exchange on 5th June, 1997 was HK\$5.30.

The Group does not operate any retirement scheme for its employees.

Notes to the Financial Statements

For the year ended 31st December, 1997

9. TAXATION

| | 1997 | 1996 |
|----------------------------------------------------------------------------------------------|-----------------|---------------|
| | HK\$'000 | HK\$'000 |
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| — charge for the year calculated at 16.5% of the estimated assessable profit for the year | 20,218 | 23,960 |
| — overprovision in prior years written back | <u>(13,102)</u> | <u>—</u> |
| | 7,116 | 23,960 |
| Share of Hong Kong Profits Tax of associated companies | 2,087 | 619 |
| Deferred taxation | <u>—</u> | <u>265</u> |
| | <u>9,203</u> | <u>24,844</u> |

No provision for overseas tax has been made in the financial statements as the income generated by the Group's subsidiary operating in the PRC is not subject to PRC income tax during the year.

The write back of overprovision for Hong Kong Profits Tax in prior years is a result of agreement with the Inland Revenue Department on the non-assessability of a certain capital gain.

10. PROFIT FOR THE YEAR

Of the profit for the year of HK\$201,688,000 (1996: HK\$139,410,000), a profit of HK\$5,787,000 (1996: HK\$10,479,000) has been dealt with in the financial statements of the Company and a profit of HK\$125,511,000 (1996: a loss of HK\$1,574,000) was retained by the associated companies.

11. DIVIDENDS

| | 1997 | 1996 |
|--------------------------------------------------------------|---------------|---------------|
| | HK\$'000 | HK\$'000 |
| Final dividend proposed of 6 cents (1996: 6 cents) per share | <u>53,541</u> | <u>13,072</u> |

The amount of proposed final dividend for the year has been calculated with reference to the 892,343,500 (1996: 217,874,500) shares in issue as at 8th May, 1998 (1996: 20th March, 1997).

Notes to the Financial Statements

For the year ended 31st December, 1997

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK\$201,688,000 (1996: HK\$139,410,000) and on the weighted average number of 766,932,000 shares (1996: 567,756,000 shares as adjusted for the two for one bonus issue) in issue during the year. The comparative figure for earnings per share has been restated to take into account the effect of the bonus issue during the year.

No fully diluted earnings per share is presented as there is no significant dilution effect on the earnings per share in respect of the convertible bonds and share options outstanding at the balance sheet date.

13. FIXED ASSETS

| | Leasehold | | Furniture | | Office equipment | Motor vehicles | Total |
|---------------------------|-----------------------|--------------------|------------------------|--------------|------------------|----------------|----------------|
| | Investment properties | land and buildings | Leasehold improvements | and fixtures | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THE GROUP | | | | | | | |
| COST OR VALUATION | | | | | | | |
| At 1st January, 1997 | 226,200 | 108,089 | 1,717 | 2,121 | 995 | 2,463 | 341,585 |
| Additions | 163,712 | 3,521 | — | — | 153 | 1,179 | 168,565 |
| Disposals | (66,000) | — | — | — | (63) | — | (66,063) |
| Deficit on revaluation | (58,412) | (17,021) | — | — | — | — | (75,433) |
| At 31st December, 1997 | <u>265,500</u> | <u>94,589</u> | <u>1,717</u> | <u>2,121</u> | <u>1,085</u> | <u>3,642</u> | <u>368,654</u> |
| Comprising: | | | | | | | |
| At cost | — | — | 1,717 | 2,121 | 1,085 | 3,642 | 8,565 |
| At professional valuation | | | | | | | |
| — 1997 | <u>265,500</u> | <u>94,589</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>360,089</u> |
| | <u>265,500</u> | <u>94,589</u> | <u>1,717</u> | <u>2,121</u> | <u>1,085</u> | <u>3,642</u> | <u>368,654</u> |
| DEPRECIATION | | | | | | | |
| At 1st January, 1997 | — | — | 229 | 141 | 372 | 718 | 1,460 |
| Provided for the year | — | 3,284 | 501 | 284 | 220 | 266 | 4,555 |
| Eliminated on disposals | — | — | — | — | (29) | — | (29) |
| Eliminated on revaluation | — | (3,284) | — | — | — | — | (3,284) |
| At 31st December, 1997 | <u>—</u> | <u>—</u> | <u>730</u> | <u>425</u> | <u>563</u> | <u>984</u> | <u>2,702</u> |
| NET BOOK VALUES | | | | | | | |
| At 31st December, 1997 | <u>265,500</u> | <u>94,589</u> | <u>987</u> | <u>1,696</u> | <u>522</u> | <u>2,658</u> | <u>365,952</u> |
| At 31st December, 1996 | <u>226,200</u> | <u>108,089</u> | <u>1,488</u> | <u>1,980</u> | <u>623</u> | <u>1,745</u> | <u>340,125</u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

13. FIXED ASSETS — *continued*

The net book value of the Group's investment and leasehold properties comprises:

| | 1997 | 1996 |
|-----------------------------------|-----------------------|----------------|
| | HK\$'000 | HK\$'000 |
| Long term leasehold properties: | | |
| — Held in Hong Kong | 353,889 | 263,888 |
| — Held in the PRC | <u>—</u> | <u>66,000</u> |
| | 353,889 | 329,888 |
| Medium term leasehold properties: | | |
| — Held in the PRC | <u>6,200</u> | <u>4,401</u> |
| | <u>360,089</u> | <u>334,289</u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

13. FIXED ASSETS — *continued*

| | Investment properties held in Hong Kong on long leases HK\$'000 | Leasehold land and buildings held in Hong Kong on long leases HK\$'000 | Leasehold improvements HK\$'000 | Furniture and fixtures HK\$'000 | Office equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------|------------------------------------------|---------------------------------|-------------------------------|-------------------|
| THE COMPANY | | | | | | | |
| COST OR VALUATION | | | | | | | |
| At 1st January, 1997 | 152,800 | 19,800 | 1,717 | 2,121 | 987 | 2,463 | 179,888 |
| Additions | 163,712 | — | — | — | 137 | 1,179 | 165,028 |
| Disposals | — | — | — | — | (63) | — | (63) |
| Deficit on revaluation | (58,112) | (1,300) | — | — | — | — | (59,412) |
| | <u>258,400</u> | <u>18,500</u> | <u>1,717</u> | <u>2,121</u> | <u>1,061</u> | <u>3,642</u> | <u>285,441</u> |
| At 31st December, 1997 | | | | | | | |
| Comprising: | | | | | | | |
| At cost | — | — | 1,717 | 2,121 | 1,061 | 3,642 | 8,541 |
| At professional valuation | | | | | | | |
| — 1997 | 258,400 | 18,500 | — | — | — | — | 276,900 |
| | <u>258,400</u> | <u>18,500</u> | <u>1,717</u> | <u>2,121</u> | <u>1,061</u> | <u>3,642</u> | <u>285,441</u> |
| DEPRECIATION | | | | | | | |
| At 1st January, 1997 | — | — | 229 | 141 | 325 | 718 | 1,413 |
| Provided for the year | — | 594 | 501 | 282 | 200 | 266 | 1,843 |
| Eliminated on disposals | — | — | — | — | (29) | — | (29) |
| Eliminated on revaluation | — | (594) | — | — | — | — | (594) |
| | <u>—</u> | <u>(594)</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>(594)</u> |
| At 31st December, 1997 | <u>—</u> | <u>—</u> | <u>730</u> | <u>423</u> | <u>496</u> | <u>984</u> | <u>2,633</u> |
| NET BOOK VALUES | | | | | | | |
| At 31st December, 1997 | <u>258,400</u> | <u>18,500</u> | <u>987</u> | <u>1,698</u> | <u>565</u> | <u>2,658</u> | <u>282,808</u> |
| At 31st December, 1996 | <u>152,800</u> | <u>19,800</u> | <u>1,488</u> | <u>1,980</u> | <u>662</u> | <u>1,745</u> | <u>178,475</u> |

All the investment properties are held for rental income under operating leases.

The professional valuation of investment and leasehold properties of the Group and the Company situated in Hong Kong and in the People's Republic of China at 31st December, 1997 was carried out by Vigers Hong Kong Limited and Mansion Surveyors Ltd., firms of independent professional valuers, on an open market value basis.

Notes to the Financial Statements

For the year ended 31st December, 1997

13. FIXED ASSETS — *continued*

If leasehold land and buildings had not been revalued, they would have been included on a historical cost basis at the following amounts:

| | THE GROUP | THE COMPANY |
|---------------------------------------|------------------|--------------------|
| | HK\$'000 | HK\$'000 |
| Cost | 79,054 | 15,000 |
| Accumulated depreciation | <u>(4,393)</u> | <u>(900)</u> |
| Net book value at 31st December, 1997 | <u>74,661</u> | <u>14,100</u> |
| Net book value at 31st December, 1996 | <u>73,508</u> | <u>14,550</u> |

The investment properties of the Group in the PRC were disposed of during the year. These properties were acquired under agreements signed on 27th October, 1994 and 15th August, 1995. Under the agreements, the rights, rewards and risks of ownership of the properties were assigned to the Group, but the properties remained registered in the name of the former owner for a period of three years from the dates of the agreements. During such period, the Company was entitled to a guaranteed annual rental return of 12% to 15% on the original investment cost and also had an option to request the former owner to repurchase the properties at the original price of purchase by the Group. In November 1997, the properties were repurchased by the former owner at the original purchase price and there was no gain or loss to the Group arising from the disposal.

14. DEPOSITS ON ACQUISITION OF A PROPERTY

THE GROUP

The amount represents deposits paid for the acquisition of a residential property in Beijing, the PRC, from Beijing Huajian Real Estate Co., Ltd.. The property is held under a long lease in the PRC.

The property is expected to be completed on or before 30th June, 1998, and it will then be delivered to the Group. According to the sale and purchase agreement, the Group will have a guaranteed return in respect of the property which will be equal to an annual yield of 10% on the purchase consideration for the period from the date on which the Group fully settled the purchase consideration until 30th June, 1998, and an annual yield of 15% on the purchase consideration for the period from 1st July, 1998 to the end of the three year period from the date the Group fully settled the purchase consideration.

Notes to the Financial Statements

For the year ended 31st December, 1997

15. DEFERRED EXPENDITURE

| | THE GROUP | |
|--------------------------------|----------------|----------|
| | 1997 | 1996 |
| | HK\$'000 | HK\$'000 |
| Costs capitalised | 27,530 | — |
| Less: Accumulated amortisation | <u>(2,753)</u> | <u>—</u> |
| Balance at December 31 | <u>24,777</u> | <u>—</u> |

The amount represents expenses incurred in relation to the issue of convertible bonds as explained in note 25.

16. INTEREST IN SUBSIDIARIES

| | 1997 | 1996 |
|-------------------------------|--------------------|------------------|
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 1 | 1 |
| Loans to subsidiaries | 1,376,146 | 441,128 |
| Amounts due from subsidiaries | 191,956 | 10,230 |
| Amounts due to subsidiaries | <u>(1,125,796)</u> | <u>(113,867)</u> |
| | <u>442,307</u> | <u>337,492</u> |

Loans to and amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Details of the Company's subsidiaries as at 31st December, 1997 are set out in note 34.

Notes to the Financial Statements

For the year ended 31st December, 1997

17. INTEREST IN ASSOCIATED COMPANIES

| | THE GROUP | | THE COMPANY | |
|---------------------------------------|-------------------------|----------------|-----------------------|----------------|
| | 1997 | 1996 | 1997 | 1996 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | — | — | 44,643 | 44,643 |
| Share of net assets | 526,382 | 341,684 | — | — |
| Amounts due from associated companies | 530,760 | 90,347 | 103,030 | 90,347 |
| Amount due to an associated company | (26,356) | (26,356) | (26,356) | (26,356) |
| | <u>1,030,786</u> | <u>405,675</u> | <u>121,317</u> | <u>108,634</u> |

Details of the associated companies of the Group as at 31st December, 1997 are set out in note 34.

Notes to the Financial Statements

For the year ended 31st December, 1997

17. INTEREST IN ASSOCIATED COMPANIES — *continued*

The following are financial information of the Group's significant associated companies for the year ended December 31, 1997 which have been extracted from the financial statements of these associated companies, namely China Infra-Structure Investment Limited ("CII"), International Copper Industry (China) Investment Limited ("ICC") and Beijing Wangfujing Retail Management Co. Ltd. ("WFJ").

| | CII HK\$'000 | ICC HK\$'000 | WFJ HK\$'000 |
|------------------------------------------------------------------------------|------------------|------------------|------------------|
| Operating result | | | |
| Turnover | <u>39,292</u> | <u>—</u> | <u>—</u> |
| Depreciation and amortization of interest in joint ventures | <u>5,252</u> | <u>—</u> | <u>—</u> |
| Profit from ordinary activities before taxation | <u>33,913</u> | <u>235,962</u> | <u>—</u> |
| Profit from ordinary activities before taxation attributable to the Group | <u>13,565</u> | <u>117,981</u> | <u>—</u> |
| Financial position | | | |
| Total tangible assets | 933,181 | 736,175 | 453,042 |
| Total intangible assets | — | — | 10,107 |
| Total liabilities | <u>(898,719)</u> | <u>(507,236)</u> | <u>(232,199)</u> |
| Net assets | <u>34,462</u> | <u>228,939</u> | <u>230,950</u> |
| Net assets attributable to the Group | <u>13,785</u> | <u>114,470</u> | <u>115,475</u> |

Capital commitments contracted for but not provided in the financial statements of CII as at 31st December, 1997 in respect of capital contribution and investments in its investee companies amounted to approximately HK\$1,865 million.

Notes to the Financial Statements

For the year ended 31st December, 1997

18. INVESTMENTS

| | THE GROUP | | THE COMPANY | |
|------------------------------------|----------------|----------------|-------------|-----------|
| | 1997 | 1996 | 1997 | 1996 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Shares listed in Hong Kong, | | | | |
| at market value | 252,454 | 342,021 | 21 | 21 |
| Convertible bonds listed overseas, | | | | |
| at market value | 3,870 | — | — | — |
| Unlisted investment, at cost | 52,960 | — | — | — |
| Club debenture | 450 | — | 450 | — |
| | <u>309,734</u> | <u>342,021</u> | <u>471</u> | <u>21</u> |

The listed investments of the Group at the balance sheet include 49,005,000 (1996: 80,005,000) H shares, representing a 2.45% (1996: 4%) interest in the issued share capital of Qingling Motors, and US\$500,000 face value of 3.5% convertible bonds due 2002 of Qingling Motors. Qingling Motors was established in the PRC and is engaged in the production and sale of Isuzu light-duty trucks, pickup trucks and minibuses in the PRC. Its H shares and convertible bonds are listed on the Hong Kong Stock Exchange and the Luxembourg Stock Exchange respectively.

During the year, the Group disposed of 31,000,000 H shares in Qingling Motors to outsiders, resulting in an exceptional gain of approximately HK\$110,410,000 (note 5) to provide the necessary funds for the Group's investment projects and to reduce the level of bank borrowings.

At December 31, 1996, the Group held a 23% interest in the registered and paid up capital of a former associated company, Chongqing Qingling Forging Co. Ltd., a company which was established in the People's Republic of China and is engaged in the manufacture and sale of automobile parts. During the year, the registered and paid up capital of Chongqing Qingling Forging Co. Ltd. was increased to US\$59,850,000 as a result of capital contribution by the other shareholders. As a result, the Group's interest in Chongqing Qingling Forging Co. Ltd. was diluted to 11.48%. The investment was reclassified to long term investments based on its carrying value of HK\$52,960,000.

Notes to the Financial Statements

For the year ended 31st December, 1997

19. NET CURRENT ASSETS (LIABILITIES)

| | THE GROUP | | THE COMPANY | |
|--------------------------------------------------------------|-----------------------|------------------------|-----------------------|------------------------|
| | 1997 | 1996 | 1997 | 1996 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| CURRENT ASSETS | | | | |
| Deposits, prepayments and other receivables | 150,872 | 8,508 | 55,179 | 1,258 |
| Amount due from a joint venture partner | 84,191 | 76,537 | 84,191 | 76,537 |
| Short term investments (<i>note 20</i>) | 2,274 | 6,236 | — | — |
| Bank balances and cash | 614,242 | 15,925 | 584,999 | 13,541 |
| | <u>851,579</u> | <u>107,206</u> | <u>724,369</u> | <u>91,336</u> |
| CURRENT LIABILITIES | | | | |
| Creditors, rental deposits and accrued charges | 36,716 | 9,748 | 10,201 | 9,320 |
| Taxation | 44,178 | 37,062 | — | 13,102 |
| Dividend payable | 53,541 | 13,072 | 53,541 | 13,072 |
| Secured bank loans due within one year (<i>note 24</i>) | 11,028 | 72,433 | 11,028 | 72,433 |
| Secured bank overdrafts | 977 | 1,977 | 977 | 1,977 |
| | <u>146,440</u> | <u>134,292</u> | <u>75,747</u> | <u>109,904</u> |
| NET CURRENT ASSETS (LIABILITIES) | <u>705,139</u> | <u>(27,086)</u> | <u>648,622</u> | <u>(18,568)</u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

20. SHORT TERM INVESTMENTS

| | THE GROUP | |
|--------------------------------------------------|------------------|----------|
| | 1997 | 1996 |
| | HK\$'000 | HK\$'000 |
| Shares and warrants listed in Hong Kong, at cost | 3,312 | 1,372 |
| Shares listed outside Hong Kong, at cost | 922 | 5,189 |
| | 4,234 | 6,561 |
| Less: Provision for diminution in value | (1,960) | (325) |
| Carrying value at the balance sheet date | 2,274 | 6,236 |
| Market value at the balance sheet date | 2,274 | 6,802 |

21. SHARE CAPITAL

| | 1997 | 1996 |
|----------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Authorised: | | |
| Ordinary shares of HK\$0.20 each | 400,000 | 100,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.20 each | 178,469 | 43,575 |

Pursuant to an ordinary resolution passed on 21st April, 1997 at an extraordinary general meeting of the Company, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$400,000,000 by the creation of 1,500,000,000 ordinary shares of HK\$0.20 each. Except for the entitlement to the bonus issue as described below and the 1996 final dividend, these shares rank pari passu in all respects with the then existing issued shares of the Company.

On the same date, a resolution was passed at the extraordinary general meeting of the Company to issue and allot a bonus issue of 435,749,000 ordinary shares in the proportion of two bonus shares for every share held in the capital of the Company by the shareholders. Such shares were issued, credited as fully paid, by capitalising an amount of HK\$87,150,000 from the share premium account.

On 21st April, 1997, a placement agreement was entered into between Join Truth Limited, the major shareholder of the Company, and the placing agents to place 130,720,000 existing shares of HK\$0.20 each in the Company at a price of HK\$3.75 per share (the "Placing"). The placing price represented a discount of approximately 4.5% to the closing price of HK\$3.925 per share in the share capital as quoted on the Hong Kong Stock Exchange on 21st April, 1997. On 16th May, 1997, upon the completion of the

Notes to the Financial Statements

For the year ended 31st December, 1997

21. SHARE CAPITAL — *continued*

Placing, pursuant to a subscription agreement dated 21st April, 1997 entered into between Join Truth Limited and the Company, the Company issued and allotted 130,720,000 new ordinary shares of HK\$0.20 each at HK\$3.684 per share to Join Truth Limited. The issue of the subscription shares under the subscription agreement was issued pursuant to the general mandate granted to the directors of the Company at the Company's extraordinary general meeting held on 21st April, 1997. Approximately HK\$116 million and HK\$152 million of the net proceeds were used to contribute in WFJ and CII respectively. Approximately HK\$161 million of the net proceeds were used as a shareholders' loan of WFJ for the purpose of acquiring a shopping mall in Wuhan in the PRC. The remaining balance was used for working capital purpose.

On 5th June, 1997, 30,000,000 ordinary shares of HK\$0.20 each were allotted and issued upon the exercise of share options by certain employees for cash at HK\$0.967 per share.

On 29th October, 1997, the Company allotted and issued 78,000,000 new ordinary shares of HK\$0.20 each, for cash at HK\$5.60 each, to Join Truth Limited pursuant to a subscription agreement entered into between Join Truth Limited and the Company on 2nd September, 1997. The subscription price was equivalent to the closing price of the Company's shares as quoted on the Hong Kong Stock Exchange on 29th August, 1997. Such issue of shares were approved at an extraordinary general meeting of the Company on 13th October, 1997. Approximately HK\$159 million of the proceeds were used for the acquisition of an investment property and the balance was used as general working capital.

22. SHARE OPTIONS

Pursuant to an ordinary resolution of the Company passed at the annual general meeting held on 26th June, 1995, the Company adopted a share option scheme (the "Scheme") on that date. According to the Scheme, the board of directors of the Company are authorised, at any time within 10 years after the adoption date, to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80 per cent. of the average of closing prices of the Company's shares on the five trading days immediately preceding the offer date of the options. The maximum number of shares in respect of which options may be granted under the Scheme cannot exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company from time to time.

On 8th January, 1997, the Company granted options in respect of 20,000,000 shares of HK\$0.20 each to a director and certain employees. The options entitle the holders to subscribe in cash at a subscription price of HK\$2.9 per share in the share capital of the Company at any time from 8th January, 1997 up to and including 7th January, 2007. As a result of the two for one bonus issue of shares of the Company allotted on 21st April, 1997, the number of shares issuable under the options and the subscription price of the option shares were adjusted to 60,000,000 shares and HK\$0.967 per share respectively.

On 5th June, 1997, options entitling the holders to subscribe for 30,000,000 ordinary shares of the Company were exercised by certain employees at HK\$0.967 per share.

As at 31st December, 1997, options in respect of 30,000,000 shares of the Company were outstanding.

Notes to the Financial Statements

For the year ended 31st December, 1997

23. RESERVES

| | Share premium | Investment properties revaluation reserve | Asset revaluation reserve | Capital reserve on consolidation | Other reserve | Exchange reserve | Retained profits (deficit) | Total |
|-----------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------------|---------------------------|----------------------------------|---------------|------------------|----------------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THE GROUP | | | | | | | | |
| At 1st January, 1997 | 135,395 | 138,227 | 317,527 | 22,415 | 622 | 221 | 344,825 | 959,232 |
| Bonus issue of shares out of share premium | (87,150) | — | — | — | — | — | — | (87,150) |
| Premium on issue of shares, net of expenses of HK\$3,338,000 | 896,301 | — | — | — | — | — | — | 896,301 |
| Realised on disposal of investment properties | — | (67) | — | — | — | — | — | (67) |
| Deficit arising on revaluation of investment properties | — | (58,412) | — | — | — | — | — | (58,412) |
| Deficit arising on revaluation of leasehold properties | — | — | (12,442) | — | — | — | — | (12,442) |
| Reversal of deferred taxation on disposal of investment properties (note 26) | — | 20 | — | — | — | — | — | 20 |
| Realised on disposals of investments | — | — | (104,770) | — | — | — | — | (104,770) |
| Deficit arising on revaluation of investments | — | — | (23,275) | — | — | — | — | (23,275) |
| Exchange difference on translation of associated companies on consolidation | — | — | — | — | — | (745) | — | (745) |
| Deficit arising on revaluation of investment properties of an associated company | — | (339) | — | — | — | — | — | (339) |
| Share of other reserves of an associated company | — | — | — | — | (2,255) | (555) | — | (2,810) |
| Transfer of profit to other reserve in associated companies | — | — | — | — | 14,583 | — | (14,583) | — |
| Profit for the year, retained | — | — | — | — | — | — | 148,147 | 148,147 |
| At 31st December, 1997 | <u>944,546</u> | <u>79,429</u> | <u>177,040</u> | <u>22,415</u> | <u>12,950</u> | <u>(1,079)</u> | <u>478,389</u> | <u>1,713,690</u> |
| Included in the above are the following Group's share of post-acquisition reserves of the associated companies: | | | | | | | | |
| At 1st January, 1997 | — | 350 | — | — | 622 | (139) | (4,934) | (4,101) |
| Share of reserves during the year | — | (339) | — | — | (2,255) | (1,300) | — | (3,894) |
| Share of profit for the year | — | — | — | — | — | — | 125,511 | 125,511 |
| Realised on deemed disposal and reclassification of associated companies | — | — | — | — | — | — | 149 | 149 |
| Transfer of profits to other reserve | — | — | — | — | 14,583 | — | (14,583) | — |
| At 31st December, 1997 | <u>—</u> | <u>11</u> | <u>—</u> | <u>—</u> | <u>12,950</u> | <u>(1,439)</u> | <u>106,143</u> | <u>117,665</u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

23. RESERVES — continued

| | Share premium | Investment properties revaluation reserve | Asset revaluation reserve | Capital reserve on consolidation | Other reserve | Exchange reserve | Retained profits (deficit) | Total |
|--------------------------------------------------------------|-------------------|-------------------------------------------|---------------------------|----------------------------------|-------------------|-------------------|----------------------------|-------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THE COMPANY | | | | | | | | |
| At 1st January, 1997 | 135,395 | 136,201 | 17,822 | — | — | — | 215,153 | 504,571 |
| Bonus issue of shares out of share premium | (87,150) | — | — | — | — | — | — | (87,150) |
| Premium on issue of shares, net of expenses of HK\$3,338,000 | 896,301 | — | — | — | — | — | — | 896,301 |
| Deficit arising on revaluation of investment properties | — | (58,112) | — | — | — | — | — | (58,112) |
| Deficit arising on revaluation of leasehold properties | — | — | (706) | — | — | — | — | (706) |
| Profit for the year | — | — | — | — | — | — | 5,787 | 5,787 |
| Dividend proposed | — | — | — | — | — | — | (53,541) | (53,541) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31st December, 1997 | <u>944,546</u> | <u>78,089</u> | <u>17,116</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>167,399</u> | <u>1,207,150</u> |

The Company's reserves available for distribution to shareholders as at 31st December, 1997 represent the retained profits of HK\$167,399,000 (1996: HK\$215,153,000).

24. SECURED BANK LOANS

The bank loans bear interest at commercial rates and are secured by certain investment properties, leasehold properties and listed investments of the Group (see note 32). The balance is repayable within the following periods:

| | THE GROUP AND THE COMPANY | |
|----------------------------------------------------------------------------------------|--------------------------------------|-----------------|
| | 1997 | 1996 |
| | HK\$'000 | HK\$'000 |
| Within 1 year | 11,028 | 72,433 |
| Between 1-2 years | 21,138 | 11,106 |
| Between 2-5 years | 67,203 | 24,001 |
| Over 5 years | 21,050 | 22,286 |
| | <u>120,419</u> | 129,826 |
| Less: Amount due within one year included under current liabilities (<i>note 19</i>) | <u>(11,028)</u> | <u>(72,433)</u> |
| Amount due after one year | <u>109,391</u> | <u>57,393</u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

25. CONVERTIBLE BONDS

| | THE GROUP | |
|------------------------|----------------|----------|
| | 1997 | 1996 |
| | HK\$'000 | HK\$'000 |
| Balance at December 31 | <u>888,375</u> | <u>—</u> |

During the year, the Group issued US\$100,000,000 and US\$15,000,000 one per cent. convertible guaranteed bonds due 2004 (the "Bonds") on 19th August, 1997 and 25th September, 1997 respectively. Total principal amount of the Bonds issued as at 31st December, 1997 amounted to US\$115,000,000. The Bonds bear interest at 1 per cent. per annum, payable annually in arrear. The Bonds are listed on the Luxembourg Stock Exchange.

Unless previously redeemed or purchased and cancelled, each holder of the Bonds has the option to convert the Bonds into fully-paid shares with a par value of HK\$0.20 each of the Company at an initial conversion price of HK\$5.52 per share, subject to adjustments, at any time until 5th August, 2004 and with a fixed rate of exchange on conversion of HK\$7.7141 = US\$1.00. Each holder of the Bonds has the option to redeem the Bonds on 19th August, 2002 at 142.025 per cent of the principal amount of the Bonds plus accrued interest. Subject to certain conditions, the Bonds are redeemable at the option of the Group at any time on or after 23rd August, 2000 and prior to 19th August, 2004 at the principal amount of the Bonds plus accrued interest and a premium calculated in accordance with the number of days the Bonds have been outstanding at an annual interest rate of approximately 7 per cent.. If not previously converted or redeemed, purchased and converted, the Bonds will be redeemed at the principal amount plus accrued interest on 19th August, 2004.

26. DEFERRED TAXATION

| | THE GROUP | | THE COMPANY | |
|-----------------------------------------------------------------------------------------------------------------------------|------------|------------|-------------|------------|
| | 1997 | 1996 | 1997 | 1996 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance brought forward | 535 | 1,170 | 515 | 250 |
| Reversal of deferred taxation on disposal of properties situated in the PRC (<i>note 23</i>) | (20) | (900) | — | — |
| Excess of fixed assets depreciation allowance claimed for tax purpose over depreciation charged in the financial statements | — | 295 | — | 295 |
| Other timing difference | — | (30) | — | (30) |
| Balance carried forward | <u>515</u> | <u>535</u> | <u>515</u> | <u>515</u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

26. DEFERRED TAXATION — *continued*

At the balance sheet date, the major components of the deferred taxation liability provided for in the financial statements are as follows:

| | THE GROUP | | THE COMPANY | |
|------------------------------------------------------------------------------------------------------------------------------|------------|------------|-------------|------------|
| | 1997 | 1996 | 1997 | 1996 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| The effect of timing differences attributable to: | | | | |
| Excess of fixed assets depreciation allowance claimed for tax purposes over depreciation charged in the financial statements | 515 | 515 | 515 | 515 |
| Surplus arising on revaluation of properties situated in the PRC | — | 20 | — | — |
| | <u>515</u> | <u>535</u> | <u>515</u> | <u>515</u> |

The surpluses arising on revaluation of land and buildings situated in Hong Kong and on revaluation of long term investments do not constitute a timing difference for taxation purposes as any profit arising on their subsequent disposals would not be subject to taxation.

There is no significant unprovided deferred taxation in respect of the Group and of the Company for the year ended 31st December, 1997 or as at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 1997

27. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

| | 1997 | 1996 |
|-----------------------------------------------------------------------|------------------|----------------|
| | HK\$'000 | HK\$'000 |
| Profit from ordinary activities before taxation | 210,891 | 164,254 |
| Share of results of associated companies | (127,598) | 955 |
| Loss on deemed disposal of an associated company | 179 | — |
| Loss on disposal of fixed assets | 20 | 297 |
| Deficit on revaluation of leasehold properties | 1,295 | — |
| Amortisation of deferred expenditure | 2,753 | — |
| Depreciation | 4,555 | 2,912 |
| Interest income | (32,776) | (3,325) |
| Interest expense | 39,819 | 24,106 |
| Profit on disposal of a subsidiary | — | (3) |
| Exceptional profit on sale of listed investments | (110,410) | (163,396) |
| Exceptional profit on sale of investment properties | — | (19,314) |
| Deficit on valuation of listed investments | 11,102 | — |
| (Increase) decrease in deposits, prepayments and other receivables | (142,364) | 541 |
| Decrease (increase) in short term investments | 3,962 | (3,078) |
| Increase (decrease) in creditors, rental deposits and accrued charges | 770 | (3,317) |
| | <u>770</u> | <u>(3,317)</u> |
| Net cash (outflow) inflow from operating activities | <u>(137,802)</u> | <u>632</u> |

Notes to the Financial Statements

For the year ended 31st December, 1997

28. ANALYSIS OF CHANGES IN FINANCING ACTIVITIES DURING THE YEAR

| | Share capital and premium HK\$'000 | Convertible bonds HK\$'000 | Secured bank loans HK\$'000 |
|------------------------------------------|-------------------------------------------------------|-------------------------------------------|--------------------------------------------|
| At 1st January, 1997 | 178,970 | — | 129,826 |
| Proceeds from issue of shares | 947,383 | — | — |
| Expenses on issue of shares | (3,338) | — | — |
| Convertible bonds issued during the year | — | 888,375 | — |
| New borrowings raised during the year | — | — | 81,028 |
| Repayments during the year | — | — | (90,435) |
| | <u>1,123,015</u> | <u>888,375</u> | <u>120,419</u> |
| At 31st December, 1997 | <u>1,123,015</u> | <u>888,375</u> | <u>120,419</u> |

29. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

| | 1997 HK\$'000 | 1996 HK\$'000 |
|-------------------------|--------------------------|--------------------------|
| Bank balances and cash | 614,242 | 15,925 |
| Secured bank overdrafts | (977) | (1,977) |
| | <u>613,265</u> | <u>13,948</u> |

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the commitments payable in the following year under non-cancellable operating leases in respect of a rented property rented from a subsidiary are as follows:

| | THE COMPANY | |
|-------------------------------------|--------------------------|--------------------------|
| | 1997 HK\$'000 | 1996 HK\$'000 |
| Leases which expire within one year | <u>5,400</u> | <u>—</u> |

The Group has no operating lease commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 1997

31. CAPITAL COMMITMENTS

| | THE GROUP | |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------------|
| | 1997 | 1996 |
| | HK\$'000 | HK\$'000 |
| Capital expenditure contracted for but not provided in the financial statements related to the capital injection in the investments in the PRC | — | 489,307 |
| Capital expenditure authorised but not contracted for related to the investment projects | — | 47,103 |
| | <u>—</u> | <u>536,410</u> |

At the balance sheet date, the Company has no significant capital commitments.

32. PLEDGE OF ASSETS

The Group has pledged investment properties and leasehold properties which have an aggregate net book value at the balance sheet date of approximately HK\$142.5 million (1996: HK\$160.2 million) and HK\$88.3 million (1996: HK\$103.7 million) respectively, and long term investments of carrying value at 31st December, 1997 of HK\$186 million (1996: HK\$342 million) to secure general banking facilities granted to the Group.

The Group has pledged its investment in ICC and has also subordinated a receivable from ICC amounting to HK\$99,179,000 as at 31st December, 1997 (1996: HK\$76,538,000), in favour of a bank to secure a bank loan granted to ICC (See also note 33).

33. CONTINGENT LIABILITIES

THE GROUP AND THE COMPANY

The Company has executed a joint and several guarantee, together with China Nonferrous Metals Holdings (Hong Kong) Limited, the joint venture partner in ICC, in respect of a bank loan granted to ICC of HK\$330 million.

During the year, the Company has entered into a subordination agreement in favour of a bank to secure a term loan of US\$10 million granted to an investee company of an associated company of the Group together with the three shareholders of the indirect investee company. At the balance sheet date, the Group has no outstanding balance with the indirect investee company.

Notes to the Financial Statements

For the year ended 31st December, 1997

33. CONTINGENT LIABILITIES — *continued*

THE COMPANY

The Company has guaranteed the issue of USD115 million convertible bonds (note 25) by Silver Grant International Industries (Cayman) Limited, its wholly owned subsidiary. The bonds may be redeemed at the option of the holders of the Bonds on 19th August, 2002 at 142.025 per cent. of their principal amount plus accrued interest. Unpaid interest and premium on redemption in respect of the bonds accrued up to 31st December, 1997 amounted to HK\$26,198,000.

34. PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) Details of the Company's subsidiaries at 31st December, 1997 are as follows:

| Name of company | Place of incorporation | Nominal value of issued ordinary share capital | Proportion of nominal value of issued ordinary share capital held by the Company | | Principal activity |
|--------------------------------------------------------|------------------------|------------------------------------------------|----------------------------------------------------------------------------------|------------|----------------------------|
| | | | Directly | Indirectly | |
| Greenhill Property Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| International Copper Industry Investment (BVI) Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| Likesway Limited | Hong Kong | HK\$2 | 100% | — | Property holding |
| Nonferrous Metals International (BVI) Limited | British Virgin Islands | HK\$2 | 100% | — | Investment holding |
| Nonferrous Metals International Limited | Hong Kong | HK\$2 | — | 100% | Not yet commenced business |
| Real China Development Limited | Hong Kong | HK\$2 | 100% | — | Property holding |
| Silver Grant Department Store (BVI) Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| Silver Grant Hainan Investment (BVI) Limited | British Virgin Islands | US\$1 | 100% | — | Property investment |

Notes to the Financial Statements

For the year ended 31st December, 1997

34. PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES — *continued*

| Name of company | Place of incorporation | Nominal value of issued ordinary share capital | Proportion of nominal value of issued ordinary share capital held by the Company | | Principal activity |
|--------------------------------------------------------------------|------------------------|------------------------------------------------|----------------------------------------------------------------------------------|------------|----------------------------|
| | | | Directly | Indirectly | |
| Silver Grant Industrial Investment (Casting) Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| Silver Grant International Industries (Cayman) Limited | Cayman Islands | US\$2 | 100% | — | Issue of convertible bonds |
| Silver Grant Industrial Investment (Forging) Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| Silver Grant Industrial Investment (BVI) Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| Silver Grant Infra-Structure Investment (BVI) Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| Silver Grant International Department Store Limited | Hong Kong | HK\$2 | — | 100% | Investment holding |
| Silver Grant International Industrial Investment (Casting) Limited | Hong Kong | HK\$2 | — | 100% | Investment holding |
| Silver Grant International Industrial Investment (Forging) Limited | Hong Kong | HK\$2 | — | 100% | Investment holding |
| Silver Grant International Industrial Investment Limited | Hong Kong | HK\$10,000 | — | 100% | Investment holding |

Notes to the Financial Statements

For the year ended 31st December, 1997

34. PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES — *continued*

| Name of company | Place of incorporation | Nominal value of issued ordinary share capital | Proportion of nominal value of issued ordinary share capital held by the Company | | Principal activity |
|---------------------------------------------------------------|------------------------|------------------------------------------------|----------------------------------------------------------------------------------|------------|---------------------|
| | | | Directly | Indirectly | |
| Silver Grant International Infra-Structure Investment Limited | Hong Kong | HK\$2 | — | 100% | Investment holding |
| Silver Grant International Securities Investment Limited | Hong Kong | HK\$2 | — | 100% | Securities trading |
| Silver Grant Real Estate Company (BVI) Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| Silver Grant Securities Investment (BVI) Limited | British Virgin Islands | US\$1 | 100% | — | Investment holding |
| Twin Sparkle Limited | Hong Kong | HK\$2 | — | 100% | Property holding |
| Unity Venture Limited | British Virgin Islands | US\$1 | — | 100% | Investment holding |
| Winner Property Limited | British Virgin Islands | US\$1 | — | 100% | Property investment |

Other than investment holding companies incorporated in the British Virgin Islands which have no principal place of operation and Silver Grant Hainan Investment (BVI) Limited which operates principally in the PRC, all subsidiaries principally operate in Hong Kong.

Other than the convertible bonds issued by Silver Grant International Industries (Cayman) Limited as explained in note 25, no loan capital has been issued by any other subsidiaries.

Notes to the Financial Statements

For the year ended 31st December, 1997

34. PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES — *continued*

(b) Details of the Company's associated companies at 31st December, 1997 are as follows:

| Name of company | Place of incorporation/ registration | Proportion of nominal value of issued ordinary share capital/ registered capital held by | | Principal activities |
|----------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------|-------------|-----------------------------------------------------------------------------------------------------------------------------------|
| | | the Group | the Company | |
| Beijing Wangfujing Retail Management Co. Ltd. | PRC | 50% | — | Investment holding and retail management |
| China Infra-Structure Investment Limited | Hong Kong | 40% | — | Investment in infrastructure |
| Chongqing Qingling Casting Co. Ltd. | PRC | 20.07% | — | Manufacture and sale of automobile parts |
| Crabec Holdings (BVI) Limited | British Virgin Islands | 30% | — | Investment holding, property investment and development and provision of civil engineering and decoration services |
| Full Cheong Limited | Hong Kong | 40% | 40% | Inactive |
| International Copper Industry (China) Investment Limited | Hong Kong | 50% | — | Investment in mining and processing of non-ferrous metals business |
| Ocean Capital Investment Limited | Hong Kong | 22.5% | 22.5% | Investment holding |
| Sanva Properties Limited | British Virgin Islands | 35% | 35% | Inactive |

35. SUBSEQUENT EVENT

Subsequent to the balance sheet date, the Group repurchased and cancelled certain convertible bonds of an aggregate principal amount of US\$22,022,000 at a total consideration of approximately US\$11,674,000.

Financial Summary

| | Nine months ended 31st December, | | Year ended 31st December, | | |
|----------------------------------------------------|----------------------------------------|----------------|---------------------------|----------------|----------------|
| | 1993 | 1994 | 1995 | 1996 | 1997 |
| | HK\$Million | HK\$Million | HK\$Million | HK\$Million | HK\$Million |
| Consolidated Profit and Loss Account | | | | | |
| Turnover | <u>7.1</u> | <u>26.5</u> | <u>61.7</u> | <u>60.7</u> | <u>173.3</u> |
| Profit from ordinary activities before taxation | 61.3 | 43.1 | 112.7 | 164.2 | 210.9 |
| Taxation | <u>1.2</u> | <u>—</u> | <u>14.8</u> | <u>24.8</u> | <u>9.2</u> |
| Profit before minority interests | 60.1 | 43.1 | 97.9 | 139.4 | 201.7 |
| Minority interests | <u>0.5</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Profit for the period/year | <u>59.6</u> | <u>43.1</u> | <u>97.9</u> | <u>139.4</u> | <u>201.7</u> |
| Consolidated Balance Sheet | | | | | |
| Fixed assets | 203.0 | 246.6 | 290.0 | 340.1 | 366.0 |
| Other assets | — | — | — | — | 478.8 |
| Interest in associated companies | 92.3 | 248.9 | 318.5 | 405.6 | 1,030.8 |
| Investments | — | 672.0 | 360.0 | 342.0 | 309.7 |
| Net current assets (liabilities) | <u>22.7</u> | <u>(76.9)</u> | <u>(41.1)</u> | <u>(27.0)</u> | <u>705.1</u> |
| | <u>318.0</u> | <u>1,090.6</u> | <u>927.4</u> | <u>1,060.7</u> | <u>2,890.4</u> |
| Share capital | 30.3 | 36.4 | 36.4 | 43.6 | 178.5 |
| Reserves | <u>287.5</u> | <u>806.3</u> | <u>663.8</u> | <u>959.2</u> | <u>1,713.6</u> |
| Shareholders' funds | 317.8 | 842.7 | 700.2 | 1,002.8 | 1,892.1 |
| Long-term liabilities | — | 247.6 | 226.1 | 57.4 | 997.8 |
| Deferred taxation | <u>0.2</u> | <u>0.3</u> | <u>1.1</u> | <u>0.5</u> | <u>0.5</u> |
| | <u>318.0</u> | <u>1,090.6</u> | <u>927.4</u> | <u>1,060.7</u> | <u>2,890.4</u> |

Summary of Investment Properties

The following is a list of the Group's investment properties at 31st December, 1997:

INVESTMENT PROPERTIES HELD UNDER LONG LEASES IN HONG KONG

| | Location | Purpose | Gross area sq. ft. |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------|
| 1. | Shops Nos. 1,2,7 and 9 on Ground Floor, Whole of 1st Floor and adjacent Flat Roof and Whole of 2nd Floor, Tung Shun Hing Building, No.22 Chi Kiang Street, To Kwa Wan, Kowloon. | Commercial | 19,934 |
| 2. | 15th Floor of Peregrine Tower, Lippo Centre, No. 89 Queensway, Central, Hong Kong | Commercial | 8,975 |
| 3. | Shops Nos. 9,31,34,35,39 and 40 on the 1st Floor and Shops Nos. 63 and 64 on 2nd Floor of the Podium, Admiralty Centre, No.18 Harcourt Road, Hong Kong. | Commercial | 5,252 |
| 4. | Flats 1 and 2 on 4th Floor and Flat 2 on 7th Floor of Block C and Carparking Spaces Nos. D2, D5 and D13 on Ground Floor, Winfield Building, Nos. 1-5 Ventris Road, Happy Valley, Hong Kong. | Residential | 4,791 |
| 5. | Shop A on 1st Floor, Tung Hey Building, Nos. 12-22 Queen's Road East, Nos. 7-9 Tsui In Lane, Wanchai, Hong Kong. | Commercial | 2,715 |
| 6. | Flat C2 on 6th Floor of Block C and Carparking Spaces Nos. 38 and 38A on Carpark Level 1, Beverly Hill, No.6 Broadwood Road, Hong Kong. | Residential | 1,738 |