



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

ANNUAL REPORT 1998

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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, 28th June, 1999 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, 1998.
2. To re-elect the retiring Directors and fix the Directors’ fees.
3. To appoint auditors and authorise the Directors to fix their remuneration.

By order of the Board
Michael Tung
Secretary

Hong Kong, 25th May, 1999

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 notorially 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

Shi Chun Gui (Chairman)	(appointed on 25th May, 1999)
Hui Xiao Bing (Vice Chairman)	
Gao Jian Min (Managing Director)	
Xu Shi Quan	
Tan Jiansheng	
Gu Jianguo	(appointed on 25th May, 1999)
Wang Beilai	(appointed on 26th March, 1999)
Cheung Chung Kiu	
Yuen Wing Shing	
Kang Dian**	
Liu Erh-fei**	(appointed on 25th May, 1999)

** *Independent non-executive director*

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.

Managing Director's Statement

GROUP RESULTS

For the financial year ended 31st December, 1998, the Group recorded turnover of HK\$64 million, representing a decrease of approximately 63% from last year. Net profit for the year was HK\$10 million, resulting in earnings per share of 1.1 cents. The net profit and earnings per share represent decrease of 95% and 96%, respectively, compared to that of previous year.

DIVIDEND AND BONUS ISSUE OF WARRANTS

The board of directors ("Board of Directors") of the Company decided not to recommend a final dividend for the year ended 31st December, 1998 but, instead, has proposed a bonus issue ("Bonus Issue") of one warrant ("Warrant") for every ten shares of HK\$0.20 each ("Share") in the Company held by shareholders whose names appear on the Company's register of members on 28th June, 1999. Each Warrant will confer upon its holder the right to subscribe HK\$0.88 in cash for new Shares in the Company at any time from the date of issue of the Warrants until 30th June, 2001 at a price of HK\$0.88 per share, subject to adjustment.

The Bonus Issue will be subject to shareholders' approval in an extraordinary general meeting of the Company to be held on 28th June, 1999 and listing of and permission to deal in the Warrants and any Shares which fall to be issued upon exercise of the subscription rights attached to the Warrants being granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A circular setting out further details of the proposed Bonus Issue will be despatched to shareholders of the Company as soon as practicable.

Application will be made to the Listing Committee of the Stock Exchange for listing of and permission to deal in the Warrants and any Shares falling to be issued upon exercise of the Warrants.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 22nd June, 1999 to Monday, 28th June, 1999 (both days inclusive), during which period no transfer of share will be registered. In order to be qualified for the proposed Bonus Issue, 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 4:00p.m. on Monday, 21st June, 1999.

BUSINESS REVIEW

Under a difficult and challenging business environment, the Company adopted a cautious approach and achieved relatively satisfactory results. The significant decrease in turnover and profit is partly attributable to the Company's strategy to hold its investments in Qingling Motors Co. Ltd. and Jiangxi Copper Company Limited as long term investments and the reduced marketable securities trading activities in a turbulent stock market.

Managing Director's Statement

The retail market in the People's Republic of China ("PRC") continued to be highly competitive in 1998. As a result, the Wangfujing department store operation in which the Group has a 50% interest experienced an operating loss. The management of Wangfujing is highly conscious of the difficult operating environment and continues to streamline merchandise and rationalise cost structure. The store in Wuhan which was opened in early 1998 has turned profitable early 1999, and with promising economic growth forecast, the Group remains confident in the consumer retail market in the PRC in the long term.

Construction of the South Residential Tower of East Gate Plaza was completed in June, 1998 and the property was officially handed over to the Group on 1st July, 1998. Occupancy rate of the property has increased steadily since completion and the Board of Directors believes that the property will provide the Group with steady long term operating income. Minimum guaranteed return from the property amounted to US\$7.4 million or effectively 12.5% per annum attributable to 1998 (10% under construction, 15% after completion).

In 1998, the Group increased its investment in China Infra-Structure Investment Ltd. ("CII") by injecting further shareholder's loan of HK\$200 million. The injection was made to enable CII to expand its portfolio. The Group now has total HK\$546 million invested in CII. Total investment committed by CII amounted to HK\$1.89 billion at 31st December, 1998 of which HK\$1.33 billion had been paid up. In 1998, CII entered into an agreement to invest up to HK\$105 million for a 25% shareholding of the extension of the Chengdu Highway. Focus of CII was set on strengthening management capabilities at all levels, including financial control, project engineering and management, administration and toll collection. An additional 25 people with various infrastructure experience were hired and assigned to the projects, bringing the project management team to a total of 40 people. The added human resources have significantly improved toll collection. Computerisation of toll collection and internal control procedures have been put in place for all projects and will be fully operational in the first half year of 1999.

In order to maximise financing efficiency and minimise foreign currency exposure, CII was able to arrange for Rmb bank loans in the amounts of Rmb250 million, Rmb450 million and Rmb67.5 million to finance the Zhaoqing Bridge, the Shantou Bridge and the Chengdu Highway projects, respectively, with the assistance of the shareholders of CII.

RESTRUCTURING AND CHANGE OF SIGNIFICANT SHAREHOLDERS

In November, 1998, the China Construction Bank, through its wholly-owned subsidiary, Maxtrack Limited, purchased a 12.10% stake in the Company from China Nonferrous Metal Group (Hong Kong) Limited. Furthermore, the then controlling shareholder of the Company, Join Truth Limited, made a capital distribution of shares of the Company to its various shareholders, resulting in direct holding of the Company's shares by such shareholders. The Board of Directors believes that the action by Join Truth Limited has resulted in a more transparent shareholding structure in the Company; and that the China Construction Bank becoming a shareholder of the Company will greatly benefit the Group's business development in China.

Managing Director's Statement

PROSPECTS

The Group will continue to focus on investments in infrastructure and property in the PRC while a prudent approach will be taken as regards retailing and industrial investments. Quality properties with stable rental income will be sought to provide the Group with recurring operating income. At the same time, the Board of Directors believes that infrastructure development is fundamental to PRC's economic growth. Accordingly, various means to diversify funding sources, including financial and strategic investors for CII, will be investigated to further expand its project portfolio.

The Group will keep looking for quality direct investment opportunities, including opportunities in the high and new technology field, to bring higher returns to our shareholders.

The Group is also well positioned to benefit from its two significant shareholders, the China Construction Bank and China Everbright Financial Holdings Limited, two of the most prominent institutions in the PRC.

By order of the Board

Gao Jian Min

Managing Director

Hong Kong, 25th May, 1999

Biographical Details of Directors

Shi Chun Gui, aged 58, is the vice-president of China Cinda Asset Management Corporation. Graduated from Northeast Finance University (東北財經大學) in July, 1964, he is senior economist by profession. He was previously editor with China Financial Press (中國財經出版社) and Beijing Dagong News (now Economics Daily (經濟日報)). He was also vice-mayor and executive vice-mayor of Qinhuangdao, Hebei Province. From 1988 onwards, he once served as president of Hebei and Beijing Branches, China Construction Bank (中國建設銀行). Since 1993, he has been appointed vice-president of China Construction Bank (中國建設銀行).

Mr. Hui Xiao Bing, aged 46, was the general manager of China Everbright Financial Holdings Ltd. Mr. Hui was the president of China Construction Bank, Shenzhen branch. He previously worked for 中國國務院經濟發展研究中心 (Research Centre for Economic Development of the State Council of the PRC) and 中國投資諮詢公司 (China Investment Consultancy Company). He has over 20 years experience in banking and finance. Mr. Hui graduated from 內蒙古工業大學 (Inner Mongolia Industrial University) with a bachelor degree in engineering.

Mr. Gao Jian Min, aged 40, is the managing director of Pacific Economies Development Corp. He graduated from 清華大學 (Qing Hua University) with a bachelor degree in economics. He has over 10 years experience in property investment and development.

Mr. Xu Shi Quan, aged 52, is the deputy general manager of China Travel Service (Holdings) H.K. Ltd. (香港中旅(集團)有限公司). 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. Tan Jiansheng, aged 40, 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.

Gu Jianguo, aged 37, previously worked with China Construction Bank (中國建設銀行), China Cinda Trust & Investment Corporation (中國信達信託投資公司) and Zhejiang Industrial University (浙江工業大學). He has a bachelor's degree in Engineering, a master's and a Ph. D. degrees in Economics. He has over 15 years' experience in commercial and investment banking, business management, and financial accounting and management.

Mr. Wang Beilai, aged 56, is the deputy general manager of China Everbright Holdings Company Limited ("China Everbright") investment division. Prior to joining China Everbright, Mr. Wang was the chairman of Xinjiang Development Co. Ltd. Mr. Wang graduated from Haerbin Engineering College in 1967. He is a qualified senior engineer, and has over 20 years substantial experience in managing direct investment projects.

Mr. Cheung Chung Kiu, aged 35, 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.

Biographical Details of Directors

Mr. Yuen Wing Shing, aged 51, 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. Kang Dian**, aged 50, is both the Chairman and managing director of Guangdong Capital Holdings Ltd. (粵海金融控股有限公司). 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 (中國社會科學院) with a master's degree in Economics.

Mr. Liu Erh-fei**, aged 40, has a MBA degree from Harvard Business School. In 1984, he became the first investment banker on Wall Street with a mainland Chinese background. In 1994, he was nominated by «Global Finance» as one of the 50 most valued investment banker in the world. He has been head of Investment Banking at Credit Agricole Indosuez since early 1997. Prior to that, he held positions as head of China business for Morgan Stanley and Goldman Sachs, and as head of Asian Investment Banking for Smith Barney.

** Independent non-executive director

Directors' Report

The directors present their annual report and audited financial statements for the year ended 31st December, 1998.

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 36 to the financial statements.

The Group's turnover and contribution to operating profit for the year ended 31st December, 1998 by principal activity and geographical market are as follows:

	Turnover HK\$'000	Operating profit HK\$'000
By principal activity:		
Property leasing	45,540	43,769
Investments	18,605	(2,990)
	<u>64,145</u>	<u>40,779</u>
Exceptional items:		
Profit on repurchase of convertible bonds		111,277
Profit realised on disposal of interest in a former subsidiary		22,415
Deficit on revaluation of listed investments		(55,927)
Deficit on revaluation of leasehold land and buildings		(13,802)
Write off of expenses recoverable relating to an associated company		(9,230)
		<u>95,512</u>
Borrowing cost (net)		(5,147)
Corporate expenses		(24,774)
Operating profit		<u>65,591</u>
By geographical market:		
Hong Kong	29,733	39,583
The People's Republic of China (the "PRC"), excluding Hong Kong	34,412	55,929
	<u>64,145</u>	<u>95,512</u>
Borrowing cost (net)		(5,147)
Corporate expenses		(24,774)
Operating profit		<u>65,591</u>

Directors' Report

RESULTS AND APPROPRIATIONS

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

The directors do not recommend the payment of a dividend.

FINANCIAL SUMMARY

The results of the Group for five years ended 31st December, 1998 and the assets and liabilities of the Group at 31st December, 1994, 1995, 1996, 1997 and 1998 are set out on page 50.

FIXED ASSETS

During the year, the Group acquired a leasehold property in the PRC at a cost of HK\$455.2 million for investment purposes.

The Group's leasehold properties were revalued as at 31st December, 1998. The deficit on revaluation amounting to HK\$36.3 million has been first charged to the asset revaluation reserve for HK\$22.5 million and the remaining amount was charged to the profit and loss account. The Group also revalued its investment properties as at 31st December, 1998. The deficit arising on the revaluation amounting to HK\$36.0 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 14 to the financial statements.

PROPERTIES HELD FOR INVESTMENT PURPOSES

Details of properties held by the Group for investment purposes at 31st December, 1998 are set out on pages 51 and 52.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the Company's subsidiaries and associated companies at 31st December, 1998 are set out in note 36 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 22 and 23 to the financial statements respectively.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 24 to the financial statements.

Directors' Report

BORROWINGS

Details of bank borrowings and convertible bonds of the Group as at 31st December, 1998 are set out in notes 25 and 26 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 this report were:

Wu Jian Chang	(resigned on 25th May, 1999)
Shi Chun Gui	(appointed on 25th May, 1999)
Hui Xiao Bing	
Gao Jian Min	
Xu Shi Quan	
Cheung Chung Kiu	
Yuen Wing Shing	
Tan Jiansheng	
Gu Jianguo	(appointed on 25th May, 1999)
Zhang Lu**	(resigned on 2nd July, 1998)
Wang Beilai	(appointed on 26th March, 1999)
Kang Dian**	
Liu Erh-fei**	(appointed on 25th May, 1999)
Su Tongnian	(appointed on 20th May, 1998 and resigned on 25th May, 1999)
Lau Yat Ching	(appointed on 20th May, 1998 and resigned on 25th May, 1999)
Fang Dacheng	(resigned on 18th May, 1998)
Sheng Yong	(resigned on 20th May, 1998)

** *Independent non-executive director*

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. Xu Shi Quan, Cheung Chung Kiu, Wang Beilai, Shi Chun Gui, Gu Jianguo and Liu Erh-fei retire by rotation and, 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

Other than as disclosed in the section below headed "Substantial shareholders", 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' Report

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 23 to the financial statements. As at 1st January, 1998, Mr. Gao Jian Min ("Mr. Gao") has outstanding options to subscribe for 15,000,000 shares in the Company at a subscription price of HK\$0.967 per share which are exercisable at any time from 8th January, 1997 up to and including 7th January, 2007.

No share option was exercised by Mr. Gao 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 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 month prior written notice.
- (2) 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 are chairman and vice chairman of Huajian respectively. Mr. Hui Xiao Bing, Mr. Gao 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.

The property was transferred to the Group on 30th June, 1998. According to the sale and purchase agreement, the Group is entitled to a guaranteed return in respect of the property which equals 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.

Directors' Report

CONNECTED TRANSACTIONS — *continued*

For the year ended 31st December, 1998, income attributable to the Group receivable under the guaranteed return clause in the agreement amounted to HK\$57,478,000, comprising interest income for the six months ended 30th June, 1998 of HK\$23,066,000 and guaranteed rental income for the six months ended 31st December, 1998 of HK\$34,412,000. The interest income and the guaranteed rental income were received by the Group subsequent to the balance sheet date.

The independent non-executive director is of the opinion that Huajian is able to honour its obligation to the Group under the sale and purchase agreement in respect of the guaranteed return.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 1998, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (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
Silver Grant International Holdings Limited (<i>Note 1</i>)	179,966,400
Maxtrack Limited (<i>Note 2</i>)	107,982,000
Asia Like Securities Limited (<i>Note 3</i>)	106,182,000

Notes:

1. Messrs Gao Jian Min, Hui Xiao Bing and Xu Shi Quan, all of whom are directors of the Company, each has a 30% interest in Silver Grant International Holdings Limited as at 31st December, 1998.
2. Maxtrack Limited is a wholly-owned subsidiary of the China Construction Bank.
3. Asia Like Securities Limited is a wholly-owned subsidiary of Everbright Investment & Management Limited which in turn is a wholly-owned subsidiary of China Everbright Holdings Company 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, 1998.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's turnover comprises of rental income from leasing of properties, dividend income from long term investments and the gross proceeds received and receivable from trading of marketable securities.

54% of the Group's turnover is attributable to guaranteed rental income from a connected person, details of which are set out under the section "Connected Transactions". Other than the above, the rental income from the Group's top five customers does not exceed 30% of the Group's turnover.

Due to the nature of the Group's business of property and other investments, the Group has no major suppliers requiring disclosure.

Directors' Report

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

During the year, the Group has repurchased certain of its convertible bonds amounted to US\$33 million at an aggregate consideration of US\$17.7 million. The relevant bonds were cancelled upon repurchase.

Other than as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

YEAR 2000 ISSUE

The Group is aware of the financial and operating systems risks posted by the inability of computer system, computer applications, software and hardware devices in accurately calculate date/time data prior to, through and beyond the year 2000.

By nature of its business, the Group's reliance on computer system in its daily operations is limited except for the accounting function which is a system made up by commercial software packages building on a LAN network.

The Group had started testing the computer system in late 1997. In the first half year of 1998, all computer hardware devices had been tested and were all year 2000 compliant. In the first quarter of 1999, the Group had finished up-grading certain software to their respective year 2000 compliant versions.

Total cost spent in respect to tackle the year 2000 issue was limited and did not exceed HK\$0.2 million. These costs were all charged to the profit and loss account at the time of incurring the expenditure.

The Board of Directors believes the year 2000 issue of the Group has been solved. The year 2000 issue will not have material adverse effect to the Group nor its operations going through and beyond the year 2000.

CORPORATE GOVERNANCE

For a majority time of the year, the Company had only one independent director in office.

Except for the above mentioned, the Company has complied throughout the year ended 31st December, 1998 with those paragraphs of 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, with which it is required to report compliance.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the preceding three years ended 31st December, 1998.

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

25th May, 1999

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 49 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, 1998 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

25th May, 1999

Consolidated Profit and Loss Account

For the year ended 31st December, 1998

	NOTES	1998 HK\$'000	1997 HK\$'000
TURNOVER	4	<u>64,145</u>	<u>173,271</u>
OPERATING PROFIT (LOSS)	5		
Continuing operations excluding exceptional items		<u>10,858</u>	(16,015)
Exceptional items	6	<u>54,733</u>	<u>99,308</u>
		<u>65,591</u>	<u>83,293</u>
SHARE OF RESULTS OF ASSOCIATED COMPANIES			
Continuing operations excluding exceptional item		<u>(6,454)</u>	37,508
Exceptional item	7	<u>(42,307)</u>	<u>90,090</u>
		<u>(48,761)</u>	<u>127,598</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		<u>16,830</u>	210,891
TAXATION	10	<u>(6,761)</u>	<u>(9,203)</u>
PROFIT FOR THE YEAR	11	<u>10,069</u>	201,688
DIVIDENDS	12	<u>—</u>	<u>53,541</u>
PROFIT FOR THE YEAR, RETAINED	24	<u>10,069</u>	<u>148,147</u>
EARNINGS PER SHARE	13		
Basic		<u>1.1 cents</u>	<u>26.3 cents</u>
Diluted		<u>1.1 cents</u>	<u>25.3 cents</u>

Consolidated Balance Sheet

At 31st December, 1998

	<i>NOTES</i>	1998 HK\$'000	1997 HK\$'000
FIXED ASSETS	14	744,660	365,952
DEPOSITS ON ACQUISITION OF A PROPERTY	15	—	454,052
DEFERRED EXPENDITURE	16	13,738	24,777
INTEREST IN ASSOCIATED COMPANIES	18	1,198,689	1,030,786
INVESTMENTS	19	185,078	309,734
NET CURRENT ASSETS	20	281,563	705,139
		2,423,728	2,890,440
Financed by:			
SHARE CAPITAL	22	178,469	178,469
RESERVES	24	1,504,019	1,713,690
SHAREHOLDERS' FUNDS		1,682,488	1,892,159
SECURED BANK LOANS DUE AFTER ONE YEAR	25	88,228	109,391
CONVERTIBLE BONDS	26	634,100	888,375
DEFERRED TAXATION	27	18,912	515
		2,423,728	2,890,440

The financial statements on pages 16 to 49 were approved by the board of directors on 25th May, 1999 and are signed on its behalf by:

Gao Jian Min
DIRECTOR

Yuen Wing Shing
DIRECTOR

Balance Sheet

At 31st December, 1998

	<i>NOTES</i>	1998 HK\$'000	1997 HK\$'000
FIXED ASSETS	14	179,134	282,808
INTEREST IN SUBSIDIARIES	17	626,929	442,307
INTEREST IN ASSOCIATED COMPANIES	18	153,878	121,317
INVESTMENTS	19	457	471
NET CURRENT ASSETS	20	351,313	648,622
		1,311,711	1,495,525
Financed by:			
SHARE CAPITAL	22	178,469	178,469
RESERVES	24	1,045,014	1,207,150
SHAREHOLDERS' FUNDS		1,223,483	1,385,619
SECURED BANK LOANS DUE AFTER ONE YEAR	25	88,228	109,391
DEFERRED TAXATION	27	—	515
		1,311,711	1,495,525

Gao Jian Min
DIRECTOR

Yuen Wing Shing
DIRECTOR

Consolidated Cash Flow Statement

For the year ended 31st December, 1998

	<i>NOTE</i>	1998 HK\$'000	1997 HK\$'000
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	28	<u>84,521</u>	<u>(137,802)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		34,038	25,122
Interest paid		(19,653)	(13,621)
Dividends paid		(53,541)	(13,072)
Dividend from associated companies received		<u>8,000</u>	<u>—</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(31,156)</u>	<u>(1,571)</u>
TAXATION			
Hong Kong Profits Tax paid		<u>(1,997)</u>	<u>—</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		(1,242)	(168,565)
Deposits on acquisition of a property paid		—	(454,052)
Investment in associated companies		(116,130)	(116,220)
Loans to associated companies		(116,069)	(440,413)
Advances to associated companies		(28,956)	—
Purchase of club debenture		—	(450)
Purchase of long term listed investments		—	(81,205)
Sale of long term listed investments		—	138,165
Sale of investment properties		—	65,933
Sale of other fixed assets		—	14
Repayment of amount due from a shareholder of an associated company		<u>7,654</u>	<u>—</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(254,743)</u>	<u>(1,056,793)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		<u>(203,375)</u>	<u>(1,196,166)</u>

Consolidated Cash Flow Statement

For the year ended 31st December, 1998

	<i>NOTES</i>	1998 HK\$'000	1997 HK\$'000
FINANCING ACTIVITIES	29		
Consideration paid on repurchase of convertible bonds		(135,884)	—
Repayment of bank loans		(15,994)	(90,435)
New bank loans raised		—	81,028
Proceeds from issue of shares		—	947,383
Expenses on issue of shares		—	(3,338)
Proceeds from issue of convertible bonds		—	888,375
Expenses on issue of convertible bonds		—	(27,530)
		<hr/>	<hr/>
NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES		(151,878)	1,795,483
		<hr/>	<hr/>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(355,253)	599,317
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		613,265	13,948
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	30	258,012	613,265
		<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31st December, 1998

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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In current year, the Group has adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants.

SSAP 5 (Revised)	Earnings Per Share
SSAP 20	Related Party Disclosures

The adoption of SSAP 5 (Revised) has resulted in some modifications to the basis of calculation of earnings per share amounts and to the disclosures presented for earnings per share (see note 13).

SSAP 20 requires the disclosure of details of transactions with specified related parties (see note 35).

3. 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 the effective date of acquisition or up to the effective date of disposal respectively, as appropriate.

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.

Notes to the Financial Statements

For the year ended 31st December, 1998

3. SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

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 an enterprise, 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.

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.

Notes to the Financial Statements

For the year ended 31st December, 1998

3. SIGNIFICANT ACCOUNTING POLICIES — *continued*

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.

The gain or loss arising on the disposal on retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reserves a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the profit and loss account to the extent of the deficit previously charged. 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 balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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.

Notes to the Financial Statements

For the year ended 31st December, 1998

3. SIGNIFICANT ACCOUNTING POLICIES — *continued*

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 separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost, including the premium payable upon the final redemption of the convertible bonds, is recognised in the profit and loss account so as to produce a constant periodic rate of charge on the remaining balances of the convertible bonds for each accounting period.

The cost incurred in connection with the issue of convertible bonds are deferred and amortised on a straight line basis over the lives of the convertible bonds from the date of issue of the bonds to their final redemption date. If any of the bonds are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the profit and loss account.

Revenue recognition

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

Rental income under guaranteed return is recognised when the Group's right to receive the guaranteed rental has been established according to the terms of the relevant agreement.

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

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.

Notes to the Financial Statements

For the year ended 31st December, 1998

3. SIGNIFICANT ACCOUNTING POLICIES — *continued*

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.

4. 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:

	1998	1997
	HK\$'000	HK\$'000
Property rental	45,540	14,066
Dividend income	5,012	6,445
Proceeds from trading of securities	13,593	152,760
	<u>64,145</u>	<u>173,271</u>

Notes to the Financial Statements

For the year ended 31st December, 1998

5. OPERATING PROFIT (LOSS)

	1998 HK\$'000	1997 HK\$'000
Operating profit (loss) has been arrived at after charging:		
Interest on bank loans and overdrafts wholly repayable:		
- within five years	9,389	10,935
- over five years	2,889	2,686
Interest on convertible bonds	48,693	26,198
Amortisation of deferred expenditure	3,925	2,753
Total borrowing costs	<u>64,896</u>	<u>42,572</u>
Auditors' remuneration	388	380
Depreciation of fixed assets	4,284	4,555
Loss on disposal of short term investments	1,839	—
and after crediting:		
Gain on disposal of short term investments	—	15,816
Interest income	36,683	32,776
Interest income under guaranteed return	23,066	—
Rental income under operating leases, less outgoings of HK\$220,000 (1997: HK\$143,000)	10,906	13,923
Rental income under guaranteed return	<u>34,412</u>	<u>—</u>

6. EXCEPTIONAL ITEMS

The exceptional items comprise of:

	1998 HK\$'000	1997 HK\$'000
Profit on repurchase of convertible bonds	111,277	—
Profit realised on disposal of interest in a former subsidiary (<i>Note</i>)	22,415	—
Deficit on valuation of long term listed investments based on market value at the balance sheet date	(55,927)	(11,102)
Deficit on revaluation of leasehold land and buildings	(13,802)	—
Write off of expenses recoverable relating to an associated company	(9,230)	—
Profit on disposal of listed investments	—	110,410
	<u>54,733</u>	<u>99,308</u>

Note: This amount represents the realisation of a gain arising on the disposal of a former subsidiary to an associated company in 1994, which was previously deferred and credited to capital reserve. The capital reserve was realised as a result of the disposal of the former subsidiary by the associated company during the year.

Notes to the Financial Statements

For the year ended 31st December, 1998

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

The amount in 1998 represents the Group's share of provision for diminution in value of the properties in an associated company.

The amount in 1997 represented the gain of an associated company arising on the deemed disposal of its interest in Jiangxi Copper Company ("JCC") upon the listing of the shares of JCC on Hong Kong Stock Exchange and The London Stock Exchange Limited during 1997.

8. DIRECTORS' REMUNERATION

	1998 HK\$'000	1997 HK\$'000
Directors' fees:		
Executive	1,300	1,800
Independent non-executive	200	200
	<u>1,500</u>	<u>2,000</u>
Other emoluments (executive directors):		
Salaries and other benefits	1,895	1,955
Performance related incentive payments	95	95
	<u>1,990</u>	<u>2,050</u>
	<u><u>3,490</u></u>	<u><u>4,050</u></u>

The directors' remuneration shown above includes 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\$660,000 (1997: HK\$720,000).

Remuneration of the directors were within the following bands:

	No. of directors	
	1998	1997
HK\$nil to HK\$1,000,000	12	10
HK\$2,000,001 to HK\$2,500,000	1	1
	<u>13</u>	<u>11</u>

Notes to the Financial Statements

For the year ended 31st December, 1998

9. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included 1 (1997: 1) director, details of whose emoluments are set out in note 8 above. The emoluments of the remaining 4 (1997: 4) individuals are as follows:

	1998 HK\$'000	1997 HK\$'000
Salaries and other benefits	2,239	2,132
Performance related incentive payments	130	164
	<u>2,369</u>	<u>2,296</u>

Their emoluments are within the following bands:

	No. of employees	
	1998	1997
HK\$nil to HK\$1,000,000	<u>4</u>	<u>4</u>

In addition to the above, in 1997, two employees included above had exercised their options to subscribe for 15,000,000 ordinary shares of the Company 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.

10. TAXATION

	1998 HK\$'000	1997 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
- charge for the year	—	20,218
- under (over) provision in prior years	90	(13,102)
	<u>90</u>	<u>7,116</u>
Share of taxation of associated companies		
- Hong Kong Profits Tax	2,016	2,087
- Income tax in the People's Republic of China ("PRC"), excluding Hong Kong	5,170	—
	<u>7,186</u>	<u>2,087</u>
Deferred taxation (note 27)	(515)	—
	<u>6,761</u>	<u>9,203</u>

Notes to the Financial Statements

For the year ended 31st December, 1998

10. TAXATION — *continued*

Hong Kong Profits Tax is calculated at 16% (1997: 16.5%) of the estimated assessable profit for the year. The charge for 1998 has been relieved by approximately HK\$3.2 million as a result of utilisation of tax losses brought forward.

Income tax in PRC, other than those in Hong Kong, is calculated at rates prevailing in the respective jurisdictions.

The write back of overprovision for Hong Kong Profits Tax in 1997 was a result of an agreement with the Inland Revenue Department on the non-assessability of certain capital gains.

11. PROFIT FOR THE YEAR

Of the profit for the year of HK\$10,069,000 (1997: HK\$201,688,000), a loss of HK\$79,087,000 (1997: a profit of HK\$5,787,000) has been dealt with in the financial statements of the Company and losses of HK\$55,947,000 (1997: profits HK\$125,511,000) was attributable to the associated companies.

12. DIVIDENDS

	1998 HK\$'000	1997 HK\$'000
Final dividend proposed of nil cents (1997: 6 cents) per share	—	53,541

The amount of proposed final dividend in 1997 was calculated with reference to the 892,343,500 shares in issue as at 8th May, 1998.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	1998 HK\$'000	1997 HK\$'000
<u>Earnings</u>		
Profit for the year and earnings for the purposes of basic and diluted earnings per share	<u>10,069</u>	<u>201,688</u>
<u>Number of shares</u>		
Weighted average number of shares for the purposes of basic earnings per share	892,343,500	766,931,993
Effect of dilutive potential shares - Employees' Share Options	<u>2,611,440</u>	<u>29,228,679</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>894,954,940</u>	<u>796,160,672</u>

Notes to the Financial Statements

For the year ended 31st December, 1998

14. FIXED ASSETS

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st January, 1998	265,500	94,500	1,717	2,121	1,174	3,642	368,654
Additions	455,204	—	—	—	90	—	455,294
Deficit on revaluation	(35,959)	(39,240)	—	—	—	—	(75,199)
	<u>684,745</u>	<u>55,260</u>	<u>1,717</u>	<u>2,121</u>	<u>1,264</u>	<u>3,642</u>	<u>748,749</u>
Comprising:							
At cost	—	—	1,717	2,121	1,264	3,642	8,744
At professional valuation - 1998	684,745	55,260	—	—	—	—	740,005
	<u>684,745</u>	<u>55,260</u>	<u>1,717</u>	<u>2,121</u>	<u>1,264</u>	<u>3,642</u>	<u>748,749</u>
DEPRECIATION							
At 1st January, 1998	—	—	730	423	565	984	2,702
Provided for the year	—	2,897	501	282	240	364	4,284
Eliminated on revaluation	—	(2,897)	—	—	—	—	(2,897)
	<u>—</u>	<u>—</u>	<u>1,231</u>	<u>705</u>	<u>805</u>	<u>1,348</u>	<u>4,089</u>
NET BOOK VALUES							
At 31st December, 1998	<u>684,745</u>	<u>55,260</u>	<u>486</u>	<u>1,416</u>	<u>459</u>	<u>2,294</u>	<u>744,660</u>
At 31st December, 1997	<u>265,500</u>	<u>94,500</u>	<u>987</u>	<u>1,698</u>	<u>609</u>	<u>2,658</u>	<u>365,952</u>

Notes to the Financial Statements

For the year ended 31st December, 1998

14. FIXED ASSETS — *continued*

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

	1998 HK\$'000	1997 HK\$'000
Investment properties:		
Long term leasehold properties:		
-Held in Hong Kong	166,500	265,500
-Held in the PRC, excluding Hong Kong	518,245	—
	<u>684,745</u>	<u>265,500</u>
Leasehold properties:		
Long term leasehold properties held in Hong Kong	50,000	88,300
Medium term leasehold properties held in the PRC, excluding Hong Kong	5,260	6,200
	<u>55,260</u>	<u>94,500</u>
	<u><u>740,005</u></u>	<u><u>360,000</u></u>

Notes to the Financial Statements

For the year ended 31st December, 1998

14. 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, 1998	258,400	18,500	1,717	2,121	1,061	3,642	285,441
Additions	—	—	—	—	90	—	90
Deficit on revaluation	(96,900)	(5,500)	—	—	—	—	(102,400)
	<u>161,500</u>	<u>13,000</u>	<u>1,717</u>	<u>2,121</u>	<u>1,151</u>	<u>3,642</u>	<u>183,131</u>
Comprising:							
At cost	—	—	1,717	2,121	1,151	3,642	8,631
At professional valuation - 1998	161,500	13,000	—	—	—	—	174,500
	<u>161,500</u>	<u>13,000</u>	<u>1,717</u>	<u>2,121</u>	<u>1,151</u>	<u>3,642</u>	<u>183,131</u>
DEPRECIATION							
At 1st January, 1998	—	—	730	423	496	984	2,633
Provided for the year	—	555	501	282	217	364	1,919
Eliminated on revaluation	—	(555)	—	—	—	—	(555)
	<u>—</u>	<u>—</u>	<u>1,231</u>	<u>705</u>	<u>713</u>	<u>1,348</u>	<u>3,997</u>
NET BOOK VALUES							
At 31st December, 1998	<u>161,500</u>	<u>13,000</u>	<u>486</u>	<u>1,416</u>	<u>438</u>	<u>2,294</u>	<u>179,134</u>
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>

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, 1998 were carried out by Vigers Hong Kong Limited, Mansion Surveyors Ltd., C.Y. Leung & Company Limited and FPD Savills (Hong Kong) Ltd., firms of independent professional valuers, on an open market value basis.

In respect of the investment property situated in the PRC, according to the sale and purchase agreement, the Group is entitled to a guaranteed return which is 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, 1998

14. 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	(6,844)	(1,350)
Net book value at 31st December, 1998	<u>72,210</u>	<u>13,650</u>
Net book value at 31st December, 1997	<u>74,661</u>	<u>14,100</u>

15. DEPOSITS ON ACQUISITION OF A PROPERTY

THE GROUP

The amount in 1997 represented deposits paid for the acquisition of a residential property in Beijing, the PRC, from Beijing Huajian Real Estate Co., Ltd.. The property was transferred to the Group on 30th June, 1998.

16. DEFERRED EXPENDITURE

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Balance at January 1	24,777	—
Cost incurred during the year	—	27,530
Amortisation for the year	(3,925)	(2,753)
Written off upon repurchase of convertible bonds	(7,114)	—
Balance at December 31	<u>13,738</u>	<u>24,777</u>

The amount represents expenses incurred in relation to the issue of convertible bonds as explained in note 26.

Notes to the Financial Statements

For the year ended 31st December, 1998

17. INTEREST IN SUBSIDIARIES

	1998 HK\$'000	1997 HK\$'000
Unlisted shares, at cost	1	1
Loans to subsidiaries	1,575,152	1,376,146
Amounts due from subsidiaries	36,651	191,956
Amounts due to subsidiaries	(984,875)	(1,125,796)
	<u>626,929</u>	<u>442,307</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, 1998 are set out in note 36.

18. INTEREST IN ASSOCIATED COMPANIES

	THE GROUP		THE COMPANY	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
Unlisted shares, at cost	—	—	44,643	44,643
Share of net assets	578,216	526,382	—	—
Loans to associated companies	646,829	530,760	135,591	103,030
Amount due to an associated company	(26,356)	(26,356)	(26,356)	(26,356)
	<u>1,198,689</u>	<u>1,030,786</u>	<u>153,878</u>	<u>121,317</u>

Details of the associated companies of the Group as at 31st December, 1998 are set out in note 36.

Notes to the Financial Statements

For the year ended 31st December, 1998

18. INTEREST IN ASSOCIATED COMPANIES — *continued*

The following information relates to the Group's significant associated companies, namely China Infrastructure Investment Limited ("CII"), International Copper Industry (China) Investment Limited ("ICC"), Beijing Wangfujing Retail Management Co. Ltd. ("WFJ") and Crabec Holdings (BVI) Limited ("CRABEC"), and has been extracted from the financial statements of those associated companies for the year ended 31st December, 1998.

	CII	ICC	WFJ	CRABEC
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating result				
Turnover	94,151	—	266,861	646,984
Depreciation	14,078	—	5,410	—
Profit (loss) for the year	59,612	(36,782)	(26,559)	(164,317)
Profit (loss) for the year attributable to the Group	23,845	(18,391)	(13,279)	(49,295)
Financial position				
Tangible fixed assets	1,116	—	357,836	112,220
Investments	1,367,540	727,710	3,673	194,839
Other assets	—	—	68,051	29,216
Current assets	212,593	445	303,739	592,469
Current liabilities	(378,416)	(1,327)	(298,313)	(415,666)
Long term liabilities	(1,130,242)	(534,672)	—	(114,850)
Net assets	72,591	192,156	434,986	398,228
Net assets attributable to the Group	29,036	96,078	217,493	119,468

Capital commitments contracted but not provided for in the financial statements of CII as at 31st December, 1998 in respect of capital contribution and investments in its investee companies amounted to approximately HK\$612 million.

Notes to the Financial Statements

For the year ended 31st December, 1998

19. INVESTMENTS

	THE GROUP		THE COMPANY	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
Shares listed in Hong Kong, at market value	130,493	252,454	7	21
Convertible bonds listed overseas, at market value	1,175	3,870	—	—
Unlisted investment, at cost	52,960	52,960	—	—
Club debenture	450	450	450	450
	<u>185,078</u>	<u>309,734</u>	<u>457</u>	<u>471</u>

The directors are of the opinion that the unlisted investments is worth at least its cost.

20. NET CURRENT ASSETS

	THE GROUP		THE COMPANY	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
CURRENT ASSETS				
Deposits, prepayments and other receivables	40,684	150,872	41,747	55,179
Guaranteed income receivable	57,478	—	—	—
Amount due from associated companies	28,918	—	—	—
Amount due from a shareholder of an associated company	76,537	84,191	76,537	84,191
Short term investments (<i>note 21</i>)	2,470	2,274	—	—
Bank balances and cash	306,392	614,242	305,295	584,999
	<u>512,479</u>	<u>851,579</u>	<u>423,579</u>	<u>724,369</u>
CURRENT LIABILITIES				
Creditors, rental deposits and accrued charges	124,068	36,716	7,689	10,201
Taxation	42,271	44,178	—	—
Dividend payable	—	53,541	—	53,541
Secured bank loans due within one year (<i>note 25</i>)	16,197	11,028	16,197	11,028
Secured bank overdrafts	48,380	977	48,380	977
	<u>230,916</u>	<u>146,440</u>	<u>72,266</u>	<u>75,747</u>
NET CURRENT ASSETS	<u>281,563</u>	<u>705,139</u>	<u>351,313</u>	<u>648,622</u>

Notes to the Financial Statements

For the year ended 31st December, 1998

21. SHORT TERM INVESTMENTS

	THE GROUP	
	1998 HK\$'000	1997 HK\$'000
Shares listed in Hong Kong, at cost	4,935	3,312
Shares listed outside Hong Kong, at cost	—	922
	<u>4,935</u>	<u>4,234</u>
Less: Provision for diminution in value	(2,465)	(1,960)
	<u>2,470</u>	<u>2,274</u>
Carrying value at the balance sheet date	<u>2,470</u>	<u>2,274</u>
Market value at the balance sheet date	<u>2,470</u>	<u>2,274</u>

22. SHARE CAPITAL

	1998 HK\$'000	1997 HK\$'000
Authorised:		
Ordinary shares of HK\$0.20 each	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.20 each	<u>178,469</u>	<u>178,469</u>

23. 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.

As at 1st January, 1998, options in respect of 30,000,000 shares of the Company were outstanding. The options entitle the holders to subscribe in cash at a subscription price of HK\$0.967 per share in the share capital of the Company at any time from 8th January, 1997 up to and including 7th January, 2007.

No option was exercised during the year.

Notes to the Financial Statements

For the year ended 31st December, 1998

24. 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, 1998	944,546	79,429	177,040	22,415	12,950	(1,079)	478,389	1,713,690
Realised on disposal of interest in a former subsidiary (<i>note 6</i>)	—	—	—	(22,415)	—	—	—	(22,415)
Deficit arising on revaluation of investment properties	—	(35,959)	—	—	—	—	—	(35,959)
Deficit arising on revaluation of leasehold properties	—	—	(22,541)	—	—	—	—	(22,541)
Deficit arising on revaluation of investments	—	—	(119,574)	—	—	—	—	(119,574)
Deficit arising on revaluation of investment properties of an associated company	—	(11)	—	—	—	—	—	(11)
Deferred taxation on revaluation surplus of properties situated in the PRC	—	(18,912)	—	—	—	—	—	(18,912)
Exchange difference on translation of associated companies on consolidation	—	—	—	—	—	(329)	—	(329)
Share of other reserves of an associated company	—	—	—	—	1	—	—	1
Transfer of retained profits to other reserve in associated companies	—	—	—	—	2,597	—	(2,597)	—
Profit for the year, retained	—	—	—	—	—	—	10,069	10,069
At 31st December, 1998	<u>944,546</u>	<u>24,547</u>	<u>34,925</u>	<u>—</u>	<u>15,548</u>	<u>(1,408)</u>	<u>485,861</u>	<u>1,504,019</u>
Included in the above are the following Group's share of post-acquisition reserves of the associated companies:								
At 1st January, 1998	—	11	—	—	12,950	(1,439)	106,143	117,665
Share of reserves during the year	—	—	—	—	1	(329)	—	(328)
Deficit arising on revaluation of investment properties	—	(11)	—	—	—	—	—	(11)
Share of loss for the year	—	—	—	—	—	—	(55,947)	(55,947)
Dividend paid to the Group	—	—	—	—	—	—	(8,000)	(8,000)
Transfer of retained profits to other reserve	—	—	—	—	2,597	—	(2,597)	—
At 31st December, 1998	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,549</u>	<u>(1,768)</u>	<u>39,598</u>	<u>53,379</u>

Notes to the Financial Statements

For the year ended 31st December, 1998

24. 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, 1998	944,546	78,089	17,116	—	—	—	167,399	1,207,150
Deficit arising on revaluation of investment properties	—	(78,089)	—	—	—	—	—	(78,089)
Deficit arising on revaluation of leasehold properties	—	—	(4,945)	—	—	—	—	(4,945)
Deficit arising on revaluation of investments	—	—	(15)	—	—	—	—	(15)
Loss for the year	—	—	—	—	—	—	(79,087)	(79,087)
At 31st December, 1998	<u>944,546</u>	<u>—</u>	<u>12,156</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>88,312</u>	<u>1,045,014</u>

The Company's reserves available for distribution to shareholders as at 31st December, 1998 represent the retained profits of HK\$88,312,000 (1997: HK\$167,399,000).

25. 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 33). The balance is repayable within the following periods:

	THE GROUP AND THE COMPANY	
	1998	1997
	HK\$'000	HK\$'000
Within 1 year	16,197	11,028
Between 1-2 years	64,318	21,138
Between 2-5 years	4,793	67,203
Over 5 years	19,117	21,050
	104,425	120,419
Less: Amount due within one year included under current liabilities (<i>note 20</i>)	(16,197)	(11,028)
Amount due after one year	88,228	109,391

Notes to the Financial Statements

For the year ended 31st December, 1998

26. CONVERTIBLE BONDS

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Balance at December 31	<u>634,100</u>	<u>888,375</u>

The Group had 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. During the year, the Group repurchased certain Bonds with total principal amounted to US\$33,022,000 at an aggregate consideration of US\$17,716,000. The relevant Bonds were cancelled upon repurchase. Total principal amount of the Bonds in issue as at 31st December, 1998 amounted to US\$81,978,000. The Bonds bear interest at 1 per cent. per annum, payable annually in arrears. 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\$7.7414 = 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.

Notes to the Financial Statements

For the year ended 31st December, 1998

27. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
Balance brought forward	515	535	515	515
Deferred taxation on revaluation surplus of properties situated in the PRC	18,912	—	—	—
Reversal of deferred taxation on disposal of properties situated in the PRC	—	(20)	—	—
Difference between fixed assets depreciation allowance claimed for tax purposes and depreciation charged in the financial statements	(515)	—	(515)	—
Balance carried forward	<u>18,912</u>	<u>515</u>	<u>—</u>	<u>515</u>

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	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 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
Surplus arising on revaluation of properties situated in the PRC	18,912	—	—	—
	<u>18,912</u>	<u>515</u>	<u>—</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.

Notes to the Financial Statements

For the year ended 31st December, 1998

27. DEFERRED TAXATION — *continued*

At the balance sheet date, the major components of the deferred taxation asset (liability) not recognised in the financial statements are as follows:

	THE GROUP		THE COMPANY	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
Tax effect of timing differences attributable to:				
Excess of fixed assets depreciation allowance claimed for tax purposes over depreciation charged in the financial statements	(498)	(287)	(496)	(282)
Unutilised tax losses	5,287	8,197	4,949	8,197
	<u>4,789</u>	<u>7,910</u>	<u>4,453</u>	<u>7,915</u>

No deferred taxation asset is recognised in the financial statements as it is uncertain that the timing differences will be crystallised in the foreseeable future.

The major components of the deferred taxation charge (credit) not recognised during the year are as follows:

	THE GROUP		THE COMPANY	
	1998 HK\$'000	1997 HK\$'000	1998 HK\$'000	1997 HK\$'000
Tax effect of timing differences attributable to:				
Excess of fixed assets depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	219	287	222	282
Tax losses arising during the year	(339)	—	—	—
Tax losses utilised	3,000	(437)	3,000	(437)
Change in tax rate	241	—	240	—
	<u>3,121</u>	<u>(150)</u>	<u>3,462</u>	<u>(155)</u>

Notes to the Financial Statements

For the year ended 31st December, 1998

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

	1998 HK\$'000	1997 HK\$'000
Profit from ordinary activities before taxation	16,830	210,891
Share of results of associated companies	48,761	(127,598)
Amortisation of deferred expenditure	3,925	2,753
Depreciation of fixed assets	4,284	4,555
Interest income	(59,749)	(32,776)
Interest expense	60,971	39,819
Profit on repurchase of convertible bonds	(111,277)	—
Profit realised on disposal of interest in former subsidiary	(22,415)	—
Profit on sale of listed investments	—	(110,410)
Write off of expenses recoverable from an associated company	9,230	—
Deficit on valuation of listed investments	55,927	11,102
Deficit on revaluation of leasehold properties	13,802	1,295
Loss on winding up of an associated company	49	—
Loss on deemed disposal of an associated company	—	179
Loss on disposal of fixed assets	—	20
Decrease (increase) in deposits, prepayments and other receivables	103,602	(142,364)
Increase in guaranteed rental receivable	(34,412)	—
(Increase) decrease in short term investments	(196)	3,962
(Decrease) increase in creditors, rental deposits and accrued charges	(4,811)	770
	<u>84,521</u>	<u>(137,802)</u>
Net cash inflow (outflow) from operating activities	<u>84,521</u>	<u>(137,802)</u>

29. ANALYSIS OF CHANGES IN FINANCING ACTIVITIES DURING THE YEAR

	Convertible bonds HK\$'000	Secured bank loans HK\$'000
At 1st January, 1998	888,375	120,419
Convertible bonds repurchased (<i>Note</i>)	(254,275)	—
Repayments	—	(15,994)
	<u>634,100</u>	<u>104,425</u>
At 31st December, 1998	<u>634,100</u>	<u>104,425</u>

Note: During the year, the Group repurchased certain bonds with total principal amounting to US\$33,022,000 (equivalent to approximately HK\$254,275,000) at an aggregate consideration of US\$17,716,000 (equivalent to approximately HK\$135,884,000).

Notes to the Financial Statements

For the year ended 31st December, 1998

30. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	1998	1997
	HK\$'000	HK\$'000
Bank balances and cash	306,392	614,242
Secured bank overdrafts	(48,380)	(977)
	<u>258,012</u>	<u>613,265</u>

31. 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	
	1998	1997
	HK\$'000	HK\$'000
Leases which expire within one year	<u>3,360</u>	<u>5,400</u>

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

32. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company have no significant capital commitments.

33. 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\$41.5 million (1997: HK\$142.5 million) and HK\$50.0 million (1997: HK\$88.3 million) respectively, and long term investments of carrying value at 31st December, 1998 of HK\$66.6 million (1997: HK\$186 million) to secure general banking facilities granted to the Group.

The Group has pledged an investment property which has a net book value of HK\$62.5 million, its investment in ICC and has also subordinated a receivable from ICC amounting to HK\$126,702,000 as at 31st December, 1998 (1997: HK\$99,179,000), in favour of a bank to secure a bank loan granted to ICC (See also note 34).

Notes to the Financial Statements

For the year ended 31st December, 1998

34. 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 other shareholder in ICC, in respect of a bank loan granted to ICC of HK\$330 million.

The Company has also entered into a subordination agreement, together with three other shareholders of a company in which the Group has indirect interest, in favour of a bank to secure a term loan of US\$10 million granted to that company.

During the year, the Group has provided a guarantee, in respect of a bank loan granted to an associated company of HK\$232,200,000, to the extent of 40% (representing the Group's interest in the associated company) of the loan balance. The amount of bank loan outstanding as at 31st December, 1998 amounted to HK\$135,450,000.

THE COMPANY

The Company has guaranteed the issue of US\$115 million convertible bonds (note 26) by Silver Grant International Industries (Cayman) Limited, its wholly-owned subsidiary. At 31st December 31, 1998, the total convertible bonds outstanding amounted to US\$82 million. 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, 1998 amounted to HK\$67,039,000.

35. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	1998 HK\$'000	1997 HK\$'000
Acquisition of an investment property from Beijing Huajian Real Estate Co., Limited ("Huajian") of which certain directors have interests	455,204	—
Interest income under guaranteed return from an investment property purchased from Huajian	23,066	—
Rental income under guaranteed return from the investment property purchased from Huajian	34,412	—

The acquisition of investment property and the guaranteed return from the property are in accordance with terms set out in an agreement dated 27th November, 1997 between the Company and Huajian (note 14).

Notes to the Financial Statements

For the year ended 31st December, 1998

36. PARTICULARS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) Details of the Company's subsidiaries at 31st December, 1998 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%	—	Inactive
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

Notes to the Financial Statements

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

(a) Details of the Company's subsidiaries at 31st December, 1998 are as follows: — *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 (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

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

(a) Details of the Company's subsidiaries at 31st December, 1998 are as follows: — *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
Southwind Resources Limited	British Virgin Islands	US\$1	—	100%	Not yet commenced business
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 Winner Property 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 26, no loan capital has been issued by any other subsidiaries.

Notes to the Financial Statements

For the year ended 31st December, 1998

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

(b) Details of the Company's associated companies at 31st December, 1998 are as follows:

Name of company	Place of incorporation	Proportion of nominal value of issued ordinary share capital held by		Principal activities
		the Group	the Company	
北京王府井百貨商業物業管理有限公司 Beijing Wangfujing Retail Management Co. Ltd.	PRC	50%	—	Investment holding and retail management
China Infra-Structure Investment Limited	Hong Kong	40%	—	Investment in infrastructure projects
重慶慶鈴鑄造有限公司 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
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	30%	30%	Investment holding
Sanva Properties Limited	British Virgin Islands	35%	35%	Inactive

Financial Summary

	Year ended 31st December,				
	1994	1995	1996	1997	1998
	HK\$Million	HK\$Million	HK\$Million	HK\$Million	HK\$Million
Consolidated Profit and Loss Account					
Turnover	26.5	61.7	60.7	173.3	64.1
Profit from ordinary activities					
before taxation	43.1	112.7	164.2	210.9	16.8
Taxation	—	14.8	24.8	9.2	6.8
Profit for the year	43.1	97.9	139.4	201.7	10.0
Consolidated Balance Sheet					
Fixed assets	246.6	290.0	340.1	366.0	744.7
Other assets	—	—	—	478.8	13.7
Interest in associated companies	248.9	318.5	405.6	1,030.8	1,198.7
Investments	672.0	360.0	342.0	309.7	185.1
Net current (liabilities) assets	(76.9)	(41.1)	(27.0)	705.1	281.5
	1,090.6	927.4	1,060.7	2,890.4	2,423.7
Share capital	36.4	36.4	43.6	178.5	178.5
Reserves	806.3	663.8	959.2	1,713.6	1,504.0
Shareholders' funds	842.7	700.2	1,002.8	1,892.1	1,682.5
Long term liabilities	247.6	226.1	57.4	997.8	722.3
Deferred taxation	0.3	1.1	0.5	0.5	18.9
	1,090.6	927.4	1,060.7	2,890.4	2,423.7

Summary of Investment Properties

The following is a list of the Group's investment properties at 31st December, 1998:

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 Car parking 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 Car parking spaces Nos. 38 and 38A on Carpark Level 1, Beverly Hill, No.6 Broadwood Road, Hong Kong.	Residential	1,738

Summary of Investment Properties

INVESTMENT PROPERTIES HELD UNDER LONG LEASES IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

Location	Purpose	Gross area sq. ft.
7. Level 4 to 31, South Apartment Tower, East Gate Plaza, 19 Dongzhong Street, Dongcheng District, Beijing, the PRC	Residential	339,993