

**ALLIED PROPERTIES (H.K.) LIMITED**

# Contents

	<i>Page</i>
Corporate Information	2
Chairman's Statement	3
Review of Operations	4
Profile of Directors and Senior Management	13
Report of the Directors	15
Report of the Auditors	22
Financial Statements	
Consolidated Income Statement	23
Consolidated Balance Sheet	24
Balance Sheet	26
Consolidated Statement of Changes in Equity	27
Consolidated Cash Flow Statement	29
Notes to the Financial Statements	32
Financial Summary	89
Particulars of Major Properties	90

**BOARD OF DIRECTORS**

Gordon Macwhinnie

*Non-Executive Chairman/*

*Independent Non-Executive Director*

Patrick Lee Seng Wei

*Chief Executive*

Li Chi Kong

*Executive Director*

Henry Lai Hin Wing

*Non-Executive Director*

Steven Lee Siu Chung

*Non-Executive Director*

John Douglas Mackie

*Independent Non-Executive Director*

Steven Samuel Zoellner

*Independent Non-Executive Director*

**EXECUTIVE COMMITTEE**

Patrick Lee Seng Wei *Chairman*

Li Chi Kong

**REMUNERATION COMMITTEE**

Gordon Macwhinnie *Chairman*

Henry Lai Hin Wing

John Douglas Mackie

Steven Samuel Zoellner

**AUDIT COMMITTEE**

Gordon Macwhinnie *Chairman*

Henry Lai Hin Wing

John Douglas Mackie

Steven Samuel Zoellner

**PRINCIPAL BANKERS**

Bank of China (Hong Kong) Limited

CITIC Ka Wah Bank Limited

Fubon Bank (Hong Kong) Limited

Standard Chartered Bank (Hong Kong) Limited

Wing Hang Bank, Limited

**REGISTERED OFFICE**

22nd Floor

Allied Kajima Building

138 Gloucester Road

Wanchai

Hong Kong

**SHARE REGISTRAR**

Computershare Hong Kong Investor

Services Limited

Shops 1712-1716

17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

**COMPANY SECRETARY**

Phoebe Lau Mei Yi

**AUDITORS**

Deloitte Touche Tohmatsu

**SOLICITORS**

Leland Chu & Co.

Fred Kan & Co.

Haldanes

Mallesons Stephen Jaques

P. C. Woo & Co.

I am very pleased to advise you that 2004 was a year of record results for the Group. There was an improvement in both the local property and financial markets in the year under review. Accordingly, the year end valuation of the Group's Hong Kong properties has caused revaluation surpluses and a reversal of impairment losses to be credited to the income statement. In addition, Sun Hung Kai & Co. Limited ("Sun Hung Kai"), being the Group's major listed subsidiary, maintained a strong performance and benefiting from the market rebound during the year.

## FINANCIAL RESULTS

For the year ended 31st December, 2004, the Group's turnover increased to HK\$1,128.2 million from HK\$862.8 million of 2003. Profit attributable to shareholders was HK\$668.5 million, representing a significant increase of 115% when compared to the corresponding profit of the previous year of HK\$311.0 million.

## DIVIDEND

The Directors have proposed a final dividend of HK5 cents per share (2003: Nil) payable to shareholders whose names appear on the register of members of the Company on 3rd June, 2005.

## CLOSURE OF REGISTER

The register of members of the Company will be closed from 30th May, 2005 to 3rd June, 2005, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 27th May, 2005.

Subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company, dividend warrants are expected to be despatched on 4th July, 2005.

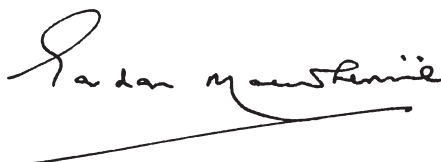
The Annual General Meeting will be held on 3rd June, 2005.

## FUTURE PROSPECTS

The Review of Operations by the Chief Executive, which immediately follows this statement covers the Group's outlook for the future.

## APPRECIATION

I would like to thank my fellow Directors and all the staff for their diligence, dedication and contributions in achieving the commendable results for 2004. I would also like to express my appreciation to the shareholders for their continual support.



**Sir Gordon Macwhinnie**

*Chairman*

Hong Kong, 14th April, 2005

## INTRODUCTION

The core businesses of the Company and its subsidiaries and associates consist of property investment, property development, hospitality related activities and financial services. The Company is a subsidiary of Allied Group Limited ("Allied Group"), another publicly listed company in Hong Kong. The Company's interests in property investment and development and hospitality related activities in Hong Kong are mainly held through its wholly-owned subsidiaries or the 50% owned Allied Kajima Limited ("Allied Kajima"), and in respect of property investment and development and hospitality related activities in The People's Republic of China ("PRC"), through the 48.6% holding in Tian An China Investments Company Limited ("Tian An") held by Sun Hung Kai. The Company's financial services business is mainly conducted through its 74.99% holding in Sun Hung Kai.

## FINANCIAL REVIEW

The turnover of the Group for the year 2004 was approximately HK\$1,128.2 million, an increase of 30.8% from the previous year due mainly to increase in income from investment, broking and financial services, increase in rental income and hotel revenue, partially offset by the decrease in interest income.

The Group's profit attributable to shareholders increased more than twofold by HK\$357.5 million to HK\$668.5 million from HK\$311.0 million of 2003. The 115.0% increase in profit was primarily due to revaluation surpluses and a reversal of impairment losses in relation to the Group's Hong Kong properties totalling HK\$158.0 million whilst in year 2003, the revaluation deficits and impairment losses charged to the income statement were HK\$40.4 million, as well as the stronger performance of Sun Hung Kai, a listed subsidiary of the Group.

### *Segmental Information*

Detailed segmental information in respect of the Group's turnover and contribution to profit from operations as well as other information is shown in note 4 to the financial statements.

### *Financial Resources, Liquidity and Capital Structure*

The Group is principally financed by net cash inflow from operating activities and banking facilities granted by the banks. The banking facilities of the Group are reviewed from time to time and new banking facilities will be obtained or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

During the year, 47,767,684 warrants, representing approximately 97.6% of the total outstanding warrants, were converted into 47,767,684 ordinary shares at a subscription price of HK\$2.5 per share. A proceed of HK\$119.4 million was raised from the exercise of warrant subscription rights by warrant holders, and the Company's issued share capital increased from HK\$978.8 million to HK\$1,074.3 million accordingly. The remaining 1,157,975 warrants, representing 1,157,975 ordinary shares issuable lapsed at the close of business on 6th December, 2004.

At 31st December, 2004, the current ratio (current assets/current liabilities) of the Group was 1.70 times, which increased from the 1.41 times applicable at the end of the preceding year.

**FINANCIAL REVIEW (CONT'D)*****Financial Resources, Liquidity and Capital Structure (Cont'd)***

At 31st December, 2004, the Group's net borrowings amounted to HK\$1,179.9 million (2003: HK\$1,602.3 million), representing bank borrowings and loan notes of HK\$1,779.4 million (2003: HK\$2,233.0 million) less bank deposits, bank balances and cash of HK\$599.5 million (2003: HK\$630.7 million) and the Group had net assets of HK\$5,818.6 million (2003: HK\$4,889.3 million). Accordingly, the Group's gearing ratio of net borrowings to net assets was 20.3% (2003: 32.8%).

	2004 HK\$'000	2003 HK\$'000
Bank borrowings of the Group are repayable as follows:		
Within one year or on demand	603,180	1,059,908
More than one year but not exceeding two years	226,738	70,760
More than two years but not exceeding five years	733,469	759,110
More than five years	86,362	111,565
	1,649,749	2,001,343
Loan notes repayable within five years	129,637	231,637
	1,779,386	2,232,980

The bank borrowings of the Group were charged at floating interest rates. Finance costs decreased from HK\$60.0 million in 2003 to HK\$47.2 million during the year as a result of reduction of bank borrowings and continuing efforts made in reducing the interest rate margin payable, as well as a low interest rate environment in 2004.

***Risk of Foreign Exchange Fluctuation***

Other than the finance business (in regard to which, the foreign exchange risk will be mentioned later in this report), the Group's other operating activities are mainly denominated in Hong Kong dollars. Accordingly, the Group has no other significant exposure to foreign exchange fluctuations.

***Acquisition of a Subsidiary***

During the year, the Group acquired the entire issued share capital of and loans to Gilmore Limited ("Gilmore") for an aggregation consideration of HK\$125.4 million. Gilmore is a property holding company and holds the whole of the 22nd Floor, No. 9 Queen's Road Central, Hong Kong.

***Acquisition of Additional Interest in Tian An***

During the year, Sun Hung Kai exercised warrants to subscribe for 44,000,000 shares and purchased 2,196,000 shares in Tian An for a total consideration of HK\$92.8 million.

**FINANCIAL REVIEW (CONT'D)***Contingent Liabilities*

Details of contingent liabilities are set out in note 35 to the financial statements.

*Material Litigation Update*

- (a) On 28th February, 2005, by order of the High Court of Hong Kong, the claim by Shenzhen Building Materials Group Co. Limited against Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of Sun Hung Kai, was dismissed with costs to SHKIS.
- (b) By the Judgment of the High Court of Hong Kong on 1st April, 2004 ("Judgment") in HCA3191/1999 between New World Development Company Limited ("NWDC") and Stapleton Development Limited against Sun Hung Kai Securities Limited ("SHKS"), a wholly-owned subsidiary of Sun Hung Kai, SHKS was ordered to pay NWDC the sum of HK\$105,534,018 together with interest on the principal sum of HK\$80,117,653 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which the Court found ("Oral Agreement"). As at 17th June, 2004, the date when the Judgment sum was to be paid, the Judgment amounted to HK\$150,115,682 (being HK\$105,534,018 plus interest of HK\$44,581,664). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum ("Appeal") to the Court of Appeal. The Appeal has been set down for hearing commencing 7th June, 2005. The decision of the Court of Appeal is likely to be delivered some months after the Appeal. Matters relating to the Judgment are further described in notes 6, 20 and 35(c) to the financial statements.
- (c) Shun Loong Finance Limited and Shun Loong Holdings Limited (together the "Petitioners"), both wholly-owned subsidiaries of Sun Hung Kai, filed a winding-up petition on 19th February, 2004 in the British Virgin Islands ("B.V.I.") seeking an order that Shanghai Finance Holdings Limited be wound up by reason of its failure to pay debts owing to the Petitioners. The B.V.I. proceedings were stayed by order of the B.V.I. court. The Petitioners have appealed that decision but have agreed not to pursue the appeal during the stay of 200/2004.
- (d) Sun Hung Kai, Sun Tai Cheung Credits Limited, an indirect wholly-owned subsidiary of Sun Hung Kai, and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.
- (e) SHKIS filed a notice of action on 8th June, 2004 in Canada naming as defendants Sung Chun ("Sung"), Song Lei ("Song") and the Bank of Montreal claiming from Sung and Song reimbursement for funds totalling US\$1,300,000 transferred by them in addition to costs, and against the Bank of Montreal for an injunction freezing the subject funds or alternatively for payment of the funds into court. SHKIS discontinued the action in respect of the Bank of Montreal, and agreed to a dismissal of the action against Song. The funds are currently in the custody of the Superior Court of Justice. On 31st March, 2005, the Court granted summary judgment to SHKIS in the amount of Canadian currency sufficient to purchase HK\$10,533,000 plus prejudgment and postjudgment interest thereon.

**FINANCIAL REVIEW (CONT'D)*****Material Litigation Update (Cont'd)***

- (f) SHKIS filed a writ on 23rd July, 2004 in Hong Kong naming as defendants Sellon Enterprises Limited (“Sellon”), Sung and Song and seeking a declaration that Sellon holds property wholly or in part on trust for SHKIS.

***Pledges of Assets***

Details regarding pledges of assets are set out in note 39 to the financial statements.

**OPERATIONAL REVIEW****PROPERTIES*****Hong Kong***

The Group's rental income increased moderately during the year under review. Major contributors of rental income included St. George Apartments, China Online Centre, Century Court and Allied Cargo Centre. Moreover, the Group completed the acquisition of the whole of the 22nd Floor of No. 9 Queen's Road Central in late 2004, thus adding a stable rental income stream to the Group's office portfolio. The Group will take advantage of the buoyant property market to review its Hong Kong rental property portfolio with a view to maximising yields.

Following the issuance of the occupation permit for phase two of Ibis North Point (“Ibis”), the hotel in Java Road, in December 2004 and the hotel licence, the hotel extension has been put into operation. After the completion of Ibis, all of the Group's development projects in Hong Kong have been completed. The Group will continue to assess opportunities for appropriate property investments should they arise.

Allied Kajima reported a 15.9% increase in profit attributable to its shareholders from the year 2003. Both the Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel had improved performance from 2003 due to increased tourist arrivals in Hong Kong and the Philippines respectively, although the rental income from Allied Kajima Building decreased during the year resulting from lower occupancy rates and reduced rental rates.

***Mainland PRC***

Although total sales of gross floor area attributable to Tian An during the year under review decreased to 225,000 square metres from 291,000 square metres, profit attributable to its shareholders amounted to HK\$200.6 million for the year, representing a significant growth of 95.9% compared to the previous year. The sharp improvement in the results for the year was mainly attributable to stronger contributions from property sales and the focus by Tian An on products of higher profit margin.

In the longer term, Tian An aims at becoming one of the premier real estate companies in Mainland China and hopes to improve its performance by adoption of the following policies, namely: (a) retaining developed commercial properties with long-term capital appreciation potential for rental yield thereby providing a stable recurrent income base, (b) disposing of inventories of properties and land in non-core cities and concentrating on the development of its very substantial land bank in the major cities of the PRC, and (c) continuing to streamline its management and cost structure.

Details of all major properties (other than those in Mainland China held by associates) are contained in the schedule headed “Particulars of Major Properties”.



**OPERATIONAL REVIEW (CONT'D)****FINANCIAL SERVICES**

Sun Hung Kai achieved a profit attributable to its shareholders of HK\$384.8 million, representing a 59.1% increase from the previous year.

Sun Hung Kai's broking commission income exceeded that of the previous year. Its experienced sales staff with their extensive client network capitalised on the buoyant stock market to expand its market share during the year. The income stream derived by Sun Hung Kai as a liquidity provider of derivative warrants and equity linked notes to warrant issuers continued to be strong.

SHK Online achieved significant growth during 2004. Continuing efforts to diversify its products, such as the new e-Option platform for locally listed HSI Options and additional e-Futures products should further provide growth momentum for the division.

In addition to the successful completion of the secondary placement of shares of two listed companies, the Corporate Finance division was involved in the placement of B shares of a PRC company which is listed on the Shenzhen Stock Exchange and a number of underwriting exercises for IPO issues.

Sun Hung Kai's margin loan book increased during the year. Net revenues were strongly positive through the substantial use of its shareholders' funds in a low interest rate environment.

With the continuing weakness in the U.S. dollar in 2004, Sun Hung Kai's foreign exchange volumes reflected a decline in investor interest. However, interest in commodities and precious metals increased significantly. Sun Hung Kai's business from Hang Seng Index Futures also rose substantially this year.

The Wealth Management division experienced strong growth in 2004. The "assets under management" and revenue almost doubled compared with 2003. For the Alternative Investments division, the second half of 2004 remained challenging because of the difficult environment in global financial markets. Nevertheless, all the funds experienced positive growth.

Despite the difficult environment, Sun Hung Kai's Insurance division performed well in 2004 and achieved slight profit growth compared to the preceding year. To meet the challenges ahead, the division continues to strengthen marketing activities, focus on the development of specialty products and markets, and pursue quality business partners and opportunities in the PRC.

After significant transformation of its business structure, management, compliance and control system following its acquisition by Sun Hung Kai in mid 2003, Shun Loong group is now positioning itself for growth with a range of marketing and promotional initiatives planned for Hong Kong and the PRC.

Sun Hung Kai International Bank [Brunei] Limited was officially opened in February 2004. The bank plans to develop international banking business including deposit taking from non-residents, extending credits, arranging money collections and transmissions, foreign exchange, issuance of guarantees as well as offering investment banking and other banking services.

**OPERATIONAL REVIEW (CONT'D)****INVESTMENTS*****Quality HealthCare Asia Limited ("QHA")***

QHA, a 33.01% owned listed associate of Sun Hung Kai, is Hong Kong's largest listed healthcare company. It provides care for its private and corporate contract patients through a network of more than 560 Western and Chinese medical centres, and 44 dental and physiotherapy centres. In 2004, its network recorded more than 1.9 million healthcare visits. QHA operates eight elderly care homes and Hong Kong's longest-established international nursing service. QHA was awarded "Superbrands Hong Kong 2004" by an independent Superbrands Council during the year in recognition of its well respected brand name.

QHA continued to deliver a substantial improvement in its operating profit, with its turnover in 2004 exceeding HK\$780 million. The encouraging results of QHA are a positive reflection of QHA's determination to focus on the consolidation and development of its core businesses.

QHA will continue to develop its specialist medical network and its relationship with private hospitals. It is well positioned to be one of the participants in the public-private partnership initiative to improve the healthcare industry in Hong Kong and also to support the government in any initiatives it may wish to pursue in both reducing costs and providing improved quality of service.

QHA's confidence in its future is reflected in a share repurchase offer which has recently been completed with 21,667,288 shares, representing 10% of its outstanding shares, repurchased and cancelled.

***Yu Ming Investments Limited ("Yu Ming")***

Yu Ming, a 22.43% owned listed associate of Sun Hung Kai, reported a profit of HK\$39.4 million for the year 2004. At 31st December, 2004, the major investments of Yu Ming included a 37.85% owned joint venture which held 13.5% interest in AsiaWorld-Expo, being a 66,000 square metre exhibition centre located at the Hong Kong International Airport, Argyle Centre Shopping Mall in Mongkok, a bond portfolio amounting to HK\$195 million and an investment in a Hong Kong based airline. Argyle Centre and the bond portfolio provided the bulk of recurrent income of Yu Ming in 2004. The AsiaWorld-Expo is scheduled to open in January 2006 and its bookings are well into 2008.

***Shanghai Allied Cement Limited ("SAC")***

For the year ended 31st December, 2004, SAC, a 54.77% owned listed subsidiary of Tian An, reported a net profit of HK\$10.4 million, representing a decrease of 79.2% as compared to the year before. The decrease in profit resulted from: (a) the rising cost of raw materials, including coal, which is one of the major cost components of cement production, (b) with the Mainland government's austerity measures taking effect, the demand, and consequently prices, for cement in Mainland China have been falling, and (c) the construction of the new plant in Shandong with a daily clinker production capacity of 2,500 tonnes per day has been utilising substantial financial resources.

SAC's management is cautiously optimistic on the long-term prospects of the cement industry in the PRC and hopes to take advantage of the present competitive environment to improve efficiency and its cost structure so as to be in an improved position to take advantage of any significant upturn of the cement market.

## MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest and top suppliers contributed 99.8% and 91.1% respectively of the total purchases in the year under review. The aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the total turnover. No Directors, their associates, or shareholders of the Company who to the knowledge of the Directors own more than 5% of the Company's share capital, have an interest in any of the five largest suppliers or customers.

## EMPLOYEES

The total number of staff of the Group as at 31st December, 2004 was 1,774 (2003: 1,746). Total staff costs, including Directors' emoluments, amounted to HK\$231.7 million (2003: HK\$198.6 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

## MANAGEMENT OF RISKS

The management of risks in respect of the Group's finance business is primarily conducted by Sun Hung Kai and described as follows:

### *Operational Risk*

Operational risk has been defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group places importance on ensuring that there is an effective operational risk management framework by maintaining strong risk and internal control cultures, including clear lines of responsibility and segregation of duties, effective internal reporting and contingency planning.

Line management is required to declare and submit annually its "responsibility statement for internal control procedures" for review by the internal audit and compliance department ("IAC").

### *Credit Risk*

Credit risk arises from a number of areas. These include the possibility that a counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, derivatives, proprietary trading, and other activities undertaken by the Group.

The Group's credit manual sets out in detail the credit approval and monitoring procedures, which are established in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission.

Day-to-day credit management is performed by the credit department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counter-parties. Decisions made daily by the credit department are reported and reviewed by the management and by the credit and risks management committee at its regular meetings.

**MANAGEMENT OF RISKS (CONT'D)*****Liquidity Risk***

The Group manages its liquidity position to ensure it maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various licensed subsidiaries.

***Capital Risk***

The Group maintains a strong capital base to support the development of its finance business and to comply, where necessary, with at least the minimum statutory ratios.

Capital is allocated to the various activities of the Group depending on requirements and the degree of risk appropriate to various activities. Cost of capital, as determined from time to time, is allocated against its users.

***Interest Rate Risk***

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or re-price its margin loans to an appropriate level. Its interest-sensitive positions can readily be identified. Interest rates paid by the Group are managed with the aim of maximising the spread of interest consistent with liquidity and funding obligations.

***Foreign Exchange Risk***

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from its leveraged foreign exchange business or purchases of foreign securities on behalf of clients. Foreign exchange risk is managed and monitored by the relevant department under the limits approved by the management. In relation to our leveraged foreign exchange activity, our position is that of a market-maker, and accordingly our risk is our open currency positions which are subject to management approved limits and are monitored and reported daily. The other possible risk is primarily a derivative foreign exchange risk for a client who does not or cannot meet margin calls following any period of substantial currency turbulence. The Group's principal lending operations are carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on loan assets.

***Market Risk***

Proprietary trading activities across the Group are subject to limits approved by management. In early 2004, the Group established the trading risk control unit ("TRCU") for the purposes of independently monitoring and reporting the positions, risks and profit and loss of its proprietary trading activities involving derivatives, foreign exchange and bullion. In addition to the TRCU, the Group's exposures are closely monitored by the credit department and senior management and are measured on both a "mark-to-market" and a "mark-to-fair" basis, and "maximum loss" limits are used. The Group's various proprietary trading activities are reported daily to senior management for review. The Group's IAC also performs audits to supplement the above controls to ensure compliance with the established market risk limits and guidelines.

**MANAGEMENT OF RISKS (CONT'D)*****Reputational Risk***

A key factor for businesses in the financial services sector is their reputation for financial probity and prudence. In our case, with our important and valuable “brand”, we manage these risks through our strong internal controls and risk management regime, by comprehensive employee training and operational manuals in key areas, and by the strength and independence of the IAC.

**BUSINESS OUTLOOK**

Hong Kong saw improved property and financial markets in the year 2004, especially in the second half of 2004. The good performance of the economy was mainly due to the increased tourist arrivals and the improved market sentiments resulting from a series of economic co-operation measures with Mainland China. The management anticipates that the recovery of the local economy will continue in 2005, albeit at a reduced rate. The planned opening of the Hong Kong Disneyland in September 2005 will add more momentum to the tourist business. The management believes that it will further escalate economic activities in the hotel segment and benefit the Group's hotel operations. The further improvement in the residential and office property market brought by the robust economy is expected to be sustainable. However, the wild fluctuations of the crude oil prices and the rising trend of interest rates could adversely impact the market sentiment and activities. The Group will continue to monitor these factors closely and all other relevant factors, whilst aiming to maintain a good balance as between assets and earnings, for the benefit of all shareholders.

**Patrick Lee Seng Wei***Chief Executive*

Hong Kong, 14th April, 2005

## **GORDON MACWHINNIE**

Sir Gordon Macwhinnie, C.B.E., J.P., aged 82, Non-Executive Chairman and Independent Non-Executive Director of the Company since December 1997, is a chartered accountant and has had a distinguished career in both the public and private sectors in the more than fifty years that he has been in Hong Kong. He was the first president of the Hong Kong Society of Accountants (renamed as the Hong Kong Institute of Certified Public Accountants ("HKICPA") in September 2004) and served on the Standing Commission on Civil Service Salaries and Conditions of Service. His past appointments include a member of the Operations Review Committee of the Independent Commission Against Corruption, the deputy chairman and member of the Council of the Hong Kong Polytechnic, a director of the Mass Transit Railway Corporation, the chairman of the Ocean Park Corporation and The Royal Hong Kong Jockey Club, and a member of the Council of the University of Science and Technology of Hong Kong for ten years. He is currently the non-executive chairman and an independent non-executive director of Allied Group. He is also an independent non-executive director of Sun Hung Kai.

## **PATRICK LEE SENG WEI**

Mr. Patrick Lee Seng Wei, aged 53, joined the Company in February 1987 as an Executive Director and became the Chief Executive of the Company in March 1994. An architect, he worked for IBM Australia before becoming involved in property development in Malaysia and Hong Kong for more than twenty years. He has extensive experience in the property field. He is also an executive director of Sun Hung Kai and an executive director and chairman of Tian An.

## **KENNETH LI CHI KONG**

Mr. Kenneth Li Chi Kong, aged 51, a member of the Institute of Chartered Accountants of Scotland and a fellow of the HKICPA, was appointed Financial Controller and Executive Director of the Company in August 1997 and October 1999 respectively. He has broad experience in the finance and accounting field, having worked in two major audit firms and as group financial controller for several sizeable listed companies in Hong Kong. He is also an executive director of Tian An and SAC, and the group financial controller of Allied Group.

## **HENRY LAI HIN WING**

Mr. Henry Lai Hin Wing, aged 48, was appointed an Independent Non-Executive Director of the Company in February 2001 and re-designated as a Non-Executive Director of the Company in September 2004. He is a partner of Messrs. P. C. Woo & Co., a firm of solicitors and notaries in Hong Kong, and has been practising in the legal field for more than twenty-two years. Graduated from the University of Hong Kong with a Bachelor of Law degree, Mr. Lai was admitted as a solicitor in Hong Kong, England and Wales and the State of Victoria, Australia. Mr. Lai is a Notary Public and a China Appointed Attesting Officer in Hong Kong. He also serves on the board of another listed company as an independent non-executive director.

## **STEVEN LEE SIU CHUNG**

Mr. Steven Lee Siu Chung, aged 57, was appointed a Non-Executive Director of the Company in September 2004. He is an associate member of the Chartered Institute of Bankers, London, U.K. He has over thirty-one years of working experience at senior management level in the banking and financial industry in Hong Kong and overseas. Mr. Lee is an employee of AG Capital Limited ("AG Capital") which is a wholly-owned subsidiary of Allied Group. He is also a non-executive director of SAC.

**JOHN DOUGLAS MACKIE**

Mr. John Douglas Mackie, aged 76, was appointed an Independent Non-Executive Director of the Company in February 2004. He is the founder and chairman of JDM Associates Limited, and was a major shareholder of a group of companies which is a leading distributor of sports and leisure merchandise in Hong Kong. Graduated from the University of Western Australia and Harvard Business School, Mr. Mackie has over fifty years of performance orientated experience as chief executive officer and lately sole proprietor serving in general, marketing consultancy and representation, and has had extensive experience and successes in agency distribution, manufacturing – proprietary and franchised retailing – supermarket, drugstore specialised products and sourcing. He is also an independent non-executive director of Allied Group.

**STEVEN SAMUEL ZOELLNER**

Mr. Steven Samuel Zoellner, aged 35, was appointed an Independent Non-Executive Director of the Company in September 2004. He graduated from the Scots College in Sydney, Australia and completed a real estate licensing course. Mr. Zoellner has been a real estate agent since 1987 and has extensive experience in the industry. Mr. Zoellner has been involved in some of the more prominent upper end residential sales and development sites in Australia. He has previously owned Elders Double Bay for the provision of a variety of real estate services which he sold in the year 2000. He is currently a senior sales executive of Laing & Simmons Double Bay which consistently sells the most exclusive real estate in Australia.

**WU KWAN YET**

Mr. Wu Kwan Yet, aged 40, joined the Company in 1998 and is the Qualified Accountant of the Company. He obtained a Master Degree in Professional Accounting from The Hong Kong Polytechnic University in 2001 and is an associate member of the Association of Chartered Certified Accountants and an associate member of the HKICPA.

**PHOEBE LAU MEI YI**

Miss Phoebe Lau Mei Yi, aged 38, was appointed Company Secretary of the Company in March 2004. She is an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. She is also the company secretary of Allied Group.

The Directors are pleased to present their annual report and the audited financial statements of the Group and the Company for the year ended 31st December, 2004.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2004 are set out in notes 42, 43 and 44 to the financial statements respectively.

## **RESULTS AND APPROPRIATIONS**

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 23 and in the accompanying notes to the financial statements.

The Directors have proposed the payment of a final dividend of HK5 cents per share payable to shareholders whose names appear on the register of members of the Company on 3rd June, 2005. Since no interim dividend was paid, the total dividend for the year is HK5 cents per share. Details are set out in note 10 to the financial statements.

## **INVESTMENT PROPERTIES**

During the year, the Group spent HK\$110,000 on investment properties and acquired a further HK\$126,375,000 of investment property on the acquisition of a subsidiary. Certain of the Group's properties under development and properties held for sale with carrying values of HK\$51,249,000 and HK\$44,795,000 respectively were transferred to investment properties.

The Group's investment properties were revalued on 31st December, 2004 at HK\$2,611,336,000. The net revaluation surplus of HK\$135,120,000 has been credited to the income statement.

Details of these and other movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group spent HK\$18,265,000 on property, plant and equipment. The Group also disposed of certain of its property, plant and equipment with a net carrying value of HK\$635,000.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

## **PROPERTIES UNDER DEVELOPMENT**

The Group has invested in certain property development projects in Hong Kong and the United States of America. Additional expenditure incurred during the year amounted to HK\$14,321,000. Certain of the Group's properties under development with a carrying value of HK\$51,249,000 were completed and transferred to investment properties. An impairment loss previously recognised of HK\$3,000,000 has been reversed in respect of these properties.

Details of these and other movements in the properties under development of the Group during the year are set out in note 16 to the financial statements.



**PROPERTIES**

Particulars of major properties of the Group at 31st December, 2004 are set out on pages 90 to 92.

**SHARE CAPITAL AND WARRANTS**

Details of movements in the share capital and warrants of the Company during the year are set out in notes 25 and 26 to the financial statements respectively.

**DIRECTORS**

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

*Executive Directors:*

Patrick Lee Seng Wei  
Li Chi Kong

*Non-Executive Directors:*

Henry Lai Hin Wing	(re-designated on 28th September, 2004)
Steven Lee Siu Chung	(appointed on 28th September, 2004)

*Independent Non-Executive Directors:*

Gordon Macwhinnie	
Henry Lai Hin Wing	(re-designated as a Non-Executive Director on 28th September, 2004)
John Douglas Mackie	(appointed on 1st February, 2004)
Steven Samuel Zoellner	(appointed on 28th September, 2004)

In accordance with Article 105(A) of the Company's Articles of Association, Messrs. Li Chi Kong and Henry Lai Hin Wing will retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 96 of the Company's Articles of Association, Messrs. Steven Samuel Zoellner and Steven Lee Siu Chung, who have been appointed since the last Annual General Meeting and, before the date of this report, will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment as Directors.

**DIRECTORS' SERVICE CONTRACTS**

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**TERMS OF OFFICE FOR THE NON-EXECUTIVE DIRECTORS**

The terms of office of the Non-Executive Directors (including Independent Non-Executive Directors) are subject to re-appointment or retirement by rotation in accordance with Articles 96 and 105(A) of the Company's Articles of Association.

**DIRECTORS' INTERESTS**

At 31st December, 2004, Messrs. Patrick Lee Seng Wei, Li Chi Kong and Steven Lee Siu Chung, Directors of the Company, had the following interests in the shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept under Section 352 of the SFO:

Name of Director	Name of Company	Number of shares and underlying shares held	Approximate % of the relevant issued share capital	Nature of interest
Patrick Lee Seng Wei	The Company	270,000 (Note 1)	0.05%	Personal interest (held as beneficial owner)
	Allied Group (Note 2)	550,000 (Note 3)	0.21%	Personal interest (held as beneficial owner)
Li Chi Kong	SAC (Note 2)	600,000 (Note 4)	0.08%	Personal interest (held as beneficial owner)
Steven Lee Siu Chung	Allied Group (Note 2)	200 (Note 3)	0.00%	Personal interest (held as beneficial owner)
	Sun Hung Kai (Note 2)	1,000 (Note 5)	0.00%	Personal interest (held as beneficial owner)

## Notes:

1. This represents an interest in 270,000 shares of the Company.
2. Allied Group is the ultimate holding company of the Company. Sun Hung Kai is an indirect non wholly-owned subsidiary of the Company. A controlled corporation (within the meaning of Part XV of the SFO) of the Company has a direct interest in more than 20% of the issued share capital of SAC. Therefore, Allied Group, Sun Hung Kai and SAC are associated corporations of the Company within the meaning of Part XV of the SFO.
3. These represent interests in 550,000 shares and 200 shares of Allied Group.
4. This represents an interest in 600,000 share options of SAC giving rise to an interest in 600,000 underlying shares of SAC. The share options were granted on 28th July, 2003 at a consideration of HK\$10.00 and are exercisable at an exercise price of HK\$0.70 at any time during the period from 28th January, 2004 to 27th July, 2013 (both days inclusive).
5. This represents an interest in 1,000 shares of Sun Hung Kai.
6. All interests stated above represent long positions.

Save as disclosed above, at 31st December, 2004, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code").

**DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

During the year and up to the date of this report, Messrs. Patrick Lee Seng Wei and Li Chi Kong, Directors of the Company (not being the Independent Non-Executive Directors), are considered to have interests in the following competing businesses pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"):

- (i) Mr. Patrick Lee Seng Wei is a director of Sun Hung Kai which, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment;
- (ii) Mr. Li Chi Kong is a director of each of AG Capital and Goldnet Investment Limited, subsidiaries of Allied Group, which are partly engaged in the business of money lending;
- (iii) Messrs. Patrick Lee Seng Wei and Li Chi Kong are directors of Tian An which, through a subsidiary, is partly engaged in the business of money lending; and
- (iv) Messrs. Patrick Lee Seng Wei and Li Chi Kong are directors of Allied Kajima which, through certain of its subsidiaries, is partly engaged in the businesses of property rental, management services and hospitality related activities.

As the Board of Directors of the Company is independent from the boards of the abovementioned companies and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

**DIRECTORS' INTERESTS IN CONTRACTS**

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

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

At no time during the year was the Company, its holding company, or any of its fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of granting of share options to subscribe for shares in the Company's ultimate holding company, Allied Group, under the share option scheme of Allied Group.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS**

At 31st December, 2004, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Number of shares held	Approximate % of the issued share capital	Notes
Allied Group	401,764,059	74.79%	1
Lee and Lee Trust	401,764,059	74.79%	2, 3

Notes:

- The interest includes the holding of: (i) 167,061,619 shares held by Capscore Limited ("Capcore"); (ii) 4,186,632 shares held by Citiwealth Investment Limited ("Citiwealth"); (iii) 134,177,783 shares held by Sunhill Investments Limited ("Sunhill"); and (iv) 96,338,025 shares held by Allied Group. Capcore, Citiwealth and Sunhill are all wholly-owned subsidiaries of Allied Group. Allied Group was therefore deemed to have an interest in the shares in which Capcore, Citiwealth and Sunhill were interested.
- The figure refers to the same interest of Allied Group in 401,764,059 shares of the Company.
- Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust. They together owned approximately 39.09% interest of the issued share capital of Allied Group and were therefore deemed to have an interest in the shares in which Allied Group was interested.
- The interest stated above represents long position. At 31st December, 2004, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

**CONNECTED TRANSACTION**

As disclosed in the joint announcement of the Company, Allied Group and Sun Hung Kai dated 19th July, 2004, a loan agreement dated 19th July, 2004 ("Loan Agreement") was entered into between (i) Bali International Finance Limited ("Bali International"), a wholly-owned subsidiary of Sun Hung Kai which in turn is a non wholly-owned subsidiary of the Company and Allied Group, as the lender; (ii) Ms. Jacqueline Yuen Sin Lai ("Ms. Yuen") as the borrower; and (iii) Mr. Patrick Wong Kwok Hing ("Mr. Wong") as the guarantor pursuant to which Bali International extended a loan of HK\$5,600,000.00 ("Loan") to Ms. Yuen subject to the principal terms as summarised below:

- Interest shall be calculated at the prime rate of interest in Hong Kong for lending of Hong Kong Dollar(s) as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time plus 3% per annum. Interest would be payable on a monthly basis.
- The date of repayment of the Loan would be 19th July, 2005.
- Ms. Yuen executed a power of attorney over a margin financing account held with SHKIS, a wholly-owned subsidiary of Sun Hung Kai and a licensed corporation carrying on the share broking and margin financing business. As additional security for the Loan, Mr. Wong provided a personal guarantee to Bali International in respect of all indebtedness owed by Ms. Yuen pursuant to the Loan Agreement.

**CONNECTED TRANSACTION (CONT'D)**

One of the core businesses of Sun Hung Kai's major subsidiaries (including Bali International) is money lending including the provision of term loans. The provision of the Loan is a transaction carried out as part of the ordinary business activities of Bali International. The Directors (including the Independent Non-Executive Directors) of the Company considered that the Loan Agreement was entered into on normal commercial terms and that the terms were fair and reasonable and in the interests of the shareholders as a whole.

Ms. Yuen is the spouse of Mr. Wong who is a director of SHKIS, Upstand Assets Limited and Sun Hung Kai Investment Services (Macau) Limited, all being wholly-owned subsidiaries of Sun Hung Kai which in turn is a non wholly-owned subsidiary of both the Company and Allied Group. Accordingly, the Loan constitutes a connected transaction for each of the Company, Allied Group and Sun Hung Kai under the Listing Rules. Pursuant to Rule 14A.66(2) of the Listing Rules, details of the Loan as stipulated under Rule 14A.45 of the Listing Rules are required to be included in this report of the Company and also in the 2004 annual reports of Allied Group and Sun Hung Kai.

**PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

**DONATIONS**

The Group made charitable donations of HK\$178,000 during the year.

**CORPORATE GOVERNANCE***Code of Best Practice*

In the opinion of the Directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which was in force prior to 1st January, 2005.

*Code of Conduct regarding Securities Transactions by Directors*

During the year, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the year.

*Independence of Independent Non-Executive Directors*

The Company has received from each Independent Non-Executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-Executive Directors are independent.



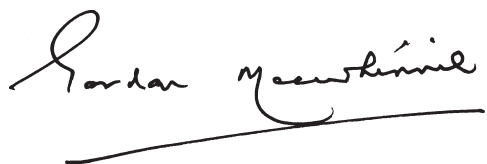
**SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

**AUDITORS**

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Gordon Macwhinnie", with a long horizontal line underneath it.

**Sir Gordon Macwhinnie**

*Chairman*

Hong Kong, 14th April, 2005

**TO THE MEMBERS OF ALLIED PROPERTIES (H.K.) LIMITED**

*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 23 to 88 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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, 2004 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.

*Certified Public Accountants*

Hong Kong, 14th April, 2005

# Consolidated Income Statement

23

for the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	3 & 4	1,128,169	862,783
Other operating income		19,564	43,257
Total income		1,147,733	906,040
Cost of sales		(201,927)	(97,229)
Brokerage and commission expenses		(161,553)	(99,639)
Selling expenses		(292)	(2,737)
Administrative expenses		(347,972)	(326,018)
Impairment losses reversed (recognised) and revaluation surplus (deficit)	5	144,626	(46,915)
Allowance for bad and doubtful debts written back		902	19,339
Other operating expenses		(108,756)	(192,348)
Profit from operations	6	472,761	160,493
Finance costs	8	(47,208)	(60,016)
Release of negative goodwill		156,741	140,282
Amortisation of capital reserve		17,267	17,267
Share of results of associates		266,192	135,708
Share of results of jointly controlled entities		44,725	41,941
Profit before taxation		910,478	435,675
Taxation	9	(143,256)	(71,449)
Profit after taxation		767,222	364,226
Minority interests		(98,720)	(53,206)
Profit attributable to shareholders		668,502	311,020
Dividend	10	26,858	—
Earnings per share	11		
Basic		HK\$1.36	HK\$0.64
Diluted		HK\$1.32	HK\$0.63



# Consolidated Balance Sheet

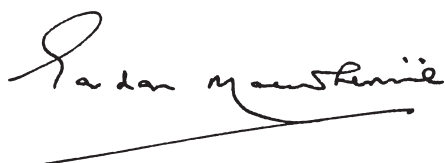
at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Investment properties	12	2,611,336	2,256,073
Property, plant and equipment	13	130,199	132,401
Intangible assets	14	10,375	7,081
Negative goodwill	15	(389,264)	(529,403)
Properties under development	16	97,377	131,174
Interest in associates	18	2,483,113	2,201,871
Interest in jointly controlled entities	19	1,036,507	1,087,379
Investments	20	911,480	702,353
Long-term loan receivable		3,200	–
Deferred tax assets	21	10,170	9,853
		<b>6,904,493</b>	<b>5,998,782</b>
<b>Current assets</b>			
Properties held for sale and other inventories	22	401,721	447,890
Investments	20	48,263	35,563
Accounts receivable, deposits and prepayments	23	2,330,938	2,861,392
Amounts due from associates		231	266,303
Amount due from a jointly controlled entity		2,040	2,056
Taxation recoverable		1,464	5,281
Short-term pledged bank deposit		1,220	1,487
Bank deposits, bank balances and cash		598,254	629,201
		<b>3,384,131</b>	<b>4,249,173</b>
<b>Current liabilities</b>			
Accounts payable and accrued charges	24	1,162,499	1,680,070
Amount due to Allied Group Limited		6,094	29,813
Amounts due to associates		49,260	38,081
Amount due to a jointly controlled entity		141,063	171,658
Taxation payable		27,452	29,523
Bank borrowings due within one year	29	603,180	1,059,908
Other liabilities due within one year	31	459	1,273
		<b>1,990,007</b>	<b>3,010,326</b>
<b>Net current assets</b>		<b>1,394,124</b>	<b>1,238,847</b>
		<b>8,298,617</b>	<b>7,237,629</b>

at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Capital and reserves</b>			
Share capital	25	1,074,303	978,768
Reserves	27	4,744,332	3,910,546
		<u>5,818,635</u>	<u>4,889,314</u>
<b>Minority interests</b>		<u>1,275,939</u>	<u>1,148,929</u>
<b>Non-current liabilities</b>			
Bank borrowings due after one year	29	1,046,569	941,435
Loan notes	30	129,637	231,637
Deferred tax liabilities	21	25,029	21,406
Other liabilities due after one year	31	2,808	4,908
		<u>1,204,043</u>	<u>1,199,386</u>
		<u>8,298,617</u>	<u>7,237,629</u>

The financial statements on pages 23 to 88 were approved and authorised for issue by the Board of Directors on 14th April, 2005 and are signed on its behalf by:



**Gordon Macwhinnie**  
Director

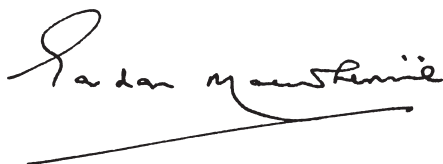


**Patrick Lee Seng Wei**  
Director

# Balance Sheet

at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Interest in subsidiaries	17	2,696,497	2,863,353
Investments	20	510	510
		<u>2,697,007</u>	<u>2,863,863</u>
<b>Current assets</b>			
Accounts receivable and prepayments		1,473	3,062
Bank deposits, bank balances and cash		53,327	185
		<u>54,800</u>	<u>3,247</u>
<b>Current liabilities</b>			
Accounts payable and accrued charges		1,931	3,522
Amount due to Allied Group Limited		6,094	29,813
Bank borrowings due within one year	29	–	22,484
		<u>8,025</u>	<u>55,819</u>
<b>Net current assets (liabilities)</b>		<u>46,775</u>	<u>(52,572)</u>
		<u>2,743,782</u>	<u>2,811,291</u>
<b>Capital and reserves</b>			
Share capital	25	1,074,303	978,768
Reserves	27	1,225,870	1,399,854
		<u>2,300,173</u>	<u>2,378,622</u>
<b>Non-current liabilities</b>			
Amounts due to subsidiaries	28	443,609	432,669
		<u>2,743,782</u>	<u>2,811,291</u>



**Gordon Macwhinnie**  
Director



**Patrick Lee Seng Wei**  
Director

# Consolidated Statement of Changes in Equity

27

for the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2003	978,745	492,778	241,113	(35,943)	2,320,430	72,044	(194,580)	(7,082)	629,580	4,497,085
Surplus arising on revaluation	-	-	-	104,076	-	-	-	-	-	104,076
Exchange differences on translation of operations outside Hong Kong	-	-	-	-	-	-	(883)	-	-	(883)
Share of post-acquisition reserve movement of associates	-	-	30,229	(5,245)	-	-	(387)	-	-	24,597
Share of post-acquisition reserve movement of jointly controlled entities	-	-	(25,603)	-	-	-	(12,283)	-	-	(37,886)
Net gains and losses not recognised in the income statement	-	-	4,626	98,831	-	-	(13,553)	-	-	89,904
Transferred from accumulated profits to capital reserve	-	-	-	-	-	-	-	642	(642)	-
Exercise of warrant subscription rights	23	-	-	-	-	-	-	-	-	23
Premium on issue of shares	-	6	-	-	-	-	-	-	-	6
Profit attributable to shareholders	-	-	-	-	-	-	-	-	311,020	311,020
Released on impairment of non-trading securities	-	-	-	4,884	-	-	-	-	-	4,884
Released on disposal of non-trading securities	-	-	-	1,607	-	-	-	-	-	1,607
Released on disposal of subsidiaries	-	-	-	-	-	-	2,572	-	-	2,572
Released on disposal of associates	-	-	-	-	-	-	(200)	(320)	-	(520)
Amortisation of capital reserve	-	-	-	-	-	-	-	(17,267)	-	(17,267)
	23	6	-	6,491	-	-	2,372	(16,945)	310,378	302,325
At 31st December, 2003	978,768	492,784	245,739	69,379	2,320,430	72,044	(205,761)	(24,027)	939,958	4,889,314



## Consolidated Statement of Changes in Equity (Cont'd)

for the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Accumulated profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
At 1st January, 2004	978,768	492,784	245,739	69,379	2,320,430	72,044	(205,761)	(24,027)	939,958	-	4,889,314
Surplus arising on revaluation	-	-	-	156,090	-	-	-	-	-	-	156,090
Deferred taxation	-	-	-	(166)	-	-	-	-	-	-	(166)
Exchange differences on translation of operations outside Hong Kong	-	-	-	-	-	-	31	-	-	-	31
Share of post-acquisition reserve movement of associates	-	-	9,311	4,067	-	-	244	-	-	-	13,622
Share of post-acquisition reserve movement of jointly controlled entities	-	-	(28,162)	-	-	-	(10)	-	-	-	(28,172)
Net gains and losses not recognised in the income statement	-	-	(18,851)	159,991	-	-	265	-	-	-	141,405
Transferred from special capital reserve to accumulated profits (note 27(a))	-	-	-	-	(2,320,430)	-	-	-	2,320,430	-	-
Transferred from accumulated profits to capital reserve	-	-	-	-	-	-	-	2,120	(2,120)	-	-
Exercise of warrant subscription rights	95,535	-	-	-	-	-	-	-	-	-	95,535
Premium on issue of shares	-	23,884	-	-	-	-	-	-	-	-	23,884
Share issue expenses	-	(24)	-	-	-	-	-	-	-	-	(24)
Released on dilution of interest in an associate	-	-	(379)	31	-	-	-	(3)	-	-	(351)
Distribution of interest in an associate to minority shareholders	-	-	(21)	1	-	-	-	-	-	-	(20)
Profit attributable to shareholders	-	-	-	-	-	-	-	-	668,502	-	668,502
Proposed final dividend	-	-	-	-	-	-	-	-	(26,858)	26,858	-
Released on impairment of non-trading securities	-	-	-	12,672	-	-	-	-	-	-	12,672
Released on disposal of non-trading securities	-	-	-	4,985	-	-	-	-	-	-	4,985
Amortisation of capital reserve	-	-	-	-	-	-	-	(17,267)	-	-	(17,267)
	95,535	23,860	(400)	17,689	(2,320,430)	-	-	(15,150)	2,959,954	26,858	787,916
At 31st December, 2004	1,074,303	516,644	226,488	247,059	-	72,044	(205,496)	(39,177)	3,899,912	26,858	5,818,635

# Consolidated Cash Flow Statement

29

for the year ended 31st December, 2004

	2004 HK\$'000	2003 HK\$'000
<b>Operating activities</b>		
Profit from operations	472,761	160,493
Adjustments for:		
Depreciation	19,831	20,772
Impairment loss recognised in respect of non-trading securities	16,418	6,524
Loss on dilution of interest in an associate	4,455	–
Amortisation of intangible assets	2,701	2,780
Net unrealised loss (profit) on trading securities	2,109	(3,311)
Loss on disposal of property, plant and equipment	579	432
Loss on write off of intangible assets	96	–
(Surplus) deficit arising on revaluation of investment properties	(135,120)	5,645
Impairment loss (reversed) recognised in respect of properties held for sale	(22,924)	22,546
Impairment loss (reversed) recognised in respect of properties under development	(3,000)	12,200
(Profit) loss on disposal of non-trading securities	(2,483)	753
Profit on deemed disposal of a jointly controlled entity	(942)	–
Allowance for bad and doubtful debts written back	(902)	(19,339)
Profit on disposal of partial interest in a subsidiary	(789)	–
Loss on disposal of a jointly controlled entity	–	5,549
Loss on disposal of an associate	–	3,088
Loss on disposal of subsidiaries	–	2,597
Write back of loss arising from default of loan agreement	–	(26,412)
Operating cash flow before movements in working capital	352,790	194,317
Decrease in properties held for sale and other inventories	20,741	19,220
Increase in trading securities	(14,634)	(9,903)
Decrease (increase) in accounts receivable, deposits and prepayments	557,084	(844,918)
Increase in long-term loan receivable	(3,200)	–
(Decrease) increase in accounts payable and accrued charges	(499,683)	761,046
Decrease in other employee benefits	(3,046)	(1,842)
(Decrease) increase in amount due to Allied Group Limited	(23,719)	21,603
Cash generated from operations	386,333	139,523
Interest paid	(47,193)	(62,220)
Hong Kong Profits Tax paid	(32,809)	(6,376)
Tax outside Hong Kong (paid) refunded	(248)	95
<b>Net cash from operating activities</b>	<b>306,083</b>	<b>71,022</b>

## Consolidated Cash Flow Statement (Cont'd)

for the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Investing activities</b>			
Amounts repaid by associates		242,563	22,342
Proceeds on disposal of non-trading securities		40,510	6,350
Proceeds on disposal of an associate		12,187	2,446
Dividends received from associates		6,182	17,812
Amount repaid by a jointly controlled entity		2,770	2,338
Decrease (increase) in pledged bank deposit		267	(487)
Proceeds on disposal of property, plant and equipment		56	1
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	32	(125,239)	(49,579)
Acquisition of associates		(102,350)	(6,156)
Purchase of non-trading securities		(32,285)	(30)
Purchase of property, plant and equipment		(18,265)	(8,765)
Additions to properties under development		(14,186)	(14,790)
Purchase of intangible assets		(6,091)	(5,001)
Amount advanced to a jointly controlled entity		(3,772)	(2,830)
Acquisition of a jointly controlled entity		(2,294)	–
Amounts advanced to investee companies		(1,950)	–
Acquisition of additional interest in a subsidiary		(954)	(7,673)
Additions to investment properties		(110)	–
Amount advanced to an associate		(2)	–
Proceeds on disposal of a jointly controlled entity		–	87,500
Amounts repaid by investee companies		–	2,951
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	33	–	(161)
<b>Net cash (used in) from investing activities</b>		<b>(2,963)</b>	<b>46,268</b>
<b>Financing activities</b>			
Net proceeds received from issue of shares		119,395	29
New bank loans raised		86,500	572,954
Amount advanced by a jointly controlled entity		29,500	23,617
Repayment of bank loans		(346,126)	(492,686)
Repurchase of loan notes		(100,426)	(19,861)
Dividends paid by subsidiaries to minority shareholders		(29,788)	(14,892)
Repayment of obligations under a finance lease		(890)	(850)
Amounts repaid to associates		(148)	(163)
Amount repaid to a jointly controlled entity		(95)	–
Net distribution to minority interests		(33)	–
Amounts advanced by associates		–	1,450
Share repurchased and cancelled by a listed subsidiary		–	(83,945)
<b>Net cash used in financing activities</b>		<b>(242,111)</b>	<b>(14,347)</b>

for the year ended 31st December, 2004

	2004 HK\$'000	2003 HK\$'000
<b>Increase in cash and cash equivalents</b>	<b>61,009</b>	102,943
<b>Exchange adjustments</b>	<b>12</b>	935
<b>Cash and cash equivalents at 1st January</b>	<b>479,328</b>	375,450
<b>Cash and cash equivalents at 31st December</b>	<b>540,349</b>	479,328
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank deposits, bank balances and cash	598,254	629,201
Bank overdrafts	(57,905)	(149,873)
	<b>540,349</b>	479,328



for the year ended 31st December, 2004

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## 1. GENERAL

The Company is a listed public limited company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"). Its ultimate holding company is Allied Group Limited ("Allied Group"), a listed public limited company which is also incorporated in Hong Kong.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 42, 43 and 44 respectively.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Impact of recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred as "new HKFRSs"), which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

### 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 acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

### Goodwill and negative goodwill (capital reserve)

Goodwill and negative goodwill (capital reserve) arising on consolidation represents 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 of subsidiaries, associates or jointly controlled entities.

for the year ended 31st December, 2004

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### **Goodwill and negative goodwill (capital reserve) (Cont'd)**

Goodwill and capital reserve arising on acquisitions prior to 1st January, 2001 continue to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Capital reserve has been allocated against the non-monetary assets of the subsidiaries, associates or jointly controlled entities acquired and is realised in accordance with the realisation of those underlying assets. Where it has not been practicable to allocate the capital reserve to the underlying assets with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding five years. On disposal of a subsidiary, an associate or a jointly controlled entity, any previously unrealised capital reserve is included in the calculation of the profit or loss on disposal.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life of five years. Goodwill arising on acquisition of an associate or a jointly controlled entity is included in the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet. Negative goodwill arising on acquisition of a subsidiary after 1st January, 2001 is presented as a deduction from non-current assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Currently, negative goodwill is released to the income statement over a period of five years.

### **Foreign currencies**

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the period. Exchange differences arising, if any, are dealt with in reserves. On disposal of an operation outside Hong Kong, the balance of the translation reserve attributable to that operation is transferred to the income statement as part of the profit or loss on disposal of that operation.

for the year ended 31st December, 2004

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## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **Revenue recognition**

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant building occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received, which are shown as a current liability. When the consideration is in the form of cash or cash equivalents, and the receipt of the consideration is deferred, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Sales of investments are recognised on a trade date or contract date basis, where appropriate.

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

Brokerage income recognised in the accounts represents brokerage income accrued on all broking transactions traded on or before 31st December each year.

Interest income receivable from customers is recognised in the income statement on an accrual basis, except in the case of receivables which are overdue or deemed to be doubtful for which no interest is accrued in the income statement.

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

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Profits and losses on trading in foreign currencies include realised and unrealised gains less losses; charges less premium arising from position squaring; and valuation at the balance sheet date of foreign currency positions on hand.

### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant leases.

for the year ended 31st December, 2004

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment losses. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

### Employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

The contributions payable to the Group's retirement benefit schemes and mandatory provident fund schemes are charged to the income statement when incurred.

### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

for the year ended 31st December, 2004

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Taxation (Cont'd)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Investment properties

Investment properties are completed 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 values based on professional valuations at the balance sheet date. Any surplus or deficit arising on the valuation of investment properties is credited or charged to the property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

On disposal of an investment property, the balance of the property revaluation reserve attributable to that property is transferred to the income statement.

for the year ended 31st December, 2004

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses. Land and buildings are stated at cost or valuation less depreciation and accumulated impairment losses. Expenditure on major inspections and overhauls of property, plant and equipment is capitalised as a separate component of the relevant asset.

Advantage has been taken of the transitional relief provided by paragraph 80 of Statement of Standard Accounting Practice ("SSAP") 17 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, any surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future reduction in the value of these assets will be dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Land	Over the remaining terms of the leases
Buildings	2% to 3% or over the remaining terms of the leases, if less than 50 years
Leasehold improvements	20%
Furniture, fixtures and equipment	10% to 50%
Motor vehicles and vessels	16 <sup>2</sup> / <sub>3</sub> % to 20%

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

### Intangible assets

Expenditure on computer software that is not an integral part of the related hardware is capitalised as an intangible asset and amortised using the straight-line method over its estimated useful life of five years. Where an indication of impairment exists, the carrying amount of the intangible asset is assessed and written down to its recoverable amount.

### Properties under development

Land and buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any impairment loss considered necessary by the Directors. Cost includes land cost, development cost, borrowing costs and other direct costs attributable to such properties, net of any rental and interest income earned, until the relevant properties reach a marketable state. Depreciation of these assets, calculated on the same basis as other property assets, commences when the assets are put into use.

for the year ended 31st December, 2004

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## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

### **Interest in associates**

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. Unamortised goodwill or capital reserve arising on the acquisition of associates prior to 1st January, 2001 is included in reserves.

When the Group transacts with an associate, unrealised profits are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are eliminated to the extent of the Group's interest in the relevant associate, except where the transaction provides evidence of an impairment of the asset transferred.

### **Interest in jointly controlled entities**

The results and assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. Unamortised goodwill or capital reserve arising on acquisition of jointly controlled entities prior to 1st January, 2001 is included in reserves.

When the Group transacts with a jointly controlled entity, unrealised profits are eliminated to the extent of the Group's interest in the relevant jointly controlled entity. Unrealised losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity, except where the transaction provides evidence of an impairment of the asset transferred.

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Securities held for trading, arbitrage and underwriting purposes are measured at fair value at subsequent reporting dates. Any unrealised gains and losses are included in net profit or loss for the year.

Non-trading securities are measured at fair value or estimated fair value at subsequent reporting dates. Any unrealised gains and losses are dealt with in the investment revaluation reserve until the securities are disposed of or are determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

for the year ended 31st December, 2004

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## **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **Other investments**

Other investments are stated at cost less any identified impairment loss.

### **Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development cost, borrowing costs and other direct costs attributable to such properties, net of any rentals and interest income earned, until the relevant properties reach a marketable state. Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to completion and costs to be incurred in marketing and selling.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### **Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, being assets which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of proceeds from specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.



for the year ended 31st December, 2004

### 3. TURNOVER

Turnover represents the gross proceeds received and receivable derived from the sale of properties, securities trading and broking, income from property rental, hotel operations and property management services, interest and dividend income, income from corporate finance and advisory services, and income from securities margin financing and term loan financing and insurance broking services, and the following stated net of losses: income from bullion transactions and differences on foreign exchange transactions.

	2004 HK\$'000	2003 HK\$'000
Securities broking	236,854	185,130
Interest income	171,510	201,036
Property rental, hotel operations and management services	169,935	161,738
Income from corporate finance and others	156,849	116,011
Income from forex, bullion, commodities and futures	149,380	123,962
Securities trading	145,205	16,991
Dividend income	73,653	41,915
Sale of properties	24,783	16,000
	<b>1,128,169</b>	<b>862,783</b>

### 4. SEGMENTAL INFORMATION

The Group has the following main business segments:

- Investment, broking and finance – trading in securities, provision of securities broking and related services, provision of broking services in forex, bullion and commodities, provision of securities margin financing and insurance broking service, provision of related financing and advisory product, and provision of term loan financing.
- Property rental, hotel operations and management services – property rental, hotel operations managed by third parties and provision of property management services.
- Sales of properties and property based investments – development and sale of properties and property based investments.

Business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

for the year ended 31st December, 2004

#### 4. SEGMENTAL INFORMATION (CONT'D)

Analysis of the Group's businesses segmental information is as follows:

	2004			
	Investment, broking and finance HK\$'000	Property rental, hotel operations and management services HK\$'000	Sale of properties and property based investments HK\$'000	Total HK\$'000
Turnover	944,846	172,835	24,783	1,142,464
Less: inter-segment turnover	(11,395)	(2,900)	–	(14,295)
	<u>933,451</u>	<u>169,935</u>	<u>24,783</u>	<u>1,128,169</u>
Profit from operations	232,834	213,395	26,532	472,761
Finance costs				(47,208)
Release of negative goodwill				156,741
Amortisation of capital reserve				17,267
Share of results of associates				266,192
Share of results of jointly controlled entities				<u>44,725</u>
Profit before taxation				910,478
Taxation				<u>(143,256)</u>
Profit after taxation				<u>767,222</u>
Segment assets	3,610,419	2,644,742	499,938	6,755,099
Interest in associates				2,483,113
Interest in jointly controlled entities				1,036,507
Deferred tax assets				10,170
Amounts due from associates				231
Amount due from a jointly controlled entity				2,040
Taxation recoverable				<u>1,464</u>
Total assets				<u>10,288,624</u>
Segment liabilities	(1,084,831)	(86,305)	(648)	(1,171,784)
Amounts due to associates				(49,260)
Amount due to a jointly controlled entity				(141,063)
Taxation payable				(27,452)
Bank and other borrowings				(1,779,462)
Deferred tax liabilities				<u>(25,029)</u>
Total liabilities				<u>(3,194,050)</u>
Other information				
Depreciation	16,255	3,576	–	19,831
Amortisation of intangible assets	2,701	–	–	2,701
Impairment losses recognised (reversed)	16,418	–	(25,924)	(9,506)
Surplus arising on revaluation of investment properties	–	(135,120)	–	(135,120)
Allowance for bad and doubtful debts written back	(528)	(374)	–	(902)
Capital expenditure	<u>18,286</u>	<u>20,248</u>	<u>253</u>	<u>38,787</u>

for the year ended 31st December, 2004

**4. SEGMENTAL INFORMATION (CONT'D)**

	2003			
	Investment, broking and finance HK\$'000	Property rental, hotel operations and management services HK\$'000	Sale of properties and property based investments HK\$'000	Total HK\$'000
Turnover	694,317	166,198	16,000	876,515
Less: inter-segment turnover	(9,272)	(4,460)	–	(13,732)
	<u>685,045</u>	<u>161,738</u>	<u>16,000</u>	<u>862,783</u>
Profit (loss) from operations	147,905	52,785	(40,197)	160,493
Finance costs				(60,016)
Release of negative goodwill				140,282
Amortisation of capital reserve				17,267
Share of results of associates				135,708
Share of results of jointly controlled entities				<u>41,941</u>
Profit before taxation				435,675
Taxation				<u>(71,449)</u>
Profit after taxation				<u>364,226</u>
Segment assets	3,801,791	2,298,539	574,882	6,675,212
Interest in associates				2,201,871
Interest in jointly controlled entities				1,087,379
Deferred tax assets				9,853
Amounts due from associates				266,303
Amount due from a jointly controlled entity				2,056
Taxation recoverable				<u>5,281</u>
Total assets				<u>10,247,955</u>
Segment liabilities	(1,607,913)	(51,086)	(56,099)	(1,715,098)
Amounts due to associates				(38,081)
Amount due to a jointly controlled entity				(171,658)
Taxation payable				(29,523)
Bank and other borrowings				(2,233,946)
Deferred tax liabilities				<u>(21,406)</u>
Total liabilities				<u>(4,209,712)</u>
Other information				
Depreciation	16,750	3,871	151	20,772
Amortisation of intangible assets	2,780	–	–	2,780
Impairment losses recognised	6,524	12,200	22,546	41,270
Deficit arising on revaluation of investment properties	–	5,645	–	5,645
Allowance of bad and doubtful debts written back	(19,339)	–	–	(19,339)
Capital expenditure	<u>13,047</u>	<u>14,524</u>	<u>985</u>	<u>28,556</u>

for the year ended 31st December, 2004

#### 4. SEGMENTAL INFORMATION (CONT'D)

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

During the year, less than 10% of the operations of the Group in terms of turnover, results of operations and assets were carried on or were situated outside Hong Kong. Accordingly, no geographical segmental information is shown.

#### 5. IMPAIRMENT LOSSES REVERSED (RECOGNISED) AND REVALUATION SURPLUS (DEFICIT)

	2004 HK\$'000	2003 HK\$'000
Impairment losses reversed (recognised) and revaluation surplus (deficit) comprise:		
Impairment losses reversed (recognised) in respect of:		
Properties held for sale	22,924	(22,546)
Properties under development	3,000	(12,200)
Non-trading securities	(16,418)	(6,524)
	9,506	(41,270)
Surplus (deficit) arising on revaluation of investment properties	135,120	(5,645)
	144,626	(46,915)

for the year ended 31st December, 2004

**6. PROFIT FROM OPERATIONS**

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration:		
Current year	4,671	4,395
Overprovision in prior years	(76)	(2)
	4,595	4,393
Amortisation of intangible assets (included in other operating expenses)	2,701	2,780
Commission expenses and sales incentives to account executives and certain staff	128,783	103,754
Depreciation		
Owned assets	19,318	20,259
Assets under a finance lease	513	513
	19,831	20,772
Loss on dilution of interest in an associate	4,455	–
Loss on disposal of property, plant and equipment	579	432
Loss on disposal of an associate	–	3,088
Loss on disposal of a jointly controlled entity	–	5,549
Loss on disposal of subsidiaries	–	2,597
Loss on disposal of non-trading securities	–	753
Loss on write off of intangible asset	96	–
Net unrealised loss on trading securities	2,109	–
Provision for interest and legal costs in respect of a litigation (note)	2,934	58,364
Retirement benefit scheme contributions, net of forfeited contributions of HK\$805,000 (2003: HK\$353,000) (note 38)	10,096	9,309
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	221,627	189,324
and after crediting:		
Dividend income from investments in listed securities	36,843	10,490
Dividend income from investments in unlisted securities	36,810	31,425
Net realised profit on trading securities	4,321	5,728
Net unrealised profit on trading securities	–	3,311
Net realised profit on derivatives	15,455	6,403
Net profit on other dealing activities	8,141	4,531
Profit on dealing in foreign currencies	18,180	16,938
Profit on deemed disposal of a jointly controlled entity	942	–
Profit on disposal of non-trading securities	2,483	–
Profit on disposal of partial interest in a subsidiary	789	–
Rental income from investment properties under operating leases, net of outgoings of HK\$18,000,000 (2003: HK\$18,280,000)	50,952	47,800
Write back of loss arising from default of loan agreement with Millennium Touch Limited	2,847	26,412

for the year ended 31st December, 2004

## 6. PROFIT FROM OPERATIONS (CONT'D)

Note: On 1st April, 2004, the High Court of Hong Kong awarded a judgment ("Judgment") in favour of New World Development Company Limited ("NWDC") against Sun Hung Kai Securities Limited ("SHKS"), a wholly-owned subsidiary of Sun Hung Kai & Co. Limited ("Sun Hung Kai"), following legal proceedings regarding a joint venture in respect of land and two hotels in Kuala Lumpur, Malaysia. The Judgment was for a principal amount of HK\$80,117,653 together with interest of HK\$25,416,366 and interest at judgment rate from 16th December, 1998 until payment, and costs.

SHKS has since year 2000 booked as "Investments" (note 20(ii)) an amount of approximately HK\$118,000,000 including payments already made to NWDC in a total sum of HK\$35,319,000. A provision of approximately HK\$18,700,000 for interest was made in 2000. Additionally, a provision of HK\$58,364,000 was made in these accounts in respect of interest and legal costs in 2003 and interest expense of HK\$2,934,000 was paid in 2004.

SHKS has appealed against the Judgment. Sun Hung Kai's present understanding of the Judgment is that SHKS now has an effective 12.5% interest, including its share of shareholders' loans, in a completed project in Kuala Lumpur consisting of two first class hotels with around 1,000 rooms, and a convention and retail complex presently known as "The Renaissance Kuala Lumpur Hotel".

## 7. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive Directors	10	10
Independent Non-Executive Directors	10	10
	<u>20</u>	<u>20</u>
Other emoluments:		
Executive Directors:		
Salaries, housing and other benefits	2,911	2,952
Performance related incentive payments	250	750
Retirement benefit scheme contributions	86	88
Independent Non-Executive Directors:		
Consultancy fees	85	75
	<u>3,332</u>	<u>3,865</u>
	<u>3,352</u>	<u>3,885</u>

for the year ended 31st December, 2004

## 7. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

### (a) Directors' emoluments (Cont'd)

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2004	2003
HK\$Nil – HK\$1,000,000	6	3
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	–	1
	<u>        </u>	<u>        </u>

### (b) Employees' emoluments

The five highest paid individuals included one (2003: one) of the Directors, details of whose emoluments are set out in note 7(a) above. The emoluments of the remaining four (2003: four) individuals are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	9,992	13,549
Performance related incentive payments	4,760	1,235
Retirement benefit scheme contributions	222	352
	<u>14,974</u>	<u>15,136</u>

The emoluments of the above employees, who were not Directors of the Company, were within the following bands:

	Number of employees	
	2004	2003
HK\$2,000,001 – HK\$2,500,000	1	3
HK\$2,500,001 – HK\$3,000,000	2	–
HK\$7,000,001 – HK\$8,000,000	1	–
HK\$8,500,001 – HK\$9,000,000	–	1
	<u>        </u>	<u>        </u>

for the year ended 31st December, 2004

**8. FINANCE COSTS**

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	35,287	44,700
Bank borrowings not wholly repayable within five years	4,749	7,711
Loan notes wholly repayable within five years	7,175	7,641
Obligations under a finance lease	26	65
Other borrowings wholly repayable within five years	106	48
	47,343	60,165
Less: Amount capitalised in respect of properties under development	(135)	(149)
	<b>47,208</b>	<b>60,016</b>

**9. TAXATION**

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	31,637	23,960
Outside Hong Kong	3,099	418
	34,736	24,378
Deferred tax (note 21):		
Current year	2,327	(9,146)
Effect of a change in tax rate	–	766
Taxation attributable to the Company and subsidiaries	37,063	15,998
Share of taxation attributable to associates	42,353	38,751
Share of deferred taxation attributable to associates	52,528	6,724
Share of taxation attributable to jointly controlled entities	11,312	9,976
	<b>143,256</b>	<b>71,449</b>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.



for the year ended 31st December, 2004

## 9. TAXATION (CONT'D)

The charge for the year can be reconciled to the profit before taxation as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	910,478	435,675
Less: share of results of associates	(266,192)	(135,708)
share of results of jointly controlled entities	(44,725)	(41,941)
Profit before taxation excluding share of results of associates and jointly controlled entities	599,561	258,026
Tax at Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)	104,923	45,155
Tax effect of expenses that are not deductible for tax purposes	11,612	24,298
Tax effect of utilisation of tax losses not previously recognised	(10,680)	(16,368)
Increase in opening deferred taxation due to change in tax rate	—	766
Tax effect of utilisation of unrecognised deductible temporary differences	(41)	(3,976)
Effect of different income tax rates of overseas subsidiaries	(1,476)	(2,559)
Tax effect of income that is not assessable for tax purposes	(73,096)	(42,818)
Tax effect of tax losses not recognised	4,924	12,591
Others	897	(1,091)
Taxation attributable to the Company and subsidiaries	37,063	15,998
Share of taxation attributable to associates	42,353	38,751
Share of deferred taxation attributable to associates	52,528	6,724
Share of taxation attributable to jointly controlled entities	11,312	9,976
Taxation for the year	143,256	71,449

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity.

Details of deferred taxation are set out in note 21.

for the year ended 31st December, 2004

# 10. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Ordinary shares		
Proposed final dividend of HK5 cents per share (2003: Nil)	<u>26,858</u>	<u>—</u>

A final dividend of HK5 cents (2003: Nil) per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company.

The amount of the proposed final dividend for the year ended 31st December, 2004 has been calculated by reference to 537,151,901 shares in issue at 14th April, 2005.

# 11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$668,502,000 (2003: HK\$311,020,000) and on the weighted average number of 492,746,074 (2003: 489,372,894) shares in issue during the year.

The calculation of the diluted earnings per share is based on the profit attributable to shareholders of HK\$668,502,000 (2003: HK\$311,020,000) and on the weighted average number of 504,809,099 (2003: 489,915,671) shares in issue during the year after adjusting for the effects of all dilutive potential ordinary shares.

for the year ended 31st December, 2004

## 12. INVESTMENT PROPERTIES

	Hotel property HK\$'000	Others HK\$'000	Total HK\$'000
<b>The Group</b>			
<b>Valuation</b>			
At 1st January, 2004	278,038	1,978,035	2,256,073
Acquisition of a subsidiary	–	126,375	126,375
Additions	–	110	110
Transferred from properties under development	51,249	–	51,249
Transferred from properties held for sale	–	44,795	44,795
Overprovision of construction costs	–	(2,386)	(2,386)
Surplus arising on revaluation	38,049	97,071	135,120
At 31st December, 2004	<u>367,336</u>	<u>2,244,000</u>	<u>2,611,336</u>

The carrying amount of investment properties held by the Group at 31st December, 2004 and 2003 comprised:

	2004		2003	
	Hotel property HK\$'000	Others HK\$'000	Hotel property HK\$'000	Others HK\$'000
Properties in Hong Kong:				
Long-term	367,336	1,852,200	278,038	1,611,000
Medium-term	–	391,800	–	367,035
	<u>367,336</u>	<u>2,244,000</u>	<u>278,038</u>	<u>1,978,035</u>

The Group's hotel property is managed by an independent hotel operator and other investment properties are held for rental purposes under operating leases. The Group's investment properties in Hong Kong were revalued on 31st December, 2004 by Norton Appraisals Limited, an independent professional valuer, on an open market value basis, at HK\$2,611,336,000 (2003: HK\$2,256,073,000).

The surplus of HK\$135,120,000 arising on revaluation during the year has been credited to the income statement.

for the year ended 31st December, 2004

**13. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
<b>The Group</b>					
<b>Cost or valuation</b>					
At 1st January, 2004	99,743	33,480	96,046	22,181	251,450
Exchange adjustment	–	(1)	(4)	–	(5)
Additions	–	5,029	9,332	3,904	18,265
Disposals	–	(1,190)	(815)	(1,588)	(3,593)
At 31st December, 2004	99,743	37,318	104,559	24,497	266,117
Comprising:					
At cost	83,743	37,318	104,559	24,497	250,117
At valuation in 1985	16,000	–	–	–	16,000
	99,743	37,318	104,559	24,497	266,117
<b>Depreciation</b>					
At 1st January, 2004	6,697	21,348	69,696	21,308	119,049
Exchange adjustments	–	(1)	(3)	–	(4)
Provided for the year	1,600	5,500	12,001	730	19,831
Eliminated on disposals	–	(661)	(709)	(1,588)	(2,958)
At 31st December, 2004	8,297	26,186	80,985	20,450	135,918
<b>Net book values</b>					
At 31st December, 2004	91,446	11,132	23,574	4,047	130,199
At 31st December, 2003	93,046	12,132	26,350	873	132,401

The net book value of land and building held by the Group at 31st December, 2004 and 2003 comprised:

	2004 HK\$'000	2003 HK\$'000
Long-term properties in Hong Kong	89,201	90,579
Medium-term properties outside Hong Kong	2,245	2,467
	<b>91,446</b>	<b>93,046</b>

for the year ended 31st December, 2004

### 13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

In preparing these accounts, the Group has placed reliance on paragraph 80 of SSAP 17, which provides exemption from the need to make regular revaluations for "Land and buildings" carried at a revalued amount prior to 30th September, 1995. Included in "Land and buildings" is a property carried at HK\$16,000,000 which was revalued in 1985 by Jones Lang Wootton, an independent professional valuer, on an open market value basis. The carrying amount of the "Land and buildings", including the revalued property, would have been HK\$93,097,000 (2003: HK\$94,728,000), had the property been carried at cost less accumulated depreciation.

The net book value of furniture, fixtures and equipment of HK\$23,574,000 (2003: HK\$26,350,000) includes an amount of HK\$1,067,000 (2003: HK\$1,580,000) in respect of assets held under finance leases.

The Company did not have any property, plant and equipment at 31st December, 2004 or 2003.

### 14. INTANGIBLE ASSETS

	<b>The Group</b> HK\$'000
<b>Computer software</b>	
<b>Cost</b>	
At 1st January, 2004	9,633
Additions	6,091
Written off	(120)
At 31st December, 2004	15,604
<b>Amortisation</b>	
At 1st January, 2004	2,552
Provided for the year	2,701
Eliminated on write off	(24)
At 31st December, 2004	5,229
<b>Net book values</b>	
At 31st December, 2004	10,375
At 31st December, 2003	7,081

for the year ended 31st December, 2004

**15. NEGATIVE GOODWILL**

	<b>The Group</b> HK\$'000
<b>Gross amount</b>	
At 1st January, 2004	765,570
Adjustment on acquisition of subsidiaries in prior year	15,700
Acquisition of additional interest in a subsidiary	902
	<hr/>
At 31st December, 2004	782,172
<b>Released to the income statement</b>	
At 1st January, 2004	236,167
Released during the year	156,741
	<hr/>
At 31st December, 2004	392,908
<b>Net book values</b>	
At 31st December, 2004	389,264
	<hr/>
At 31st December, 2003	529,403
	<hr/>

**16. PROPERTIES UNDER DEVELOPMENT**

	<b>The Group</b> <b>2004</b> HK\$'000	<b>2003</b> HK\$'000
At cost, less impairment loss recognised:		
At 1st January	131,174	128,802
Exchange adjustments	131	(367)
Additions, including interest of HK\$135,000 (2003: HK\$149,000) capitalised	14,321	14,939
Impairment loss reversed (recognised)	3,000	(12,200)
Transferred to investment properties	(51,249)	–
	<hr/>	<hr/>
At 31st December	97,377	131,174
	<hr/>	<hr/>

for the year ended 31st December, 2004

# 16. PROPERTIES UNDER DEVELOPMENT (CONT'D)

The carrying value of properties under development held by the Group at 31st December, 2004 and 2003 comprised:

	<b>The Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Freehold property outside Hong Kong	<b>97,377</b>	93,993
Long-term property in Hong Kong	–	37,181
	<b>97,377</b>	<b>131,174</b>

At 31st December, 2004, the Group had interest capitalised of HK\$1,609,000 (2003: HK\$1,474,000) in respect of properties under development.

The impairment loss reversed in 2004 was determined with reference to the open market values based on independent professional valuation at 31st December, 2004.

# 17. INTEREST IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares at cost, less impairment losses recognised	<b>14</b>	14
Amounts due from subsidiaries, less allowances	<b>2,696,483</b>	2,863,339
	<b>2,696,497</b>	<b>2,863,353</b>

Other than the loan notes issued by Sun Hung Kai, the terms of which are shown in note 30, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries at 31st December, 2004 are set out in note 42.

# 18. INTEREST IN ASSOCIATES

	<b>The Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Listed securities in Hong Kong (note 18(i))	<b>2,325,664</b>	2,048,437
Unlisted shares (note 18(ii))	<b>157,449</b>	153,434
	<b>2,483,113</b>	<b>2,201,871</b>

for the year ended 31st December, 2004

**18. INTEREST IN ASSOCIATES (CONT'D)**

	<b>The Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Notes:		
(i) Listed securities in Hong Kong		
Share of net assets other than goodwill	2,315,360	2,058,401
Unamortised goodwill on acquisition of associates (note (iii))	84,998	112,405
Unamortised negative goodwill on acquisition of associates (note (iv))	(152,694)	(200,369)
	<u>2,247,664</u>	<u>1,970,437</u>
Amount due from an associate	<u>78,000</u>	<u>78,000</u>
	<u>2,325,664</u>	<u>2,048,437</u>
Market value of listed securities	<u>1,109,200</u>	<u>950,062</u>

The amount due from an associate is not repayable within twelve months.

	<b>The Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
(ii) Unlisted shares		
Share of net assets other than goodwill	114,660	111,445
Unamortised goodwill on acquisition of associates (note (v))	894	5,940
Unamortised negative goodwill on acquisition of associates (note (vi))	(787)	(1,375)
	<u>114,767</u>	<u>116,010</u>
Less: impairment loss recognised	<u>(21,892)</u>	<u>(21,892)</u>
	<u>92,875</u>	<u>94,118</u>
Amounts due from associates	<u>64,574</u>	<u>59,316</u>
	<u>157,449</u>	<u>153,434</u>

The amounts due from associates are not repayable within twelve months.



for the year ended 31st December, 2004

**18. INTEREST IN ASSOCIATES (CONT'D)**

(iii) Unamortised goodwill on acquisition of listed associates

	<b>The Group</b> HK\$'000
<b>Cost</b>	
At 1st January, 2004	232,304
Acquisition of associates	3,469
Disposal of associates	(433)
	<hr/>
At 31st December, 2004	235,340
<b>Amortisation</b>	
At 1st January, 2004	119,899
Provided for the year	30,860
Disposal of associates	(417)
	<hr/>
At 31st December, 2004	150,342
<b>Net book values</b>	
At 31st December, 2004	84,998
	<hr/>
At 31st December, 2003	112,405
	<hr/>

(iv) Unamortised negative goodwill on acquisition of listed associates

	<b>The Group</b> HK\$'000
<b>Gross amount</b>	
At 1st January, 2004	(339,190)
Acquisition of associates	(11,997)
Disposal of associates	1,755
	<hr/>
At 31st December, 2004	(349,432)
<b>Released to the income statement</b>	
At 1st January, 2004	(138,821)
Released during the year	(58,693)
Disposal of associates	776
	<hr/>
At 31st December, 2004	(196,738)
<b>Net book values</b>	
At 31st December, 2004	(152,694)
	<hr/>
At 31st December, 2003	(200,369)
	<hr/>

for the year ended 31st December, 2004

# 18. INTEREST IN ASSOCIATES (CONT'D)

- (v) Unamortised goodwill on acquisition of unlisted associates

	The Group HK\$'000
<b>Cost</b>	
At 1st January, 2004	14,169
Adjustment in goodwill	(5,145)
	<hr/>
At 31st December, 2004	9,024
	<hr/>
<b>Amortisation</b>	
At 1st January, 2004	8,229
Adjustment in amortisation	(343)
Provided for the year	244
	<hr/>
At 31st December, 2004	8,130
	<hr/>
<b>Net book values</b>	
At 31st December, 2004	894
	<hr/>
At 31st December, 2003	5,940
	<hr/>

- (vi) Unamortised negative goodwill on acquisition of unlisted associates

	The Group HK\$'000
<b>Gross amount</b>	
At 1st January, 2004 and 31st December, 2004	(2,981)
	<hr/>
<b>Released to income statement</b>	
At 1st January, 2004	(1,606)
Released during the year	(588)
	<hr/>
At 31st December, 2004	(2,194)
	<hr/>
<b>Net book values</b>	
At 31st December, 2004	(787)
	<hr/>
At 31st December, 2003	(1,375)
	<hr/>

Particulars of the Company's principal associates at 31st December, 2004 are set out in note 43.

for the year ended 31st December, 2004

# **18. INTEREST IN ASSOCIATES (CONT'D)**

Extracts from the consolidated operating results, financial position and contingent liabilities of the Group's significant associate, Tian An China Investments Company Limited ("Tian An"), which are based on its audited consolidated financial statements, are as follows:

Operating results of Tian An for the years ended 31st December, 2004 and 2003:

	2004 HK\$'000	2003 HK\$'000
Turnover	1,973,098	1,904,212
Depreciation and amortisation	20,398	19,992
Profit before taxation	408,437	266,353
Profit attributable to shareholders of Tian An	<u>200,638</u>	<u>102,420</u>

Financial position of Tian An at 31st December, 2004 and 2003:

	2004 HK\$'000	2003 HK\$'000
Non-current assets	6,030,851	5,239,776
Current assets	<u>3,404,803</u>	<u>3,366,063</u>
Total assets	<u>9,435,654</u>	<u>8,605,839</u>
Non-current liabilities	1,525,596	1,476,081
Current liabilities	<u>3,023,567</u>	<u>2,749,075</u>
Total liabilities	<u>4,549,163</u>	<u>4,225,156</u>
Minority interests	<u>496,362</u>	<u>433,139</u>
	<u>4,390,129</u>	<u>3,947,544</u>
Contingent liabilities	<u>809,908</u>	<u>837,876</u>

for the year ended 31st December, 2004

# 19. INTEREST IN JOINTLY CONTROLLED ENTITIES

	<b>The Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares		
Share of net assets other than goodwill	1,053,623	1,105,001
Unamortised goodwill on acquisition of a jointly controlled entity (note)	506	—
	<b>1,054,129</b>	<b>1,105,001</b>
Elimination of unrealised profit	(17,622)	(17,622)
	<b>1,036,507</b>	<b>1,087,379</b>

Note:

Unamortised goodwill on acquisition of a jointly controlled entity

	<b>The Group</b>
	<b>HK\$'000</b>
<b>Cost</b>	
Acquisition of a jointly controlled entity	1,253
Released on deemed disposal	(626)
At 31st December, 2004	627
<b>Amortisation</b>	
Provided for the year	219
Released on deemed disposal	(98)
	121
<b>Net book values</b>	
At 31st December, 2004	506
At 31st December, 2003	—

Particulars of the Company's principal jointly controlled entities at 31st December, 2004 are set out in note 44.

for the year ended 31st December, 2004

## 19. INTEREST IN JOINTLY CONTROLLED ENTITIES (CONT'D)

Extracts from the consolidated operating results and financial position of the Group's significant jointly controlled entity, Allied Kajima Limited ("Allied Kajima"), which are based on Allied Kajima's audited consolidated financial statements are as follows:

Operating results of Allied Kajima for the years ended 31st December, 2004 and 2003:

	2004 HK\$'000	2003 HK\$'000
Turnover	329,367	274,256
Depreciation	6,114	5,799
Profit before taxation	96,698	83,880
Profit attributable to shareholders of Allied Kajima	74,074	63,929

Financial position of Allied Kajima at 31st December, 2004 and 2003:

	2004 HK\$'000	2003 HK\$'000
Non-current assets	2,434,678	2,522,214
Current assets	395,020	451,755
Total assets	2,829,698	2,973,969
Non-current liabilities	622,885	679,745
Current liabilities	100,956	86,094
Total liabilities	723,841	765,839
	2,105,857	2,208,130

for the year ended 31st December, 2004

**20. INVESTMENTS**

	Investments in securities						Total	
	Non-trading securities		Trading securities		Other investments			
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>The Group</b>								
Listed equity securities, at market value, issued by corporate entities								
Hong Kong	476,810	346,734	23,152	10,567	–	–	499,962	357,301
Outside Hong Kong	4,474	2,903	3,740	4,243	–	–	8,214	7,146
issued by banks								
Hong Kong	–	–	13,133	12,596	–	–	13,133	12,596
Outside Hong Kong	–	–	59	–	–	–	59	–
issued by public utility entities								
Hong Kong	–	–	32	26	–	–	32	26
	<u>481,284</u>	<u>349,637</u>	<u>40,116</u>	<u>27,432</u>	<u>–</u>	<u>–</u>	<u>521,400</u>	<u>377,069</u>
Unlisted equity securities issued by corporate entities								
Hong Kong (note (i))	183,501	159,417	–	–	–	–	183,501	159,417
Outside Hong Kong (note (ii))	119,993	67,984	–	–	–	–	119,993	67,984
	<u>303,494</u>	<u>227,401</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>303,494</u>	<u>227,401</u>
Unlisted marketable debt securities issued by overseas government	–	–	7,741	7,747	–	–	7,741	7,747
Other unlisted securities	–	–	406	384	–	–	406	384
Club debentures, exchange seats and statutory deposits and other deposits with Exchange and Clearing companies	–	–	–	–	35,819	28,001	35,819	28,001
Amounts due from investee companies less impairment losses recognised (note (ii))	–	–	–	–	90,883	97,314	90,883	97,314
	<u>784,778</u>	<u>577,038</u>	<u>48,263</u>	<u>35,563</u>	<u>126,702</u>	<u>125,315</u>	<u>959,743</u>	<u>737,916</u>
Carrying amount analysed for reporting purposes as:								
Non-current	784,778	577,038	–	–	126,702	125,315	911,480	702,353
Current	–	–	48,263	35,563	–	–	48,263	35,563
	<u>784,778</u>	<u>577,038</u>	<u>48,263</u>	<u>35,563</u>	<u>126,702</u>	<u>125,315</u>	<u>959,743</u>	<u>737,916</u>

for the year ended 31st December, 2004

**20. INVESTMENTS (CONT'D)**

	Investments in securities						Total	
	Non-trading securities		Trading securities		Other investments		2004	2003
	2004	2003	2004	2003	2004	2003		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Company</b>								
Club debentures	—	—	—	—	510	510	510	510
Carrying amount analysed for reporting purposes as:								
Non-current	—	—	—	—	510	510	510	510

Notes:

- (i) The investment represents the Group's interest in a fellow subsidiary (2003: HK\$120,329,000).
- (ii) A sum totalling HK\$118,003,000 (2003: HK\$115,437,000) is included in "Unlisted non-trading securities" and "Amounts due from investee companies" being the amount, (excluding interest, which has been expensed or provided for in prior years, or is accounted for as described in note 6) which represents the carrying value of the effective 12.5% interest in the completed project in Kuala Lumpur, Malaysia presently known as "The Renaissance Kuala Lumpur Hotel", the circumstances surrounding which are further described in note 6 and note 35(c).

The Group has decided that it is not presently appropriate to make any provisions in respect of the litigations or for impairment of the value of its interest in the total Kuala Lumpur hotels project pursuant to the current judgment of the High Court of Hong Kong. This decision has been taken because it is considered that the current circumstances of the nature and value of the interests existing under the High Court Judgement and the uncertainty of the current appeal result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. On the one hand if the Group is completely successful in its appeal then it may be entitled to recovery of monies already paid. On the other hand if it is not totally successful or only partially successful then it may be possible that further provisions for impairment of the value of its final interests in the Kuala Lumpur hotels project may be required. The extent of such provisions is not presently capable of determination as the holding company of the hotel, namely Great Union Properties Sdn. Bhd. ("GUP"), has not provided a current valuation of the project and the Group has not had sufficient access to the detailed books and records of GUP to reach a supportable view as to the value.

The matter will be further reviewed after a decision in the current appeal has been handed down.

for the year ended 31st December, 2004

## 21. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current year and prior reporting year.

	Accelerated tax depreciation HK\$'000	Revaluation of properties and other assets HK\$'000	General provision HK\$'000	Unrealised profit HK\$'000	Undistributed earnings HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2003	36,580	12,859	–	1,718	4,374	(35,659)	19,872
Exchange adjustments	–	–	–	(75)	–	–	(75)
Acquisition of subsidiaries	–	–	–	–	–	136	136
Charged (credited) to income statement	10,577	(255)	(5,431)	(249)	(2,669)	(11,119)	(9,146)
Effect of change in tax rate charged (credited) to income statement	3,430	678	–	(1)	3	(3,344)	766
At 31st December, 2003	50,587	13,282	(5,431)	1,393	1,708	(49,986)	11,553
Exchange adjustments	–	–	–	(13)	–	–	(13)
Acquisition of a subsidiary	770	–	–	–	–	–	770
Charged (credited) to income statement	12,698	(496)	(2,346)	(106)	(647)	(6,776)	2,327
Charged to equity	–	222	–	–	–	–	222
At 31st December, 2004	64,055	13,008	(7,777)	1,274	1,061	(56,762)	14,859

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Deferred tax liabilities	25,029	21,406
Deferred tax assets	(10,170)	(9,853)
	14,859	11,553



for the year ended 31st December, 2004

## 21. DEFERRED TAXATION (CONT'D)

At 31st December, 2004, the Group had unrecognised deductible temporary differences of HK\$6,023,000 (2003: HK\$5,809,000) and unused tax losses of HK\$2,020,381,000 (2003: HK\$2,010,043,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$324,356,000 (2003: HK\$285,616,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,696,025,000 (2003: HK\$1,724,427,000) due to the unpredictability of future profit streams. There were no other significant temporary differences arising during the year or at the balance sheet date.

Included in unrecognised tax losses are losses of HK\$17,068,000, HK\$4,379,000 and HK\$110,000 that will expire in 2005, 2006 and 2007 respectively. Other losses may be carried forward indefinitely.

At 31st December, 2004 the Company had unused tax losses of HK\$24,284,000 (2003: HK\$29,195,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

## 22. PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Properties held for sales, at net realisable value:		
Long-term properties in Hong Kong	401,600	442,500
Medium-term properties in Hong Kong	—	5,281
	401,600	447,781
Other inventories, at cost	121	109
	401,721	447,890

Certain of the Group's properties previously held for sale with a net realisable value of HK\$44,795,000 (2003: HK\$252,102,000) were rented out under operating leases during the year and were therefore classified as investment properties.

The cost of properties held for sale recognised as an expense during the year was HK\$20,753,000 (2003: HK\$19,212,000).

for the year ended 31st December, 2004

### 23. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

For trade receivables in respect of securities, bullion and commodities businesses, the Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. The credit terms of other trade receivables range from 30 days to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,240,736,000 (2003: HK\$2,764,499,000), the aged analysis of which is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	2,207,115	2,718,315
31 to 180 days	20,671	12,755
181 to 365 days	2,888	3,427
Over 365 days	410,560	432,513
	<b>2,641,234</b>	3,167,010
Allowance for doubtful debts	<b>(400,498)</b>	(402,511)
	<b>2,240,736</b>	2,764,499

The above balance of HK\$2,641,234,000 (2003: HK\$3,167,010,000) includes term loans of HK\$328,656,000 (2003: HK\$535,358,000), the maturity profile of which is shown in note 41.

There were listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 31st December, 2004 was HK\$6,420,945,000 (2003: HK\$5,118,827,000).

The granting of credit in respect of trade receivables of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective credit committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific allowances are made for doubtful debts as and when they are considered necessary by the management and the credit committee. Trade receivables in the balance sheet are stated net of such allowances.

for the year ended 31st December, 2004

## 24. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK\$921,363,000 (2003: HK\$1,298,768,000), the aged analysis of which is stated as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	855,672	1,212,112
31 to 180 days	9,787	12,041
181 to 365 days	1,296	1,733
Over 365 days	54,608	72,882
	<b>921,363</b>	<b>1,298,768</b>

## 25. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.20 each at 1st January, 2003	30,000,000,000	6,000,000
Consolidation of shares	(27,000,000,000)	–
Ordinary shares of HK\$2.00 each at 31st December, 2003 and at 31st December, 2004	<b>3,000,000,000</b>	<b>6,000,000</b>
Issued and fully paid:		
Ordinary shares of HK\$0.20 each at 1st January, 2003	4,893,726,159	978,745
Consolidation of shares	(4,404,353,544)	–
Exercise of warrant subscription rights	11,602	23
Ordinary shares of HK\$2.00 each at 31st December, 2003	489,384,217	978,768
Exercise of warrant subscription rights	47,767,684	95,535
Ordinary shares of HK\$2.00 each at 31st December, 2004	<b>537,151,901</b>	<b>1,074,303</b>

for the year ended 31st December, 2004

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## **25. SHARE CAPITAL (CONT'D)**

### **Consolidation of shares**

On 24th November, 2003, an ordinary resolution was passed at an Extraordinary General Meeting of the Company pursuant to which every ten shares of HK\$0.20 each in the issued and unissued share capital of the Company were consolidated into one share of HK\$2.00 each with effect from 25th November, 2003.

### **Exercise of warrants**

Details of the exercise of warrants are set out in note 26.

## **26. WARRANTS**

Pursuant to an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 24th November, 2003, a bonus issue of warrants in the proportion of one warrant for every ten shares of HK\$2.00 each held was approved. A total number of 48,937,261 units of warrants were issued on 3rd December, 2003. Warrantholders were entitled to subscribe in cash for one fully paid share at an initial subscription price of HK\$2.50 per share, subject to adjustment, at any time during the period from 5th December, 2003 to 6th December, 2004 (both days inclusive). During the year ended 31st December, 2003, 11,602 warrants were converted into 11,602 ordinary shares at a subscription price of HK\$2.50 per share. Accordingly 48,925,659 warrants were outstanding at 31st December, 2003. During the year ended 31st December, 2004, 47,767,684 warrants were converted into 47,767,684 ordinary shares at a subscription price of HK\$2.50 per share. The remaining 1,157,975 warrants, representing 1,157,975 ordinary shares issuable, lapsed at the close of business on 6th December, 2004.

The net proceeds from the bonus issue of warrants were used to finance the general working capital of the Group.

for the year ended 31st December, 2004

**27. RESERVES**

	2004	2003				
	HK\$'000	HK\$'000				
<b>The Group</b>						
Share premium	516,644	492,784				
Property revaluation reserve	226,488	245,739				
Investment revaluation reserve	247,059	69,379				
Special capital reserve (note 27 (a))	–	2,320,430				
Capital redemption reserve	72,044	72,044				
Translation reserve	(205,496)	(205,761)				
Capital (goodwill) reserve (note 27 (b))	(39,177)	(24,027)				
Accumulated profits (note 27 (c))	3,899,912	939,958				
Dividend reserve	26,858	–				
	<b>4,744,332</b>	<b>3,910,546</b>				
	Share premium	Special capital reserve	Capital redemption reserve	Accumulated profits (losses)	Dividend reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Company</b>						
At 1st January, 2003	492,778	2,320,430	72,044	(1,493,017)	–	1,392,235
Premium on issue of shares	6	–	–	–	–	6
Profit attributable to shareholders	–	–	–	7,613	–	7,613
At 31st December, 2003	492,784	2,320,430	72,044	(1,485,404)	–	1,399,854
Transferred from special capital reserve to accumulated profits (losses) (note 27(a))	–	(2,320,430)	–	2,320,430	–	–
Premium on issue of shares	23,884	–	–	–	–	23,884
Share issue expenses	(24)	–	–	–	–	(24)
Proposed final dividend	–	–	–	(26,858)	26,858	–
Loss attributable to shareholders	–	–	–	(197,844)	–	(197,844)
At 31st December, 2004	516,644	–	72,044	610,324	26,858	1,225,870

The Company's reserves available for distribution to shareholders at 31st December, 2004 are represented by accumulated profits and dividend reserve totalling HK\$637,182,000 (2003: Nil).

for the year ended 31st December, 2004

## 27. RESERVES (CONT'D)

Notes:

- (a) When sanctioning a reduction in nominal value of the Company's shares in 1998, the High Court of Hong Kong stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve is not to be distributable until all of the liabilities of the Company as at the date of the order, 14th July, 1998, are settled. There were no outstanding liabilities at 31st December, 2004 in respect of liabilities in existence at 14th July, 1998 (2003: HK\$629,000). Accordingly, the special capital reserve became distributable and was transferred to accumulated profits (losses).

	Goodwill HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Total HK\$'000
<b>The Group</b>				
At 1st January, 2003	(79,888)	71,731	1,075	(7,082)
Released on disposal of associates	–	–	(320)	(320)
Amortisation of capital reserve	–	(17,267)	–	(17,267)
Transferred from accumulated profits	–	–	642	642
At 31st December, 2003	(79,888)	54,464	1,397	(24,027)
Released on dilution of interest in an associate	–	–	(3)	(3)
Amortisation of capital reserve	–	(17,267)	–	(17,267)
Transferred from accumulated profits	–	–	2,120	2,120
At 31st December, 2004	(79,888)	37,197	3,514	(39,177)

Statutory reserves represent reserves required under relevant rules and regulations of Mainland China.

- (c) The accumulated profits of the Group include HK\$253,115,000 (2003: HK\$124,446,000) retained by associates and HK\$1,202,198,000 (2003: HK\$1,167,879,000) retained by jointly controlled entities of the Group.

## 28. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured. An amount of HK\$229,980,000 (2003: HK\$300,135,000) bears interest at 2.5% per annum and the remaining balances are non-interest bearing. The amounts due to subsidiaries are not repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

for the year ended 31st December, 2004

**29. BANK BORROWINGS**

	<b>The Group</b>		<b>The Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank borrowings comprise:				
Bank loans	1,591,844	1,851,470	–	–
Bank overdrafts	57,905	149,873	–	22,484
	<u>1,649,749</u>	<u>2,001,343</u>	<u>–</u>	<u>22,484</u>
Analysed as:				
Secured	1,649,749	1,929,562	–	–
Unsecured	–	71,781	–	22,484
	<u>1,649,749</u>	<u>2,001,343</u>	<u>–</u>	<u>22,484</u>
Bank loans and overdrafts are repayable as follows:				
Within one year or on demand	603,180	1,059,908	–	22,484
More than one year but not exceeding two years	226,738	70,760	–	–
More than two years but not exceeding five years	733,469	759,110	–	–
More than five years	86,362	111,565	–	–
	<u>1,649,749</u>	<u>2,001,343</u>	<u>–</u>	<u>22,484</u>
Less: Amount repayable within one year and shown under current liabilities	<u>(603,180)</u>	<u>(1,059,908)</u>	<u>–</u>	<u>(22,484)</u>
Amount due after one year	<u>1,046,569</u>	<u>941,435</u>	<u>–</u>	<u>–</u>

Details of the assets of the Group pledged to secure bank borrowings are set out in note 39.

for the year ended 31st December, 2004

### 30. LOAN NOTES

The amount represents the loan notes issued in part consideration of the repurchase of shares by a listed subsidiary. The loan notes bear interest at 4% per annum and are due on 7th March, 2008.

	2004 HK\$'000	2003 HK\$'000
At 1st January	231,637	–
Issued	–	255,234
Repurchased and cancelled	(102,000)	(23,597)
At 31st December	<u>129,637</u>	<u>231,637</u>

### 31. OTHER LIABILITIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Obligations under a finance lease (note)	76	966
Other employee benefits	2,169	5,215
Advance from minority shareholders	1,022	–
	<u>3,267</u>	<u>6,181</u>
Less: Amount repayable within one year shown under current liabilities	(459)	(1,273)
Amount due after one year	<u>2,808</u>	<u>4,908</u>

Note:

At 31st December, 2004, the obligations under a finance lease were repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>The Group</b>				
Within one year	76	916	76	890
In the second year	–	76	–	76
	<u>76</u>	<u>992</u>	<u>76</u>	<u>966</u>
Less: Future finance charge	–	(26)		
Present value of obligations under a finance lease	<u>76</u>	<u>966</u>		
Less: Amount repayable within one year shown under current liabilities			(76)	(890)
Amount due after one year			<u>–</u>	<u>76</u>



for the year ended 31st December, 2004

### 32. ACQUISITION OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Investment properties	126,375	–
Property, plant and equipment	–	33,000
Investments	–	5,091
Accounts receivable, deposits and prepayments	740	127,368
Bank deposits, bank balances and cash	120	30,266
Accounts payable and accrued charges	(1,031)	(90,242)
Taxation payable	(75)	(27)
Bank overdrafts	–	(43,018)
Deferred tax liabilities	(770)	(136)
	125,359	62,302
Negative goodwill on acquisition	–	(8,730)
Total consideration	125,359	53,572
Satisfied by:		
Cash	125,359	36,827
Accounts payable	–	16,745
	125,359	53,572
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash consideration paid	(125,359)	(36,827)
Bank deposits, bank balances and cash acquired	120	30,266
Bank overdrafts acquired	–	(43,018)
	(125,239)	(49,579)

The subsidiary acquired during the year did not have any significant impact on the Group's turnover and profit before taxation.

The subsidiaries acquired in 2003 contributed HK\$29,140,000 to the Group's turnover and loss of HK\$20,217,000 to the Group's profit before taxation in that year.

for the year ended 31st December, 2004

### 33. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Accounts receivable and prepayments	—	21
Bank balances	—	1,093
Accounts payable and accrued charges	—	(157)
	—	957
Translation reserve released upon disposal	—	2,572
Loss on disposal of subsidiaries	—	(2,597)
Proceeds on disposal	—	932
Satisfied by:		
Cash	—	932
Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash consideration received	—	932
Bank balances disposed of	—	(1,093)
	—	(161)

The subsidiaries disposed of in 2003 did not have any significant impact on the Group's turnover and profit before taxation.

### 34. MAJOR NON-CASH TRANSACTION

There were no material non-cash transactions during the year. In 2003, the material non-cash transaction was:

Pursuant to a circular dated 16th January, 2003 issued by a listed subsidiary, an unconditional offer was made by said listed subsidiary for the repurchase of up to 325,600,000 shares at HK\$1.30 per share, as to HK\$0.30 in cash and HK\$1.00 in the form of a loan note. As announced by the listed subsidiary on 27th February, 2003, 255,234,309 shares had been repurchased by the listed subsidiary and accordingly, loan notes to the value of HK\$255,234,309 were subsequently issued.

The principal terms of the loan notes issued by the listed subsidiary are shown in note 30.

for the year ended 31st December, 2004

### 35. CONTINGENT LIABILITIES

- (a) At 31st December, 2004, the Group had guarantees as follows:

	2004 HK\$'000	2003 HK\$'000
Guarantee for banking facility granted to an investee company	7,000	6,989
Indemnities on banking guarantees made available to a clearing house and regulatory body	5,540	4,540
Indemnities on letter of credit issued by a bank for a loan to a client	–	67,556
Other guarantees	3,184	913
	<b>15,724</b>	<b>79,998</b>

- (b) On 4th February, 2004, Sun Tai Cheung Credits Limited (“STCC”) and Sun Hung Kai Investment Services Limited (“SHKIS”), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching a statement of claim (“200/2004”) by Shanghai Finance Holdings Limited claiming, inter alia, that the sale of the shares in Shun Loong Holdings Limited (“Shun Loong Shares”) by STCC as assignee to SHKIS (for a consideration of HK\$36,500,000 subject to additional amounts of HK\$15,700,000 which may be payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and the amount received by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and believe that the claim is not soundly based and have applied to have the claim struck out. The proceedings have now been stayed until further order by the Court.

While a provision has been made for legal costs, at this stage, the management is of the view that it is not appropriate for any other provision to be made with respect to this action.

- (c) By the Judgment of the High Court of Hong Kong on 1st April, 2004 (“Judgment”) in HCA 3191/1999 between NWDC and Stapleton Development Limited against SHKS, SHKS was ordered to pay NWDC the sum of HK\$105,534,018 together with interest on the principal sum of HK\$80,117,653 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which the Court found (“Oral Agreement”). As at 17th June, 2004, the date when the Judgment sum was to be paid, the Judgment amounted to HK\$150,115,682 (being HK\$105,534,018 plus interest of HK\$44,581,664.) SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum (“Appeal”) to the Court of Appeal. The Appeal has been set down for hearing commencing 7th June, 2005. The decision of the Court of Appeal is likely to be delivered some months after the Appeal.

for the year ended 31st December, 2004

### 35. CONTINGENT LIABILITIES (CONT'D)

(c) (CONT'D)

Since the handing down of the Judgment, NWDC has written to SHKS demanding payment of three further amounts for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS ("New Claims"):

- (i) on 1st March, 2000 in the sum of HK\$27,234,754;
- (ii) on 2nd January, 2001 in the sum of HK\$7,697,418 (Sun Hung Kai understands that a further writ was issued by NWDC in April 2004, naming SHKS as defendant, and claiming the aforesaid two amounts as well as interest thereon from March 2000 and January 2001 respectively ("Further Writ"). The Further Writ has not been served on SHKS); and
- (iii) on 1st June, 2004 in the sum of HK\$2,565,839 in respect of a bank loan by GUP (A provision has been made with respect to this claim in the accounts of SHKS).

The outcome of the Appeal as well as other issues will be relevant to the determination of whether SHKS is liable to pay the New Claims which NWDC asserts are due under the Oral Agreement. Accordingly, the management takes the view that the New Claims are a contingent liability, and that while a provision has been made for legal costs, it is considered that it is not presently appropriate for any other provision to be made with respect to the Appeal or the Further Writ. However, in note 20 the management has provided an analysis of the possible financial implications for the Group depending on the ultimate outcome of the Appeal.

At 31st December, 2004, the Company had guarantees of HK\$1,559,800,000 (2003: HK\$1,656,218,000) given to banks in respect of credit facilities utilised by its subsidiaries.

### 36. CAPITAL COMMITMENTS

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Property development projects	–	13,350
Others	29,039	2,520
	<b>29,039</b>	<b>15,870</b>
Capital expenditure authorised but not contracted for:		
Others	2,209	16,205

The Company did not have any significant capital commitments at 31st December, 2004 and 2003.

for the year ended 31st December, 2004

### 37. OPERATING LEASE ARRANGEMENTS

#### The Group as lessee

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Minimum lease payments under operating leases recognised in the income statement for the year:		
Land and buildings	17,374	22,845
Others	658	2,429
	<u>18,032</u>	<u>25,274</u>

At 31st December, 2004, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group			
	2004		2003	
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	20,155	578	25,258	927
In the second to fifth year inclusive	34,466	–	7,657	38
	<u>54,621</u>	<u>578</u>	<u>32,915</u>	<u>965</u>

Operating leases are negotiated for terms ranging from one to three years.

#### The Group as lessor

Property rental income earned during the year was HK\$68,952,000 (2003: HK\$66,080,000). The property held has committed tenants whose tenancy agreements expire or are terminable over the next three years.

At 31st December, 2004, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	39,746	42,398
In the second to fifth year inclusive	18,487	9,154
	<u>58,233</u>	<u>51,552</u>

The Company did not have any significant lease commitments as lessee or lessor under non-cancellable operating leases at 31st December, 2004 and 2003.

for the year ended 31st December, 2004

### 38. RETIREMENT BENEFIT SCHEMES

The Group operates defined contribution retirement benefit schemes for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group under provident funds managed by independent trustees.

The retirement benefit cost charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, in accordance with the terms of the schemes, the contributions payable by the Group are reduced by the amount of forfeited employer's contributions.

At 31st December, 2004 and 2003, there were no material forfeited contributions which arose when employees left the retirement benefit schemes before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in the future years.

The schemes have been closed in December 2000 to new employees as a consequence of the Mandatory Provident Fund Schemes Ordinance introduced by the Hong Kong Government.

From 1st December, 2000 onwards, the new staff in Hong Kong joining the Group are required to join the Mandatory Provident Fund Scheme ("MPF Scheme"). The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the MPF Scheme.

### 39. PLEDGE OF ASSETS

At 31st December, 2004, certain of the Group's investment properties, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$3,083,285,000 (2003: HK\$2,856,218,000), certain securities in respect of a listed subsidiary with a cost of HK\$902,933,000 (2003: HK\$1,740,628,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK\$1,074,406,000 (2003: HK\$792,489,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,404,144,000 (2003: HK\$3,627,516,000) granted to the Group. Facilities amounting to HK\$1,649,749,000 (2003: HK\$1,929,562,000) were utilised at 31st December, 2004.

At 31st December, 2004, a bank deposit of HK\$1,220,000 (2003: HK\$1,487,000) was pledged to secure a bank guarantee amounting to HK\$2,000,000 (2003: HK\$2,000,000).

At 31st December, 2004 and 2003, the Company had not pledged any assets.

for the year ended 31st December, 2004

#### 40. RELATED PARTY TRANSACTIONS AND BALANCES

The following is a summary of the significant transactions and balances with related parties during the year and as at the year end.

(a) Summary of transactions

	(Income)/Expenses	
	2004	2003
	HK\$'000	HK\$'000
Corporate management service fee to the ultimate holding company	6,112	23,246
Share of administration expenses with the ultimate holding company	6,935	–
Advertising income from the ultimate holding company	(800)	(800)
Rent, property management and air-conditioning fees from the ultimate holding company	(3,464)	(3,412)
Advertising income from a fellow subsidiary	(400)	(400)
Dividend income from a fellow subsidiary	(7,270)	(22,880)
Share of administration expenses with a fellow subsidiary	2,200	–
Service fees paid to a fellow subsidiary	–	5,000
Administration, management and consultancy fees from a jointly controlled entity	(4,860)	(2,360)
Dividend income from a jointly controlled entity	(60,000)	(30,000)
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	(14,020)	(15,071)
Dividend income from associates	(6,182)	(18,912)
Interest income from an associate	(7,287)	(16,786)
Insurance premium from associates	(4,543)	(2,917)
Service fee income from an associate	(1,137)	(432)
Rent, property management, air-conditioning fees and other related service fees from an associate	(910)	(1,345)

- (b) During the year, both the Group and a joint venture partner, each having a 50% interest in a jointly controlled entity, received and repaid various interest free loans from such jointly controlled entity. At 31st December 2004, the amounts lent to the Group totalled HK\$141,000,000 (2003: HK\$171,500,000).
- (c) On 28th January 2004, a listed associate paid cash of HK\$115,647,000 and issued a new promissory note of HK\$87,000,000 to settle the principal of a promissory note and outstanding interest owed to the Group. The new promissory note bore an interest at 5% per annum and was payable on a semi-annual basis. It would mature and was due for repayment on 30th December, 2004. On 6th December, 2004, the new promissory note was settled by the listed associate.
- (d) A promissory note of HK\$57,144,000 issued by a listed associate with accrued interest of HK\$1,606,000 was repaid during the year. The listed associate also repaid RMB4,000,000 (equivalent to HK\$3,759,000) to the Group for the settlement of outstanding sales proceeds for the disposal of a house in the PRC in previous years.

for the year ended 31st December, 2004

#### 40. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

- (e) During the year, short-term loans totalling HK\$50,000,000 were borrowed from a fellow subsidiary with interest charged at the Hong Kong prime rate per annum. The principal and accrued interest totalling HK\$50,106,000 were repaid during the year.
- (f) On 19th May, 2004, a wholly-owned subsidiary of Sun Hung Kai, as vendor, entered into an agreement with a wholly-owned subsidiary of a listed associate in respect of the disposal of the vendor's 17.29% equity interest in CBI Investment Limited at a consideration of HK\$28,000,000. Under the agreement, the consideration was settled by HK\$3,000,000 cash and a HK\$25,000,000 promissory note issued by the listed associate. The agreement was completed on 5th August, 2004 and resulted in a loss of HK\$715,000. The promissory note was repaid on 6th December, 2004.

None of the above related party transactions constitutes a discloseable connected transaction as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The net balances due from (to) related parties at 31st December, 2004 and 2003 are summarised as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Ultimate holding company	(6,115)	(29,865)	(6,094)	(29,813)
A fellow subsidiary	—	11,000	—	—
Associates	88,444	373,107	911	2,418
Jointly controlled entities	(139,023)	(169,602)	—	—
	<u>(56,694)</u>	<u>184,640</u>	<u>(5,183)</u>	<u>(27,395)</u>

The above amounts are included in the balance sheet of the Group and the Company in the following ways:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Interest in associates	136,953	137,316	—	—
Accounts receivable, deposits and prepayments	979	18,569	911	2,418
Amounts due from associates	231	266,303	—	—
Amount due from a jointly controlled entity	2,040	2,056	—	—
Accounts payable and accrued charges	(480)	(52)	—	—
Amount due to Allied Group Limited	(6,094)	(29,813)	(6,094)	(29,813)
Amounts due to associates	(49,260)	(38,081)	—	—
Amount due to a jointly controlled entity	(141,063)	(171,658)	—	—
	<u>(56,694)</u>	<u>184,640</u>	<u>(5,183)</u>	<u>(27,395)</u>

The above transactions have been entered into on terms agreed by the parties concerned.



for the year ended 31st December, 2004

#### 41. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are included as on demand.

	At 31st December, 2004					Total HK\$'000
	On	Within	3 months	1 year to	After	
	demand	3 months	to 1 year	5 years	5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>						
Fixed deposits with banks	–	144,181	–	–	–	144,181
Long-term loan receivable	–	–	–	3,200	–	3,200
Loan note of a listed associate	–	–	–	78,000	–	78,000
Term loans	232,911	61,145	34,600	–	–	328,656
Marketable debt securities	–	7,741	–	–	–	7,741
<b>Liabilities</b>						
Bank loans and overdrafts	–	76,247	526,933	960,207	86,362	1,649,749
Loan notes	–	–	–	129,637	–	129,637
Obligations under a finance lease	–	76	–	–	–	76
<b>At 31st December, 2003</b>						
	On	Within	3 months	1 year to	After	Total
	demand	3 months	to 1 year	5 years	5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>						
Fixed deposits with banks	–	251,080	–	–	–	251,080
Promissory notes of a listed associate	202,144	–	40,419	–	–	242,563
Loan note of a listed associate	–	–	–	78,000	–	78,000
Term loans	175,405	278,486	81,467	–	–	535,358
Marketable debt securities	–	7,747	–	–	–	7,747
<b>Liabilities</b>						
Bank loans and overdrafts	–	575,503	484,405	829,870	111,565	2,001,343
Loan notes	–	–	–	231,637	–	231,637
Obligations under a finance lease	–	219	671	76	–	966

for the year ended 31st December, 2004

#### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2004 which have their principal place of operations in Hong Kong are set out below:

Subsidiaries	Proportion of nominal value of issued capital			Principal activity
	Paid up issued	held by	attributable	
	ordinary share capital HK\$	the Company* / subsidiaries %	to the Group %	
Alaston Development Limited	US\$1	100	100	Property trading
Allied Real Estate Agency Limited	2	100	100	Real estate agency
AP Administration Limited	2	100	100	Provision of management and consultancy services
AP Corporate Services Limited	2	100	100	Provision of corporate services
AP Development Limited	2	100*	100	Investment holding
AP Diamond Limited	US\$1	100	100	Property trading and holding
AP Emerald Limited	US\$1	100	100	Investment holding
AP Finance Limited	2	100	100	Money lending
AP Property Management Limited	2	100	100	Building management
Bali International Finance Limited	137,500,000	100	75	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	75	Securities dealer
Best Melody Development Limited	5,000	100	100	Property holding
Cheeroll Limited	2	100	75	Share trading
Cowslip Company Limited	2	100	75	Investment holding
Fame Arrow Company Limited	100,000	95	95	Loan financing
Florich Development Limited	10,000	100	100	Investment holding
Front Sail Limited	5,000	100	100	Property holding
Gilmore Limited	2	100	100	Property holding
Gloria (Nominees) Limited	200	100	75	Investment holding
Gloxin Limited	2	100	75	Investment holding
Grand Securities Company Limited	20,000,000	100	75	Securities broking
Hilarious (Nominees) Limited	10,000	100	75	Investment holding
Hillcrest Development Limited	20	100	100	Property holding
Hi-Link Limited	200	100	100	Investment holding
Integrated Custodian Limited	2	100	100	Property holding
Itso Limited	2	100	75	Share trading
Jaffe Development Limited	US\$1	100	100	Property holding
Kalix Investment Limited	2	100	100	Property holding

for the year ended 31st December, 2004

**42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Proportion of nominal value of issued capital			Principal activity
	Paid up issued ordinary share capital HK\$	held by the Company* / subsidiaries %	attributable to the Group %	
King Policy Development Limited	2	100	100	Property holding
Lexshan Nominees Limited	2	100	75	Nominee service
Macdonnell (Nominees) Limited	10,000	100	75	Investment holding
Maxplan Investment Limited	2	100	100	Securities trading
Mightyton Limited	10,000	100	100	Property holding
Oakfame Investment Limited	2	100	75	Investment holding
Ontone Limited	2	100	100	Hotel operations, property development and property holding
Pioneer Score Development Limited	2	100	75	Investment holding
Plentiwind Limited	2	100	75	Futures trading
Polyking Services Limited	2	100	65	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	65	Building management
Quick Art Limited	3,540,000	100	75	Share trading and property holding
Ranbridge Finance Limited	20,000,000	100	75	Money lending
San Pack Properties Limited	10	100	100	Property holding
Scienter Investments Limited	20	100	75	Share trading
SHK Consultancy Services Limited	2	100	75	Provision of consultancy service
SHK Financial Data Limited	100	51	38	Provision of financial information service
SHK Fund Management Limited	5,000,000	100	75	Fund management and securities business development
SHK Investment Services Limited	1,000,000	100	75	Property holding
SHK Online (Securities) Limited	30,000,000	100	75	Online securities broking and margin financing
SHK Online Limited	20,000,000	100	75	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	75	Investing holding
Shun Loong Bullion Limited	6,000,000	100	75	Bullion dealing
Shun Loong Capital Limited	6,500,000	100	75	Investment holding
Shun Loong Finance Limited	1,000,000	100	75	Money lending

for the year ended 31st December, 2004

**42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company* / subsidiaries %	attributable to the Group %	
Shun Loong Forex Company Limited	32,000,000	100	75	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	15,000,000	100	75	Futures and option broking
Shun Loong Holdings Limited	200,000,000	100	75	Investment holding
Shun Loong Nominees Limited	100,000	100	75	Provision of nominee and secretarial services
Shun Loong On-line Investment Services (H.K.) Limited	25,000,000	100	75	Computer and marketing advisory services and securities trading
Shun Loong Securities Company Limited	50,000,000	100	75	Securities broking and share margin financing
Sierra Joy Limited	2	100	100	Property holding
Splendid Gain Limited	2	100	75	Investment holding
Sun Hing Bullion Company Limited	5,000,000	100	75	Bullion trading
Sun Hung Kai & Co. Limited **	249,140,631	75	75	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	75	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	75	Bullion trading
Sun Hung Kai Commodities Limited	80,000,600	100	75	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	75	Foreign exchange trading
Sun Hung Kai Insurance Consultants Limited	1,000,000	100	75	Insurance broking
Sun Hung Kai International Limited	10,000,000	100	75	Corporate finance service
Sun Hung Kai International Commodities Limited	5,000,000	100	75	Commodities dealer
Sun Hung Kai Investment Services Limited	290,000,000	100	75	Share broking and margin financing

for the year ended 31st December, 2004

**42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company* / subsidiaries %	attributable to the Group %	
Sun Hung Kai Research Limited	100,000	100	75	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	75	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	75	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	75	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	75	Investment holding
Sun Hung Kai Venture Capital Limited	2	100	75	Investment holding
Sun Hung Kai Wealth Management Limited	5,000,000	100	75	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	75	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	75	Financial service
Texgulf Limited	20	100	75	Property holding
To Wan Development Company Limited	10,000	100	75	Investment holding
Tung Wo Investment Company, Limited	10,000	100	75	Investment holding
Wah Cheong Development Company, Limited	25,100,000	100	75	Investment holding
Wineur Secretaries Limited	2	100	75	Secretarial service
Yee Li Ko Investment Limited	3,000,000	100	75	Property holding

With the exception of Alaston Development Limited, AP Diamond Limited, AP Emerald Limited and Jaffe Development Limited, which were incorporated in the British Virgin Islands, all the above subsidiaries were incorporated in Hong Kong.

for the year ended 31st December, 2004

#### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Particulars of the Company's principal subsidiaries at 31st December, 2004 which were incorporated and have their principal place of operations outside Hong Kong are set out below:

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital		Principal activity
			held by the Company* / subsidiaries %	attributable to the Group %	
Allied Properties China Limited	Cayman Islands	US\$1,000	100 *	100	Investment holding
Best Decision Investments Limited	British Virgin Islands	US\$50,000	65	49	Investment holding
Best Delta International Limited	British Virgin Islands	US\$1	100	75	Investment holding
Boneast Assets Limited	British Virgin Islands	US\$1	100	75	Investment holding
Constable Development S.A.	Panama	US\$5	100	75	Investment holding
I-Market Limited	British Virgin Islands	US\$1	100	75	Investment holding
Kenworld Corporation	Republic of Liberia	US\$1	100	100	Investment holding
Lakewood Development Corporation	United States of America	US\$1,000	100	100	Property development and management
Ranbridge, Inc.	The Philippines	Peso5,385,000	100	75	Money lending
Shipshape Investments Limited	British Virgin Islands	US\$1	100	75	Investment holding
SHK Global Managers Limited	British Virgin Islands	US\$5,000	100	75	Funds management
SL Meridian Holdings Limited	British Virgin Islands	HK\$1,000,000	100	75	Investment holding
Sun Hung Kai International Bank [Brunei] Limited	Brunei Darussalam	SG\$10,000,000	100	75	International banking business

for the year ended 31st December, 2004

**42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital		Principal activity
			held by the Company*/ subsidiaries %	attributable to the Group %	
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US\$50,000	100	75	Investment holding
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP1,000,000	100	75	Financial service
Sun Hung Kai Online Limited	British Virgin Islands	US\$1	100	75	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US\$12,000	100	75	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso273,600,000	100	75	Investment holding
Swan Islands Limited	British Virgin Islands	US\$1	100	75	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US\$1	100	75	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US\$1	100	75	Investment holding
Upstand Assets Limited	British Virgin Islands	US\$1	100	75	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US\$2,675,400	100	75	Investment holding
Zeal Goal International Limited	British Virgin Islands	US\$1	100	75	Investment holding

\*\* This subsidiary is listed in Hong Kong and further details about this subsidiary are available in its published audited accounts.

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

for the year ended 31st December, 2004

#### 43. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31st December, 2004 are set out below:

Associates	Place of incorporation/ operation	Proportion of nominal value of issued capital		Principal activity
		held by subsidiaries %	attributable to the Group %	
Chronicle Gain Limited	Hong Kong	45	34	Property holding
Drinkwater Investment Limited	Hong Kong	22	16	Property holding
Omicron International Limited	British Virgin Islands	44	33	Investment holding
Quality HealthCare Asia Limited **	Bermuda	30	22	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	30	Property development
Silver York Development Limited	Hong Kong	40	30	Property development
Start Hold Limited	Hong Kong	33	25	Investment holding
Tian An China Investments Company Limited **	Hong Kong	49	37	Investment holding
Yu Ming Investments Limited **	Hong Kong	22	16	Investment holding

\*\* These associates are listed in Hong Kong and further details about these associates are available in their published audited accounts.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.



for the year ended 31st December, 2004

#### 44. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31st December, 2004 are set out below:

Jointly controlled entities	Place of incorporation/ operation	Proportion of nominal value of issued capital held by      attributable to		Principal activity
		subsidiaries	the Group	
		%	%	
Allied Kajima Limited	Hong Kong	50	50	Property and investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	25	Corporate finance advisory
International Mezzanine Fund Management Limited	Singapore	33	25	Establishment and management of funds

The above table lists the jointly controlled entities of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length.

	Financial year ended 31st December,				
	2000	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Results</b>					
Turnover	265,364	660,361	903,629	862,783	1,128,169
(Loss) profit from operations	(407,275)	(164,752)	(423,017)	160,493	472,761
Finance costs	(99,954)	(111,391)	(72,183)	(60,016)	(47,208)
Release of negative goodwill	–	36,524	66,019	140,282	156,741
Amortisation of capital reserve	–	20,417	17,267	17,267	17,267
Share of results of associates	63,658	118,661	117,460	135,708	266,192
Share of results of jointly controlled entities	63,368	51,377	29,527	41,941	44,725
(Loss) profit before taxation	(380,203)	(49,164)	(264,927)	435,675	910,478
Taxation	(12,542)	(29,818)	(53,300)	(71,449)	(143,256)
(Loss) profit after taxation	(392,745)	(78,982)	(318,227)	364,226	767,222
Minority interests	(3,314)	(99,949)	(82,636)	(53,206)	(98,720)
(Loss) profit attributable to shareholders	(396,059)	(178,931)	(400,863)	311,020	668,502
Basic (loss) earnings per share	(HK\$1.34)	(HK\$0.48)	(HK\$0.88)	HK\$0.64	HK\$1.36
	At 31st December,				
	2000	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets and liabilities</b>					
Total assets	7,257,234	10,526,091	9,084,999	10,247,955	10,288,624
Total liabilities	(2,259,058)	(3,362,087)	(2,853,370)	(4,209,712)	(3,194,050)
Minority interests	(18,441)	(2,165,628)	(1,734,544)	(1,148,929)	(1,275,939)
	4,979,735	4,998,376	4,497,085	4,889,314	5,818,635

# Particulars of Major Properties

Particulars of major properties held by the subsidiaries and jointly controlled entities of the Group at 31st December, 2004 are as set out below:

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion
<b>Hong Kong</b>					
Park Place 7 Tai Tam Reservoir Road Hong Kong	2056+	R	3,475	100.00	Existing
Allied Cargo Centre 150-164 Texaco Road Tsuen Wan, New Territories	2047	G	46,594	100.00	Existing
60 Plantation Road The Peak, Hong Kong	2066	R	639	100.00	Existing
Orchid Court 38 Tung On Street Mongkok, Kowloon	2049	R C	1,011 201	100.00 100.00	Existing Existing
The Redhill Peninsula 18 Pak Pat Shan Road Tai Tam, Hong Kong	2056+	R CP	596 79 ###	100.00 100.00	Existing Existing (Phase IV)
China Online Centre 333 Lockhart Road Wanchai, Hong Kong	2026++	C	16,013	100.00	Existing
St. George Apartments 81 Waterloo Road Ho Man Tin, Kowloon	2006+	R	9,499	100.00	Existing
Ibis North Point 136-144 Java Road North Point , Hong Kong	2008+	H	6,825	100.00	Existing

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion
<b>Hong Kong (Cont'd)</b>					
Century Court	2027 ++	R	2,592	100.00	Existing
239 Jaffe Road		C	1,323	100.00	Existing
Wanchai, Hong Kong					
No. 9 Queen's Road Central	2,854	C	1,277	100.00	Existing
Hong Kong					
Allied Kajima Building	2047	C	20,321	50.00 *	Existing
138 Gloucester Road					
Wanchai, Hong Kong					
Novotel Century Hong Kong	2047	H	27,364	50.00 *	Existing
238 Jaffe Road					
Wanchai, Hong Kong					
Tregunter Tower 3	2051	R	745	100.00	Existing
14 Tregunter Path					
Hong Kong					
Admiralty Centre	2053 +	C	2,171 #	74.99	Existing
18 Harcourt Road					
Hong Kong					
Houses C7 and C8	2047	R	437	74.99	Existing
Hawaii Garden					
18 Silver Cape Road					
Sai Kung					
New Territories					
Wing On House	2902	C	533 #	74.99	Existing
71 Des Voeux Road Central					
Hong Kong					

## Particulars of Major Properties (Cont'd)

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion
<b>Outside Hong Kong</b>					
FM 2100 Road and Diamond Head Boulevard Harris County Texas U.S.A.	Freehold	R	13,888,933 ##	100.00	Held for development
Westin Philippine Plaza Hotel Cultural Centre of the Philippines Complex Roxas Boulevard Pasay City Manila, Philippines	2014 +++	H	73,866	50.00 *	Existing

Notes:

Types of properties: R – Residential, C – Commercial, G – Godown, H – Hotel, CP – Car Parking Spaces

\* Indicates properties held through a jointly controlled entity

+ With option to renew for a further term of 75 years

++ With option to renew for a further term of 99 years

+++ With option to renew for a further term of 25 years

# Saleable area

## Site area

### Number of car parking spaces