

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant accounting policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 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.

(b) Measurement basis

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of Kowloon Development Company Limited and all of its subsidiaries made up to 31 December, together with the Group's share of the results for the year and net assets of its associated companies. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

Goodwill arising on consolidation represents the excess of the cost of the acquisition of subsidiaries and associated companies over the Group's share of the fair value of the identifiable assets and liabilities acquired at the date of acquisition.

Goodwill arising from acquisitions on or after 1 January 2001 is amortized to the consolidated income statement on a straight-line basis over its estimated useful life. For acquisitions before 1 January 2001, goodwill is eliminated against reserves and is reduced by impairment losses.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(c) Basis of consolidation (Continued)

On disposal of a subsidiary or an associated company during the year, any attributable amount of goodwill not previously amortized through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(d) Interest in subsidiaries

Subsidiaries, in accordance with the Hong Kong Companies Ordinance, are companies in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

(e) Interest in associated companies

An associated company is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associated company's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associated company.

The results of associated companies are included in the Company's income statement to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established as at balance sheet date.

In the Company's balance sheet, its investments in associated companies are stated at cost less impairment losses.

(f) Interest in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control.

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(f) Interest in joint ventures (Continued)

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accruals basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint venturers, are recognized in the income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

(g) Properties

(i) Investment properties

Interests in land and buildings held for rental purposes are recorded as investment properties and are not subject to periodic charges of depreciation except where the unexpired term of the lease is twenty years or less. They have been valued annually by an independent firm of professional surveyors on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus will be credited to the income statement to the extent of the deficit previously charged.

Upon disposal of investment properties, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is transferred to the income statement. In the opinion of the directors, the disposal of the revalued land and buildings at their carrying value will result in capital gains which are not subject to any tax liability.

(ii) Land held for future development

Land held for future development is stated at cost less impairment losses. No amortization is provided in respect of land held for future development.

(iii) Land and development rights

Land and development rights are stated at cost including borrowing costs capitalized less impairment losses.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(g) Properties (Continued)

(iv) Interest in property development

Interest in property development is stated at cost less impairment losses.

(v) Properties under development

Properties under development are stated at cost, including borrowing costs capitalized, aggregate costs of development, materials and supplies, wages and other expenses, less impairment losses.

(vi) Properties held for sale

Properties held for sale are stated at the lower of cost and the estimated net realizable value. Net realizable value represents the estimated selling price less costs to be incurred in selling the properties.

(h) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale. The capitalization rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development costs financed out of general working capital, to the average rate thereof.

(i) Depreciation

(i) Investment properties

No depreciation is provided on investment properties with an unexpired lease term of over twenty years. The carrying value of investment properties with an unexpired lease term of twenty years or less is depreciated over the remaining term of the lease.

(ii) Land and buildings

Land and buildings are stated at cost less accumulated depreciation and impairment losses. Leasehold land is amortized over the remaining term of the leases. Buildings and improvements thereto are depreciated over the shorter of their useful lives of forty years and the unexpired terms of the leases.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(i) Depreciation (Continued)

(iii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line method to write off the assets over their estimated useful lives as follows:

—	Air conditioning plant, plant and machinery, lifts and escalators	10 years
—	Furniture and fixtures, motor vehicles, electronic data processing equipment and others	3 to 5 years

(j) Investments in securities

- (i) Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortized cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognized as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price. Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognized in the income statement as they arise.
- (iii) All other securities are classified as non-trading securities and are stated in the balance sheet at fair value. Changes in fair value are recognized in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative loss is transferred from the investment revaluation reserve to the income statement.
- (iv) Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (v) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(k) Impairment of assets

At the balance sheet date, the Group reviews the carrying amounts of its assets and positive goodwill to determine whether there is any indication that those assets have suffered an impairment loss. 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 recognized as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

(l) Deferred taxation

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(m) Recognition of revenue

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the income statement as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognized in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognized in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(ii) Sale of properties

Revenue arising from sale of properties is recognized upon the execution of a binding sale agreement or when the relevant occupation permit is issued by the respective building authority, whichever is later. Payments received from the purchasers prior to this stage are recorded as deposits received on sale of properties in the balance sheet.

(iii) Sale of investments in securities

Revenue from sale of investments in securities is recognized when the buyer takes legal title to the securities.

(iv) Film right royalties

Film right royalties are recognized upon the delivery of print copies, film negatives or other materials.

(v) Interest income

Interest income is recognized on a time-apportionment basis throughout the life of the asset concerned.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the income statement.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant accounting policies *(Continued)*

(o) **Related parties**

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(p) **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Unallocated items mainly comprise financial and corporate assets, loans, borrowings, corporate and financing expenses.

2. Segment information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Turnover comprises income from property and securities investments, net proceeds from sale of properties, film distribution income and interest income.

Notes on the Accounts

(Expressed in Hong Kong dollars)

2. Segment information (Continued)

(a) Business segments

	2004				
	Consolidated \$'000	Property investment \$'000	Property development \$'000	Financing and investments \$'000	Others \$'000
Turnover	773,425	206,595	294,718	264,894	7,218
Contribution from operations	366,138	182,778	102,324	78,412	2,624
Unallocated group expenses	(31,889)				
Profit from operations	334,249				
Finance costs	(6,169)				
Share of profits less losses of associated companies	12,889	—	—	—	12,889
Profit before taxation	340,969				
Income tax	(38,141)				
Profit after taxation	302,828				
Minority interests	268				
Profit attributable to shareholders	303,096				
Segment assets	6,519,955	3,606,189	2,506,062	401,318	6,386
Investment in associated companies	46,026	—	—	—	46,026
Unallocated	51,594				
Total assets	6,617,575				
Segment liabilities	659,542	91,693	428,265	124,027	15,557
Unallocated	1,703,064				
Total liabilities	2,362,606				
Capital expenditure incurred during the year	222,213	192,260	28,542	—	1,411

Notes on the Accounts

(Expressed in Hong Kong dollars)

2. Segment information (Continued)

(a) Business segments (Continued)

	2003				
	Consolidated	Property	Property	Financing	Others
	\$'000	investment	development	and	
		\$'000	\$'000	investments	\$'000
				(Restated)	(Restated)
Turnover	673,812	179,308	228,320	260,623	5,561
Contribution from operations	253,979	163,768	25,398	63,945	868
Unallocated group expenses	(17,815)				
Profit from operations	236,164				
Finance costs	(11,036)				
Share of profits less losses of associated companies	7,496	—	—	—	7,496
Profit on disposal of investments in securities	2,399	—	—	2,399	—
Profit before taxation	235,023				
Income tax	(33,480)				
Profit after taxation	201,543				
Minority interests	(43)				
Profit attributable to shareholders	201,500				
Segment assets	5,827,171	3,017,758	2,165,037	641,329	3,047
Investment in associated companies	32,674	—	—	—	32,674
Unallocated	31,184				
Total assets	5,891,029				
Segment liabilities	489,581	61,613	273,129	140,941	13,898
Unallocated	2,113,199				
Total liabilities	2,602,780				
Capital expenditure incurred during the year	20,860	6,400	14,460	—	—

Notes on the Accounts

(Expressed in Hong Kong dollars)

2. Segment information *(Continued)*

(b) Geographical segments

	Group turnover		Profit from operations	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Hong Kong	723,189	621,185	286,544	198,924
North America	43,679	23,431	42,780	23,281
Europe	6,557	27,298	4,925	12,712
Others	—	1,898	—	1,247
	773,425	673,812	334,249	236,164

	Segment assets		Capital expenditure incurred during the year	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Hong Kong	6,078,050	5,424,255	222,213	20,860
Asia	400,000	—	—	—
North America	23,998	400,634	—	—
Europe	17,907	2,282	—	—
	6,519,955	5,827,171	222,213	20,860

(c) Major customers and suppliers

During the year, less than 30% of the Group's sales and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers respectively.

Notes on the Accounts

(Expressed in Hong Kong dollars)

3 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) **Finance costs**

	2004 \$'000	2003 \$'000
Interest on bank loans and overdrafts	18,448	34,248
Interest on loan from ultimate holding company	1,010	—
Less: Amount capitalized (<i>Note</i>)	(12,141)	(20,990)
	7,317	13,258
Less: Interest expense included as other operating expenses	(1,148)	(2,222)
	6,169	11,036

Note: Borrowing costs were capitalized at the prevailing market interest rates.

(b) **Other items**

	2004 \$'000	2003 \$'000
Auditors' remuneration	978	886
Provision for bad and doubtful debts and bad debts written off	9,173	9,828
Impairment losses on land and buildings	4,429	—
Rentals receivable under operating leases less outgoings	(179,361)	(161,640)
Rental income	(206,595)	(179,307)
Less: Outgoings	27,234	17,667
Dividend income from listed securities	(3,148)	(3,486)
Income from unlisted securities	(46,444)	(33,736)

(c) The Group's share of profits less losses for the year, after minority interests and after the declaration of dividend, retained by the associated companies was \$8,714,434 (2003: \$4,602,942).

Notes on the Accounts

(Expressed in Hong Kong dollars)

4. Directors' and management's emoluments

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2004 \$'000	2003 \$'000
Directors' fees	700	700
Performance related bonuses	700	288
Salaries and allowances	1,644	1,622
Provident fund contributions	90	90
	3,134	2,700

Included in the directors' emoluments were fees of \$400,000 (2003: \$400,000) paid to the independent non-executive directors for the year.

The emoluments of the directors are within the following bands:

	2004	2003
\$0 - \$1,000,000	9	9
\$1,000,001 - \$1,500,000	—	—
\$1,500,001 - \$2,000,000	—	1
\$2,000,001 - \$2,500,000	1	—

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2003: one) is a director whose emoluments are disclosed in note 4(a). The aggregate of the emoluments in respect of the remaining four (2003: four) individuals are as follows:

	2004 \$'000	2003 \$'000
Salaries and allowances	3,881	3,869
Performance related bonuses	1,566	534
Provident fund contributions	192	192
	5,639	4,595

Notes on the Accounts

(Expressed in Hong Kong dollars)

4. Directors' and management's emoluments (Continued)

(b) Individuals with highest emoluments (Continued)

The emoluments of the individuals are within the following bands:

	2004	2003
\$0 - \$1,000,000	—	—
\$1,000,001 - \$1,500,000	4	4

5. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2004 \$'000	2003 \$'000
Current tax		
Provision for Hong Kong profits tax at 17.5% on the estimated assessable profits of the year	40,001	24,150
Overprovision in respect of prior years	(6,259)	(107)
	33,742	24,043
Deferred tax		
Origination and reversal of temporary differences	1,064	5,792
Amount attributable to a change in tax rate	—	1,172
	1,064	6,964
Share of associated companies' taxation		
— Hong Kong	479	276
— Overseas	2,856	2,197
	3,335	2,473
	38,141	33,480

Overseas taxation of the associated companies has been provided for at the applicable tax rates ruling in the respective jurisdictions.

Notes on the Accounts

(Expressed in Hong Kong dollars)

5. Income tax in the consolidated income statement (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004 \$'000	2003 \$'000
Profit before taxation	340,969	235,023
Tax at applicable tax rates	60,753	42,325
Non-deductible expenses	2,555	1,099
Non-taxable revenue	(8,710)	(7,276)
Overprovision in prior years	(6,259)	(137)
Unrecognized tax losses	1,173	390
Previously unrecognized tax losses utilized	(7,615)	(3,105)
Previously unrecognized tax losses now recognized	(2,455)	—
Change in tax rate	—	1,173
Others	(1,301)	(989)
Actual tax expense	38,141	33,480

6. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of \$107,266,635 (2003: \$102,732,370) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2004 \$'000	2003 \$'000
Consolidated profit attributable to shareholders dealt with in the Company's accounts	107,267	102,732
Final dividend from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	—	4,250
Company's profit for the year	107,267	106,982

Notes on the Accounts

(Expressed in Hong Kong dollars)

7. Dividends

(a) **Dividends attributable to the year**

	2004 \$'000	2003 \$'000
Interim dividend declared and paid of 7 cents (2003: 6 cents) per share	39,674	29,026
Final dividend proposed after the balance sheet date of 25 cents (2003: 22 cents) per share	141,692	124,689
	181,366	153,715

The final dividend declared after the year end has not been recognized as a liability at 31 December.

(b) **Dividends attributable to the previous financial year, approved and paid during the year**

	2004 \$'000	2003 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 22 cents (2003: 20 cents) per share	124,689	96,754

8. Earnings per share

(a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$303,096,312 (2003: \$201,499,732) and the weighted average number of shares in issue during the year of 562,685,882 (2003: 483,767,850).

(b) **Diluted earnings per share**

No diluted earnings per share for 2003 and 2004 has been presented as the Company had no dilutive potential shares for both years.

Notes on the Accounts

(Expressed in Hong Kong dollars)

9. Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Provision for Hong Kong profits tax for the year	40,001	24,150	18,559	17,597
Provisional profits tax paid	(16,448)	(15,407)	(13,196)	(14,713)
	23,553	8,743	5,363	2,884
Balance of profits tax provision relating to prior years	1,124	4,263	—	—
	24,677	13,006	5,363	2,884

(b) **Deferred taxation**

The components of deferred tax assets/(liabilities) recognized in the balance sheets and the movements during the year are as follows:

Group

	Future benefit of tax losses \$'000	Revaluation of properties \$'000	Depreciation charges in excess of depreciation allowances \$'000	Accelerated depreciation allowances \$'000	General provision \$'000	Total \$'000
At 1 January 2003	5,617	(5,898)	9	(12,839)	614	(12,497)
(Charged)/Credited to income statement	(2,454)	(553)	(1)	(4,542)	586	(6,964)
At 31 December 2003	3,163	(6,451)	8	(17,381)	1,200	(19,461)
At 1 January 2004	3,163	(6,451)	8	(17,381)	1,200	(19,461)
Credited/(Charged) to income statement	318	2,659	(1)	(3,932)	(108)	(1,064)
At 31 December 2004	3,481	(3,792)	7	(21,313)	1,092	(20,525)

Notes on the Accounts

(Expressed in Hong Kong dollars)

9. Income tax in the balance sheets (Continued)

(b) Deferred taxation (Continued)

Company

	2004			2003		
	Accelerated depreciation allowances \$'000	General provision \$'000	Total \$'000	Accelerated depreciation allowances \$'000	General provision \$'000	Total \$'000
At 1 January	(13,702)	15	(13,687)	(10,395)	—	(10,395)
(Charged)/Credited to income statement	(2,590)	(15)	(2,605)	(3,307)	15	(3,292)
At 31 December	(16,292)	—	(16,292)	(13,702)	15	(13,687)

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Net deferred tax asset recognized on the balance sheet	3,223	1,864	—	—
Net deferred tax liability recognized on the balance sheet	(23,748)	(21,325)	(16,292)	(13,687)
	(20,525)	(19,461)	(16,292)	(13,687)

(c) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of tax losses of \$148,154,000 (2003: \$15,209,000). During the year, the Inland Revenue Department agreed to the accumulated tax losses of a subsidiary. As a result, the deferred tax asset was recognized to the extent that it is probable that sufficient future taxable profits will be available to allow the related tax benefit to be utilized. Deferred tax on the remaining tax losses were not recognized.

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10. Fixed assets

	Investment properties \$'000	Land \$'000	Buildings \$'000	Others \$'000	Total \$'000
Group					
Cost or valuation					
At 1 January 2004	3,011,900	6,446	1,820	29,826	3,049,992
Additions	192,248	—	—	1,715	193,963
Disposals	—	—	—	(149)	(149)
Revaluation surplus	257,792	—	—	—	257,792
At 31 December 2004	3,461,940	6,446	1,820	31,392	3,501,598
Aggregate depreciation and amortization					
At 1 January 2004	—	818	400	29,064	30,282
Charge for the year	—	96	52	320	468
Written back on disposal	—	—	—	(144)	(144)
Impairment losses	—	3,472	957	—	4,429
At 31 December 2004	—	4,386	1,409	29,240	35,035
Carrying value					
At 31 December 2004	3,461,940	2,060	411	2,152	3,466,563
At 31 December 2003	3,011,900	5,628	1,420	762	3,019,710
Company					
Cost or valuation					
At 1 January 2004	2,570,000	—	—	23,554	2,593,554
Additions	32,878	—	—	294	33,172
Disposals	—	—	—	(97)	(97)
Revaluation surplus	197,122	—	—	—	197,122
At 31 December 2004	2,800,000	—	—	23,751	2,823,751
Aggregate depreciation and amortization					
At 1 January 2004	—	—	—	23,091	23,091
Charge for the year	—	—	—	200	200
Written back on disposal	—	—	—	(93)	(93)
At 31 December 2004	—	—	—	23,198	23,198
Carrying value					
At 31 December 2004	2,800,000	—	—	553	2,800,553
At 31 December 2003	2,570,000	—	—	463	2,570,463

Notes on the Accounts

(Expressed in Hong Kong dollars)

10. Fixed assets (Continued)

(a) Analysis of cost or valuation

	Investment properties \$'000	Land \$'000	Buildings \$'000	Others \$'000	Total \$'000
Group					
Professional valuation — 2004	3,461,940	—	—	—	3,461,940
Cost	—	6,446	1,820	31,392	39,658
	3,461,940	6,446	1,820	31,392	3,501,598
Company					
Professional valuation — 2004	2,800,000	—	—	—	2,800,000
Cost	—	—	—	23,751	23,751
	2,800,000	—	—	23,751	2,823,751

(b) Analysis of carrying value of properties

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Investment properties				
Long leases in Hong Kong	3,426,940	2,978,900	2,800,000	2,570,000
Medium term leases in Hong Kong	35,000	33,000	—	—
	3,461,940	3,011,900	2,800,000	2,570,000
Other properties				
Long leases in Hong Kong	1,000	2,122	—	—
Medium term leases in Hong Kong	1,470	4,926	—	—
	2,470	7,048	—	—

The investment properties of the Group and of the Company were revalued at 31 December 2004 by Vigers Appraisal and Consulting Limited, an independent firm of professional surveyors, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

Notes on the Accounts

(Expressed in Hong Kong dollars)

10. Fixed assets (Continued)

(b) Analysis of carrying value of properties (Continued)

The cost or valuation of other properties has been apportioned between land, buildings and other assets on the basis of estimates made by the directors.

The Group leases out investment properties and certain furniture and fixtures under operating leases. The leases typically run for an initial period of several months to six years. Some leases have provision of option to renew by which time all terms are renegotiated. Some leases have provision of turnover rent. Turnover rent of \$73,221 was received in 2004 (2003: Nil).

The gross carrying amounts of investment properties of the Group held for use in operating leases were \$3,461,940,000 (2003: \$3,011,900,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were \$8,500,236 (2003: \$8,541,166) and the related accumulated depreciation charges were \$8,285,100 (2003: \$8,260,163).

The gross carrying amounts of investment properties of the Company held for use in operating leases were \$2,800,000,000 (2003: \$2,570,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were \$2,370,992 (2003: \$2,368,192) and the related accumulated depreciation charges were \$2,366,465 (2003: \$2,363,930).

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Within 1 year	154,546	121,340	123,265	101,005
After 1 year but within 5 years	150,748	127,956	120,939	108,698
	305,294	249,296	244,204	209,703

11. Land and development rights

Land and development rights represents the Group's interest in the development of a property in Ngau Chi Wan. The Group has been granted the exclusive right for the development by The Little Sisters of the Poor ("The Little Sisters"). Pursuant to the development agreement with The Little Sisters, the Group is responsible for bearing all costs and expenses of carrying out the development and in return, the Group is entitled to all sales proceeds derived from the completed development. As at 31 December 2004, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately \$162 million (2003: \$248 million) of which \$62 million (2003: \$74 million) is payable after one year.

Notes on the Accounts

(Expressed in Hong Kong dollars)

12. Jointly controlled assets

As at 31 December, the aggregate amounts of assets and liabilities recognized in the accounts relating to the Group's interest in jointly controlled assets were as follows:

	Group	
	2004 \$'000	2003 \$'000
Assets		
Property under development	133,822	113,865
Trade and other receivables	102	1
	133,924	113,866
Liabilities		
Bank loans — secured	69,300	56,300
Trade and other payables	5,711	—
	75,011	56,300

13. Interest in subsidiaries

	Company	
	2004 \$'000	2003 \$'000
Unlisted shares, at cost	704,398	704,398
Loans to subsidiaries		
— interest free	831,833	485,104
— interest bearing	1,349,089	1,461,630
Loans from subsidiaries		
— interest free	(333,118)	(336,342)
— interest bearing	(28,417)	(15,289)
Amounts due to subsidiaries	(230)	—
Amounts due from subsidiaries	—	523
Impairment losses on subsidiaries	(205,781)	(206,644)
	2,317,774	2,093,380

Loans to and from subsidiaries are unsecured and have no fixed terms of repayment. Interest is charged at bank lending rates and deposit rates.

Details of the principal subsidiaries are shown in note 28(a).

Notes on the Accounts

(Expressed in Hong Kong dollars)

14. Interest in associated companies

	Group	
	2004 \$'000	2003 \$'000
Share of net assets of associated companies	41,140	32,426
Loan to an associated company	4,886	248
	46,026	32,674

Loan to an associated company is unsecured, interest bearing at prevailing prime rate and subject to any repayment to shareholders on a pro-rata basis. Prior to 1 July 2004, loan to an associated company was interest free.

Details of the associated companies are shown in note 28(b).

15. Investments in securities

	Group	
	2004 \$'000	2003 \$'000
Non-current assets		
Equity shares, listed in Hong Kong	86,476	—
Investment fund, unlisted	23,623	6,682
Held-to-maturity securities, unlisted	—	388,190
	110,099	394,872
Current assets		
Equity shares, listed in Hong Kong	113,388	63,644
Held-to-maturity securities, unlisted	15,863	—
	129,251	63,644
	239,350	458,516
Market value of investment securities, listed in Hong Kong	199,864	63,644

As at 31 December 2003, held-to-maturity securities under non-current assets included an investment of US\$50 million in a 10 year note issued by a corporation established by the United States Congress with Aaa/AAA rating by Moody's and Standard & Poor's. The note was early redeemed by the note issuer in 2004.

Notes on the Accounts

(Expressed in Hong Kong dollars)

16. Interest in property development

Interest in property development represents the Group's interest in the development of a property in Macau under the co-investment agreement with a wholly owned subsidiary of ultimate holding company, Polytec Holdings International Ltd ("Polytec Holdings") (note 24(b)).

17. Inventories

	Group	
	2004 \$'000	2003 \$'000
Properties under development	663,287	810,872
Properties held for sale	124,291	88,900
Trading goods	1,683	—
	789,261	899,772

Properties held for sale of \$3,325,000 (2003: \$10,601,016) are stated at net realizable value.

18. Trade and other receivables

The following is an ageing analysis of trade receivables at 31 December:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current and overdue within 3 months	44,480	30,756	615	541
Overdue between 3 to 6 months	2,866	4,216	231	12
Overdue more than 6 months	12,686	9,296	11	2
Trade receivables	60,032	44,268	857	555
Utility and other deposits	3,455	1,153	1,975	151
Other receivables and prepayments	145,656	16,763	4,435	9,801
	209,143	62,184	7,267	10,507

Utility and other deposits of the Group and of the Company of \$3,358,677 (2003: \$926,136) and \$1,969,063 (2003: \$145,363) respectively are expected to be recovered after more than one year.

Prepayments of the Group of an amount of \$134,200,000 represents the deposit paid for the acquisition of a property interest under a provisional sale and purchase agreement (note 31).

Notes on the Accounts

(Expressed in Hong Kong dollars)

18. Trade and other receivables (Continued)

Receivables and prepayments of the Group and of the Company of \$306,498 (2003: \$4,824,972) and \$21,470 (2003: \$4,444,376) respectively are expected to be recovered after more than one year.

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimize any credit risk associated with receivables.

19. Trade and other payables

The following is an ageing analysis of trade payables at 31 December:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Not yet due or on demand	29,892	25,333	4,580	211
Overdue less than 3 months	7,715	6,476	1,350	1,736
Overdue between 3 to 6 months	14	—	—	—
Overdue more than 6 months	20	—	—	—
Trade payables	37,641	31,809	5,930	1,947
Rental and other deposits	51,407	37,247	38,178	28,931
Other payables and accrued expenses	401,541	216,801	42,568	28,936
Deposits received on sale of properties	1,381	—	—	—
	491,970	285,857	86,676	59,814

Rental and other deposits of the Group and of the Company of \$48,096,776 (2003: \$35,635,652) and \$36,863,174 (2003: \$28,414,831) respectively are expected to be refunded after more than one year.

Other payables of the Group included an amount of \$240,700,000 received from a fellow subsidiary and is payable on demand.

Payables and accrued expenses of the Group and of the Company of \$1,006,122 (2003: \$85,655) and \$85,655 (2003: \$85,655) respectively are expected to be settled after more than one year.

Notes on the Accounts

(Expressed in Hong Kong dollars)

20. Loan from ultimate holding company

Loan from ultimate holding company is unsecured, interest bearing and has fixed terms of repayment. Interest is charged at bank lending rates.

21. Bank loans

At 31 December, bank loans were repayable as follows:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Within 1 year or on demand	665,442	370,000	140,300	370,000
After 1 year but within 2 years	194,300	630,000	125,000	240,000
After 2 years but within 5 years	847,687	879,028	847,687	822,727
After 5 years	45,000	329,961	45,000	—
	1,086,987	1,838,989	1,017,687	1,062,727
	1,752,429	2,208,989	1,157,987	1,432,727

Bank loans were classified in the balance sheets as follows:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current liabilities				
Secured	585,142	220,000	60,000	220,000
Unsecured	80,300	150,000	80,300	150,000
	665,442	370,000	140,300	370,000
Non-current liabilities				
Secured	1,086,987	1,838,989	1,017,687	1,062,727
	1,752,429	2,208,989	1,157,987	1,432,727

Notes on the Accounts

(Expressed in Hong Kong dollars)

22. Share capital

	No. of shares of \$0.1 each	\$'000
Authorized		
At 1 January and 31 December 2004	1,000,000,000	100,000
Issued and fully paid		
At 1 January 2004	483,767,850	48,377
Issue of shares	83,000,000	8,300
At 31 December 2004	566,767,850	56,677

On 19 January 2004, the Company issued and allotted 83,000,000 new shares to its major shareholder at a price of \$6.85 per share after the placement of 83,000,000 old shares by the major shareholder at a price of \$6.85 per share to independent third parties.

Notes on the Accounts

(Expressed in Hong Kong dollars)

23. Reserves

Group

	Investment property revaluation reserve \$'000	Investment revaluation reserve \$'000	Capital reserve \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 January 2003	1,809,231	(11,872)	2,154	9,971	1,385,328	3,194,812
Revaluation deficit	(26,272)	—	—	—	—	(26,272)
Transfer to income statement upon disposal of investments in securities	—	(5,864)	—	—	—	(5,864)
Interim dividend paid	—	—	—	—	(29,026)	(29,026)
Final dividend paid	—	—	—	—	(96,754)	(96,754)
Net profit for the year	—	—	—	—	201,500	201,500
At 31 December 2003	1,782,959	(17,736)	2,154	9,971	1,461,048	3,238,396
At 1 January 2004	1,782,959	(17,736)	2,154	9,971	1,461,048	3,238,396
Revaluation surplus	257,792	14,218	—	—	—	272,010
Premium on issue of shares	—	—	—	560,250	—	560,250
Expenses on issue of shares	—	—	—	(12,305)	—	(12,305)
Interim dividend paid	—	—	—	—	(39,674)	(39,674)
Final dividend paid	—	—	—	—	(124,689)	(124,689)
Net profit for the year	—	—	—	—	303,096	303,096
At 31 December 2004	2,040,751	(3,518)	2,154	557,916	1,599,781	4,197,084

Notes on the Accounts

(Expressed in Hong Kong dollars)

23. Reserves (Continued)

Company	Investment property revaluation reserve \$'000	Investment revaluation reserve \$'000	Capital reserve \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 January 2003	1,851,986	4,391	—	9,971	1,292,276	3,158,624
Revaluation deficit	(15,130)	—	—	—	—	(15,130)
Transfer to income statement upon disposal of investments in securities	—	(4,391)	—	—	—	(4,391)
Interim dividend paid	—	—	—	—	(29,026)	(29,026)
Final dividend paid	—	—	—	—	(96,754)	(96,754)
Net profit for the year	—	—	—	—	106,982	106,982
At 31 December 2003	1,836,856	—	—	9,971	1,273,478	3,120,305
At 1 January 2004	1,836,856	—	—	9,971	1,273,478	3,120,305
Revaluation surplus	197,122	—	—	—	—	197,122
Premium on issue of shares	—	—	—	560,250	—	560,250
Expenses on issue of shares	—	—	—	(12,305)	—	(12,305)
Interim dividend paid	—	—	—	—	(39,674)	(39,674)
Final dividend paid	—	—	—	—	(124,689)	(124,689)
Net profit for the year	—	—	—	—	107,267	107,267
At 31 December 2004	2,033,978	—	—	557,916	1,216,382	3,808,276

The Group's share of profits retained in the accounts of the associated companies at 31 December 2004 after minority interests were \$9,354,612 (2003: \$640,178).

The application of the share premium and the capital reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance. The investment property revaluation reserve and investment revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the revaluation of investment properties, non-trading securities and goodwill.

The revaluation reserves in respect of investment properties, non-trading securities and goodwill are not available for distribution to shareholders because they do not constitute realized profits within the meaning of Section 79B(2) of the Hong Kong Companies Ordinance.

Reserves of the Company available for distribution to shareholders at 31 December 2004 amounted to \$1,216,383,185 (2003: \$1,273,479,227).

Notes on the Accounts

(Expressed in Hong Kong dollars)

24. Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash from/(used in) operating activities:

	2004 \$'000	2003 \$'000
Profit before taxation	340,969	235,023
Adjustments for:		
Unclaimed dividend written back	(188)	(104)
Profit on disposal of investments in securities	—	(2,399)
Loss on disposal of other fixed assets	3	3
Share of profits less losses of associated companies	(12,889)	(7,496)
Impairment losses on land and buildings	4,429	—
Impairment loss on land held for future development	716	—
Interest income	(353)	(452)
Interest expenses	6,169	11,036
Income from listed securities	—	(1,014)
Depreciation	468	567
Operating profit before working capital changes	339,324	235,164
Decrease/(Increase) in inventories	116,674	(24,055)
Increase in trade and other receivables	(147,350)	(12,884)
Decrease/(Increase) in time deposits (pledged)	5,719	(5,719)
Decrease/(Increase) in loans and advances	16,075	(17,448)
Decrease/(Increase) in investments in securities	233,384	(395,401)
Increase in amount due from an associated company	(83)	—
Increase/(Decrease) in trade and other payables	271,439	(10,951)
Cash generated from/(used in) operations	835,182	(231,294)
Income from listed securities	—	1,005
Interest received	353	452
Interest paid	(20,416)	(32,077)
Profits tax paid	(23,694)	(21,374)
Profits tax refunded	1,623	398
Net cash from/(used in) operating activities	793,048	(282,890)

Notes on the Accounts

(Expressed in Hong Kong dollars)

24. Notes to consolidated cash flow statement (Continued)

(b) Acquisition of a subsidiary

During the year, the Group acquired from Polytec Holdings, the entire issued share capital together with shareholder's loan of one of Polytec Holdings' wholly owned subsidiary. The company had entered into a co-investment agreement with another wholly owned subsidiary of Polytec Holdings in a property project in Macau. The consideration paid was \$400,000,000. The fair value of the assets of the company acquired were as follows:

	2004 \$'000
Net assets acquired	
Interest in property development	400,000
Shareholder's loan	(175,699)
Cash consideration paid for net assets	224,301
Cash consideration paid for shareholder's loan	175,699
Cash outflow on acquisition of the subsidiary	400,000

25. Commitments

Commitments outstanding at 31 December not provided for in the accounts were as follows:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Contracted for				
— properties under development	610,470	35,171	—	—
— investment properties	24,756	17,580	24,620	17,580
— investments in securities	86,984	164,196	—	—
	722,210	216,947	24,620	17,580
Authorized but not contracted for				
— properties under development	4,862	231,617	—	—
— investment properties	—	480	—	480
	4,862	232,097	—	480

Notes on the Accounts

(Expressed in Hong Kong dollars)

26. Contingent liabilities

- (a) The Group and the Company have given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of \$13,867,000 (2003: \$6,952,000).
- (b) The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of \$757,317,000 (2003: \$634,300,000). The banking facilities and other obligations were utilized to the extent of \$597,459,000 (2003: \$446,300,000) at 31 December 2004.

27. Pledge of assets

At 31 December 2004, properties and securities of the Group with an aggregate carrying value of approximately \$3,960,362,000 (2003: \$3,936,841,000) and time deposits of Nil (2003: \$5,719,000) were pledged to banks under fixed charges to secure general banking facilities granted to the Group or as margin for the Group's investments in securities .

28. Subsidiaries and associated companies

- (a) Details of the principal subsidiaries of Kowloon Development Company Limited are as follows:

Subsidiary	Place of incorporation	Principal place of operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
				Direct	Indirect	
Atlantic Capital Limited	Hong Kong	Hong Kong	\$10,000	100%	—	Investment holding
Country House Property Management Limited	Hong Kong	Hong Kong	\$10,000	—	100%	Property management and security services
Elegant Florist Limited	British Virgin Islands	Hong Kong	US\$1	100%	—	Investment holding
Eversound Investments Limited	Hong Kong	Hong Kong	\$1,000,000	—	100%	Property investment

Notes on the Accounts

(Expressed in Hong Kong dollars)

28. Subsidiaries and associated companies (Continued)

Subsidiary	Place of incorporation	Principal place of operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
				Direct	Indirect	
Future Star International Limited	British Virgin Islands	Hong Kong	US\$1	100%	—	Investment holding
Gargantuan Investment Limited	Hong Kong	Hong Kong	\$2	100%	—	Securities investment
Jumbo Power Enterprises Limited	Hong Kong	Hong Kong	\$2	—	100%	Property development
Jumbo Star Limited	British Virgin Islands	Hong Kong	US\$1	100%	—	Investment holding
King's City Holdings Limited	Hong Kong	Hong Kong	\$2	—	100%	Property development
Kowloon Development Engineering Limited	Hong Kong	Hong Kong	\$2	100%	—	Construction
Kowloon Development Finance Limited	Hong Kong	Hong Kong	\$2,000,000	100%	—	Financial services
Manor House Holdings Limited	Hong Kong	Hong Kong	\$264,529,125	100%	—	Investment holding

Notes on the Accounts

(Expressed in Hong Kong dollars)

28. Subsidiaries and associated companies (Continued)

Subsidiary	Place of incorporation	Principal place of operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
				Direct	Indirect	
Pak Hop Shing Company, Limited	Hong Kong	Hong Kong	\$2	—	100%	Property development
Roe Investment Limited	Hong Kong	Hong Kong	\$500,000	100%	—	Investment holding
Searson (Hong Kong) Limited	Hong Kong	Hong Kong	\$2	100%	—	Property development
Spark Team Limited	Hong Kong	Hong Kong	\$2	100%	—	Retail
To Kwa Wan Properties Limited	Hong Kong	Hong Kong	\$2	—	100%	Property investment
Top Milestone Developments Limited	British Virgin Islands	Macau	US\$100	—	100%	Project and securities investment
Town House Development Limited	Hong Kong	Hong Kong	\$10,000	100%	—	Property investment
Tyleelord Development & Agency Company Limited	Hong Kong	Hong Kong	\$100,000	—	100%	Property investment

Notes on the Accounts

(Expressed in Hong Kong dollars)

28. Subsidiaries and associated companies (Continued)

Subsidiary	Place of incorporation	Principal place of operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
				Direct	Indirect	
Un Chau Properties Limited	Hong Kong	Hong Kong	\$2	—	100%	Property investment
Units Properties Limited	Hong Kong	Hong Kong	\$2	—	100%	Property investment
Union Way Management Limited	Hong Kong	Hong Kong	\$2	—	100%	Investment holding
Wealrise Investments Limited	Hong Kong	Hong Kong	\$2	—	100%	Property development and property investment
Cinema City Company Limited	Hong Kong	Hong Kong	\$1,000,000	—	85%	Film distribution
Cinema City (Film Production) Company Limited	Hong Kong	Hong Kong	\$5,000,000	—	85%	Film distribution
Golden Princess Amusement Company Limited	Hong Kong	Hong Kong	\$100,000	85%	—	Film distribution
Golden Princess Film Production Limited	Hong Kong	Hong Kong	\$10,000	—	85%	Film distribution

Notes on the Accounts

(Expressed in Hong Kong dollars)

28. Subsidiaries and associated companies (Continued)

(b) Details of the associated companies of Kowloon Development Company Limited are as follows:

Associated company	Place of incorporation	Principal place of operation	Proportion of nominal value of shares indirectly held	Principal activities
Easy Living Property Management Limited	Hong Kong	Hong Kong	49% ordinary	Property management and security services
Sheen Choice Limited	Hong Kong	Hong Kong	49% ordinary	Investment holding
Jeeves (HK) Limited	Hong Kong	Hong Kong	43.125% ordinary	Dry cleaning and laundry services
Asiasoft Hong Kong Limited	Hong Kong	Asia	25.97% ordinary	Provision of information system products and services
Modern Living Property Management Limited	Hong Kong	Hong Kong	24.01% ordinary	Property management and security services
Southern Success Corporation	Cayman Islands	Asia	20% ordinary	Distribution and sales of footwear

29. Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. Forfeited contributions in respect of unvested benefits of staff leavers utilized to reduce the Group's ongoing contributions during the year amounted to \$41,225 (2003: \$21,761). There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was \$712,465 (2003: \$756,921).

Contributions to the Mandatory Provident Funds of \$587,311 (2003: \$563,473) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

Notes on the Accounts

(Expressed in Hong Kong dollars)

30. Material related party transactions

- (a) Polytec Holdings has guaranteed the due performance of a subsidiary of the Group in respect of its obligations under the development agreement as stated in note 11.
- (b) An amount of \$240,700,000 was received from a fellow subsidiary (note 19) during the year and was recorded under "Trade and other payables".
- (c) Details of the acquisition of a subsidiary from Polytec Holdings during the year was set out in note 24(b). Polytec Holdings had advanced a loan to the Group in relation to this acquisition. Details of the loan and interest paid by the Group thereon are disclosed in notes 20 and 3(a) respectively.
- (d) Guarantees in respect of performance bonds provided for certain associated companies were disclosed in note 26.

31. Post balance sheet events

Some of the conditions under the provisional sale and purchase agreement for the acquisition of the property interest (note 18) had not been fulfilled by the vendor. The deposit of \$134.2 million was subsequently refunded to the Group with interest after the balance sheet date.

32. Comparative figures

For better presentation, financing business was reclassified from "others" to "financing and investments" in business segments disclosed in note 2(a) and the comparative figures had been restated accordingly.

33. Ultimate holding company

The directors consider the ultimate holding company at 31 December 2004 to be Polytec Holdings International Limited, incorporated in the British Virgin Islands.