

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

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

The principal activities of the Group are property investment, management and development.

2. PRIOR YEAR ADJUSTMENT

The effect on adoption of the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the Group's interests in associates was not accounted for in the annual financial statements for the year ended 31 December 2003. Comparative amounts for 2003 have been restated, to reflect the adoption of the SSAP 12 (Revised) by an associate, accordingly. Accumulated profits and share of revaluation reserve as at 1 January 2004 have been reduced by HK\$9,614,290 and HK\$13,775,940 respectively. The balances on the Group's interests in associates at 1 January 2004 have been reduced by HK\$23,390,230, representing the share of the deferred tax liabilities recognised by the associate. The effect of the changes is a decrease in release of negative goodwill arising on acquisition of an associate and an increase in taxation for the year ended 31 December 2003 of HK\$1,303,624 and HK\$8,310,666, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of 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 31 December each year.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight line basis over its useful life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Negative goodwill *continued*

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Investments in subsidiaries

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

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in securities

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

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

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 value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment 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.

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses.

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

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

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

Leasehold land	Over the remaining term of the lease
Buildings	Over the shorter of the term of the lease, or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The gain 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.

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 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. Impairment loss is recognised as an expense immediately, unless the asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

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 asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation increase under that SSAP.

Fixed rate notes/floating rate notes issue expenses

Expenses incurred directly in connection with the issue of fixed rate notes/floating rate notes are deferred and amortised on a straight line basis over the terms of the notes.

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 or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date, with the exception of those items covered under forward exchange contracts, which are re-translated at the contracted settlement rate. Gains and losses arising on exchange are dealt with in the income statement.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Foreign currencies *continued*

On consolidation, the financial statements of associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the interests in associates are disposed of.

Taxation

Income tax expense 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 difference arises 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 associates, 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 profit 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 is realised. Deferred tax is charged or credited to 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.

Operating leases

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight line basis over the relevant lease term.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Recognition of income

Rental income is recognised on a straight line basis over the relevant lease term.

Income from property sales is recognised on the execution of a binding sales agreement.

Management fee income and security service income are recognised when the services are rendered.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Financial instruments and derivatives

Interest rate and currency swaps are used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of interest rate and currency swaps are recorded off balance sheet. Interest flows arising on the interest rate swaps are accounted for on an accrual basis.

4. TURNOVER

	2004 HK\$'000	2003 HK\$'000
Turnover comprises:		
Gross rental income from properties	1,150,185	1,135,126
Management fee and security service income	4,301	4,182
	1,154,486	1,139,308

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	129,470	118,555
Retirement benefits scheme contributions (<i>note 35</i>)	5,068	5,006
Forfeited contributions (<i>note 35</i>)	(6,606)	(1,067)
	127,932	122,494
Depreciation	4,942	4,643
Auditors' remuneration	1,629	1,866
Rental income arising from operating leases less out-goings of HK\$248,011,085 (2003: HK\$235,177,762)	(902,174)	(899,948)
Dividends from		
- listed investments	(20,275)	(19,795)
- unlisted investments	(4,672)	(2,818)
Interest income	(1,229)	(1,926)
Loss (gain) on disposal of property, plant and equipment	40	(46)
Exchange loss	37	1,631

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

6. DIRECTORS' REMUNERATION

	2004 HK\$'000	2003 HK\$'000
Directors' fees	661	725
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	11,323	12,093
Bonus	3,083	981
Retirement benefits scheme contributions	232	243
Contractual compensation for loss of office	1,508	—
Forfeited contributions	(2,483)	—
	14,324	14,042

The number of Directors whose remuneration/fees within the bands set out below is as follows:

	2004 No. of Directors	2003 No. of Directors
HK\$ 0 - HK\$1,000,000	8	9
HK\$1,000,001 - HK\$1,500,000	—	—
HK\$1,500,001 - HK\$2,000,000	—	—
HK\$2,000,001 - HK\$2,500,000	—	—
HK\$2,500,001 - HK\$3,000,000	1	1
HK\$3,000,001 - HK\$3,500,000	1	2
HK\$3,500,001 - HK\$4,000,000	—	—
HK\$4,000,001 - HK\$4,500,000	—	1
HK\$4,500,001 - HK\$5,000,000	1	—
HK\$5,000,001 - HK\$5,500,000	—	—
HK\$5,500,001 - HK\$6,000,000	1	—
	12	13

All executive Directors were entitled to housing benefits in 2003. Two directors (the Chairman and Managing Director) did not take up their entitlement for a substantial part of that year.

A review was carried out by the Emoluments Review Committee regarding the compensation and benefit of the Chairman and Managing Director in November 2003. Independent consultants (Watson Wyatt Hong Kong Limited) were engaged. New remuneration structure (reflecting a higher performance-based component) and levels were set effective December 2003. Detailed breakdown of Chairman and Managing Director remuneration for year 2004 is set out below.

Directors' fees paid to Independent non-executive Directors during the year totalled HK\$205,000 (2003: HK\$223,219). They received no other emoluments from the Company or any of its subsidiaries.

6. DIRECTORS' REMUNERATION *continued*

Remuneration breakdown of each of the current executive Directors for year 2004 are set out below:

	Directors' fees HK\$'000	Basic salaries, housing, allowances and benefits HK\$'000	Bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Peter T.C. Lee (<i>Note a</i>)	82	4,146	1,372	12	5,612
Michael T.H. Lee (<i>Note b</i>)	50	3,538	1,212	12	4,812
Pauline W.L. Yu Wong	50	2,596	249	207	3,102
	182	10,280	2,833	231	13,526

Remuneration breakdown of each of the current executive Directors for year 2003 are set out below:

	Directors' fees HK\$'000	Basic salaries, housing, allowances and benefits HK\$'000	Bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Peter T.C. Lee (<i>Note a</i>)	82	2,809	310	12	3,213
Michael T.H. Lee (<i>Note b</i>)	50	2,468	175	12	2,705
Pauline W.L. Yu Wong	50	2,642	248	207	3,147
	182	7,919	733	231	9,065

Notes:

(a) Year 2003: The Chairman did not take up housing benefits to which he was entitled for a substantial part of 2003.

Year 2004: Following a review of his compensation in November 2003, his fixed base package is HK\$4.1 million as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review. The stated bonus figure includes bonus paid for 2003, and 2004 target bonus figure pending finalisation by Emoluments Review Committee after year-end 2004.

(b) Year 2003: The Managing Director did not take up housing benefits to which he was entitled for a substantial part of 2003.

Year 2004: Following a review of his compensation in November 2003, his fixed base package is HK\$3.5 million as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review. The stated bonus figure includes bonus paid for 2003, and 2004 target bonus figure pending finalisation by Emoluments Review Committee after year-end 2004.

7. EMPLOYEE COSTS

The five highest paid individuals included four (2003: four) directors, details of whose remuneration are set out in note 6. The remuneration of the remaining individual (2003: one individual) is detailed as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,000	2,296
Bonus	500	92
Retirement benefits scheme contributions	10	12
Incentive payment on joining	488	—
	2,998	2,400

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on		
- bank loans, overdraft and other loans:		
wholly repayable within five years	22,409	49,304
not repayable within five years	13,530	20,001
- floating rate notes	7,527	10,059
- fixed rate notes	108,263	109,200
	151,729	188,564
Net interest paid (received) from financial instruments:		
- due within five years	38,699	710
- due after five years	(45,387)	(32,926)
	(6,688)	(32,216)
Amortisation of fixed rate and floating rate notes issue expenses	1,965	2,030
Bank charges	11,312	6,884
Medium Term Note Programme expenses	976	897
Hedging expenses	2,356	2,131
	161,650	168,290

9. TAXATION

	2004 HK\$'000	2003 HK\$'000 (restated)
Hong Kong Profits Tax for the year	49,737	51,532
Underprovision in prior years	66	158
Provision arising from prior years additional assessments	55,000	48,000
	104,803	99,690
Deferred tax (<i>note 30</i>):		
- current year	35,473	55,408
- attributable to change in tax rate	—	10,126
	140,276	165,224
Taxation attributable to the Company and its subsidiaries	140,276	165,224
Share of deferred tax attributable to an associate	19,495	8,310
	159,771	173,534

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

9. TAXATION *continued*

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000 (restated)
Profit before taxation	803,090	735,400
Tax at the domestic income tax rate of 17.5%	140,541	128,695
Tax effect of expenses that are not deductible in determining taxable profit	1,866	871
Tax effect of utilisation of tax losses not previously recognised	(23,214)	(10,222)
Tax effect of income that are not assessable in determining taxable profit	(20,050)	(12,644)
Tax effect of tax loss not provided	322	331
Tax effect of share of results of associates	9,349	5,119
Tax effect of initial recognition exception	(4,186)	3,093
Underprovision in prior years	66	158
Provision arising from prior years additional assessments	55,000	48,000
Increase in opening deferred tax balances resulting from an increase in the tax rate in Hong Kong	—	10,126
Others	77	7
Tax expense for the year	159,771	173,534

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 (see note 30).

The Company received notices of additional assessment from the Hong Kong Inland Revenue Department ("IRD") disallowing the deduction claim for interest expenses in prior years. Management has reviewed the basis on which the interest expenses were disallowed, and an additional tax provision of HK\$55 million was made accordingly during the year.

At the date of issue of the accounts, certain subsidiaries of the Group have disputes with IRD regarding additional tax assessments disallowing certain expense deductions claimed in the tax returns for years of assessment 1995/1996 to 1999/2000 (total tax claimed by IRD: HK\$193 million). Having taken separate legal advice from two leading counsels, the Directors are of the view that there were ample grounds to contest the assessments and such Group subsidiaries are pursuing objection against the additional assessments vigorously. Accordingly, no further provision was made during the year under review.

10. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Ordinary shares:		
Interim dividend, paid – HK10 cents per share (2003: HK10 cents)	104,793	104,044
Final dividend, proposed – HK30 cents per share (2003: HK26.5 cents)	314,989	276,547
Additional prior year's dividend paid on exercise of share options subsequent to 31 December 2003	80	—
	419,862	380,591

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

10. DIVIDENDS *continued*

The 2004 final dividend of HK30 cents (2003: HK26.5 cents) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2004 will be payable in cash with a scrip dividend alternative.

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2003 final and 2004 interim dividends. These alternatives were accepted by the shareholders as follows:

	2004 Interim HK\$'000	2003 Final HK\$'000
Dividends:		
Cash	89,055	228,283
Share alternative	15,738	48,343
	104,793	276,626

11. EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (net profit for the year)	609,280	535,792
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,046,427	1,038,528
Effect of dilutive potential ordinary shares:		
Share options	503	40
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,046,930	1,038,568

The adjustment to comparative basic and diluted earnings per share, arising from the prior year adjustment as set out in note 2 is as follows:

	HK\$'000	Basic and diluted HK cents
Reconciliation of 2003 earnings per share:		
Reported figures before adjustments	545,406	52.52
Adjustments arising from prior year adjustment	(9,614)	(0.93)
Restated	535,792	51.59

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings in Hong Kong under long lease HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 January 2004	44,500	43,696	15,056	1,131	104,383
Additions	—	1,212	2,351	—	3,563
Disposals	—	(11)	(45)	—	(56)
Surplus on revaluation	12,000	—	—	—	12,000
At 31 December 2004	56,500	44,897	17,362	1,131	119,890
Comprising:					
At cost	—	44,897	17,362	1,131	63,390
At valuation 2004	56,500	—	—	—	56,500
	56,500	44,897	17,362	1,131	119,890
ACCUMULATED DEPRECIATION					
At 1 January 2004	—	39,141	6,394	1,131	46,666
Provided for the year	677	1,613	2,652	—	4,942
Eliminated on disposals	—	(7)	(9)	—	(16)
Adjustment on revaluation	(677)	—	—	—	(677)
At 31 December 2004	—	40,747	9,037	1,131	50,915
NET BOOK VALUES					
At 31 December 2004	56,500	4,150	8,325	—	68,975
At 31 December 2003	44,500	4,555	8,662	—	57,717
THE COMPANY					
COST					
At 1 January 2004		20,911	14,423	1,131	36,465
Additions		48	2,295	—	2,343
Disposals		(1)	(31)	—	(32)
At 31 December 2004		20,958	16,687	1,131	38,776
ACCUMULATED DEPRECIATION					
At 1 January 2004		19,371	6,202	1,131	26,704
Provided for the year		533	2,521	—	3,054
Eliminated on disposals		(1)	(6)	—	(7)
At 31 December 2004		19,903	8,717	1,131	29,751
NET BOOK VALUES					
At 31 December 2004		1,055	7,970	—	9,025
At 31 December 2003		1,540	8,221	—	9,761

The leasehold land and buildings of the Group were revalued at 31 December 2004 by Knight Frank Hong Kong Limited, an independent professional valuer, on an open market value basis. The surplus arising on revaluation has been credited to asset revaluation reserve.

If leasehold land and buildings of the Group had not been revalued, they would have been included in these financial statements at cost less accumulated depreciation at HK\$32,510,962 (2003: HK\$33,035,506).

Furniture, fixtures and equipment of the Group and the Company include assets carried at cost of HK\$25,268,741 (2003: HK\$24,064,907) and HK\$1,305,266 (2003: HK\$1,297,354) respectively and accumulated depreciation of HK\$21,610,451 (2003: HK\$20,340,314) and HK\$1,051,520 (2003: HK\$948,631) respectively in respect of assets held for use under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$1,280,875 (2003: HK\$1,067,160) and HK\$103,174 (2003: HK\$103,446) respectively.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

13. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	24,366,780	24,841,010	3,030,000	3,295,000
Additions	104,527	417,852	13,384	3,054
Adjustment resulted from cost variation	(941)	(378)	—	—
Surplus (deficit) on revaluation	3,676,824	(891,704)	466,616	(268,054)
At 31 December	28,147,190	24,366,780	3,510,000	3,030,000

The value of investment properties comprises:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Land in Hong Kong:				
- Medium term lease	4,850,000	4,400,000	—	—
- Long lease	23,297,190	19,966,780	3,510,000	3,030,000
	28,147,190	24,366,780	3,510,000	3,030,000

The investment properties of the Group and the Company were revalued at 31 December 2004 by Knight Frank Hong Kong Limited, an independent professional valuer, on an open market value basis. The surplus arising on revaluation has been credited to investment property revaluation reserve.

All of the investment properties of the Group and the Company are held for rental under operating leases.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	5	5
Amounts due therefrom	9,645,437	11,752,758
	9,645,442	11,752,763
Less: Allowances on amounts due therefrom	(404,000)	(404,000)
	9,241,442	11,348,763

The Directors consider that the unlisted investments are worth at least their cost.

Details of the principal subsidiaries held by the Company at 31 December 2004 are set out in note 41.

15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	—	—	3	3
Share of net assets	100,770	10,868	—	—
Negative goodwill of associates	(47,653)	(49,777)	—	—
	53,117	(38,909)	3	3
Amounts due therefrom	817,400	909,947	—	—
	870,517	871,038	3	3
Less: Impairment loss	(15,031)	(21,362)	—	—
	855,486	849,676	3	3

The aggregate attributable share of results of the associates is based on the unaudited management accounts for the year ended 31 December 2004.

The Group's share of post-acquisition losses of an associate exceeds the carrying amount of its equity investment in that associate, since the Group has obligation to meet its funding requirements.

Details of the Group's associates at 31 December 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of share held/ registered capital	Percentage of issued capital/ registered capital held	Principal activity
Parallel Asia Engineering Company Limited	Private limited company	Hong Kong	Share	25	Investment holding
Wingrove Investment Pte Ltd.	Private company limited by shares	Singapore	Share	25*	Property development and leasing
Country Link Enterprises Limited ("Country Link")	Private limited company	Hong Kong	Share	26.3*	Investment holding
Shanghai Kong Hui Property Development Co., Ltd.	Sino-Foreign equity joint venture	The People's Republic of China	US\$165,000,000#	23.7*#	Property development and leasing

* Indirectly held

Registered capital

The negative goodwill of associate arose on the acquisition of Country Link. The gross negative goodwill of HK\$51,901,736 (restated as set out in note 2) had been released to income to the extent of HK\$2,124,440 at 1 January 2004. In the current year, an amount of HK\$2,124,440 (2003: HK\$2,124,440) was released to the consolidated income statement.

Negative goodwill is released to income on a straight line basis of 20 years, represents the remaining average useful life of the assets acquired.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

16. INVESTMENTS IN SECURITIES

THE GROUP

	Other securities	
	2004 HK\$'000	2003 HK\$'000
Equity securities:		
Listed in Hong Kong	914,822	873,547
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Unlisted shares	131,855	136,855
Amounts due therefrom	29,642	56,788
	161,497	193,643
Less: Impairment loss (<i>Note</i>)	(60,333)	(128,333)
	101,164	65,310
	103,195	67,341
	1,018,017	940,888
Market value of securities listed in Hong Kong	914,822	873,547
Carrying amount analysed for reporting purposes as:		
Non-current	1,018,017	940,888

THE COMPANY

	Other securities	
	2004 HK\$'000	2003 HK\$'000
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Carrying amount analysed for reporting purpose as:		
Non-current	2,031	2,031

Note: The Directors reviewed the carrying amount of investment in the equity interests of unlisted investees whose business activity is property development at 31 December 2004. In the light of the improved property market during 2004, the Directors considered impairment loss of HK\$63,000,000 (2003: nil) should be reversed.

17. NEGATIVE GOODWILL

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Carrying amount at 1 January	1,016	1,076
Released to income during the year	(60)	(60)
Carrying amount at 31 December	956	1,016

The negative goodwill which arose on the Group's acquisition of additional interest in a subsidiary is released to income on a straight line basis over a period of 20 years.

18. STAFF HOUSING LOANS, SECURED

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Staff housing loans, secured	2,492	15,375
Less: Amounts due within one year shown under current assets	(245)	(3,188)
	2,247	12,187

The secured advances arise in connection with an established Staff Housing Loan scheme granted to the employees who meet the qualifying criteria. The advances bear a fixed interest rate of 4% (2003: 4%) per annum.

19. OTHER RECEIVABLE, PREPAYMENTS AND DEPOSITS

At 31 December 2003, other receivable of HK\$6,100,223 and HK\$281,483 of the Group and the Company, respectively representing the long-term portion of unamortised incentives granted to tenants, were reclassified from current assets to non-current assets.

20. ACCOUNTS RECEIVABLE

Accounts receivable are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 31 December 2004 and 2003 were aged less than 90 days.

21. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 31 December 2004 and 2003 were aged less than 90 days.

22. RENTAL DEPOSITS FROM TENANTS

At 31 December 2003, the long term portion of rental deposits received from tenants of HK\$138,319,201 and HK\$18,265,804 of the Group and the Company respectively, were reclassified from current liabilities to non-current liabilities.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

23. DEFERRED INCOME

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Deferred income	4,855	5,541
Less: Amount due within one year shown under current liabilities	(685)	(686)
	4,170	4,855

In connection with the US\$200 million 10-year inaugural notes, the Group has entered into derivative transactions to lock in the 10-year US Treasury rate so as to manage its interest rate exposures. The gain on the transactions is deferred and recognised on a straight line basis over the term of the 10-year notes, with final maturity in February 2012.

24. AMOUNTS DUE TO SUBSIDIARIES

The advances are unsecured and are not repayable within one year.

25. ADVANCES FROM INVESTEEES

The advances are unsecured, interest free and are not repayable within one year.

26. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest free and are not repayable within one year.

27. LONG TERM BANK LOANS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans, unsecured	3,502,100	3,962,423	—	1,225,523
The bank loans are repayable as follows:				
Within one year	—	78,000	—	4,000
More than one year, but not exceeding two years	—	668,300	—	668,300
More than two years, but not exceeding five years	1,479,300	1,626,423	—	553,223
More than five years	2,022,800	1,589,700	—	—
	3,502,100	3,962,423	—	1,225,523
Less: Amounts due within one year shown under current liabilities	—	(78,000)	—	(4,000)
	3,502,100	3,884,423	—	1,221,523

28. FLOATING RATE NOTES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Floating rate notes	550,000	400,000
Less: Unamortised notes issue expenses	(2,261)	(868)
	547,739	399,132
Less: Amount due within one year shown under current liabilities	—	(399,132)
	547,739	—

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued HK\$550 million five-year floating rate notes during the year. The notes are guaranteed as to principal and interest by the Company, bear interest ranged from 0.3% to 0.38% over the 3-month HIBOR and are repayable in full in 2009.

HD Finance (BVI) Limited, a wholly-owned subsidiary of the Company, issued HK\$400 million five-year floating rate notes on 3 November 1999. The notes were guaranteed as to principal and interest by the Company, bore interest at the rate of 1.25% over the 3-month HIBOR and were repaid in full in November 2004.

29. FIXED RATE NOTES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Fixed rate notes	1,559,977	1,559,977
Less: Unamortised notes issue expenses	(6,998)	(7,986)
	1,552,979	1,551,991

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US\$200 million 10-year fixed rate notes in February 2002. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 7% per annum and are repayable in full in February 2012.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

30. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and Company and movements thereon during the year.

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Deferred payments HK\$'000	Retirement benefits scheme contributions HK\$'000	Tax losses HK\$'000	Total HK\$'000
THE GROUP						
At 1 January 2003	116,216	5,605	305	(67)	(8,440)	113,619
Charge (credit) to income for the year	57,056	—	(182)	63	(1,529)	55,408
Charge to equity for the year	—	722	—	—	—	722
Effect of change in tax rate						
- charge (credit) to income for the year	10,895	—	29	(6)	(792)	10,126
- charge to equity for the year	—	525	—	—	—	525
At 1 January 2004	184,167	6,852	152	(10)	(10,761)	180,400
Charge (credit) to income for the year	39,899	—	(152)	9	(4,283)	35,473
Charge to equity for the year	—	2,218	—	—	—	2,218
At 31 December 2004	224,066	9,070	—	(1)	(15,044)	218,091

	Accelerated tax depreciation HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
THE COMPANY			
At 1 January 2003	6,354	(39)	6,315
Charge to income for the year	632	40	672
Effect of change in tax rate			
- charge (credit) to income for the year	596	(4)	592
At 1 January 2004	7,582	(3)	7,579
Charge to income for the year	1,487	3	1,490
At 31 December 2004	9,069	—	9,069

At 31 December 2004, the Group has unused tax losses of HK\$1,144 million (2003: HK\$1,170 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$86 million (2003: HK\$61 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,058 million (2003: HK\$1,109 million) due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

The Company does not have any unused tax loss as at balance sheet date.

31. SHARE CAPITAL

	Number of shares		Share capital	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
THE COMPANY				
Ordinary shares of HK\$5 each				
Authorised:				
At 1 January and 31 December	1,450,000	1,450,000	7,250,000	7,250,000
Issued and fully paid:				
At 1 January	1,043,572	1,034,617	5,217,857	5,173,084
Issue of shares pursuant to scrip dividend scheme	5,192	8,955	25,961	44,773
Exercise of share options	1,200	—	6,000	—
At 31 December	1,049,964	1,043,572	5,249,818	5,217,857

On 11 June 2004 and 11 October 2004 respectively, the Company issued and allotted a total of 4,059,085 shares and 1,133,041 shares of HK\$5 each in the Company at HK\$11.91 and HK\$13.89 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2003 final and 2004 interim dividends pursuant to the scrip dividend scheme announced by the Company on 11 May 2004 and 8 September 2004.

During the year, options to subscribe for a total of 1,200,000 shares were exercised at the exercise prices of HK\$7.54 and HK\$13.46 per share. Details of options outstanding and movements during the year are set out in note 34.

These shares rank pari passu in all respects with other shares in issue.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

32. ACCUMULATED PROFITS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
At 1 January	3,795,499	3,640,298	3,533,725	3,736,483
Net profit for the year	609,280	535,792	182,728	177,833
Profit available for distribution	4,404,779	4,176,090	3,716,453	3,914,316
Dividends	(419,862)	(380,591)	(419,862)	(380,591)
At 31 December	3,984,917	3,795,499	3,296,591	3,533,725

The accumulated profits of the Group include accumulated losses of HK\$39,583,731 (2003 (restated): HK\$78,065,324) attributable to associates of the Group.

The distributable reserves of the Company as at 31 December 2004 amounted to HK\$3,396,591,247 (2003: HK\$3,633,725,475), being its accumulated profits and general reserve at that date.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

33. OTHER RESERVES

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000 (restated)	Investment revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000 (restated)
THE GROUP										
At 1 January 2003	1,313,543	7,490,608	319,102	6,613	502,235	—	154,995	100,000	274,174	10,161,270
Premium on issue of shares pursuant to scrip dividend scheme	20,305	—	—	—	—	—	—	—	—	20,305
Share issue expenses	(20)	—	—	—	—	—	—	—	—	(20)
Unrealised gain on investments in other securities	—	—	206,455	—	—	—	—	—	—	206,455
Deficit on revaluation of investment properties	—	(891,704)	—	—	—	—	—	—	—	(891,704)
Surplus on revaluation of land and buildings	—	—	—	4,124	—	—	—	—	—	4,124
Deficit on revaluation of investment properties shared by minority shareholders	—	114,462	—	—	—	—	—	—	—	114,462
Realisation on disposal of investment in other securities	—	—	(37,944)	—	—	—	—	—	—	(37,944)
Share of reserve of an associate	—	27,987	—	—	—	12	—	—	—	27,999
Deferred taxation liabilities arising on revaluation	—	—	—	(722)	—	—	—	—	—	(722)
Effect of change in tax rate on deferred taxation liabilities arising on revaluation of properties and charged to reserves	—	(407)	—	(118)	—	—	—	—	—	(525)
Final dividend for 2002 declared	—	—	—	—	—	—	—	—	(274,174)	(274,174)
Amount set aside for 2003 dividend	—	—	—	—	—	—	—	—	380,591	380,591
Interim dividend for 2003 declared	—	—	—	—	—	—	—	—	(104,044)	(104,044)
Exchange differences on translation of an overseas associate	—	—	—	—	—	(3,020)	—	—	—	(3,020)
At 1 January 2004	1,333,828	6,740,946	487,613	9,897	502,235	(3,008)	154,995	100,000	276,547	9,603,053
Premium on issue of shares pursuant to scrip dividend scheme	38,121	—	—	—	—	—	—	—	—	38,121
Premium on issue of shares on exercise of share options	8,376	—	—	—	—	—	—	—	—	8,376
Share issue expenses	(47)	—	—	—	—	—	—	—	—	(47)
Unrealised gain on investments in other securities	—	—	65,125	—	—	—	—	—	—	65,125
Surplus on revaluation of investment properties	—	3,676,824	—	—	—	—	—	—	—	3,676,824
Surplus on revaluation of land and buildings	—	—	—	12,677	—	—	—	—	—	12,677
Surplus on revaluation of investment properties shared by minority shareholders	—	(223,499)	—	—	—	—	—	—	—	(223,499)
Realisation on disposal of investment in other securities	—	—	(11,957)	—	—	—	—	—	—	(11,957)
Share of reserve of an associate	—	57,354	—	—	—	—	—	—	—	57,354
Deferred taxation liabilities arising on revaluation	—	—	—	(2,218)	—	—	—	—	—	(2,218)
Final dividend for 2003 declared	—	—	—	—	—	—	—	—	(276,547)	(276,547)
Amount set aside for 2004 dividend	—	—	—	—	—	—	—	—	419,782	419,782
Interim dividend for 2004 declared	—	—	—	—	—	—	—	—	(104,793)	(104,793)
Exchange differences on translation of an overseas associate	—	—	—	—	—	(4,371)	—	—	—	(4,371)
At 31 December 2004	1,380,278	10,251,625	540,781	20,356	502,235	(7,379)	154,995	100,000	314,989	13,257,880

33. OTHER RESERVES *continued*

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 2003	1,313,543	1,991,631	154,995	100,000	274,174	3,834,343
Premium on issue of shares pursuant to scrip dividend scheme	20,305	—	—	—	—	20,305
Share issue expenses	(20)	—	—	—	—	(20)
Deficit on revaluation of investment properties	—	(268,054)	—	—	—	(268,054)
Final dividend for 2002 declared	—	—	—	—	(274,174)	(274,174)
Amount set aside for 2003 dividend	—	—	—	—	380,591	380,591
Interim dividend for 2003 declared	—	—	—	—	(104,044)	(104,044)
At 1 January 2004	1,333,828	1,723,577	154,995	100,000	276,547	3,588,947
Premium on issue of shares pursuant to scrip dividend scheme	38,121	—	—	—	—	38,121
Premium on issue of shares on exercise of share options	8,376	—	—	—	—	8,376
Share issue expenses	(47)	—	—	—	—	(47)
Surplus on revaluation of investment properties	—	466,616	—	—	—	466,616
Final dividend for 2003 declared	—	—	—	—	(276,547)	(276,547)
Amount set aside for 2004 dividend	—	—	—	—	419,782	419,782
Interim dividend for 2004 declared	—	—	—	—	(104,793)	(104,793)
At 31 December 2004	1,380,278	2,190,193	154,995	100,000	314,989	4,140,455

(a) **General reserve**

General reserve was set up from the transfer of accumulated profits.

(b) **Capital reserve**

Capital reserve comprises negative goodwill of HK\$516,142,884 (2003: HK\$516,142,884) arising from acquisition of subsidiaries prior to 1 January 2001 and capitalisation issue of a subsidiary.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

34. EXECUTIVE SHARE OPTION SCHEME

The Company operates an Executive Share Option Scheme (the "Scheme") under which options may be granted to employees of the Company or any of its wholly-owned subsidiaries to subscribe for ordinary shares of the Company, thereby strengthening the links between individual staff and shareholder interests. Approved by shareholders on 28 April 1995, the Scheme has a term of 10 years and will expire on 28 April 2005. The maximum number of shares in respect of which options may be granted under the Scheme (together with shares issued and issuable under the Scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The maximum entitlement of each participant under the Scheme is 25% of the maximum number of shares in respect of which options may at any time be granted under the Scheme. The exercise price was fixed at 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the 20 trading days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

As at 31 December 2004, an executive Director of the Company remained as the Scheme participant with shares issuable under options granted representing less than 0.2% (2003: 0.4%) of the issued share capital of the Company. Details of options outstanding and movements during the year are as follows:

Name	Balance as at 1.1.2003 and 1.1.2004	Date of grant	Changes during the year			Balance as at		Exercise price HK\$	Exercisable period
	Date		Cancelled/ lapsed	Granted	Exercised	31.12.2003	31.12.2004		
Peter Ting Chang Lee	1,350,000	7.1.1999	Nil	Nil	Nil	1,350,000	1,350,000	9.22	7.1.2001-6.1.2009
Pauline Wah Ling Yu Wong	900,000	3.5.1995	Nil	Nil	900,000	900,000	Nil	13.46	3.5.1997-2.5.2005

In addition to the above, during the year, options to subscribe for 300,000 shares at an exercise price of HK\$7.54 per share were exercised (closing market price per share immediately before the date of exercise: HK\$15) by a grantee, whose remaining options for 900,000 shares of the Company lapsed upon his resignation. There was no movement with respect to share options granted to that grantee in 2003.

All options referred to above are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

The Directors will recommend the adoption of a new share option scheme in line with the Listing Rules requirements by shareholders at the forthcoming Annual General Meeting to be held on 10 May 2005.

35. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced MPF scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$5,067,976 (2003: HK\$5,006,517). Forfeited contributions for the year amounted to HK\$6,605,786 (2003: HK\$1,067,210) were refunded to the Group.

36. CONTINGENT LIABILITIES

As at 31 December 2004, there were contingent liabilities in respect of the following:

	THE GROUP		THE COMPANY	
	2004 Million	2003 Million	2004 Million	2003 Million
Corporate guarantee to a third party in respect of the sale of the interest in an associate	HK\$3.6	HK\$3.6	HK\$3.6	HK\$3.6
Corporate guarantee to subsidiaries				
- for issue of floating rate notes	—	—	HK\$550.0	HK\$400.0
- for issue of fixed rate notes	—	—	US\$200.0	US\$200.0
Undertaking given to a bank in proportion to shareholding regarding facilities granted to a joint venture property project of an associate	S\$18.6	S\$18.6	—	—
Guarantees to banks to provide financing facilities to				
- An associate	S\$12.0	S\$12.0	S\$12.0	S\$12.0
- A property development project	—	S\$22.0	—	S\$22.0
- Subsidiaries	—	—	HK\$6,229.0	HK\$3,930.0

As at balance sheet date, the Group had given guarantees to banks and financial institutions for entering of derivatives transactions under the International Swap Dealers Association, Inc. ("ISDA") agreement. The notional amounts of the forward rate agreements, interest rate swaps and currency swaps are disclosed in note 39.

37. CAPITAL COMMITMENTS

As at 31 December 2004, the Group and the Company had capital commitments in respect of the following:

	THE GROUP		THE COMPANY	
	2004 Million	2003 Million	2004 Million	2003 Million
Investment properties: Contracted but not provided for	HK\$8.4	HK\$37.6	HK\$0.2	HK\$5.6

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

38. LEASE COMMITMENTS

The Group and the Company as lessee

As at 31 December 2004, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	—	—	6,949	8,072
In the second to fifth year inclusive	—	—	3,199	10,451
	—	—	10,148	18,523

Operating lease payments represent rentals payable by the Company to its subsidiaries for its staff quarters and office premises which are negotiated and fixed for an average of two years and three years respectively.

The Group and the Company as lessor

As at 31 December 2004, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	777,801	798,758	95,094	119,148
In the second to fifth year inclusive	945,539	1,146,345	75,148	151,638
After five years	103,095	136,143	4,704	5,948
	1,826,435	2,081,246	174,946	276,734

Operating lease payments represent rentals receivable by the Group from its investment properties. Leases are negotiated and rentals are fixed for an average of one to three years.

39. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Details of the Group's outstanding derivative instruments at balance sheet date are as follows:

	Notional Principal Amount	
	2004 HK\$'000	2003 HK\$'000
Forward rate agreement — less than one year	—	786,996
Foreign exchange forward contracts		
- less than one year	150,707	205,558
- one to five years	137,058	—
Interest rate swaps		
- less than one year	350,000	—
- one to five years	2,518,983	1,598,983
Currency swaps — after five years	1,559,977	1,559,977
	4,716,725	4,151,514

The Group has used off balance sheet derivative instruments to manage the interest rate and foreign exchange exposures. These instruments, such as interest rate swaps and currency swaps, are employed solely for hedging purpose and no speculative positions have been taken. The Group has also followed the established policy on monitoring and managing the counterparty risk by restricting the derivative transactions to financial institutions with strong investment-grade ratings and limiting the exposures to each counterparty at prudent levels.

40. RELATED PARTY TRANSACTIONS

During the year, the Group has the following transactions with related parties:

Notes	Substantial shareholder		Directors	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Repairs and maintenance expenses paid to	—	—	34	19,969
Gross rental income from (a)	4,495	5,063	17,458	31,468
Construction cost paid during the year for investment properties (b)	—	—	15,783	82,934

As at 31 December 2004, the Group has the following balances with related parties:

Notes	Substantial shareholder		Directors	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Included in creditors and accruals were repairs and maintenance expenses payable to	—	—	—	2,248
Construction cost payable to (b)	—	—	2,624	5,248
Amount due to a minority shareholder (c)	—	—	94,443	92,843

Notes:

- (a) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying periods. The leases were entered into in the normal course of business and the rentals were determined with reference to market rates.
- (b) Dr. Geoffrey M.T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and V-nee Yeh is also Chairman of Hsin Chong Construction Group Ltd. whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited ("Hsin Chong Asia"), entered into a main contract with a subsidiary of the Company relating to the renovation project of Lee Gardens Two. Such transaction was entered into on normal commercial terms and on arm's length basis.

The sum represented the sum paid to, or as the case may be, outstanding balances due under the main contract with Hsin Chong Asia. To the best of the Company's knowledge having made due enquiries, substantially the whole of such contracts were sub-contracted by Hsin Chong Asia to other sub-contractors. The contract sum is not the indicative of the amount actually derived by Hsin Chong Asia under the relevant contract, which amount is substantially less than the relevant contract sum.

- (c) The sum represents outstanding loan advanced by Jebesen and Company Limited to a non wholly-owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. The amount is unsecured, interest free and is not repayable within one year. Hans Michael Jebesen is a director and shareholder of Jebesen and Company Limited.

Notes to the Financial Statements *continued*

For the year ended 31 December 2004

41. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			indirectly	directly	
Admore Investments Limited	Hong Kong	HK\$2	—	100%	Investment holding
Golden Capital Investment Limited	Hong Kong	HK\$2	—	100%	Investment holding
HD Finance (BVI) Limited	British Virgin Islands	HK\$1	—	100%	Treasury operation
HD Treasury Limited	Hong Kong	HK\$2	—	100%	Treasury operation
HD Treasury Management Limited	Hong Kong	HK\$2	—	100%	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK\$1	—	100%	Investment holding
Hysan Leasing Company Limited	Hong Kong	HK\$2	—	100%	Leasing administration
Hysan Treasury Limited	Hong Kong	HK\$2	—	100%	Treasury operation
Hysan (MTN) Limited	British Virgin Islands/Hong Kong	US\$1	—	100%	Treasury operation
Hysan Property Management Limited	Hong Kong	HK\$2	—	100%	Property management
Kwong Hup Holding Limited	British Virgin Islands	HK\$1	—	100%	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK\$1,000	—	100%	Property investment
Minsal Limited	Hong Kong	HK\$2	—	100%	Property investment
Mondsee Limited	Hong Kong	HK\$2	—	100%	Property investment
Stangard Limited	Hong Kong	HK\$300,000	—	100%	Provision of security services
Teamfine Enterprises Limited	Hong Kong	HK\$2	—	100%	Investment holding
Tohon Development Limited	Hong Kong	HK\$2	—	100%	Property investment
Bamboo Grove Recreational Services Limited	Hong Kong	HK\$2	100%	—	Resident club management
HD Investment Limited	British Virgin Islands	HK\$1	100%	—	Investment holding
Jarrow Properties Limited	British Virgin Islands	HK\$1	100%	—	Investment holding
Kochi Investments Limited	British Virgin Islands	HK\$1	100%	—	Capital market investment

41. PRINCIPAL SUBSIDIARIES *continued*

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			indirectly	directly	
Lee Theatre Realty Limited	Hong Kong	HK\$10	100%	—	Property investment
Leighton Property Company Limited	Hong Kong	HK\$2	100%	—	Property investment
Main Rise Development Limited	Hong Kong	HK\$2	100%	—	Investment holding
OHA Property Company Limited	Hong Kong	HK\$2	100%	—	Property investment
Perfect Win Properties Limited	Hong Kong	HK\$2	100%	—	Property investment
Silver Nicety Company Limited	Hong Kong	HK\$20	100%	—	Property investment
South Eagle Investments Limited	British Virgin Islands/Hong Kong	US\$1	100%	—	Property investment
Barrowgate Limited	Hong Kong	HK\$10,000	65.36%	—	Property investment

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially affected the results or assets of the Group. Other than floating rate notes and fixed rate notes issued by Hysan (MTN) Limited as disclosed in notes 28 and 29, none of the subsidiaries had issued any debt securities at the year end.

42. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as the "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 financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs and has so far concluded that adoption of the following new accounting standards may have an impact on the presentation of financial information of the Group:

- HKAS 40 on Investment Property;
- HKAS 32 on Financial Instruments: Disclosures and Presentation;
- HKAS 39 on Financial Instruments: Recognition and Measurement; and
- HKFRS 3 on Business Combinations.

An important underlying concept of these standards is greater use of fair values in measuring transactions. Fair value adjustments are charged to the income statement or to equity as required under the standards.

42. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS *continued*

HKAS 40

HKAS 40 supersedes SSAP 13 "Investment properties" and set out the accounting treatment for investment property and related disclosure. An entity is permitted to choose either the cost model or the fair value model to account for its investment properties subject to certain criteria where fair value model should be used. Specific transitional provisions are provided in the standard.

Upon the Group adopting the fair value model, all revaluation surplus and deficit will be recognised in the income statement. The precise financial impact will depend on the property market condition at reporting dates.

HKAS 32 and 39

The two standards prescribe the accounting treatment, presentation and disclosure requirements of financial instruments and move off-balance sheet items (include derivatives and embedded derivatives) onto the balance sheet. HKAS 32 introduces extensive disclosure in respect of financial instruments and the entity's exposure to financial risks (including interest rate risk and credit risk). HKAS 39 sets out the recognition and measurement requirement of financial instruments and hedge accounting. Hedge accounting can only be permitted under strict criteria stipulated in the standard, appropriate disclosures are required.

As part of its treasury risk management activities, the Group enters into derivatives and forward contracts to hedge against the interest rate risks and foreign currency risks. Typical contracts include interest rate swaps (converting a floating rate debt into fixed rate) and cross currency swaps (converting debts denominated in foreign currency to Hong Kong dollars). All of the existing financial instruments entered by the Group will have to be recognised at fair value on the balance sheet. The Group is not currently in a position to quantify the financial impact as it depends on the financial market condition at reporting dates.

HKFRS 3

HKFRS 3 supersedes SSAP 30 "Business Combinations" and set out the requirement and accounting treatment for business combinations.

Under SSAP 30, negative goodwill, being excess of the acquirer's interest in the fair value of the net identifiable assets acquired over the costs of acquisition, are recognised as a "negative asset" on the balance sheet. Such negative goodwill is released to the income statement based on an analysis of the circumstances.

HKFRS 3 requires the discount arising from acquisition of a subsidiary/associate/joint venture to be recognised immediately in the income statement.

Under the transitional arrangement of HKFRS 3, the outstanding negative goodwill (approximately HK\$49 million) previously recognised on the balance sheet shall be derecognised by way of an adjustment to the shareholders' funds at 1 January 2005. Accordingly, starting from year 2005, there will not be further release of negative goodwill (amounted to approximately HK\$2 million per annum) to the income statement.