

for the year ended 31st December, 2004

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## 1. GENERAL

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Impact of recently issued accounting standards

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

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

### Basis of preparation

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

### Basis of consolidation

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

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

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

### Goodwill and negative goodwill (capital reserve)

Goodwill and negative goodwill (capital reserve) arising on consolidation represents the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets at the date of acquisition of subsidiaries, associates or jointly controlled entities.

for the year ended 31st December, 2004

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

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

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

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

### **Foreign currencies**

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

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

for the year ended 31st December, 2004

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

### Revenue recognition

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

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

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

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

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

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

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

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

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

### Operating leases

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

for the year ended 31st December, 2004

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

### Finance leases

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

### Impairment

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

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

### Employee benefits

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

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

### Taxation

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

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

for the year ended 31st December, 2004

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

### Taxation (Cont'd)

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

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

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

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

### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

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

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

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

for the year ended 31st December, 2004

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

### Property, plant and equipment

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

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

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

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

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

### Intangible assets

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

### Properties under development

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

for the year ended 31st December, 2004

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

### **Investments in subsidiaries**

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

### **Interest in associates**

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

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

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

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

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

### **Investments in securities**

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

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

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

for the year ended 31st December, 2004

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

### **Other investments**

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

### **Properties held for sale**

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

### **Inventories**

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

### **Capitalisation of borrowing costs**

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

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



for the year ended 31st December, 2004

### 3. TURNOVER

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

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

### 4. SEGMENTAL INFORMATION

The Group has the following main business segments:

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

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

for the year ended 31st December, 2004

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

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

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

for the year ended 31st December, 2004

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

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

for the year ended 31st December, 2004

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

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

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

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

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

for the year ended 31st December, 2004

**6. PROFIT FROM OPERATIONS**

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

for the year ended 31st December, 2004

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

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

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

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

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

### (a) Directors' emoluments

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

for the year ended 31st December, 2004

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

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

The emoluments of the Directors were within the following bands:

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

### (b) Employees' emoluments

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

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

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

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

for the year ended 31st December, 2004

**8. FINANCE COSTS**

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

**9. TAXATION**

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

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

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



for the year ended 31st December, 2004

## 9. TAXATION (CONT'D)

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

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

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

Details of deferred taxation are set out in note 21.

for the year ended 31st December, 2004

# 10. DIVIDEND

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

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

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

# 11. EARNINGS PER SHARE

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

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

for the year ended 31st December, 2004

## 12. INVESTMENT PROPERTIES

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

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

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

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

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

for the year ended 31st December, 2004

**13. PROPERTY, PLANT AND EQUIPMENT**

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

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

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

for the year ended 31st December, 2004

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

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

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

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

### 14. INTANGIBLE ASSETS

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

for the year ended 31st December, 2004

**15. NEGATIVE GOODWILL**

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

**16. PROPERTIES UNDER DEVELOPMENT**

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

for the year ended 31st December, 2004

# 16. PROPERTIES UNDER DEVELOPMENT (CONT'D)

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

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

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

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

# 17. INTEREST IN SUBSIDIARIES

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

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

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

# 18. INTEREST IN ASSOCIATES

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

for the year ended 31st December, 2004

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

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

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

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

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



for the year ended 31st December, 2004

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

(iii) Unamortised goodwill on acquisition of listed associates

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

(iv) Unamortised negative goodwill on acquisition of listed associates

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

for the year ended 31st December, 2004

# 18. INTEREST IN ASSOCIATES (CONT'D)

- (v) Unamortised goodwill on acquisition of unlisted associates

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

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

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

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

for the year ended 31st December, 2004

# 18. INTEREST IN ASSOCIATES (CONT'D)

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

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

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

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

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

for the year ended 31st December, 2004

# 19. INTEREST IN JOINTLY CONTROLLED ENTITIES

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

Note:

Unamortised goodwill on acquisition of a jointly controlled entity

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

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

for the year ended 31st December, 2004

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

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

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

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

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

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

for the year ended 31st December, 2004

**20. INVESTMENTS**

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

for the year ended 31st December, 2004

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

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

Notes:

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

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

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

for the year ended 31st December, 2004

## 21. DEFERRED TAXATION

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

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

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

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



for the year ended 31st December, 2004

## 21. DEFERRED TAXATION (CONT'D)

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

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

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

## 22. PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

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

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

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

for the year ended 31st December, 2004

### 23. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

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

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

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

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

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

for the year ended 31st December, 2004

## 24. ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

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

## 25. SHARE CAPITAL

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

for the year ended 31st December, 2004

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

### **Consolidation of shares**

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

### **Exercise of warrants**

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

## **26. WARRANTS**

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

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

for the year ended 31st December, 2004

**27. RESERVES**

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

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

for the year ended 31st December, 2004

## 27. RESERVES (CONT'D)

Notes:

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

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

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

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

## 28. AMOUNTS DUE TO SUBSIDIARIES

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

for the year ended 31st December, 2004

**29. BANK BORROWINGS**

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

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

for the year ended 31st December, 2004

### 30. LOAN NOTES

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

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

### 31. OTHER LIABILITIES

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

Note:

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

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



for the year ended 31st December, 2004

### 32. ACQUISITION OF SUBSIDIARIES

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

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

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

for the year ended 31st December, 2004

### 33. DISPOSAL OF SUBSIDIARIES

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

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

### 34. MAJOR NON-CASH TRANSACTION

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

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

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

for the year ended 31st December, 2004

### 35. CONTINGENT LIABILITIES

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

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

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

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

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

for the year ended 31st December, 2004

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

(c) (CONT'D)

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

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

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

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

### 36. CAPITAL COMMITMENTS

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

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

for the year ended 31st December, 2004

### 37. OPERATING LEASE ARRANGEMENTS

#### The Group as lessee

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

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

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

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

#### The Group as lessor

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

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

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

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

for the year ended 31st December, 2004

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### **38. RETIREMENT BENEFIT SCHEMES**

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

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

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

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

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

### **39. PLEDGE OF ASSETS**

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

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

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

for the year ended 31st December, 2004

#### 40. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Summary of transactions

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

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

for the year ended 31st December, 2004

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

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

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

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

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

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

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

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



for the year ended 31st December, 2004

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

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

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

for the year ended 31st December, 2004

#### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

for the year ended 31st December, 2004

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

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

for the year ended 31st December, 2004

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

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

for the year ended 31st December, 2004

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

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

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

for the year ended 31st December, 2004

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

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

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

for the year ended 31st December, 2004

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

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

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

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

for the year ended 31st December, 2004

#### 43. PARTICULARS OF PRINCIPAL ASSOCIATES

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

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

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

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



for the year ended 31st December, 2004

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

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

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

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