

ANNUAL REPORT 2004



ALLIED GROUP LIMITED

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BOARD OF DIRECTORS

Gordon Macwhinnie

Non-Executive Chairman/

Independent Non-Executive Director

Lee Seng Hui

Chief Executive

Edwin Lo King Yau

Executive Director

Lee Su Hwei

Non-Executive Director

Arthur George Dew

Non-Executive Director

Wong Po Yan

Independent Non-Executive Director

David Craig Bartlett

Independent Non-Executive Director

John Douglas Mackie

Independent Non-Executive Director

EXECUTIVE COMMITTEE

Lee Seng Hui *Chairman*

Edwin Lo King Yau

REMUNERATION COMMITTEE

David Craig Bartlett *Chairman*

Gordon Macwhinnie

Arthur George Dew

Wong Po Yan

John Douglas Mackie

AUDIT COMMITTEE

Gordon Macwhinnie *Chairman*

Arthur George Dew

Wong Po Yan

David Craig Bartlett

John Douglas Mackie

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

CITIC Ka Wah Bank Limited

Fubon Bank (Hong Kong) Limited

Standard Chartered Bank (Hong Kong) Limited

Wing Hang Bank, Limited

REGISTERED OFFICE

22nd Floor

Allied Kajima Building

138 Gloucester Road

Wanchai

Hong Kong

SHARE REGISTRAR

Computershare Hong Kong Investor

Services Limited

Shops 1712-1716

17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

COMPANY SECRETARY

Phoebe Lau Mei Yi

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Leland Chu & Co.

Haldanes

Mallesons Stephen Jaques

P. C. Woo & Co.

I am very pleased to advise you that 2004 was a year of record results for the Group. There was an improvement in both the local property and financial markets in the year under review. Accordingly, the year end valuation of the Hong Kong properties of Allied Properties (H.K.) Limited ("Allied Properties") and its subsidiaries has caused revaluation surpluses and a reversal of impairment losses to be credited to the income statement. The Group's financial services operations also provided increased profitable contributions to the results for the year.

FINANCIAL RESULTS

For the year ended 31st December, 2004, the Group's turnover increased to HK\$1,911.0 million, an increase of 18.7% from 2003. Profit attributable to shareholders for the year increased from HK\$486.5 million in 2003 to HK\$760.0 million, representing an increase of 56.2%.

DIVIDEND

The Directors have proposed a final dividend of HK10 cents per share (2003: Nil) payable to shareholders whose names appear on the register of members of the Company on 3rd June, 2005. It should also be noted that the Company continued to repurchase its shares during the year at an aggregate consideration of HK\$35.3 million. The effect of these share repurchases in 2003 and 2004 is evident in the results for 2004. Earnings per share rose by 88.9% over 2003, compared to a corresponding increase of only 56.2% in total earnings. The Company will continue to use surplus cash to repurchase its shares for cancellation.

CLOSURE OF REGISTER

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

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

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

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

FUTURE PROSPECTS

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

APPRECIATION

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



Sir Gordon Macwhinnie

Chairman

Hong Kong, 14th April, 2005

INTRODUCTION

The Company is primarily an investment holding company, with a stated strategy of focusing its management and financial resources on its core businesses of property investment and development together with financial services. The Company's interests in property investment and development in Hong Kong are mainly held through its 74.80% holding in Allied Properties and in respect of property investment and development in the People's Republic of China ("PRC"), through the 48.60% holding in Tian An China Investments Company Limited ("Tian An") held by Sun Hung Kai & Co. Limited ("Sun Hung Kai"). The Company's financial services business is mainly conducted through its 54.99% effective holding in United Asia Finance Limited ("UAF") as well as Allied Properties' 74.99% holding in Sun Hung Kai.

FINANCIAL REVIEW

The turnover of the Group for the year 2004 was approximately HK\$1,911.0 million, an increase of 18.7% from the previous year due primarily to the increase in income from the Group's financial services divisions.

The Group reported a profit attributable to shareholders for the year of approximately HK\$760.0 million, an increase of 56.2% compared to approximately HK\$486.5 million for the preceding year. The increase was the result of a stronger performance from the Group's financial services divisions and, following the recovery of the Hong Kong property market, revaluation surpluses and a reversal of impairment losses were available from the Group's Hong Kong property portfolio. All in all, a stronger performance was recorded from all of the Group's core operations.

Segmental Information

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

Financial Resources, Liquidity and Capital Structure

An ordinary resolution for approving the consolidation of every ten shares of HK\$0.20 each into one consolidated share of HK\$2.00 each of the Company was duly passed at an extraordinary general meeting of the Company held on 22nd July, 2004.

At 31st December, 2004, the net assets of the Group amounted to HK\$4,949.4 million, representing an increase of HK\$793.5 million or approximately 19.1% from 2003. The Group maintained a strong cash and bank balance position and had cash and bank balances of approximately HK\$767.0 million as at 31st December, 2004 (2003: HK\$764.6 million). The Group's bank and other borrowings, together with loan notes, totalling HK\$2,232.7 million (2003: HK\$2,422.2 million) of which the portion due on demand or within one year decreased to HK\$890.6 million (2003: HK\$1,110.3 million) and the remaining long-term portion slightly increased to HK\$1,342.1 million (2003: HK\$1,311.9 million). The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 2.06 times (2003: 1.79 times). The Group's gearing ratio (net bank and other borrowings together with loan notes/net assets) decreased to 29.6% (2003: 39.9%).

The Group's capital expenditure, investments and repurchases of shares and loan notes were primarily funded by net cash inflow from operating activities and bank and other borrowings.

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

The bank borrowings of the Group were charged at floating interest rates. Other finance costs decreased from HK\$61.3 million in 2003 to HK\$49.4 million during the year as a result of reduction of bank borrowings and continuous efforts made in reducing the interest rates margin payable, as well as a lower interest rate environment in 2004.

Risk of Foreign Exchange Fluctuation

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

Additional Interest in Subsidiary

The Group's equity interest in Allied Properties increased from 74.61% to 74.80% at the year end, mainly due to the conversion of 36,189,730 warrants into 36,189,730 shares at a total consideration of HK\$90.5 million during the year.

Acquisition of a Subsidiary

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

Acquisition of Additional Interest in Tian An

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

Contingent Liabilities

Details of contingent liabilities are set out in note 38 to the financial statements.

Material Litigation Update

- (a) On 28th February, 2005, by order of the High Court of Hong Kong, the claim by Shenzhen Building Materials Group Co. Limited against Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of Sun Hung Kai, was dismissed with costs to SHKIS.

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

- (b) By the Judgment of the High Court of Hong Kong on 1st April, 2004 (“Judgment”) in HCA3191/1999 between New World Development Company Limited (“NWDC”) and Stapleton Development Limited against Sun Hung Kai Securities Limited (“SHKS”), a wholly-owned subsidiary of Sun Hung Kai, SHKS was ordered to pay NWDC the sum of HK\$105,534,018 together with interest on the principal sum of HK\$80,117,653 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which the Court found (“Oral Agreement”). As at 17th June, 2004, the date when the Judgment sum was to be paid, the Judgment amounted to HK\$150,115,682 (being HK\$105,534,018 plus interest of HK\$44,581,664). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum (“Appeal”) to the Court of Appeal. The Appeal has been set down for hearing commencing 7th June, 2005. The decision of the Court of Appeal is likely to be delivered some months after the Appeal. Matters relating to the Judgment are further described in notes 7, 22 and 38(c) to the financial statements.
- (c) Shun Loong Finance Limited and Shun Loong Holdings Limited (together the “Petitioners”), both wholly-owned subsidiaries of Sun Hung Kai, filed a winding-up petition on 19th February, 2004 in the British Virgin Islands (“B.V.I.”) seeking an order that Shanghai Finance Holdings Limited be wound up by reason of its failure to pay debts owing to the Petitioners. The B.V.I. proceedings were stayed by order of the B.V.I. court. The Petitioners have appealed that decision but have agreed not to pursue the appeal during the stay of 200/2004.
- (d) Sun Hung Kai, Sun Tai Cheung Credits Limited, an indirect wholly-owned subsidiary of Sun Hung Kai, and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.
- (e) SHKIS filed a notice of action on 8th June, 2004 in Canada naming as defendants Sung Chun (“Sung”), Song Lei (“Song”) and the Bank of Montreal claiming from Sung and Song reimbursement for funds totalling US\$1,300,000 transferred by them in addition to costs, and against the Bank of Montreal for an injunction freezing the subject funds or alternatively for payment of the funds into court. SHKIS discontinued the action in respect of the Bank of Montreal, and agreed to a dismissal of the action against Song. The funds are currently in the custody of the Superior Court of Justice. On 31st March, 2005, the Court granted summary judgment to SHKIS in the amount of Canadian currency sufficient to purchase HK\$10,533,000 plus prejudgment and postjudgment interest thereon.
- (f) SHKIS filed a writ on 23rd July, 2004 in Hong Kong naming as defendants Sellon Enterprises Limited (“Sellon”), Sung and Song and seeking a declaration that Sellon holds property wholly or in part on trust for SHKIS.

Pledge of Assets

Details regarding pledging of assets are set out in note 42 to the financial statements.

OPERATIONAL REVIEW

FINANCIAL SERVICES

Consumer finance

The profit contribution from UAF increased substantially in 2004, with bad debt charges decreasing significantly in line with the lower number of personal bankruptcies.

UAF's loan portfolio grew substantially during the year. This was due to: (a) aggressive advertising and promotional campaigns, and (b) the acquisition from a credit card operator of its credit card loan portfolio together with the related customer database, which acquisition enabled UAF to substantially increase its customer base and provided opportunities for cross-selling of its products and services.



At 31st December, 2004, UAF maintained 28 branches, with a number of branches being relocated to better locations during the year in order to improve overall customer traffic and operating efficiency.

In view of the recovery of the Hong Kong economy, UAF will seek to expand its branch network and introduce new financial products to further improve its profit contributions.



Broking and finance

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

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

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

OPERATIONAL REVIEW (CONT'D)



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

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

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

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

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

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

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



Sun Hung Kai's signing ceremony with Sun Microsystems for a next-generation computerised dealing system

OPERATIONAL REVIEW (CONT'D)

PROPERTIES

Hong Kong

Allied Properties recorded a profit of approximately HK\$668.5 million, representing a 115.0% increase from its profit of approximately HK\$311.0 million in the year 2003. The stronger performance of Allied Properties was largely due to revaluation surpluses and a reversal of impairment losses previously charged to the income statements following the recovery in the property market. Allied Properties' rental income also increased moderately during the year under review. Important contributors of rental income included St. George Apartments, China Online Centre, Century Court and Allied Cargo Centre. Allied Properties will take advantage of the buoyant property market to review its Hong Kong rental property portfolio with a view to maximising yields.

The properties of Allied Kajima group, which is 50% indirectly owned by Allied Properties, including Allied Kajima Building, Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel, together contributed a 15.9% increase in profit compared to the previous year.



Ibis North Point

Phase two of Ibis North Point ("Ibis") was completed after the issuance of the occupation permit in December 2004. With this new 275-room hotel on Java Road fully operational, Allied Properties' recurrent income is expected to increase further. Following the completion of Ibis, all of Allied Properties' development projects in Hong Kong have been completed. Allied Properties will continue to assess opportunities for appropriate property investments should they arise. In this regard, Allied Properties purchased the whole of the 22nd floor, No.9 Queen's Road Central in late 2004.



Novotel Century Hong Kong hotel - Biz Room



Novotel Century Hong Kong hotel - Biz Lounge

Mainland PRC

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



Perspective of Shenzhen Tian An Golf Garden Phase III

OPERATIONAL REVIEW (CONT'D)

In the longer term, Tian An hopes to improve its performance by adoption of the following policies, namely: (a) retaining developed commercial properties with long-term capital appreciation potential for rental

yield thereby providing a stable recurrent income base, (b) disposing of inventories of properties and land in non-core cities and concentrating on the development of its very substantial land bank in the major cities of the PRC, and (c) continuing to streamline its management and cost structure.



Changchun
Tian An City One



Perspective of Nantong
Tian An Garden



Wuxi Redhill Peninsula

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

INVESTMENTS**Quality HealthCare Asia Limited ("QHA")**

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



Quality HealthCare Medical Centre

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

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

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

OPERATIONAL REVIEW (CONT'D)***Yu Ming Investments Limited ("Yu Ming")***

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

Shanghai Allied Cement Limited ("SAC")

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



Factory buildings of new cement plant in Shandong under construction

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

MAJOR SUPPLIERS AND CUSTOMERS

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

EMPLOYEES

The total number of staff of the Group at 31st December, 2004 was 2,180 (2003: 2,150). Total staff costs, including Directors' emoluments, amounted to HK\$341.9 million (2003: HK\$299.8 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S CONSUMER FINANCE BUSINESS***Credit Risk***

Credit risk is the risk that a customer of the Group will be unable or unwilling to meet a commitment when it falls due. It arises from any lending activities undertaken or credit facilities provided. The management implements lending guidelines and credit policies to keep credit exposure in check. In view of the current operating environment, the management continued to adopt strict lending guidelines and more credit reference checking procedures. Control systems including internal audit functions are in place to check and ensure compliance with such guidelines and policies. The executives review credit exposure reports and bad debt and doubtful debt provision policies periodically and adjustments to credit policies and guidelines are made where appropriate.

Foreign Exchange Risk

The management adopts a conservative policy to limit its foreign exchange exposure to a certain percentage of its total assets. The Group also assesses the risk of exposure according to the fluctuation in foreign exchange rate of the currency concerned. When circumstances justify, the Group will hedge its exposure as appropriate.

Market Risk

Market risk is the risk that interest rates, commodity or equity prices will move in a direction adversely affecting the Group's financial position. The Group will take positions on market risk related financial instruments as circumstances justify. However, the Group adopts a conservative view on exposure to market risk related financial instruments and it monitors its exposure to the market risk on a regular basis.

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S BROKING AND FINANCE BUSINESSES

The management of risks in respect of the Group's broking and finance businesses (other than the consumer finance business) is primarily conducted by Sun Hung Kai and described as follows:

Operational Risk

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

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

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

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S BROKING AND FINANCE BUSINESSES (CONT'D)***Credit Risk***

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

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

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

Liquidity Risk

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

Capital Risk

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

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

Interest Rate Risk

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

Foreign Exchange Risk

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

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S BROKING AND FINANCE BUSINESSES (CONT'D)

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

Market Risk

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

Reputational Risk

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

BUSINESS OUTLOOK

The recovering Hong Kong economy is encouraging for the future performance of the Group. With deflation reversed and employment rate improving, the Board expects that the economy and the real estate market in Hong Kong should perform well in the near future. The Hong Kong tourist market is expected to improve with the planned opening of the Hong Kong Disneyland in September 2005. Nevertheless, recent upward price fluctuations of crude oil and the rising trend of interest rates are serious factors creating uncertainty for the future economic outlook. The management will make every effort to deliver a satisfactory set of results for 2005 and maximise returns for all shareholders.

**Lee Seng Hui***Chief Executive*

Hong Kong, 14th April, 2005

GORDON MACWHINNIE

Sir Gordon Macwhinnie, C.B.E., J.P., aged 82, Non-Executive Chairman and Independent Non-Executive Director of the Company since December 1997 and March 1993 respectively, is a chartered accountant and has had a distinguished career in both the public and private sectors in the more than fifty years that he has been in Hong Kong. He was the first president of the Hong Kong Society of Accountants (renamed as the Hong Kong Institute of Certified Public Accountants ("HKICPA") in September 2004) and served on the Standing Commission on Civil Service Salaries and Conditions of Service. His past appointments include a member of the Operations Review Committee of the Independent Commission Against Corruption, the deputy chairman and member of the Council of the Hong Kong Polytechnic, a director of the Mass Transit Railway Corporation, the chairman of the Ocean Park Corporation and The Royal Hong Kong Jockey Club, and a member of the Council of the University of Science and Technology of Hong Kong for ten years. He is currently the non-executive chairman and an independent non-executive director of Allied Properties. He is also an independent non-executive director of Sun Hung Kai.

LEE SENG HUI

Mr. Lee Seng Hui, aged 36, Chief Executive of the Company since January 1998, graduated from the Law School of the University of Sydney with Honours. Previously, he worked with Baker & McKenzie and N M Rothschild & Sons (Hong Kong) Limited. He was appointed a Non-Executive Director of the Company in July 1992 and became an Executive Director of the Company in December 1993. He is also a non-executive director of Yu Ming.

EDWIN LO KING YAU

Mr. Edwin Lo King Yau, aged 44, a chartered company secretary and holder of a Master's Degree in Applied Finance from Macquarie University, Australia, was appointed an Executive Director of the Company in May 2000. He had served various executive roles in several companies in Hong Kong including as company secretary for public listed companies. He is also an executive director of Tian An.

LEE SU HWEI

Ms. Lee Su Hwei, aged 34, was appointed a Non-Executive Director of the Company in May 2000. She holds a Bachelor of Economics Degree from the University of Sydney and has experience as an investment analyst and in the securities industry generally in Hong Kong and the region.

ARTHUR GEORGE DEW

Mr. Arthur George Dew, aged 63, was appointed an Independent Non-Executive Director of the Company in December 1995 and re-designated as a Non-Executive Director of the Company in July 2002. He graduated from the Law School of the University of Sydney, Australia, and was admitted as a solicitor and later as a barrister of the Supreme Court of New South Wales, Australia. He is currently a non-practising barrister. He has a broad range of corporate and business experience and has served as a director, and in some instances chairman of the board of directors, of a number of public companies listed in Australia, Hong Kong and elsewhere. He is the chairman of Sun Hung Kai and also the executive chairman of QHA.

WONG PO YAN

Mr. Wong Po Yan, C.B.E., G.B.M., J.P., aged 81 and an Independent Non-Executive Director of the Company since March 1993, is one of Hong Kong's leading residents with an outstanding record of business and public service. He is the chairman and managing director of United Oversea Enterprises Ltd., vice chairman of The Committee for the Basic Law of the HKSAR under the Standing Committee of the National People's Congress and chairman of the board of Asia Television Ltd.

DAVID CRAIG BARTLETT

Mr. David Craig Bartlett, aged 39, was appointed an Independent Non-Executive Director of the Company in December 1999. He graduated with honours in law from Exeter University in the United Kingdom in 1988 and subsequently qualified as a solicitor in England and Wales, The Republic of Ireland and the Hong Kong Special Administrative Region. A former partner of the international law firm Clyde & Co., he regularly acted for and advised the Company and its subsidiaries before leaving private practise for a career in industry. Now based primarily in Ireland, he is also an independent non-executive director of Sun Hung Kai.

JOHN DOUGLAS MACKIE

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

AKIHIRO NAGAHARA

Mr. Akihiro Nagahara, aged 64, is the managing director of UAF, a subsidiary of the Company. He holds a law degree from the National Taiwan University and a master degree from the Graduate School in Law of the National Hitotsubashi University of Japan, where he also completed his doctorate courses. He is an acknowledged expert in the consumer finance business in Hong Kong and is credited with the successful establishment of JCG Finance Company, Limited.

KENNETH LI CHI KONG

Mr. Kenneth Li Chi Kong, aged 51, a member of the Institute of Chartered Accountants of Scotland and a fellow of the HKICPA, joined the Company in January 1996 and is the Group Financial Controller of the Company. He has broad experience in the finance and accounting field, having worked in two major audit firms and as group financial controller for several sizeable listed companies in Hong Kong. He is currently an executive director of Allied Properties, Tian An and SAC.

KELVIN LAM KAM WING

Mr. Kelvin Lam Kam Wing, aged 38, is the Qualified Accountant of the Company. He obtained a Master Degree in Business Administration from The Chinese University of Hong Kong in 1999 and is a fellow of the Association of Chartered Certified Accountants and an associate member of the HKICPA. Before Mr. Lam joined the Group in 1992, he had worked in an international accounting firm for four years.

PHOEBE LAU MEI YI

Miss Phoebe Lau Mei Yi, aged 38, joined the Group since February 1994 as an Assistant Company Secretary and was appointed Company Secretary of the Company in May 2000. She is an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. She is also the company secretary of Allied Properties.

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2004 are set out in notes 45, 46 and 47 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 26 and in the accompanying notes to the financial statements.

The Directors have proposed the payment of a final dividend of HK10 cents per share payable to shareholders whose names appear on the register of members of the Company on 3rd June, 2005. Since no interim dividend was paid, the total dividend for the year is HK10 cents per share. Details are set out in note 11 to the financial statements.

INVESTMENT PROPERTIES

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

The Group's investment properties were revalued on 31st December, 2004 at HK\$2,487,436,000. The net revaluation surplus of HK\$99,220,000 has been credited to the income statement.

Details of these and other movements in the investment properties of the Group during the year are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent HK\$31,377,000 on property, plant and equipment. The Group also disposed of certain of its property, plant and equipment with a net carrying value of HK\$728,000.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

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

Details of these and other movements in the properties under development of the Group during the year are set out in note 18 to the financial statements.

PROPERTIES

Particulars of major properties of the Group at 31st December, 2004 are set out on pages 91 and 92.

SHARE CAPITAL

Details of movement in the share capital of the Company during the year are set out in note 28 to the financial statements.

SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 29 to the financial statements.

DIRECTORS

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

Executive Directors:

Lee Seng Hui
Edwin Lo King Yau

Non-Executive Directors:

Lee Su Hwei
Arthur George Dew

Independent Non-Executive Directors:

Gordon Macwhinnie
Wong Po Yan
David Craig Bartlett
John Douglas Mackie (appointed on 1st February, 2004)

In accordance with Article 105(A) of the Company's Articles of Association, Sir Gordon Macwhinnie, Mr. David Craig Bartlett and Ms. Lee Su Hwei will retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

TERMS OF OFFICE FOR THE NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTERESTS

At 31st December, 2004, Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, had the following interests in the shares of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO"):

Name of Director	Number of shares held	Approximate % of the issued share capital	Nature of interest
Lee Seng Hui	101,906,613	39.09%	Personal interest (held as beneficial owner) in 22,921 shares and other interest in 101,883,692 shares (Note 1)
Lee Su Hwei	101,883,692	39.08%	Other interest (Note 1)

Notes:

1. Mr. Lee Seng Hui and Ms. Lee Su Hwei are trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 101,883,692 shares of the Company.
2. The interest stated above represents long position.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, Messrs. Lee Seng Hui, Arthur George Dew and Edwin Lo King Yau and Ms. Lee Su Hwei, Directors of the Company (not being the Independent Non-Executive Directors), are considered to have interests in the following competing businesses pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"):

- (i) Mr. Lee Seng Hui and Ms. Lee Su Hwei are two of the trustees of Lee and Lee Trust which is a deemed substantial shareholder of each of Allied Properties, Sun Hung Kai, Tian An and Lippo Limited ("Lippo") which, through their subsidiaries, are partly engaged in the businesses as follows:
 - Allied Properties, through a subsidiary, is partly engaged in the business of money lending;
 - Sun Hung Kai, through certain of its subsidiaries, is partly engaged in the businesses of money lending, provision of financial services and property investment;
 - Tian An, through a subsidiary, is partly engaged in the business of money lending; and
 - Lippo, through its subsidiaries, is partly engaged in the businesses of property development and investment, securities broking, securities trading, money lending, provision of financial, insurance as well as other related services;
- (ii) Mr. Arthur George Dew is a director of Sun Hung Kai which, through certain of its subsidiaries, is partly engaged in the businesses of money lending, provision of financial services and property investment; and
- (iii) Mr. Edwin Lo King Yau is a director of Tian An which, through a subsidiary, is partly engaged in the business of money lending.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

Name of shareholder	Number of shares held	Approximate % of the issued share capital	Notes
Cashplus Management Limited ("Cashplus")	26,039,000	9.98%	–
Zealous Developments Limited ("Zealous")	26,039,000	9.98%	1, 2
Minty Hongkong Limited ("Minty")	75,844,692	29.09%	–
Lee and Lee Trust	101,883,692	39.08%	3, 4
COL Capital Limited ("COL Capital")	23,792,494	9.13%	5

Notes:

1. This figure refers to the same interest of Cashplus in 26,039,000 shares of the Company.
2. Cashplus is a wholly-owned subsidiary of Zealous. Zealous was therefore deemed to have an interest in the shares in which Cashplus was interested.
3. Minty and Zealous are wholly owned by the trustees of Lee and Lee Trust, being a discretionary trust.
4. Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, together with Mr. Lee Seng Huang are the trustees of Lee and Lee Trust and were therefore deemed to have an interest in the shares in which Minty and Zealous were interested.
5. The interest includes the holding of: (i) 16,337,170 shares held by Honest Opportunity Limited ("Honest Opportunity"), a wholly-owned subsidiary of Classic Fortune Limited ("Classic Fortune") which in turn is a wholly-owned subsidiary of COL Capital; and (ii) 7,455,324 shares held by Focus Clear Limited ("Focus Clear"), a wholly-owned subsidiary of Besford International Limited ("Besford") which in turn is a wholly-owned subsidiary of COL Capital. COL Capital was therefore deemed to have an interest in the shares in which Honest Opportunity, Classic Fortune, Focus Clear and Besford were interested.
6. All interests stated above represent long positions. At 31st December, 2004, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTION

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company made the following purchases of its own shares on the Stock Exchange:

Month of purchase on the Stock Exchange in 2004	Number of shares purchased	Purchase consideration per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
April 2004	391,800*	6.80*	6.40*	2,610,100
May 2004	884,600*	6.70*	5.80*	5,731,600
June 2004	905,400*	6.70*	6.20*	5,838,460
July 2004	536,200*	6.50*	6.25*	3,465,810
August 2004	129,400	6.50	6.35	833,050
October 2004	932,400	7.50	7.25	6,941,600
November 2004	978,000	8.00	7.50	7,550,700
December 2004	278,000	7.95	7.75	2,192,100

* These figures for the shares purchased by the Company and the purchase consideration per share were adjusted for the share consolidation of the Company on the basis of every ten shares of HK\$0.20 each into one consolidated share of HK\$2.00 each with effect from 23rd July, 2004.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

DONATIONS

The Group made charitable donations of HK\$428,000 during the year.

CORPORATE GOVERNANCE*Code of Best Practice*

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

Code of Conduct regarding Securities Transactions by Directors

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

Independence of Independent Non-Executive Directors

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board

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

Sir Gordon Macwhinnie

Chairman

Hong Kong, 14th April, 2005

Deloitte. 德勤

TO THE MEMBERS OF ALLIED GROUP LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 26 to 89 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 14th April, 2005

Consolidated Income Statement

for the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	3 & 4	1,910,952	1,609,482
Other operating income		44,509	71,353
Total income		1,955,461	1,680,835
Cost of sales		(269,419)	(163,525)
Brokerage and commission expenses		(161,553)	(99,639)
Selling expenses		(44,926)	(35,509)
Administrative expenses		(439,433)	(407,315)
Impairment losses reversed (recognised) and revaluation surplus (deficit)	5	108,726	(47,604)
Bad and doubtful debts	6	(147,837)	(230,759)
Other operating expenses		(112,893)	(183,640)
Profit from operations	7	888,126	512,844
Other finance costs	9	(49,386)	(61,277)
Amortisation of goodwill		(7,142)	(7,142)
Release of negative goodwill		257,610	237,923
Amortisation of capital reserve		17,267	17,267
Share of results of associates		266,192	135,708
Share of results of jointly controlled entities		23,667	22,900
Profit before taxation		1,396,334	858,223
Taxation	10	(221,031)	(127,518)
Profit after taxation		1,175,303	730,705
Minority interests		(415,338)	(244,239)
Profit attributable to shareholders		759,965	486,466
Dividend	11	26,006	–
Earnings per share	12		
Basic		HK\$2.89	HK\$1.53
Diluted		N/A	N/A

Consolidated Balance Sheet

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at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Investment properties	13	2,487,436	2,168,073
Property, plant and equipment	14	167,238	166,622
Intangible assets	15	10,375	7,081
Goodwill	16	8,634	15,776
Negative goodwill	17	(602,157)	(831,149)
Properties under development	18	97,377	131,174
Interest in associates	20	2,483,113	2,201,871
Interest in jointly controlled entities	21	1,036,507	1,087,379
Investments	22	754,760	608,785
Loans and advances to consumer finance customers due after one year	23	804,305	569,206
Long-term loan receivable		3,200	–
Deferred tax assets	24	43,005	35,743
		7,293,793	6,160,561
Current assets			
Properties held for sale and other inventories	25	401,721	447,890
Investments	22	68,696	54,499
Loans and advances to consumer finance customers due within one year	23	1,221,501	1,098,364
Accounts receivable, deposits and prepayments	26	2,376,017	2,893,950
Amounts due from associates		231	266,303
Amount due from a jointly controlled entity		2,040	2,056
Taxation recoverable		1,677	5,281
Short-term pledged bank deposit		1,220	1,487
Bank deposits, bank balances and cash		765,765	763,072
		4,838,868	5,532,902
Current liabilities			
Accounts payable and accrued charges	27	1,197,915	1,713,726
Amounts due to associates		49,260	38,081
Amount due to a jointly controlled entity		141,063	171,658
Taxation payable		69,526	60,162
Bank and other borrowings due within one year	31	890,579	1,110,282
Other liabilities due within one year	33	585	1,404
		2,348,928	3,095,313
Net current assets		2,489,940	2,437,589
		9,783,733	8,598,150

Consolidated Balance Sheet (Cont'd)

at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Capital and reserves			
Share capital	28	521,302	531,374
Reserves	30	4,428,122	3,624,531
		<u>4,949,424</u>	<u>4,155,905</u>
Minority interests		<u>3,464,378</u>	<u>3,103,967</u>
Non-current liabilities			
Bank and other borrowings due after one year	31	1,121,569	941,435
Loan notes	32	220,525	370,529
Deferred tax liabilities	24	25,029	21,406
Other liabilities due after one year	33	2,808	4,908
		<u>1,369,931</u>	<u>1,338,278</u>
		<u>9,783,733</u>	<u>8,598,150</u>

The financial statements on pages 26 to 89 were approved and authorised for issue by the Board of Directors on 14th April, 2005, and are signed on its behalf by:



Gordon Macwhinnie
Director



Edwin Lo King Yau
Director

Balance Sheet

at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	14	1,302	1,774
Interest in subsidiaries	19	2,692,575	2,600,398
		<u>2,693,877</u>	<u>2,602,172</u>
Current assets			
Accounts receivable, deposits and prepayments		2,105	906
Amounts due from subsidiaries		6,094	29,813
Bank balances and cash		389	324
		<u>8,588</u>	<u>31,043</u>
Current liabilities			
Accounts payable and accrued charges		5,065	7,485
Other liabilities due within one year	33	126	131
		<u>5,191</u>	<u>7,616</u>
Net current assets		<u>3,397</u>	<u>23,427</u>
		<u>2,697,274</u>	<u>2,625,599</u>
Capital and reserves			
Share capital	28	521,302	531,374
Reserves	30	2,061,737	1,953,350
		<u>2,583,039</u>	<u>2,484,724</u>
Non-current liabilities			
Loan notes	32	90,888	138,892
Amount due to a subsidiary	34	23,347	1,983
		<u>2,697,274</u>	<u>2,625,599</u>



Gordon Macwhinnie
Director



Edwin Lo King Yau
Director

Consolidated Statement of Changes in Equity

for the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Non distributable reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Distributable reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2003	681,973	1,894,481	14,117	(1,938)	20,175	(95,379)	55,226	327,924	-	1,092,714	3,989,293
Surplus arising on revaluation	-	-	-	81,040	-	-	-	-	-	-	81,040
Share of post-acquisition reserve movements of associates	-	-	22,574	(3,899)	-	(226)	-	-	-	-	18,449
Share of post-acquisition reserve movements of a jointly controlled entity	-	-	-	-	-	(9,071)	-	-	-	-	(9,071)
Exchange differences arising on translation of operations outside Hong Kong	-	-	-	-	-	(1,302)	-	-	-	-	(1,302)
Net gains and losses not recognised in the income statement	-	-	22,574	77,141	-	(10,599)	-	-	-	-	89,116
Profit attributable to shareholders	-	-	-	-	-	-	-	-	-	486,466	486,466
Transfer upon approval by court order	-	(375,000)	-	-	-	-	-	-	375,000	-	-
Shares repurchased and cancelled	(150,599)	-	-	-	-	-	-	-	(225,000)	(6,799)	(382,398)
Transferred on share repurchase	-	-	-	-	150,599	-	-	-	(150,000)	(599)	-
Released on impairment of non-trading securities	-	-	-	3,629	-	-	-	-	-	-	3,629
Released on disposal of non-trading securities	-	-	-	1,195	-	-	-	-	-	-	1,195
Released on disposal of subsidiaries	-	-	-	-	-	1,886	-	-	-	-	1,886
Released on disposal of associates	-	-	-	-	-	(148)	-	(237)	-	-	(385)
Amortisation of capital reserve	-	-	-	-	-	-	-	(32,897)	-	-	(32,897)
Transferred from accumulated profits to capital reserve	-	-	-	-	-	-	-	479	-	(479)	-
	(150,599)	(375,000)	-	4,824	150,599	1,738	-	(32,655)	-	478,589	77,496
At 31st December, 2003	531,374	1,519,481	36,691	80,027	170,774	(104,240)	55,226	295,269	-	1,571,303	4,155,905

Consolidated Statement of Changes in Equity (Cont'd)

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for the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Non distributable reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Accumulated profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
At 1st January, 2004	531,374	1,519,481	36,691	80,027	170,774	(104,240)	55,226	295,269	1,571,303	-	4,155,905
Surplus arising on revaluation	-	-	-	81,211	-	-	-	-	-	-	81,211
Deferred taxation	-	-	-	(124)	-	-	-	-	-	-	(124)
Share of post-acquisition reserve movements of associates	-	-	6,963	3,040	-	182	-	-	-	-	10,185
Share of post-acquisition reserve movements of a jointly controlled entity	-	-	-	-	-	(8)	-	-	-	-	(8)
Exchange differences arising on translation of operations outside Hong Kong	-	-	-	-	-	130	-	-	-	-	130
Net gains and losses not recognised in the income statement	-	-	6,963	84,127	-	304	-	-	-	-	91,394
Profit attributable to shareholders	-	-	-	-	-	-	-	-	759,965	-	759,965
Proposed final dividend	-	-	-	-	-	-	-	-	(26,006)	26,006	-
Released on dilution of interest in an associate	-	-	(283)	23	-	(1)	-	(2)	-	-	(263)
Distribution of interest in an associate to minority shareholders	-	-	(16)	1	-	-	-	-	-	-	(15)
Shares repurchased and cancelled	(10,072)	-	-	-	-	-	-	-	(25,298)	-	(35,370)
Transfer on share repurchase	-	-	-	-	10,072	-	-	-	(10,072)	-	-
Released on impairment of non-trading securities	-	-	-	9,468	-	-	-	-	-	-	9,468
Released on disposal of non-trading securities	-	-	-	3,725	-	-	-	-	-	-	3,725
Released on disposal of subsidiaries	-	-	-	-	-	(2,339)	-	-	-	-	(2,339)
Amortisation of capital reserve	-	-	-	-	-	-	-	(33,046)	-	-	(33,046)
Transfer from accumulated profits to capital reserves	-	-	-	-	-	-	-	1,584	(1,584)	-	-
	(10,072)	-	(299)	13,217	10,072	(2,340)	-	(31,464)	697,005	26,006	702,125
At 31st December, 2004	521,302	1,519,481	43,355	177,371	180,846	(106,276)	55,226	263,805	2,268,308	26,006	4,949,424

Consolidated Cash Flow Statement

for the year ended 31st December, 2004

	2004 HK\$'000	2003 HK\$'000
Operating activities		
Profit from operations	888,126	512,844
Adjustments for:		
Bad and doubtful debts	147,837	230,759
Depreciation	30,032	29,367
Impairment loss recognised in respect of non-trading securities	16,418	6,713
Premium on acquisition of loan receivables of consumer finance customers	12,016	–
Loss on dilution of interest in an associate	4,455	–
Amortisation of intangible assets	2,701	2,780
Net unrealised loss (profit) on trading securities	1,174	(7,142)
Loss on disposal of property, plant and equipment	589	3,273
Loss on write off of intangible assets	96	–
(Surplus) deficit arising on revaluation of investment properties	(99,220)	6,145
Impairment loss (reversed) recognised in respect of properties held for sale	(22,924)	22,546
Amortisation of capital reserve	(20,158)	(20,095)
Profit on repurchase of loan notes	(11,219)	(23,226)
(Profit) loss on disposal of subsidiaries	(8,647)	2,229
Impairment loss (reversed) recognised in respect of properties under development	(3,000)	12,200
(Profit) loss on disposal of non-trading securities	(2,483)	753
Profit on deemed disposal of a jointly controlled entity	(942)	–
Profit on disposal of partial interest in a subsidiary	(789)	–
Loss on disposal of an associate	–	3,088
Write-back of loss arising from default of loan agreement	–	(26,412)
Operating cash flow before movements in working capital	934,062	755,822
Decrease in properties held for sale and other inventories	20,741	19,220
Increase in trading securities	(15,196)	(10,238)
Increase in loans and advances to consumer finance customers	(370,252)	(224,171)
Increase in long-term loan receivable	(3,200)	–
Decrease (increase) in accounts receivable, deposit and prepayments	400,705	(757,983)
(Decrease) increase in accounts payable and accrued charges	(496,632)	771,167
Decrease in other employee benefits	(3,051)	(1,336)
Cash generated from operations	467,177	552,481
Hong Kong Profits Tax paid	(106,307)	(43,146)
Interest paid	(49,132)	(63,111)
Tax outside Hong Kong (paid) refunded	(248)	95
Net cash from operating activities	311,490	446,319

Consolidated Cash Flow Statement (Cont'd)

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for the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Investing activities			
Amounts repaid by associates		242,563	22,342
Proceeds on disposal of non-trading securities		40,510	6,348
Proceeds on disposal of an associate		12,187	2,446
Dividend received from associates		6,182	17,812
Amount repaid by a jointly controlled entity		2,770	2,338
Decrease (increase) in pledged bank deposit		267	(487)
Proceeds on disposal of property, plant and equipment		139	101
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	35	(125,239)	(49,579)
Acquisition of associates		(102,350)	(6,156)
Purchase of non-trading securities		(32,285)	(560)
Purchase of property, plant and equipment		(31,377)	(14,788)
Additions to properties under development		(14,186)	(14,790)
Purchase of intangible assets		(6,091)	(5,001)
Amount advanced to a jointly controlled entity		(3,772)	(2,830)
Acquisition of a jointly controlled entity		(2,294)	–
Amount advanced to investee companies		(1,950)	–
Acquisition of additional interest in subsidiaries		(1,132)	(20,301)
Additions to investment subsidiaries		(110)	–
Amount advanced to an associate		(2)	–
Amounts repaid by investee companies		–	2,951
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	36	–	87
Net cash used in investing activities		(16,170)	(60,067)
Financing activities			
New bank and other borrowings raised		740,500	877,954
Amount advanced by a jointly controlled entity		29,500	23,617
Net proceeds received from issue of shares by a subsidiary		27,831	29
Repayment of bank and other borrowings		(684,126)	(897,686)
Repurchase of loan notes		(139,024)	(124,349)
Dividends paid by subsidiaries to minority shareholders		(134,841)	(72,202)
Amounts paid on share repurchase		(35,370)	(119,898)
Repayment of obligations under a finance lease		(890)	(850)
Amount repaid to associates		(148)	(163)
Amount repaid to a jointly controlled entity		(95)	–
Net distribution to minority interests		(33)	–
Share repurchased and cancelled by a listed subsidiary		–	(83,945)
Amounts advanced by associates		–	1,450
Net cash used in financing activities		(196,696)	(396,043)
Increase (decrease) in cash and cash equivalents		98,624	(9,791)
Exchange adjustments		12	935
Cash and cash equivalents at 1st January		607,825	616,681
Cash and cash equivalents at 31st December		706,461	607,825
Analysis of the balances of cash and cash equivalents			
Bank deposits, bank balances and cash		765,765	763,072
Bank overdrafts		(59,304)	(155,247)
		706,461	607,825

for the year ended 31st December, 2004

1. GENERAL

The Company is a listed public limited company incorporated in the Hong Kong Special Administrative Region (“Hong Kong”).

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2004 are set out in notes 45, 46 and 47 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 dates of acquisition or up to the effective dates 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.

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.

for the year ended 31st December, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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 on 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.

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 goods are recognised when goods are delivered and title has passed.

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 a time basis by reference to the principal outstanding and at the interest rate applicable, except in the case of loans which are overdue for which no interest is accrued in the income statement.

for the year ended 31st December, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue recognition (Cont'd)

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 shareholder's 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.

Bad and doubtful debts

Allowances for bad and doubtful debts are made having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances and accounts receivable. In determining the level of allowance required, management considers numerous factors including but not limited to, domestic and international economic conditions, the composition of the loan portfolio and accounts receivable and prior loss experience in respect of loans and advances and accounts receivable.

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.

for the year ended 31st December, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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.

for the year ended 31st December, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 on the property revaluation reserve attributable to that property is transferred to the income statement.

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 items 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% or over the term of the leases, if shorter
Furniture, fixtures and equipment	10% to 50%
Motor vehicles and vessels	16 ² / ₃ % to 20%

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

for the year ended 31st December, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 cost and other direct costs attributable to such properties, net of any rentals 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.

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 the 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.

for the year ended 31st December, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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 rental 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 goods and properties, securities trading and broking, consumer finance, property rental, hotel operations and property management services, provision of consultancy and other 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
Interest income on loans and advances to consumer finance customers	790,692	763,006
Securities broking	236,854	185,130
Other interest income	170,576	208,615
Property rental, hotel operations and management services	167,535	159,338
Income from corporate finance and others	158,049	116,576
Income from forex, bullion, commodities and futures	149,380	123,962
Securities trading	146,293	16,991
Dividend income	66,790	19,666
Sale of properties	24,783	16,000
Sales of goods	–	198
	1,910,952	1,609,482

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 services, provision of related financing and advisory products, and provision of term loan financing.
- Consumer finance – providing consumer loan finance products.
- Property development and investment – development and sale of properties, property rental, provision of property management services and hotel operations managed by third parties.
- Corporate and other operations – including corporate revenue and expenses and results of unallocated operations.

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				Total HK\$'000
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	
Turnover	942,593	790,692	197,618	17,090	1,947,993
Less: inter-segment turnover	(14,776)	-	(5,300)	(16,965)	(37,041)
	<u>927,817</u>	<u>790,692</u>	<u>192,318</u>	<u>125</u>	<u>1,910,952</u>
Profit from operations	243,845	434,192	200,971	9,118	888,126
Other finance costs					(49,386)
Amortisation of goodwill					(7,142)
Release of negative goodwill					257,610
Amortisation of capital reserve					17,267
Share of results of associates					266,192
Share of results of jointly controlled entities	(3,624)	-	27,291	-	23,667
Profit before taxation					1,396,334
Taxation					(221,031)
Profit after taxation					<u>1,175,303</u>
Segment assets	3,282,960	2,237,855	3,039,577	5,696	8,566,088
Interests in associates					2,483,113
Interests in jointly controlled entities	1,201	-	1,035,306	-	1,036,507
Deferred tax assets					43,005
Amounts due from associates					231
Amount due from a jointly controlled entity	-	-	2,040	-	2,040
Taxation recoverable					1,677
Total assets					<u>12,132,661</u>
Segment liabilities	1,153,287	317,232	86,953	6,159	1,563,631
Amounts due to associates					49,260
Amount due to a jointly controlled entity	-	-	141,063	-	141,063
Taxation payable					69,526
Bank and other borrowings					1,870,350
Deferred tax liabilities					25,029
Total liabilities					<u>3,718,859</u>
Other information					
Depreciation	17,705	5,062	6,632	633	30,032
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	-	-	(99,220)	-	(99,220)
Bad and doubtful debts	(528)	149,351	(374)	(612)	147,837
Capital expenditure	26,105	5,132	20,501	161	51,899

for the year ended 31st December, 2004

4. SEGMENTAL INFORMATION (CONT'D)

	2003				
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	Total HK\$'000
Turnover	684,693	763,322	182,198	32,468	1,662,681
Less: inter-segment turnover	(15,322)	-	(6,860)	(31,017)	(53,199)
	<u>669,371</u>	<u>763,322</u>	<u>175,338</u>	<u>1,451</u>	<u>1,609,482</u>
Profit from operations	152,977	328,309	7,765	23,793	512,844
Other finance costs					(61,277)
Amortisation of goodwill					(7,142)
Release of negative goodwill					237,923
Amortisation of capital reserve					17,267
Share of results of associates					135,708
Share of results of jointly controlled entities	-	-	22,900	-	22,900
Profit before taxation					858,223
Taxation					(127,518)
Profit after taxation					<u>730,705</u>
Segment assets	3,435,689	1,845,998	2,807,274	5,869	8,094,830
Interests in associates					2,201,871
Interests in jointly controlled entities	937	-	1,086,442	-	1,087,379
Deferred tax assets					35,743
Amounts due from associates					266,303
Amount due from a jointly controlled entity	-	-	2,056	-	2,056
Taxation recoverable					5,281
Total assets					<u>11,693,463</u>
Segment liabilities	1,614,109	34,856	107,185	13,296	1,769,446
Amounts due to associates					38,081
Amount due to a jointly controlled entity	-	-	171,658	-	171,658
Taxation payable					60,162
Bank and other borrowings					2,372,838
Deferred tax liabilities					21,406
Total liabilities					<u>4,433,591</u>
Other information					
Depreciation	17,133	6,146	5,556	532	29,367
Amortisation of intangible assets	2,780	-	-	-	2,780
Impairment losses recognised	6,524	189	34,746	-	41,459
Deficits arising on revaluation of investment properties	-	-	6,145	-	6,145
Bad and doubtful debts	(19,339)	250,552	-	(454)	230,759
Capital expenditure	15,631	5,379	12,720	849	34,579

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)	(6,713)
	<u>9,506</u>	<u>(41,459)</u>
Surplus (deficit) arising on revaluation of investment properties	<u>99,220</u>	<u>(6,145)</u>
	<u>108,726</u>	<u>(47,604)</u>

6. BAD AND DOUBTFUL DEBTS

	2004 HK\$'000	2003 HK\$'000
Bad debts written off	146,935	278,758
Allowances for doubtful debts	38,094	32,309
Bad debts recovered	(37,192)	(80,308)
	<u>147,837</u>	<u>230,759</u>

for the year ended 31st December, 2004

7. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
Current year	6,111	5,848
Overprovision in prior years	(239)	(66)
	<u>5,872</u>	<u>5,782</u>
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	29,519	28,854
Assets under a finance lease	513	513
	<u>30,032</u>	<u>29,367</u>
Loss on dilution of interest in an associate	4,455	–
Loss on disposal of an associate	–	3,088
Loss on disposal of property, plant and equipment	589	3,273
Loss on write off of intangible assets	96	–
Loss on disposal of non-trading securities	–	753
Loss on disposal of subsidiaries	–	2,229
Net unrealised loss on trading securities	1,174	–
Premium on acquisition of loan receivables of consumer finance customers	12,016	–
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\$1,452,000 (2003: HK\$1,405,000) (note 41)	14,943	13,668
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	326,982	286,151
and after crediting:		
Dividend income from investments in listed securities	37,250	11,121
Dividend income from investments in unlisted securities	29,540	8,545
Net realised profit on derivatives	15,455	6,403
Net profit on other dealing activities	8,141	4,531
Net realised profit on trading securities	4,659	5,728
Net unrealised profit on trading securities	–	7,142
Profit on deemed disposal of a jointly controlled entity	942	–
Profit on disposal of non-trading securities	2,483	–
Profit on dealing in foreign currencies	18,180	16,938
Profit on disposal of partial interest in a subsidiary	789	–
Profit on disposal of subsidiaries	8,647	–
Profit on repurchase of loan notes	11,219	23,226
Rental income from investment properties under operating leases, net of outgoings of HK\$18,000,000 (2003: HK\$18,280,000)	48,552	45,400
Write back of loss arising from default of loan agreement with Millenium Touch Limited	2,847	26,412
	<u>2,847</u>	<u>26,412</u>

for the year ended 31st December, 2004

7. 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 22) 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".

8. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Independent Non-Executive Directors	20	20
Other Directors	12	12
	<u>32</u>	<u>32</u>
Other emoluments:		
Independent Non-Executive Directors:		
Consultancy fees, salaries, housing and other benefits	1,990	1,919
Other Directors:		
Salaries, housing and other benefits	8,487	8,869
Performance related incentive payments	1,338	–
Retirement benefit scheme contributions	200	203
	<u>10,025</u>	<u>9,072</u>
	<u>12,047</u>	<u>11,023</u>

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8. 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	4	3
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,500,001 – HK\$3,000,000	–	–
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$4,500,001 – HK\$5,000,000	–	1
HK\$5,000,001 – HK\$5,500,000	1	–
	1	–

(b) Employees' emoluments

The five highest paid individuals included two (2003: two) of the Directors, details of whose emoluments are set out in 8(a) above. The emoluments of the remaining three (2003: three) individuals are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	15,532	17,515
Performance related incentive payments	9,740	6,750
Retirement benefit scheme contributions	330	311
	25,602	24,576

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

	Number of employees	
	2004	2003
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$7,000,001 – HK\$7,500,000	1	–
HK\$8,500,001 – HK\$9,000,000	–	1
HK\$12,000,001 – HK\$12,500,000	–	1
HK\$15,000,001 – HK\$15,500,000	1	–
	1	–

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9. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	38,681	47,507
Other borrowings wholly repayable within five years	687	762
Bank borrowings not wholly repayable within five years	4,749	7,711
Loan notes wholly repayable within five years (note 32)	9,459	8,902
Obligations under a finance lease	26	65
	<u>53,602</u>	<u>64,947</u>
Less: Amount capitalised in respect of properties under development	(135)	(149)
	<u>53,467</u>	<u>64,798</u>
Total finance costs included in:		
Cost of sales	4,081	3,521
Other finance costs	49,386	61,277
	<u>53,467</u>	<u>64,798</u>

10. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	116,357	82,069
Outside Hong Kong	3,099	418
	<u>119,456</u>	<u>82,487</u>
Deferred tax (note 24):		
Current year	(4,618)	(8,764)
Effect of a change in tax rate	-	(1,656)
	<u>114,838</u>	<u>72,067</u>
Taxation attributable to the Company and subsidiaries	114,838	72,067
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
	<u>221,031</u>	<u>127,518</u>

Hong Kong Profits Tax is calculated at the rate of 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.

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10. 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	1,396,334	858,223
Less: share of results of associates	(266,192)	(135,708)
share of results of jointly controlled entities	(23,667)	(22,900)
Profit before taxation excluding share of results of associates and jointly controlled entities	<u>1,106,475</u>	<u>699,615</u>
Tax at Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)	193,633	122,433
Tax effect of expenses that are not deductible for tax purposes	15,831	26,902
Tax effect of income that is not assessable for tax purposes	(89,863)	(63,168)
Tax effect of tax losses not recognised	6,684	12,878
Tax effect of utilisation of tax losses not previously recognised	(10,680)	(18,543)
Increase in opening deferred taxation due to change in tax rate	–	(1,656)
Tax effect of utilisation of unrecognised deductible temporary difference	(41)	(3,129)
Effect of different income tax rate of overseas subsidiaries	(1,476)	(2,559)
Others	750	(1,091)
Taxation attributable to the Company and subsidiaries	114,838	72,067
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	<u>221,031</u>	<u>127,518</u>

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 24.

11. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Ordinary shares:		
Proposed final dividend of HK10 cents per share (2003: Nil)	<u>26,006</u>	<u>–</u>

A final dividend of HK10 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 260,057,030 shares in issue at 14th April, 2005.

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12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$759,965,000 (2003: HK\$486,466,000) and on the weighted average number of 263,031,343 (2003: 318,947,269) shares in issue during the year as adjusted for the effect of the share consolidation detailed in note 28.

Diluted earnings per share is not presented as the Company had no dilutive potential ordinary shares during both years.

13. INVESTMENT PROPERTIES

	Hotel property HK\$'000	Others HK\$'000	Total HK\$'000
The Group			
Valuation			
At 1st January, 2004	278,038	1,890,035	2,168,073
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	61,171	99,220
At 31st December, 2004	<u>367,336</u>	<u>2,120,100</u>	<u>2,487,436</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	1,728,300	278,038	1,523,000
Medium-term	–	391,800	–	367,035
	<u>367,336</u>	<u>2,120,100</u>	<u>278,038</u>	<u>1,890,035</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\$2,487,436,000 (2003: HK\$2,168,073,000).

The surplus of HK\$99,220,000 arising on revaluation during the year has been credited to the income statement.

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improve- ments	Furniture, fixtures and equipment	Motor vehicles and vessels	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group					
Cost or valuation					
At 1st January, 2004	137,481	74,655	134,158	25,109	371,403
Exchange adjustments	–	(1)	(4)	–	(5)
Additions	–	8,109	19,364	3,904	31,377
Disposal of subsidiaries	–	–	(268)	(377)	(645)
Other disposals	–	(1,190)	(2,318)	(1,588)	(5,096)
At 31st December, 2004	<u>137,481</u>	<u>81,573</u>	<u>150,932</u>	<u>27,048</u>	<u>397,034</u>
Comprising:					
At cost	121,481	81,573	150,932	27,048	381,034
At valuation in 1985	16,000	–	–	–	16,000
	<u>137,481</u>	<u>81,573</u>	<u>150,932</u>	<u>27,048</u>	<u>397,034</u>
Depreciation					
At 1st January, 2004	20,703	60,377	100,415	23,286	204,781
Exchange adjustments	–	(1)	(3)	–	(4)
Provided for the year	3,134	7,825	18,021	1,052	30,032
Eliminated on disposal of subsidiaries	–	–	(268)	(377)	(645)
Eliminated on other disposals	–	(661)	(2,119)	(1,588)	(4,368)
At 31st December, 2004	<u>23,837</u>	<u>67,540</u>	<u>116,046</u>	<u>22,373</u>	<u>229,796</u>
Net book values					
At 31st December, 2004	<u>113,644</u>	<u>14,033</u>	<u>34,886</u>	<u>4,675</u>	<u>167,238</u>
At 31st December, 2003	<u>116,778</u>	<u>14,278</u>	<u>33,743</u>	<u>1,823</u>	<u>166,622</u>

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

	2004	2003
	HK\$'000	HK\$'000
Long-term properties in Hong Kong	<u>111,399</u>	114,311
Medium-term properties outside Hong Kong	<u>2,245</u>	2,467
	<u>113,644</u>	<u>116,778</u>

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14. 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\$115,295,000 (2003: HK\$118,460,000), had the property been carried at cost less accumulated depreciation.

The net book value of furniture, fixtures and equipment of HK\$34,886,000 (2003: HK\$33,743,000) includes an amount of HK\$1,067,000 (2003: HK\$1,580,000) in respect of assets held under finance leases.

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
The Company				
Cost				
At 1st January, 2004	6,239	5,745	936	12,920
Additions	–	161	–	161
Disposals	–	(95)	–	(95)
At 31st December, 2004	6,239	5,811	936	12,986
Depreciation				
At 1st January, 2004	5,744	5,149	253	11,146
Provided for the year	169	276	187	632
Eliminated on disposals	–	(94)	–	(94)
At 31st December, 2004	5,913	5,331	440	11,684
Net book values				
At 31st December, 2004	326	480	496	1,302
At 31st December, 2003	495	596	683	1,774

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15. INTANGIBLE ASSETS

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

16. GOODWILL

	The Group HK\$'000
Cost	
At 1st January, 2004 and 31st December, 2004	<u>34,820</u>
Amortisation	
At 1st January, 2004	19,044
Provided for the year	7,142
At 31st December, 2004	<u>26,186</u>
Net book values	
At 31st December, 2004	<u>8,634</u>
At 31st December, 2003	<u>15,776</u>

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17. NEGATIVE GOODWILL

	The Group HK\$'000
Gross amount	
At 1st January, 2004	1,266,795
Adjustment on acquisition of subsidiaries in prior year	15,700
Acquisition of additional interest in subsidiaries	12,918
At 31st December, 2004	1,295,413
Released to income statement	
At 1st January, 2004	435,646
Released during the year	257,610
At 31st December, 2004	693,256
Net book values	
At 31st December, 2004	602,157
At 31st December, 2003	831,149

18. PROPERTIES UNDER DEVELOPMENT

	The Group	
	2004	2003
	HK\$'000	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)	-
At 31st December	97,377	131,174

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18. PROPERTIES UNDER DEVELOPMENT (CONT'D)

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

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

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 valuations at 31st December, 2004.

19. INTEREST IN SUBSIDIARIES

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Listed securities in Hong Kong, at cost	714,414	692,516
Unlisted shares at cost, less impairment loss recognised	–	–
Amounts due from subsidiaries, less allowances	1,978,161	1,907,882
	2,692,575	2,600,398
Market value of listed securities in Hong Kong	390,169	260,288

Other than the loan notes issued by Sun Hung Kai, the terms of which are shown in note 32, 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 45.

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20. INTEREST IN ASSOCIATES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Listed securities in Hong Kong (note 20 (i))	2,325,664	2,048,437
Unlisted shares (note 20 (ii))	157,449	153,434
	2,483,113	2,201,871

	The Group	
	2004 HK\$'000	2003 HK\$'000
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)
	2,247,664	1,970,437
Amounts due from an associate	78,000	78,000
	2,325,664	2,048,437
Market value of listed securities	1,109,200	950,062

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
(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)
	114,767	116,010
Less: impairment loss recognised	(21,892)	(21,892)
	92,875	94,118
Amounts due from associates	64,574	59,316
	157,449	153,434

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

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20. INTEREST IN ASSOCIATES (CONT'D)

(iii) Unamortised goodwill on acquisition of listed associates

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

(iv) Unamortised negative goodwill on acquisition of listed associates

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

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20. INTEREST IN ASSOCIATES (CONT'D)

- (v) Unamortised goodwill on acquisition of unlisted associates

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

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

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

Particulars of the Company's principal associates at 31st December, 2004 are set out in note 46.

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20. 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 year 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	9,435,654	8,605,839
Non-current liabilities	1,525,596	1,476,081
Current liabilities	<u>3,023,567</u>	<u>2,749,075</u>
Total liabilities	4,549,163	4,225,156
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

21. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
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	–
	1,054,129	1,105,001
Elimination of unrealised profit	(17,622)	(17,622)
	1,036,507	1,087,379

Note:

Unamortised goodwill on acquisition of a jointly controlled entity

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

Particulars of the Group's principal jointly controlled entities at 31st December, 2004 are set out in note 47.

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21. INTEREST IN JOINTLY CONTROLLED ENTITIES (CONT'D)

Extracts from the consolidated operating results, 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	<u>74,074</u>	<u>63,929</u>

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	<u>395,020</u>	<u>451,755</u>
Total assets	<u>2,829,698</u>	<u>2,973,969</u>
Non-current liabilities	622,885	679,745
Current liabilities	<u>100,956</u>	<u>86,094</u>
Total liabilities	<u>723,841</u>	<u>765,839</u>
	<u>2,105,857</u>	<u>2,208,130</u>

Included in the share of results of jointly controlled entities in the consolidated income statement of HK\$23,667,000 (2003: HK\$22,900,000) is an amount of HK\$21,058,000 (2003: HK\$19,041,000) representing a revaluation deficit attributable to a jointly controlled entity.

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22. INVESTMENTS

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The Group								
Listed equity securities, at market values, issued by corporate entities								
Hong Kong	476,810	346,734	43,585	29,503	-	-	520,395	376,237
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
	481,284	349,637	60,549	46,368	-	-	541,833	396,005
Unlisted equity securities issued by corporate entities								
Hong Kong	24,696	63,764	-	-	-	-	24,696	63,764
Outside Hong Kong (note)	122,078	70,069	-	-	-	-	122,078	70,069
	146,774	133,833	-	-	-	-	146,774	133,833
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)	-	-	-	-	90,883	97,314	90,883	97,314
	-	-	-	-	126,702	125,315	126,702	125,315
	628,058	483,470	68,696	54,499	126,702	125,315	823,456	663,284
Carrying amount analysed for reporting purposes as:								
Non-current	628,058	483,470	-	-	126,702	125,315	754,760	608,785
Current	-	-	68,696	54,499	-	-	68,696	54,499
	628,058	483,470	68,696	54,499	126,702	125,315	823,456	663,284

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22. INVESTMENTS (CONT'D)

Note: 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 7) 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 7 and note 38(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.

23. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Loans and advances to consumer finance customers	2,209,728	1,811,429
Allowance for doubtful debts	(183,922)	(143,859)
	<u>2,025,806</u>	<u>1,667,570</u>
Less: Amount due within one year and shown under current assets	(1,221,501)	(1,098,364)
Amount due after one year	<u>804,305</u>	<u>569,206</u>

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24. 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 profits HK\$'000	Undistributed earnings HK\$'000	Tax losses HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1st January, 2003	34,722	12,859	(23,363)	1,718	4,374	(35,659)	1,371	(3,978)
Exchange adjustment	-	-	-	(75)	-	-	-	(75)
Effect of change in tax rate charged (credited) to income statement	3,236	678	(2,357)	(1)	3	(3,344)	129	(1,656)
Acquisition of subsidiaries	-	-	-	-	-	136	-	136
Charged (credited) to income statement	11,164	(255)	(4,886)	(249)	(2,669)	(11,119)	(750)	(8,764)
At 31st December, 2003	49,122	13,282	(30,606)	1,393	1,708	(49,986)	750	(14,337)
Exchange adjustments	-	-	-	(13)	-	-	-	(13)
Acquisition of subsidiaries	770	-	-	-	-	-	-	770
Charged (credited) to income	13,643	(496)	(8,482)	(106)	(647)	(7,780)	(750)	(4,618)
Charged to equity	-	222	-	-	-	-	-	222
At 31st December, 2004	63,535	13,008	(39,088)	1,274	1,061	(57,766)	-	(17,976)

For the purpose 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	(43,005)	(35,743)
	(17,976)	(14,337)

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24. 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\$2,212,294,000 (2003: HK\$2,211,591,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$330,095,000 (2003: HK\$285,616,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,882,199,000 (2003: HK\$1,925,975,000) 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\$38,540,000 (2003: HK\$30,864,000) 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.

25. PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Properties held for sale, 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 sales 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).

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26. 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 to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,244,106,000 (2003: HK\$2,767,899,000), 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	413,930	435,913
	<u>2,644,604</u>	<u>3,170,410</u>
Allowance for doubtful debts	(400,498)	(402,511)
	<u>2,244,106</u>	<u>2,767,899</u>

The above balance of HK\$2,644,604,000 (2003: HK\$3,170,410,000) includes term loans totalling HK\$332,026,000 (2003: HK\$538,758,000), the maturity profile of which is shown in note 44.

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.

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27. 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 as follows:

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

28. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.20 each at 1st January, 2003 and 31st December, 2003	6,500,000,000	1,300,000
Consolidation of shares	(5,850,000,000)	–
	<u>650,000,000</u>	<u>1,300,000</u>
Ordinary shares of HK\$2.00 each at 31st December, 2004	650,000,000	1,300,000
Issued and fully paid:		
Ordinary shares of HK\$0.20 each at 1st January, 2003	3,409,866,308	681,973
Share repurchased and cancelled	(752,998,000)	(150,599)
	<u>2,656,868,308</u>	<u>531,374</u>
Ordinary shares of HK\$0.20 each at 31st December, 2003	2,656,868,308	531,374
Share repurchased and cancelled	(25,400,000)	(5,080)
Consolidation of shares	(2,368,321,478)	–
	<u>263,146,830</u>	<u>526,294</u>
Ordinary shares of HK\$2.00 each at 23rd July, 2004	263,146,830	526,294
Share repurchased and cancelled	(2,495,800)	(4,992)
	<u>260,651,030</u>	<u>521,302</u>
Ordinary shares of HK\$2.00 each at 31st December, 2004	260,651,030	521,302

On 22nd July, 2004, 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 23rd July, 2004.

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29. SHARE OPTION SCHEME

The share option scheme of the Company ("Scheme") was adopted pursuant to a resolution passed by the Company's shareholders on 3rd June, 2002 ("Adoption Date") for the primary purpose of providing the eligible participants an opportunity to have a personal stake in the Company and to help motivate, attract and retain the eligible participants whose contributions are important to the long-term growth and profitability of the Group. Eligible participants of the Scheme include any employees, directors of the Company, its subsidiaries or any entity in which the Group holds an equity interest ("Invested Entity"), supplier of goods or services to the Group or any Invested Entity, customer of the Group or any Invested Entity, any minority shareholders of the Group or Invested Entity and any other person or entity who in the opinion of the Directors have contributed or may contribute to the development and growth of the Group. The Scheme will expire on 2nd June, 2012.

The maximum number of shares which may be issuable under the Scheme and any other schemes of the Company (excluding options lapsed pursuant to the Scheme and any other schemes of the Company) must not exceed 10% of the issued shares of the Company at the Adoption Date. At 31st December, 2004, the maximum number of shares issuable under the Scheme was 10% of the Company's shares in issue as at that date.

The total number of shares issued and to be issued to each eligible participant under the Scheme in any 12-month period must not exceed 1% of the issued shares of the Company unless approved in advance by the shareholders of the Company in general meeting.

Any option to be granted under the Scheme to a director, chief executive or substantial shareholder of the Company or to any of their respective associates must be approved by Independent Non-Executive Directors of the Company. In addition, any option to be granted to a substantial shareholder or an Independent Non-Executive Director of the Company or to any of their respective associates which will result in the shares issued and to be issued in excess of 0.1% of the issued shares or with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK\$5,000,000 within any 12-month period is subject to approval by the shareholders of the Company in general meeting.

The offer of a grant of options under the Scheme may be accepted within 28 business days from the date of the offer and by payment of HK\$1.00 as consideration for the grant of an option. An option may be exercised in accordance with the terms of the Scheme at any time during a period as to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the Adoption Date.

The exercise price is determined by the Directors and shall be at least the highest of: (i) the closing price of the Company's shares as stated in The Stock Exchange of Hong Kong Limited ("Stock Exchange")'s daily quotations sheet on the date of the offer of grant of an option, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant of an option; and (iii) the nominal value of the Company's shares.

No option was granted under the Scheme since its adoption and accordingly there were no options outstanding at 31st December, 2004 and 2003.

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30. RESERVES

	2004 HK\$'000	2003 HK\$'000
The Group		
Share premium	1,519,481	1,519,481
Property revaluation reserve	43,355	36,691
Investment revaluation reserve	177,371	80,027
Capital redemption reserve	180,846	170,774
Translation reserve	(106,276)	(104,240)
Non-distributable reserve (note 30 (a))	55,226	55,226
Capital (goodwill) reserve (note 30 (b))	263,805	295,269
Accumulated profits (note 30 (c))	2,268,308	1,571,303
Dividend reserve	26,006	–
	4,428,122	3,624,531

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Distributable reserve HK\$'000	Accumulated profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
The Company						
At 1st January, 2003	1,894,481	20,175	–	121,844	–	2,036,500
Transferred upon approval by court order	(375,000)	–	375,000	–	–	–
Share repurchased and cancelled	–	–	(225,000)	(6,799)	–	(231,799)
Transferred on share repurchase	–	150,599	(150,000)	(599)	–	–
Profit attributable to shareholders	–	–	–	148,649	–	148,649
At 31st December, 2003	1,519,481	170,774	–	263,095	–	1,953,350
Shares repurchased and cancelled	–	–	–	(25,298)	–	(25,298)
Transferred on share repurchase	–	10,072	–	(10,072)	–	–
Proposed final dividend	–	–	–	(26,006)	26,006	–
Profit attributable to shareholders	–	–	–	133,685	–	133,685
At 31st December, 2004	1,519,481	180,846	–	335,404	26,006	2,061,737

The Company's reserves available for distribution to shareholders at 31st December, 2004 are represented by accumulated profits and dividend reserve totalling HK\$361,410,000 (2003: HK\$263,095,000).

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30. RESERVES (CONT'D)

Notes:

(a) Non-distributable reserve represents the share of a subsidiary's capital redemption reserve.

(b)	Goodwill HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Total HK\$'000
The Group				
At 1st January, 2003	(46,864)	374,182	606	327,924
Released on disposal of associates	–	–	(237)	(237)
Amortisation of capital reserve	–	(32,897)	–	(32,897)
Transferred from accumulated profits	–	–	479	479
At 31st December, 2003	(46,864)	341,285	848	295,269
Released on dilution of interest in an associate	–	–	(2)	(2)
Amortisation of capital reserve	–	(33,046)	–	(33,046)
Transferred from accumulated profits	–	–	1,584	1,584
At 31st December, 2004	(46,864)	308,239	2,430	263,805

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

(c) The accumulated profits of the Group include HK\$186,952,000 (2003: HK\$90,919,000) retained by associates and HK\$373,029,000 (2003: HK\$368,473,000) retained by jointly controlled entities of the Group.

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31. BANK AND OTHER BORROWINGS

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loans, overdrafts and other borrowings comprise:		
Bank loans	1,946,844	1,891,470
Overdrafts	59,304	155,247
Other borrowings	6,000	5,000
	2,012,148	2,051,717
Analysed as:		
Secured	1,726,148	1,964,936
Unsecured	286,000	86,781
	2,012,148	2,051,717
Bank loans and overdrafts are repayable as follows:		
Within one year or on demand	884,579	1,105,282
More than one year but not exceeding two years	246,738	70,760
More than two years but not exceeding five years	788,469	759,110
More than five years	86,362	111,565
	2,006,148	2,046,717
Other borrowings repayable within one year or on demand	6,000	5,000
	2,012,148	2,051,717
Less: Amount repayable within one year and shown under current liabilities	(890,579)	(1,110,282)
Amount due after one year	1,121,569	941,435

Details of the assets of the Group and the Company pledged to secure bank and other borrowings are set out in note 42.

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32. LOAN NOTES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Issued by the Company				
At 1st January	138,892	–	138,892	–
Loan notes issued by the Company	–	262,500	–	262,500
Repurchased and cancelled	(48,004)	(123,608)	(48,004)	(123,608)
At 31st December	90,888	138,892	90,888	138,892
Issued by a listed subsidiary				
At 1st January	231,637	–		
Loan notes issued by a listed subsidiary	–	255,234		
Repurchased and cancelled	(102,000)	(23,597)		
At 31st December	129,637	231,637		
Total	220,525	370,529	90,888	138,892

The loan notes of the Company and those of the listed subsidiary, Sun Hung Kai, were issued as part of the consideration for the repurchase of shares of the Company and Sun Hung Kai respectively. The loan notes issued by the Company bear interest at 2.25% per annum and are due on 15th August, 2008. The loan notes issued by Sun Hung Kai bear interest at 4% per annum and are due on 7th March, 2008.

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33. OTHER LIABILITIES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Obligations under a finance lease (note)	76	966	–	–
Other employee benefits	2,295	5,346	126	131
Advance from minority shareholders	1,022	–	–	–
	3,393	6,312	126	131
Less: Amount repayable within one year shown under current liabilities	(585)	(1,404)	(126)	(131)
Amount due after one year	2,808	4,908	–	–

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

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34. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured, interest-free and has no fixed terms of repayment. The subsidiary will not demand repayment in the next twelve months and the amount is therefore shown as non-current liabilities.

35. ACQUISITION OF SUBSIDIARIES

On 10th December, 2004, the Group acquired the entire issued share capital and loans to Gilmore Limited for a consideration of HK\$125,359,000.

	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)
	<u>125,359</u>	<u>62,302</u>
Negative goodwill on acquisition	–	(8,730)
Total consideration	<u>125,359</u>	<u>53,572</u>
Satisfied by:		
Cash	125,359	36,827
Accounts payable	–	16,745
	<u>125,359</u>	<u>53,572</u>
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)
	<u>(125,239)</u>	<u>(49,579)</u>

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 a loss of HK\$20,217,000 to the Group's profit before taxation in that year.

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36. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Accounts receivable, deposits and prepayments	–	21
Bank balances	–	1,208
Accounts payable and accrued charges	<u>(4,491)</u>	<u>(264)</u>
	(4,491)	965
Translation reserve released upon disposal	(2,339)	1,886
Minority interests released upon disposal	(1,817)	673
Profit(loss) on disposal of subsidiaries	<u>8,647</u>	<u>(2,229)</u>
Proceeds on disposal	<u>–</u>	<u>1,295</u>
Satisfied by:		
Cash	<u>–</u>	<u>1,295</u>
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash consideration received	–	1,295
Bank balances disposed of	<u>–</u>	<u>(1,208)</u>
	<u>–</u>	<u>87</u>

The subsidiaries disposed of during both years did not have any significant contribution to the Group's turnover and profit before taxation.

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37. MAJOR NON-CASH TRANSACTIONS

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

- (i) Pursuant to a circular dated 21st August, 2003 issued by the Company, an unconditional offer was made by the Company for the repurchase up to 750,000,000 shares at HK\$0.5 per share, as to HK\$0.15 in cash and HK\$0.35 in the form of a loan note. As announced by the Company on 15th September, 2003, 750,000,000 shares had been repurchased by the Company and, accordingly, loan notes to the value of HK\$262,500,000 were subsequently issued.
- (ii) Pursuant to a circular dated 16th January, 2003 issued by Sun Hung Kai, an unconditional offer was made by Sun Hung Kai for the repurchase 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 Sun Hung Kai on 27th February, 2003, 255,234,309 shares had been repurchased by Sun Hung Kai 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 Company and Sun Hung Kai are shown in note 32.

38. CONTINGENT LIABILITIES

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

	2004 HK\$'000	2003 HK\$'000
Guarantees for banking facilities 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 bank for a loan to a client	–	67,556
Other guarantees	3,184	913
	15,724	79,998

- (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 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.

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38. CONTINGENT LIABILITIES (CONT'D)

- (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.

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 (The Group 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 22 the management has commented on 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\$155,000,000 (2003: HK\$155,000,000) given to banks in respect of banking facilities utilised by a subsidiary. Facilities amounting to HK\$76,399,000 (2003: HK\$35,374,000) were utilised at 31st December, 2004.

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39. CAPITAL COMMITMENTS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Property development projects	–	13,350
Others	33,629	2,810
	33,629	16,160
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.

40. OPERATING LEASE ARRANGEMENTS

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
As lessee				
Minimum lease payments under operating leases recognised in the income statement for the year				
Land and buildings	39,222	47,750	2,473	2,634
Others	658	2,429	–	–
	39,880	50,179	2,473	2,634

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

	The Group				The Company	
	2004		2003		2004	2003
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	HK\$'000
Within one year	35,565	578	43,884	927	4,423	6,656
In the second to fifth years inclusive	39,729	–	14,273	38	517	1,081
	75,294	578	58,157	965	4,940	7,737

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

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40. OPERATING LEASE ARRANGEMENTS (CONT'D)

As lessor

Property rental income earned during the year was HK\$66,552,000 (2003: HK\$63,680,000). 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	37,346	39,998
In the second to fifth years inclusive	18,487	9,154
	55,833	49,152

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

41. 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 benefits 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 scheme has 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.

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42. 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\$2,981,583,000 (2003: HK\$2,791,950,000), listed investments belonging to the Group and margin clients with a carrying value of HK\$1,074,406,000 (2003: HK\$792,489,000) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK\$3,177,864,000 (2003: HK\$3,935,318,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,554,144,000 (2003: HK\$3,777,516,000) granted to the Group. Facilities amounting to HK\$1,726,148,000 (2003: HK\$1,964,936,000) 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 secured a bank guarantee amounting to HK\$2,000,000 (2003: HK\$2,000,000).

At 31st December, 2004, certain of the Company's interests in a listed subsidiary with an aggregate carrying value of HK\$695,969,000 (2003: HK\$674,636,000) together with certain investments of its subsidiaries, were pledged to secure credit facilities to the extent of HK\$150,000,000 (2003: HK\$150,000,000) granted to a subsidiary. Facilities amounting to HK\$76,399,000 (2003: HK\$35,374,000) were utilised at 31st December, 2004.

43. 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
Dividend income from associates	(6,182)	(18,912)
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)
Administration, management and consultancy fees from a jointly controlled entity	(4,860)	(2,360)
Administration and other fees from an associate and its subsidiary	(1,200)	-
Service fee income from an associate	(1,137)	(432)
Interest income from associates	(7,287)	(16,786)
Rent, property management and air-conditioning fees and other related service fees from an associate	(910)	(1,345)
Insurance premium from associates	(4,543)	(2,917)
Rent, property management and air-conditioning fees to a jointly controlled entity	<u>9,284</u>	<u>10,844</u>

(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).

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43. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

- (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 period. 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.
- (e) 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.

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

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	84,644	373,107	1,200	–
Jointly controlled entities	(139,023)	(169,602)	–	–
	(54,379)	203,505	1,200	–

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

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest in associates	136,953	137,316	–	–
Accounts receivable, deposits and prepayments	2,148	7,569	1,200	–
Amounts due from associates	231	266,303	–	–
Amount due from a jointly controlled entity	2,040	2,056	–	–
Accounts payable and accrued charges	(5,428)	–	–	–
Amounts due to associates	(49,260)	(38,081)	–	–
Amount due to a jointly controlled entity	(141,063)	(171,658)	–	–
	(54,379)	203,505	1,200	–

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

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44. 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 demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
Assets						
Fixed deposits with banks	-	154,185	-	-	-	154,185
Loans and advances to consumer finance customers	149,861	391,753	788,265	851,270	28,579	2,209,728
Long-term loan receivable	-	-	-	3,200	-	3,200
Loan note of a listed associate	-	-	-	78,000	-	78,000
Term loans	232,911	64,515	34,600	-	-	332,026
Marketable debt securities	-	7,741	-	-	-	7,741
Liabilities						
Bank and other borrowings	-	348,646	541,933	1,035,207	86,362	2,012,148
Loan notes	-	-	-	220,525	-	220,525
Obligations under a finance lease	-	76	-	-	-	76
At 31st December, 2003						
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	Total HK\$'000
Assets						
Fixed deposits with banks	-	251,080	-	-	-	251,080
Loans and advances to consumer finance customers	135,889	325,766	731,818	609,120	8,836	1,811,429
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	281,886	81,467	-	-	538,758
Marketable debt securities	-	7,747	-	-	-	7,747
Liabilities						
Bank and other borrowings	-	625,877	484,405	829,870	111,565	2,051,717
Loan notes	-	-	-	370,529	-	370,529
Obligations under a finance lease	-	219	671	76	-	966

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45. 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	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 %	
AG Capital Limited	2	100	100	Share trading, money lending and business of consultancy
Alaston Development Limited	US\$1	100	75	Property trading
Allied Aquatic Produce Development Limited	50,000,000	100*	100	Investment holding
Allied Capital Management Limited	2	100	100	Securities trading
Allied Properties (H.K.) Limited**	1,074,303,802	18* 57	75	Investment holding
Allied Real Estate Agency Limited	2	100	75	Real estate agency
AP Administration Limited	2	100	75	Provision of management and consultancy services
AP Corporate Services Limited	2	100	75	Provision of corporate services
AP Development Limited	2	100	75	Investment holding
AP Diamond Limited	US\$1	100	75	Property trading & holding
AP Emerald Limited	US\$1	100	75	Investment holding
AP Finance Limited	2	100	75	Money lending
AP Property Management Limited	2	100	75	Building management
Bali International Finance Limited	137,500,000	100	56	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	56	Securities dealer
Best Melody Development Limited	5,000	100	75	Property holding
Capscore Limited	2	100*	100	Investment holding
Cheeroll Limited	2	100	56	Share trading
Citiwealth Investment Limited	2	100*	100	Share trading and investment holding
Cowslip Company Limited	2	100	56	Investment holding
Earnest Finance Limited	100	100	55	Investment holding
Easy Capital Investments Limited	US\$1	100	55	Investment holding
Fame Arrow Company Limited	100,000	95	71	Loan financing
Florich Development Limited	10,000	100	75	Investment holding
Front Sail Limited	5,000	100	75	Property holding
Gilmore Limited	2	100	75	Property holding

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45. 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 %	
Gloria (Nominees) Limited	200	100	56	Investment holding
Gloxin Limited	2	100	56	Investment holding
Grand Securities Company Limited	20,000,000	100	56	Securities broking
Hilarious (Nominees) Limited	10,000	100	56	Investment holding
Hillcrest Development Limited	20	100	75	Property holding
Hi-Link Limited	200	100	75	Investment holding
Integrated Custodian Limited	2	100	75	Property holding
Itso Limited	2	100	56	Share trading
Jaffe Development Limited	US\$1	100	75	Property holding
Kalix Investment Limited	2	100	75	Property holding
King Policy Development Limited	2	100	75	Property holding
Lexshan Nominees Limited	2	100	56	Nominee service
Macdonnell (Nominees) Limited	10,000	100	56	Investment holding
Maxplan Investment Limited	2	100	75	Securities trading
Mightyton Limited	10,000	100	75	Property holding
Oakfame Investment Limited	2	100	56	Investment holding
Ontone Limited	2	100	75	Hotel operations, property development and property holding
Pioneer Alliance Limited	10,000	100*	100	Investment holding
Pioneer Score Development Limited	2	100	56	Investment holding
Plentiwind Limited	2	100	56	Futures trading
Polyking Services Limited	2	100	49	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	49	Building management
Quick Art Limited	3,540,000	100	56	Share trading and property holding
Ranbridge Finance Limited	20,000,000	100	56	Money lending
Rank Crown Investment Limited	2	100*	100	Investment holding
San Pack Properties Limited	10	100	75	Property holding
Scienter Investments Limited	20	100	56	Share trading
SHK Consultancy Services Limited	2	100	56	Provision of consultancy service
SHK Financial Data Limited	100	51	29	Provision of financial information service
SHK Finance Limited	150,000,000	100	55	Consumer financing
SHK Fund Management Limited	5,000,000	100	56	Funds management and securities business development

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45. 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 %	
SHK Investment Services Limited	1,000,000	100	56	Property holding
SHK Online (Securities) Limited	30,000,000	100	56	Online securities broking and margin financing
SHK Online Limited	20,000,000	100	56	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	56	Investment holding
Shun Loong Bullion Limited	6,000,000	100	56	Bullion dealing
Shun Loong Capital Limited	6,500,000	100	56	Investment holding
Shun Loong Finance Limited	1,000,000	100	56	Money lending
Shun Loong Forex Company Limited	32,000,000	100	56	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	15,000,000	100	56	Futures and option broking
Shun Loong Holdings Limited	200,000,000	100	56	Investment holding
Shun Loong Nominees Limited	100,000	100	56	Provision of nominee and secretarial services
Shun Loong On-line Investment Services (H.K.) Limited	25,000,000	100	56	Computer and marketing advisory service and securities trading
Shun Loong Securities Company Limited	50,000,000	100	56	Securities broking and share margin financing
Sierra Joy Limited	2	100	75	Property holding
Splendid Gain Limited	2	100	56	Investment holding
Sun Hing Bullion Company Limited	5,000,000	100	56	Bullion trading
Sun Hung Kai & Co. Limited**	249,140,631	75	56	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	56	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	56	Bullion trading
Sun Hung Kai Commodities Limited	80,000,600	100	56	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	56	Foreign exchange trading

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45. 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 Insurance Consultants Limited	1,000,000	100	56	Insurance broking
Sun Hung Kai International Limited	10,000,000	100	56	Corporate finance service
Sun Hung Kai International Commodities Limited	5,000,000	100	56	Commodities dealer
Sun Hung Kai Investment Services Limited	290,000,000	100	56	Share broking and margin financing
Sun Hung Kai Research Limited	100,000	100	56	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	56	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	56	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	56	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	56	Investment holding
Sun Hung Kai Venture Capital Limited	2	100	56	Investment holding
Sun Hung Kai Wealth Management Limited	5,000,000	100	56	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	56	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	56	Financial service
Sunhill Investments Limited	2	100*	100	Investment holding
Texgulf Limited	20	100	56	Property holding
To Wan Development Company Limited	10,000	100	56	Investment holding
Tung Wo Investment Company, Limited	10,000	100	56	Investment holding
United Asia Finance Limited	137,500,000	58	55	Consumer financing
Wah Cheong Development Company, Limited	25,100,000	100	56	Investment holding
Wineur Secretaries Limited	2	100	56	Secretarial service
Yee Li Ko Investment Limited	3,000,000	100	56	Property holding

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

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

Particulars of the Company's principal subsidiaries at 31st December, 2004 which were incorporated and have their principal place of operation 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 attributable		Principal activity
			held by subsidiaries %	to the Group %	
Allied Properties China Limited	Cayman Islands	US\$1,000	100	75	Investment holding
Best Decision Investments Limited	British Virgin Islands	US\$50,000	65	36	Investment holding
Best Delta International Limited	British Virgin Islands	US\$1	100	56	Investment holding
Boneast Assets Limited	British Virgin Islands	US\$1	100	56	Investment holding
Constable Development S.A.	Panama	US\$5	100	56	Investment holding
I-Market Limited	British Virgin Islands	US\$1	100	56	Investment holding
Kenworld Corporation	Republic of Liberia	US\$1	100	75	Investment holding
Lakewood Development Corporation	United States of America	US\$1,000	100	75	Property development and management
Ranbridge, Inc.	The Philippines	Peso 5,385,000	100	56	Money lending
Shipshape Investments Limited	British Virgin Islands	US\$1	100	56	Investment holding
SHK Global Managers Limited	British Virgin Islands	US\$5,000	100	56	Funds management
SL Meridian Holdings Limited	British Virgin Islands	HK\$1,000,000	100	56	Investment holding

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital attributable		Principal activity
			held by subsidiaries %	to the Group %	
Sun Hung Kai International Bank [Brunei] Limited	Brunei Darussalam	SG\$10,000,000	100	56	International banking business
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US\$50,000	100	56	Investment holding
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP 1,000,000	100	56	Financial service
Sun Hung Kai Online Limited	British Virgin Islands	US\$1	100	56	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US\$12,000	100	56	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso 273,600,000	100	56	Investment holding
Swan Islands Limited	British Virgin Islands	US\$1	100	56	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US\$1	100	56	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US\$1	100	56	Investment holding
Upstand Assets Limited	British Virgin Islands	US\$1	100	56	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US\$2,675,400	100	56	Investment holding
Zeal Goal International Limited	British Virgin Islands	US\$1	100	56	Investment holding

** The subsidiaries are listed in Hong Kong and further details about these subsidiaries 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.

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46. 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	25	Property holding
Drinkwater Investment Limited	Hong Kong	22	12	Property holding
Omicron International Limited	British Virgin Islands	44	25	Investment holding
Quality HealthCare Asia Limited**	Bermuda	30	17	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	22	Property development
Silver York Development Limited	Hong Kong	40	22	Property development
Start Hold Limited	Hong Kong	33	19	Investment holding
Tian An China Investments Company Limited**	Hong Kong	49	27	Investment holding
Yu Ming Investments Limited**	Hong Kong	22	12	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.

47. 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		Principal activity
		held by subsidiaries %	attributable to the Group %	
Allied Kajima Limited	Hong Kong	50	37	Property and investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	19	Corporate finance advisory
International Mezzanine Fund Management Limited	Singapore	33	19	Establishment and management of funds

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

Financial Summary

	Financial year ended 31st December,				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Results					
Turnover	1,267,520	1,743,774	1,812,277	1,609,482	1,910,952
(Loss) profit from operations	(77,652)	248,220	(210,777)	512,844	888,126
Other finance costs	(100,891)	(111,391)	(72,183)	(61,277)	(49,386)
Amortisation of goodwill	–	(4,760)	(7,142)	(7,142)	(7,142)
Release of negative goodwill	–	68,220	136,899	237,923	257,610
Amortisation of capital reserve	–	20,417	17,267	17,267	17,267
Warrant reserve realised on warrants expired	43,487	–	–	–	–
Share of results of associates	88,099	123,505	117,473	135,708	266,192
Share of results of jointly controlled entities	63,368	51,213	(22,730)	22,900	23,667
Profit (loss) before taxation	16,411	395,424	(41,193)	858,223	1,396,334
Taxation	(96,058)	(95,366)	(82,972)	(127,518)	(221,031)
(Loss) profit after taxation	(79,647)	300,058	(124,165)	730,705	1,175,303
Minority interests	(39,527)	(196,621)	(45,430)	(244,239)	(415,338)
(Loss) profit attributable to shareholders	(119,174)	103,437	(169,595)	486,466	759,965
Basic (loss) earnings per share	(HK\$0.35)	HK\$0.30	(HK\$0.50)	HK\$1.53	HK\$2.89
Assets and liabilities					
Total assets	9,790,876	12,848,540	10,601,116	11,693,463	12,132,661
Total liabilities	(2,849,868)	(4,127,031)	(3,021,926)	(4,433,591)	(3,718,859)
Minority interests	(2,628,352)	(4,447,482)	(3,589,897)	(3,103,967)	(3,464,378)
	4,312,656	4,274,027	3,989,293	4,155,905	4,949,424

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

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion
Hong Kong					
Park Place 7 Tai Tam Reservoir Road Hong Kong	2056 +	R	3,475	74.80	Existing
Allied Cargo Centre 150-164 Texaco Road Tsuen Wan, New Territories	2047	G	46,594	74.80	Existing
60 Plantation Road, The Peak, Hong Kong	2066	R	639	74.80	Existing
Orchid Court 38 Tung On Street Mongkok, Kowloon	2049	R C	1,011 201	74.80 74.80	Existing Existing
The Redhill Peninsula 18 Pak Pat Shan Road Tai Tam, Hong Kong	2056 +	R CP	596 79 ###	74.80 74.80	Existing Existing (Phase IV)
China Online Centre 333 Lockhart Road Wanchai, Hong Kong	2026 ++	C	16,013	74.80	Existing
St. George Apartments 81 Waterloo Road, Ho Man Tin, Kowloon	2006 +	R	9,499	74.80	Existing
Ibis North Point 136-144 Java Road North Point, Hong Kong	2008 +	H	6,825	74.80	Existing
Century Court 239 Jaffe Road, Wanchai, Hong Kong	2027 ++	R C	2,592 1,323	74.80 74.80	Existing Existing
No. 9 Queen's Road Central Hong Kong	2854	C	1,277	74.80	Existing

Particulars of Major Properties (Cont'd)

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion
Allied Kajima Building 138 Gloucester Road Wanchai, Hong Kong	2047	C	20,321	37.40 *	Existing
Novotel Century Hong Kong 238 Jaffe Road, Wanchai Hong Kong	2047	H	27,364	37.40 *	Existing
Tregunter Tower 3 14 Tregunter Path, Hong Kong	2051	R	745	74.80	Existing
Admiralty Centre 18 Harcourt Road, Hong Kong	2053 +	C	2,171 #	56.09	Existing
House C7 and C8 Hawaii Garden 18 Silver Cape Road Sai Kung, New Territories	2047	R	437	56.09	Existing
Wing On House 71 Des Voeux Road Central Hong Kong	2902	C	533 #	56.09	Existing
Outside Hong Kong					
FM2100 Road and Diamond Head Boulevard, Harris County, Texas, U.S.A.	Freehold	R	13,888,933 ##	74.80	Held for development
Westin Philippine Plaza Hotel Cultural Centre of the Philippines Complex, Roxas Boulevard, Pasay City, Manila, Philippines	2014 +++	H	73,866	37.40 *	Existing

Notes:

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

* Indicates properties held through a jointly controlled entity

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

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

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

Saleable area

Site area

Number of car parking spaces