



九龍建業有限公司  
Kowloon Development Company Limited

不斷成長

穩健發展

growth  
on  
Solid  
Foundation



# Contents

<b>1</b>	Highlights		
<b>2</b>	Five-Year Financial Summary		
<b>4</b>	Chairman's Statement	<b>19</b>	Consolidated Income Statement
<b>6</b>	Review of Operations	<b>20</b>	Consolidated Balance Sheet
<b>9</b>	Financial Review	<b>22</b>	Balance Sheet
<b>10</b>	Profile of Directors and Senior Management	<b>23</b>	Consolidated Statement of Changes in Equity
<b>13</b>	Report of the Directors	<b>24</b>	Consolidated Cash Flow Statement
		<b>25</b>	Notes on the Accounts
		<b>62</b>	Auditors' Report
		<b>63</b>	Particulars of Properties
		<b>66</b>	Corporate Information



**Cover photos:**

1. Padek Palace at No.377 Prince Edward Road West, Kowloon City, Kowloon
2. La Baie Du Noble at The Orient Pearl District, Macau
3. Residential tower at Nos. 31 & 31A-G, Robinson Road, Mid-Levels, Hong Kong
4. Residential tower at No. 33 Ka Wai Man Road, Kennedy Town, Hong Kong

# Highlights

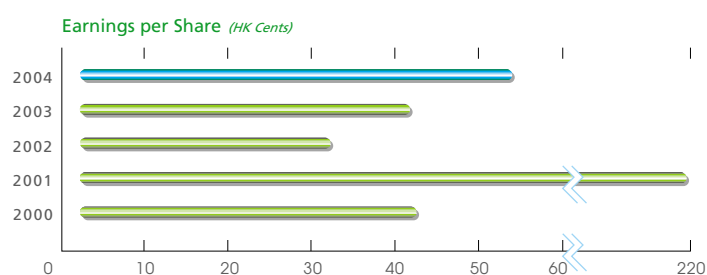
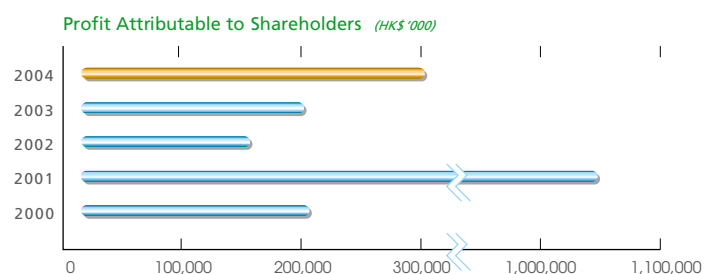
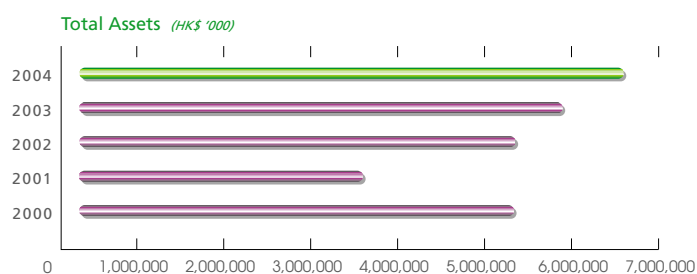
- Group profit for 2004 increased by HK\$101 million, up 50% to HK\$303 million.
- Earnings per share grew by 29% (outperforming target of 20%) on the weighted average number of 562,685,882 shares in issue during 2004, after accounting for the issue of 83 million new shares in January 2004.

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	773,425	673,812	591,157
Profit attributable to shareholders	303,096	201,500	155,854
Earnings per share (HK cents)	53.9*	41.7	32.2
Dividend per share (HK cents)	32	28	25

\* Earnings per share (EPS) as at 31 December 2004 reflected the placement of 83 million new shares issued in January 2004.



# Five-Year Financial Summary



## Consolidated Balance Sheet

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-Current Assets	<b>4,960,506</b>	4,745,993	4,413,490	3,362,952	5,022,356
Current Assets	<b>1,657,069</b>	1,145,036	922,351	182,033	309,227
<b>Total Assets</b>	<b>6,617,575</b>	5,891,029	5,335,841	3,544,985	5,331,583
Current Liabilities	<b>(1,182,089)</b>	(668,863)	(755,197)	(187,541)	(580,970)
Non-Current Liabilities	<b>(1,180,517)</b>	(1,933,917)	(1,335,272)	(210,576)	(392,010)
Minority Interests	<b>(1,208)</b>	(1,476)	(2,183)	(867)	717
<b>Net Assets</b>	<b>4,253,761</b>	3,286,773	3,243,189	3,146,001	4,359,320
Share Capital	<b>56,677</b>	48,377	48,377	48,377	48,377
Reserves	<b>4,197,084</b>	3,238,396	3,194,812	3,097,624	4,310,943
<b>Shareholders' Equity</b>	<b>4,253,761</b>	3,286,773	3,243,189	3,146,001	4,359,320

# Five-Year Financial Summary

## Consolidated Income Statement

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<b>773,425</b>	673,812	591,157	397,896	410,529
Profit From Operations	<b>334,249</b>	236,164	201,253	229,097	244,159
Finance Costs	<b>(6,169)</b>	(11,036)	(7,580)	(10,036)	(18,267)
Profit Attributable To Shareholders	<b>303,096</b>	201,500	155,854	1,057,723	205,816
Dividends					
— special interim	—	—	—	1,354,550	—
— interim	<b>39,674</b>	29,026	24,188	19,351	38,701
— final	<b>141,692</b>	124,689	96,754	87,078	87,078
	<b>181,366</b>	153,715	120,942	1,460,979	125,779

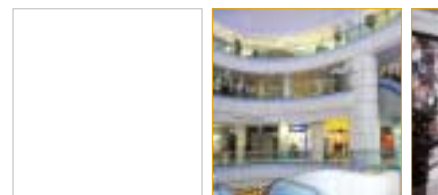
## Financial Highlights

	2004	2003	2002	2001	2000
Net Asset Value per Share (HK\$)	<b>7.5</b>	6.8	6.7	6.5	9.0
Earnings per Share (HK cents)	<b>53.9</b>	41.7	32.2	218.6	42.5
Dividends per Share (HK cents)	<b>32.0</b>	28.0	25.0	302.0	26.0
Dividend Payout Ratio (%)	<b>59.8</b>	76.3	77.6	138.1	61.1
Return on Shareholders' Equity (%)	<b>8.0</b>	6.2	4.9	28.2	4.8
Gearing Ratio (Bank borrowings/Equity) (%)	<b>41.2</b>	67.2	47.0	9.6	19.5

### Notes:

- The financial information in this summary is extracted from the published accounts for the last five years, restated where appropriate to be in accordance with the current accounting policies of the Group.
- In 2001, special interim dividend in specie was declared and distributed in the proportion of 4 shares of The Kowloon Motor Bus Holdings Limited for every 37 shares of the Company held (equivalent to a dividend of HK\$2.8 per share).

# Chairman's Statement



## Group Results and Dividends

The Board of Directors of Kowloon Development Company Limited (the "Company") is pleased to report that profit of the Company and its subsidiaries (the "Group") attributable to shareholders of the Company for the year ended 31 December 2004 was HK\$303 million (2003: HK\$202 million), an increase of 50% over that of 2003. Based on the weighted average number of 562,685,882 shares in issue during the year (2003: 483,767,850 shares), earnings per share rose 29% to 53.9 HK cents (2003: 41.7 HK cents), outperforming the target of delivering an annual earnings growth rate of 20% per share laid down by the Company in January 2004. The net asset value per share at 31 December 2004 was HK\$7.5 (31 December 2003: HK\$6.8).

The Board of Directors recommends the payment of a final dividend of 25 HK cents per share (2003: 22 HK cents per share) which is expected to be paid on 6 May 2005 to shareholders registered as at 5 May 2005 following approval at the Annual General Meeting to be held on 5 May 2005. The final dividend, together with the interim dividend of 7 HK cents per share (2003: 6 HK cents per share) paid on 29 October 2004, gives an aggregate dividend of 32 HK cents per share for 2004 (2003: 28 HK cents per share) and represents an increase of 14% over 2003. Total dividend for 2004 amounts to HK\$181 million which is 18% over last year's figure of HK\$154 million.

The Register of Members of the Company will be closed from Thursday, 28 April 2005 to Thursday, 5 May 2005, both dates inclusive. To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 27 April 2005.

## Business Review

Against the background of gradual economic recovery, expanded tourism from mainland China and buoyant property market, business environment and market sentiment have improved during the year.

The Group continued to grow and expand during the year under review. The results of our principal business activities, including property sales and leasing, were satisfactory with improvements recorded. In anticipation of a faster expansion, the Group issued 83 million new shares at the beginning of the year under review to provide for flexibility in development under a stronger capital base. After taking into account for the new issue, earnings per share grew by 29% on the weighted average number of 562,685,882 shares in issue during 2004.

In January 2004, recognising the promising prospects of Macau's economy, we acquired an 80% interest in the large-scale Macau residential property development project, La Baie Du Noble. With market oriented design and all rounded facilities, overwhelming interest has been received since commencement of the pre-sale of La Baie Du Noble, and about 80% of the residential units have been pre-sold.

In the first half of 2004, we acquired at a total consideration of HK\$152 million two commercial properties in Tsim Sha Tsui East to further strengthen our portfolio of investment properties and hence our recurrent income base. Both the office and retail sectors of the Group's portfolio have generally registered rising rents and improved occupancy rates during the year.

The Group achieved growth in profit from property sales in 2004 riding on the tide of appreciation in property prices. While income from rental activities still accounted for a significant portion of the Group's total profit, a more balanced contribution from property sales and rental activities has been achieved.



## Prospects

Prices of investment properties and land in Hong Kong have soared rapidly during the past year, which has led to a general reduction in investment opportunities with attractive profit margin. In this connection, the Group has adjusted its strategy and reduced the pace of sales of development properties while leaving the Group's business development and earnings growth unaffected.

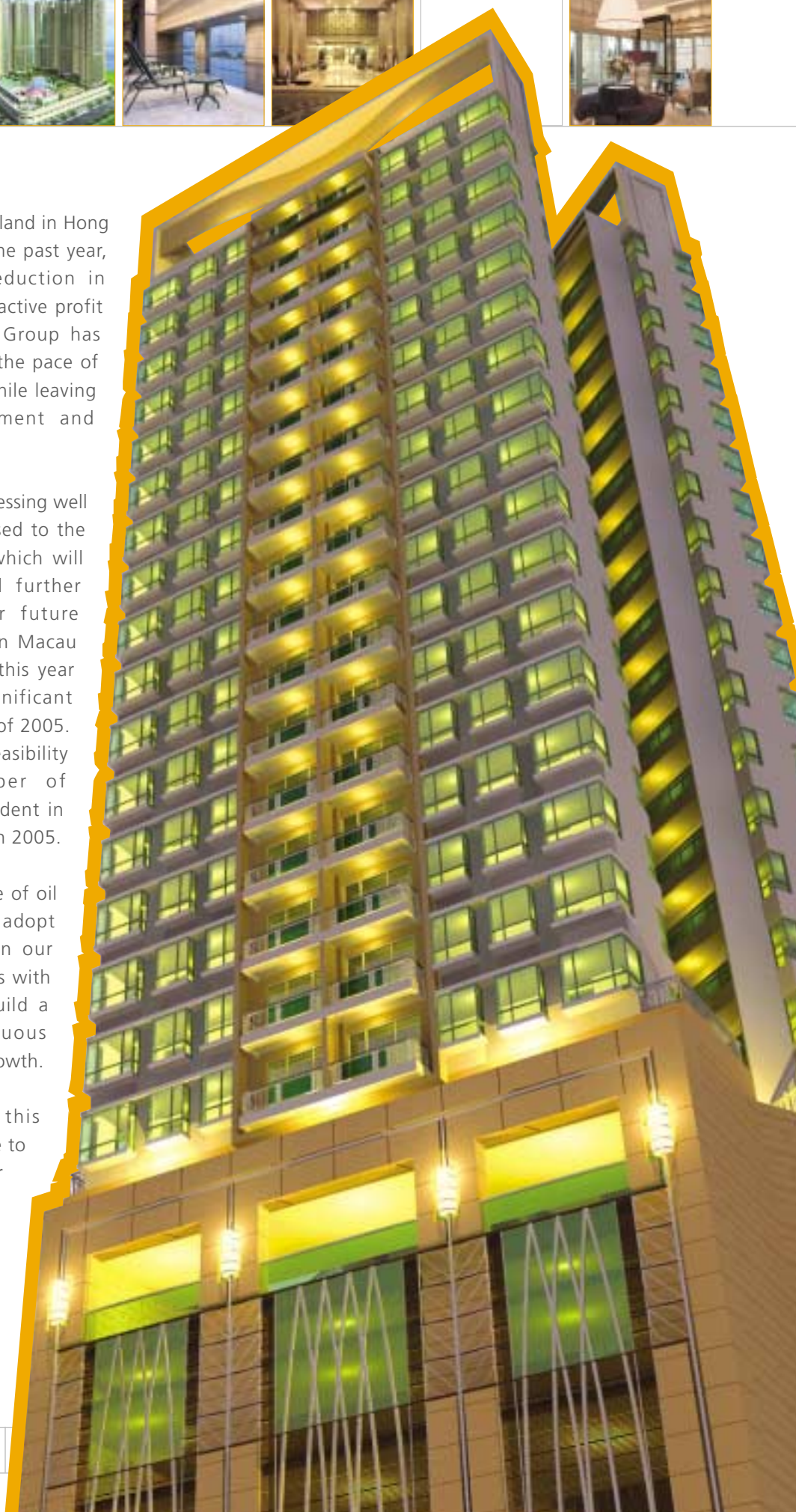
Our development projects are progressing well as planned and they will be released to the market in the appropriate time which will hopefully maximize profits and further strengthen our foundation for future development. La Baie Du Noble in Macau will be completed by the end of this year and is expected to make a significant contribution to the Group's results of 2005. The Group is now studying the feasibility of participating in a number of development projects and is confident in adding new development projects in 2005.

In light of the persistent high price of oil and rising interest rate, we will adopt prudent but proactive strategy in our pursuit of investment opportunities with reasonable return in order to build a sound foundation for continuous business expansion and earnings growth.

Finally, I would like to take this opportunity to express my gratitude to my fellow Directors for their guidance; and to all the staff for their diligence and dedication.

**Or Wai Sheun**  
*Chairman*

Hong Kong, 30 March 2005



# Review of Operations

The Group recorded a net profit of \$303 million for 2004. A breakdown of the profit attributable to shareholders contributed by various business activities is shown in note 2 of the accounts on pages 32 to 35.

## Property Sales

With the return in general confidence to the property market, the Group's property sales turnover in 2004 climbed to HK\$295 million, up 29% compared with HK\$228 million recorded in 2003. Such income was generated primarily from the sale of a majority of the 75 residential units of La Maison Du Nord at No.12 North Street and about 40% of the luxury residential units of Padek Palace at No.377 Prince Edward Road West.

## Property Development

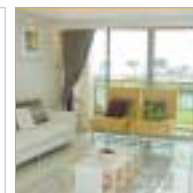
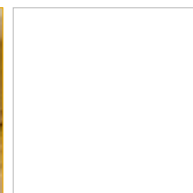
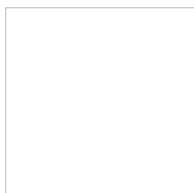
### *Property development project completed*

Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (sq. ft.)
Padek Palace No.377 Prince Edward Road West Kowloon City Kowloon	Residential	100	54,896

### *Property development projects in progress*

Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (sq. ft.)	Status	Expected Date of Completion
<b>Macau</b>					
La Baie Du Noble The Orient Pearl District Macau	Commercial and Residential	80	1,280,000	Superstructure works in progress	2nd half 2005
<b>Hong Kong</b>					
Nos. 31 & 31A-G Robinson Road Mid-Levels Hong Kong	Residential	100	128,084	Superstructure works in progress	1st half 2006
No. 33 Ka Wai Man Road Kennedy Town Hong Kong	Residential	Joint Venture with Urban Renewal Authority	78,372	Superstructure works in progress	1st half 2006
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon	Commercial and Residential	100	2,101,428	Foundation works in progress	2007/08
			3,587,884		





### ***La Baie Du Noble at The Orient Pearl District, Macau***

The Group acquired an 80% interest in La Baie Du Noble, a prominent commercial and residential property development project in Macau, in the beginning of 2004 at a consideration of HK\$400 million. This project involves the development of a luxury coast-front property in The Orient Pearl District comprising five residential blocks erected over a 3-storey podium with shopping mall, car parks, a clubhouse and recreational facilities.

### ***31 & 31A-G Robinson Road, Mid-Levels, Hong Kong***

The development is being developed into a deluxe residential tower comprising a swimming pool, car parks, a clubhouse and recreational facilities.

### ***33 Ka Wai Man Road, Kennedy Town, Hong Kong***

This residential project joint-ventured with Urban Renewal Authority involves the development of a high class residential tower with car parks, a clubhouse and a swimming pool.

### ***35 Clear Water Bay Road, Ngau Chi Wan, Kowloon***

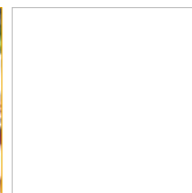
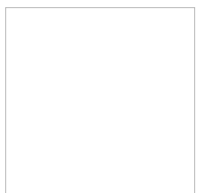
The site will be developed into a comprehensive residential development with retail and community facilities. Following the award of site formation and foundation contract, foundation works have commenced. Land premium is currently under negotiation.

## **Property Investment**

As the local economy gradually recovered in 2004, demand for grade A office and prime shops in tourist districts has maintained an upward trend. Both office and retail rental yields have generally improved for new leases and renewals. The gross rental income generated by the Group's portfolio of investment properties increased by 15% and reached HK\$207 million (2003: HK\$179 million). The increase was largely due to the rise in rental income from retail tenancies of Pioneer Centre and additional rental contributed by the two commercial properties in Tsim Sha Tsui East acquired by the Group in the first half of 2004.

The Group has gradually transformed Pioneer Centre into a youth-oriented focal point in Mongkok through the renovation programme for the shopping mall of Pioneer Centre which continued in 2004. Lettable gross floor area of the retail podium is around 180,000 sq. ft. upon completion of the renovation.

The overall occupancy rate of Pioneer Centre at the end of 2004 dropped slightly to 93% (2003: 96%). This was mainly caused by the renovation work on the Second and Third Floors of the Pioneer Centre shopping mall. In spite of the negative impact of the renovation work, rental income from Pioneer Centre increased 13% to HK\$169 million in 2004 (2003: HK\$149 million).



Apart from Pioneer Centre, the Group's other investment properties, mainly comprising retail shopping malls, commercial offices and serviced apartments, also performed well in the year under review with occupancy staying above 95%. Taking into account additional rental income from the Second Floor of the commercial podium of New Mandarin Plaza and together with the shop spaces and 10 car parking spaces on the Basement Floor of Peninsula Centre acquired by the Group in the first half of 2004, gross rental income from investment properties excluding Pioneer Centre rose by 27% to HK\$38 million.

### Property Management

The size of the portfolio managed by the Group and its associated companies as at the end of 2004 exceeded 7.7 million sq. ft. While the property management business generates relatively insignificant income to the Group, the provision of quality management services is an indispensable element for the general development of the Group's property business.

### Financing and Investments

As at 31 December 2004, the Group had invested a total of HK\$239 million in financial investments of which HK\$110 million was in long term investment and HK\$129 million was in short term investment. The decrease in investment from HK\$459 million at the end of 2003 is a result of the early redemption by the issuer of the US\$50 million 10 year note held as long term investment before the end of 2004.

The Group's money-lending business which mainly involved the provision of property mortgages and second mortgages to purchasers of the Group's property developments has recorded reasonable growth during the year.

In the year under review, financing and investment activities delivered HK\$78 million contribution from operations as compared with HK\$64 million in 2003.

### Others

The film library of the Group has contributed a small profit to the Group in 2004.

The performance of the footwear wholesale and retail business of Southern Success Corporation has been encouraging and profit has more than doubled in 2004. The 20% interest in the company has contributed about HK\$7.3 million profit to the Group (2003: HK\$3.5 million).

### Staff Remuneration and Training

The Group (excluding associated companies) employed a total of 155 employees at the end of 2004 (2003: 135 employees). Employee remuneration amounted to approximately HK\$38 million in 2004. The Group ensures that pay levels of employees remain competitive and employees are rewarded based on their performance. The Group operates a share option scheme to provide incentives and rewards to eligible persons, including Directors and employees. Other employee benefits include medical insurance, retirement schemes, in-house training courses as well as subsidies for external education and training programmes.

# Financial Review

## Financial Resources and Bank Borrowings

The total bank borrowings of the Group as at 31 December 2004 amounted to HK\$1,752 million representing a decrease of HK\$457 million as from the end of 2003. In early 2004, the Group raised HK\$569 million from the issue of 83 million new shares. The sale of the development projects, La Maison Du Nord and Padek Palace, contributed a total cash inflow of more than HK\$250 million. In addition, the US\$50 million 10 year note held by the Group was redeemed early by the note issuer during the year under review. During 2004, the Group acquired an 80% interest in La Baie Du Noble, Macau, at a consideration of HK\$400 million and two investment properties in Tsim Sha Tsui East with a total cost of HK\$152 million.

The gearing ratio, calculated on the basis of bank borrowings to shareholders' equity, was substantially reduced to 41% at 31 December 2004 as compared with 67% at the end of 2003.

All banking facilities are arranged on a floating rate basis. The Group did not enter into any interest rate swap arrangement during the year. Management will observe the market, monitor the interest exposure closely and consider hedging when appropriate.

With committed undrawn financing facilities in place, cash inflow from property sales and recurrent rental income from the investment properties, the Group has sufficient funds to satisfy its capital commitments and working capital requirements in the upcoming year.

The Group has little exposure to currency risk as most of the Group's operations are in Hong Kong and transactions are denominated in local currency.

## Commitments

As at 31 December 2004, the Group had contracted commitments of HK\$635 million for properties and another HK\$87 million for financial investments.

Commitments authorised but not contracted for related to properties under development amounted to HK\$5 million.

## Contingent Liabilities and Pledge of Assets

The Group has given guarantees in the amount of HK\$14 million to insurance companies in respect of performance bonds entered into by the associated companies engaged in property management services.

As at 31 December 2004, properties and securities of the Group with an aggregate carrying value of HK\$3,960 million were pledged to banks to secure credit facilities or as margin for financial investments.

# Profile of Directors and Senior Management

## Board of Directors

### Executive Directors

**OR Wai Sheun**, aged 53, is the Chairman of the Board of Kowloon Development Company Limited. He was appointed director of the Company in January 2002. Mr Or is responsible for the development of corporate strategies, corporate planning and general management of the Company. He is the chairman of Polytec Holdings International Limited and Intellinsight Holdings Limited and a director of The Or Family Trustee Limited Inc, all the three companies being substantial shareholders of the Company. Mr Or has over 20 years' experience in property development and investment and textile and garment business in Hong Kong and Macau.

**NG Chi Man**, aged 52, is the executive director of Kowloon Development Company Limited. She was appointed director of the Company in January 2002. Ms Ng is responsible for the development of corporate strategies, corporate planning and general management of the Company. She is a director of Polytec Holdings International Limited and Intellinsight Holdings Limited, both companies being substantial shareholders of the Company. Ms Ng has over 20 years' experience in property development and investment and textile and garment business in Hong Kong and Macau. She is the wife of Mr Or Wai Sheun.

**LAI Ka Fai**, aged 40, is the executive director of Kowloon Development Company Limited. He was appointed director of the Company in January 2002. Mr Lai is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. He is a director of Intellinsight Holdings Limited, a substantial shareholder of the Company, and a non executive director of Polytec Asset Holdings Limited\* (formerly Kin Don Holdings Limited). Mr Lai has over 15 years' experience in finance, accounting, financial and operational management and corporate planning. He graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

### Non-executive Directors

**Keith Alan HOLMAN**, aged 60, is the Deputy Chairman of the Board of Kowloon Development Company Limited. He was appointed director of the Company in January 2002. He is a director of, inter alia, The Or Family Trustee Limited Inc, a substantial shareholder of the Company, Landswell Limited, the holding company of a group of trading companies, and Arcanum Investment Management Limited, a fund manager. Mr Holman has over 30 years' experience in corporate finance and investment banking. He graduated from Oxford University in the United Kingdom and has a professional qualification as a solicitor.

## Profile of Directors and Senior Management

**TAM Hee Chung**, aged 61, is the managing director of Larry H C Tam & Associates Limited, a chartered surveyors, valuers and development consultants firm. Mr Tam started his professional career in the Hong Kong Government's Crown Lands & Survey Office, where he reached the rank of acting Government land agent/valuation, in charge of the Valuation Branch of the Crown Lands & Survey Office. He left the Government in 1981 and joined a property company as the general manager, and later set up his own practice as Larry H C Tam & Associates Limited. Mr Tam has extensive experience in all aspects of the land professional work both in Government and in private practice. Since 1988, he has been a member of the Town Planning Board and the Building Committee of the Housing Authority. He is a fellow member of both the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He is also a registered professional surveyor. He became a director of the Company in January 2002.

**YEUNG Kwok Kwong**, aged 46, is the chairman and managing director of Polytec Asset Holdings Limited\* (formerly Kin Don Holdings Limited). Mr Yeung has over 20 years' experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. He became a director of the Company in January 2002.

### Independent Non-executive Directors

**CHAU Cham Son**, aged 72, holds a Bachelor of Architecture degree from the University of Hong Kong and a Post-graduate Diploma in Civic Design in the University of Liverpool. He was admitted to the degree of Doctor of Laws (honoris causa) in the University of Liverpool. He is a Fellow of the Royal Town Planning Institute (UK) and a Fellow of the Hong Kong Institute of Planners. He has over 30 years of practical experience in the field of town planning, buildings and land development in Hong Kong. He joined the Government in 1960, became the Director of Building Development in 1984 and became the first Director of Buildings and Lands in 1986. He left Government service in 1989 and has since devoted himself to giving professional advice on planning and development projects. He became a director of the Company in 1995.

**LI Kwok Sing, Aubrey**, aged 55, is a director of Management Capital Limited, a Hong Kong-based financial advisory and direct investment firm, and has over 30 years' experience in merchant banking and commercial banking. He is also a non-executive director of ABC Communications (Holdings) Limited\*, The Bank of East Asia, Limited\*, Café de Coral Holdings Limited\*, China Everbright International Limited\*, CNPC (Hong Kong) Limited\*, Pokfulam Development Company Limited\* and Value Partners China Greenchip Fund Limited\*, and is the non-executive chairman of Atlantis Asian Recovery Fund plc. Mr Li has a Master's degree in Business Administration from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University. He became a director of the Company in January 2002.

**LOK Kung Chin, Hardy**, aged 55, is the Managing Director of The Sun Company, Limited and has over 30 years' experience in building and engineering construction work. He graduated from the University of Manchester Institute of Science & Technology and is a Member of the Institution of Civil Engineers (United Kingdom), a Member of the Hong Kong Institution of Engineers and a Fellow of the Hong Kong Institute of Construction Managers. He became a director of the Company in January 2002.

## Profile of Directors and Senior Management

**SETO Gin Chung, John**, aged 56, is the chairman and a non-executive director of Stockmartnet Holdings Limited\* and a director of China Everbright Limited\*. He was a non-executive director of Hong Kong Exchanges and Clearing Limited\* and was the chief executive of HSBC Broking Services (Asia) Limited. Mr Seto was a Council Member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. He was a director of Poly Investments Holdings Limited from 1993 to 2002. He holds a Master of Business Administration degree from New York University, US and has over 30 years of experience in the securities and futures industry. He became a director of the Company in January 2002.

\* Companies listed on The Stock Exchange of Hong Kong Limited.

### Senior Management

**AU YEUNG Chi Hung, Alex**, aged 45, is the General Manager, Property Investment and Development of the Company. Mr Au Yeung has over 20 years' experience in large scale infrastructure and property development projects in Hong Kong, Macau, China and Singapore. Prior to joining the Company in 2002, he was a General Manager in a large property development company and had worked for various international consultancy firms involved in various infrastructure work and power projects. He is a member of the Hong Kong Institution of Engineers.

**HO Chun Chuen**, aged 53, is the General Manager, Construction of the Company. Mr Ho has over 30 years of experience in the building construction industry. Prior to joining the Company in 2002, he worked for John Lok & Partners Limited, Sanfield Building Contractors Limited and New House Construction Company Limited for the construction of many famous buildings in Hong Kong. He is a member of the Australian Institute of Building, Chartered Institute of Building, Hong Kong Institute of Construction Managers and Hong Kong Institute of Project Management.

**LAW Yu Wing, Steven**, aged 48, is the General Manager, Marketing & Sales of the Company. Mr Law holds a Master's degree in Business Administration and has a strong background in general management and finance, predominantly in property field. Besides heading the Marketing & Sales team, Mr Law is also overseeing the property management operations of the Company. Prior to joining the Company in 2002, he had worked for the Hongkong Land Group for over 19 years and had an excellent track record in property management and project management both in Hong Kong and China.

**WAI Yuk Hing, Monica**, aged 46, is the Assistant General Manager and Company Secretary of the Company. She is responsible for the day-to-day financial management of the Company. Ms Wai holds a Bachelor of Business degree from the Monash University, Melbourne, Australia, and is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and an associate member of CPA Australia. Prior to joining the Company in 1986, she worked for an international accounting firm for 8 years serving many multinational corporations and listed companies in Hong Kong.

# Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited statement of accounts for the year ended 31 December 2004.

## Principal Activities

The principal activities of the Company are property development and investment and the holding of investments. The principal activities and particulars of its principal subsidiaries are set out in note 28(a) on the accounts.

## Group Profit

The profit of the Group for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 19 to 61.

## Dividends

An interim dividend of 7 HK cents per share (2003: 6 HK cents per share) was paid on 29 October 2004. The Directors now recommend that a final dividend of 25 HK cents per share (2003: 22 HK cents per share) be paid in respect of the year ended 31 December 2004.

## Share Capital

During the year, 83,000,000 new shares were issued at HK\$6.85 per share. Particulars of movements in share capital and premium thereon during the year are set out in notes 22 and 23 on the accounts.

## Purchase, Sale or Redemption of the Company's Listed Shares

There was no purchase, sale or redemption by the Company, or any of its subsidiaries of the Company's listed shares during the year.

## Reserves

Movements in reserves during the year are set out in note 23 on the accounts.

## Fixed Assets

Movements in fixed assets during the year are set out in note 10 on the accounts.

## Bank Loans and other Borrowings

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2004 are set out in notes 13, 20 and 21 on the accounts.

### Finance Costs Capitalized

The amount of finance costs capitalized by the Group during the year is set out in note 3(a) on the accounts.

### Donations

Charitable donations made by the Group during the year amounted to HK\$340,900 (2003: HK\$40,400).

### Properties

Particulars of properties of the Group are shown on pages 63 to 65 of the annual report.

### Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 2 to 3 of the annual report.

### Directors

The Directors of the Company during the year and up to the date of this report are as follows and their brief biographical details are set out on pages 10 to 12 of the annual report:

Mr Or Wai Sheun, *Chairman*

Mr Keith Alan Holman, *Deputy Chairman*

Ms Ng Chi Man, *Executive Director*

Mr Lai Ka Fai, *Executive Director*

Mr Tam Hee Chung, *Non-executive Director*

Mr Yeung Kwok Kwong, *Non-executive Director*

Mr Chau Cham Son, *Independent Non-executive Director*

Mr Li Kwok Sing, *Aubrey, Independent Non-executive Director*

Mr Lok Kung Chin, *Hardy, Independent Non-executive Director*

Mr Seto Gin Chung, *John, Independent Non-executive Director*

In accordance with article 105 of the Articles of Association of the Company, Mr Lai Ka Fai, Mr Tam Hee Chung and Mr Yeung Kwok Kwong will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to the new independence guidelines under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company still considers such Directors to be independent.

Particulars of the Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 4(a) on the accounts.



## Report of the Directors

### Directors' Interests and Short Positions

As at 31 December 2004, the following Directors of the Company were interested, or deemed to be interested in, the following long and short positions in the shares of the Company as recorded in the register required to be kept under Part XV (s.352) of the Securities and Futures Ordinance ("SFO"):

Name of Director	Shares of HK\$0.10 each in the capital of the Company			Note
	Long position	Short position	Percentage of total issued share	
Or Wai Sheun	353,023,083	—	62.29%	1
Ng Chi Man	352,838,083	—	62.25%	2
Tam Hee Chung	750,000	—	0.13%	3
Lai Ka Fai	239,000	—	0.04%	4
Lok Kung Chin, Hardy	200,000	—	0.04%	5
Keith Alan Holman	130,000	—	0.02%	4
Yeung Kwok Kwong	100,000	—	0.02%	4

#### Notes:

1. Mr Or Wai Sheun was deemed to be interested in 352,838,083 shares ultimately wholly-owned by a discretionary family trust of which Mr Or Wai Sheun is the founder and a beneficiary. These shares were the shares disclosed under the section of Ms Ng Chi Man in the above table and in the Note of the section on "Interests of Substantial Shareholders and Other Persons".  
  
Mr Or Wai Sheun was deemed to be interested in 185,000 shares owned by China Dragon Limited due to his corporate interest therein.
2. Ms Ng Chi Man is the spouse of Mr Or Wai Sheun. Ms Ng was deemed to be interested in 352,838,083 shares as a beneficiary of the discretionary family trust referred to in Note 1 above.
3. Mr Tam Hee Chung was the beneficial owner of 250,000 shares and was deemed to be interested in 500,000 shares owned by Larry H.C. Tam & Associates Limited by virtue of his 48% interest therein.
4. Shares were held by the respective Directors in their capacity as beneficial owner.
5. Mr Lok Kung Chin, Hardy was taken to be interested in 200,000 shares owned by a discretionary trust of which Mr Lok is the founder.

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors (including their spouses and children under the age of 18) had, as at 31 December 2004, any interest in, or had been granted any right to subscribe for the shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

### **Directors' Interests in Contracts and Connected Transactions**

On 7 January 2004, Future Star International Limited ("Future Star"), a wholly-owned subsidiary of the Company, and Polytec Holdings International Limited ("Polytec Holdings") entered into an agreement ("Agreement") pursuant to which Future Star agreed to conditionally acquire from Polytec Holdings the entire issued share capital of and shareholder's loan due by Top Milestone Developments Limited ("Top Milestone"), a wholly-owned subsidiary of Polytec Holdings, to Polytec Holdings ("Acquisition") at an aggregate consideration of HK\$400 million.

Top Milestone had entered into a co-investment agreement ("Co-Investment Agreement") with Polytex Corporation Limited ("Polytex"), a wholly-owned subsidiary of Polytec Holdings on 11 November 2003, whereby Top Milestone agreed to provide financing to Polytex in the development of a property project in Macau.

As Polytec Holdings is the controlling shareholder of the Company, the Acquisition and the provision of loans by Top Milestone to Polytex pursuant to the Co-Investment Agreement after completion of the Acquisition constitute a connected transaction for the Company under Rule 14.26 and 14.25(2) of the Listing Rules (before amendments effective 31 March 2004) respectively. A loan agreement dated 24 February 2004 was entered into between the Company as borrower and Polytec Holdings as lender in relation to the provision of a loan in the sum of HK\$400 million to the Company upon normal commercial terms to assist the completion of the Acquisition. The signing of the said loan agreement is a connected transaction exempted by virtue of Rule 14.24(8) of the Listing Rules (before amendments effective 31 March 2004). Polytec Holdings is ultimately wholly-owned by a family trust the beneficiary objects of which include Mr Or Wai Sheun, the Chairman of the Company, Ms Ng Chi Man, an Executive Director, and their family members. The Acquisition as detailed in a circular issued by the Company on 30 January 2004 was approved by independent shareholders on 16 February 2004 and completed on 24 February 2004.

Save as disclosed above and under the heading "Material Related Party Transactions" as set out in note 30 to the accounts, no other contracts of significance to which the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a Director had a material interest subsisted at any time during the year.

### **Directors' Service Contracts**

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors are subject to retirement by rotation as required by article 105 of the Company's Articles of Association.

### Interests of Substantial Shareholders and other Persons

As at 31 December 2004, the interests and short positions of persons, other than Directors, in the shares and underlying shares of the Company as recorded in the register required to be kept under Part XV (s.336) of the SFO were as follows:

Name of Shareholder	Shares of HK\$0.10 each in the capital of the Company		Percentage of total issued shares
	Long position	Short position	
HSBC International Trustee Limited	354,074,433	—	62.47%
The Or Family Trustee Limited Inc	352,838,083	—	62.25%

*Note:* Of the 354,074,433 shares in which HSBC International Trustee Limited was interested as trustee of certain discretionary trusts that it manages, 352,838,083 shares were the shares held by The Or Family Trustee Limited Inc. as trustee disclosed in the above table and referred to in Note 1 of the section on "Directors' Interests and Short Positions".

### Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to Eligible Persons who contribute to the success of the Group's operations. Eligible Persons include any employee, director, supplier, customer, business partner or business associate, trading agent, consultant or adviser, holder of any securities issued by any member of the Group or any entity in which the Group holds an equity interest ("Invested Entity") of any member of the Group or any Invested Entity who, in the discretion of the Board of Directors, has contributed or will contribute to the growth and development of the Group or any Invested Entity.

The Share Option Scheme was adopted by the Company on 21 May 2003 and complies with the requirements of Chapter 17 of the Listing Rules. Unless otherwise terminated or amended, the Share Option Scheme will remain in force for a period of 10 years.

The total number of shares which may be issued pursuant to the Share Option Scheme is 48,376,785 shares, being 10% of the total number of shares of the Company in issue as at the date of approval of the Share Option Scheme. No option has been granted under the Share Option Scheme to any person since its adoption and the total number of shares available for issue remains at 48,376,785 representing 8.5% of the issued share capital of the Company at the date of this report.

Apart from the Share Option Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

### Retirement Schemes

Particulars of the retirement schemes operated by the Group are set out in note 29 on the accounts.

### Corporate Governance

#### Audit Committee

The Audit Committee, comprising four Non-executive Directors a majority of whom are Independent Non-executive Directors, meets at least twice a year to review interim and final results of the Group prior to recommending them to the Board for approval and to discuss matters relating to the effectiveness of the Group's financial reporting process and internal controls. Senior representatives of the auditors and senior executives of the Company are invited to attend the meetings.

#### Compliance with the Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules (before amendments effective 1 January 2005), at any time during the year.

#### Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year under review and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

### Public Float

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

### Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

**Or Wai Sheun**

*Chairman*

Hong Kong, 30 March 2005

# Consolidated Income Statement

For the year ended 31 December 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Turnover</b>	2	<b>773,425</b>	673,812
Other revenue		<b>6,518</b>	4,061
Depreciation		<b>(468)</b>	(567)
Staff costs		<b>(37,824)</b>	(31,432)
Cost of inventories		<b>(350,419)</b>	(384,776)
Other operating expenses		<b>(56,983)</b>	(24,934)
<b>Profit from operations</b>		<b>334,249</b>	236,164
Finance costs	3(a)	<b>(6,169)</b>	(11,036)
Share of profits less losses of associated companies	3(c)	<b>12,889</b>	7,496
Profit on disposal of investments in securities		—	2,399
<b>Profit before taxation</b>	3	<b>340,969</b>	235,023
Income tax	5(a)	<b>(38,141)</b>	(33,480)
<b>Profit after taxation</b>		<b>302,828</b>	201,543
Minority interests		<b>268</b>	(43)
<b>Profit attributable to shareholders</b>	6	<b>303,096</b>	201,500
<b>Dividends</b>	7(a)		
Interim dividend		<b>39,674</b>	29,026
Final dividend		<b>141,692</b>	124,689
		<b>181,366</b>	153,715
<b>Earnings per share</b>	8	<b>53.9 cents</b>	41.7 cents
<b>Dividend per share</b>	7(a)	<b>32 cents</b>	28 cents

The notes on pages 25 to 61 form part of these accounts.

# Consolidated Balance Sheet

At 31 December 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Non-current assets</b>			
Fixed assets	10	3,466,563	3,019,710
Land held for future development		9,500	10,216
Land and development rights	11	1,264,937	1,230,418
Interest in associated companies	14	46,026	32,674
Investments in securities	15	110,099	394,872
Loans and advances		60,158	56,239
Deferred tax assets	9(b)	3,223	1,864
		<b>4,960,506</b>	<b>4,745,993</b>
<b>Current assets</b>			
Interest in property development	16	400,000	—
Inventories	17	789,261	899,772
Trade and other receivables	18	209,143	62,184
Loans and advances		84,834	104,828
Amount due from an associated company		83	—
Investments in securities	15	129,251	63,644
Time deposits (pledged)		—	5,719
Cash and cash equivalents		44,497	8,889
		<b>1,657,069</b>	<b>1,145,036</b>
<b>Current liabilities</b>			
Trade and other payables	19	491,970	285,857
Bank loans	21	665,442	370,000
Current taxation	9(a)	24,677	13,006
		<b>1,182,089</b>	<b>668,863</b>
<b>Net current assets</b>		<b>474,980</b>	<b>476,173</b>
<b>Total assets less current liabilities carried forward</b>		<b>5,435,486</b>	<b>5,222,166</b>

# Consolidated Balance Sheet

At 31 December 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Total assets less current liabilities brought forward</b>		<b>5,435,486</b>	5,222,166
<b>Non-current liabilities</b>			
Loan from ultimate holding company	20	7,519	—
Bank loans	21	1,086,987	1,838,989
Other payables	11	62,263	73,603
Deferred tax liabilities	9(b)	23,748	21,325
		<b>1,180,517</b>	1,933,917
Minority interests		<b>1,208</b>	1,476
<b>Net assets</b>		<b>4,253,761</b>	3,286,773
<b>Capital and reserves</b>			
Share capital	22	56,677	48,377
Reserves	23	4,197,084	3,238,396
		<b>4,253,761</b>	3,286,773

Approved and authorized for issue by the board of directors on 30 March 2005.

**Or Wai Sheun**  
**Lai Ka Fai**  
Directors

The notes on pages 25 to 61 form part of these accounts.

# Balance Sheet

At 31 December 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Non-current assets</b>			
Fixed assets	10	2,800,553	2,570,463
Interest in subsidiaries	13	2,317,774	2,093,380
		<b>5,118,327</b>	4,663,843
<b>Current assets</b>			
Trade and other receivables	18	7,267	10,507
Cash and cash equivalents		13,196	3,444
		<b>20,463</b>	13,951
<b>Current liabilities</b>			
Trade and other payables	19	86,676	59,814
Bank loans	21	140,300	370,000
Current taxation	9(a)	5,363	2,884
		<b>232,339</b>	432,698
<b>Net current liabilities</b>		<b>(211,876)</b>	(418,747)
<b>Total assets less current liabilities</b>		<b>4,906,451</b>	4,245,096
<b>Non-current liabilities</b>			
Loan from ultimate holding company	20	7,519	—
Bank loans	21	1,017,687	1,062,727
Deferred tax liabilities	9(b)	16,292	13,687
		<b>1,041,498</b>	1,076,414
<b>Net assets</b>		<b>3,864,953</b>	3,168,682
<b>Capital and reserves</b>			
Share capital	22	56,677	48,377
Reserves	23	3,808,276	3,120,305
		<b>3,864,953</b>	3,168,682

Approved and authorized for issue by the board of directors on 30 March 2005.

**Or Wai Sheun**  
**Lai Ka Fai**  
Directors

The notes on pages 25 to 61 form part of these accounts.



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Total equity at 1 January</b>		<b>3,286,773</b>	3,243,189
Surplus/(Deficit) on revaluation of investment properties	23	<b>257,792</b>	(26,272)
Surplus on revaluation of investments in securities	23	<b>14,218</b>	—
Net gains/(losses) not recognized in the income statement		<b>272,010</b>	(26,272)
Net profit for the year		<b>303,096</b>	201,500
Final dividend approved and paid in respect of the previous financial year	7(b)	<b>(124,689)</b>	(96,754)
Interim dividend declared and paid in respect of the current year	7(a)	<b>(39,674)</b>	(29,026)
Revaluation surplus transferred to income statement upon disposal of investments in securities	23	—	(5,864)
Issue of shares	22	<b>8,300</b>	—
Net share premium received	23	<b>547,945</b>	—
<b>Total equity at 31 December</b>		<b>4,253,761</b>	3,286,773

The notes on pages 25 to 61 form part of these accounts.

# Consolidated Cash Flow Statement

For the year ended 31 December 2004  
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
<b>Net cash from/(used in) operating activities</b>	24(a)	<b>793,048</b>	(282,890)
<b>Investing activities</b>			
Sale of other fixed assets		2	—
Sale of listed securities		—	43,865
Redemption of held-to-maturity securities		—	1,000
Additions to fixed assets and properties		(182,589)	(6,516)
Additions to land held for future development		—	(17)
Additions to land and development rights		(114,246)	(185,567)
Acquisition of a subsidiary	24(b)	(400,000)	(141,750)
(Increase)/Decrease in loan to an associated company		(4,638)	1,663
Dividend received from an associated company		840	420
<b>Net cash used in investing activities</b>		<b>(700,631)</b>	(286,902)
<b>Financing activities</b>			
(Decrease)/Increase in bank loans		(456,560)	686,016
Increase in loan from ultimate holding company		7,519	—
Net proceeds from shares issued		556,245	—
Dividend paid		(164,013)	(125,527)
Dividend paid to minority shareholders		—	(750)
<b>Net cash (used in)/from financing activities</b>		<b>(56,809)</b>	559,739
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>35,608</b>	(10,053)
<b>Cash and cash equivalents at 1 January</b>		<b>8,889</b>	18,942
<b>Cash and cash equivalents at 31 December</b>		<b>44,497</b>	8,889

The notes on pages 25 to 61 form part of these accounts.

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies

### (a) Statement of compliance

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

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

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (b) Measurement basis

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

### (c) Basis of consolidation

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (c) Basis of consolidation (Continued)

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

### (d) Interest in subsidiaries

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

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

### (e) Interest in associated companies

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

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

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

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

### (f) Interest in joint ventures

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (f) Interest in joint ventures (Continued)

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

### (g) Properties

#### (i) Investment properties

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

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

#### (ii) Land held for future development

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

#### (iii) Land and development rights

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (g) Properties (Continued)

#### (iv) Interest in property development

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

#### (v) Properties under development

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

#### (vi) Properties held for sale

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

### (h) Borrowing costs

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

### (i) Depreciation

#### (i) Investment properties

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

#### (ii) Land and buildings

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (i) Depreciation (Continued)

#### (iii) Other fixed assets

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

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

### (j) Investments in securities

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies *(Continued)*

### (k) Impairment of assets

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

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

### (l) Deferred taxation

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

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

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (m) Recognition of revenue

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

#### (i) Rental income from operating leases

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

#### (ii) Sale of properties

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

#### (iii) Sale of investments in securities

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

#### (iv) Film right royalties

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

#### (v) Interest income

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

### (n) Translation of foreign currencies

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies *(Continued)*

### (o) Related parties

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

### (p) Segment reporting

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

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

## 2. Segment information

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2. Segment information *(Continued)*

### (a) Business segments

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2. Segment information (Continued)

### (a) Business segments (Continued)

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2. Segment information *(Continued)*

### (b) Geographical segments

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

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

### (c) Major customers and suppliers

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 3 Profit before taxation

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

(a) **Finance costs**

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

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

(b) **Other items**

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 4. Directors' and management's emoluments

### (a) Directors' emoluments

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

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

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

The emoluments of the directors are within the following bands:

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

### (b) Individuals with highest emoluments

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

### (b) Individuals with highest emoluments (Continued)

The emoluments of the individuals are within the following bands:

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

## 5. Income tax in the consolidated income statement

### (a) Taxation in the consolidated income statement represents:

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

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

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

## 6. Profit attributable to shareholders

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 7. Dividends

### (a) Dividends attributable to the year

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

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

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

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

## 8. Earnings per share

### (a) Basic earnings per share

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

### (b) Diluted earnings per share

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 9. Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

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

(b) **Deferred taxation**

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

### Group

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 9. Income tax in the balance sheets (Continued)

### (b) Deferred taxation (Continued)

#### Company

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

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

### (c) Deferred tax assets not recognized

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 10. Fixed assets

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 10. Fixed assets (Continued)

### (a) Analysis of cost or valuation

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 10. Fixed assets (Continued)

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

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

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

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

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

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

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

## 11. Land and development rights

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 12. Jointly controlled assets

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

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

## 13. Interest in subsidiaries

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

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 14. Interest in associated companies

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

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

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

## 15. Investments in securities

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 16. Interest in property development

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

## 17. Inventories

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

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

## 18. Trade and other receivables

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 18. Trade and other receivables (Continued)

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

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

## 19. Trade and other payables

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 20. Loan from ultimate holding company

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

## 21. Bank loans

At 31 December, bank loans were repayable as follows:

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

Bank loans were classified in the balance sheets as follows:

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 22. Share capital

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 23. Reserves

### Group

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 23. Reserves (Continued)

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 24. Notes to consolidated cash flow statement

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 24. Notes to consolidated cash flow statement (Continued)

### (b) Acquisition of a subsidiary

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

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

## 25. Commitments

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 26. Contingent liabilities

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

## 27. Pledge of assets

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

## 28. Subsidiaries and associated companies

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 28. Subsidiaries and associated companies (Continued)

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 28. Subsidiaries and associated companies (Continued)

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 28. Subsidiaries and associated companies (Continued)

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 28. Subsidiaries and associated companies *(Continued)*

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

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

## 29. Staff retirement scheme

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 30. Material related party transactions

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

## 31. Post balance sheet events

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

## 32. Comparative figures

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

## 33. Ultimate holding company

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

# Auditors' Report



## To the shareholders of Kowloon Development Company Limited

*(Incorporated in Hong Kong with limited liability)*

We have audited the accounts on pages 19 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

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

**KPMG**

*Certified Public Accountants*

Hong Kong, 30 March 2005



# Particulars of Properties

31 December 2004

## A. Investment Properties

Location	Usage	Category of Lease	Gross Floor Area (sq. ft.)	Group's Interest (%)
1. Pioneer Centre No. 750 Nathan Road Mongkok Kowloon	Commercial	Long term lease	483,581 sq.ft. and 124 Carparking Spaces	100
2. 51 Shop Units on Basement Ground Floor Mezzanine Floor and 1st Floor Sino Centre Nos. 582-592 Nathan Road Mongkok Kowloon	Commercial	Long term lease	10,931	100
3. 127 Shop Units on 1st Floor and Signage Spaces on external wall New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon	Commercial	Long term lease	49,430	100
4. 20th Floor of Argyle Centre Phase 1 No. 688 Nathan Road and No. 65 Argyle Street Mongkok Kowloon	Commercial	Long term lease	15,774	100
5. 2nd to 23rd Floor and the Roof of The Elgin No. 51 Elgin Street Central Hong Kong	Residential	Long term lease	14,280	100
6. The Whole of 2nd Floor and Signage Spaces on external wall New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon	Commercial	Long term lease	56,228	100

# Particulars of Properties

31 December 2004

## A. Investment Properties *(Continued)*

Location	Usage	Category of Lease	Gross Floor Area (sq. ft.)	Group's Interest (%)
7. The Whole Shop Spaces and Parking Spaces Nos. 59, 59A, 60, 60A, 61, 61A, 62, 63, 68 & 73 on Basement Peninsula Centre No. 67 Mody Road Tsim Sha Tsui Kowloon	Commercial	Long term lease	19,018	100
8. Basement Carpark of Manor Centre No. 213 Un Chau Street and No. 218 Fuk Wing Street Sham Shui Po Kowloon	Carpark	Medium term lease	97 Carparking Spaces	100
9. Parking Spaces Nos. L1, L2, L6-L8, L12-L36, V1-V28 on Basement and Parking Spaces Nos. V1-V17 on Ground Floor of Merit Industrial Centre No. 94 To Kwa Wan Road To Kwa Wan Kowloon	Carpark	Long term lease	75 Carparking Spaces	100
10. Parking Spaces Nos. L3-L5, L9-L11 on Basement Parking Spaces Nos. C1-C2 and Storeroom B on Ground Floor of Merit Industrial Centre No. 94 To Kwa Wan Road To Kwa Wan Kowloon	Carpark and a Storeroom	Long term lease	8 Carparking Spaces and 822 sq. ft. for Storeroom	100

# Particulars of Properties

31 December 2004

## B. Properties Under Development

	Location	Usage	Site Area (sq. ft.)	Gross Floor Area Attributable to the Group (sq. ft.)	Status	Expected Date of Completion	Group's Interest (%)
1.	Nos. 31 & 31A-G Robinson Road Mid-Levels Hong Kong	Residential	15,692	128,084	Superstructure works in progress	1st half of 2006	100
2.	No. 33 Ka Wai Man Road Kennedy Town Hong Kong	Residential	7,837	78,372	Superstructure works in progress	1st half of 2006	Joint Venture with Urban Renewal Authority
3.	No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon	Commercial and Residential	208,125	2,101,428	Foundation works in progress	2007/08	100
4.	La Baie Du Noble The Orient Pearl District Macau	Commercial and Residential	133,000	1,280,000	Superstructure works in progress	2nd half of 2005	80

## C. Properties Completed During the Year

Location	Usage	Gross Floor Area (sq. ft.)	Group's Interest (%)
Padek Palace No. 377 Prince Edward Road West Kowloon City Kowloon	Residential	54,896	100

# Corporate Information

## Kowloon Development Company Limited

*A member of the Polytec Group*

### Board of Directors

Or Wai Sheun, *Chairman*  
Keith Alan Holman, *Deputy Chairman*  
Ng Chi Man, *Executive Director*  
Lai Ka Fai, *Executive Director*  
Tam Hee Chung, *Non-executive Director*  
Yeung Kwok Kwong, *Non-executive Director\**  
Chau Cham Son,  
*Independent Non-executive Director*  
Li Kwok Sing, Aubrey,  
*Independent Non-executive Director\*\**  
Lok Kung Chin, Hardy,  
*Independent Non-executive Director\**  
Seto Gin Chung, John,  
*Independent Non-executive Director\**

\*\* *Chairman of Audit Committee*

\* *Members of Audit Committee*

### Company Secretary

Wai Yuk Hing, Monica

### Auditors

KPMG

### Registrars

Computershare Hong Kong Investor Services Limited  
Rooms 1712-6, 17th Floor, Hopewell Centre  
183 Queen's Road East, Wanchai  
Hong Kong

### Registered Office

23rd Floor, Pioneer Centre  
750 Nathan Road, Kowloon, Hong Kong  
Tel : (852) 2396 2112  
Fax : (852) 2789 1370

### Website

[www.kdc.com.hk](http://www.kdc.com.hk)

### Stock Code

The Hong Kong Stock Exchange : 34