

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at valuation.

The 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 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact on these new HKFRSs but is not yet in position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 Principal accounting policies *(Continued)*

(b) Group accounting *(Continued)*

(ii) *Jointly controlled entities*

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activities of the entity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(iii) *Associated companies*

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised through representatives on the board of directors and there is no contractual arrangement to establish joint control over the economic activities of the company.

The consolidated profit and loss account includes the Group's share of results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/ negative goodwill (net of accumulated amortisation) on acquisition.

(c) Fixed assets

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

The investment properties are stated at open market value based on an annual professional valuation at the balance sheet date. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to profit and loss account. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

No depreciation is provided on investment properties held on leases of more than twenty years.

1 Principal accounting policies (Continued)

(c) Fixed assets (Continued)

(ii) Other fixed assets

Other fixed assets, including other properties which are interests in land and buildings other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated to write off the cost of assets over their estimated useful lives, using the straight line method. Estimated useful lives are summarised as follows:

Land held on long or medium term leases	Unexpired period of the lease
Buildings	Shorter of the lease or 50 years
Leasehold improvements	5 years or over the relevant lease period
Furniture, office equipment and motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives. The carrying amounts of fixed assets are reviewed regularly. When the recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amount. Expected future cash flows have been discounted in determining the recoverable amount.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amounts of the assets and are dealt with in the profit and loss account.

(d) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

1 Principal accounting policies *(Continued)*

(e) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(f) Properties under development

Properties under development are stated at cost less provision for any foreseeable loss. Cost comprises land cost, development expenditure, professional fees and interest capitalised.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(i) Employee benefits

(i) *Employee leave entitlements*

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

(ii) *Pension obligations*

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

1 Principal accounting policies (Continued)

(j) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable to such operating leases, net of incentives received from the lessors, are charged to the profit and loss account on a straight line basis over the periods of the leases.

(l) Revenue recognition

The recognition of revenue and profits from the sale of properties under development in advance of completion commences when a legally binding contract of sale has been executed and when the total construction costs of the properties under development can be reliably estimated. Profit is recognised over the course of the development and is computed each year as a proportion of the total estimated profit to completion; the proportion used being the actual construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowances for contingencies). The profit so recognised is restricted to the amount of sales proceeds received from each sale contract.

Sales proceeds received are initially recorded as advanced proceeds received from customers under current liabilities. Upon the recognition of sales based on the percentage of completion of the relevant properties, the amount of sales proceeds received that should be recognised as income are transferred to progress revenue received under properties under development.

Sales of completed properties are recognised upon completion of the sales and purchase contracts.

Rental income is recognised on a straight line accrual basis over the terms of lease agreements or on a specified basis according to the terms of lease agreements.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

1 Principal accounting policies *(Continued)*

(m) Capitalisation of interest and finance charges

Interest and finance charges on borrowings relating to properties under development are included in the cost of the development during the period of development. All other borrowing costs are expensed in the profit and loss account in the year in which they are incurred.

(n) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

2 Turnover and segment information

(a) Turnover

The Group is principally engaged in property investment and development of property projects in Hong Kong and the Mainland China. Turnover comprises gross proceeds from sales of properties and revenue from rental operation.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Company and subsidiaries		
Rental income	6,612	8,334
Share of an associated company/a jointly controlled entity		
Sales of properties	598,094	570,707
	604,706	579,041

Notes to the Accounts

2 Turnover and segment information (Continued)

(b) Segment information

For management purposes, the Group is organised into two operating businesses – property development and property investment. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Business segments

Results

Year ended 31st December 2004	Property development HK\$'000	Property investment HK\$'000	Total HK\$'000	
Segment turnover				
Company and subsidiaries	–	6,612	6,612	
Share of an associated company	598,094	–	598,094	
	598,094	6,612	604,706	
Segment results	(4,388)	4,497	109	
Other operating income			2,154	
Corporate administrative expenses			(34,032)	
Operating loss before financing			(31,769)	
Finance costs			(3,516)	
Share of profit of an associated company	200,030	–	200,030	
Profit before taxation			164,745	
Taxation			(32,106)	
Profit attributable to shareholders			132,639	
	Property development HK\$'000	Property investment HK\$'000	Corporate items HK\$'000	Total HK\$'000
Capital expenditure	–	12,087	3,687	15,774
Depreciation	–	–	5,721	5,721

2 Turnover and segment information (Continued)

(b) Segment information (Continued)

Business segment (Continued)

Results (Continued)

Year ended 31st December 2003	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>	
Segment turnover				
Company and subsidiaries	–	8,334	8,334	
Share of a jointly controlled entity	570,707	–	570,707	
	570,707	8,334	579,041	
Segment results	(948)	5,449	4,501	
Other operating income			5,851	
Corporate administrative expenses			(23,248)	
Operating loss before financing			(12,896)	
Finance costs			(4,811)	
Share of profit of a jointly controlled entity	192,610	–	192,610	
Profit before taxation			174,903	
Taxation			(30,629)	
Profit attributable to shareholders			144,274	
	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Corporate items <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital expenditure	–	24,258	3,011	27,269
Depreciation	–	–	2,276	2,276

Notes to the Accounts

2 Turnover and segment information (Continued)

(b) Segment information (Continued)

Business segments (Continued)

Balance sheet

As at 31st December 2004	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets			
Segment assets	142,508	226,563	369,071
Associated company	293,103	–	293,103
Unallocated corporate assets			421,474
			<u>1,083,648</u>
Liabilities			
Segment liabilities	79,992	12,653	92,645
Unallocated corporate liabilities			301,542
			<u>394,187</u>
Balance sheet			
As at 31st December 2003	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets			
Segment assets	98,792	482,370	581,162
Jointly controlled entity	236,286	–	236,286
Unallocated corporate assets			97,281
			<u>914,729</u>
Liabilities			
Segment liabilities	38,420	215,274	253,694
Unallocated corporate liabilities			120,965
			<u>374,659</u>

2 Turnover and segment information (Continued)

(b) Segment information (Continued)

Geographical segments

The Group's operations are mainly located in Hong Kong and the Mainland China.

All the turnover of the Group were derived in the Mainland China.

The following is an analysis of the segment results, carrying amount of segment assets, and capital expenditure analysed by the geographical area in which the assets are located:

Year ended 31st December 2004

	Segment results <i>HK\$'000</i>	Segment assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	(39,935)	564,092	11,452
Mainland China	172,574	519,556	4,322
	132,639	1,083,648	15,774

Year ended 31st December 2003

	Segment results <i>HK\$'000</i>	Segment assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	(26,555)	461,428	3,011
Mainland China	170,829	453,301	24,258
	144,274	914,729	27,269

Notes to the Accounts

3 Operating loss before financing

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating loss before financing is stated after crediting and charging the following:		
Crediting		
Gross rental income from investment properties	6,612	8,334
Interest income	2	562
Charging		
Staff costs (including directors' emoluments)		
Salaries and other benefits	15,732	14,139
Contribution to retirement benefits schemes	233	205
	15,965	14,344
Depreciation	5,721	2,276
Operating lease rentals in respect of land and buildings	–	884
Auditors' remuneration	460	435
Outgoings in respect of investment properties	785	79

Generally, the Group's operating leases are for terms of within one year except for three (2003: one) long-term leases which are beyond five years. There is no contingent rent included in rental income for both years.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
The future minimum rental income receivable under non-cancellable leases are as follows:		
Within one year	8,085	6,794
Between two and five years	23,882	25,380
Beyond five years	28,827	3,956
	60,794	36,130

4 Finance costs

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loans	3,514	5,091
Interest on promissory notes wholly repayable within five years	602	909
	4,116	6,000
Amount capitalised in properties under development	(600)	(1,189)
	3,516	4,811

5 Retirement benefits schemes

The Group has operated a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong since 1st December 2000. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

The Group also contributes to retirement plans for its employees in the Mainland China at a percentage in compliance with the requirements of the respective municipal governments in the People's Republic of China ("PRC").

The assets of all retirement schemes are held separately from those of the Group in independently administered funds. The total cost charged to the profit and loss account amounts to HK\$233,000 (2003: HK\$205,000).

Notes to the Accounts

6 Directors' and senior management's remuneration

(a) Details of the directors' emoluments are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees	7,866	6,827
Salaries and other emoluments	2,148	–
Contribution to retirement benefits scheme	49	48
	10,063	6,875

The emoluments of the directors are within the following bands:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	9	2
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	2	3
HK\$2,000,001 – HK\$2,500,000	1	–

Fees include HK\$300,000 paid to independent non-executive directors during the year (2003: HK\$120,000). There were no other emoluments paid to independent non-executive directors during the year (2003: Nil).

None of the directors has waived his right to receive his emoluments (2003: Nil).

(b) Of the five individuals with the highest emoluments in the Group, all (2003: four) are directors of the Company, whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one highest paid individual in 2003 were as follows:

	<i>HK\$'000</i>
Salaries and other benefits	650
Contribution to retirement benefits scheme	12
	662

7 Taxation

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Income tax in the PRC		
Current		
Company and subsidiaries	145	531
Deferred		
Company and subsidiaries	1,956	888
An associated company/a jointly controlled entity	30,005	29,210
	32,106	30,629

No provision for Hong Kong profits tax has been made within the Group as the Group has no assessable profit in Hong Kong for the year (2003: Nil). PRC income tax has been provided on the estimated assessable profits of subsidiaries operating in the PRC at the applicable rate of taxation.

The Group's associated company/jointly controlled entity established in the Pudong New Area of the PRC is required to pay income tax at a preferential rate of 15% (2003: 15%).

The tax of the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rates, being the weighted average of rates prevailing in the provinces in the PRC in which the Group operates, as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	164,745	174,903
Tax calculated at applicable tax rates	24,848	26,729
Tax losses not recognised	7,291	4,582
Utilisation of previously unrecognised tax losses	(1,014)	(1,328)
Other items	981	646
Taxation charge	32,106	30,629

8 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$120,370,000 (2003: HK\$7,588,000).

Notes to the Accounts

9 Dividend

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Special, paid, of HK\$0.06 per ordinary share	–	49,658
Proposed, final, of HK\$0.05 (2003: Nil) per ordinary share	41,382	–
	41,382	49,658

A special dividend of HK\$0.06 per ordinary share was paid out of the contributed surplus of the Company on 15th April 2004.

The Board of directors proposes a final dividend in respect of 2004 of HK\$0.05 (2003: Nil) per ordinary share. This dividend will be accounted for as an appropriation of retained profit in the year ending 31st December 2005.

10 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$132,639,000 (2003: HK\$144,274,000) and 827,639,886 (2003: weighted average of 827,418,282) ordinary shares in issue during the year.

11 Fixed assets

Group

	Investment properties <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture, office equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At 1st January 2004	474,000	51,923	4,855	1,847	532,625
Additions	12,087	–	3,092	595	15,774
Write off	–	–	(53)	–	(53)
Revaluation surplus	66,913	–	–	–	66,913
Reclassification (<i>note (c)</i>)	(333,000)	333,000	–	–	–
At 31st December 2004	220,000	384,923	7,894	2,442	615,259
Accumulated depreciation					
At 1st January 2004	–	1,058	890	412	2,360
Charge for the year	–	3,966	1,270	485	5,721
Write off	–	–	(10)	–	(10)
At 31st December 2004	–	5,024	2,150	897	8,071
Net book value					
At 31st December 2004	220,000	379,899	5,744	1,545	607,188
At 31st December 2003	474,000	50,865	3,965	1,435	530,265

Notes to the Accounts

11 Fixed assets (Continued)

Notes:

- (a) At 31st December 2004, the Group's investment properties were revalued on an open market value basis by Chesterton Petty Limited, an independent professional valuer and were held under the following terms:

	2004 HK\$'000	2003 HK\$'000
Long lease in Hong Kong	–	260,000
Long leases in the Mainland China (note (d))	220,000	214,000
	220,000	474,000

- (b) At 31st December 2004, the Group's leasehold land and buildings were held under the following terms:

	2004 HK\$'000	2003 HK\$'000
Long leases in Hong Kong	379,899	50,865

At 31st December 2004, all of the Group's leasehold land and buildings were pledged to secure certain long-term bank loans (note 18).

- (c) During the year, the directors decided to change the use of an investment property to corporate-use. Accordingly, the property was reclassified to leasehold land and buildings.
- (d) Balance included an investment property situated in Mainland China of HK\$95 million (2003: HK\$95 million) acquired in 2002 from a company wholly owned by Mr. Hui, Chairman of the Company, which the transfer of the registered ownership in the PRC Land Registry is still in progress. In the opinion of directors, based on legal advice, the Group possesses a valid title on the property and will procure the transfer of the registered ownership as soon as practicable.

12 Associated company/jointly controlled entity

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investment, at cost	70,250	70,250
Share of undistributed post-acquisition reserves	222,853	166,036
Share of net assets	293,103	236,286

12 Associated company/jointly controlled entity (Continued)

At 31st December 2004, the Group had interest in the following associated company:

Name of entity	Place of registration	Registered capital	Attributable interest	Principal activities
Shanghai Shimao Hubin Real Estate Company Limited ("Shimao Hubin")	PRC	US\$18 million	50%	Property development

Shimao Hubin is a sino-foreign equity joint venture for a period of 20 years commencing from 19th April 2002.

Pursuant to amendments to the joint venture agreement and articles of association of Shimao Hubin dated 25th October 2004, the number of directors of Shimao Hubin was increased from four to five. Following this change, the number of representatives of the Company on the board of directors of Shimao Hubin remains two while that of the other joint venturer was increased from two to three.

In the opinion of directors, the Group can only exercise significant influence over Shimao Hubin after the above mentioned change of the board composition and Shimao Hubin is accordingly accounted for as an associated company.

Set out below is a summary of financial information of Shimao Hubin for the year ended 31st December 2004:

(a) Results

	2004 HK\$'000	2003 HK\$'000
Turnover	1,196,188	1,141,414
Profit before taxation	400,061	385,220
Taxation	60,009	58,420
Profit after taxation	340,052	326,800
Dividend	226,415	–

Attributable to the Group

Profit before taxation	200,030	192,610
Taxation	30,005	29,210
Profit after taxation	170,025	163,400
Dividend received	113,208	–

Notes to the Accounts

12 Associated company/jointly controlled entity (Continued)

(b) Net assets

	2004 HK\$'000	2003 HK\$'000
Non-current assets	3,194	3,328
Current assets	989,976	1,707,684
Current liabilities	(406,963)	(1,238,440)
	586,207	472,572
Net assets attributable to the Group	293,103	236,286

- (c) As at 31st December 2004, Shimao Hubin provided guarantees amounting to HK\$682 million (2003: HK\$1,320 million) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, Shimao Hubin is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owned by the defaulted purchasers to the banks and Shimao Hubin is entitled to take over the legal title and possession of the related properties. Shimao Hubin's guarantee period starts from the date of grant of the relevant mortgage loans and ends when Shimao Hubin obtains the property title certificate for the purchasers, or when Shimao Hubin obtains the master property title certificate upon completion of construction.

The directors of Shimao Hubin consider that in case of default, the net realisable value of the related properties can cover the repayment of outstanding mortgage principals together with the accrued interest, penalty and other associated costs and therefore no provision has been made in the accounts for the guarantees.

- (d) Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the regulations on 27th January 1995 in the PRC, all gains arising from the transfer of real estate property in the PRC effective from 1st January 1994 are subject to LAT at progressive rates of up to 60%. Notwithstanding these provisions, an exemption to LAT for a period of five years is applicable for property development contracts which were signed before 1st January 1994. This exemption to LAT expired on 31st December 1998.

No provision for LAT has been made in the accounts since Shimao Hubin had not been required by the relevant authorities to pay LAT and the directors of Shimao Hubin consider that it is unlikely to receive demands from the tax authorities in the PRC for payment of the LAT relating to the sales revenue recognised on or before 31st December 2004 which would otherwise have amounted to approximately HK\$157.5 million (2003: HK\$94.8 million).

13 Completed properties held for sale/properties under development

At 31st December 2004, all of the Group's completed properties held for sale (2003: properties under development) were pledged to secure a long-term bank loan (note 18) and a short-term bank loan.

14 Subsidiaries

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries, net of provision	486,287	394,281
	486,287	394,281

Details of the principal subsidiaries at 31st December 2004 are as follows:

Name	Place of incorporation/ operations	Issued share capital/ registered capital	Attributable Interest	Principal activities
Directly held				
Shimao HK Management Company Limited	Hong Kong	HK\$2	100%	Management services
Vast Union Investments Limited	British Virgin Islands ("BVI")	US\$1	100%	Investment holding
Indirectly held				
Champ Master Management Limited	Hong Kong/PRC	HK\$2	100%	Property investment
Lanzhou Xinglong Real Estate Development Co., Ltd. (note)	PRC	RMB20,000,000	100%	Property investment
Shimao (Genesis) Company Limited	BVI/ Hong Kong	US\$1	100%	Property investment and development
Shimao (Hong Kong) Investment Limited	BVI/Hong Kong	US\$1	100%	Investment holding

Note: Established as a wholly-owned foreign enterprise for a period of 50 years commencing from 2nd December 1992.

Notes to the Accounts

15 Trade receivables

The Group normally allows a credit period of one month to its trade customers. The aging analysis of trade receivables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	29	490
1 to 60 days	-	980
61 to 90 days	-	980
Over 90 days	75	435
	104	2,885

16 Trade payables

The Group's trade payables mainly comprise costs payable for property development projects which are payable upon completion of work certified by the architects. At 31st December 2004, most of the Group's trade payables were current within their respective terms of credit.

17 Amount due to ultimate holding company and related companies

The balances are unsecured, interest free and have no fixed repayment terms.

18 Long-term bank loans

	Group	
	2004 HK\$'000	2003 HK\$'000
Secured bank loans	161,650	171,617
Current portion included in current liabilities	(13,133)	(13,067)
	148,517	158,550

18 Long-term bank loans (Continued)

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
The loans are repayable as follows:		
Within one year	13,133	13,067
Between one and two years	13,133	13,067
Between two and five years	39,400	36,868
After five years	95,984	108,615
	161,650	171,617

19 Share capital

	Number of ordinary shares of HK\$0.1 each <i>'000</i>	<i>HK\$'000</i>
Authorised:		
At 31st December 2003 and 2004	10,000,000	1,000,000
Issued and fully paid:		
At 31st December 2003 and 2004	827,640	82,764

Notes to the Accounts

20 Reserves

Group

	Share premium <i>HK\$'000</i>	Contributed surplus (note a) <i>HK\$'000</i>	Capital reserve (note b) <i>HK\$'000</i>	Other properties revaluation reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Retained profit/ loss (accumulated) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December 2002	317,774	47,654	19,543	–	13,155	(140,611)	257,515
Exercise of warrants	516	–	–	–	–	–	516
Revaluation surplus of investment properties	–	–	–	–	55,001	–	55,001
Profit for the year	–	–	–	–	–	144,274	144,274
At 31st December 2003	318,290	47,654	19,543	–	68,156	3,663	457,306
Reduction of share premium	(318,290)	106,482	–	–	–	211,808	–
Payment of special dividend	–	(49,658)	–	–	–	–	(49,658)
Revaluation surplus of investment properties							
– Gross	–	–	–	–	66,913	–	66,913
– Taxation	–	–	–	–	(503)	–	(503)
Reclassification (note 11 (c))	–	–	–	133,218	(133,218)	–	–
Release of revaluation reserve	–	–	–	(1,125)	–	1,125	–
Profit for the year	–	–	–	–	–	132,639	132,639
At 31st December 2004	–	104,478	19,543	132,093	1,348	349,235	606,697
Retained by							
Company and subsidiaries	–	104,478	19,543	132,093	1,348	126,382	383,844
An associated company	–	–	–	–	–	222,853	222,853
At 31st December 2004	–	104,478	19,543	132,093	1,348	349,235	606,697

20 Reserves (Continued)

Company

	Share premium <i>HK\$'000</i>	Contributed surplus (note a) <i>HK\$'000</i>	Retained profit/ loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December 2002	317,774	152,029	(219,396)	250,407
Exercise of warrants	516	–	–	516
Profit for the year	–	–	7,588	7,588
At 31st December 2003	318,290	152,029	(211,808)	258,511
Reduction of share premium	(318,290)	106,482	211,808	–
Payment of special dividend	–	(49,658)	–	(49,658)
Profit for the year	–	–	120,370	120,370
At 31st December 2004	–	208,853	120,370	329,223

- (a) The contributed surplus of the Group brought forward arose as a result of the Group reorganisation carried out in 1998, and represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company brought forward represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

At the annual general meeting held on 2nd April 2004, the shareholders of the Company approved that the entire amount standing to the credit of the share premium account of the Company as at 31st December 2003 of HK\$318,290,000 be cancelled (the "Share Premium Reduction"), and part of the credit arising of HK\$211,808,000 be set off against the accumulated loss of the Company as at 31st December 2003 and to transfer the remaining balance of the credit of HK\$106,482,000 arising from the Share Premium Reduction to the contributed surplus account of the Company.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. Accordingly, the distributable reserve of the Company at 31st December 2004 amounted to HK\$329,223,000.

- (b) The capital reserve of the Group represents the excess of the fair value of the net assets of the subsidiaries acquired in 2002 from a related company, which is wholly and beneficially owned by a director of the Company, over the nominal value of the promissory notes issued in exchange therefor.

Notes to the Accounts

21 Promissory notes

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Issued to:				
A related company	30,000	30,000	–	–
Ultimate holding company	10,000	10,000	10,000	10,000
	40,000	40,000	10,000	10,000

The promissory notes are unsecured, bear interest at 1.5% per annum and wholly repayable on 31st December 2005.

22 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the provinces in the PRC in which the Group operates. Deferred taxation relates to temporary differences on certain of the Group's investment properties and movements during the year are as follows:

	Assets/(liabilities)			
	Tax losses HK\$'000	Accelerated depreciation allowances HK\$'000	Revaluation HK\$'000	Total HK\$'000
At 31st December 2002	2,733	(3,930)	(29,179)	(30,376)
Transfer to profit and loss account	(123)	(765)	–	(888)
At 31st December 2003	2,610	(4,695)	(29,179)	(31,264)
Transfer to profit and loss account (<i>note 7</i>)	(1,696)	(260)	–	(1,956)
Transfer to reserve (<i>note 20</i>)	–	–	(503)	(503)
At 31st December 2004	914	(4,955)	(29,682)	(33,723)

The deferred taxation is to be settled after more than 12 months.

Deferred taxation assets of HK\$16,951,000 (2003: HK\$11,337,000) arising from unused tax losses of HK\$96,861,000 (2003: HK\$64,783,000) have not been recognised in the accounts. Unused tax losses have no expiry date.

23 Commitment

At 31st December 2004, the Group had the following capital commitments in respect of fixed assets:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Contracted but not provided for	1,926	9,259

24 Contingent liabilities

The Company has given guarantees in favour of bankers to the extent of HK\$232,000,000 (2003: HK\$196,000,000) in respect of banking facilities granted to subsidiaries of the Company. The banking facilities are also guaranteed by a director of the Company, the Company and a related company. At 31st December 2004, the banking facilities utilised by the subsidiaries amounted to approximately HK\$195,854,000 (2003: HK\$171,616,000).

25 Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash used in operations

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	164,745	174,903
Interest income	(2)	(562)
Interest expense	3,516	6,000
Depreciation	5,721	2,276
Fixed assets written-off	43	–
Share of profit of an associated company/a jointly controlled entity	(200,030)	(192,610)
Operating loss before working capital change	(26,007)	(9,993)
Increase in completed properties held for sale/properties under development	(43,716)	(21,842)
(Increase)/decrease in prepayments, deposits and other receivables	(1,387)	379
Increase in trade receivables	(2,931)	(1,155)
Increase in trade payables	2,011	2,075
Increase in other payables and accruals	5,947	3,184
Net cash used in operations	(66,083)	(27,352)

Notes to the Accounts

25 Notes to the consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

Group

	Share capital HK\$'000	Promissory notes HK\$'000	Bank loans HK\$'000	Amounts due to related companies HK\$'000	Amount due to ultimate holding company HK\$'000
At 1st January 2003	81,982	130,000	187,259	9,427	4,201
Net cash from/(used in) financing	782	(90,000)	(14,038)	42,075	60,443
At 31st December 2003	82,764	40,000	173,221	51,502	64,644
Net cash from/(used in) financing	–	–	23,199	(47,398)	34,725
At 31st December 2004	82,764	40,000	196,420	4,104	99,369

26 Related party transactions

Related companies as referred to in notes 17 and 21 of the accounts are those companies which are controlled and/or beneficially owned by certain directors of the Company.

During the year, the Group entered into the following related party transactions, which were carried out in the normal course of the Group's business:

	Note	2004 HK\$'000	2003 HK\$'000
Interest on promissory note to ultimate holding company (note 21)		150	150
Interest on promissory note to a related company (note 21)		452	769
Interest income from a jointly controlled entity	(a)	–	560
Service fee income from a related company	(b)	2,100	3,175

Notes:

- (a) Interest income was charged on loan provided to a jointly controlled entity. The loan was unsecured, interest bearing and was fully repaid in March 2003.
- (b) The service fee income was charged at fixed amount to a related company as specified in the service contract. The service contract was terminated in July 2004.

27 Subsequent events

- (a) On 19th February 2005, the Company entered into the non-competition undertaking (“Undertaking”) with Shimao Property Holdings Limited, a related company wholly-owned by Mr. Hui Wing Mau, Mr. Xu Shiyong, Mr. Hui’s nephew, Shanghai Shimao Enterprises Development Co. Ltd., a company established in the PRC in which Mr. Xu holds a 93.33% interest and Shanghai Shimao Co. Ltd., a company established in the PRC whose shares are listed on the Shanghai Stock Exchange in which Shimao Enterprises holds a 26.43% interest. Pursuant to the Undertaking, the parties agree to delineate their respective businesses on the terms and conditions set out therein. The transaction will be put forward to independent shareholders for approval at a special general meeting of the Company.
- (b) On 19th February 2005, the Company entered into a conditional sale and purchase agreement with Dynamic Keen Development Limited (“Dynamic Keen”), a related company wholly-owned by Mr. Hui Wing Mau, the Chairman of the Company to acquire 100% equity interest of Value Ahead Investment Limited (“Value Ahead”), together with the amount due to Dynamic Keen (the “Acquisition”). The primary asset of Value Ahead is 100% interest in Suifenhe Shimao Development and Construction Company Limited (“Suifenhe Shimao”). Suifenhe Shimao is the project company of a property development project located in a region designated by the Chinese and Russian governments for the development of cross-border commerce and tourism between the PRC and Russia and which is planned to include a mixture of residential, hotel, commercial and retail space and warehousing, logistics and leisure and entertainment facilities.

The consideration for the Acquisition was HK\$496,220,000, comprising HK\$301,609,000, being the consideration for the purchase of the 100% equity interest of Value Ahead and HK\$194,611,000, being the consideration of the purchase of the amount due to Dynamic Keen. The Consideration shall be satisfied by way of issuance of convertible note of HK\$250,000,000 and the promissory note of HK\$246,220,000 on the completion date. The transaction will be put forward to independent shareholders for approval at a special general meeting of the Company.

- (c) On 19th February 2005 the Company proposed to change of the Company’s name to Shimao International Holdings Limited. The proposal will be put forward to the shareholders of the Company for approval at the forthcoming annual general meeting to be held on 23rd May 2005.

28 Ultimate holding company

The directors of the Company consider Perfect Zone International Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

29 Approval of accounts

The accounts were approved by the board of directors on 22nd April 2005.