



## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). Its ultimate holding company is China State Construction Engineering Corporation, an entity established in the People’s Republic of China.

The Group is principally engaged in property development and investment, building and civil construction, foundation engineering and project management, infrastructure project investments, generation and supply of heat and electricity, investment holding, real estate agency and management, and treasury operations.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

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

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to quantify the overall effect of the new HKFRSs on the results of operations and financial position of the Group. These new HKFRSs will result in changes in the future as to how the results and financial position are prepared and presented.

## 3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### Basis of consolidation

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

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

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

### Goodwill/negative goodwill

Goodwill/negative goodwill arising on consolidation represents the excess/shortfall of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition.



## NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

For the year ended 31 December 2004

### 3. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

#### Goodwill/negative goodwill *(cont'd)*

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

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as a deduction from assets. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income over the remaining average useful life of the identifiable acquired depreciable assets.

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

#### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

#### Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill on acquisition in so far as it has not already been amortised, less any identified impairment loss.

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

#### Investments in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The consolidated income statement includes the Group's share of the post-acquisition results of its jointly controlled entities for the year. In the consolidated balance sheet, interests in jointly controlled entities are stated at the Group's share of the net assets of the jointly controlled entities.



## 3. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### Investments in infrastructure projects

The Group's interests in infrastructure projects are accounted for as infrastructure project investments where the return therefrom is fixed or where the Group is entitled to a variable amount unconnected with the results of the projects. Such investments are initially recorded at cost. Payments receivable from such investments are apportioned between income and reduction of the carrying amount of the investment so as to give a constant periodic rate of return on the net investment. Where the estimated recoverable amount of an investment falls below its carrying amount, the carrying amount is written down to the recoverable amount.

### Investments in syndicated property projects

Investments in syndicated property project companies, not being subsidiaries, associates or jointly controlled entities, are stated at cost less any identified impairment loss. The results of such project companies are accounted for by the Group on the basis of dividends received and receivable.

### Investments in securities

Investment securities, which represent securities held for an identified long term purpose, are measured at reporting dates at cost, less any identified impairment loss. The results of such investments are accounted for on the basis of dividends received and receivable.

Other investments, not being securities held for an identified long-term strategic purpose, are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### Investment properties

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any identified impairment loss. Properties for own use reclassified from investment properties are stated at the fair value at the time when the reclassification took place, less subsequent accumulated depreciation and any identified impairment loss.

No depreciation is provided on construction in progress until the development of the related assets is completed. Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the relevant lease
Buildings	Over the shorter of the term of the relevant lease or 25 years
Heat and electricity supply facilities	8 to 12 years
Plant, machinery and equipment	3 to 10 years
Other assets	3 to 8 years

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

Advantage has been taken of the transitional relief provided by paragraph 80 of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the HKICPA from the requirement to make regular revaluations of the Group's land and buildings held for own use which had been carried at revalued amounts prior to 30 September 1995, accordingly no further revaluation of such land and buildings is carried out. The increase arising on revaluation of these assets in previous years was credited to an asset revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the asset revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

#### Impairment

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

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



## 3. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### Development properties

#### *Properties for sale*

Completed properties and properties under development held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

#### *Properties for development*

Properties held for development are stated at cost less any identified impairment loss. Cost includes the cost of land, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses.

### Inventories

Inventories, representing raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is calculated using the first in, first out method.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract cost will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.



## NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

For the year ended 31 December 2004

### 3. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

#### **Foreign currencies**

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

#### **Operating leases**

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

#### **Retirement benefit costs**

Payments to retirement benefit schemes are charged as an expense as they fall due.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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



## 3. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

### **Taxation** *(cont'd)*

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

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

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

### **Revenue recognition**

#### *Sales of properties*

Income from sales of properties is recognised upon the execution of a binding sales agreement or upon the issuance of an occupation permit/completion certificate by the relevant authority, whichever is the later. Deposits received from forward sales of properties are carried in the balance sheet under current liabilities.

#### *Property rentals*

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

#### *Construction contracts*

When the outcome of a construction contract can be estimated reliably, revenue from fixed price contracts is recognised on the percentage completion method, measured by reference to the proportion that costs incurred to date bear to the estimated total cost for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

When the outcome of a construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fees earned, measured by the proportion that costs incurred to date bear to the estimated total cost of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

#### *Project management contracts*

Income and profits from project management contracts are recognised on the basis of work performed.

#### *Supply of heat and electricity*

Income from supply of heat and electricity is recognised when heat and electricity are delivered.



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

#### Revenue recognition (cont'd)

##### Infrastructure project investments

Income from infrastructure project investments, where the Group is entitled to a fixed guaranteed return over the contract period, is recognised on an accrual basis using the actuarial method so as to produce a constant periodic rate of return on the net investment.

##### Real estate agency and management services

Service income from real estate agency and management is recognised when services are provided.

##### Dividend income

Dividends from investments are recognised when the Group's rights to receive payment have been established.

##### Interest income

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

### 4. TURNOVER

Turnover includes proceeds from sales of properties, property rentals, revenue from construction contracts and project management, income from supply of heat and electricity, income from infrastructure project investments, real estate agency and management service fees, and is analysed as follows:

	2004	2003
	HK\$'000	HK\$'000
Proceeds from sales of properties	4,639,295	3,497,973
Property rental income	133,717	168,713
Revenue from construction contracts and project management	3,336,749	3,747,067
Income from supply of heat and electricity	235,704	30,130
Income from infrastructure project investments	29,163	49,880
Real estate agency and management service fees	90,434	92,601
Other income	159,413	31,606
	<u>8,624,475</u>	<u>7,617,970</u>





## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segment

The businesses based upon which the Group reports its primary segment information are as follows:

Property development	-	development and sale of properties
Property investment	-	property letting
Construction	-	building and civil construction, foundation engineering and project management
Infrastructure	-	investments in entities undertaking toll highways and bridges

Segment information about these businesses is presented below.

### TURNOVER AND RESULTS

Year ended 31 December 2004

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Infrastructure HK\$'000	Other operations HK\$'000	Intragroup eliminations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>							
External	4,639,295	133,717	3,336,749	29,163	485,551	—	8,624,475
Inter-segment	—	5,011	453,385	—	—	(458,396)	—
Total turnover	<u>4,639,295</u>	<u>138,728</u>	<u>3,790,134</u>	<u>29,163</u>	<u>485,551</u>	<u>(458,396)</u>	<u>8,624,475</u>

Inter-segment turnover was charged at prices determined by management with reference to market prices.

### RESULTS

Segment results	<u>1,292,199</u>	<u>94,501</u>	<u>166,236</u>	<u>28,527</u>	<u>66,506</u>	<u>(5,011)</u>	1,642,958
Interest and other income							62,066
Unallocated corporate expenses							<u>(180,128)</u>
Profit from operations							1,524,896
Finance costs							<u>(155,992)</u>
Share of profits (losses) of							
Associates	(10,115)	—	1,286	—	(2,919)	—	(11,748)
Jointly controlled entities	—	—	—	17,026	—	—	<u>17,026</u>
Profit before taxation							1,374,182
Income tax expense							<u>(221,172)</u>
Profit before minority interests							1,153,010
Minority interests							<u>(77,940)</u>
Net profit for the year							<u>1,075,070</u>



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

#### Business segment (cont'd)

#### BALANCE SHEET

At 31 December 2004

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Infrastructure HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>						
Segment assets	13,352,772	1,852,978	1,077,915	212,267	1,392,568	17,888,500
Interests in associates	1,127,000	—	118,625	—	52,008	1,297,633
Interests in jointly controlled entities	495,283	—	—	1,170,381	—	1,665,664
Unallocated corporate assets						3,169,556
Consolidated total assets						24,021,353
<b>LIABILITIES</b>						
Segment liabilities	(5,325,699)	(248,082)	(1,839,853)	(756)	(605,607)	(8,019,997)
Unallocated corporate liabilities						(5,569,624)
Consolidated total liabilities						(13,589,621)

#### OTHER INFORMATION

Year ended 31 December 2004

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Other operations HK\$'000
Additions to investment properties, property, plant and equipment and properties for development	3,685,561	34,343	35,183	728,614
Depreciation and amortisation	7,030	10,634	65,266	72,734
Reversal of allowances for doubtful recovery of amounts due from				
- An associate	(280,000)	—	—	—
- A syndicated property project company	(20,000)	—	—	—
Reversal of provision for losses on properties for sale	(80,000)	—	—	—
Impairment losses on associates provided	—	—	—	27,631



5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

TURNOVER AND RESULTS

Year ended 31 December 2003

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Infrastructure HK\$'000	Other operations HK\$'000	Intragroup eliminations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>							
External	3,497,973	168,713	3,747,067	49,880	154,337	—	7,617,970
Inter-segment	—	6,582	340,695	—	—	(347,277)	—
Total turnover	<u>3,497,973</u>	<u>175,295</u>	<u>4,087,762</u>	<u>49,880</u>	<u>154,337</u>	<u>(347,277)</u>	<u>7,617,970</u>

Inter-segment turnover was charged at prices determined by management with reference to market prices.

RESULTS

Segment results	<u>734,946</u>	<u>132,416</u>	<u>162,044</u>	<u>48,531</u>	<u>7,143</u>	<u>(6,582)</u>	1,078,498
Interest and other income							55,914
Unallocated corporate expenses							<u>(137,978)</u>
Profit from operations							996,434
Finance costs							<u>(82,245)</u>
Share of profits (losses) of							
Associates	(36,510)	—	(1,468)	—	(8,088)	—	(46,066)
Jointly controlled entities	—	—	—	14,728	—	—	<u>14,728</u>
Profit before taxation							882,851
Income tax expense							<u>(119,209)</u>
Profit before minority interests							763,642
Minority interests							<u>(74,724)</u>
Net profit for the year							<u><u>688,918</u></u>



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

#### Business segment (cont'd)

#### BALANCE SHEET

At 31 December 2003

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Infrastructure HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>						
Segment assets	7,858,847	1,784,715	1,441,562	193,450	832,577	12,111,151
Interests in associates	958,742	—	130,607	—	106,800	1,196,149
Interests in jointly controlled entities	—	—	—	304,652	—	304,652
Unallocated corporate assets						2,951,724
Consolidated total assets						<u>16,563,676</u>
<b>LIABILITIES</b>						
Segment liabilities	(3,112,857)	(267,718)	(1,477,827)	(24)	(324,882)	(5,183,308)
Unallocated corporate liabilities						<u>(3,294,619)</u>
Consolidated total liabilities						<u>(8,477,927)</u>

#### OTHER INFORMATION

Year ended 31 December 2003

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Other operations HK\$'000
Additions to investment properties, property, plant and equipment and properties for development	1,449,900	2,493	36,280	594,916
Depreciation and amortisation	4,134	4,453	76,450	12,442
(Reversal) recognition of allowances for doubtful recovery of				
- Amount due from an associate	(300,000)	—	—	—
- Amounts due from syndicated property project companies	26,000	—	—	—
- Construction fees receivable	—	—	32,971	—
- Instalments receivable	—	—	—	20,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Geographical Segments

The Group's property development, property investment and construction activities are carried out in Hong Kong, Macau and other regions in the People's Republic of China ("the PRC"). All infrastructure project investments are located in the PRC. The following table provides an analysis of the Group's turnover by geographical market:

	Turnover by geographical market	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong	3,514,474	3,984,692
The PRC	5,110,001	3,633,278
	8,624,475	7,617,970

The following is an analysis of the carrying amounts of segment assets and additions to investment properties, property, plant and equipment and properties for development, analysed by the geographical area in which the assets are located:

	Carrying amounts of segment assets		Additions to investment properties, property, plant and equipment and properties for development	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	5,940,900	6,194,403	92,101	37,125
The PRC	17,796,511	10,369,273	4,108,456	2,051,837
Macau	283,942	—	283,942	—
	24,021,353	16,563,676	4,484,499	2,088,962



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 6. IMPAIRMENT LOSSES AND ALLOWANCES REVERSED

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Reversal of allowances for doubtful recovery of amounts due from		
- An associate	280,000	300,000
- A syndicated property project company	20,000	—
Reversal of provision for losses on properties for sale	80,000	—
Impairment losses on associates provided	(27,631)	—
Allowances for doubtful recovery provided		
- Amounts due from syndicated property project companies	—	(26,000)
- Construction fees receivable	—	(32,971)
- Instalments receivable	—	(20,000)
	<u>352,369</u>	<u>221,029</u>

As a result of the improved Hong Kong property market condition, the allowances for doubtful recovery of the amount due from an associate, which is a property developer, and a syndicated property project company to the extent of HK\$280 million (2003: HK\$300 million) and HK\$20 million (2003: Nil) respectively, and the impairment losses on certain properties for sale previously provided amounted to HK\$80 million (2003: Nil), have been reversed in the current year, which were determined by the directors based on the estimated net selling prices of the underlying properties by reference to current market condition.

### 7. PROFIT FROM OPERATIONS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	4,321	3,411
Depreciation of property, plant and equipment	162,257	103,746
Amortisation of goodwill on acquisition of associates	3,983	5,088
Staff costs including directors' emoluments (note)	634,998	516,711
Rental expenses in respect of land and buildings		
under operating leases	12,380	6,600
Rental income in respect of land and buildings under operating		
leases, net of outgoings of HK\$26,562,000 (2003: HK\$42,881,000)	(107,155)	(125,833)
Net exchange gains on foreign currency borrowings less deposits	(1,926)	(898)
Interest income	(21,542)	(16,393)
Dividends from investments		
- unlisted	(2,100)	(1,920)
- listed	—	(126)
	<u>—</u>	<u>(126)</u>



7. PROFIT FROM OPERATIONS (cont'd)

Note:

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs capped at HK\$20,000 to the scheme, which contribution is matched by employees. The total cost charged to income statement of HK\$26 million (2003: HK\$22 million), which has been included in staff costs disclosed above, represents contributions payable to this scheme by the Group in respect of the current accounting period. At 31 December 2004, contributions of HK\$2 million (2003: HK\$2 million) due in respect of the year had not been paid over to the scheme.

8. FINANCE COSTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	174,441	98,410
Other finance costs	32,365	27,881
Less: Amount capitalised on development properties	(50,814)	(44,046)
	<u>155,992</u>	<u>82,245</u>

9. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Directors' fees	600	250
Other emoluments		
Basic salaries, allowances and benefits-in-kind	20,813	17,893
Contributions to retirement benefit scheme	83	96
Total emoluments	<u>21,496</u>	<u>18,239</u>

The amounts disclosed above include allowances totalling HK\$600,000 (2003: HK\$250,000) payable to independent non-executive directors.



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 9. DIRECTORS' EMOLUMENTS (cont'd)

The emoluments of the directors were within the following bands:

HK\$	THE GROUP	
	2004	2003
	Number of directors	Number of directors
Nil - 1,000,000	5	6
1,000,001 - 1,500,000	1	2
1,500,001 - 2,000,000	2	2
2,000,001 - 2,500,000	1	—
2,500,001 - 3,000,000	—	3
3,000,001 - 3,500,000	—	—
3,500,001 - 4,000,000	2	1
5,000,001 - 5,500,000	1	—

All the five highest paid individuals in the Group for both years presented are directors of the Company, whose emoluments are included above.

### 10. INCOME TAX EXPENSE

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong Profits Tax		
Current year	21,549	4,575
Prior year's under(over)provision	4,725	(1,208)
	<u>26,274</u>	<u>3,367</u>
PRC income tax		
Current year	207,723	148,033
Prior year's overprovision	(24,922)	(23,387)
	<u>182,801</u>	<u>124,646</u>
	<u>209,075</u>	<u>128,013</u>





10. INCOME TAX EXPENSE (cont'd)

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Deferred tax (note 36)		
Current year	6,151	(15,635)
Attributable to a change in Hong Kong Profits Tax rate	—	2,713
	6,151	(12,922)
Tax attributable to the Company and its subsidiaries	215,226	115,091
Associates		
Hong Kong Profits Tax	460	666
PRC income tax	5,486	3,452
	5,946	4,118
	221,172	119,209

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

PRC income tax is calculated at the prevailing PRC tax rates on the estimated assessable profits for the year.

Details of deferred taxation are set out in note 36.

The income tax expense for the year can be reconciled to the profit before taxation per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	1,374,182	882,851
Tax at the domestic income tax rate of 17.5% (2003: 17.5%)	240,482	154,499
Tax effect of expenses not deductible for tax purpose	11,891	13,517
Tax effect of income not taxable for tax purpose	(31,261)	(26,128)
Overprovision in respect of prior years	(20,197)	(24,595)
Tax effect of tax losses not recognised	47,308	38,324
Tax effect of utilisation of tax losses not previously recognised	(82,070)	(75,528)
Tax effect of share of results of associates and jointly controlled entities	5,022	9,603
Effect of different tax rates applicable to subsidiaries operating in other jurisdictions	49,997	26,804
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	—	2,713
Income tax expense for the year	221,172	119,209

In addition to the amount charged to the income statement, deferred tax arising from revaluation of the Group's properties has been dealt with directly in equity (see note 32).



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 11. DIVIDENDS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Ordinary shares:		
Interim, paid		
HK2 cents (2003: HK2 cents) per share	127,356	108,249
Final, proposed		
HK4 cents (2003: HK3 cents) per share	254,829	191,174
	<u>382,185</u>	<u>299,423</u>

The final dividend of HK4 cents (2003: HK3 cents) per ordinary share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting. The amount of final dividend proposed was calculated based on the number of ordinary shares in issue at the date of approval of the financial statements.

### 12. EARNINGS PER SHARE

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Net profit for the purposes of basic and diluted earnings per share	<u>1,075,070</u>	<u>688,918</u>
	<b>Number of shares '000</b>	<b>Number of shares '000</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	6,284,885	5,407,631
Effect of dilutive potential ordinary shares in respect of share options granted	<u>93,482</u>	<u>57,054</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>6,378,367</u>	<u>5,464,685</u>

The computation of the diluted earnings per share for both years presented does not assume the exercise of those outstanding share options where the exercise price was higher than the market price per share.



13. INVESTMENT PROPERTIES

	HK\$'000
<b>THE GROUP</b>	
<b>VALUATION</b>	
At 1 January 2004	1,757,270
Acquisition of a subsidiary	31,020
Disposals	(8,200)
Revaluation increase	53,110
	1,833,200
At 31 December 2004	1,833,200

An analysis of the investment properties of the Group at the balance sheet date is as follows:

	2004 HK\$'000	2003 HK\$'000
Investment properties on land:		
In Hong Kong		
On long leases	133,000	128,000
On medium-term leases	788,100	713,200
In the PRC		
On medium-term leases	912,100	916,070
	1,833,200	1,757,270

The investment properties of the Group are carried at their open market value on an existing use basis at 31 December 2004 as valued by DTZ Debenham Tie Leung Limited, an independent firm of professional property valuers. This valuation gave rise to a revaluation increase of HK\$53,110,000 (2003: HK\$3,295,000) which has been dealt with in the investment property revaluation reserve (note 32).



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 14. PROPERTY, PLANT AND EQUIPMENT

	Properties for own use HK\$'000	Heat and electricity supply facilities HK\$'000	Plant, machinery and equipment HK\$'000	Furniture, fixtures, office equipment and motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
<b>COST OR VALUATION</b>						
At 1 January 2004	691,799	318,761	443,597	169,359	105,231	1,728,747
Acquisition of subsidiaries	24,393	—	189,822	4,883	37,581	256,679
Additions	200,068	59,660	53,721	53,477	154,878	521,804
Disposal of subsidiaries	—	—	—	(326)	—	(326)
Disposals	(36,428)	(572)	(8,492)	(30,467)	—	(75,959)
Reclassification	6,792	—	4,887	—	(11,679)	—
At 31 December 2004	886,624	377,849	683,535	196,926	286,011	2,430,945
<b>DEPRECIATION</b>						
At 1 January 2004	85,020	3,513	387,712	98,462	—	574,707
Provided for the year	25,672	51,223	56,636	28,726	—	162,257
Eliminated on disposals	(4,096)	(27)	(7,253)	(10,594)	—	(21,970)
At 31 December 2004	106,596	54,709	437,095	116,594	—	714,994
<b>NET BOOK VALUES</b>						
At 31 December 2004	<u>780,028</u>	<u>323,140</u>	<u>246,440</u>	<u>80,332</u>	<u>286,011</u>	<u>1,715,951</u>
At 31 December 2003	<u>606,779</u>	<u>315,248</u>	<u>55,885</u>	<u>70,897</u>	<u>105,231</u>	<u>1,154,040</u>



14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Properties for own use HK\$'000	Furniture, fixtures, office equipment and motor vehicles HK\$'000	Total HK\$'000
<b>THE COMPANY</b>			
<b>COST OR VALUATION</b>			
At 1 January 2004	5,620	30,500	36,120
Additions	—	542	542
Disposals	(3,720)	(689)	(4,409)
	<u>1,900</u>	<u>30,353</u>	<u>32,253</u>
At 31 December 2004	1,900	30,353	32,253
<b>DEPRECIATION</b>			
At 1 January 2004	1,447	28,222	29,669
Provided for the year	95	1,182	1,277
Eliminated on disposals	(632)	(651)	(1,283)
	<u>910</u>	<u>28,753</u>	<u>29,663</u>
At 31 December 2004	910	28,753	29,663
<b>NET BOOK VALUES</b>			
At 31 December 2004	<u>990</u>	<u>1,600</u>	<u>2,590</u>
At 31 December 2003	<u>4,173</u>	<u>2,278</u>	<u>6,451</u>



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Notes:

- (a) An analysis of the cost or valuation of the properties of the Group and the Company held for own use is as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Land and buildings on medium-term leases				
At 1994 professional valuation				
In Hong Kong	389,006	392,726	—	3,720
In the PRC	1,900	1,900	1,900	1,900
At cost				
In Hong Kong	93,179	93,179	—	—
In the PRC	402,539	203,994	—	—
	<u>886,624</u>	<u>691,799</u>	<u>1,900</u>	<u>5,620</u>

The properties of the Group held for own use at valuation are carried at their open market value at 31 December 1994, as valued by Messrs. C.Y. Leung & Company Limited, an independent firm of professional property valuers, less subsequent depreciation.

Other property, plant and equipment are carried at cost less depreciation.

- (b) The properties of the Group and those of the Company held for own use which are carried at valuation would have been included in the financial statements at the following amounts had these properties been carried on a historical cost basis less depreciation:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Properties for own use, at cost less depreciation	<u>104,065</u>	<u>114,229</u>	<u>1,442</u>	<u>2,888</u>



## 15. PROPERTIES FOR DEVELOPMENT

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
<b>AT COST</b>		
At 1 January	1,009,862	1,540,766
Additions	3,584,459	1,441,003
Acquisition of a subsidiary	90,537	—
Transfer to properties under development	(704,232)	(1,971,907)
	<u>3,980,626</u>	<u>1,009,862</u>
At 31 December	<u><u>3,980,626</u></u>	<u><u>1,009,862</u></u>

## 16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	9,927	12,345
Amounts due from subsidiaries less allowances	9,700,811	9,278,007
	<u>9,710,738</u>	<u>9,290,352</u>
	<u><u>9,710,738</u></u>	<u><u>9,290,352</u></u>

Particulars of the principal subsidiaries are set out in note 45.

## 17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted companies		
Share of net assets	131,861	184,942
Goodwill on acquisition	37,196	29,896
Less: Amortisation	(9,071)	(5,088)
Impairment losses	(27,631)	—
Amounts due from associates less allowances	1,165,278	986,399
	<u>1,297,633</u>	<u>1,196,149</u>
	<u><u>1,297,633</u></u>	<u><u>1,196,149</u></u>



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 17. INTERESTS IN ASSOCIATES (cont'd)

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—
Amounts due from associates	10,008	10,011
	<u>10,008</u>	<u>10,011</u>

Set out below are the particulars of the principal associates at 31 December 2004 which, in the opinion of the directors, principally affected the results or the net assets of the Group. All associates are indirectly held by the Company and are incorporated and operating in Hong Kong unless otherwise indicated.

Name of company	Proportion of nominal value of issued ordinary capital/registered capital held by the Group %	Nature of business
北京國海在線科技有限公司 (i)	39	Development of computer network application, internet portals and provision of internet related services
Chest Gain Development Limited	30	Property development
Guangzhou Xin Yue Real Estate Development Co., Ltd. (i)	40	Property development and trading
Hong Kong Concrete Company Limited	31.5	Manufacture and sale of ready-mixed concrete
Krimark Investments Limited (ii)	40	Investment holding
美聯鋼結構建築系統(上海)有限公司(i)	33.3	Manufacture and installation of steel products
Shenzhen Hailong Cement Co., Ltd. (i)	50	Development and operation of a cement plant
Zhejiang Kingland Pipeline and Technologies Co., Ltd. (i)	20	Manufacture and sale of construction materials
深圳路安特瀝青高新技術有限公司 (i)	35.9	Manufacture and sale of asphalt
United Structures Holdings Limited	33.3	Investment holding

(i) Registered and operating in the PRC

(ii) Incorporated in the British Virgin Islands





## 18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted companies		
Share of net assets	1,207,331	293,096
Amounts due from jointly controlled entities	458,333	11,556
	<u>1,665,664</u>	<u>304,652</u>

Particulars of the jointly controlled entities, all of which are established and operating in the PRC, are as follows:

Name of entity	Proportion of nominal value of registered capital held by the Group %	Operation period	Principal activities
南京長江第二大橋有限責任公司	65	10 February 1999 to 25 March 2031	Operation and management of a toll bridge
深圳盛輝物業發展有限公司	50	28 April 2004 to 27 April 2014	Property development
Nanchang COB Infrastructure Ltd.	55.24*	29 March 2003 to 30 June 2025	Operation and management of a toll bridge
Nanchang COIL City Bridge Ltd.	55.24*	29 March 2003 to 30 June 2025	Operation and management of a toll bridge
Nanchang COVC City Bridge Ltd.	55.24*	29 March 2003 to 30 June 2025	Operation and management of a toll bridge

\* Pursuant to the joint venture agreements, the Group is entitled to share a 92% of the operating results of these jointly controlled entities in their first 11 years of operation and thereafter at a reduced rate of 55.24% for the remaining operation period.



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 19. INVESTMENTS IN INFRASTRUCTURE PROJECTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	244,265	244,265
Less: Repayment of capital contributed	(63,725)	(50,824)
	<u>180,540</u>	<u>193,441</u>
Amount due from an investee	31,727	9
	<u>212,267</u>	<u>193,450</u>
Carrying amount analysed for reporting purposes as:		
Non-current	165,550	180,540
Current	46,717	12,910
	<u>212,267</u>	<u>193,450</u>

The Group is entitled under the agreements entered into with certain PRC entities to share a fixed amount of the operating surplus of the investee companies available for appropriation to enable the Group to recover its cost of investment and receive a periodic return therefrom. The PRC partners will be entitled to all of the remaining surplus. The Group's returns under the agreements are guaranteed by the PRC partners. Upon the expiration of the contracted period, all assets of the investee companies will revert to the PRC partners without compensation. Accordingly, the Group's entitlements to the operating results of the investee companies are limited to the guaranteed returns.



## 19. INVESTMENTS IN INFRASTRUCTURE PROJECTS (cont'd)

Particulars of the investee companies at 31 December 2004, all of which are established and are operating in the PRC, are as follows:

Name of company	Registered capital US\$'000	Capital contributed by the Group US\$'000	Operation period	Nature of business
Guilin COLI Communication Development Ltd.	23,530	3,750	18 years from 19 December 1997	Operation and management of toll highways
Guilin COLI Infrastructure Investment Ltd.	23,530	3,750	18 years from 19 December 1997	Operation and management of toll highways
Nanning COLI Infrastructure Investment Ltd.	29,450	8,000	16 years from 24 December 1996	Operation and management of toll bridges
Nanning Shachuan Bridge Investment Ltd.	29,620	8,000	16 years from 24 December 1996	Operation and management of toll bridges
Nanning Xixiangtang Road Investment Ltd.	29,740	8,000	16 years from 24 December 1996	Operation and management of toll highways

## 20. INVESTMENTS IN SYNDICATED PROPERTY PROJECTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	46	46
Amounts due from investees	901,491	979,623
Less: Allowances for doubtful recovery	(307,500)	(327,500)
	<u>594,037</u>	<u>652,169</u>

Each of the syndicated property projects is undertaken by a company incorporated solely for that purpose. The shareholders of each of the project companies are obliged to provide funding to the project company in accordance with their percentage shareholdings therein. Any profits or losses of the project companies are to be shared by the shareholders in accordance with their respective shareholdings.



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 20. INVESTMENTS IN SYNDICATED PROPERTY PROJECTS (cont'd)

Particulars of the principal project companies at 31 December 2004, all of which are incorporated and operating in Hong Kong unless otherwise indicated, are as follows:

Name of company	Attributable equity interests held by the Group %
Benefit Bright Limited	10
Direct Profit Development Limited	8
Dramstar Company Limited	12
Harvest Sun Limited	10
Moricrown Ltd.*	7
Victory World Limited	10

\* Incorporated in the British Virgin Islands

### 21. INSTALMENTS RECEIVABLE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Instalments receivable from property purchasers	33,208	245,905
Less: Amount due within one year included in trade and other receivables under current assets	(1,085)	(5,274)
Allowance for doubtful recovery	—	(29,000)
	<u>32,123</u>	<u>211,631</u>

During the year, the instalments receivable with an aggregate principal amount of HK\$160 million (2003: Nil) was disposed of to a third party at considerations approximately equal to their gross carrying amounts.



## 22. OTHER ASSETS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Pledged bank deposits	89,822	11,903
Investment securities		
Unlisted equity investments, at cost	—	524
Amount due from an investee	—	6,719
	—	7,243
	<u>89,822</u>	<u>19,146</u>

## 23. NEGATIVE GOODWILL

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
<b>GROSS AMOUNT</b>		
At 1 January	127,534	31,327
Arising on acquisition of a subsidiary	—	96,207
At 31 December	<u>127,534</u>	<u>127,534</u>
<b>RELEASED TO INCOME</b>		
At 1 January	(8,179)	(5,262)
Included in other operating income	(8,017)	(2,917)
At 31 December	<u>(16,196)</u>	<u>(8,179)</u>
<b>CARRYING AMOUNT</b>	<u>111,338</u>	<u>119,355</u>

Note:

The negative goodwill is released to income on a straight line basis over a period of 12 years.



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 24. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials and consumables, at cost	41,037	13,092

### 25. PROPERTIES FOR SALE

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties for sale				
Completed	1,604,860	1,712,523	1,798	1,798
Under development	6,651,349	3,827,407	—	—
	<u>8,256,209</u>	<u>5,539,930</u>	<u>1,798</u>	<u>1,798</u>

The properties of the Group included properties carried at net realisable value of HK\$456 million (2003: HK\$474 million).

### 26. TRADE AND OTHER RECEIVABLES

Except for the proceeds from property sales and income from infrastructure project investments which are payable in accordance with the terms of the relevant agreements, the Group generally allows a credit period of not exceeding 60 days to its customers.

The following is an analysis of trade and other receivables at the reporting date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Receivables, aged		
0-30 days	606,742	794,651
31-90 days	129,289	295,964
Over 90 days	418,900	256,166
Retentions receivable	359,545	356,543
	<u>1,514,476</u>	<u>1,703,324</u>



## 27. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Contract in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less losses	3,647,535	3,026,733
Less: Progress billings	(3,729,152)	(3,198,648)
	<u>(81,617)</u>	<u>(171,915)</u>
Analysed for reporting purposes as:		
Amounts due from contract customers	31,608	45,774
Amounts due to contract customers	(113,225)	(217,689)
	<u>(81,617)</u>	<u>(171,915)</u>

At 31 December 2004, retentions held by customers for contract work amounted to HK\$360 million (2003: HK\$357 million) which have been included in trade and other receivables under current assets.

## 28. BANK BALANCES AND CASH

Included in bank balances and cash are deposits from pre-sale of properties under development received by the Group amounted to HK\$47 million (2003: HK\$187 million), withdrawal of which is restricted during the course of development of the properties.

## 29. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables at the reporting date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Payables, aged		
0-30 days	1,635,124	1,585,006
31-90 days	140,602	193,296
Over 90 days	722,136	532,612
Consideration for acquisition of land and investment payable (note 34)	1,780,060	179,025
Retentions payable	324,798	412,930
	<u>4,602,720</u>	<u>2,902,869</u>



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 30. SALES AND OTHER DEPOSITS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Forward sales deposits	1,983,820	1,289,131
Rental and other deposits	69,996	55,944
	<u>2,053,816</u>	<u>1,345,075</u>

### 31. SHARE CAPITAL

	THE GROUP AND THE COMPANY			
	2004		2003	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised	<u>10,000,000</u>	<u>1,000,000</u>	<u>10,000,000</u>	<u>1,000,000</u>
Issued and fully paid				
At beginning of the year	5,441,036	544,103	5,412,478	541,247
Issue of shares	959,640	95,964	51,900	5,190
Shares repurchased	(29,948)	(2,994)	(23,342)	(2,334)
At end of the year	<u>6,370,728</u>	<u>637,073</u>	<u>5,441,036</u>	<u>544,103</u>

#### Issue of shares

- (a) Pursuant to a placing agreement entered into during the year between the Company, China Overseas Holdings Limited ("COHL"), which is the Company's immediate holding company and is itself a wholly owned subsidiary of China State Construction Engineering Corporation, and the relevant placing agent acting on behalf of certain independent investors (the "independent investors"), the Company allotted 850,000,000 new ordinary shares of HK\$0.1 each to COHL at HK\$1.80 per share following the placement of 850,000,000 ordinary shares of HK\$0.1 each in the Company then held by COHL to the independent investors at a price of HK\$1.80 per share in cash, giving rise to an increase in the Group's general working capital of approximately HK\$1,530 million.
- (b) During the year, the Company also issued a total of 109,640,000 shares at prices ranging from HK\$0.52 to HK\$1.08 per share to employees upon the exercise of the share options granted, giving a total cash consideration of HK\$80,897,000.





### 31. SHARE CAPITAL (cont'd)

#### Repurchase of shares

During the year, the Company repurchased 29,948,000 of its own shares on The Stock Exchange of Hong Kong Limited, details as follows:

Month of purchase	Number of ordinary shares of HK\$0.1 each '000	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
2004				
April	16,474	1.38	1.24	21,475
May	13,474	1.20	1.06	15,214
	29,948			36,689

All the shares repurchased were cancelled. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve. The repurchases were effected by the directors with a view to benefit shareholders as a whole by increasing the Company's net assets value per share.

#### Share option scheme

The Company's share option scheme ("the Scheme") was adopted pursuant to an ordinary resolution passed on 18 July 2002. The Scheme shall be valid and effective for a period of 10 years and the purpose of which is to provide incentives to directors and eligible employees to contribute further to the Company. The Board is authorised to grant options under the Scheme to any full-time employee, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company.

The maximum number of shares that can be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the date of approval of the Scheme. The total number of shares issued and to be issued upon exercise of the options granted to each participant must not, within any 12-month period, exceed 1% of the shares of the Company in issue. Any further grant of the options in excess of this 1% limit is subject to shareholders' approval. Each grant of options to any director or a substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates in the 12-month period, would result in the shares issued and to be issued upon exercise of all options representing over 0.1% of the Company's share capital in issue or having an aggregate value in excess of HK\$5 million, such further grant of options must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of the offer letter upon payment of HK\$1 per each grant of option payable as consideration on acceptance, which is recognised in the income statement when received. An option may be exercised at any time during a period of 9 years commencing on the expiry of one year after the offer date. The subscription price per share is determined by the Board and shall be at least the higher of (i) the closing price of the Company's shares on the date of offer; (ii) the average closing price of the shares for the five business days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Save as aforementioned, no credit or charge is recognised in the financial statements in respect of the value of options granted.



## NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

For the year ended 31 December 2004

### 31. SHARE CAPITAL *(cont'd)*

#### Share option scheme *(cont'd)*

The following table discloses details of the Company's share options held by employees and movements in such holdings:

Date of grant	Exercisable period	Subscription price per share HK\$	Outstanding at 1 January 2004	Number of shares under options granted			Outstanding at 31 December 2004	Closing price of shares at date of exercise HK\$
				Granted	Exercised	Cancelled		
17 July 1997	17 July 1998 - 16 July 2007	4.06	60,130,000	—	—	(3,050,000)	57,080,000	N/A
14 February 1998	14 February 1999 - 13 February 2008	1.08	151,020,000	—	(22,500,000)	(2,400,000)	126,120,000	1.54 to 1.81
30 September 1998	30 September 1999 - 29 September 2008	0.52	26,760,000	—	(10,910,000)	(350,000)	15,500,000	1.54 to 1.81
4 January 2000	4 January 2001 - 3 January 2010	0.58	49,180,000	—	(15,230,000)	—	33,950,000	1.54 to 1.81
24 October 2001	24 October 2002 - 23 October 2011	0.69	61,000,000	—	(61,000,000)	—	—	1.66 to 1.79
18 June 2004	18 June 2005 - 17 June 2014	1.13	—	65,140,000	—	(800,000)	64,340,000	N/A
			348,090,000	65,140,000	(109,640,000)	(6,600,000)	296,990,000	



31. SHARE CAPITAL (cont'd)

Share option scheme (cont'd)

Date of grant	Exercisable period	Subscription price per share HK\$	Outstanding at 1 January 2003	Number of shares under options granted			Outstanding at 31 December 2003	Closing price of shares at date of exercise HK\$
				Granted	Exercised	Cancelled		
17 July 1997	17 July 1998 - 16 July 2007	4.06	65,990,000	—	—	(5,860,000)	60,130,000	N/A
14 February 1998	14 February 1999 - 13 February 2008	1.08	168,420,000	—	(1,150,000)	(16,250,000)	151,020,000	0.85 to 0.89
30 September 1998	30 September 1999 - 29 September 2008	0.52	41,060,000	—	(11,930,000)	(2,370,000)	26,760,000	0.71 to 0.89
4 January 2000	4 January 2001 - 3 January 2010	0.58	71,950,000	—	(13,820,000)	(8,950,000)	49,180,000	0.73 to 0.89
24 October 2001	24 October 2002 - 23 October 2011	0.69	86,000,000	—	(25,000,000)	—	61,000,000	0.85 to 0.89
			433,420,000	—	(51,900,000)	(33,430,000)	348,090,000	

Details of the share options held by the directors included in the above table are as follows:

	Outstanding at 1 January	Number of shares under options granted				Outstanding at 31 December
		Granted	Exercised	Cancelled	Reclassified	
2004	108,110,000	20,740,000	(6,120,000)	(500,000)	*(21,900,000)	100,330,000
2003	122,210,000	—	(5,820,000)	(8,280,000)	—	108,110,000

\* Options to subscribe for a total of 21,900,000 shares in the Company were held by Mr. Yao Xiancheng who had resigned as director of the Company during the year.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed during the year.



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 32. SHARE PREMIUM AND RESERVES

	Share premium	Capital redemption reserve	Investment property revaluation reserve	Other property revaluation reserve	Exchange translation reserve	Goodwill on consolidation	PRC statutory reserve	Dividend reserve	Retained profits	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
<b>THE GROUP</b>										
At 1 January 2003	5,193,116	7,596	78,873	321,348	(21,391)	(393,451)	11,497	54,125	1,767,216	7,018,929
Exchange differences on translation of financial statements	—	—	—	—	667	—	—	—	—	667
2002 final dividend paid	—	—	—	—	—	—	—	(54,125)	—	(54,125)
Repurchase of own shares	—	2,334	—	—	—	—	—	—	(15,094)	(12,760)
Issue of shares less expenses	27,493	—	—	—	—	—	—	—	—	27,493
Share of associates' reserve movements	—	—	(2,100)	—	—	—	—	—	—	(2,100)
Increase on revaluation of investment properties	—	—	3,295	—	—	—	—	—	—	3,295
Realised on disposal of properties	—	—	—	(327)	—	—	—	—	327	—
Deficit on revaluation of properties for own use reclassified to investment properties	—	—	—	(16,845)	—	—	—	—	—	(16,845)
Realised when properties were used and depreciated	—	—	—	(6,790)	—	—	—	—	6,790	—
Deferred tax liability on surplus on revaluation	—	—	—	(3,577)	—	—	—	—	—	(3,577)
Net profit for the year	—	—	—	—	—	—	—	—	688,918	688,918
Amounts set aside for dividend payment (note 11)	—	—	—	—	—	—	—	299,423	(299,423)	—
2003 interim dividend paid	—	—	—	—	—	—	—	(108,249)	—	(108,249)
Transfer to PRC statutory reserve	—	—	—	—	—	—	53,434	—	(53,434)	—
At 31 December 2003	5,220,609	9,930	80,068	293,809	(20,724)	(393,451)	64,931	191,174	2,095,300	7,541,646
Exchange differences on translation of financial statements	—	—	—	—	(3,368)	—	—	—	—	(3,368)
2003 final dividend paid	—	—	—	—	—	—	—	(191,174)	—	(191,174)
Repurchase of own shares	—	2,994	—	—	—	—	—	—	(36,856)	(33,862)
Issue of shares less expenses	1,482,287	—	—	—	—	—	—	—	—	1,482,287
Share of associates' reserve movements	—	—	(3,534)	—	869	—	—	—	—	(2,665)
Increase on revaluation of investment properties	—	—	53,110	—	—	—	—	—	—	53,110
Realised when properties were used and depreciated	—	—	—	(6,826)	—	—	—	—	6,826	—
Deferred tax liability on surplus on revaluation	—	—	—	971	—	—	—	—	—	971
Net profit for the year	—	—	—	—	—	—	—	—	1,075,070	1,075,070
Amounts set aside for dividend payment (note 11)	—	—	—	—	—	—	—	382,185	(382,185)	—
2004 interim dividend paid	—	—	—	—	—	—	—	(127,356)	—	(127,356)
Transfer to PRC statutory reserve	—	—	—	—	—	—	50,735	—	(50,735)	—
At 31 December 2004	<u>6,702,896</u>	<u>12,924</u>	<u>129,644</u>	<u>287,954</u>	<u>(23,223)</u>	<u>(393,451)</u>	<u>115,666</u>	<u>254,829</u>	<u>2,707,420</u>	<u>9,794,659</u>



32. SHARE PREMIUM AND RESERVES (cont'd)

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Other property revaluation reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>						
At 1 January 2003	5,193,116	7,596	1,511	54,125	739,772	5,996,120
2002 final dividend paid	—	—	—	(54,125)	—	(54,125)
Repurchase of own shares	—	2,334	—	—	(15,094)	(12,760)
Issue of shares less expenses	27,493	—	—	—	—	27,493
Net profit for the year	—	—	—	—	265,102	265,102
Amounts set aside for dividend payment (note 11)	—	—	—	299,423	(299,423)	—
2003 interim dividend paid	—	—	—	(108,249)	—	(108,249)
At 31 December 2003	5,220,609	9,930	1,511	191,174	690,357	6,113,581
2003 final dividend paid	—	—	—	(191,174)	—	(191,174)
Repurchase of own shares	—	2,994	—	—	(36,856)	(33,862)
Issue of shares less expenses	1,482,287	—	—	—	—	1,482,287
Realised on disposal of properties	—	—	(1,511)	—	1,511	—
Net profit for the year	—	—	—	—	254,150	254,150
Amounts set aside for dividend payment (note 11)	—	—	—	382,185	(382,185)	—
2004 interim dividend paid	—	—	—	(127,356)	—	(127,356)
At 31 December 2004	<u>6,702,896</u>	<u>12,924</u>	<u>—</u>	<u>254,829</u>	<u>526,977</u>	<u>7,497,626</u>

Notes:

The retained profits of the Group include profits retained by associates amounted to HK\$2 million (2003: HK\$21 million). The results of jointly controlled entities included in the retained profits of the Group are insignificant.

The property revaluation reserves are not distributable to shareholders until they are realised. The Company's reserves available for distribution to shareholders at 31 December 2004 comprised the retained profits of HK\$527 million (2003: HK\$690 million) and the dividend reserve of HK\$255 million (2003: HK\$191 million).

The PRC statutory reserve of the Group represents general and development fund reserve applicable to PRC subsidiaries which was established in accordance with the relevant PRC regulations.



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 33. BANK LOANS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unsecured bank loans repayable				
Within one year	1,760,458	686,075	100,000	—
More than one year, but not exceeding two years	858,783	311,320	—	—
More than two years, but not exceeding five years	2,200,000	1,610,000	2,100,000	1,510,000
	<u>4,819,241</u>	<u>2,607,395</u>	<u>2,200,000</u>	<u>1,510,000</u>
Secured bank loan repayable within one year	45,283	—	—	—
	<u>4,864,524</u>	<u>2,607,395</u>	<u>2,200,000</u>	<u>1,510,000</u>
Less: Amounts due within one year included in current liabilities	<u>(1,805,741)</u>	<u>(686,075)</u>	<u>(100,000)</u>	<u>—</u>
	<u><u>3,058,783</u></u>	<u><u>1,921,320</u></u>	<u><u>2,100,000</u></u>	<u><u>1,510,000</u></u>

All the bank borrowings carry interest at commercial lending rates.



### 34. LONG TERM PAYABLES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Land acquisition costs payable		
Within one year	1,701,571	147,918
More than one year, but not exceeding two years	419,250	—
More than two years, but not exceeding five years	162,970	—
	<u>2,283,791</u>	<u>147,918</u>
Consideration for acquisition of subsidiaries payable		
Within one year	78,489	31,107
More than one year, but not exceeding two years	45,419	28,387
More than two years, but not exceeding five years	—	45,419
	<u>123,908</u>	<u>104,913</u>
	2,407,699	252,831
Less: Portion due within one year included in trade and other payables under current liabilities	<u>(1,780,060)</u>	<u>(179,025)</u>
	<u>627,639</u>	<u>73,806</u>

The land acquisition costs and consideration for acquisition of subsidiaries payables are unsecured and interest free.

### 35. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The minority shareholders of certain subsidiaries have provided unsecured advances to those subsidiaries amounting to HK\$1,183 million (2003: HK\$1,260 million) which are interest free. Such advances have no fixed repayment terms but repayment will not be demanded within one year from the balance sheet date.

The amounts due to minority shareholders are presented after deducting the net liabilities of the subsidiaries attributable to the minority shareholders of HK\$498 million (2003: HK\$603 million).



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 36. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2003	23,743	71,339	52,315	147,397
Charge (credit) to income statement	998	—	(16,633)	(15,635)
Credit to equity	—	(1,145)	—	(1,145)
Acquisition of a subsidiary	—	—	45,287	45,287
Effect of a change in tax rate				
- charge to income statement	2,226	—	487	2,713
- charge to equity	—	4,722	—	4,722
At 31 December 2003	26,967	74,916	81,456	183,339
Charge (credit) to income statement	(12,150)	—	18,301	6,151
Credit to equity	—	(971)	—	(971)
Acquisition of a subsidiary	—	—	10,633	10,633
At 31 December 2004	<u>14,817</u>	<u>73,945</u>	<u>110,390</u>	<u>199,152</u>

At the balance sheet date, the Group had unused tax losses of HK\$4,321 million (2003: HK\$4,716 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. These losses to the extent of HK\$677 million (2003: HK\$957 million) have not yet been agreed by the tax authority. Included in the tax losses are losses of HK\$304 million (2003: HK\$430 million) that will expire within five years. Other losses may be carried forward indefinitely.

Temporary differences arising in connection with the interests in associates and jointly controlled entities are insignificant.





### 37. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired certain subsidiaries for an aggregate consideration of HK\$448 million, including 100% interest in each of Classic China Products Limited, Taixing Huangneng Cement Manufacturing Company Limited and China Overseas (Laizhou) Co., Ltd., 65% interest in Elation Assets Limited and 60% interest in Allways Success Development Limited. The subsidiaries acquired are principally engaged in property investment and development, port services and cement manufacturing. The post acquisition profits after taxation of these subsidiaries included in the consolidated income statement for the year are insignificant.

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Investment properties	31,020	—
Property, plant and equipment	256,679	531,099
Properties for development	90,537	—
Properties for sale	299,340	109,858
Interests in associates	—	36,604
Investments in securities	—	524
Inventories	6,584	11,109
Trade and other receivables	24,944	101,279
Deposits and prepayments	2,489	26,781
Tax prepaid	5,239	—
Bank balances and cash	91,769	181,411
Trade and other payables	(176,606)	(275,751)
Sales and other deposits	(2,315)	(21,226)
Tax liabilities	(1,355)	(7,588)
Bank loans	(31,529)	(72,868)
Minority interests	—	(100,940)
Deferred tax liabilities	(10,633)	(45,287)
	<u>586,163</u>	<u>475,005</u>
Carrying amount of interest in an associate	(137,709)	(37,295)
Negative goodwill on acquisition	—	(96,207)
	<u>448,454</u>	<u>341,503</u>
Satisfied by:		
Cash consideration		
Paid	409,124	236,590
Payable	39,330	104,913
	<u>448,454</u>	<u>341,503</u>



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 37. ACQUISITION OF SUBSIDIARIES (cont'd)

Net cash outflow arising on acquisition:

	2004 HK\$'000	2003 HK\$'000
Cash consideration paid	(409,124)	(236,590)
Bank balances and cash acquired	91,769	181,411
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(317,355)</u>	<u>(55,179)</u>

The subsidiaries acquired during the year did not contribute significantly to the Group's cash flows and turnover for the year.

### 38. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of certain wholly-owned subsidiaries, which were established for the sole purpose of development of a property project in the PRC, for a consideration of HK\$389 million.

	HK\$'000
Net assets disposed of	
Property, plant and equipment	326
Properties for sale	299,340
Trade and other receivables	437
Deposits and prepayments	12
Tax prepaid	5,239
Bank balances and cash	6,674
Trade and other payables	(4,210)
	<u>307,818</u>
Sales consideration	(389,000)
Gain on disposal	<u>(81,182)</u>
Net cash inflow arising on disposal:	
	HK\$'000
Cash consideration	389,000
Less: Consideration receivable	(153,000)
Cash consideration received	236,000
Bank balances and cash disposed of	(6,674)
	<u>229,326</u>

The subsidiaries disposed of did not contribute significantly to the Group's cash flows, turnover and profit from operations for the year.



### 39. MAJOR NON-CASH TRANSACTIONS

During the year, the Group transferred certain properties held for development amounted to HK\$704 million (2003: HK\$1,972 million) to properties under development.

### 40. OPERATING LEASE COMMITMENTS

#### The Group as lessee

At the balance sheet date, investment properties and completed properties for sale with carrying amounts of HK\$1,646 million (2003: HK\$1,402 million) and HK\$231 million (2003: HK\$375 million) respectively were let out under operating leases.

Property rental income earned during the year is HK\$134 million (2003: HK\$169 million) of which HK\$114 million (2003: HK\$141 million) was derived from the letting of investment properties. All of the properties leased out have committed tenants for the next one to three years without termination options granted to tenants.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	91,721	101,689
In the second to fifth years inclusive	81,379	115,445
After five years	10,464	14,186
	183,564	231,320

At the balance sheet date, the Group had no material commitments for future minimum lease payments under non-cancellable operating leases.

The Company had no significant operating lease commitments at the balance sheet date.





## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 41. PROJECT AND OTHER COMMITMENTS

At the balance sheet date, the Group had the following commitments not provided for in the financial statements:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
(a) Expenditure on property development projects		
- Authorised but not contracted	1,093,874	1,986,068
- Contracted but not provided for	2,772,200	992,953
	<u>3,866,074</u>	<u>2,979,021</u>

In addition to the above, the Group also had outstanding land acquisition costs of HK\$1,098 million (2003: Nil) payable which has not been provided for as the payment of which is subject to the execution of a formal sale agreement.

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
(b) Acquisition of property, plant and equipment		
- Contracted but not provided for	<u>29,392</u>	<u>97,398</u>
(c) The Group has agreed to procure finance to the extent of HK\$482 million (2003: Nil) to a jointly controlled entity within three years from December 2004. The jointly controlled entity is principally engaged in the operation and management of a toll bridge in the PRC.		
(d) The Group had outstanding commitment in respect of the capital contribution to the extent of HK\$390 million (2003: Nil) to a jointly controlled entity which is principally engaged in property development projects in the PRC. The Group's undertaking in this respect is guaranteed by the Company.		
(e) During the year, the Group entered into a conditional agreement to acquire the entire interest in a PRC entity, which is engaged in gold mining, for a consideration of RMB100 million (2003: Nil). The agreement is conditional upon the fulfilment of certain obligations by the vendors and the approval by the PRC authorities.		

The Company had no significant commitments at the balance sheet date.



## 42. CONTINGENT LIABILITIES

At the balance sheet date, there were contingent liabilities as follows:

- (a) Guarantees given and indemnities provided by the Group and the Company in respect of credit facilities granted to:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Subsidiaries	—	—	2,309,908	7,290,332
Associates	16,533	1,002,355	16,533	1,002,355
	<u>16,533</u>	<u>1,002,355</u>	<u>2,326,441</u>	<u>8,292,687</u>

- (b) The Group and the Company had outstanding counter indemnities amounted to HK\$748 million (2003: HK\$1,169 million) and HK\$1,134 million (2003: HK\$1,103 million) respectively for surety bonds issued in respect of construction projects undertaken by the Group and a subsidiary of China State Construction Engineering Corporation, the Company's ultimate holding company.
- (c) The Group acted as guarantor for repayment of the mortgage bank loans granted to purchasers of the Group's properties amounted to HK\$2,461 million (2003: HK\$2,405 million).

## 43. PLEDGE OF ASSETS

At the balance sheet date, the mortgage bank loans granted to the purchasers of the Group's properties were secured by the Group's bank deposits amounted to approximately HK\$63 million (2003: HK\$12 million).



### 44. RELATED PARTY TRANSACTIONS

Other than the transactions with related parties disclosed above, the Group had the following transactions with related parties during the year.

- (a) Pursuant to a project management agreement and a deed of undertaking (together referred to as the “Project Management Agreement”) entered into in 1993 between the Company’s ultimate holding company, China State Construction Engineering Corporation (“CSCEC”), and the wholly owned subsidiaries of the Company, namely China Overseas Building Construction Limited, China Overseas Civil Engineering Limited and China Overseas Foundation Engineering Limited (together the “Project Managers”), the Project Managers have been appointed by CSCEC as joint managers for each and every construction contract in Hong Kong participated by CSCEC since 1 January 1993. Under the Project Management Agreement, the Project Managers shall provide project management services and act as agent to tender for and obtain projects on behalf of CSCEC. CSCEC has agreed to pay the Project Managers a management fee equivalent to 7 per cent. of the final contract sum receivable by CSCEC under such construction contracts. The rights and obligations of CSCEC under the Project Management Agreement have subsequently been novated to its subsidiary (together with CSCEC “the CSCEC Group”).

The Company has agreed to provide counter indemnities to financial institutions issuing bid bonds and performance bonds for the CSCEC Group, which are required when lodging tenders for construction and engineering projects in Hong Kong, for an amount not exceeding HK\$2,000 million from time to time. No fees are chargeable by the Company in this connection. At the balance sheet date, counter indemnities given by the Company in this respect amounted to approximately HK\$748 million (2003: HK\$610 million) remained outstanding.

Project management fees paid or payable by the CSCEC Group to the Group pursuant to the Project Management Agreement amounted to HK\$405 million (2003: HK\$408 million) and hire charges in respect of plant and machinery leased by the Group to the CSCEC Group, calculated on a cost reimbursement basis, amounted to HK\$53 million (2003: HK\$97 million) in respect of the year.

The Group had trade receivables due from the CSCEC Group outstanding at the balance sheet date amounted to HK\$199 million (2003: HK\$212 million) which have been included in trade and other receivables.

- (b) Pursuant to an agreement entered into in 2003 between a subsidiary of the Company, Shenzhen China Overseas Property Co., Ltd. (“SCOP”) and a subsidiary of CSCEC, Shenzhen China Overseas Construction Engineering Company (“SCOCE”), SCOCE was appointed as the main contractor for the construction of the first phase of the property development project undertaken by SCOP at the contract price of RMB185 million which was determined based on the cost of construction materials plus a margin. Construction fees paid by SCOP to SCOCE under the agreement amounted to HK\$116 million (2003: Nil) in respect of the year.
- (c) During the year, Shenzhen Haipeng Property Development Company Limited and Zhongshan China Overseas Property Development Company Limited, both are subsidiaries of the Company, appointed SCOCE as the main contractor for the construction of the property development projects undertaken by them, at an aggregate contract price of RMB152 million which was awarded to SCOCE through the process of public tender. Construction fees paid or payable by the said subsidiaries to SCOCE under the contracts amounted to HK\$39 million (2003: Nil) in respect of the year.



### 44. RELATED PARTY TRANSACTIONS *(cont'd)*

- (d) During the year, the Group has taken out insurance policies with China Overseas Insurance Limited (“COIL”), a subsidiary of China Overseas Holdings Limited (“COHL”) and CSCEC. The aggregate amount of premium paid or payable by the Group to COIL during the year, which was essentially based on terms agreed by the relevant parties concerned, amounted to HK\$49 million (2003: HK\$46 million).
- (e) In the ordinary course of business, CSCEC and its subsidiary, COHL, acted as the guarantors for certain banking facilities granted to the Group. No fees were chargeable by either CSCEC or COHL to the Group in this connection during the year.
- (f) At the balance sheet date, the amounts owed by the associates to the Group before allowances amounted to HK\$1,485 million (2003: HK\$1,586 million), of which HK\$1,355 million (2003: HK\$1,313 million) carries interest based on prime rate plus a specified margin and the remaining balance is interest free. Substantially all of the interest receivable on the amounts owed by the associates to the Group has not been accounted for in the financial statements as its realisation cannot be ascertained. At the balance sheet date, the Group had amounts due to associates amounted to HK\$154 million (2003: HK\$202 million) which are unsecured and interest free with no fixed repayment terms.
- (g) At the balance sheet date, the amounts owed by the jointly controlled entities totalling HK\$458 million (2003: HK\$12 million) are interest free with no fixed repayment terms.
- (h) The Group acted as the contractor for the development of a property project owned by an associate at the contract price determined by the parties concerned. Construction fees for the project payable by the associate to the Group amounted to HK\$44 million (2003: HK\$439 million) in respect of the year. Construction fees receivable from the associate outstanding at the balance sheet date amounted to HK\$21 million (2003: HK\$88 million).
- (i) During the year, the Group made purchases of construction materials from certain associates at the aggregate cost of HK\$122 million (2003: HK\$63 million) which was determined by the parties concerned.





## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following are the particulars of the subsidiaries at 31 December 2004 which, in the opinion of the directors, principally affected the results or the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All subsidiaries registered in the PRC are operating in the PRC. Unless otherwise specified, all other subsidiaries are incorporated and operating principally in Hong Kong.

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
Advocate Properties Limited	100,000 shares of HK\$1 each	—	100	Investment holding
Allways Success Development Limited	100,000 shares of HK\$1 each	—	100	Property investment
Arch Regent Investments Limited (i)	1 share of US\$1	—	100	Investment holding
Barkgate Enterprises Limited (i)	200 shares of US\$1 each	—	100	Investment holding
北京中海豪庭房地產開發有限公司 (v)	RMB10,000,000	—	79	Property development
北京中海豪峰房地產開發有限公司 (v)	RMB50,000,000	—	79	Property development
北京中海地產有限公司 (formerly known as 北京中海房地產開發有限公司) (v)	RMB10,000,000	—	79	Property development
北京中海天成房地產開發有限公司 (iv)	US\$12,000,000	—	79	Property development
北京嘉益德房地產開發有限公司 (vi)	RMB10,000,000	—	63.2	Property development
北京國潤房地產開發經營有限公司 (vi)	RMB30,000,000	—	75	Property development
Beijing Yorkley Real Estate Development Co., Ltd. (v)	US\$12,000,000	—	75.1	Property development
Beijing Zhong Hai Xing Ye Real Estate Development Co., Ltd. (v)	US\$8,624,000	—	100	Property development
Beijing Zhonghai Seagarden Real Estate Development Co., Ltd. (iv)	US\$2,347,078	—	56.9	Property development
Changchun China Overseas Property Co., Ltd. (iv)	RMB10,000,000	—	79	Property development
China Overseas Building Construction Limited	4,999,900 shares of HK\$10 each and 100 non-voting deferred shares of HK\$10 each	—	100	Building construction, project management and investment holding
China Overseas Building Management Limited	100 shares of HK\$1 each	—	100	Real estate management
China Overseas Civil Engineering Limited	1,019,900 shares of HK\$10 each and 100 non-voting deferred shares of HK\$10 each	—	100	Civil engineering works, project management and investment holding





## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(cont'd)*

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
China Overseas Foundation Engineering Limited	46,500,000 shares of HK\$1 each and 500,000 non-voting deferred shares of HK\$1 each	—	100	Building construction, foundation engineering works and project management
China Overseas (Hong Kong) Limited	5,000,000 shares of HK\$10 each	—	100	Investment holding, building construction and provision of management services
China Overseas Industrial Holdings Limited	2 shares of HK\$1 each	100	—	Investment holding
China Overseas Infrastructure Limited	2 shares of HK\$1 each	—	100	Investment holding
China Overseas Machinery Limited	2 shares of HK\$1 each	—	100	Leasing of plant and machinery
China Overseas Material Technology Company Limited	100 shares of HK\$1 each	—	100	Investment holding
China Overseas Mechanical & Electrical Engineering Limited	10,000,000 shares of HK\$1 each	—	100	Investment holding and mechanical and electrical engineering works
China Overseas Port (Laizhou) Co., Ltd. (ii)	US\$14,500,000	—	100	Provision of port services
China Overseas Property Agency Limited	2 shares of HK\$1 each	—	100	Real estate agency
China Overseas Property Group Co., Ltd. (iii)	RMB610,200,000	—	79	Property development, trading and investment, building construction and investment holding
China Overseas Property Limited	100 shares of HK\$10 each	100	—	Investment holding, property consultancy and real estate agency
China Overseas Property (Hong Kong) Co., Ltd. (formerly known as China Construction (Hong Kong) Investment Co., Ltd.)	10,000,000 shares of HK\$1 each	—	79	Investment holding



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
China Overseas Property Services Limited	10 shares of HK\$10 each	—	100	Real estate management and investment holding
China Overseas Security Services Limited	2 shares of HK\$1 each	—	100	Provision of security service
China Overseas (Zhong Guo) Limited	5,000,000 shares of HK\$10 each	—	100	Investment holding
Chung Hoi Finance Limited	500,000 shares of HK\$10 each	100	—	Loan financing, investment holding and security investments
Classic China Products Ltd.	10,000 shares of HK\$100 each	—	79	Investment holding
佳盛發物業發展(深圳)有限公司(ii)	HK\$10,000,000	—	79	Property development
COB Development (Shanghai) Co., Ltd. (ii)	US\$17,000,000	—	100	Property development and trading
中海興業(成都)發展有限公司(ii) (COBD Holdings (Chengdu) Co., Ltd. (viii))	US\$10,000,000	—	100	Property development
中海發展(廣州)有限公司(ii) (COBD Holdings (Guangzhou) Company Limited (viii))	US\$21,000,000	—	100	Investment holding, building construction and project management
中海發展(西安)有限公司(ii)	US\$12,000,000	—	100	Property development
中海發展(蘇州)有限公司(ii)	US\$30,000,000	—	100	Property development
中海地產諮詢(上海)有限公司(ii) (C.O.B. Property Consultants (Shanghai) Co., Ltd. (viii))	US\$500,000	—	100	Real estate agency
中海物流(深圳)有限公司(ii)	RMB50,000,000	—	100	Property investment and investment holding
Dong Kong Holdings Limited	5,000,000 shares of HK\$1 each	—	100	Investment holding
佛山市中海房地產發展有限公司(vi)	RMB10,000,000	—	100	Property development
Fortune Best Investment Limited	9,998 shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	—	100	Investment holding
Further Good Development Limited	100 shares of HK\$1 each	—	100	Property trading
Gain Direct Limited (i)	1 share of US\$1	—	79	Investment holding



45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
Goldwell Development Limited	100 shares of HK\$1 each	—	100	Property development, trading and investment
Great Trend Investment Limited	10,000 shares of HK\$1 each	—	100	Investment holding
Guangzhou Haijin Real Estate Development Co., Ltd. (v)	RMB80,000,000	—	100	Property development
廣州海粵房地產開發有限公司 (v) (Guangzhou Haiyue Real Estate Development Co., Ltd. (viii))	RMB138,000,000	—	100	Property trading and investment
廣州中海地產有限公司 (vi)	RMB100,000,000	—	100	Property development
廣州江東房地產開發有限公司 (v)	RMB99,800,000	—	85.8	Property development
廣州藍灣房地產開發有限公司 (vi)	RMB15,000,000	—	100	Property development
廣州中海名都房地產發展有限公司 (v)	RMB94,684,000	—	100	Property development
Hainan Ruler Limited (i)	1 share of US\$1	100	—	Investment holding
Kee Yet Company Limited	2 shares of HK\$1 each	—	100	Property development
Landcorp Investments Limited	2 shares of HK\$1 each	—	100	Investment holding
Macfull Limited	1,000 shares of HK\$1 each	—	60	Property development
Macwan Limited	10 shares of HK\$1 each	—	70	Property development
Macyat Limited (formerly known as China Overseas Grand Gain Property Development Limited)	10,000 shares of HK\$1 each	—	100	Property development
Maxdo Investments Limited	10,000,000 shares of HK\$1 each	—	100	Investment holding
Maxjet Company Limited	10 shares of HK\$1 each	—	90	Property development
Mepork Services Limited	100 shares of HK\$1 each	—	100	Provision of building cleaning, maintenance and security services
南京中海地產有限公司 (vi)	RMB20,000,000	—	79	Property development
Ocean Group Limited	2 shares of HK\$1 each	—	100	Property investment
On Success Development Limited	10,000 shares of HK\$1 each	—	100	Property investment
Safe Future Investments Limited (i) & (vii)	1 share of US\$1	—	100	Investment holding
Shanghai Hai Xing Realty Co., Ltd. (iv)	US\$15,000,000	—	51	Property trading and investment
上海萬和房地產有限公司 (iv)	US\$43,340,000	—	95	Property development
上海永菱房產發展有限公司 (iv)	US\$40,000,000	—	60	Property development and investment



## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 31 December 2004

### 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
上海新海匯房產有限公司 (iv)	US\$9,276,352	—	99.5	Property development
上海中海房地產有限公司 (vi)	RMB10,000,000	—	100	Property development
上海中海海華房地產有限公司 (vi)	RMB10,000,000	—	98	Property development
瀋陽皇姑熱電有限公司 (ii)	RMB200,000,000	—	100	Generation and supply of heat and electricity
瀋陽皇姑粉煤灰建材有限公司 (vi)	RMB8,000,000	—	90	Manufacturing and sales of coal products
Shenzhen China Overseas Property Co., Ltd. (iv)	HK\$50,000,000	—	79	Property development
深圳市中海運輸有限公司 (vi)	RMB10,000,000	—	75.5	Provision of logistic services
深圳市中海資訊科技有限公司 (vi)	RMB10,000,000	—	96.2	Provision of logistic services
深圳市中海投資有限公司 (formerly known as 深圳市 浩融科技創業投資有限公司) (vi)	RMB30,000,000	—	100	Investment holding
深圳市中海深圳灣房地產開發有限公司 (vi)	RMB10,000,000	—	40.3	Property development
深圳市海鵬物業發展有限公司 (vi)	RMB41,791,000	—	51.4	Property development
深圳市中海貨物代理有限公司 (vi)	RMB5,000,000	—	88	Provision of logistic services
Silver Yield Development Limited	100 shares of HK\$1 each	—	100	Property trading
Splendid Return Limited (i)	50,000 shares of US\$1 each	—	100	Investment holding
Taixing Huangneng Cement Manufacturing Co., Ltd. (ii)	US\$7,120,000	—	100	Manufacturing and sales of cement
中海黃橋熱電 (泰興) 有限公司 (ii)	US\$9,800,000	—	100	Generation and supply of heat and electricity
Taixing China Overseas Qiwei Ferry Establishment Management Co., Ltd. (iv)	RMB108,990,000	—	70	Provision of transportation facilities services
泰興市浩通七圩汽渡運輸有限公司 (vi)	RMB12,440,000	—	70	Provision of transportation services
Techflex Limited (i) & (vii)	1 share of US\$1	—	100	Investment holding
Wealth Faith Developments Ltd. (i)	1 share of US\$1	—	100	Investment holding
Weedon International Limited (i)	1 share of US\$1	—	100	Investment holding



45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
Widenevs Company Limited	2 shares of HK\$1 each	—	100	Property development
Winwhole Development Limited	100 shares of HK\$1 each	—	100	Investment holding
Winwise Development Limited	2 shares of HK\$1 each	—	100	Investment holding
Yorkley Group Limited	100 shares of HK\$1 each	—	95	Investment holding
Zetson Enterprises Limited (i)	1 share of US\$1	100	—	Investment holding
中海物業管理廣州有限公司 (vi) (Zhonghai Property Management (Guangzhou) Co., Ltd. (viii))	RMB15,800,000	—	100	Investment holding and real estate management
Zhonghai Property Management (Shanghai) Co., Ltd. (ii)	US\$610,000	—	100	Real estate management
中山市中海房地產開發有限公司 (vi)	RMB10,000,000	—	100	Property development

- (i) Incorporated in the British Virgin Islands
- (ii) Foreign investment enterprise registered in the PRC
- (iii) Joint stock limited company established in the PRC
- (iv) Sino-foreign equity joint venture registered in the PRC
- (v) Sino-foreign cooperative joint venture registered in the PRC
- (vi) Limited liability company registered in the PRC
- (vii) Operating principally in the PRC
- (viii) Business name