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**Unaudited  
Six months ended 30th June**

	<b>2005</b> <b>HK\$'000</b>	2004 Restated HK\$'000
<b>Turnover</b>	<b>1,588,191</b>	2,274,010
<b>Profit from operations</b>	<b>685,780</b>	283,885
<b>Share of profits of</b>		
<b>Jointly controlled entities</b>	<b>14,534</b>	252
<b>Associated companies</b>	<b>103,008</b>	91,343
<b>Profit attributable to shareholders</b>	<b>132,434</b>	111,506
<b>Basic earnings per share</b>	<b>HK2.08 cents</b>	HK1.77 cents
<b>Fully diluted earnings per share</b>	<b>HK2.05 cents</b>	HK1.73 cents

	<b>30th June 2005</b> <b>HK\$'000</b>	31st December 2004 Restated HK\$'000
<b>Total assets</b>	<b>26,304,706</b>	24,476,520
<b>Total liabilities (including minority interests)</b>	<b>18,565,909</b>	17,486,152
<b>Shareholders' funds</b>	<b>7,738,797</b>	6,990,368
<b>Net asset per share</b>	<b>HK\$1.21</b>	HK\$1.10
<b>Gearing ratio</b>	<b>41%</b>	43%

## BUSINESS REVIEW

Benefited from the increase in the valuation of rental properties and continuous growth in the toll road and newsprint manufacturing business, for the six months ended 30th June 2005, profits attributable to shareholders grew to HK\$132 million with an increase of 19 per cent. However, due to changes in the accounting policies on property business, during the period, the turnover of the Group dropped to HK\$1,588 million, representing a drop of 30 per cent as compared to the same period in 2004.

### Property business

Influenced by the change in the accounting policy of revenue recognition from sale of properties under development, the amount recognized on property sales has drastically decreased. However, benefited from the continuous improvement on the commercial environment in Guangzhou, with continual increase in the level of rents and occupancy ratio for rental properties, the valuation of the Group's rental properties have increased.

During the period, the Group's revenue recognition of property sales on the books changed from the percentage completion method to recognition upon full completion of the project. The floor area of properties sold during the period dropped to 25,000 sq. m., with turnover of HK\$277 million, representing a fall of 83 per cent and 75 per cent respectively as compared with the same period last year.

Starting from last year, the Group has implemented the business strategy of "emphasis in both development of residential properties and operation of commercial properties". Through due expansion of the commercial property portfolio, riding on the synergy effect of commercial properties, the earnings from rental properties have achieved stable growth. The newly launched commercial properties, namely Fortune Plaza and Victory Plaza, being promoted with clear market positioning, appealed to a lot of multi-national companies and premium commercial tenants. For instance, among the major tenants of Fortune Plaza there are 2 top ten banks in the world and a famous local department store in Guangzhou has moved into Victory Plaza and set up a new branch store there. For the six months ended 30th June 2005, the aggregate revenue from rental properties in Guangzhou and Hong Kong amounted to HK\$244 million, with an increase of 21 per cent as compared to the same period last year. Due to the increase in revenue, valuation of the Group's rental properties increased by HK\$663 million.

### Other businesses: impressive growth in profitability of toll road business, steady increase in profit from newsprint production business

During the period, the Group's major toll road business recorded a turnover of HK\$204 million, with an increase of 7 per cent as compared to the same period last year. During the period, profits attributed to associated companies amounted to HK\$103 million, with an increase of 13 per cent as compared to the same period last year. The performance was particularly promising for the jointly controlled entity Northern Second Ring Expressway which benefited from the improvement of adjacent road networks. It boosted profit attributable to jointly controlled entities to HK\$14.53 million in the first half of 2005, with a very substantial increase of 57 times as compared with the same period last year.

In the first half of 2005, the domestic market showed strong demand for newsprint and the selling prices rose successively. The newsprint production business of the Group has fully leveraged on this opportunity and recorded after-tax profits of HK\$49.02 million, with an increase of 36 per cent as compared to the same period last year. Moreover, the Group has strengthened its internal management control, re-engineered its production processes and tremendously reduced the labour and management cost, resulting in rising corporate profits.

## Future Strategies and Prospects

In the first half of 2005, the national GDP in Guangzhou has increased by approximately 11 per cent amounting to RMB 210.3 billion. The economic growth remains lucrative and was higher than the average growth rate of 9.5 per cent for China. Starting from the second half of 2004, the Central Government has implemented a range of economic control measures so as to avoid overheat in the property market. The Group believed that the macro economic revision policies of China will enhance the healthy development of the property market in Guangzhou. The Group has amassed ample business experience of over two decades in Guangzhou. Such experience would enable it to manage and avoid risks of potential policy changes. Based on the foundation built upon the well-established strategy of the year, the Group would, through appropriate adjustment of development and sales plans, further strengthening of our capability in mastering the short-term trend of the market and capitalizing on our competitive advantages, aim at delivering outstanding market performance. During the period, the Group's floor area under construction amounted to approximately 1.2 million sq. m. The Group's residential projects under construction primarily include Jiangnan New Mansion, Binjiang Yi Yuan, Spring Land Garden, Xinghui Ya Yuan and Xinghui Qing Xuan. All of them are located at locations with convenient transportation. With the innovative design, they would bring favourable benefits to the Group. Major commercial projects are discussed below. Yue Xiu City Plaza is located at Dong Feng Chong Road of Guangzhou, with a total construction area of approximately 100,000 sq. m. It has a podium housing financial services, niche retail mall and high end multi-functional business clubs, food and beverages and other commercial facilities. Asia Pacific Century Plaza is adjacent to Citic Plaza, a landmark of Guangzhou, with a total construction area of approximately 220,000 sq. m. It is a large scale integrated property development featuring a super five-star hotel, A-grade office building, shopping arcade and a cultural recreational centre. It is expected that the plaza may become the future super commercial flagship in the central Tianhe district. Two office towers will be constructed on the podium of Victory Plaza, with gross construction area of approximately 90,000 sq. m. This project will be equipped with high tech intelligent facilities which is expected to set new benchmarks for the future market of top grade office buildings in Guangzhou. Yue Xiu New Metropolis Plaza situated in the traditional golden commercial circle of Guangzhou with a total construction area of approximately 80,000 sq. m. is an integrated commercial property sitting on top of the exit of an underground station.

Going forward, Guangzhou tends to rapidly develop various modern service industries, namely logistics, exhibition and convention, finance, intermediary and cultural services so as to upgrade the status and function of Guangzhou as a regional economic centre in Southern China. In the first half of this year, Guangzhou has revised the boundaries of its administrative districts to provide effective room for spatial planning of its economic development. After the adjustment, the demarcation of district territories can be rationalized for the spatial diversification of its industries, whereby optimizing the overall economic layout of Guangzhou. In particular, Nansha, a new district with a real coast-line of Guangzhou, has primarily focused on developing port services, heavy and petro-chemical and mechanical industries. The near term targeted population size for Nansha is around 1 million. The benefits brought about by the establishment of this new district as a new economical belt in the southern part of Guangzhou would become more manifest over time. The Group has substantial land reserves in Nansha, and thus it would greatly benefit from the rapid development of Nansha. This is borne out by the positive sale volume recorded for Southern Le Sand Phase 1 and 2 developed by the Group. Our toll road and newsprint production business would also have room for further development. Overall, the business of our Group is closely aligned with the economic development of Guangzhou, and it would definitely become one of the key beneficiaries from such development. The Group will continuously strengthen its own competitive capability and will bring better returns to its shareholders.

The Board is pleased to announce that a consortium comprising the Company, Guangzhou City Construction & Development Co. Ltd. ("GCCD"), a company in which the Group has a 95% interest, and Guangzhou City Construction & Development Holdings Limited, the party that owns the remaining 5% interest in GCCD, has been successful in the tender for the right to build the West Tower of Zhujiang New City Twin Towers in Guangzhou (the "Project"), which is intended to integrate the various functions of a hotel, conference facilities, sightseeing, tourism and commerce. The Project is expected to be the highest building in Guangzhou. Construction of the Project is expected to commence this year and to be completed in 2009. Further announcement will be made by the Company in respect of the Project as and when appropriate.

## FINANCIAL REVIEW

### Analysis of results

The turnover of the Group for the six months ended 30th June 2005 was HK\$1,588,191,000, representing a decrease of 30 per cent as compared with the corresponding period of 2004. The decrease in turnover was mainly attributable to change of accounting policies in the recognition of revenue derived from sales of the properties under development. The turnover from the transportation and newsprint businesses have increased by 7 per cent and 10 per cent respectively by taking advantage of the continual economic growth in the PRC.

For the Group's property business, pursuant to the HK-Int 3: Revenue - Pre-completion Contracts for the Sale of Development Properties issued by Hong Kong Institute of Certified Public Accountant, the revenue from the sale of development properties is not recognised by using the percentage completion method. Instead, the revenue is recognised upon the completion of projects. Since the properties sales were focused mainly on presale projects and to a lesser extent on completed projects in the first half of 2005, the revenue recorded from sales of properties in the first half of 2005 were HK\$276,530,000 as compared to HK\$1,108,000,000 as recorded based on the percentage completion method for the corresponding period in 2004. Rental income of properties grew by 21 per cent to HK\$244,480,000 as compared with the corresponding period of 2004. The increase was mainly attributable to the rise in the level of rent and occupancy ratio of the Group's commercial properties located in the core regions of Guangzhou City. The Group's toll road business benefited from the gradual improvement of highway network and the natural growth of traffic capacity. The turnover for the first half of 2005 was HK\$204,006,000, up by 7 per cent compared with the same period of 2004. Due to strong domestic demand in the newsprint business, unit selling price had recorded an increase. The turnover for the first half of 2005 was HK\$616,670,000, representing an increase of 10 per cent compared with the corresponding period of 2004.

In line with the change of the accounting policies in the recognition of revenue derived from the properties sales, the gross profit of the Group declined by 35 per cent to HK\$350,573,000 in the first half of 2005 as compared with the same period of last year.

As the Group has adopted measures to tighten the control over cost and expenses, the selling and distribution expenses dropped 13 per cent to HK\$55,125,000 in the first half of 2005. Affected by the accounting treatment of share-based payment under the new accounting standard and the provision of bad debts for certain trade receivables, the general and administrative expenses of the Group increased by 38 per cent to HK\$279,046,000 in the first half of 2005. With the adoption of the new HKAS 40, a gain on revaluation of investment properties amounted to HK\$662,539,000 was recorded during the period.

Owing to the forgone of expenses to be amortised within a period of 5 year in respect of a syndicated loan facilities and the increase of interest rate in the first half of 2005 compared to that of last year, the financial expenses of the Group rose by 51 per cent to HK\$114,092,000 in the same period.

The Group's profit attributable to associated companies grew by 13 per cent to HK\$103,008,000 in the first half of 2005, which was mainly attributable to the toll road business of Humen Bridge and Northern Ring Road that benefited from the continual economic growth of the Pearl River Delta Region. The share of profit after tax and interest income recorded a growth of 24.1 per cent and 15 per cent respectively. Northern Second Ring Expressway being benefited from the opening of Jing Zhu Expressway, Guanghui Expressway and New Guangzhou Airport, the profit attributable to jointly controlled entities was HK\$14,534,000 in the first half of 2005, representing a substantial increase of 57 times compared with the corresponding period of last year.

For the six months ended 30th June 2005, the profit before tax of the Group was HK\$689,230,000, representing an increase of 130 per cent over the corresponding period as a result of the gain on revaluation of investment properties.

For the six months ended 30th June 2005, the taxation including deferred tax of the Group was HK\$327,893,000, representing an increase of 465 per cent over the corresponding period of last year.

For the six months ended 30th June 2005, the profit after tax of the Group was HK\$361,337,000, representing an increase of 49 per cent over the corresponding period of last year as a result of the benefits derived from the gain on revaluation of investment properties.

For the six months ended 30th June 2005, the minority interest was increased by 75 per cent to HK\$228,903,000 as a result of the substantial increase of profit after tax.

For the six months ended 30th June, 2005, the profit attributable to the equity holders of the Company was increased by 19 per cent to HK\$132,434,000. Basic earnings per share was HK2.08 cents, up by 18 per cent compared with the corresponding period of 2004.

## Interim dividend

The board of directors of the Company has resolved to declare an interim dividend for 2005 of HK\$0.01 (2004: HK\$0.0083) per share payable on 8th November 2005 to shareholders whose names appear on the register of members on 28th October 2005. Interim dividend pay out ratio will be 48 per cent.

## Earnings per share

	Six months ended 30th June	
	2005	2004 Restated
Weighted average number of shares in issue	<b>6,362,643,190</b>	6,300,120,794
Profit attributable to shareholders (HK\$)	<b>132,434,000</b>	111,506,000
Basic earnings per share (HK cents)	<b>2.08</b>	1.77
Fully diluted earnings per share (HK cents)	<b>2.05</b>	1.73

Total issued shares outstanding as at 30th June 2005 was 6,379,125,914 shares.

### Liquidity and capital resources

As at 30th June 2005, the Group had bank deposits and cash including charged bank deposits amounted to HK\$1,270 million (2004: HK\$902 million), of which the majority was RMB dollars.

As at 30th June 2005, the Group had outstanding bank borrowings excluding bank overdrafts ("Bank Borrowings") of approximately HK\$5,341 million (2004: HK\$5,170 million), of which about 44 per cent of the Bank Borrowings was denominated in RMB with the remaining in HK dollars.

The following table shows the repayment schedule of the Bank Borrowings:

Repayable within

	HK\$'000
One year	1,597,302
One to two years	768,277
Two to five years	2,975,098
Total	<u>5,340,677</u>

Approximately 30 per cent of the Bank Borrowings are repayable within one year, of which 84 per cent is RMB loans.

### Treasury policies

The Group continues to ensure that its businesses are financed from a variety of competitive sources and that committed facilities are available for refinancing and business growth. In addition, currency and interest rate exposure are actively managed on a conservative basis.

On 30th May 2005, the Group secured a HK\$3.8 billion 5-year term loan facility to refinance existing bank borrowings with an appropriate level of working capital for business growth.

The Group's financing activities continue to be well received and fully supported by its bankers. The Group will consider new financing while maintaining an appropriate level of gearing in anticipation of new investments or maturity of bank loans.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure is managed in accordance with treasury guidelines, utilizing forward contracts and interest rate and currency swaps.

The Group's borrowings will be mostly in HK dollar and hence exposed to exchange rate risk associated with market movement against RMB income. Fluctuation in interest rate could also increase the cost of borrowings as they are currently exposed to floating LIBOR basis. Interest rate and currency swap facilities have been put in place for the Group to mitigate the interest and exchange rate risks, where appropriate and at times of interest rate and exchange rate uncertainty or volatile, the Group will consider utilizing plain vanilla hedging instrument to minimize the risks of underlying exposures.

### Capital expenditures and investments

In the first half of 2005, the Group had a capital expenditure and investment amounting to approximately HK\$52.6 million for the equity capital contribution to a jointly controlled entity, the Guangzhou Western Second Ring Expressway Company Limited ("GWSR Expressway Company"). Capital expenditures incurred on the purchase of fixed assets and production facilities amounted to approximately HK\$187 million.

### Capital and other commitments

As at 30th June 2005, the Group had an equity capital balance commitment to GWSR Expressway of RMB206.5 million (equivalent to approximately HK\$193.9 million). This balance would be paid in stages upon further approval by the board of directors of GWSR Expressway Company.

### Contingent Liabilities

As at 30th June 2005, the Group had arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation for repayment of loans amounted to HK\$126 million (2004: HK\$250 million).

### Capital structure

The following table summarises the components of the Group's capital structure:

	30th June 2005		31st December 2004 (Restated)	
	HK\$'000	%	HK\$'000	%
Bank Borrowings (floating rates)				
Denominated in RMB	<b>2,360,677</b>	<b>18</b>	2,382,496	20
Denominated in US dollars	—	—	117,000	1
Denominated in HK dollars	<b>2,980,000</b>	<b>23</b>	2,670,231	22
Total Bank Borrowings	<b>5,340,677</b>	<b>41</b>	5,169,727	43
Shareholders' funds	<b>7,738,797</b>	<b>59</b>	6,990,368	57
Total capitalization	<b>13,079,474</b>	<b>100</b>	12,160,095	100
Gearing Ratio	<b>41%</b>		43%	



### Interest Coverage

Interest coverage was 3.7 times (2004 Restated: 7.4 times) for the first half of 2005 measuring on the operating profit after share of profit less losses of associated companies and jointly controlled entities and adjusted for non-cash items. The drop in interest coverage was mainly caused by the increase of interest expenses during the period.

### Employees

As at 30th June 2005, the Group had approximately 7,250 employees, of whom approximately 7,120 employees were primarily engaging in the properties, toll roads and newsprint businesses.

The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted share option schemes which award its employees according to performance of the Group and individual employees.

# CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2005

	Note	Unaudited Six months ended 30th June	
		2005 HK\$'000	2004 Restated HK\$'000
Turnover	6	1,588,191	2,274,010
Cost of sales	7	(1,237,618)	(1,734,213)
Gross profit		350,573	539,797
Other revenues		6,839	9,795
Selling and distribution expenses	7	(55,125)	(63,168)
General and administrative expenses	7	(279,046)	(202,539)
Revaluation surplus on investment properties		662,539	—
Profit from operations		685,780	283,885
Finance costs		(114,092)	(75,463)
Share of profits less losses of			
Jointly controlled entities		14,534	252
Associated companies		103,008	91,343
Profit before taxation		689,230	300,017
Taxation	8	(327,893)	(58,057)
Profit for the period		361,337	241,960
Attributable to			
Equity holders of the Company		132,434	111,506
Minority interests		228,903	130,454
		361,337	241,960
Earnings per share for profit attributable to the equity holders of the Company during the period	9		
— Basic		HK2.08 cents	HK1.77 cents
— Diluted		HK2.05 cents	HK1.73 cents
Interim dividend	10	64,028	52,531

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2005 and 31st December 2004

	Note	As at	
		30th June 2005 Unaudited HK\$'000	31st December 2004 Restated HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in toll highways and bridges	11	1,951,634	2,001,376
Other intangible assets	11	45,365	(489,960)
Fixed assets	11	1,375,794	1,351,358
Investment properties	11	5,458,801	4,775,305
Leasehold land and land use rights	11	3,124,223	3,291,022
Interests in jointly controlled entities		739,254	643,437
Interests in associated companies		1,775,477	1,760,348
Deferred tax assets	20	56,538	56,199
Other receivables-non current portion		104,900	104,900
Available-for-sale financial assets	12	387,380	—
Other investments		—	261,347
		<b>15,019,366</b>	<b>13,755,332</b>
<b>Current assets</b>			
Properties held for/under development		4,090,234	3,567,636
Properties held for sale		1,079,953	1,235,566
Leasehold land and land use rights	11	3,738,029	3,766,295
Inventories		208,816	195,288
Amount due from related companies		1,219	3,234
Trade receivables	13	427,637	457,868
Other receivables, prepayments and deposits		469,692	593,644
Charged bank deposits		91,586	70,747
Bank balances and cash		1,178,174	830,910
		<b>11,285,340</b>	<b>10,721,188</b>

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2005 and 31st December 2004

	Note	As at	
		30th June 2005 Unaudited HK\$'000	31st December 2004 Restated HK\$'000
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	14	358,974	414,493
Land premium payables		785,685	729,410
Other payables and accrued charges		3,657,210	3,054,229
Amounts due to jointly controlled entities		120,661	123,442
Amounts due to associated companies		112,150	112,150
Amounts due to minority shareholders		149,092	186,831
Borrowings	15	1,607,449	2,046,850
Derivative financial instruments	16	33,228	29,021
Taxation payable		96,479	133,798
		<u>6,920,928</u>	<u>6,830,224</u>
<b>Net current assets</b>		<u>4,364,412</u>	<u>3,890,964</u>
<b>Total assets less current liabilities</b>		<u>19,383,778</u>	<u>17,646,296</u>
<b>Non-current liabilities</b>			
Borrowings	15	4,590,722	4,038,412
Deferred tax liabilities	20	3,469,419	3,159,380
		<u>8,060,141</u>	<u>7,197,792</u>
<b>Net assets</b>		<u>11,323,637</u>	<u>10,448,504</u>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	637,913	635,160
Other reserves	19	5,918,499	5,770,281
Retained earnings	19		
— Proposed dividend		64,028	57,266
— Others		1,118,357	527,661
		<u>7,738,797</u>	<u>6,990,368</u>
Minority interests		3,584,840	3,458,136
<b>Total equity</b>		<u>11,323,637</u>	<u>10,448,504</u>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2005

	Unaudited	
	Six months ended 30th June	
	2005	2004
	HK\$000	Restated HK\$000
Net cash inflow generated from operating activities	546,185	743,708
Net cash outflow from investing activities	(167,292)	(128,625)
Net cash outflow from financing activities	(15,799)	(684,277)
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	363,094	(69,194)
Cash and cash equivalents at 1st January	806,147	1,035,808
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	<u>1,169,241</u>	<u>966,614</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	1,178,174	991,992
Bank overdrafts	(8,933)	(25,378)
	<hr/>	<hr/>
	<u>1,169,241</u>	<u>966,614</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2005

## Unaudited

	Note	Attributable to equity holders of the Company			Total HK\$'000
		Share capital	Reserves	Minority interest	
		HK\$'000	HK\$'000	HK\$'000	
Balance at 1st January 2005, as previously reported as equity		635,160	6,599,141	—	7,234,301
Balance at 1st January 2005, as previously separately reported as minority interests		—	—	3,467,807	3,467,807
Amortisation of leasehold land and land use rights	19	—	(459,085)	(18,904)	(477,989)
Adjustment for deferred tax arising from the revaluation of investment properties	19	—	215,152	9,233	224,385
Balance at 1st January 2005, as restated		635,160	6,355,208	3,458,136	10,448,504
Opening adjustment on adoption of HKAS 39	19	—	134,387	6,066	140,453
Opening adjustment on adoption of HKFRS 3	19	—	529,685	5,640	535,325
Balance at 1st January 2005 after opening adjustment, as restated		635,160	7,019,280	3,469,842	11,124,282
Currency translation differences	19	—	2,695	1,062	3,757
Decrease in fair value of available-for-sale financial assets	19	—	(21,673)	(43,964)	(65,637)
Net expenses recognised directly in equity		—	(18,978)	(42,902)	(61,880)
Profit for the period		—	132,434	228,903	361,337
Total recognised income for the six months ended 30th June 2005		—	113,456	186,001	299,457
Employees share option scheme - value of employee services	19	—	15,126	—	15,126
Issue of share capital	17 & 19	2,753	10,350	—	13,103
Dividend relating to 2004	19	—	(57,328)	(71,003)	(128,331)
		2,753	(31,852)	(71,003)	(100,102)
Balance at 30th June 2005		637,913	7,100,884	3,584,840	11,323,637

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2005

		Unaudited			
		Attributable to equity holders of the Company			
	Note	Share capital HK\$'000	Reserves HK\$'000	Minority interest HK\$'000	Total HK\$'000
Balance at 1st January 2004, as previously reported as equity		624,872	6,344,488	—	6,969,360
Balance at 1st January 2004, as previously separately reported as minority interest		—	—	3,374,822	3,374,822
Amortisation of leasehold land and land use rights	19	—	(421,230)	(16,209)	(437,439)
Adjustment for deferred tax arising from the revaluation of investment properties	19	—	216,413	9,220	225,633
Balance at 1st January 2004, as restated		<u>624,872</u>	<u>6,139,671</u>	<u>3,367,833</u>	<u>10,132,376</u>
Currency translation differences	19	—	(496)	(170)	(666)
Release of reserve upon disposal of properties held for sale	19	—	(8,933)	—	(8,933)
Net expenses recognised directly in equity		—	(9,429)	(170)	(9,599)
Profit for the period		—	111,506	130,454	241,960
Total recognised income for the six months ended 30th June 2004		<u>—</u>	<u>102,077</u>	<u>130,284</u>	<u>232,361</u>
Employees share option schemes - value of employee services	19	—	6,223	—	6,223
Issue of share capital	17 & 19	7,369	22,536	—	29,905
Deemed acquisition of a subsidiary		—	—	27,822	27,822
Dividend relating to 2003	19	—	(68,123)	(179,034)	(247,157)
		<u>7,369</u>	<u>(39,364)</u>	<u>(151,212)</u>	<u>(183,207)</u>
Balance at 30th June 2004		<u><u>632,241</u></u>	<u><u>6,202,384</u></u>	<u><u>3,346,905</u></u>	<u><u>10,181,530</u></u>

## 1 Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim accounts should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods commencing on or after 1st January 2005.

These interim financial information have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these accounts. The HKFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

## 2 Change in accounting policies

### (a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 3	Revenue — Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases



## 2 Change in accounting policies (cont'd)

### (a) Effect of adopting new HKFRS (cont'd)

The adoption of new/revised HKASs 1, 8, 16, 21, 24 and HKAS-Int 15 and HK-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and jointly controlled entities and other disclosures.
- HKASs 8,16 and HKAS-Int 15 and HK-Int 4 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group's entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of investment properties of which the changes in fair values are recorded in the profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use or through use and subsequent sale. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the profit and loss accounts. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was amortised on a straight-line basis over a maximum period of 20 years and assessed for an indication of impairment at each balance sheet date.

## 2 Change in accounting policies (cont'd)

### (a) Effect of adopting new HKFRS (cont'd)

In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1st January 2005 and the accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment. The carrying amount of negative goodwill as at 1st January 2005 has been derecognised at 1st January 2005 with a corresponding adjustment to the opening balance of retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment has resulted from this reassessment.

The adoption of HK-Int 3 has resulted in a change in the accounting policy relating to revenue recognition arising from pre-completion contracts for the sale of properties under development for sale. Such revenue is recognised only upon completion of sale agreement, which refers to the time when properties are completed and delivered to the buyers. In prior years, the percentage of completion method was used as the policy to recognise revenue arising from pre-completion contracts for the sale of properties under development for sale.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 under which the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transaction;
- HKAS 21 which requires prospective application for accounting goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 which does not permit recognition, decognition and measurement of financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to other investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognised at 1st January 2005;
- revised HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment property;
- HKAS-Int 15 which does not require the recognition of incentives for leases beginning before 1st January 2005;
- HKFRS 2 which only requires retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and
- HKFRS 3 which is applied prospectively after the adoption date.

**2 Change in accounting policies (cont'd)**
**(b) The impact of changes in accounting policies to the Group**

The following is a summary of the effect of changes in the accounting policies described above on equity as at 1st January 2005 and results and earnings per share for the six months 30th June 2004:

	<b>Increase/ (decrease)</b>
	<b>As at 1st January 2005 HK\$'000</b>
<b>Equity</b>	
Amortisation of leasehold land and land use rights (note i)	<b>(477,989)</b>
Revaluation surplus of financial assets (note ii)	<b>140,453</b>
Decrease in deferred tax on change of basis of recovery of revalued assets (note iii)	<b>224,385</b>
De-recognition of negative goodwill (note v)	<b>535,325</b>
	<hr/>
	<b>422,174</b> <hr/> <hr/>
	For the six months ended 30th June 2004 HK\$'000
<b>Results</b>	
Amortisation of leasehold land and land use rights (note i)	(15,682)
Expenses related to share option schemes (note iv)	(6,223)
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	(21,905) <hr/> <hr/>
Attributable to:	
Equity holders of the Company	(19,699)
Minority interests	(2,206)
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	(21,905) <hr/> <hr/>
	For the six months ended 30th June 2004 HK cents
<b>Earnings per share</b>	
Basic and diluted	
Amortisation of leasehold land and land use rights (note i)	(0.21)
Expenses related to share option schemes (note iv)	(0.10)
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	(0.31) <hr/> <hr/>

**2 Change in accounting policies (cont'd)**
**(b) The impact of changes in accounting policies to the Group (cont'd)**

The following is a summary of the effect of changes in the accounting policies described above on individual accounting caption:

Increase/(decrease)	(note i)	(note ii)	(note iii)	(note iv)	(note v)	Total HK\$'000
	Effect on adoption of HKAS 17 HK\$'000	Effect on adoption of HKAS 39 HK\$'000	Effect on adoption of HKAS-Int 21 HK\$'000	Effect on adoption of HKFRS 2 HK\$'000	Effect on adoption of HKFRS 3 HK\$'000	
Profit and loss account items for the six months ended 30th June 2004						
Cost of sales	23,901	—	—	—	—	23,901
Administrative expenses	3,527	—	—	6,223	—	9,750
Taxation	(11,746)	—	—	—	—	(11,746)
Minority interests	(2,206)	—	—	—	—	(2,206)
Earnings per share						
— basic (HK cents)	(0.21)	—	—	(0.10)	—	(0.31)
— diluted (HK cents)	(0.21)	—	—	(0.10)	—	(0.31)
Balance sheet items as at 1st January 2005						
Fixed assets	(89,967)	—	—	—	—	(89,967)
Leasehold land and land use rights						
— non-current portion	3,291,022	—	—	—	—	3,291,022
Other intangible assets	—	—	—	—	535,325	535,325
Interest in jointly controlled entities	(3,280)	—	—	—	—	(3,280)
Available-for-sales financial assets	—	456,231	—	—	—	456,231
Other investments	—	(261,347)	—	—	—	(261,347)
Properties held for/under development	(6,734,381)	—	—	—	—	(6,734,381)
Properties held for sale	(954,192)	—	—	—	—	(954,192)
Leasehold land and land use rights						
— current portion	3,766,295	—	—	—	—	3,766,295
Other receivables, prepayments and deposits	—	15,008	—	—	—	15,008
Total assets	(724,503)	209,892	—	—	535,325	20,714
Deferred tax liabilities	(246,514)	69,439	(224,385)	—	—	(401,460)
Total liabilities	(246,514)	69,439	(224,385)	—	—	(401,460)
Net assets	(477,989)	140,453	224,385	—	535,325	422,174
Reserves	(459,085)	134,387	215,152	—	529,685	420,139
Minority interests	(18,904)	6,066	9,233	—	5,640	2,035
Total equity	(477,989)	140,453	224,385	—	535,325	422,174

**2 Change in accounting policies** (cont'd)

**(b) The impact of changes in accounting policies to the Group** (cont'd)

The adoption of HK-Int 3 has resulted in a change in the accounting policy relating to revenue recognition arising from pre-completion contracts for the sale of properties under development for sale and the effect for the consolidated balance sheet as at 30th June 2005 and consolidated profit and loss account for the six months ended 30th June 2005 are as follows:

	<b>As at 30th June 2005 HK'000</b>
Increase in properties under development	<b>394,476</b>
	<b>For the six month ended 30th June 2005 HK'000</b>
Decrease in sales	<b>543,030</b>
Decrease in cost of sales	<b>394,476</b>
Decrease in taxation	<b>49,023</b>
Decrease in earnings per share (HK cents)	<b>1.52</b>
Decrease in diluted earnings per share (HK cents)	<b>1.50</b>

**3 New Accounting Policies**

The accounting policies used for the condensed consolidated accounts for the six months ended 30th June 2005 are the same as those set out in note 1 to the 2004 annual accounts except for the following:

**3.1 Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company and its Hong Kong subsidiaries maintain their books and records in Hong Kong Dollars while all other major group companies maintain their books and record in RMB. The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

### 3 New Accounting Policies (cont'd)

#### 3.1 Foreign currency translation (cont'd)

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

##### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 3 New Accounting Policies (cont'd)

#### 3.2 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the profit and loss account.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the income statement.

#### 3.3 Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/ associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and jointly controlled entities is included in respective investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the Group will:

- reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- recognise immediately in profit and loss account any excess remaining after that reassessment.

### 3 New Accounting Policies (cont'd)

#### 3.4 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### 3.5 Investments

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as other investments.

Other investments held for long term are stated at cost less accumulated impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair value have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

If the rights and interest in investments are to be surrendered by the Group upon the termination of related joint venture period, amortisation is provided to write off its cost over the joint venture period on a straight-line basis. The results of other investments are accounted for on the basis of dividends received and receivable.

From 1st January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.



### 3 New Accounting Policies (cont'd)

#### 3.5 Investments (cont'd)

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement — is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

#### 3.6 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

## 4 Financial risk management

### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk.

(a) *Foreign exchange risk*

Certain of the subsidiaries of the Group operates in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars. It has not hedged its foreign exchange rate risk.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the Mainland China government.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. The carrying amount of the trade receivables included in the consolidated balance sheets represents the Group's maximum exposure to credit risk in relation to its financial assets.

(c) *Liquidity risk*

The Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(d) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. It has not hedged its cash flow and fair value interest rate risk.

### 4.2 Fair value estimation

The nominal value less estimated credit adjustments of accounts receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 5 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 5.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are discussed below.

#### (a) Definition of interests in toll highways and bridges

Interests in toll highways and bridges of the Group and investee companies comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructures is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets.

The Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

At present, the range of annual traffic growth rates that have been projected for individual toll highways and bridges is around 2 per cent to 5 per cent.

#### (b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3.3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

#### (c) Estimated impairment of properties and equipment, investment properties, leasehold land and land use rights and properties under development for long-term investment

Properties and equipment, investment properties, leasehold land and land use rights and properties under development for long-term investment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of properties and equipment, leasehold land and land use rights and properties under development for long-term investment have been determined based on value-in-use calculations; while that of investment properties has been determined with reference to independent valuations. These calculation and valuations require the use of judgement and estimates.

#### (d) Estimated write-downs of properties under development for sale and completed properties for sale

The Group writes down properties under development for sale and completed properties for sale to net realisable value based on assessment of the realisability of properties under development for sale and completed properties for sale. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value and write-downs of properties under development for sale and completed properties for sale in the periods in which such estimate is changed.

## 5 Critical accounting estimates and assumptions (cont'd)

### 5.1 Critical accounting estimates and assumptions (cont'd)

#### (e) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. The Group employed an independent firm of professional surveyor, Greater China Appraisal Limited, to determine the open market values for the investment properties of the Group.

In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

- i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.
- ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

#### (f) Estimate of fair value of share-based options

The Group has taken advantage of the transitional provisions of HKFRS 2 to apply the standard to grants of share options after 7th November 2002 and had not yet vested at 1st January 2005. Share options vested before 1st January 2005 totalling 230,790,200 were not included in the calculation of fair value of options granted.

The fair value of options granted was determined using the Black-Scholes valuation model which was performed by an independent valuer, Greater China Appraisal Limited. The significant inputs into the model were share price at the grant date, exercise price, standard deviation of expected share price returns, expected life of options, expected dividend paid out rate and annual risk-free rate. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year before the option granted date.

## 5 Critical accounting estimates and assumptions (cont'd)

### 5.1 Critical accounting estimates and assumptions (cont'd)

#### (g) Current taxation and deferred taxation

The Group is subject to taxation in Mainland China and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

### 5.2 Critical judgements in applying the entity's accounting policies

#### *Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

## 6 Segment information

The Group is principally engaged in development, operation and management of toll highways and bridges, development, selling and management of properties and holding of investment properties, manufacturing and trading of newsprint. Turnover and segment results for the period are as follows:

### Primary reporting format — business segments

The Group operates mainly in Hong Kong and Mainland of China ("China") and in three main business segments:

- Properties - development, selling and management of properties and holding of investment properties
- Toll operations - development, operation and management of toll highways and bridges
- Paper - manufacturing and selling of newsprint

There are no significant sales between the business segments.

**6 Segment information (cont'd)**
**Secondary reporting format — geographical segments**

The Group's three business segments are mainly managed in Hong Kong and China:

Hong Kong — properties

China — properties, paper and toll operations

Others — properties

There are no significant sales between the geographical segments.

**Primary reporting format — business segments**

	Six months ended 30th June							
	Toll operations		Properties		Paper		Group	
	2005	2004	2005	2004	2005	2004	2005	2004
	Restated		Restated		Restated		Restated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>204,006</b>	191,002	<b>767,512</b>	1,520,151	<b>616,673</b>	562,857	<b>1,588,191</b>	2,274,010
Segment results	<b>87,926</b>	70,925	<b>551,399</b>	181,094	<b>68,505</b>	52,493	<b>707,830</b>	304,512
Interest income							<b>3,789</b>	3,077
Unallocated operation costs							<b>(25,839)</b>	(23,704)
Finance costs							<b>(114,092)</b>	(75,463)
Share of profits less losses of:								
— Jointly controlled entities	<b>20,008</b>	252	<b>(5,474)</b>	—	—	—	<b>14,534</b>	252
— Associated companies	<b>103,008</b>	91,035	—	308	—	—	<b>103,008</b>	91,343
Profit before taxation							<b>689,230</b>	300,017
Taxation							<b>(327,893)</b>	(58,057)
Profit for the period							<b>361,337</b>	241,960
Capital expenditure	<b>1,309</b>	4,404	<b>84,350</b>	542	<b>101,569</b>	30,558	<b>187,228</b>	35,504
Depreciation and amortisation	<b>52,057</b>	56,883	<b>79,094</b>	66,807	<b>57,964</b>	61,332	<b>189,115</b>	185,022

**6 Segment information (cont'd)**
**Primary reporting format — business segments (cont'd)**

	As at 30th June 2005 and 31st December 2004							
	Toll operations		Properties		Paper		Group	
	30th June 2005	31st December 2004	30th June 2005	31st December 2004	30th June 2005	31st December 2004	30th June 2005	31st December 2004
	Restated	Restated	Restated	Restated	Restated	Restated	Restated	Restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<b>2,120,203</b>	2,229,404	<b>18,684,566</b>	17,331,255	<b>1,592,434</b>	1,495,642	<b>22,397,203</b>	21,056,301
Interests in jointly controlled entities	<b>495,482</b>	422,892	<b>243,772</b>	220,545	—	—	<b>739,254</b>	643,437
Interests in associated companies	<b>1,686,656</b>	1,671,842	<b>88,821</b>	88,506	—	—	<b>1,775,477</b>	1,760,348
Unallocated assets							<b>1,392,772</b>	1,016,434
Total assets							<b>26,304,706</b>	24,476,520
Segment liabilities	<b>722,574</b>	768,172	<b>10,401,586</b>	9,430,464	<b>589,427</b>	506,246	<b>11,713,587</b>	10,704,882
Unallocated liabilities							<b>3,267,482</b>	3,323,134
Total liabilities							<b>14,981,069</b>	14,028,016

**Secondary reporting format — geographical segments**

	For the six months ended 30th June				As at 30th June 2005 and 31st December 2004	
	Turnover		Capital expenditure		Total assets	
	2005	2004	2005	2004	30 June 2005	31st December 2004
	Restated	Restated	Restated	Restated	Restated	Restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	<b>82,853</b>	392,883	<b>1,686</b>	925	<b>1,319,396</b>	1,362,281
China	<b>1,504,457</b>	1,856,258	<b>185,533</b>	34,579	<b>23,558,495</b>	22,051,223
Overseas	<b>881</b>	24,869	<b>9</b>	—	<b>34,043</b>	46,582
	<b>1,588,191</b>	2,274,010	<b>187,228</b>	35,504	<b>24,911,934</b>	23,460,086
Unallocated asset					<b>1,392,772</b>	1,016,434
Total assets					<b>26,304,706</b>	24,476,520

## 7 Expenses by nature

Expenses included in cost of sales, selling and distribution expenses and general and administrative expenses are analysed as follows:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	Restated HK\$'000
Charging		
Advertising expenses	<b>43,275</b>	43,630
Cost of inventories sold	<b>966,073</b>	1,520,737
Direct operating expenses arising from investment properties that generate rental income	<b>73,338</b>	44,573
Depreciation:		
- Owned fixed assets	<b>79,659</b>	68,474
- Leased fixed assets	<b>13</b>	13
Amortisation/depreciation of interests in toll highways and bridges	<b>50,779</b>	50,696
Amortisation of leasehold land and land use right		
- included in cost of sales	<b>54,775</b>	61,820
- included in administrative expenses	<b>3,889</b>	4,019
Derivative instruments – interest rate swap not qualifying as hedge	<b>4,206</b>	7,173
Provision for impairment in value of fixed assets	<b>10,418</b>	—
Write-down of properties held for/under development to net realisable value	<b>31,850</b>	—
Staff costs		
- Wages and salaries (including directors' remuneration)	<b>98,195</b>	93,198
- Pension costs – defined contribution plans	<b>8,475</b>	7,545
- Medical benefits costs	<b>2,050</b>	3,501
- Social security costs	<b>11,472</b>	8,093
- Termination benefits	<b>874</b>	6,349
- Staff welfare	<b>7,071</b>	9,051
- Share option granted to directors and employees	<b>15,126</b>	6,223
Operating leases		
- Hire of plant and workshops	<b>8,107</b>	8,184
- Land and buildings	<b>37,336</b>	25,643
Provision for doubtful debts	<b>49,272</b>	2,891
Net exchange loss	<b>1,517</b>	—



8 Taxation

- (a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2004: 17.5 per cent) on the estimated assessable profit for the period.
- (b) China enterprise income taxation is provided on the profits of the Group's subsidiaries, associated companies and jointly controlled entities in Mainland China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law") at 18 per cent to 33 per cent. Under the China Tax Law, certain of the Group's subsidiaries, associated companies and jointly controlled entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years.
- (c) China land appreciation tax is levied at progressive rates ranging from 30 per cent to 60 per cent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditure.
- (d) The amount of taxation charged to the condensed consolidated profit and loss account represents:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004 Restated
	<b>HK\$'000</b>	HK\$'000
Current taxation		
— Hong Kong profits tax	<b>809</b>	1,086
— Underprovision in prior years	<b>5,545</b>	—
— China enterprise income tax	<b>33,821</b>	48,785
— China land appreciation tax	<b>2,210</b>	8,695
Deferred taxation in relation to the origination and reversal of temporary differences	<b>285,508</b>	(509)
	<b>327,893</b>	58,057

Share of China enterprise income taxation attributable to the following are included in the profit and loss account as share of results of associated companies and jointly controlled entities:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004 Restated
	<b>HK\$'000</b>	HK\$'000
Associated companies		
— current taxation	<b>8,521</b>	7,138
— deferred taxation	<b>5,648</b>	5,794
Jointly controlled entities		
— current taxation	<b>602</b>	—
— deferred taxation	<b>1,668</b>	1,748

## 9 Earnings per share

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004 Restated
Profit attributable to equity holders of the Company (HK\$'000)	<u><b>132,434</b></u>	<u>111,506</u>
Weighted average number of ordinary shares in issue ('000)	<u><b>6,362,643</b></u>	<u>6,300,121</u>
Basic earnings per share (HK cents)	<u><b>2.08</b></u>	<u>1.77</u>

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the period which are dilutive potential ordinary shares. Calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004 Restated
Profit attributable to equity holders of the Company (HK\$'000)	<u><b>132,434</b></u>	<u>111,506</u>
Weighted average number of ordinary shares in issue ('000)	<u><b>6,362,643</b></u>	<u>6,300,121</u>
Adjustments for - share options ('000)	<u><b>96,957</b></u>	<u>131,390</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u><b>6,459,600</b></u>	<u>6,431,511</u>
Diluted earnings per share (HK cents)	<u><b>2.05</b></u>	<u>1.73</u>

## 10 Dividend

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
2005 interim, proposed of HK\$0.01 (2004: HK\$0.0083) per share	<u>64,028</u>	<u>52,531</u>

## 11 Capital expenditure

	Other intangible assets			Interests in toll highways and bridges					
	Goodwill on acquisition of subsidiaries	Negative goodwill on acquisition of subsidiaries		Intangible Operating rights	Tangible infrastructure	Total	Fixed assets	Investment properties	Leasehold land and land use right
		Total	HK\$'000						
Opening net book value at 1st January 2005, as previously reported	45,365	(535,325)	(489,960)	1,665,040	336,336	2,001,376	1,441,325	4,775,305	—
Effect of changes in accounting policies	—	—	—	—	—	—	(89,967)	—	7,057,317
Opening net book value at 1st January 2005, as restated	45,365	(535,325)	(489,960)	1,665,040	336,336	2,001,376	1,351,358	4,775,305	7,057,317
Opening adjustments on adoption of HKFRS 3	—	535,325	535,325	—	—	—	—	—	—
Net book value at 1st January 2005 after opening adjustments	45,365	—	45,365	1,665,040	336,336	2,001,376	1,351,358	4,775,305	7,057,317
Additions	—	—	—	1,037	—	1,037	123,266	62,925	—
Disposals	—	—	—	—	—	—	(51,501)	(178,824)	(89,163)
Revaluation surplus	—	—	—	—	—	—	—	662,539	—
Transfers from properties held for sales	—	—	—	—	—	—	33,376	88,584	—
Transfers	—	—	—	—	—	—	(1,033)	48,272	(47,238)
Depreciation/amortisation for the period	—	—	—	(44,473)	(6,306)	(50,779)	(79,672)	—	(58,664)
Closing net book value at 30th June 2005	<u>45,365</u>	<u>—</u>	<u>45,365</u>	<u>1,621,604</u>	<u>330,030</u>	<u>1,951,634</u>	<u>1,375,794</u>	<u>5,458,801</u>	<u>6,862,252</u>
Analysis as:									
Non-current									3,124,223
Current									<u>3,738,029</u>
									<u>6,862,252</u>

Note: Majority of leasehold land and land use rights and investment properties of the Group are located in China.

## 11 Capital expenditure (cont'd)

	Other intangible assets			Interests in toll highways and bridges					
	Goodwill on acquisition of subsidiaries	Negative goodwill on acquisition of subsidiaries	Total	Intangible Operating rights	Tangible infrastructure	Total	Fixed assets	Investment properties	Leasehold land and land use right
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening net book value at 1st January 2004, as previously reported	49,039	(584,292)	(535,253)	1,750,864	348,783	2,099,647	1,405,545	4,845,537	—
Effect of changes in accounting policies	—	—	—	—	—	—	(99,278)	—	8,143,566
Opening net book value at 1st January 2004, as restated	49,039	(584,292)	(535,253)	1,750,864	348,783	2,099,647	1,306,267	4,845,537	8,143,566
Additions	—	—	—	85	—	85	35,419	—	—
Disposals	—	—	—	—	—	—	(1,634)	(28,406)	(317,482)
Depreciation/amortisation for the period	(1,590)	16,553	14,963	(44,472)	(6,224)	(50,696)	(68,487)	—	(65,839)
Closing net book value at 30th June 2004	47,449	(567,739)	(520,290)	1,706,477	342,559	2,049,036	1,271,565	4,817,131	7,760,245
Additions	—	—	—	3,035	—	3,035	41,116	122,978	—
Transfer (to)/from properties held for/under development	—	—	—	—	—	—	46,260	(261,873)	—
Revaluation surplus	—	—	—	—	—	—	—	76,750	—
Disposals	—	—	—	—	—	—	(16,368)	—	(550,389)
Transfer	—	—	—	—	—	—	78,444	20,319	(98,763)
Depreciation/amortisation for the period	(2,084)	32,414	30,330	(44,472)	(6,223)	(50,695)	(69,659)	—	(53,776)
Closing net book value at 31st December 2004	45,365	(535,325)	(489,960)	1,665,040	336,336	2,001,376	1,351,358	4,775,305	7,057,317
Analysis as:									
Non-current									3,291,022
Current									3,766,295
									7,057,317

**12 Available-for-sale financial assets**

	<b>30th June 2005 HK\$'000</b>
At the beginning of the period	<b>456,231</b>
Additions	<b>463</b>
Decrease in fair value charged to equity	<b>(65,002)</b>
Impairment losses	<b>(2,673)</b>
Disposals	<b>(1,639)</b>
At the end of the period	<b><u>387,380</u></b>

Balances represent financial assets of unlisted securities stated at market value at 30th June 2005.

**13 Trade receivables**

The Group has defined credit policies for different business segments and markets. The credit terms of the Group are generally within three to six months. The ageing analysis of the trade receivables is as follows:

	<b>30th June 2005 HK\$'000</b>	31st December 2004 HK\$'000
0 - 30 days	<b>118,889</b>	174,569
31 - 90 days	<b>97,266</b>	76,788
91 - 180 days	<b>37,260</b>	81,345
181 - 365 days	<b>74,318</b>	43,789
Over 1 year	<b>99,904</b>	81,377
	<b><u>427,637</u></b>	<u>457,868</u>

**14 Trade payables**

Trade payables include trade balances with creditors and retention money payable on construction contracts.

The ageing analysis of the trade payables is as follows:

	<b>30th June 2005 HK\$'000</b>	31st December 2004 HK\$'000
0 - 30 days	<b>98,352</b>	32,433
31 - 90 days	<b>31,629</b>	70,560
91 - 180 days	<b>54,962</b>	24,008
181 - 365 days	<b>3,962</b>	65,755
1 - 2 year	<b>35,905</b>	39,243
Over 2 years	<b>134,164</b>	182,494
	<hr/> <b>358,974</b> <hr/>	<hr/> 414,493 <hr/>

## 15 Borrowings

	<b>30th June 2005 HK\$'000</b>	31st December 2004 HK\$'000
Non-current		
Long term bank borrowings		
- Secured	<b>3,406,669</b>	2,726,859
- Unsecured	<b>336,706</b>	420,806
Obligations under finance leases – Secured	<b>40</b>	53
Loans from ultimate holding company – Unsecured	<b>254,710</b>	298,890
Loans from related companies – Unsecured	<b>126,962</b>	127,917
Loans from minority shareholders of subsidiaries – Unsecured	<b>465,635</b>	463,887
	<b>4,590,722</b>	4,038,412
Current		
Bank overdrafts - Unsecured	<b>8,933</b>	24,763
Short-term bank borrowings		
- Secured	<b>112,150</b>	453,644
- Unsecured	<b>566,532</b>	608,919
Current portion of long-term bank borrowings		
- Secured	<b>689,622</b>	645,277
- Unsecured	<b>228,998</b>	314,222
Obligations under finance leases – Secured	<b>25</b>	25
Loans from ultimate holding company - Unsecured	<b>1,189</b>	—
	<b>1,607,449</b>	2,046,850
Total borrowings	<b>6,198,171</b>	6,085,262

The maturity of borrowings is as follows:

	<b>Bank borrowings and overdrafts</b>		<b>Other loans</b>	
	<b>30th June 2005 HK\$'000</b>	31st December 2004 HK\$'000	<b>30th June 2005 HK\$'000</b>	31st December 2004 HK\$'000
Within one year	<b>1,606,235</b>	2,046,825	<b>1,214</b>	25
In the second year	<b>768,277</b>	1,324,388	<b>25</b>	25
In the third to fifth year	<b>2,975,098</b>	1,823,277	<b>253,012</b>	267,487
With no fixed repayment terms	<b>—</b>	—	<b>594,310</b>	623,235
	<b>5,349,610</b>	5,194,490	<b>848,561</b>	890,772

**16 Derivative financial instrument**

	<b>30th June 2005 HK\$'000</b>	31st December 2004 HK\$'000
Interest-rate swaps	<b>33,228</b>	29,021

The notional principal amount of the outstanding interest-rate swap amounted to HK\$2,535,000,000 (31st December 2004: HK\$2,535,000,000).

**17 Share capital**

	<b>Company</b>	
	<b>Number of Shares</b>	
	'000	HK\$'000
Authorised: 10,000,000,000 ordinary shares of HK\$0.10 each	10,000,000	1,000,000
Issued and fully paid:		
At 1st January 2004	6,248,718	624,872
Issue of share upon exercise of share options	102,880	10,288
At 31st December 2004	6,351,598	635,160
At 1st January 2005	6,351,598	635,160
Issue of share upon exercise of share options	27,528	2,753
At 30th June 2005	6,379,126	637,913



**18 Share options**

On 26th June 2002, the Company has adopted a new share option scheme, under which it may grant options to employees (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10 per cent of the number of shares in issue as at 26th June 2002. The exercise price will be determined by the Company's Board of Directors and shall at least be the highest of (i) the closing price of the Company's shares on the date of grant of the options, (ii) an average closing price of the Company's shares for the five business days immediately preceding the date of grant of the options, and (iii) the nominal value of the Company's shares.

As at 30th June 2005, there were outstanding options granted under an old share option scheme to subscribe for an aggregate of 6,798,000 shares of the Company. All options granted under the old share option scheme will continue to be valid and exercisable in accordance with the rules of the old share option scheme.

Movement of share options are as follows:

	<b>Number of share options</b>
	'000
At 1st January 2004	393,526
Granted during the period	320,310
Exercised during the period	(73,690)
Lapsed during the period	(228)
	<hr/>
At 30th June 2004	639,918
Exercised during the period	(29,190)
Lapsed during the period	(6,720)
	<hr/>
At 31st December 2004	<u>604,008</u>
	<hr/>
At 1st January 2005	604,008
Exercised during the period	(27,528)
Lapsed during the period	(8,496)
	<hr/>
At 30th June 2005	<u><u>567,984</u></u>

**18 Share options (cont'd)**

Particulars of share options as at 30th June 2005 and 31st December 2004 are as follows:

Date of grant	Exercise period	Exercise price HK\$	Number of share options	
			as at 30th June 2005 '000	as at 31st December 2004 '000
Old share option scheme				
14th December 1999	14th December 2000 - 13th December 2005	0.5008	<b>6,798</b>	9,626
New share option scheme				
2nd May 2003	2nd May 2003 - 1st May 2013	0.4100	<b>86,876</b>	109,180
2nd June 2003	2nd June 2003 - 1st June 2013	0.5400	<b>58,950</b>	60,150
27th October 2003	27th October 2003 - 26th October 2013	0.8140	<b>12,404</b>	12,404
23rd December 2003	23rd December 2003 - 22nd December 2013	0.8460	<b>100,234</b>	100,234
23rd June 2004	23rd June 2004 - 22nd June 2014	0.6300	<b>302,722</b>	312,414
			<b>567,984</b>	604,008

Out of 567,984,000 outstanding options (31st December 2004: 604,008,000), 394,559,200 options (31st December 2004: 230,790,200) were exercisable as at the six months ended 30th June 2005 and year ended 31st December 2004.

The Group has taken advantage of the transitional provisions of HKFRS 2 to apply the standard to grants of share options after 7th November 2002 and had not yet vested at 1st January 2005. Share options vested before 1st January 2005 totalling 230,790,200 were not included in the calculation of fair value of options granted.

The fair value of options granted was determined using the Black-Scholes valuation model which was performed by an independent valuer, Greater China Appraisal Limited. The significant inputs into the model were share price at the grant date, exercise price, standard deviation of expected share price returns, expected life of options, expected dividend paid out rate and annual risk-free rate. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year before the option granted date.

## 19 Reserves

	(Unaudited)						
	Share premium	Capital redemption reserve	Statutory reserves	Exchange fluctuation reserve	Employee share-based compensation reserves	Retained Profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2004, as previously reported	5,707,378	1,815	62,606	(76,709)	—	649,398	6,344,488
Amortisation of leasehold land and land use rights	—	—	—	—	—	(421,230)	(421,230)
Adjustment for deferred tax arising from the revaluation of investment properties	—	—	—	—	—	216,413	216,413
Recognition of share- based options expenses	—	—	—	—	4,016	(4,016)	—
Balance at 1st January 2004, as restated	5,707,378	1,815	62,606	(76,709)	4,016	440,565	6,139,671
Currency translation differences, Group	—	—	—	(496)	—	—	(496)
Release of reserve upon disposal of properties held for sales	—	—	—	—	—	(8,933)	(8,933)
Profit attributable to equity holders of the Company	—	—	—	—	—	111,506	111,506
Transfers	—	—	260	—	—	(260)	—
Employee share option scheme expenses	—	—	—	—	6,223	—	6,223
Issue of shares net of issuing expenses	22,536	—	—	—	—	—	22,536
Dividend paid	—	—	—	—	—	(68,123)	(68,123)
Balance at 30th June 2004	5,729,914	1,815	62,866	(77,205)	10,239	474,755	6,202,384
Currency translation differences, Group	—	—	—	(1,092)	—	—	(1,092)
Provision for impairment of goodwill	—	—	—	—	—	43,533	43,533
Release of reserve upon disposal of properties held for sales	—	—	—	—	—	(21,742)	(21,742)
Release of reserve upon deemed disposal of certain interest in a subsidiary	—	—	(1)	(2)	—	—	(3)
Profit attributable to equity holders of the Company	—	—	—	—	—	157,582	157,582
Transfers	—	—	16,532	—	—	(16,532)	—
Employee share option scheme expenses	—	—	—	—	16,396	—	16,396
Issue of shares net of issuing expenses	10,819	—	—	—	—	—	10,819
Dividend paid	—	—	—	—	—	(52,669)	(52,669)
Balance at 31st December 2004	<u>5,740,733</u>	<u>1,815</u>	<u>79,397</u>	<u>(78,299)</u>	<u>26,635</u>	<u>584,927</u>	<u>6,355,208</u>
Representing:							
2004 Final dividend proposed						57,266	
Others						527,661	
						<u>584,927</u>	

## 19 Reserves (cont'd)

	(Unaudited)							Total HK\$'000
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Available- for-sales financial assets fair value reserves HK\$'000	Employee share- based compensation reserves HK\$'000	Retained profits HK\$'000	
Balance at 1st January 2005, as previously reported as equity	5,740,733	1,815	79,397	(78,299)	—	—	855,495	6,599,141
Amortisation of leasehold land and land use rights	—	—	—	—	—	—	(459,085)	(459,085)
Adjustment for deferred tax arising from the revaluation of investment properties	—	—	—	—	—	—	215,152	215,152
Recognition of share- based options expenses	—	—	—	—	—	26,635	(26,635)	—
Balance at 1st January 2005, as restated	5,740,733	1,815	79,397	(78,299)	—	26,635	584,927	6,355,208
Opening adjustment on adoption of HKAS 39	—	—	—	—	—	—	134,387	134,387
Opening adjustment on adoption of HKFRS 3	—	—	—	—	—	—	529,685	529,685
Balance at 1st January 2005 after opening adjustments, as restated	5,740,733	1,815	79,397	(78,299)	—	26,635	1,248,999	7,019,280
Currency translation differences, Group	—	—	—	2,695	—	—	—	2,695
Change of fair value of financial assets								
- gross	—	—	—	—	(21,038)	—	—	(21,038)
- tax	—	—	—	—	(635)	—	—	(635)
Profit attributable to equity holders of the Company	—	—	—	—	—	—	132,434	132,434
Transfers	—	—	7,333	—	134,387	—	(141,720)	—
Employee share option scheme expenses	—	—	—	—	—	15,126	—	15,126
Issue of shares net of issuing expenses	10,350	—	—	—	—	—	—	10,350
Dividend relating to 2004	—	—	—	—	—	—	(57,328)	(57,328)
At 30th June 2005	<u>5,751,083</u>	<u>1,815</u>	<u>86,730</u>	<u>(75,604)</u>	<u>112,714</u>	<u>41,761</u>	<u>1,182,385</u>	<u>7,100,884</u>
Representing:								
2005 Interim dividend proposed							64,028	
Others							1,118,357	
							<u>1,182,385</u>	

Included in the Group's retained profits are retained profits amounting to HK\$904,949,000 (31st December 2004: HK\$801,941,000) and accumulated losses of HK\$280,388,000 (31st December 2004: HK\$298,204,000) which are attributable to associated companies and jointly controlled entities, respectively.

## 19 Reserves (cont'd)

Statutory reserves represent enterprise expansion and general reserve funds set by the subsidiaries and associated companies in China. As stipulated by regulation in China, the Company's subsidiaries and associated companies established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors, according to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve fund may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the Group's statutory reserves is HK\$538,000 (31st December 2004: HK\$538,000) attributable to associated companies.

## 20 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred taxation as at 30th June 2005 represents:

	<b>30th June 2005</b>	31st December 2004
	<b>HK\$'000</b>	Restated HK\$'000
Deferred tax assets		
- Hong Kong profits tax	<b>7,110</b>	10,054
- China enterprise income tax	<b>49,428</b>	46,145
	<b>56,538</b>	56,199
Deferred tax liabilities		
- Hong Kong profits tax	<b>15,805</b>	15,648
- China enterprise income tax	<b>1,564,838</b>	1,514,192
- China land appreciation tax	<b>1,888,776</b>	1,629,540
	<b>3,469,419</b>	3,159,380

## 21 Contingent liabilities

	<b>30th June 2005</b>	31st December 2004
	<b>HK\$'000</b>	HK\$'000
Guarantees for mortgage facilities granted to certain buyers of the Group's properties ( <i>Note</i> )	<b>126,441</b>	250,250

*Note:*

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon issuance of the real estate ownership certificate.

Except for the above, there is no material change in contingent liabilities since the last annual balance sheet date.

## 22 Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable leases in respect of land and buildings as follows:

	<b>30th June 2005 HK\$'000</b>	31st December 2004 HK\$'000
Land and buildings		
Not later than one year	<b>27,032</b>	26,380
Later than one year and not later than five years	<b>100,288</b>	97,388
Later than five years	<b>213,188</b>	215,354
	<b>340,508</b>	339,122

## 23 Other commitments

	<b>30th June 2005 HK\$'000</b>	31st December 2004 HK\$'000
Commitments in respect of acquisition of fixed assets, contracted but not provided for	<b>25,267</b>	14,359

## 24 Pledge of assets

At 30th June 2005, certain banking facilities and loans granted to the Group and the Company were secured by the following:

- (a) certain of the Group's fixed assets, properties held for/under development, properties held for sale and investment properties with an aggregate carrying value of HK\$44 million (31st December 2004: Nil), HK\$736 million (31st December 2004: HK\$514 million), HK\$520 million (31st December 2004: HK\$291 million) and HK\$3,853 million (31st December 2004: HK\$3,230 million) respectively;
- (b) floating charge over certain assets of certain subsidiaries with aggregate net book value of HK\$6,465 million (31st December 2004: HK\$438 million);
- (c) mortgages of the Group's shareholdings in certain subsidiaries; and
- (d) charge over certain intercompany loans.

**25 Significant related party transactions and balances**

**a) Related parties**

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarised the names of significant parties and nature of relationship with the Company as at 30 June 2005:

Significant related party	Relationship with the Company
Yue Xiu Enterprises (Holdings) Limited (“YXE”)	The ultimate holding company
Yue Xiu International Development Limited (“YXIDL”)	A subsidiary of YXE
Yue Xiu Hotel and Housing Investment Limited	A subsidiary of YXE
Yue Xiu Corporate Consultancy and Services Co., Ltd.	A subsidiary of YXE
Guangzhou Highways Development Company (“GHDC”)	A minority shareholder of subsidiaries
Guangzhou Paper Holdings Limited (“GZPHL”)	A minority shareholder of a subsidiary
Super Win Trading Ltd (“SWTL”)	A minority shareholder of a subsidiary
Smart Image Investment Ltd (“SIIL”)	A minority shareholder of a subsidiary
Festoon Enterprises Limited (“Festoon”)	A minority shareholder of a subsidiary
Guangzhou City Construction & Development Holdings Limited (“GCDHL”)	A minority shareholder of a subsidiary
Guangdong Xinshidai Real Estate Limited	A jointly controlled entity of a subsidiary
Guangzhou Northern Second Ring Expressway Co., Limited	A jointly controlled entity of a subsidiary
Guangzhou Western Second Ring Expressway Co., Limited	A jointly controlled entity of a subsidiary
Hainan China City Property Development Co., Limited	A jointly controlled entity of a subsidiary
Zhoushan Xinyuan Real Estate Development Co., Limited	A jointly controlled entity of a subsidiary
Guangdong Humen Bridge Co., Limited	An associated company of a subsidiary
Guangdong Qinglian Highway Development Co., Limited	An associated company of a subsidiary
Guangdong Shantou Bay Bridge Co., Limited	An associated company of a subsidiary
Guangzhou Northring Freeway Co., Limited	An associated company of a subsidiary
Guangzhou Xin Yue Real Estate Development Co., Limited	An associated company of a subsidiary
State-controlled enterprises (see (e) below)	Related parties of the Company

25 Significant related party transactions and balances (cont'd)

b) Transactions with related parties other than state-controlled enterprises

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Transactions with YXE		
Rental expenses paid to YXE	1,127	528
Loan interest paid to YXE	3,617	1,521
Transactions with GZPHL		
Rental and utility expenses paid to GZPHL ( <i>Note</i> )	136,343	92,016
Transactions with YXIDL		
Loan interest paid to YXIDL	1,081	472

*Note:*

The rental and utility expenses paid to GZPHL were conducted in accordance with the terms as disclosed in the Group's 2004 annual report.

All the other related party transactions were carried out at the terms as agreed by the relevant parties.



## 25 Significant related party transactions and balances (cont'd)

## c) Balances with related parties other than state-controlled enterprises

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Balances with YXE Group		
Amounts due from YXE Group ( <i>Note i</i> )	1,219	3,234
Loans from YXE Group ( <i>Note ii</i> )	<b>(382,861)</b>	(426,807)
Balances with jointly controlled entities		
Amounts due from jointly controlled entities ( <i>Note i</i> )	185,312	155,664
Amounts due to jointly controlled entities ( <i>Note i</i> )	<b>(120,661)</b>	(123,442)
Balances with associated companies		
Amounts due from associated companies ( <i>Note iii</i> )	792,757	854,278
Amounts due to associated companies ( <i>Note i</i> )	<b>(112,150)</b>	(112,150)
Balance with SIIL		
Loans from SIIL ( <i>Note i</i> )	<b>(23,340)</b>	(23,340)
Balance with SWTL		
Loans from SWTL ( <i>Note i</i> )	<b>(2,000)</b>	(2,000)
Balance with GZPHL		
Amounts due to GZPHL ( <i>Note i</i> )	<b>(2,700)</b>	(599)
Balance with GCDHL		
Amounts due to GCDHL ( <i>Note i</i> )	<b>(80,482)</b>	(118,107)
Balances with GHDC		
Loans from GHDC ( <i>Note iv</i> )	<b>(403,487)</b>	(403,487)
Amounts due to GHDC ( <i>Note i</i> )	<b>(68,610)</b>	(68,125)
Balance with Festoon		
Loans from Festoon ( <i>Note i</i> )	<b>(34,108)</b>	(35,060)

## Note:

- (i) Balances are unsecured, interest-free and repayable on demand.
- (ii) Except for an aggregate amount of HK\$353,749,000 (31st December 2004: HK\$351,994,000) which bears interest at Hong Kong Interbank Offered Rate plus 1 per cent per annum, the remaining balances are interest free. Except for an aggregate amount of HK\$273,560,000 (31st December 2004: HK\$267,459,000), which has fixed repayment terms over 1 year, the remaining balances do not have fixed repayment term.
- (iii) Except for loans in aggregate amount of HK\$506,927,000 (2004: HK\$568,414,000) which bear interest at prevailing Hong Kong dollars prime rates ranging of 5 to 5.75 per cent per annum; US dollars prime rates ranging from 5.25 to 6 per cent per annum and lending rate of financial institutions in China is 6.12 per cent per annum, the remaining balance are unsecured, interest-free and repayment on demand.
- (iv) Except for an aggregate amount of HK\$120,561,000 (2004: HK\$120,561,000) which bears interest at the prevailing leading rates of financial institutions in China ranging from 4.00 to 6.12 per cent per annum, the remaining balances are interest-free and have no fixed repayment term.

**25 Significant related party transactions and balances (cont'd)**
**d) Key management compensation**

The aggregate amounts of emoluments paid or payable to key management of the Company are as follows:

	<b>Six months ended 30th June</b>	
	<b>2005 HK\$'000</b>	2004 HK\$'000
Fees	—	—
Other emoluments:		
Basis salaries, housing allowances, other allowances and benefits in kind	<b>1,726</b>	1,877
Share-based payments	—	367
Directors' pension	<b>34</b>	45
	<hr/>	<hr/>
	<b>1,760</b>	2,289
	<hr/> <hr/>	<hr/> <hr/>

**e) Transactions with state-controlled enterprises**

Under HKAS 24, business transactions between state-controlled enterprises controlled by Chinese government are within the scope of related party transactions. YXE, the ultimate holding company of the Group, is a state-controlled enterprise. The Group's key business transactions with other state-controlled enterprises are primarily related to construction and sales of newsprint activities. The related party transactions with other state-controlled enterprises were conducted in the ordinary course of business. Due to complex ownership structure, the Chinese government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known by the Group. Nevertheless, the Group believes that the following shall capture the material related party transactions.

As at 30th June 2005, more than 89 per cent (31st December 2004: more than 91 per cent) of bank deposits were with state-controlled banks; approximately 26 per cent (31st December 2004: approximately 24 per cent) of the trade receivables were with stated-controlled enterprises; more than 50 per cent (31st December 2004: more than 73 per cent) of the trade payables were with stated-controlled enterprises; all the land premium payable (31st December 2004: all) were with stated-controlled bodies; approximately 25 per cent (31st December 2004: approximately 25 per cent) of other payables and accrued charges were with state-controlled enterprises; approximately 44 per cent (31st December 2004: approximately 51 per cent) of bank borrowings were with state-controlled banks.

For the six months ended 30th June 2005, approximately 17 per cent (2004: approximately 11 per cent) of the sales of the Group were with stated-controlled enterprises; more than 90 per cent (2004: more than 90 per cent) construction fee were paid to stated-controlled enterprises; more than 85 per cent (2004: approximately 71 per cent) of bank deposit interest incomes were from state-controlled banks; approximately 20 per cent (2004: approximately 57 per cent) of finance costs were paid to state-controlled banks.

**26 Event after balance sheet date**

On 21st September 2005, the Group has been successful in the tender for the right to build the West Tower of Zhujiang New City Twin Towers in Guangzhou (the "Project"). The site area of the Project amounts to 31,085 square meters and the project is expected to commence this year and to be completed in 2009. As the Group has yet to enter into formal agreement in relation to the tender, the Company's directors consider it to be more appropriate to make an estimate of the financial effect at a later stage when detailed terms of development of the Project are finalized.

### Advances to Entity

The advances made by the Group to the following entity, which exceeded 8.0 per cent of the Market Capitalisation (note 5) and is required to be disclosed under Rule 13.20 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as follows:

Name of the Entities	Percentage of indirect attributable interest held by the Company	Advances as at 30th June 2005 (Note 1)		Interest rate	Total (A + B) HK\$ million
		Interest bearing (A)	Non-interest bearing (B)		
		HK\$ million	HK\$ million		
Guangdong Humen Bridge Co., Ltd.	8.58	474.8	—	(Note 2)	474.8

### Financial Assistance to Affiliated Companies

The financial assistance provided by the Group to the affiliated companies of the Company, which in aggregate exceeded 8.0 per cent of the Market Capitalisation (note 5) are required to be disclosed under Rule 13.22 of the Listing Rules as follows:

Name of the Affiliated Companies	Percentage of indirect attributable interest held by the Company	Advances as at 30th June 2005 (Note 1)		Interest rate	Total (A + B) HK\$ million
		Interest bearing (A)	Non-interest bearing (B)		
		HK\$ million	HK\$ million		
Guangdong Humen Bridge Co., Ltd.	8.58	474.8	—	(Note 2)	474.8
Guangdong Qinglian Highway Development Co., Ltd.	8.10	—	219.0	—	219.0
Guangdong Shantou Bay Bridge Co., Ltd.	10.30	32.1	—	(Note 3)	32.1
Hainan China City Property Development Co. Ltd.	52	—	51.0	—	51.0
Guangdong Xinshidai Real Estate Ltd.	45	—	14.0	—	14.0
Total (Note 4)		<u>506.9</u>	<u>284.0</u>		<u>790.9</u>

Notes:

- (1) The advances were shareholders' loans representing part of the investment costs injected by the Group in proportion to the Group's equity interest in such entities and affiliated companies. These advances are unsecured and have no fixed term of repayments. There were no committed capital injections to and guarantees given to or for the above entities and affiliated companies.
- (2) Of this interest-bearing advance, approximately HK\$379.2 million was charged at US prime rate; approximately HK\$95.4 million was charged at lending rates of financial institutions in China; and the remaining balance was charged at HK prime rate.
- (3) Of this interest-bearing advance, approximately HK\$0.6 million was charged at HK prime rate; approximately HK\$31.5 million was charged at lending rates of financial institutions in China.
- (4) The total amount of financial assistance provided by the Group to the affiliated companies of the Company exceeded 8.0 per cent of the Market Capitalisation.
- (5) Market Capitalisation means the market capitalization of the Company as at 30th June 2005 amounting to HK\$4,337,805,622 based on the total number of 6,379,125,914 shares of the Company in issue on 30th June 2005 and average closing price of HK\$0.68 per share for the five business days immediately preceding 30th June 2005.

**Pro Forma Combined Balance Sheet of Affiliated Companies**

In accordance with Rule 13.22 of the Listing Rules, a pro forma combined balance sheet of the Company's relevant affiliated companies as at 30th June 2005 and the Group's attributable interest therein are set out below:

	HK\$'000
Long term assets	5,873,135
Current assets	491,056
Current liabilities	(129,757)
Long term liabilities	(4,099,664)
	<hr/>
Net assets	2,134,770
	<hr/> <hr/>
	HK\$'000
Attributable interest to the Group	
Net assets	286,502
Shareholder's loans receivable	790,830
Goodwill on acquisition less amortisation	158,083
	<hr/>
	1,235,415
	<hr/> <hr/>

**Disclosures Pursuant to Rule 13.21 of the Listing Rules**

Reference was made to a HK\$3,800 million loan agreement dated 30th May 2005 ("Loan Agreement") with a final maturity in June 2010. In accordance with the terms of the Loan Agreement, it shall be an event of default if Yue Xiu Enterprises (Holdings) Limited ceases to maintain shareholding interest (whether directly or indirectly) of not less than 35 per cent in the issued voting share capital of the Company or an effective management control over the Company. And this obligation has been duly complied with.

## Interests of Directors

As at 30th June 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which are required to be recorded in the register maintained by the Company under Section 352 of the SFO or notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") were as follows:

### 1. Long positions in shares of the Company:

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
Mr Liang Ningguang	Personal	400,000	0.01
Mr Xiao Boyan*	Personal	500,000	0.01
Mr Lee Ka Lun	Personal	1,050,000	0.02

\* Mr Xiao Boyan resigned as director of the Company with effect from 10th August 2005

### 2. Long positions in underlying shares of equity derivatives of the Company:

Name of Director	Date of grant	Exercise price per share HK\$	Number of share options outstanding as at 1st January and 30th June 2005
Mr Ou Bingchang	02/06/2003	0.5400	9,000,000
Mr Liang Yi	02/06/2003	0.5400	7,000,000
Mr Chen Guangsong	02/06/2003	0.5400	8,000,000
Mr Liang Ningguang	02/06/2003	0.5400	7,000,000
Mr Li Fei	02/06/2003	0.5400	7,000,000
Mr Xiao Boyan*	02/06/2003	0.5400	7,000,000
Mr Yu Lup Fat Joseph	02/06/2003	0.5400	3,500,000
Mr Lee Ka Lun	02/06/2003	0.5400	2,450,000

*Note:*

The share options are exercisable from 2nd June 2003 to 1st June 2013, of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant, respectively.

Save as disclosed herein, as at 30th June 2005, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### Interests of Substantial Shareholders

As at 30th June 2005, the following persons have an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Long position in shares	Approximate % of interest
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") (Note 1)	3,229,435,248	50.99
JPMorgan Chase & Co. (Note 2)	379,938,000	5.97

Notes:

- 1) The capacity of Yue Xiu in holding the 3,229,435,248 shares was, as to 10,928,184 shares, as beneficial owner and, as to 3,218,507,064 shares, attributable to interests of controlled corporations. Details of the breakdown of the shares held by Yue Xiu were as follows:

Name	Long position in shares
Yue Xiu	3,229,435,248
Excellence Enterprises Co., Ltd. ("Excellence")	3,174,015,064
Bosworth International Limited ("Bosworth")	2,279,312,904
Sun Peak Enterprises Ltd. ("Sun Peak")	565,683,000
Novena Pacific Limited ("Novena")	565,683,000
Shine Wah Worldwide Limited ("Shine Wah")	158,049,000
Morrison Pacific Limited ("Morrison")	158,049,000
Perfect Goal Development Co., Ltd. ("Perfect Goal")	135,737,000
Greenwood Pacific Limited ("Greenwood")	135,737,000
Yue Xiu Finance Company Limited ("YXF")	44,492,000
Seaport Development Limited ("Seaport")	35,233,160
Goldstock International Limited ("Goldstock")	35,233,160

- (i) 2,279,312,904 shares were held by Bosworth, which was wholly-owned by Excellence which was, in turn, wholly-owned by Yue Xiu.
- (ii) 565,683,000 shares were held by Novena, which was wholly-owned by Sun Peak which was, in turn, wholly-owned by Excellence.
- (iii) 158,049,000 shares were held by Morrison, which was wholly-owned by Shine Wah which was, in turn, wholly-owned by Excellence.
- (iv) 135,737,000 shares were held by Greenwood, which was wholly-owned by Perfect Goal which was, in turn, wholly-owned by Excellence.
- (v) 44,492,000 shares were held by YXF, which was wholly-owned by Yue Xiu.
- (vi) 35,233,160 shares were held by Goldstock, which was wholly-owned by Seaport which was, in turn, wholly-owned by Excellence.
- 2) The capacity of JPMorgan Chase & Co. in holding the 379,938,000 shares was, as to 356,710,000 shares, as investment manager and, as to 23,228,000 shares, as approved lending agent.

## Share Options

### (i) The Company

Pursuant to the share option scheme ("Share Option Scheme") approved by shareholders of the Company on 23rd June 1998, the board of directors of the Company ("Board") may, at their discretion, offer to directors and employees of the Company or any of its subsidiaries options to subscribe for ordinary shares in the Company. The Share Option Scheme is designed to act as an incentive to employees and executives of the Group. The exercise price was determined by the Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 26th June 2002, the shareholders of the Company approved the resolutions relating to the termination of the Share Option Scheme and the adoption of a new share option scheme ("2002 Share Option Scheme"). Upon termination of the Share Option Scheme, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the Share Option Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 Share Option Scheme complies with the amendments to Chapter 17 of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Pursuant to the 2002 Share Option Scheme, the Board may grant to any person being an employee, officer, director, agent, consultant or representative of Yue Xiu, the Company or any of their respective subsidiaries ("Participants") options to subscribe for shares in the Company. The purpose of the 2002 Share Option Scheme is to provide incentives to Participants to contribute to the Group and to enable the Group to recruit, retain and motivate high-calibre employees and attract human resources that are valuable to the Group. The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme is 10 per cent of the number of shares in issue as at the date of approval of the 2002 Share Option Scheme, but the Company may seek approval from its shareholders in a general meeting to refresh the 10 per cent limit. On 2nd June 2004, the shareholders of the Company approved the refreshment of the 10 per cent limit under the 2002 Share Option Scheme. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other schemes of the Company must not exceed 30 per cent of the shares of the Company in issue from time to time. The maximum entitlement of each Participant upon exercise of the options granted or to be granted within any 12-month period immediately preceding the proposed date of grant is limited to 1 per cent of the number of shares in issue as at the proposed date of grant. Any further grant of options in excess of this limit is subject to shareholders' approval in general meeting. The share options are exercisable from the commencement date of the option period (which shall be a period to be notified by the Board at the time of the grant of an option, such period to commence on the date of grant or such later date as the Board may decide and expire on the last day of the period, which in any event shall not exceed 10 years from the date of grant), of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)), of the options granted under the relevant grant are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the commencement date of the option period respectively. After the second anniversary of the commencement date of the option period the restrictions will cease. In respect of a Participant who is an employee of Yue Xiu, the Company or any of their respective subsidiaries, the same limits on the exercise of the share options as described above shall also apply, except that the periods referred to in (i) and (ii) above shall commence from the later of: (a) the date of completion by such Participant of one year of continuous employment as permanent member of the staff of Yue Xiu, the Company or any of their respective subsidiaries, as the case may be; and (b) the commencement date of the option period, and the date when the restrictions cease shall be modified accordingly. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; (b) the average

closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

Movements during the period of the options granted under the share option schemes of the Company to the employees of the Group other than the directors of the Company as disclosed on page 53 were as follows:

Number of share options				Exercise price per share	Date of grant	Exercisable period	Weighted average closing price (d)
outstanding as at 1st January 2005	exercised during the period	lapsed during the period	outstanding as at 30th June 2005				
9,626,000	930,000	1,898,000	6,798,000	0.5008	14/12/1999	14/12/2000 - 13/12/2005 (b)	0.769
109,180,000	18,692,000	3,612,000	86,876,000	0.4100	02/05/2003	02/05/2003 - 01/05/2013 (c)	0.671
9,200,000	—	1,200,000	8,000,000	0.5400	02/06/2003	02/06/2003 - 01/06/2013 (c)	N/A
12,404,000	—	—	12,404,000	0.8140	27/10/2003	27/10/2003 - 26/10/2013 (c)	N/A
100,234,000	—	—	100,234,000	0.8460	23/12/2003	23/12/2003 - 22/12/2013 (c)	N/A
312,414,000	7,906,000	1,786,000	302,722,000	0.6300	23/06/2004	23/06/2004 - 22/06/2014 (c)	0.761

Notes:

- (a) No options have been granted or cancelled during the period.
- (b) The options granted are exercisable in 2 tranches. If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
- (c) The options granted are exercisable in 3 tranches.
- (d) The weighted average closing price per share immediately before the dates on which the options were exercised.

## (ii) GZT

Pursuant to the share option scheme ("GZT Scheme") approved by shareholders of GZT on 3rd January 1997, the board of directors of GZT ("GZT Board") may, at their discretion, grant to directors and employees of GZT or any of its subsidiaries options to subscribe for ordinary shares in GZT. The GZT Scheme is designed to act as an incentive to employees and executives of GZT and its subsidiaries. The exercise price is determined by the GZT Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 25th June 2002, the shareholders of GZT approved the resolutions relating to the termination of the GZT Scheme and the adoption of a new share option scheme ("2002 GZT Scheme"). Upon termination of the GZT Scheme, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the GZT Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 GZT Scheme complies with the amendments to Chapter 17 of the Listing Rules.

Pursuant to the 2002 GZT Scheme with terms and conditions substantially the same as those under the 2002 Share Option Scheme, the GZT Board may grant to any person being an employee, officer, director, agent, consultant or representative of the Company, Yue Xiu, GZT or any of their respective subsidiaries options to subscribe for shares in GZT.



Movements during the period of the options granted under the GZT Scheme to the employees of the Group were as follows:

Number of share options				Exercise price per share HK\$	Date of grant	Exercisable period	Weighted average closing price (c) HK\$
outstanding as at 1st January 2005	exercised during the period	lapsed during the period	outstanding as at 30th June 2005				
1,114,000	92,000	92,000	930,000	0.7520	07/04/2000	07/04/2001 - 06/04/2006 (b)	2.275

Notes:

- (a) No options have been granted or cancelled during the period.
- (b) All options are exercisable in 3 tranches. If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
- (c) The weighted average closing price per share of GZT immediately before the dates on which the options were exercised.

## Corporate Governance

The Company has complied with the code provisions of the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30th June 2005, except for the following deviations:

### Code Provision A.2.1

The code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Ou Bingchang is the Chairman and General Manager of the Company. The Chairman is responsible for overseeing the operation of the Board and providing leadership and direction towards achieving the Company's objectives. In contrast the General Manager of the Company is responsible for the operation of the business under the direction of the Board and the implementation of the policies and strategies set by the Board. The combination of the roles of the Chairman and the General Manager in one person is intended to ensure that the Board is in full control of the affairs of the Company and that the policies and strategies set by the Board would be efficiently and effectively implemented.

### Code Provisions A.4.1 and A.4.2

The code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

The code provision A.4.2 (last sentence) stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the non-executive directors of the Company is appointed for a specific term. However, all the non-executive directors of the Company are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association. All the non-executive directors of the Company had retired by rotation during the past 3 years. They have been re-elected.

### Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as rules governing securities transactions by the directors of the Company. All Directors have confirmed, following specific enquiry by the Company, that they have complied with required standards set out in the Model Code throughout the six months ended 30th June 2005.

### Audit Committee

The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30th June 2005.

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

The Company has not redeemed any of its shares during the six months ended 30th June 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

### Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 26th October 2005 to Friday, 28th October 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, 25th October 2005.

By order of the Board

**Ou Bingchang**

*Chairman*

Hong Kong, 23rd September 2005

## Board of Directors

### Executive directors

Ou Bingchang (*Chairman*)  
Liang Yi  
Chen Guangsong  
Liang Ningguang  
Li Fei

### Independent non-executive directors & audit committee members

Yu Lup Fat Joseph  
Lee Ka Lun  
Lau Hon Chuen Ambrose

## Company Secretary

Yu Tat Fung

## Auditors

PricewaterhouseCoopers  
*Certified Public Accountants*

## Principal Bankers

Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

## Websites to Access Company Information

<http://www.gzinvestment.com.hk>  
<http://www.hkex.com.hk>

## Registered Office

24th Floor  
Yue Xiu Building  
160-174 Lockhart Road  
Wanchai, Hong Kong

## Share Registrar

Abacus Share Registrars Limited  
G/F, Bank of East Asia Harbour View Centre  
56 Gloucester Road, Wanchai  
Hong Kong

## Share Listing

The Company's shares are listed on:  
The Stock Exchange of Hong Kong Limited  
Singapore Exchange Securities Trading Limited

The stock codes are:  
The Stock Exchange of Hong Kong Limited – 123  
Reuters – 123.HK  
Bloomberg – 123 HK

## Investor Relations

For further information about  
Guangzhou Investment Company Limited,  
please contact:  
He Zili  
Telephone : (852) 2511 6671  
Facsimile : (852) 2598 7688  
Email : [contact@gzinvestment.com.hk](mailto:contact@gzinvestment.com.hk)

## ADR Depository Bank

The Bank of New York  
American Depositary Receipts  
620 Avenue of the Americas, 6th Floor  
New York, NY 10011, USA  
Telephone : (646) 885 3218  
Facsimile : (646) 885 3043

# Location Map of Major Property Projects in Guangzhou Urban Area

