

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## I GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The principal activities of the Company's subsidiaries comprise the following:

- (i) property development and investment in Hong Kong, the People's Republic of China ("PRC") and the Asia Pacific region;
- (ii) logistics, freight and warehouse ownership and operations;
- (iii) infrastructure-related investment in Hong Kong and the PRC;
- (iv) hotel ownership and operations in the PRC; and
- (v) project and property management in Hong Kong, the PRC and the Asia Pacific region.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2006.

## 2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements of Kerry Properties Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of 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 2                | Inventories  |
| HKAS 7                | Cash Flow Statements   |
| HKAS 8                | Accounting Policies, Changes in Accounting Estimates and Errors                    |
| HKAS 10               | Events after the Balance Sheet Date  |
| HKAS 16               | Property, Plant and Equipment  |
| HKAS 17               | Leases   |
| HKAS 21               | The Effects of Changes in Foreign Exchange Rates                                   |
| HKAS 23               | Borrowing Costs  |
| HKAS 24               | Related Party Disclosures  |
| HKAS 27               | Consolidated and Separate Financial Statements                                     |
| HKAS 28               | Investments in Associates  |
| HKAS 32               | Financial Instruments: Disclosure and Presentation                                 |
| HKAS 33               | Earnings per Share   |
| HKAS 36               | Impairment of Assets   |
| HKAS 38               | Intangible Assets  |
| HKAS 39               | Financial Instruments: Recognition and Measurement                                 |
| HKAS 39 Amendment     | Transitional and Initial Recognition of Financial Assets and Financial Liabilities |
| HKAS 40               | Investment Property  |
| HK-Int 2              | The Appropriate Accounting Policies for Hotel Properties                           |
| HKAS-Int 12 Amendment | Scope of HKAS-Int 12 Consolidation – Special Purpose Entities                      |
| 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  |

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKAS-Ints 12 and 15 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 other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Ints 12 and 15 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 major Group 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 and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less aggregate depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or 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 under which all the changes in fair values of investment properties are recorded in the income statement. 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 income statement.

The adoption of HK-Int 2 has resulted in a change in the accounting policy under which an owner-operated hotel property would be accounted for as property, plant and equipment. The depreciable amount of the hotel building would be depreciated over its remaining useful economic life and the carrying amount of the leasehold land would be included in leasehold land and land use rights and amortised over the remaining term of the lease. In prior years, the Group's hotel property was accounted for as an investment property and no depreciation or amortisation was required.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

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. In prior years, the carrying amount of that asset was assumed to be recovered through sale for deferred taxation purposes.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the fair value of share options in the income statement. Under the transitional provision, retrospective treatment is required only in respect of share options granted after 7 November 2002 and had not yet vested on 1 January 2005. The Group had no such options.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight line basis over its estimated useful life of not more than twenty years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 2(i)):

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- Unamortised negative goodwill was transferred to retained profits as at 1 January 2005;
- From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

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

- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

- HKAS 39 – does not permit to recognise, derecognise and measure 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 investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.
- 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 was made to the retained profits as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.
- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.
- HKFRS 2 – retrospective application only required for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 – this standard is required to be applied prospectively after 1 January 2005.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (a) Basis of preparation (Continued)

The effect of the changes in the accounting policies on the profit for the year ended 31 December is estimated as follows:

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Gain arising from fair value change of investment properties held by:  |                  |                  |
| – subsidiaries   | 1,546,669        | –                |
| – associated companies   | 16,650           | –                |
|  | <b>1,563,319</b> | –                |
| Increase in deferred tax liabilities in relation to fair value gain of investment properties held by:  |                  |                  |
| – subsidiaries   | (218,170)        | –                |
| – associated companies   | (3,072)          | –                |
|  | <b>(221,242)</b> | –                |
| Gain arising from fair value change of interest rate swap contracts  | 53,866           | –                |
| Increase in amortisation and depreciation arising from reclassification of hotel properties from investment properties to leasehold land and property, plant and equipment | (21,881)         | (21,318)         |
| Decrease in deferred tax charged to the income statement as a result of adoption of HKAS-Int 21  | –                | 332,675          |
| Increase in amortisation and depreciation arising from splitting of leasehold land and buildings   | (4,472)          | (1,913)          |
| Decrease in amortisation of goodwill   | 6,025            | –                |
| Increase in expenses in relation to share options scheme   | (28,627)         | –                |
| Increase in finance costs of convertible bonds   | (9,108)          | –                |
| Increase in profit for the year  | <b>1,337,880</b> | 309,444          |
| Attributable to:   |                  |                  |
| Company's shareholders   | 1,313,896        | 315,573          |
| Minority interests   | 23,984           | (6,129)          |
|  | <b>1,337,880</b> | 309,444          |
| Analysis of the increase/(decrease) in profit for the year by line items:  |                  |                  |
| Change in fair value of investment properties  | 1,546,669        | –                |
| Increase/(decrease) in share of results of associated companies  | 13,578           | (991)            |
| (Increase)/decrease in taxation  | (218,170)        | 333,666          |
| Decrease in finance costs  | 44,758           | –                |
| Increase in direct operating expenses  | (26,353)         | (23,231)         |
| Increase in administrative expenses  | (22,602)         | –                |
|  | <b>1,337,880</b> | 309,444          |

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

The abovementioned changes in the accounting standards are summarised below:

#### Consolidated Income Statement

For the year ended 31 December 2004

|   | <i>As previously<br/>reported<br/>HK\$'000</i> | <i>HK-Int 2<br/>HK\$'000</i> | <i>HKAS 17<br/>HK\$'000</i> | <i>HKAS-Int 21<br/>HK\$'000</i> | <i>HKAS 1<br/>HK\$'000</i> | <i>As restated<br/>HK\$'000</i> |
|---|--|------------------------------|-----------------------------|---------------------------------|----------------------------|---------------------------------|
| Turnover  | 5,102,442                                      | –                            | –                           | –                               | –                          | 5,102,442                       |
| Cost of sales   | (907,233)                                      | –                            | –                           | –                               | –                          | (907,233)                       |
| Direct operating expenses   | (2,332,245)                                    | (21,318)                     | (1,913)                     | –                               | –                          | (2,355,476)                     |
| Gross profit  | 1,862,964                                      | (21,318)                     | (1,913)                     | –                               | –                          | 1,839,733                       |
| Other revenues  | 45,692   | –                            | –                           | –                               | –                          | 45,692                          |
| Other income  | 26,891   | –                            | –                           | –                               | –                          | 26,891                          |
| Administrative expenses   | (333,186)                                      | –                            | –                           | –                               | –                          | (333,186)                       |
|   | 1,602,361                                      | (21,318)                     | (1,913)                     | –                               | –                          | 1,579,130                       |
| Revaluation surplus on investment<br>properties and other leasehold<br>land and buildings | 298,601  | –                            | –                           | –                               | –                          | 298,601                         |
| Operating profit before finance costs   | 1,900,962                                      | (21,318)                     | (1,913)                     | –                               | –                          | 1,877,731                       |
| Finance costs   | (145,119)                                      | –                            | –                           | –                               | –                          | (145,119)                       |
| Operating profit  | 1,755,843                                      | (21,318)                     | (1,913)                     | –                               | –                          | 1,732,612                       |
| Share of results of associated<br>companies   | 629,349  | –                            | –                           | –                               | (73,846)                   | 555,503                         |
| Profit before taxation  | 2,385,192                                      | (21,318)                     | (1,913)                     | –                               | (73,846)                   | 2,288,115                       |
| Taxation  | (266,611)                                      | –                            | –                           | 332,675                         | 73,846                     | 139,910                         |
| Profit for the year   | 2,118,581                                      | (21,318)                     | (1,913)                     | 332,675                         | –                          | 2,428,025                       |
| Profit attributable to:   |  |                              |                             |                                 |                            |                                 |
| Company's shareholders  | 1,955,560                                      | (15,189)                     | (1,913)                     | 332,675                         | –                          | 2,271,133                       |
| Minority interests  | 163,021  | (6,129)                      | –                           | –                               | –                          | 156,892                         |
|   | 2,118,581                                      | (21,318)                     | (1,913)                     | 332,675                         | –                          | 2,428,025                       |
| Basic earnings per share (in HK\$)  | 1.63   | (0.01)                       | –                           | 0.28                            | –                          | 1.90                            |
| Diluted earnings per share (in HK\$)  | 1.63   | (0.01)                       | –                           | 0.27                            | –                          | 1.89                            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

#### Consolidated Balance Sheet

|   | As at 31 December 2004                |                      |                     |                         |                              |                         | Opening adjustments            |                     |                     | As at<br>1 January<br>2005 |
|---|---------------------------------------|----------------------|---------------------|-------------------------|------------------------------|-------------------------|--------------------------------|---------------------|---------------------|----------------------------|
|   | As previously<br>reported<br>HK\$'000 | HK-Int 2<br>HK\$'000 | HKAS 17<br>HK\$'000 | HKAS-Int 21<br>HK\$'000 | Reclassification<br>HK\$'000 | As restated<br>HK\$'000 | HKASs 32<br>and 39<br>HK\$'000 | HKAS 40<br>HK\$'000 | HKFRS 3<br>HK\$'000 | HK\$'000                   |
| <b>Non-current assets</b>   |                                       |                      |                     |                         |                              |                         |                                |                     |                     |                            |
| Fixed assets  | 24,511,383                            |                      |                     |                         | (24,511,383)                 |                         |                                |                     |                     |                            |
| Property, plant and equipment                                     |                                       | (30,638)             | (495,647)           |                         | 2,601,186                    | 2,074,901               |                                |                     |                     | 2,074,901                  |
| Investment properties   |                                       |                      |                     |                         | 19,105,540                   | 19,105,540              |                                |                     |                     | 19,105,540                 |
| Leasehold land and land use rights                                |                                       |                      | 392,215             |                         |                              | 392,215                 |                                |                     |                     | 392,215                    |
| Properties under development                                      |                                       |                      |                     |                         | 2,804,657                    | 2,804,657               |                                |                     |                     | 2,804,657                  |
| Associated companies  | 4,531,570                             |                      |                     | (10,283)                |                              | 4,521,287               | (11,244)                       |                     |                     | 4,510,043                  |
| Available-for-sale investments                                    |                                       |                      |                     |                         |                              |                         | 1,249,480                      |                     |                     | 1,249,480                  |
| Long-term investments   | 1,328,103                             |                      |                     | (78,623)                |                              | 1,249,480               | (1,249,480)                    |                     |                     |                            |
| Long-term receivables   | 167,098                               |                      |                     |                         |                              | 167,098                 |                                |                     |                     | 167,098                    |
| Goodwill/(negative goodwill)                                      | 99,242                                |                      |                     |                         |                              | 99,242                  |                                |                     | 107,954             | 207,196                    |
|   | 30,637,396                            | (30,638)             | (103,432)           | (88,906)                |                              | 30,414,420              | (11,244)                       |                     |                     | 30,511,130                 |
| <b>Current assets</b>   |                                       |                      |                     |                         |                              |                         |                                |                     |                     |                            |
| Stock of completed properties held for sale                       | 518,225                               |                      |                     |                         |                              | 518,225                 |                                |                     |                     | 518,225                    |
| Properties under development for sale                             | 297,553                               |                      |                     |                         |                              | 297,553                 |                                |                     |                     | 297,553                    |
| Accounts receivable, prepayments and deposits                     | 1,668,775                             |                      |                     |                         |                              | 1,668,775               |                                |                     |                     | 1,668,775                  |
| Tax recoverable   | 47,461                                |                      |                     |                         |                              | 47,461                  |                                |                     |                     | 47,461                     |
| Tax reserve certificates  | 19,926                                |                      |                     |                         |                              | 19,926                  |                                |                     |                     | 19,926                     |
| Trading securities  | 3,679                                 |                      |                     |                         |                              | 3,679                   | (3,679)                        |                     |                     |                            |
| Listed securities at fair value through profit or loss            |                                       |                      |                     |                         |                              |                         | 3,679                          |                     |                     | 3,679                      |
| Pledged bank deposits   | 73,636                                |                      |                     |                         |                              | 73,636                  |                                |                     |                     | 73,636                     |
| Cash and bank balances  | 2,161,234                             |                      |                     |                         |                              | 2,161,234               |                                |                     |                     | 2,161,234                  |
|   | 4,790,489                             |                      |                     |                         |                              | 4,790,489               |                                |                     |                     | 4,790,489                  |
| <b>Current liabilities</b>  |                                       |                      |                     |                         |                              |                         |                                |                     |                     |                            |
| Accounts payable, deposits received and accrued charges           | 2,147,976                             |                      |                     |                         |                              | 2,147,976               |                                |                     |                     | 2,147,976                  |
| Taxation  | 150,372                               |                      |                     |                         |                              | 150,372                 |                                |                     |                     | 150,372                    |
| Short-term bank loans and current portion of long-term bank loans | 680,428                               |                      |                     |                         |                              | 680,428                 |                                |                     |                     | 680,428                    |
| Derivative financial instruments                                  |                                       |                      |                     |                         |                              |                         | 51,065                         |                     |                     | 51,065                     |
| Unsecured bank overdrafts   | 1,113                                 |                      |                     |                         |                              | 1,113                   |                                |                     |                     | 1,113                      |
|   | 2,979,889                             |                      |                     |                         |                              | 2,979,889               | 51,065                         |                     |                     | 3,030,954                  |
| <b>Net current assets</b>   | 1,810,600                             |                      |                     |                         |                              | 1,810,600               | (51,065)                       |                     |                     | 1,759,535                  |
| <b>Total assets less current liabilities</b>                      | 32,447,996                            | (30,638)             | (103,432)           | (88,906)                |                              | 32,225,020              | (62,309)                       |                     | 107,954             | 32,270,665                 |
| <b>Non-current liabilities</b>                                    |                                       |                      |                     |                         |                              |                         |                                |                     |                     |                            |
| Long-term bank loans  | 5,476,382                             |                      |                     |                         |                              | 5,476,382               |                                |                     |                     | 5,476,382                  |
| Amounts due to minority shareholders                              | 1,727,537                             |                      |                     |                         |                              | 1,727,537               |                                |                     |                     | 1,727,537                  |
| Derivative financial instruments                                  |                                       |                      |                     |                         |                              |                         | 30,816                         |                     |                     | 30,816                     |
| Deferred taxation   | 1,267,740                             | (10,110)             | (24,136)            | 513,503                 |                              | 1,746,997               |                                |                     |                     | 1,746,997                  |
|   | 8,471,659                             | (10,110)             | (24,136)            | 513,503                 |                              | 8,950,916               | 30,816                         |                     |                     | 8,981,732                  |
| <b>ASSETS LESS LIABILITIES</b>                                    | 23,976,337                            | (20,528)             | (79,296)            | (602,409)               |                              | 23,274,104              | (93,125)                       |                     | 107,954             | 23,288,933                 |
| <b>Equity</b>   |                                       |                      |                     |                         |                              |                         |                                |                     |                     |                            |
| Capital and reserves attributable to the Company's shareholders   |                                       |                      |                     |                         |                              |                         |                                |                     |                     |                            |
| Share capital   | 1,211,116                             |                      |                     |                         |                              | 1,211,116               |                                |                     |                     | 1,211,116                  |
| Share premium   | 3,857,220                             |                      |                     |                         |                              | 3,857,220               |                                |                     |                     | 3,857,220                  |
| Other reserves  | 10,567,892                            | 43,191               | (57,868)            | (592,126)               |                              | 9,961,089               | (11,244)                       | (721,804)           |                     | 9,228,041                  |
| Retained profits  | 6,904,640                             | (57,817)             | (21,428)            | (10,283)                |                              | 6,815,112               | (81,881)                       | 721,804             | 107,954             | 7,562,989                  |
| Proposed final dividend   | 484,447                               |                      |                     |                         |                              | 484,447                 |                                |                     |                     | 484,447                    |
|   | 23,025,315                            | (14,626)             | (79,296)            | (602,409)               |                              | 22,328,984              | (93,125)                       |                     | 107,954             | 22,343,813                 |
| Minority interests  | 951,022                               | (5,902)              |                     |                         |                              | 945,120                 |                                |                     |                     | 945,120                    |
| <b>TOTAL EQUITY</b>   | 23,976,337                            | (20,528)             | (79,296)            | (602,409)               |                              | 23,274,104              | (93,125)                       |                     | 107,954             | 23,288,933                 |
| <b>NAV per share (in HK\$)</b>                                    | 19.01                                 | (0.01)               | (0.06)              | (0.50)                  |                              | 18.44                   | (0.08)                         |                     | 0.09                | 18.45                      |

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

Certain new standards, amendments and interpretations to existing standards which have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, are as follows:

- HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1 January 2006).
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).
- HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006).
- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).
- HKFRS 7, Financial Instruments: Disclosures, and a complementary amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).
- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to quantify the impact of these new standards, amendments and interpretations on its results of operations and financial position.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

##### (i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another equity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group during the year. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see note 2(i)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

##### (ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (b) Consolidation (Continued)

#### (iii) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2(i)).

The Group's share of its associated companies post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated companies equals or exceeds its interest in the associated companies, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated companies.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (d) Foreign currency translation

#### (i) 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 consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

#### (ii) 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 recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

#### (iii) 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:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 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
- all resulting exchange differences are recognised as a separate component of equity.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (d) Foreign currency translation (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised 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.

### (e) Property, plant and equipment

Properties comprise mainly hotel properties, warehouses and logistics centres, staff quarters, freehold land and buildings and port facilities. Properties, except for staff quarters, are shown at fair value, based on periodic, but at least annual, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Staff quarters are stated at cost less aggregate depreciation and accumulated impairment losses. Cost represents the purchase price of the staff quarters and other costs incurred to bring them into existing use. All other property, plant and equipment are stated at historical cost less aggregate depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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 are expensed in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of properties are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained profits.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts less their residual values over their estimated useful lives. The principal annual rates used for this purpose are:

|  |   |
|--|---|
| Properties other than freehold land and port facilities  | over their expected remaining useful lives ranging from 8 to 48 years |
| Port facilities  | 2.5%  |
| Leasehold improvements                                   | 7% to 33%   |
| Warehouse operating equipment                            | 7% to 33%   |
| Motor vehicles, furniture, fixtures and office equipment | 7% to 33%   |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2(j)).

The gain or loss on disposal of properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

The gain or loss on all other property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognised in the income statement.

### (f) 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.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (f) Investment properties (Continued)

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. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active continues to be measured at fair value.

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.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

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 income statement.

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 under development 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 recognised 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 recognised in the income statement.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### **(g) Properties under development**

Properties under development are investments in leasehold land and buildings on which construction work and development have not been completed. Properties under development comprise prepayments for leasehold land and land use rights that are measured at amortised cost less accumulated impairment losses, and a component in respect of the building that is stated at cost less accumulated impairment losses. Cost comprises construction costs and amounts capitalised in respect of amortisation of leasehold land prepayments and borrowing costs incurred in the acquisition of qualifying assets during the construction period and up to the date of completion of construction. On completion, the properties are reclassified to investment properties, property, plant and equipment or completed properties held for sale at the then carrying amount. Any difference between the fair value of the investment property and its carrying amount at the date of reclassification is recognised in the income statement. Properties under development for sale represent properties under development which are due to be completed within one year and are intended for sale.

#### **(h) Completed properties held for sale**

Completed properties held for sale are initially measured at the carrying amount of the property at the date of reclassification from properties under development. Subsequently, the prepaid leasehold land component is measured at amortised cost less accumulated impairment losses; the building component is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less selling expenses.

#### **(i) 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 or associated company at the date of acquisition. Goodwill on acquisitions of associated companies is included in investments in associated companies. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### **(j) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (j) Impairment of non-financial assets (Continued)

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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. Such impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a decrease in revaluation reserve. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-operating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (k) Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries and associated companies, as non-trading securities and trading securities.

#### (i) Non-trading securities

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the non-trading securities revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the non-trading securities revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired, the cumulative loss recorded in the revaluation reserve was taken to the income statement.

#### (ii) Trading securities

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (k) Investments (Continued)

From 1 January 2005 onwards:

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

(i) 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 realised within 12 months of the balance sheet date.

(ii) 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 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 classified as long term receivables and account receivables in the balance sheet.

(iii) 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.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement in the period in which they arise.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (k) Investments (Continued)

Changes in the fair value of available-for-sale investments are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 an indication that 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 recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of receivables is described in note 2(l).

### (l) Long-term receivables and accounts receivables

Long-term receivables and accounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (m) Derivative financial instruments and hedging activities

From 1 January 2004 to 31 December 2004:

Derivative financial instruments are designated 'hedging' or 'non-hedging instruments'. The transactions that, according to the Group's policy for risk management, are able to meet the conditions for hedge accounting are classified as hedging transactions; the others, although set up for the purpose of managing risk (since the Group's policy does not permit speculative transactions), have been designated as 'trading'. The Group records derivative financial instruments at cost. The gains and losses on derivative financial instruments are included in the income statement on maturity to match the underlying hedged transactions where relevant.

For interest rate instruments designated as hedges, the interest rate differential is included in the income statement, in financial income and expenses, in accordance with the accrual method, offsetting the effects of the hedged transaction. Derivative financial instruments designated as trading instruments are valued at year-end market value, and the difference between the nominal contract value and fair value is recorded in the income statement under financial income and expenses. During 2004, the Group did not hold any derivative financial instruments designated as trading instruments.

From 1 January 2005 onwards:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognised asset or liability or highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (m) Derivative financial instruments and hedging activities (Continued)

#### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### (iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

#### (iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown as a separate current liability in the balance sheet.

#### (o) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option and is recognised and included in shareholders' equity under other reserves.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (q) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary difference arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### (r) Employee benefits

#### (i) Retirement benefit cost

The Group operates defined contribution plans and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced at the employer's discretion by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

#### (ii) Share-based compensation

The Group has granted options under two share option schemes. The fair value of the employee services received in exchange for the grant of the options is recognised 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 Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with 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.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (r) Employee benefits (Continued)

#### (iii) Termination benefits

Termination benefits are payable where employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

#### (iv) Bonus plans

The Group recognises a liability and an expense for bonuses when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of such obligation can be made.

### (s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### (t) Revenue and profit recognition

- (i) Revenue from sales of properties is recognised upon execution of binding sales agreement or completion of development, whichever is the later.
- (ii) Rental revenue and other revenues incidental to the letting of properties are recognised on a straight-line basis over the periods of the respective leases.
- (iii) Revenue from general storage and other ancillary services is recognised when the services are rendered. Revenue from leased storage is recognised on a straight-line basis over the periods of the respective leases.

## 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (t) Revenue and profit recognition (Continued)

- (iv) Income on development consultancy and project management is recognised on a pro-rata basis according to the progress of the projects.
- (v) Income from property management is recognised when services are rendered.
- (vi) Hotel revenue from rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.
- (vii) Dividend income is recognised when the right to receive payment is established.
- (viii) Interest income is recognised on a time proportion basis, using the effective interest method.

### (u) Operating leases

Lease in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (v) Borrowing costs

Borrowing costs are accounted for on the accrual basis and charged to the income statement in the year in which they are incurred, except for costs related to funding of the construction and acquisition of properties under development which are capitalised as part of the cost of that asset during the construction period and up to the date of completion of construction.

### (w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### (x) Contingent liabilities and contingent assets

A contingent liability is possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (x) Contingent liabilities and contingent assets (Continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### 3 FINANCIAL RISK MANAGEMENT

#### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

Risk management is carried out by the Group's management under the supervision of the Finance Committee. The Group's management identifies, evaluates and hedges significant financial risks in the Group's individual operating units. The Board provides guidance for overall financial risk management.

##### (i) Market risk – Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group has not entered into any forward contracts as the exposure to foreign exchange risk from commercial transactions, recognised assets and liabilities is not significant.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in the other countries is managed primarily through borrowings denominated in the relevant foreign currencies.

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Financial risk factors (Continued)

##### (ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

##### (iii) 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.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swaps. Such interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

#### (b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less impairment provision 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.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

#### (a) 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 and liabilities within the next financial year are discussed below.

##### Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see note (2(i))).

##### Useful lives of property, plant & equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

##### Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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 period in which such determination is made.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (a) Critical accounting estimates and assumptions (Continued)

Estimate of fair value of investment properties

The valuation of investment properties is performed in accordance with the 'Valuation Standards on Valuation of Properties' published by the Hong Kong Institute of Surveyors and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is reviewed annually by qualified valuers by considering the information from a variety of sources including i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences; and 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 sheet 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.

### (b) Critical judgements in applying the Group'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. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

(a) The principal activities of the Group are disclosed in note 1. Revenues recognised during the year are as follows:

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| <b>Turnover</b>  |                  |                  |
| Proceeds from sale of properties   |                  |                  |
| – completed properties   |                  |                  |
| – PRC  | <b>112,863</b>   | 539,110          |
| – Hong Kong  | <b>635,080</b>   | 892,581          |
|  | <b>747,943</b>   | 1,431,691        |
| – investment properties  |                  |                  |
| – PRC  | <b>36,582</b>    | 56,203           |
| – Hong Kong  | <b>427,920</b>   | 9,180            |
|  | <b>464,502</b>   | 65,383           |
|  | <b>1,212,445</b> | 1,497,074        |
| Rental income  | <b>893,434</b>   | 795,884          |
| Hotel revenue  | <b>320,615</b>   | 262,880          |
| Storage and services income  |                  |                  |
| – warehouse  | <b>399,435</b>   | 396,486          |
| – logistics  | <b>5,141,772</b> | 2,105,564        |
|  | <b>5,541,207</b> | 2,502,050        |
| Development consultancy, project management and property management fees | <b>41,123</b>    | 44,554           |
|  | <b>8,008,824</b> | 5,102,442        |
| <b>Other revenues</b>  |                  |                  |
| Dividend income from:  |                  |                  |
| – listed investments   | <b>282</b>       | 253              |
| – unlisted investments   | <b>13,654</b>    | 11,316           |
|  | <b>13,936</b>    | 11,569           |
| Interest income  | <b>101,636</b>   | 34,123           |
|  | <b>115,572</b>   | 45,692           |
| <b>Total revenues</b>  | <b>8,124,396</b> | 5,148,134        |

## 5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(b) An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

|   | Turnover         |                  | Operating profit |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Principal activities:   |                  |                  |                  |                  |
| Property rental   |                  |                  |                  |                  |
| – PRC   | <b>541,412</b>   | 492,595          | <b>428,227</b>   | 363,503          |
| – Hong Kong   | <b>352,022</b>   | 303,289          | <b>134,995</b>   | 111,156          |
|   | <b>893,434</b>   | 795,884          | <b>563,222</b>   | 474,659          |
| Property sales  |                  |                  |                  |                  |
| – PRC   | <b>149,445</b>   | 595,313          | <b>37,090</b>    | 195,763          |
| – Hong Kong   | <b>1,063,000</b> | 901,761          | <b>516,393</b>   | 311,551          |
|   | <b>1,212,445</b> | 1,497,074        | <b>553,483</b>   | 507,314          |
| Hotel operations  | <b>320,615</b>   | 262,880          | <b>111,023</b>   | 84,335           |
| Logistics and warehouse operations  |                  |                  |                  |                  |
| – warehouse   | <b>399,435</b>   | 396,486          | <b>200,249</b>   | 209,491          |
| – logistics   | <b>5,141,772</b> | 2,105,564        | <b>201,565</b>   | 113,538          |
|   | <b>5,541,207</b> | 2,502,050        | <b>401,814</b>   | 323,029          |
| Infrastructure  | –                | –                | <b>(4,159)</b>   | (920)            |
| Project, property management and others   | <b>41,123</b>    | 44,554           | <b>78,620</b>    | 45,594           |
|   | <b>8,008,824</b> | 5,102,442        | <b>1,704,003</b> | 1,434,011        |
| Change in fair value of investment properties   | –                | –                | <b>1,546,669</b> | –                |
| Revaluation (deficit)/surplus on investment properties and other leasehold land and buildings | –                | –                | <b>(4,499)</b>   | 298,601          |
|   | <b>8,008,824</b> | 5,102,442        | <b>3,246,173</b> | 1,732,612        |
| Principal markets:  |                  |                  |                  |                  |
| PRC   | <b>3,958,804</b> | 1,558,925        | <b>813,883</b>   | 722,089          |
| Hong Kong   | <b>2,780,724</b> | 2,353,351        | <b>2,368,465</b> | 966,761          |
| United Kingdom  | <b>691,981</b>   | 748,286          | <b>20,102</b>    | 15,614           |
| Others  | <b>577,315</b>   | 441,880          | <b>43,723</b>    | 28,148           |
|   | <b>8,008,824</b> | 5,102,442        | <b>3,246,173</b> | 1,732,612        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(c) Primary reporting format – business segments

|  | 2005                        |                                      |                                  |   |                            |                    |                          |                          |
|--|-----------------------------|--------------------------------------|----------------------------------|---|----------------------------|--------------------|--------------------------|--------------------------|
|  | PRC<br>Property<br>HK\$'000 | Hong<br>Kong<br>Property<br>HK\$'000 | Overseas<br>Property<br>HK\$'000 | Logistics<br>and<br>Warehouse<br>HK\$'000 | Infrastructure<br>HK\$'000 | Others<br>HK\$'000 | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
| <b>Revenue</b>   |                             |                                      |                                  |   |                            |                    |                          |                          |
| Turnover   | 1,011,472                   | 1,415,022                            | –                                | 5,541,207                                 | –                          | 41,123             | –                        | 8,008,824                |
| Inter-segment revenue  | 450                         | –                                    | –                                | –   | –                          | 32,504             | (32,954)                 | –                        |
| Inter-segment interest income                                | –                           | –                                    | –                                | –   | –                          | 285,758            | (285,758)                | –                        |
|  | 1,011,922                   | 1,415,022                            | –                                | 5,541,207                                 | –                          | 359,385            | (318,712)                | 8,008,824                |
| <b>Results</b>   |                             |                                      |                                  |   |                            |                    |                          |                          |
| Segment results before change<br>in fair value of properties | 594,251                     | 773,359                              | (3,627)                          | 459,002                                   | (3,998)                    | 256,881            | (285,758)                | 1,790,110                |
| Change in fair value of properties                           | 161,885                     | 716,293                              | –                                | 663,992                                   | –                          | –                  | –                        | 1,542,170                |
| Segment results  | 756,136                     | 1,489,652                            | (3,627)                          | 1,122,994                                 | (3,998)                    | 256,881            | (285,758)                | 3,332,280                |
| Dividend income  | –                           | 6,922                                | 7,014                            | –   | –                          | –                  | –                        | 13,936                   |
| Interest income  | 23,347                      | 17,230                               | 28                               | 4,644                                     | 5,607                      | 50,780             | –                        | 101,636                  |
| Interest expenses  | (41,258)                    | (146,123)                            | –                                | (61,832)                                  | (5,768)                    | (232,456)          | 285,758                  | (201,679)                |
| Operating profit/(loss)                                      | 738,225                     | 1,367,681                            | 3,415                            | 1,065,806                                 | (4,159)                    | 75,205             | –                        | 3,246,173                |
| Share of results of associated<br>companies                  | 10,942                      | 176,839                              | 64,676                           | 215,336                                   | 42,312                     | –                  | –                        | 510,105                  |
| Profit before taxation                                       | 749,167                     | 1,544,520                            | 68,091                           | 1,281,142                                 | 38,153                     | 75,205             | –                        | 3,756,278                |
| Taxation   | (227,258)                   | (102,898)                            | –                                | (162,864)                                 | –                          | (1,179)            | –                        | (494,199)                |
| Profit for the year  | 521,909                     | 1,441,622                            | 68,091                           | 1,118,278                                 | 38,153                     | 74,026             | –                        | 3,262,079                |
| Profit attributable to:                                      |                             |                                      |                                  |   |                            |                    |                          |                          |
| Company's shareholders                                       | 372,020                     | 1,429,102                            | 68,091                           | 1,085,152                                 | 38,473                     | 74,025             | –                        | 3,066,863                |
| Minority interests   | 149,889                     | 12,520                               | –                                | 33,126                                    | (320)                      | 1                  | –                        | 195,216                  |
|  | 521,909                     | 1,441,622                            | 68,091                           | 1,118,278                                 | 38,153                     | 74,026             | –                        | 3,262,079                |

## 5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(c) Primary reporting format – business segments (Continued)

|  | 2004                        |                                      |                                  |   |                            |                    |                          | Consolidated<br>HK\$'000 |
|--|-----------------------------|--------------------------------------|----------------------------------|---|----------------------------|--------------------|--------------------------|--------------------------|
|  | PRC<br>Property<br>HK\$'000 | Hong<br>Kong<br>Property<br>HK\$'000 | Overseas<br>Property<br>HK\$'000 | Logistics<br>and<br>Warehouse<br>HK\$'000 | Infrastructure<br>HK\$'000 | Others<br>HK\$'000 | Eliminations<br>HK\$'000 |                          |
| <b>Revenue</b>   |                             |                                      |                                  |   |                            |                    |                          |                          |
| Turnover   | 1,350,788                   | 1,205,050                            | –                                | 2,502,050                                 | –                          | 44,554             | –                        | 5,102,442                |
| Inter-segment revenue                                    | 448                         | –                                    | –                                | –   | –                          | 218,195            | (218,643)                | –                        |
| Inter-segment interest income                            | –                           | –                                    | –                                | –   | –                          | 256,428            | (256,428)                | –                        |
|  | 1,351,236                   | 1,205,050                            | –                                | 2,502,050                                 | –                          | 519,177            | (475,071)                | 5,102,442                |
| <b>Results</b>   |                             |                                      |                                  |   |                            |                    |                          |                          |
| Segment results before revaluation surplus on properties | 669,930                     | 537,504                              | (2,921)                          | 366,711                                   | (920)                      | 219,562            | (256,428)                | 1,533,438                |
| Revaluation surplus on properties                        | 63,337                      | 235,086                              | –                                | 178                                       | –                          | –                  | –                        | 298,601                  |
| Segment results  | 733,267                     | 772,590                              | (2,921)                          | 366,889                                   | (920)                      | 219,562            | (256,428)                | 1,832,039                |
| Dividend income  | –                           | 6,299                                | 5,270                            | –   | –                          | –                  | –                        | 11,569                   |
| Interest income  | 8,164                       | 12,931                               | –                                | 804                                       | 4,487                      | 7,737              | –                        | 34,123                   |
| Interest expenses  | (34,493)                    | (134,027)                            | –                                | (44,486)                                  | (4,487)                    | (184,054)          | 256,428                  | (145,119)                |
| Operating profit/(loss)                                  | 706,938                     | 657,793                              | 2,349                            | 323,207                                   | (920)                      | 43,245             | –                        | 1,732,612                |
| Share of results of associated companies                 | 27,279                      | 284,775                              | 24,347                           | 187,636                                   | 31,466                     | –                  | –                        | 555,503                  |
| Profit before taxation                                   | 734,217                     | 942,568                              | 26,696                           | 510,843                                   | 30,546                     | 43,245             | –                        | 2,288,115                |
| Taxation   | (51,976)                    | 253,613                              | –                                | (58,432)                                  | –                          | (3,295)            | –                        | 139,910                  |
| Profit for the year                                      | 682,241                     | 1,196,181                            | 26,696                           | 452,411                                   | 30,546                     | 39,950             | –                        | 2,428,025                |
| Profit attributable to:                                  |                             |                                      |                                  |   |                            |                    |                          |                          |
| Company's shareholders                                   | 548,303                     | 1,187,302                            | 26,696                           | 438,297                                   | 30,581                     | 39,954             | –                        | 2,271,133                |
| Minority interests                                       | 133,938                     | 8,879                                | –                                | 14,114                                    | (35)                       | (4)                | –                        | 156,892                  |
|  | 682,241                     | 1,196,181                            | 26,696                           | 452,411                                   | 30,546                     | 39,950             | –                        | 2,428,025                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(c) Primary reporting format – business segments (Continued)

|   | 2005                        |                                      |                                  |   |                            |                    |                          |                          |
|---|-----------------------------|--------------------------------------|----------------------------------|---|----------------------------|--------------------|--------------------------|--------------------------|
|   | PRC<br>Property<br>HK\$'000 | Hong<br>Kong<br>Property<br>HK\$'000 | Overseas<br>Property<br>HK\$'000 | Logistics<br>and<br>Warehouse<br>HK\$'000 | Infrastructure<br>HK\$'000 | Others<br>HK\$'000 | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
| Segment assets  | 12,595,155                  | 16,886,961                           | 2,733                            | 7,191,452                                 | 498,677                    | 21,558,147         | (21,440,373)             | 37,292,752               |
| Associated companies                                      | 230,197                     | 3,924,448                            | 899,593                          | 728,112                                   | 549,559                    | –                  | –                        | 6,331,909                |
| Available-for-sale investments                            | 470                         | 752,276                              | 667,842                          | 11,051                                    | –                          | –                  | –                        | 1,431,639                |
| Long-term receivables                                     | –                           | 102,503                              | –                                | –   | –                          | –                  | –                        | 102,503                  |
| Tax recoverable   | 5,194                       | –                                    | –                                | 88  | –                          | 28,558             | –                        | 33,840                   |
| Tax reserve certificates                                  | –                           | –                                    | –                                | –   | –                          | 12,188             | –                        | 12,188                   |
| Listed securities at fair value through<br>profit or loss | –                           | 3,868                                | 70                               | –   | –                          | 21,930             | –                        | 25,868                   |
| <b>Total assets</b>                                       | <b>12,831,016</b>           | <b>21,670,056</b>                    | <b>1,570,238</b>                 | <b>7,930,703</b>                          | <b>1,048,236</b>           | <b>21,620,823</b>  | <b>(21,440,373)</b>      | <b>45,230,699</b>        |
| Segment liabilities                                       | 3,392,158                   | 15,082,133                           | 30,284                           | 4,393,409                                 | 555,872                    | 12,276,609         | (21,440,373)             | 14,290,092               |
| Taxation and deferred taxation                            | 1,320,543                   | 570,759                              | 15,432                           | 293,469                                   | –                          | 6,740              | –                        | 2,206,943                |
| Amounts due to minority shareholders                      | 1,156,550                   | 590,572                              | –                                | 62,968                                    | 24,772                     | 927                | –                        | 1,835,789                |
| <b>Total liabilities</b>                                  | <b>5,869,251</b>            | <b>16,243,464</b>                    | <b>45,716</b>                    | <b>4,749,846</b>                          | <b>580,644</b>             | <b>12,284,276</b>  | <b>(21,440,373)</b>      | <b>18,332,824</b>        |
| Capital expenditure                                       | 884,155                     | 4,219,405                            | –                                | 208,643                                   | –                          | 1,856              | –                        | 5,314,059                |
| Depreciation and amortisation                             | 26,224                      | 886                                  | –                                | 116,238                                   | –                          | 3,146              | –                        | 146,494                  |

|                                      | 2004                        |                                      |                                  |   |                            |                    |                          |                          |
|--------------------------------------|-----------------------------|--------------------------------------|----------------------------------|---|----------------------------|--------------------|--------------------------|--------------------------|
|                                      | PRC<br>Property<br>HK\$'000 | Hong<br>Kong<br>Property<br>HK\$'000 | Overseas<br>Property<br>HK\$'000 | Logistics<br>and<br>Warehouse<br>HK\$'000 | Infrastructure<br>HK\$'000 | Others<br>HK\$'000 | Eliminations<br>HK\$'000 | Consolidated<br>HK\$'000 |
| Segment assets                       | 10,247,506                  | 12,334,281                           | 3,029                            | 6,177,194                                 | 448,293                    | 16,272,583         | (16,286,908)             | 29,195,978               |
| Associated companies                 | 301,314                     | 2,279,246                            | 840,532                          | 611,957                                   | 488,238                    | –                  | –                        | 4,521,287                |
| Long-term investments                | 470                         | 627,960                              | 593,228                          | 12,839                                    | –                          | 14,983             | –                        | 1,249,480                |
| Long-term receivables                | –                           | 167,098                              | –                                | –   | –                          | –                  | –                        | 167,098                  |
| Tax recoverable                      | 8,931                       | 9,008                                | –                                | –   | –                          | 29,522             | –                        | 47,461                   |
| Tax reserve certificates             | –                           | 19,926                               | –                                | –   | –                          | –                  | –                        | 19,926                   |
| Trading securities                   | –                           | 3,569                                | 110                              | –   | –                          | –                  | –                        | 3,679                    |
| <b>Total assets</b>                  | <b>10,558,221</b>           | <b>15,441,088</b>                    | <b>1,436,899</b>                 | <b>6,801,990</b>                          | <b>936,531</b>             | <b>16,317,088</b>  | <b>(16,286,908)</b>      | <b>35,204,909</b>        |
| Segment liabilities                  | 2,492,025                   | 9,795,682                            | 75,630                           | 4,492,917                                 | 509,523                    | 7,227,030          | (16,286,908)             | 8,305,899                |
| Taxation and deferred taxation       | 1,187,434                   | 553,555                              | –                                | 149,479                                   | –                          | 6,901              | –                        | 1,897,369                |
| Amounts due to minority shareholders | 1,120,284                   | 590,634                              | –                                | 15,488                                    | –                          | 1,131              | –                        | 1,727,537                |
| <b>Total liabilities</b>             | <b>4,799,743</b>            | <b>10,939,871</b>                    | <b>75,630</b>                    | <b>4,657,884</b>                          | <b>509,523</b>             | <b>7,235,062</b>   | <b>(16,286,908)</b>      | <b>11,930,805</b>        |
| Capital expenditure                  | 162,274                     | 881,623                              | –                                | 766,588                                   | –                          | 1,032              | –                        | 1,811,517                |
| Depreciation and amortisation        | 25,628                      | 954                                  | –                                | 75,738                                    | –                          | 3,308              | –                        | 105,628                  |
| Amortisation of goodwill             | –                           | –                                    | –                                | 3,608                                     | –                          | –                  | –                        | 3,608                    |
| Amortisation of negative goodwill    | –                           | –                                    | –                                | (4,578)                                   | –                          | –                  | –                        | (4,578)                  |

## 5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(d) Secondary reporting format – geographical segments

|                | 2005                        |                             |                            |                                 |
|----------------|-----------------------------|-----------------------------|----------------------------|---------------------------------|
|                | Segment revenue<br>HK\$'000 | Segment results<br>HK\$'000 | Segment assets<br>HK\$'000 | Capital expenditure<br>HK\$'000 |
| PRC            | 3,958,804                   | 845,929                     | 14,903,510                 | 1,002,307                       |
| Hong Kong      | 2,780,724                   | 2,422,332                   | 21,457,059                 | 4,234,144                       |
| United Kingdom | 691,981                     | 19,791                      | 266,049                    | 14,131                          |
| Others         | 577,315                     | 44,228                      | 666,134                    | 63,477                          |
|                | <b>8,008,824</b>            | <b>3,332,280</b>            | <b>37,292,752</b>          | <b>5,314,059</b>                |

|                | 2004                        |                             |                            |                                 |
|----------------|-----------------------------|-----------------------------|----------------------------|---------------------------------|
|                | Segment revenue<br>HK\$'000 | Segment results<br>HK\$'000 | Segment assets<br>HK\$'000 | Capital expenditure<br>HK\$'000 |
| PRC            | 1,558,925                   | 751,055                     | 12,418,791                 | 1,084,995                       |
| Hong Kong      | 2,353,351                   | 1,035,133                   | 15,967,645                 | 410,329                         |
| United Kingdom | 748,286                     | 15,029                      | 252,622                    | 7,295                           |
| Others         | 441,880                     | 30,822                      | 556,920                    | 308,898                         |
|                | 5,102,442                   | 1,832,039                   | 29,195,978                 | 1,811,517                       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 6 OPERATING PROFIT BEFORE FINANCE COSTS

|   | Group            |                  |
|---|------------------|------------------|
|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Operating profit before finance costs is stated after crediting and charging the following: |                  |                  |
| <b>Crediting</b>  |                  |                  |
| Gross rental income from investment properties  |                  |                  |
| – PRC   | <b>541,412</b>   | 492,595          |
| – Hong Kong   | <b>352,022</b>   | 303,289          |
|   | <b>893,434</b>   | 795,884          |
| Less: outgoings in respect of investment properties   |                  |                  |
| – PRC   | <b>(58,574)</b>  | (53,334)         |
| – Hong Kong   | <b>(26,928)</b>  | (20,346)         |
|   | <b>(85,502)</b>  | (73,680)         |
| Net rental income from investment properties  |                  |                  |
| – PRC   | <b>482,838</b>   | 439,261          |
| – Hong Kong   | <b>325,094</b>   | 282,943          |
|   | <b>807,932</b>   | 722,204          |
| Interest income   | <b>101,758</b>   | 34,165           |
| Less: amount capitalised in properties under development                                    | <b>(122)</b>     | (42)             |
|   | <b>101,636</b>   | 34,123           |
| Gain on sale of investment properties   | <b>180,257</b>   | 910              |
| Unrealised gain on trading securities   | <b>–</b>         | 427              |
| Unrealised gain on listed securities at fair value through profit or loss                   | <b>1,657</b>     | –                |
| Amortisation of negative goodwill   | <b>–</b>         | 4,578            |
| Exchange gains, net   | <b>45,891</b>    | 4,259            |
| <b>Charging</b>   |                  |                  |
| Cost of sale of completed properties  | <b>270,981</b>   | 842,760          |
| Auditors' remuneration  | <b>6,169</b>     | 4,622            |
| Non-audit service fees paid and payable to auditors   | <b>3,379</b>     | 4,058            |
| Depreciation of property, plant and equipment and land amortisation                         | <b>146,570</b>   | 106,005          |
| Less: amount capitalised in properties under development                                    | <b>(76)</b>      | (377)            |
|   | <b>146,494</b>   | 105,628          |
| Amortisation of goodwill  | <b>–</b>         | 3,608            |
| Operating lease charges – land and buildings  | <b>36,854</b>    | 41,588           |
| – vessels   | <b>87,043</b>    | –                |

## 7 FINANCE COSTS

|  | 2005<br>HK\$'000 | Group<br>2004<br>HK\$'000 |
|--|------------------|---------------------------|
| Interest expense:  |                  |                           |
| – bank borrowings: bank loans and overdrafts                     | <b>214,730</b>   | 58,613                    |
| – interest rate swap contracts                                   | <b>41,382</b>    | 151,332                   |
| – convertible bonds wholly repayable within five years (note 30) | <b>86,701</b>    | –                         |
| – others   | <b>11,082</b>    | 8,584                     |
| Total finance cost incurred                                      | <b>353,895</b>   | 218,529                   |
| Less: Amount capitalised in properties under development         | <b>(98,350)</b>  | (73,410)                  |
|  | <b>255,545</b>   | 145,119                   |
| Fair value gain on interest rate swap contracts                  | <b>(53,866)</b>  | –                         |
| Total finance costs expensed during the year                     | <b>201,679</b>   | 145,119                   |

## 8 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC and the overseas countries in which the Group operates, respectively.

The amount of taxation (charged)/credited to the consolidated income statement represents:

|  | 2005<br>HK\$'000 | Group<br>2004<br>HK\$'000 |
|--|------------------|---------------------------|
| PRC taxation                           |                  |                           |
| – Current                              | <b>(127,991)</b> | (104,883)                 |
| – (Under)/overprovision in prior years | <b>(217)</b>     | 1,380                     |
| – Deferred (note 32)                   | <b>(109,707)</b> | 50,585                    |
|  | <b>(237,915)</b> | (52,918)                  |
| Hong Kong profits tax                  |                  |                           |
| – Current                              | <b>(84,473)</b>  | (89,527)                  |
| – Overprovision in prior years         | <b>25,260</b>    | 770                       |
| – Deferred (note 32)                   | <b>(178,584)</b> | 295,245                   |
|  | <b>(237,797)</b> | 206,488                   |
| Overseas taxation                      |                  |                           |
| – Current                              | <b>(18,515)</b>  | (14,559)                  |
| – Deferred (note 32)                   | <b>28</b>        | 899                       |
|  | <b>(18,487)</b>  | (13,660)                  |
|  | <b>(494,199)</b> | 139,910                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8 TAXATION (Continued)

As referred to in note 2(a), the Group's share of taxation attributable to associated companies for the year of HK\$45,419,000 (2004: HK\$73,846,000) is reclassified in the income statement and included as share of results of associated companies.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| Profit before taxation  | <b>3,756,278</b> | 2,288,115        |
| Calculated at Hong Kong profits tax rate of 17.5% (2004: 17.5%)   | <b>657,349</b>   | 400,420          |
| Tax effect of different taxation rates in other countries   | <b>114,748</b>   | 75,967           |
| Utilisation of previously unrecognised tax losses   | <b>(30,354)</b>  | (9,690)          |
| Tax effect of net income/expenses that are not taxable/deductible in determining taxable profit                   | <b>(135,792)</b> | (177,075)        |
| Adjustment to deferred tax resulting from the reversal of prior year revaluation deficit on investment properties | -                | (333,666)        |
| Tax loss not provided for   | <b>2,560</b>     | 3,497            |
| Overprovision of taxation in prior years  | <b>(25,044)</b>  | (2,150)          |
| Share of results of associated companies  | <b>(89,268)</b>  | (97,213)         |
| <b>Taxation charge/(credit)</b>   | <b>494,199</b>   | (139,910)        |

### 9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the financial statements of the Company is HK\$705,904,000 (2004: HK\$732,948,000).

### 10 DIVIDENDS

|   | Company          |                  |
|---|------------------|------------------|
|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Interim, paid, of HK\$0.20 (2004: HK\$0.20) per ordinary share (note (a))   | <b>243,464</b>   | 239,501          |
| Final, proposed, of HK\$0.50 (2004: HK\$0.40) per ordinary share (note (b)) | <b>608,289</b>   | 484,447          |
|   | <b>851,753</b>   | 723,948          |

(a) Amounts shown in respect of the interim dividend for the year ended 31 December 2005 reflect the cash dividend of HK\$0.20 (2004: HK\$0.20) per ordinary share. A scrip dividend alternative to the interim dividend was also offered, with the result that only approximately HK\$233,716,000 (2004: HK\$40,687,000) of the interim dividend was paid in cash.

(b) At a meeting held on 24 March 2006, the directors proposed a final dividend of HK\$0.50 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2006.

## II EARNINGS PER SHARE

### Basic

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

|  | 2005                 | 2004          |
|--|----------------------|---------------|
| Weighted average number of shares in issue | <b>1,213,558,181</b> | 1,198,224,808 |

Including the effect of the change in fair value of investment properties and buildings and the related deferred taxation:

|                                     | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|-------------------------------------|------------------|------------------|
| Profit attributable to shareholders | <b>3,066,863</b> | 2,271,133        |
| <b>Basic earnings per share</b>     | <b>HK\$2.53</b>  | HK\$1.90         |

Excluding the effect of the change in fair value of investment properties and buildings and the related deferred taxation:

|                                     | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|-------------------------------------|------------------|------------------|
| Profit attributable to shareholders | <b>1,759,560</b> | 1,579,969        |
| <b>Basic earnings per share</b>     | <b>HK\$1.45</b>  | HK\$1.32         |

### 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 two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual 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.

|   | 2005                 | 2004          |
|---|----------------------|---------------|
| Weighted average number of shares in issue  | <b>1,213,558,181</b> | 1,198,224,808 |
| Adjustment for convertible bonds  | <b>70,723,038</b>    | –             |
| Adjustment for share options  | <b>7,060,260</b>     | 4,382,608     |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | <b>1,291,341,479</b> | 1,202,607,416 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 11 EARNINGS PER SHARE (Continued)

Including the effect of the change in fair value of investment properties and buildings and the related deferred taxation:

|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| Profit attributable to shareholders                 | <b>3,066,863</b> | 2,271,133        |
| Adjustment for finance cost on convertible bonds    | <b>65,435</b>    | –                |
| Profit used to determine diluted earnings per share | <b>3,132,298</b> | 2,271,133        |
| <b>Diluted earnings per share</b>                   | <b>HK\$2.43</b>  | HK\$1.89         |

Excluding the effect of the change in fair value of investment properties and buildings and the related deferred taxation:

|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| Profit attributable to shareholders                 | <b>1,759,560</b> | 1,579,969        |
| Adjustment for finance cost on convertible bonds    | <b>65,435</b>    | –                |
| Profit used to determine diluted earnings per share | <b>1,824,995</b> | 1,579,969        |
| <b>Diluted earnings per share</b>                   | <b>HK\$1.41</b>  | HK\$1.31         |

Basic and diluted earnings per share would have been HK\$1.44 (2004: HK\$1.63) and HK\$1.40 (2004: HK\$1.63) respectively, had the effect of all the changes in the accounting policies as referred to in note 2(a) been excluded from the calculation.

### 12 EMPLOYEE BENEFIT EXPENSE

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Staff costs, including directors' emoluments               | <b>753,102</b>   | 496,872          |
| Share options granted to directors and employees (note 34) | <b>28,627</b>    | –                |
| Pension costs – defined contribution plans (note a)        | <b>56,503</b>    | 20,259           |
|  | <b>838,232</b>   | 517,131          |

#### (a) Pensions – defined contribution plans

Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1 December 2000.

## 12 EMPLOYEE BENEFIT EXPENSE (Continued)

### (a) Pensions – defined contribution plans (Continued)

The MPF Scheme is a master trust scheme established under a trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contributions are made to the MPF Scheme by the employers at 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month (the "MPF Contribution"). The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is HK\$5,000 per month or more. The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

Certain companies within the Group are also participants of the Kerry Trading Co. Limited – Provident Fund Scheme (the "Fund") which is a defined contribution scheme as defined in the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong). The Fund is for certain salaried persons (the "Fund Members") under the employment of the companies participating in the Fund. The assets of the Fund are managed by the trustees of the Fund. Contributions are made to the Fund by companies participating in the Fund at 10% of the Fund Members' monthly basic salaries up to a maximum of HK\$5,000 per Fund Member per month (the "Basic Contribution") less the MPF Contribution if the Basic Contribution is higher than the MPF Contribution. Fund Members are entitled to 100% of the employers' contributions to the Fund plus investment earnings upon leaving employment after completing ten years of service or more, or upon retirement after attaining the retirement age after any number of years of service, or upon retirement due to ill health. Fund Members are also entitled to the employers' contributions to the Fund plus investment earnings calculated at a reduced scale of between 20% and 90% after completing a period of service of at least two but less than ten years. The unvested benefits of employees terminating employment forfeited in accordance with the terms of the Fund can be utilised by the companies participating in the Fund to reduce future contributions. During the year, forfeited contributions totaling HK\$890,000 (2004: HK\$1,221,000) were utilised during the year leaving HK\$309,000 (2004: HK\$484,000) available at the year end to reduce future contributions.

The Group also made defined contributions to pension plans as required by the relevant municipality or provincial governments in the PRC. The rates of contributions for the relevant periods ranged from 8% to 23% of the staff's salary. For overseas subsidiaries, the Group made contributions to defined contribution pension schemes in accordance with the schemes set up by the overseas subsidiaries and/or under statutory requirements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 12 EMPLOYEE BENEFIT EXPENSE (Continued)

#### (b) Directors' and senior management's emoluments

The remuneration of the Directors for the year ended 31 December 2005 is set out below:

| Name of Director                  | Fees<br>HK\$'000 | Salary<br>HK\$'000 | Discretionary<br>bonuses<br>HK\$'000 | Other<br>benefits (i)<br>HK\$'000 | Employer's<br>contribution<br>to pension<br>scheme<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------------|------------------|--------------------|--------------------------------------|-----------------------------------|--|-------------------|
| Mr ANG Keng Lam                   | –                | 2,894              | 14,780                               | 5,125                             | 60   | 22,859            |
| Mr WONG Siu Kong                  | –                | 3,960              | 15,000                               | 5,125                             | 60   | 24,145            |
| Mr HO Shut Kan                    | –                | 2,280              | 4,035                                | 2,733                             | 60   | 9,108             |
| Mr MA Wing Kai, William           | –                | 2,280              | 4,035                                | 2,733                             | 60   | 9,108             |
| Mr William Winship FLANZ          | 350              | –                  | –                                    | –                                 | –  | 350               |
| Mr LAU Ling Fai, Herald           | 350              | –                  | –                                    | –                                 | –  | 350               |
| Mr Christopher Roger MOSS, O.B.E. | 350              | –                  | –                                    | –                                 | –  | 350               |
| Mr TSE Kai Chi (ii)               | 83               | –                  | –                                    | –                                 | –  | 83                |

The remuneration of the Directors for the year ended 31 December 2004 is set out below:

| Name of Director                  | Fees<br>HK\$'000 | Salary<br>HK\$'000 | Discretionary<br>bonuses<br>HK\$'000 | Other<br>benefits<br>HK\$'000 | Employer's<br>contribution<br>to pension<br>scheme<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------------|------------------|--------------------|--------------------------------------|-------------------------------|--|-------------------|
| Mr ANG Keng Lam                   | –                | 3,000              | 5,780                                | –                             | 60   | 8,840             |
| Mr WONG Siu Kong                  | –                | 3,780              | 6,000                                | –                             | 60   | 9,840             |
| Mr HO Shut Kan                    | –                | 2,064              | 2,035                                | –                             | 60   | 4,159             |
| Mr MA Wing Kai, William (iii)     | –                | 1,800              | 2,000                                | –                             | 60   | 3,860             |
| Mr. KUOK Khoon Loong, Edward (iv) | –                | –                  | 10,000                               | –                             | –  | 10,000            |
| Mr. Thaddeus Thomas BECZAK (v)    | –                | –                  | –                                    | –                             | –  | –                 |
| Mr William Winship FLANZ (vi)     | 65               | –                  | –                                    | –                             | –  | 65                |
| Mr LAU Ling Fai, Herald           | 250              | –                  | –                                    | –                             | –  | 250               |
| Mr Christopher Roger MOSS, O.B.E. | 250              | –                  | –                                    | –                             | –  | 250               |
| Mrs LEE Pui Ling, Angelina (vii)  | 186              | –                  | –                                    | –                             | –  | 186               |

Notes:

- (i) Other benefits represent fair value of share options granted to the relevant director which was charged to the income statement in 2005 in accordance with HKFRS 2.
- (ii) Appointed on 1 September 2005.
- (iii) Appointed on 1 March 2004. The full year's emoluments are stated above.
- (iv) Resigned on 1 March 2004.
- (v) Resigned on 12 January 2004.
- (vi) Appointed on 29 September 2004.
- (vii) Resigned on 29 September 2004.

## 12 EMPLOYEE BENEFIT EXPENSE (Continued)

### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the five highest paid individuals during the year are as follows:

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Basic salaries, housing allowances, share options, other allowances and benefits in kind | <b>31,562</b>    | 10,644           |
| Discretionary bonuses  | <b>40,385</b>    | 25,815           |
| Pension Contributions  | <b>300</b>       | 240              |
|  | <b>72,247</b>    | 36,699           |

The emoluments fell within the following bands:

| Emolument bands                 | Number of individuals |      |
|---------------------------------|-----------------------|------|
|                                 | 2005                  | 2004 |
| HK\$3,500,001 – HK\$4,000,000   | –                     | 1    |
| HK\$4,000,001 – HK\$4,500,000   | –                     | 1    |
| HK\$7,000,001 – HK\$7,500,000   | 1                     | –    |
| HK\$8,500,001 – HK\$9,000,000   | –                     | 1    |
| HK\$9,000,001 – HK\$9,500,000   | 2                     | –    |
| HK\$9,500,001 – HK\$10,000,000  | –                     | 2    |
| HK\$22,500,001 – HK\$23,000,000 | 1                     | –    |
| HK\$24,000,001 – HK\$24,500,000 | 1                     | –    |
|                                 | <b>5</b>              | 5    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 13 PROPERTY, PLANT AND EQUIPMENT

|  | Group                         |  |                               |   |                                |                                       |   |   |                   |
|--|-------------------------------|--|-------------------------------|---|--------------------------------|---------------------------------------|---|---|-------------------|
|  | Hotel<br>property<br>HK\$'000 | Warehouses<br>and logistics<br>centres<br>HK\$'000 | Staff<br>quarters<br>HK\$'000 | Freehold<br>land and<br>buildings<br>HK\$'000 | Port<br>facilities<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Warehouse<br>operating<br>equipment<br>HK\$'000 | Motor<br>vehicles,<br>furniture,<br>fixtures<br>and office<br>equipment<br>HK\$'000 | Total<br>HK\$'000 |
| Cost or valuation  |                               |  |                               |   |                                |                                       |   |   |                   |
| At 1 January 2004  | 748,410                       | 386,588  | 524                           | 60,778  | –                              | 10,714                                | 273,535   | 280,738   | 1,761,287         |
| Additions, at cost                                       | 6,043                         | 5,256  | –                             | 11,062  | –                              | 232                                   | 31,657  | 22,410  | 76,660            |
| Acquisition of subsidiaries                              | –                             | 133,825  | 46,049                        | 151,398                                       | 144,983                        | –                                     | 124,745   | 202,849   | 803,849           |
| Adjustment on revaluation                                | (6,043)                       | (3,548)  | –                             | 24,313  | (31,283)                       | –                                     | –   | –   | (16,561)          |
| Disposals  | –                             | –  | –                             | –   | –                              | –                                     | (9,430)   | (21,185)  | (30,615)          |
| Reclassification   | –                             | 45,317   | –                             | –   | –                              | –                                     | –   | –   | 45,317            |
| Exchange adjustment                                      | –                             | 100  | –                             | 3,673   | 1,788                          | 4                                     | 5,537   | 6,660   | 17,762            |
| At 31 December 2004                                      | 748,410                       | 567,538  | 46,573                        | 251,224                                       | 115,488                        | 10,950                                | 426,044   | 491,472   | 2,657,699         |
| At cost  | –                             | –  | 46,573                        | –   | –                              | 10,950                                | 426,044   | 491,472   | 975,039           |
| At professional valuation                                | 748,410                       | 567,538  | –                             | 251,224                                       | 115,488                        | –                                     | –   | –   | 1,682,660         |
| At 31 December 2004                                      | 748,410                       | 567,538  | 46,573                        | 251,224                                       | 115,488                        | 10,950                                | 426,044   | 491,472   | 2,657,699         |
| Aggregate depreciation and accumulated impairment losses |                               |  |                               |   |                                |                                       |   |   |                   |
| At 1 January 2004  | –                             | –  | 224                           | –   | –                              | 7,499                                 | 148,570   | 163,495   | 319,788           |
| Charge for the year                                      | 18,254                        | 15,656   | 26                            | 3,907   | 2,852                          | 1,314                                 | 25,939  | 31,269  | 99,217            |
| Acquisition of subsidiaries                              | –                             | –  | 11,039                        | 17,647  | 34,209                         | –                                     | 71,507  | 140,944   | 275,346           |
| Adjustment on revaluation                                | (18,254)                      | (15,656)   | –                             | (21,902)                                      | (37,586)                       | –                                     | –   | –   | (93,398)          |
| Disposals  | –                             | –  | –                             | –   | –                              | –                                     | (6,841)   | (19,510)  | (26,351)          |
| Exchange adjustment                                      | –                             | –  | –                             | 348   | 525                            | –                                     | 3,270   | 4,053   | 8,196             |
| At 31 December 2004                                      | –                             | –  | 11,289                        | –   | –                              | 8,813                                 | 242,445   | 320,251   | 582,798           |
| Net book value as at<br>31 December 2004                 | 748,410                       | 567,538  | 35,284                        | 251,224                                       | 115,488                        | 2,137                                 | 183,599   | 171,221   | 2,074,901         |

### 13 PROPERTY, PLANT AND EQUIPMENT (Continued)

|  | Group                         |  |                               |   |                                |                                       |   |   |                   |
|--|-------------------------------|--|-------------------------------|---|--------------------------------|---------------------------------------|---|---|-------------------|
|  | Hotel<br>property<br>HK\$'000 | Warehouses<br>and logistics<br>centres<br>HK\$'000 | Staff<br>quarters<br>HK\$'000 | Freehold<br>land and<br>buildings<br>HK\$'000 | Port<br>facilities<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Warehouse<br>operating<br>equipment<br>HK\$'000 | Motor<br>vehicles,<br>furniture,<br>fixtures<br>and office<br>equipment<br>HK\$'000 | Total<br>HK\$'000 |
| Cost or valuation  |                               |  |                               |   |                                |                                       |   |   |                   |
| At 1 January 2005  | 748,410                       | 567,538  | 46,573                        | 251,224                                       | 115,488                        | 10,950                                | 426,044   | 491,472   | 2,657,699         |
| Additions, at cost                                       | 4,292                         | 13,932   | 508                           | 948   | –                              | 229                                   | 29,347  | 70,349  | 119,605           |
| Acquisition of subsidiaries                              | –                             | –  | –                             | 2,004   | –                              | –                                     | 74  | 3,432   | 5,510             |
| Adjustment on revaluation                                | 64,409                        | 9,439  | –                             | 18,749  | 1,702                          | –                                     | –   | –   | 94,299            |
| Disposals  | –                             | –  | (12,286)                      | –   | –                              | –                                     | (37,993)  | (84,831)  | (135,110)         |
| Reclassification   | –                             | (25,456)   | –                             | (90)  | –                              | –                                     | (75,174)  | 75,263  | (25,457)          |
| Exchange adjustment                                      | –                             | 5,190  | 1,061                         | (14,454)                                      | (6,566)                        | 96                                    | (7,685)   | (4,098)   | (26,456)          |
| At 31 December 2005                                      | 817,111                       | 570,643  | 35,856                        | 258,381                                       | 110,624                        | 11,275                                | 334,613   | 551,587   | 2,690,090         |
| At cost  | –                             | –  | 35,856                        | –   | –                              | 11,275                                | 334,613   | 551,587   | 933,331           |
| At professional valuation                                | 817,111                       | 570,643  | –                             | 258,381                                       | 110,624                        | –                                     | –   | –   | 1,756,759         |
| At 31 December 2005                                      | 817,111                       | 570,643  | 35,856                        | 258,381                                       | 110,624                        | 11,275                                | 334,613   | 551,587   | 2,690,090         |
| Aggregate depreciation and accumulated impairment losses |                               |  |                               |   |                                |                                       |   |   |                   |
| At 1 January 2005  | –                             | –  | 11,289                        | –   | –                              | 8,813                                 | 242,445   | 320,251   | 582,798           |
| Charge for the year                                      | 18,818                        | 21,377   | 1,355                         | 4,716   | 3,533                          | 1,214                                 | 29,688  | 58,334  | 139,035           |
| Acquisition of subsidiaries                              | –                             | –  | –                             | –   | –                              | –                                     | 50  | 2,476   | 2,526             |
| Adjustment on revaluation                                | (18,818)                      | (21,453)   | –                             | (4,622)                                       | (3,461)                        | –                                     | –   | –   | (48,354)          |
| Disposals  | –                             | –  | (6,445)                       | –   | –                              | –                                     | (34,176)  | (67,892)  | (108,513)         |
| Reclassification   | –                             | –  | –                             | –   | –                              | –                                     | (42,194)  | 42,194  | –                 |
| Exchange adjustment                                      | –                             | 76   | 275                           | (94)  | (72)                           | 74                                    | (3,675)   | (1,351)   | (4,767)           |
| At 31 December 2005                                      | –                             | –  | 6,474                         | –   | –                              | 10,101                                | 192,138   | 354,012   | 562,725           |
| <b>Net book value as at<br/>31 December 2005</b>         | <b>817,111</b>                | <b>570,643</b>                                     | <b>29,382</b>                 | <b>258,381</b>                                | <b>110,624</b>                 | <b>1,174</b>                          | <b>142,475</b>                                  | <b>197,575</b>  | <b>2,127,365</b>  |

- (a) As at 31 December 2005, property, plant and equipment with an aggregate net book value of HK\$233,421,000 (2004: HK\$244,612,000) and port facilities of HK\$110,624,000 (2004: HK\$115,488,000) were pledged as security for bank loan facilities granted to the Group (note 41).
- (b) Hotel property, warehouses and logistics centres in the PRC and Hong Kong were valued by DTZ Debenham Tie Leung Limited and Savills Valuation and Professional Services Limited. Freehold land and buildings and port facilities in Thailand were valued by DTZ Debenham Tie Leung Limited while freehold land and buildings in Australia were valued by Rushton Group. They are independent professional valuers and the valuation was on an open market value basis as at 31 December 2005.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 13 PROPERTY, PLANT AND EQUIPMENT (Continued)

- (c) The carrying amount of the warehouses and logistics centres would have been HK\$348,013,000 (2004: HK\$430,153,000) had they been stated in the accounts at cost less aggregate depreciation and accumulated impairment loss.
- (d) The carrying amount of freehold land and buildings and port facilities would have been HK\$178,119,000 (2004: HK\$190,827,000) and HK\$99,516,000 (2004: HK\$109,185,000), respectively, had they been stated in the accounts at cost less aggregate depreciation and accumulated impairment loss.

|                               | <i>Company</i>                                 |  |                           |
|-------------------------------|--|--|---------------------------|
|                               | <i>Leasehold<br/>improvements<br/>HK\$'000</i> | <i>Motor<br/>vehicles,<br/>furniture,<br/>fixtures<br/>and office<br/>equipment<br/>HK\$'000</i> | <i>Total<br/>HK\$'000</i> |
| <b>Cost</b>                   |  |  |                           |
| At 1 January 2004             | 196  | 2,962  | 3,158                     |
| Additions, at cost            | 227  | 125  | 352                       |
| At 31 December 2004           | 423  | 3,087  | 3,510                     |
| <b>Aggregate depreciation</b> |  |  |                           |
| At 1 January 2004             | 88   | 1,606  | 1,694                     |
| Charge for the year           | 63   | 427  | 490                       |
| At 31 December 2004           | 151  | 2,033  | 2,184                     |
| <b>Net book value</b>         |  |  |                           |
| As at 31 December 2004        | 272  | 1,054  | 1,326                     |

|                               | <i>Company</i>                                 |  |                           |
|-------------------------------|--|--|---------------------------|
|                               | <i>Leasehold<br/>improvements<br/>HK\$'000</i> | <i>Motor<br/>vehicles,<br/>furniture,<br/>fixtures<br/>and office<br/>equipment<br/>HK\$'000</i> | <i>Total<br/>HK\$'000</i> |
| <b>Cost</b>                   |  |  |                           |
| At 1 January 2005             | 423  | 3,087  | 3,510                     |
| Additions, at cost            | 9  | 1,611  | 1,620                     |
| Disposals                     | –  | (1,342)  | (1,342)                   |
| At 31 December 2005           | <b>432</b>                                     | <b>3,356</b>   | <b>3,788</b>              |
| <b>Aggregate depreciation</b> |  |  |                           |
| At 1 January 2005             | 151  | 2,033  | 2,184                     |
| Charge for the year           | 65   | 469  | 534                       |
| Disposals                     | –  | (1,197)  | (1,197)                   |
| At 31 December 2005           | <b>216</b>                                     | <b>1,305</b>   | <b>1,521</b>              |
| <b>Net book value</b>         |  |  |                           |
| <b>As at 31 December 2005</b> | <b>216</b>                                     | <b>2,051</b>   | <b>2,267</b>              |

## 14 INVESTMENT PROPERTIES

|                        | 2005<br>HK\$'000  | Group<br>2004<br>HK\$'000 |
|------------------------|-------------------|---------------------------|
| At 1 January           | <b>19,105,540</b> | 16,163,490                |
| Additions              | <b>14,421</b>     | 22,353                    |
| Increase in fair value | <b>1,546,669</b>  | 1,808,062                 |
| Disposals              | <b>(284,245)</b>  | (63,881)                  |
| Reclassification       | <b>125,256</b>    | 1,174,539                 |
| Exchange adjustment    | <b>2,950</b>      | 977                       |
| <b>At 31 December</b>  | <b>20,510,591</b> | 19,105,540                |

- (a) As at 31 December 2005, investment properties amounting to HK\$96,722,000 (2004: HK\$1,404,267,000) were pledged as security for bank loan facilities granted to the Group (note 41).
- (b) All investment properties were valued by DTZ Debenham Tie Leung Limited and Savills Valuation and Professional Services Limited. They are independent professional valuers and the valuation was on an open market value basis as at 31 December 2005.
- (c) The Group's interest in investment properties at their net book values are analysed as follows:

|                                  | 2005<br>HK\$'000  | 2004<br>HK\$'000 |
|----------------------------------|-------------------|------------------|
| In Hong Kong, held on:           |                   |                  |
| Leases of over 50 years          | <b>8,539,432</b>  | 8,143,471        |
| Leases of between 10 to 50 years | <b>5,154,168</b>  | 4,399,169        |
| Outside Hong Kong, held on:      |                   |                  |
| Leases of over 50 years          | <b>68,500</b>     | 68,500           |
| Leases of between 10 to 50 years | <b>6,748,491</b>  | 6,494,400        |
|                                  | <b>20,510,591</b> | 19,105,540       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| In Hong Kong, held on:                          |                  |                  |
| Leases of between 10 to 50 years                | <b>80,335</b>    | 82,248           |
| Outside Hong Kong, held on:                     |                  |                  |
| Leases of between 10 to 50 years                | <b>244,991</b>   | 309,967          |
|   | <b>325,326</b>   | 392,215          |
|   |                  |                  |
|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| At 1 January                                    | <b>392,215</b>   | 291,769          |
| Additions                                       | <b>1,583</b>     | –                |
| Acquisition of subsidiary                       | –                | 90,248           |
| Amortisation of prepaid operating lease payment | <b>(7,535)</b>   | (6,788)          |
| Reclassification                                | <b>(63,710)</b>  | 16,986           |
| Exchange adjustment                             | <b>2,773</b>     | –                |
| <b>At 31 December</b>                           | <b>325,326</b>   | 392,215          |

- (a) As at 31 December 2005, leasehold land and land use rights amounting to HK\$6,373,000 (2004: 6,354,000) was pledged as security for bank loan facilities granted to the Group (note 41).

### 16 PROPERTIES UNDER DEVELOPMENT

The Group's interests in properties under development at their net book values are analysed as follows:

|                                  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|----------------------------------|------------------|------------------|
| In Hong Kong, held on:           |                  |                  |
| Leases of over 50 years          | <b>595,192</b>   | 584,254          |
| Leases of between 10 to 50 years | <b>4,236,675</b> | 661,901          |
| Outside Hong Kong, held on:      |                  |                  |
| Leases of over 50 years          | <b>691,755</b>   | 178,421          |
| Leases of between 10 to 50 years | <b>2,281,000</b> | 1,369,629        |
| Freehold land and buildings      | <b>50,549</b>    | 10,452           |
|                                  | <b>7,855,171</b> | 2,804,657        |

## 16 PROPERTIES UNDER DEVELOPMENT (Continued)

|                             | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|-----------------------------|------------------|------------------|
| At 1 January                | <b>2,804,657</b> | 2,934,642        |
| Additions during the year   | <b>4,312,434</b> | 595,732          |
| Acquisition of subsidiaries | <b>863,032</b>   | 498,021          |
| Reclassification            | <b>(177,569)</b> | (1,224,570)      |
| Exchange adjustment         | <b>52,617</b>    | 832              |
| <b>At 31 December</b>       | <b>7,855,171</b> | 2,804,657        |

- (a) As at 31 December 2005, properties under development amounting to HK\$47,162,000 (2004: Nil) was pledged as security for bank loan facilities granted to the Group (note 41).

## 17 SUBSIDIARIES

|  | 2005<br>HK\$'000  | Company<br>2004<br>HK\$'000 |
|--|-------------------|-----------------------------|
| Unlisted shares, at cost (Note (a))      | <b>18,643,700</b> | 18,643,700                  |
| Amounts due from subsidiaries (Note (b)) | <b>12,619,589</b> | 8,650,388                   |
|  | <b>31,263,289</b> | 27,294,088                  |

- (a) Details of subsidiaries are set out in note 43 to the financial statements.
- (b) The amounts due from subsidiaries are unsecured, not repayable within twelve months from the balance sheet date and interest-free except for an amount of HK\$9,852,528,000 (2004: HK\$5,960,158,000) which bears interest at prevailing market rates.

## 18 ASSOCIATED COMPANIES

|   | 2005<br>HK\$'000 | Group<br>2004<br>HK\$'000 |
|---|------------------|---------------------------|
| Share of net assets other than negative goodwill (note a) | <b>1,369,155</b> | 1,228,009                 |
| Negative goodwill (note b)                                | -                | (21,459)                  |
| Amounts due from associated companies (note c)            | <b>5,012,888</b> | 3,350,349                 |
| Amounts due to associated companies (note d)              | <b>(50,134)</b>  | (35,612)                  |
|   | <b>6,331,909</b> | 4,521,287                 |

- (a) Details of associated companies are set out in note 44 to the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18 ASSOCIATED COMPANIES (Continued)

#### (b) Negative goodwill

|                                 | HK\$'000 |
|---------------------------------|----------|
| At 1 January 2004               | 22,383   |
| Amortisation                    | (924)    |
| At 31 December 2004             | 21,459   |
| Derecognition on 1 January 2005 | (21,459) |
| <b>At 31 December 2005</b>      | <b>-</b> |

- (c) The amounts due from associated companies are unsecured, not repayable within twelve months from the balance sheet date and interest-free except for amounts totalling HK\$2,608,226,000 (2004: HK\$695,948,000) which bear interest at prevailing market rates.
- (d) The amounts due to associated companies are unsecured, interest-free and not repayable within twelve months from the balance sheet date.
- (e) The summarised financial information of associated companies is as follows:

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Aggregate attributable amounts of total assets         | <b>8,776,618</b> | 6,743,334        |
| Aggregate attributable amounts of total liabilities    | <b>7,407,463</b> | 5,515,325        |
| Aggregate attributable amounts of total revenue        | <b>1,206,214</b> | 1,631,809        |
| Aggregate attributable amounts of net profit after tax | <b>510,105</b>   | 555,503          |

### 19 DERIVATIVE FINANCIAL INSTRUMENTS

|                                     | Group and Company<br>2005 |                         |
|-------------------------------------|---------------------------|-------------------------|
|                                     | Assets<br>HK\$'000        | Liabilities<br>HK\$'000 |
| <b>Interest rate swap contracts</b> | <b>11,663</b>             | <b>39,678</b>           |

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2005 were HK\$5,800,000,000 (2004: HK\$2,260,000,000).

At 31 December 2005, the fixed interest rates vary from 3.65% to 4.70% (2004: 3.65% to 5.51%).

At 31 December 2004, the fair value of outstanding interest rate swap contracts amounted to unrealised losses of HK\$81,881,000.

### 20 AVAILABLE-FOR-SALE INVESTMENTS

|   | Group<br>2005<br>HK\$'000 |
|---|---------------------------|
| <b>Unlisted securities, at fair value</b> | <b>1,431,639</b>          |

## 21 LONG-TERM INVESTMENTS

|  | <i>Group<br/>2004<br/>HK\$'000</i> |
|--|------------------------------------|
| Long-term investments                          |                                    |
| Non-trading securities:                        |                                    |
| Unlisted investments, at fair value            | 1,237,605                          |
| Amounts due from investee companies (note (a)) | 1,908                              |
|  | 1,239,513                          |
| Club debentures, at cost                       | 9,967                              |
|  | 1,249,480                          |

- (a) The amounts due from investee companies are unsecured, interest-free and not repayable within twelve months from the balance sheet date.

## 22 LONG-TERM RECEIVABLES AND ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

|  | <i>2005<br/>HK\$'000</i> | <i>Group<br/>2004<br/>HK\$'000</i> |
|--|--------------------------|------------------------------------|
| Trade receivables (note (a))                         | <b>918,080</b>           | 972,808                            |
| Land deposits and deferred project development costs | <b>1,390,255</b>         | 224,560                            |
| Second mortgage loans receivables                    | <b>106,339</b>           | 184,425                            |
| Others   | <b>484,709</b>           | 454,080                            |
|  | <b>2,899,383</b>         | 1,835,873                          |
| Less: long-term receivables (note (b))               | <b>(102,503)</b>         | (167,098)                          |
| Current portion                                      | <b>2,796,880</b>         | 1,668,775                          |

The carrying amounts of long-term receivables and accounts receivable, prepayments and deposits approximate the fair value of these balances.

- (a) The Group maintains defined credit policies and applies credit policies appropriate to the particular business circumstances of the Group. At 31 December 2005 and 2004, the ageing analysis of the trade receivables of the Group were as follows:

|                              | <i>2005<br/>HK\$'000</i> | <i>2004<br/>HK\$'000</i> |
|------------------------------|--------------------------|--------------------------|
| Below 1 month                | <b>459,297</b>           | 579,505                  |
| Between 1 month and 3 months | <b>361,819</b>           | 317,642                  |
| Over 3 months                | <b>96,964</b>            | 75,661                   |
|                              | <b>918,080</b>           | 972,808                  |

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

- (b) Amount represents non-current portion of second mortgage loans to buyers of certain properties developed by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23 GOODWILL – GROUP

|  | Goodwill<br>HK\$'000 | Negative<br>goodwill<br>HK\$'000 | Total<br>HK\$'000 |
|--|----------------------|----------------------------------|-------------------|
| <b>Year ended 31 December 2004</b>                           |                      |                                  |                   |
| At 1 January 2004  | 44,785               | (87,389)                         | (42,604)          |
| Arising from purchase of business                            | 1,000                | –                                | 1,000             |
| Arising from purchase of subsidiaries                        | 143,560              | –                                | 143,560           |
| Arising from purchase of additional interest in a subsidiary | –                    | (3,684)                          | (3,684)           |
| Amortisation   | (3,608)              | 4,578                            | 970               |
| At 31 December 2004  | 185,737              | (86,495)                         | 99,242            |

|  | Goodwill<br>HK\$'000 | Negative<br>goodwill<br>HK\$'000 | Total<br>HK\$'000 |
|--|----------------------|----------------------------------|-------------------|
| <b>Year ended 31 December 2005</b>                           |                      |                                  |                   |
| At 1 January 2005 (before opening adjustment)                | 185,737              | (86,495)                         | 99,242            |
| Opening adjustment for derecognition of negative goodwill    | –                    | 86,495                           | 86,495            |
| At 1 January 2005 (after opening adjustment)                 | 185,737              | –                                | 185,737           |
| Arising from purchase of subsidiaries                        | 39,759               | –                                | 39,759            |
| Arising from purchase of additional interest in subsidiaries | 21,590               | –                                | 21,590            |
| Exchange adjustment  | (3,025)              | –                                | (3,025)           |
| At 31 December 2005  | 244,061              | –                                | 244,061           |

|                          | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--------------------------|------------------|------------------|
| <b>At 31 December</b>    |                  |                  |
| Cost                     | <b>244,061</b>   | 98,262           |
| Accumulated amortisation | –                | 980              |
| <b>Net book amount</b>   | <b>244,061</b>   | 99,242           |

### Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below.

|                | 2005                                   | 2004                        |  | Total    |
|----------------|--|-----------------------------|--|----------|
|                | Logistics and<br>Warehouse<br>HK\$'000 | PRC<br>Property<br>HK\$'000 | Logistics and<br>Warehouse<br>HK\$'000 | HK\$'000 |
| PRC            | <b>135,133</b>                         | (3,684)                     | 113,543                                | 109,859  |
| Hong Kong      | <b>2,580</b>                           | –                           | (79,847)                               | (79,847) |
| United Kingdom | <b>71,253</b>                          | –                           | 34,201                                 | 34,201   |
| Others         | <b>35,095</b>                          | –                           | 35,029                                 | 35,029   |
|                | <b>244,061</b>                         | (3,684)                     | 102,926                                | 99,242   |

## 23 GOODWILL – GROUP (Continued)

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

### Key assumptions used for value-in-use calculations

|               | Logistics and Warehouse |           |                |        |
|---------------|-------------------------|-----------|----------------|--------|
|               | PRC                     | Hong Kong | United Kingdom | Others |
| Gross Margin  | 3%                      | 2%        | 8%             | 1%-46% |
| Growth rate   | 2%                      | 2%        | 5%             | 2%     |
| Discount rate | 10%                     | 10%       | 10%            | 10%    |

These assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted gross margin and growth rates based on past performance and its expectations of the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

## 24 STOCK OF COMPLETED PROPERTIES HELD FOR SALE

|                                    | Group            |                  |
|------------------------------------|------------------|------------------|
|                                    | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Leasehold land and land use rights | <b>51,582</b>    | 149,749          |
| Other development costs            | <b>196,975</b>   | 368,476          |
|                                    | <b>248,557</b>   | 518,225          |

## 25 LISTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | Group<br>2005<br>HK\$'000 |
|--|---------------------------|
| Listed securities:                       |                           |
| – Equity securities – Hong Kong          | <b>25,798</b>             |
| – Equity securities – Malaysia           | <b>70</b>                 |
| <b>Market value of listed securities</b> | <b>25,868</b>             |

All the above securities were designated at fair value through profit or loss at inception.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26 TRADING SECURITIES

|                                    | <i>Group</i><br>2004<br>HK\$'000 |
|------------------------------------|----------------------------------|
| Equity securities:                 |                                  |
| Listed in Hong Kong                | 3,569                            |
| Listed outside Hong Kong           | 110                              |
| Market value of listed investments | 3,679                            |

### 27 CASH AND CASH EQUIVALENTS

|                          | <i>Group</i>     |                  | <i>Company</i>   |                  |
|--------------------------|------------------|------------------|------------------|------------------|
|                          | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Cash at bank and in hand | <b>1,400,397</b> | 1,313,769        | <b>3,955</b>     | 4,918            |
| Short-term bank deposits | <b>1,163,863</b> | 921,101          | <b>4,311</b>     | 126,028          |
|                          | <b>2,564,260</b> | 2,234,870        | <b>8,266</b>     | 130,946          |

The effective interest rate on short-term bank deposits was 3.53% (2004: 0.81%); these deposits have an average maturity of less than 30 days.

Cash and bank overdrafts include the following for the purposes of the consolidated cash flow statement:

|                           | <i>Group</i>     |                  |
|---------------------------|------------------|------------------|
|                           | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Pledged bank deposits     | <b>32,514</b>    | 73,636           |
| Cash and bank balances    | <b>2,531,746</b> | 2,161,234        |
|                           | <b>2,564,260</b> | 2,234,870        |
| Unsecured bank overdrafts | <b>(318)</b>     | (1,113)          |
|                           | <b>2,563,942</b> | 2,233,757        |

### 28 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

|                                 | <i>Group</i>     |                  |
|---------------------------------|------------------|------------------|
|                                 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Trade payables                  | <b>559,472</b>   | 526,855          |
| Construction costs payable      | <b>436,646</b>   | 389,168          |
| Rental and sales deposits       | <b>356,736</b>   | 450,334          |
| Amount due to a related company | <b>323,294</b>   | –                |
| Others                          | <b>826,467</b>   | 781,619          |
|                                 | <b>2,502,615</b> | 2,147,976        |

## 28 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES (Continued)

The ageing analysis of trade payables as at 31 December 2005 was as follows:

|                              | Group            |                  |
|------------------------------|------------------|------------------|
|                              | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Below 1 month                | <b>326,336</b>   | 304,995          |
| Between 1 month and 3 months | <b>117,952</b>   | 114,710          |
| Over 3 months                | <b>115,184</b>   | 107,150          |
|                              | <b>559,472</b>   | 526,855          |

## 29 BANK LOANS

|                         | Group            |                  | Company          |                  |
|-------------------------|------------------|------------------|------------------|------------------|
|                         | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| <b>Non-current</b>      |                  |                  |                  |                  |
| Bank loans              |                  |                  |                  |                  |
| – unsecured             | <b>8,194,489</b> | 5,210,093        | <b>7,380,000</b> | 4,130,000        |
| – secured (note 41)     | <b>122,914</b>   | 266,289          | –                | –                |
|                         | <b>8,317,403</b> | 5,476,382        | <b>7,380,000</b> | 4,130,000        |
| <b>Current</b>          |                  |                  |                  |                  |
| Bank loans              |                  |                  |                  |                  |
| – unsecured             | <b>892,492</b>   | 537,039          | <b>450,000</b>   | 150,000          |
| – secured (note 41)     | <b>124,491</b>   | 143,389          | –                | –                |
|                         | <b>1,016,983</b> | 680,428          | <b>450,000</b>   | 150,000          |
| <b>Total bank loans</b> | <b>9,334,386</b> | 6,156,810        | <b>7,830,000</b> | 4,280,000        |

The maturity of bank loans is as follows:

|                                 | Group            |                  | Company          |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
|                                 | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Within 1 year                   | <b>1,016,983</b> | 680,428          | <b>450,000</b>   | 150,000          |
| Between 1 and 2 years           | <b>4,213,695</b> | 764,259          | <b>3,830,000</b> | 300,000          |
| Between 2 and 5 years           | <b>4,100,871</b> | 4,712,123        | <b>3,550,000</b> | 3,830,000        |
| Wholly repayable within 5 years | <b>9,331,549</b> | 6,156,810        | <b>7,830,000</b> | 4,280,000        |
| Over 5 years                    | <b>2,837</b>     | –                | –                | –                |
|                                 | <b>9,334,386</b> | 6,156,810        | <b>7,830,000</b> | 4,280,000        |

The effective interest rates of the major bank borrowings at the balance sheet date were as follows:

|            | 2005         |              |              | 2004  |       |       |
|------------|--------------|--------------|--------------|-------|-------|-------|
|            | HK\$         | US\$         | RMB          | HK\$  | US\$  | RMB   |
| Bank loans | <b>4.40%</b> | <b>4.74%</b> | <b>5.41%</b> | 0.72% | 2.99% | 5.47% |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 29 BANK LOANS (Continued)

The carrying amounts of all bank loans approximate their fair value.

The carrying amounts of the bank loans are denominated in the following currencies:

|                  | <i>Group</i>                   |                                | <i>Company</i>                 |                                |
|------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                  | <i>2005</i><br><i>HK\$'000</i> | <i>2004</i><br><i>HK\$'000</i> | <i>2005</i><br><i>HK\$'000</i> | <i>2004</i><br><i>HK\$'000</i> |
| Hong Kong dollar | <b>8,480,000</b>               | 5,223,175                      | <b>7,830,000</b>               | 4,280,000                      |
| US dollar        | <b>469,443</b>                 | 486,944                        | –                              | –                              |
| Renminbi         | <b>201,865</b>                 | 243,891                        | –                              | –                              |
| Other currencies | <b>183,078</b>                 | 202,800                        | –                              | –                              |
|                  | <b>9,334,386</b>               | 6,156,810                      | <b>7,830,000</b>               | 4,280,000                      |

At 31 December 2005, the Group has the following undrawn borrowing facilities:

|                            | <i>2005</i><br><i>HK\$'000</i> | <i>2004</i><br><i>HK\$'000</i> |
|----------------------------|--------------------------------|--------------------------------|
| Floating rate              |                                |                                |
| – expiring within one year | <b>136,170</b>                 | 688,772                        |
| – expiring beyond one year | <b>3,613,614</b>               | 7,165,812                      |
|                            | <b>3,749,784</b>               | 7,854,584                      |

### 30 CONVERTIBLE BONDS

On 8 April 2005, Wise Insight Finance Limited, a wholly-owned subsidiary of the Company, issued an aggregate principal amount of HK\$2,500,000,000 zero-coupon guaranteed convertible bonds which are due in April 2010 at a redemption price of 119.354% of the principal amount. The bonds are convertible into ordinary shares of HK\$1 each in the Company.

The fair values of the liability component and the equity component were determined upon the issuance of the convertible bonds.

The fair value of the liability component was calculated using a market interest rate for a bond with the same tenure but with no conversion features. The residual amount, representing the value of the equity component, is credited to a convertible bonds reserve under equity attributable to the Company's shareholders.

### 30 CONVERTIBLE BONDS (Continued)

The convertible bonds recognised in the balance sheet are calculated as follows:

|  | Group            |                  |
|--|------------------|------------------|
|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Face value of convertible bonds issued on 8 April 2005     | 2,500,000        | –                |
| Less: equity component                                     | (145,250)        | –                |
| Liability component on initial recognition at 8 April 2005 | 2,354,750        | –                |
| Direct issue costs attributable to liability component     | (28,356)         | –                |
|  | 2,326,394        | –                |
| Add: imputed finance cost (note 7)                         | 86,701           | –                |
| <b>Liability component at 31 December 2005</b>             | <b>2,413,095</b> | <b>–</b>         |

The fair value of the liability component of the convertible bonds at 31 December 2005 amounted to approximately HK\$2,500,079,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 4.25%.

Imputed finance cost on the bonds is calculated using the effective interest method by applying the effective interest rate of 5.1% to the liability component.

### 31 AMOUNTS DUE TO MINORITY SHAREHOLDERS – GROUP

The amounts due to minority shareholders represent proportionate funding from the minority shareholders of joint venture projects including an amount of approximately HK\$393,883,000 (2004: HK\$439,282,000) received from a subsidiary of Shangri-La Asia Limited, a related company whose shares are listed on the Stock Exchange of Hong Kong. These loans are unsecured, subordinated to the bank loans of the relevant subsidiaries, have no fixed terms of repayment, and interest-free except for an amount of HK\$114,270,000 (2004: HK\$86,759,000) which bears interest at prevailing market rates.

### 32 DEFERRED TAXATION

|   | Group            |                  |
|---|------------------|------------------|
|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| At 1 January  | 1,746,997        | 1,275,379        |
| Purchase of subsidiaries (note 37(b))                             | (16)             | 16,499           |
| Deferred taxation charged/(credited) to income statement (note 8) | 288,263          | (346,729)        |
| Deferred taxation charged directly to reserves                    | 46,452           | 732,598          |
| Deferred taxation charged directly to minority interests          | 14,520           | 69,192           |
| Transfer from taxation  | 109              | –                |
| Exchange adjustment   | 758              | 58               |
| <b>At 31 December</b>   | <b>2,097,083</b> | <b>1,746,997</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 32 DEFERRED TAXATION (Continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$1,475,545,000 (2004: HK\$1,481,789,000) to be carried forward for offset against future taxable income.

The movement in deferred tax assets and liabilities during the year was as follows:

|  | <i>Revaluation<br/>HK\$'000</i> | <i>Accelerated<br/>depreciation<br/>allowances<br/>HK\$'000</i> | <i>Group<br/>Tax losses<br/>HK\$'000</i> | <i>Total<br/>HK\$'000</i> |
|--|---------------------------------|---|--|---------------------------|
| At 1 January 2004  | 1,313,696                       | 133,605   | (171,922)                                | 1,275,379                 |
| Purchase of subsidiaries                                 | 16,499                          | –   | –  | 16,499                    |
| Deferred taxation (credited)/charged to income statement | (390,753)                       | 41,615  | 2,409                                    | (346,729)                 |
| Deferred taxation charged directly to reserves           | 729,171                         | –   | 3,427                                    | 732,598                   |
| Deferred taxation charged directly to minority interests | 69,192                          | –   | –  | 69,192                    |
| Exchange adjustment                                      | –                               | 58  | –  | 58                        |
| <b>At 31 December 2004</b>                               | <b>1,737,805</b>                | <b>175,278</b>  | <b>(166,086)</b>                         | <b>1,746,997</b>          |

|  | <i>Revaluation<br/>HK\$'000</i> | <i>Accelerated<br/>depreciation<br/>allowances<br/>HK\$'000</i> | <i>Group<br/>Tax losses<br/>HK\$'000</i> | <i>Total<br/>HK\$'000</i> |
|--|---------------------------------|---|--|---------------------------|
| At 1 January 2005  | 1,737,805                       | 175,278   | (166,086)                                | 1,746,997                 |
| Purchase of subsidiaries                                 | –                               | (16)  | –  | (16)                      |
| Deferred taxation charged/(credited) to income statement | 237,939                         | 56,081  | (5,757)                                  | 288,263                   |
| Deferred taxation charged directly to reserves           | 46,452                          | –   | –  | 46,452                    |
| Deferred taxation charged directly to minority interests | 14,520                          | –   | –  | 14,520                    |
| Transfer from taxation                                   | –                               | 109   | –  | 109                       |
| Exchange adjustments                                     | –                               | 758   | –  | 758                       |
| <b>At 31 December 2005</b>                               | <b>2,036,716</b>                | <b>232,210</b>  | <b>(171,843)</b>                         | <b>2,097,083</b>          |

### 33 SHARE CAPITAL

|   | <i>Authorised<br/>Ordinary shares of HK\$1 each</i>            |                  |                      |                 |
|---|--|------------------|----------------------|-----------------|
|   | <i>No. of shares</i>   |                  | <i>HK\$'000</i>      |                 |
| At 31 December 2004 and 2005  | 10,000,000,000   |                  | 10,000,000           |                 |
|   | <i>Issued and fully paid<br/>Ordinary shares of HK\$1 each</i> |                  |                      |                 |
|   | <i>2005</i>  |                  | <i>2004</i>          |                 |
|   | <i>No. of shares</i>   | <i>HK\$'000</i>  | <i>No. of shares</i> | <i>HK\$'000</i> |
| At 1 January  | <b>1,211,116,330</b>   | <b>1,211,116</b> | 1,191,526,727        | 1,191,527       |
| Issue of scrip dividend shares (notes (a) and (b))                      | <b>1,313,052</b>   | <b>1,313</b>     | 14,412,539           | 14,412          |
| Issue of new shares as a result of exercise of share options (note (c)) | <b>4,149,540</b>   | <b>4,150</b>     | 5,177,064            | 5,177           |
| <b>At 31 December</b>   | <b>1,216,578,922</b>   | <b>1,216,579</b> | 1,211,116,330        | 1,211,116       |

- (a) On 26 April 2005, the Company approved a final dividend on its issued ordinary shares for the year ended 31 December 2004. The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive new ordinary shares in lieu of a cash dividend. A total of 832,689 ordinary shares of HK\$1 each were issued on 8 June 2005 under this scheme.
- (b) On 23 September 2005, the Company declared an interim dividend on its issued ordinary shares for the year ended 31 December 2005. The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive new ordinary shares in lieu of a cash dividend. A total of 480,363 ordinary shares of HK\$1 each were issued on 30 November 2005 under this scheme.
- (c) During the year, a total of 4,149,540 option shares were exercised at exercise prices of HK\$14.92, HK\$9.64, HK\$6.70, HK\$11.59 and HK\$6.85, respectively, per share. Details of movement in share options during the year are set out in note 34.
- (d) Proceeds received in respect of the shares issued were used as additional working capital for the Group.

## 34 SHARE OPTIONS

## (a) 1997 Share Option Scheme

Under the 1997 Share Option Scheme, the directors of the Company were authorised, at their discretion, to invite executive directors and key employees of the Company or its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. The exercise price for any particular option was determined by the Board of Directors of the Company in its absolute discretion subject to the compliance with the requirements for share option schemes under the Listing Rules.

The 1997 Share Option Scheme was terminated on 17 April 2002 such that no further options shall be offered but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Details of the movement of the share options under the 1997 Share Option Scheme during the year are as follows:

|  | 2005   |                   | 2004   |             |
|--|--|-------------------|--|-------------|
|  | Weighted<br>average exercise<br>price in HK\$<br>per share | Number            | Weighted<br>average exercise<br>price in HK\$<br>per share | Number      |
| At 1 January   | 11.68  | 21,035,631        | 11.16  | 26,303,507  |
| Granted during the year  | -  | -                 | -  | -           |
| Additional number of option shares granted for<br>the adjustment during the year | -  | -                 | 11.70  | 277,240     |
| Exercised during the year (note i)   | 10.43  | (4,149,540)       | 8.79   | (5,177,064) |
| Lapsed during the year   | -  | -                 | 14.92  | (368,052)   |
| <b>At 31 December (note ii)</b>  |  | <b>16,886,091</b> |  | 21,035,631  |

As at 31 December 2005, all the outstanding share options granted under the 1997 Share Option Scheme were exercisable. There were a total of 4,149,540 shares exercised during the year (2004: 5,177,064 shares) and that the weighted average exercise price was HK\$10.43 each (2004: HK\$8.79 each). The related weighted average share price at the time of exercise was HK\$19.21 (2004: HK\$14.13).

## 34 SHARE OPTIONS (Continued)

### (a) 1997 Share Option Scheme (Continued)

(i) Details of share options exercised during the year were as follows:

| 2005            |  |          |          |           |           |           |   |                           |
|-----------------|--|----------|----------|-----------|-----------|-----------|---|---------------------------|
| Exercise period | Number of share options exercised at the following price per share |          |          |           |           | Total     | Market value per share on the day of exercise<br>HK\$ | Proceeds received<br>HK\$ |
|                 | HK\$14.92  | HK\$9.64 | HK\$6.70 | HK\$11.59 | HK\$6.85  |           |   |                           |
| January 2005    | 301,202  | –        | –        | –         | 77,736    | 378,938   | 16.00 to 16.55  | 5,026,425                 |
| February 2005   | –  | 23,618   | 32,101   | 97,081    | –         | 152,800   | 16.20 to 18.25  | 1,567,923                 |
| March 2005      | –  | 35,050   | –        | 42,208    | 346,640   | 423,898   | 17.10 to 18.25  | 3,201,557                 |
| April 2005      | –  | 10,000   | –        | –         | 10,364    | 20,364    | 16.80 to 17.10  | 167,393                   |
| May 2005        | –  | 40,000   | 254,640  | –         | –         | 294,640   | 16.05 to 17.50  | 2,091,688                 |
| June 2005       | –  | 24,292   | –        | 42,208    | –         | 66,500    | 16.45 to 16.55  | 723,366                   |
| July 2005       | –  | 50,000   | –        | 105,520   | 438,000   | 593,520   | 19.00 to 20.30  | 4,705,277                 |
| August 2005     | 443,571  | 118,268  | –        | –         | 310,364   | 872,203   | 20.50 to 21.05  | 9,884,176                 |
| September 2005  | 43,983   | –        | 53,838   | –         | 10,364    | 108,185   | 20.05 to 21.70  | 1,087,934                 |
| October 2005    | 167,290  | 171,450  | –        | 63,311    | 298,495   | 700,546   | 18.95 to 20.20  | 6,927,210                 |
| November 2005   | 417,290  | –        | –        | –         | –         | 417,290   | 19.95 to 20.95  | 6,225,967                 |
| December 2005   | 100,000  | 10,292   | –        | –         | 10,364    | 120,656   | 21.40 to 21.70  | 1,662,208                 |
|                 | 1,473,336  | 482,970  | 340,579  | 350,328   | 1,502,327 | 4,149,540 |   | 43,271,124                |

| 2004            |  |           |           |           |          |           |   |                           |
|-----------------|--|-----------|-----------|-----------|----------|-----------|---|---------------------------|
| Exercise period | Number of share options exercised at the following price per share |           |           |           |          | Total     | Market value per share on the day of exercise<br>HK\$ | Proceeds received<br>HK\$ |
|                 | HK\$15.12  | HK\$9.77  | HK\$6.79  | HK\$11.74 | HK\$6.94 |           |   |                           |
| January 2004    | –  | 969,987   | 1,090,156 | 28,000    | 594,291  | 2,682,434 | 12.05 to 13.95  | 21,332,032                |
| February 2004   | –  | 30,437    | –         | –         | –        | 30,437    | 13.55   | 297,369                   |
| March 2004      | –  | 183,312   | 42,236    | –         | 50,000   | 275,548   | 12.70 to 13.25  | 2,424,741                 |
| April 2004      | –  | 437       | 31,676    | 13,669    | 61,612   | 107,394   | 11.95 to 12.85  | 807,411                   |
| May 2004        | –  | –         | 220,000   | –         | –        | 220,000   | 9.60  | 1,493,800                 |
| June 2004       | –  | –         | –         | –         | –        | –         | –   | –                         |
| July 2004       | –  | 63,437    | –         | –         | –        | 63,437    | 12.15   | 619,779                   |
| August 2004     | –  | 63,437    | –         | –         | 30,690   | 94,127    | 13.05 to 14.10  | 832,768                   |
| September 2004  | –  | –         | 16,676    | –         | 10,230   | 26,906    | 14.60 to 15.05  | 184,226                   |
| October 2004    | 500,000  | 295,608   | 340,438   | 154,172   | 102,304  | 1,392,522 | 15.00 to 15.45  | 15,279,633                |
| November 2004   | 50,000   | 155,728   | –         | –         | 26,227   | 231,955   | 15.05 to 16.70  | 2,459,478                 |
| December 2004   | –  | –         | –         | –         | 52,304   | 52,304    | 16.40   | 362,990                   |
|                 | 550,000  | 1,762,383 | 1,741,182 | 195,841   | 927,658  | 5,177,064 |   | 46,094,227                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34 SHARE OPTIONS (Continued)

#### (a) 1997 Share Option Scheme (Continued)

(ii) Terms of share options at the balance sheet date were as follows:

| <i>Exercise period</i>         | <i>2005</i>                    |                   | <i>2004</i>                    |               |
|--------------------------------|--------------------------------|-------------------|--------------------------------|---------------|
|                                | <i>Exercise price<br/>HK\$</i> | <i>Number</i>     | <i>Exercise price<br/>HK\$</i> | <i>Number</i> |
| 11 April 1999 to 26 March 2007 | <b>14.92</b>                   | <b>9,231,626</b>  | 14.92                          | 10,704,962    |
| 27 May 2000 to 26 March 2007   | <b>9.64</b>                    | <b>1,717,383</b>  | 9.64                           | 1,970,447     |
| 27 May 2001 to 26 March 2007   | <b>9.64</b>                    | <b>1,789,198</b>  | 9.64                           | 2,019,104     |
| 1 June 2001 to 31 May 2010     | <b>6.70</b>                    | <b>499,000</b>    | 6.70                           | 528,000       |
| 1 June 2002 to 31 May 2010     | <b>6.70</b>                    | <b>541,564</b>    | 6.70                           | 690,149       |
| 1 June 2003 to 31 May 2010     | <b>6.70</b>                    | <b>561,140</b>    | 6.70                           | 724,134       |
| 2 March 2002 to 1 March 2011   | <b>11.59</b>                   | <b>206,000</b>    | 11.59                          | 328,000       |
| 2 March 2003 to 1 March 2011   | <b>11.59</b>                   | <b>206,000</b>    | 11.59                          | 328,000       |
| 2 March 2004 to 1 March 2011   | <b>11.59</b>                   | <b>178,907</b>    | 11.59                          | 285,235       |
| 16 April 2003 to 15 April 2012 | <b>6.85</b>                    | <b>868,514</b>    | 6.85                           | 1,430,810     |
| 16 April 2004 to 15 April 2012 | <b>6.85</b>                    | <b>1,086,759</b>  | 6.85                           | 2,026,790     |
|                                |                                | <b>16,886,091</b> |                                | 21,035,631    |

(iii) No share options were cancelled during the year (2004: Nil).

#### (b) 2002 Share Option Scheme

The 2002 Share Option Scheme was adopted by the Company on 17 April 2002. Under the 2002 Share Option Scheme, the directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules.

On 17 March 2005, a total of 8,540,000 option shares were granted under the 2002 Share Option Scheme. The 2002 Share Option Scheme will expire on 16 April 2012.

## 34 SHARE OPTIONS (Continued)

### (b) 2002 Share Option Scheme (Continued)

Details of the movement of the share options under the 2002 Share Option Scheme during the year are as follows:

|                                | 2005                                     |                  | 2004                                     |        |
|--------------------------------|--|------------------|--|--------|
|                                | Average exercise price in HK\$ per share | Number           | Average exercise price in HK\$ per share | Number |
| At 1 January                   | –  | –                | –  | –      |
| Granted during the year        | <b>18.74</b>                             | <b>8,540,000</b> | –  | –      |
| Exercised during the year      | –  | –                | –  | –      |
| Lapsed during the year         | –  | –                | –  | –      |
| <b>At 31 December (note v)</b> |  | <b>8,540,000</b> |  | –      |

All the outstanding share options granted under the 2002 Share Option Scheme remain unvested as at 31 December 2005.

(i) The average fair value of options granted at 17 March 2005 is HK\$5.81 per option.

(ii) The valuation was based on a Binomial Model with the following data and assumptions:

|                                  |   |
|----------------------------------|---|
| Share price at the grant date:   | HK\$18.45   |
| Exercise price:                  | HK\$18.74   |
| Expected volatility:             | 40% p.a.  |
| Option life:                     | 10 years  |
| Expected dividend:               | 3.00% p.a.  |
| Average risk-free interest rate: | 3.87% p.a.  |
| Rate of leaving service:         | 5.00% p.a.  |
| Early exercise assumption:       | Option holders will exercise the option when the share price is at least 160% of the exercise price |

(iii) The volatility rate of the share price of the Company was determined with reference to the movement of the Company's share prices during the period from August 1996 to August 2005.

(iv) Taking into account the probability of leaving employment and early exercise behavior stated above, the average expected life of the grant was estimated to be 5.80 years. The risk-free interest rate is taken to be the linearly interpolated yields of Hong Kong Exchange Fund Notes as at the grant date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34 SHARE OPTIONS (Continued)

#### (b) 2002 Share Option Scheme (Continued)

(v) Terms of share options at the balance sheet date were as follows:

| Exercise period                | 2005                   |                  | 2004                   |          |
|--------------------------------|------------------------|------------------|------------------------|----------|
|                                | Exercise price<br>HK\$ | Number           | Exercise price<br>HK\$ | Number   |
| 17 March 2006 to 16 March 2015 | 18.74                  | 4,270,000        | –                      | –        |
| 17 March 2007 to 16 March 2015 | 18.74                  | 4,270,000        | –                      | –        |
|                                |                        | <b>8,540,000</b> |                        | <b>–</b> |

(vi) No share options were cancelled during the year (2004: Nil).

### 35 SHARE PREMIUM

|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| At 1 January  | 3,857,220        | 3,628,591        |
| Arising from scrip dividend (notes 33(a) and (b))   | 22,496           | 187,712          |
| Arising from exercise of share options (note 33(c)) | 39,122           | 40,917           |
| <b>At 31 December</b>                               | <b>3,918,838</b> | <b>3,857,220</b> |

### 36 OTHER RESERVES

|   | Group  |   |   |   |  |   |                                  | Total<br>HK\$'000 |
|---|--|---|---|---|--|---|----------------------------------|-------------------|
|   | Investment<br>properties<br>revaluation<br>reserve<br>HK\$'000 | Hotel<br>properties<br>revaluation<br>reserve<br>HK\$'000 | Other<br>properties<br>revaluation<br>reserve<br>HK\$'000 | Freehold<br>land and<br>buildings<br>revaluation<br>reserve<br>HK\$'000 | Properties<br>under<br>development<br>revaluation<br>reserve<br>HK\$'000 | Non-trading<br>securities<br>revaluation<br>reserve<br>HK\$'000 | Others<br>(note (a))<br>HK\$'000 |                   |
| At 1 January 2004, as previously reported   | –  | –   | 466,420   | 10,697  | 4,274  | 855,049   | 7,873,504                        | 9,209,944         |
| Deferred tax arising from the revaluation<br>of investment properties   | –  | –   | –   | –   | –  | (60,165)  | –                                | (60,165)          |
| Depreciation adjustment for<br>land and buildings   | –  | –   | (57,868)  | –   | –  | –   | –                                | (57,868)          |
| Hotel adjustment resulting from<br>adoption of HK-Int 2   | –  | 29,464  | –   | –   | –  | –   | –                                | 29,464            |
| At 1 January 2004, as restated  | –  | 29,464  | 408,552   | 10,697  | 4,274  | 794,884   | 7,873,504                        | 9,121,375         |
| On revaluation of properties (note (b))   | 1,418,168  | 8,700   | 16,125  | 26,776  | –  | –   | –                                | 1,469,769         |
| Arising from valuation of non-trading<br>securities (note (c))  | –  | –   | –   | –   | –  | 101,151   | –                                | 101,151           |
| Transfer from retained profits  | –  | –   | –   | –   | –  | –   | 740                              | 740               |
| Exchange differences arising from<br>investments in the PRC and overseas<br>subsidiaries/associated companies | –  | –   | –   | 1,642   | –  | –   | 17,468                           | 19,110            |
| Deferred taxation charged directly to<br>reserves   | (700,638)  | (8,720)   | (10,580)  | (12,660)  | –  | (18,458)  | –                                | (751,056)         |
| Reclassification  | 4,274  | –   | –   | –   | (4,274)  | –   | –                                | –                 |
| At 31 December 2004   | 721,804  | 29,444  | 414,097   | 26,455  | –  | 877,577   | 7,891,712                        | 9,961,089         |

## 36 OTHER RESERVES (Continued)

|   | Group  |   |   |   |   |   |                                |                                  |                   |
|---|--|---|---|---|---|---|--------------------------------|----------------------------------|-------------------|
|   | Investment<br>properties<br>revaluation<br>reserve<br>HK\$'000 | Hotel<br>properties<br>revaluation<br>reserve<br>HK\$'000 | Other<br>properties<br>revaluation<br>reserve<br>HK\$'000 | Freehold<br>land and<br>buildings<br>revaluation<br>reserve<br>HK\$'000 | Available-<br>for-sale<br>investments/<br>non-trading<br>securities<br>revaluation<br>reserve<br>HK\$'000 | Convertible<br>bonds<br>reserve<br>HK\$'000 | Hedging<br>reserve<br>HK\$'000 | Others<br>(note (a))<br>HK\$'000 | Total<br>HK\$'000 |
| At 31 December 2004   | 721,804  | 29,444  | 414,097   | 26,455  | 877,577   | –   | –                              | 7,891,712                        | 9,961,089         |
| Opening adjustment for the adoption of<br>HKAS 39   | –  | –   | –   | –   | –   | –   | (11,244)                       | –                                | (11,244)          |
| Opening adjustment for the adoption of<br>HKAS 40   | (721,804)  | –   | –   | –   | –   | –   | –                              | –                                | (721,804)         |
| At 1 January 2005   | –  | 29,444  | 414,097   | 26,455  | 877,577   | –   | (11,244)                       | 7,891,712                        | 9,228,041         |
| On revaluation of properties (note (b))   | –  | 59,300  | 34,398  | 15,043  | –   | –   | –                              | –                                | 108,741           |
| Arising from valuation of available-for-sale<br>investments (note (c))  | –  | –   | –   | –   | 207,337   | –   | –                              | –                                | 207,337           |
| Provision of share options expense  | –  | –   | –   | –   | –   | –   | –                              | 28,627                           | 28,627            |
| Transfer from retained profits  | –  | –   | –   | –   | –   | –   | –                              | 822                              | 822               |
| Exchange differences arising from<br>investments in the PRC and overseas<br>subsidiaries/associated companies | –  | –   | –   | (1,641)   | –   | –   | –                              | 17,682                           | 16,041            |
| Deferred taxation charged<br>directly to reserves   | –  | (25,711)  | (15,870)  | (4,871)   | –   | –   | –                              | –                                | (46,452)          |
| Convertible bonds – equity component  | –  | –   | –   | –   | –   | 143,501                                     | –                              | –                                | 143,501           |
| Cash flow hedge   | –  | –   | –   | –   | –   | –   | 13,189                         | –                                | 13,189            |
| <b>At 31 December 2005</b>  | <b>–</b>   | <b>63,033</b>   | <b>432,625</b>  | <b>34,986</b>   | <b>1,084,914</b>  | <b>143,501</b>                              | <b>1,945</b>                   | <b>7,938,843</b>                 | <b>9,699,847</b>  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 36 OTHER RESERVES (Continued)

(a) Others

|   | Group  |   |  |   |  |                   |
|---|--|---|--|---|--|-------------------|
|   | Capital<br>reserve<br>(note (d))<br>HK\$'000 | Share<br>options<br>reserve<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>HK\$'000 | Enterprise<br>expansion<br>and<br>general<br>reserve<br>funds<br>(note (e))<br>HK\$'000 | Capital<br>redemption<br>reserve<br>(note (g))<br>HK\$'000 | Total<br>HK\$'000 |
| At 1 January 2004   | 7,975,089                                    | –                                       | (137,236)                                      | 27,783  | 7,868  | 7,873,504         |
| Transfer from retained profits  | –  | –                                       | –  | 740   | –  | 740               |
| Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies | –  | –                                       | 17,410   | 58  | –  | 17,468            |
| At 31 December 2004   | 7,975,089                                    | –                                       | (119,826)                                      | 28,581  | 7,868  | 7,891,712         |
| Transfer from retained profits  | –  | –                                       | –  | 822   | –  | 822               |
| Provision of share options expense  | –  | 28,627                                  | –  | –   | –  | 28,627            |
| Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies | –  | –                                       | 17,682   | –   | –  | 17,682            |
| <b>At 31 December 2005</b>  | <b>7,975,089</b>                             | <b>28,627</b>                           | <b>(102,144)</b>                               | <b>29,403</b>   | <b>7,868</b>   | <b>7,938,843</b>  |

- (b) These represent surplus arising from revaluation of properties at the balance sheet date. The accounting policies in respect of revaluation of properties are set out in notes 2(e) and 2(f) to the financial statements.
- (c) This represents surplus arising from valuation of the Group's available-for-sale investments/non-trading securities at the balance sheet date. The accounting policy in respect of valuation of available-for-sale investments/non-trading securities is set out in note 2(k) to the financial statements.
- (d) Capital reserve of the Group arose from the Group's reorganisation in preparation for its listing on the Stock Exchange of Hong Kong in August 1996, adjusted by the excess or deficit of the fair values of the net assets of subsidiaries and associated companies subsequently acquired over the cost of investment at the date of acquisition before 1 January 2001.
- (e) Enterprise expansion and general reserve funds are set up by subsidiaries and associated companies established and operating in the PRC. According to the PRC Foreign Enterprise Accounting Standards, upon approval, the enterprise expansion reserve fund may be used for increasing capital while the general reserve fund may be used for making up losses and increasing capital.

## 36 OTHER RESERVES (Continued)

### (f) Other reserves

|   | <i>Company</i>                              |   |  |  | <i>Total<br/>HK\$'000</i> |
|---|---|---|--|--|---------------------------|
|   | <i>Contributed<br/>surplus<br/>HK\$'000</i> | <i>Convertible<br/>bonds<br/>reserve<br/>HK\$'000</i> | <i>Share<br/>option<br/>reserve<br/>HK\$'000</i> | <i>Capital<br/>redemption<br/>reserves<br/>(note (g))<br/>HK\$'000</i> |                           |
| At 1 January 2004 and<br>31 December 2004 | 17,793,308                                  | –   | –  | 7,868  | 17,801,176                |
| Convertible bonds – equity component      | –   | 143,501   | –  | –  | 143,501                   |
| Provision of share option expense         | –   | –   | 28,627   | –  | 28,627                    |
| <b>At 31 December 2005</b>                | <b>17,793,308</b>                           | <b>143,501</b>  | <b>28,627</b>                                    | <b>7,868</b>   | <b>17,973,304</b>         |

- (i) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.
- (ii) As at 31 December 2005, the reserves of the Company available for distribution amounted to approximately HK\$18,762,640,000 (2004: HK\$18,784,646,000).
- (g) The capital redemption reserve arose from the purchase of the Company's shares for cancellation during 1998 and 2002 and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

## 37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit before taxation to net cash generated from operations

|  | 2005<br>HK\$'000   | Group<br>2004<br>HK\$'000 |
|--|--------------------|---------------------------|
| Profit before taxation   | <b>3,756,278</b>   | 2,288,115                 |
| Amortisation of goodwill   | –                  | 3,608                     |
| Amortisation of negative goodwill  | –                  | (4,578)                   |
| Depreciation and amortisation  | <b>146,494</b>     | 105,628                   |
| Dividend income from listed and unlisted investments   | <b>(13,936)</b>    | (11,569)                  |
| Finance costs  | <b>201,679</b>     | 145,119                   |
| Interest income  | <b>(101,636)</b>   | (34,123)                  |
| Loss on sale of property, plant and equipment  | <b>11,410</b>      | 285                       |
| Gain on sale of investment properties  | <b>(180,257)</b>   | (910)                     |
| Loss on sale of an associated company  | –                  | 9,208                     |
| Unrealised gain on valuation of listed securities<br>at fair value through profit or loss/trading securities   | <b>(1,657)</b>     | (427)                     |
| Revaluation surplus on investment properties and other leasehold land and buildings  | <b>(1,542,170)</b> | (298,601)                 |
| Share of results of associated companies   | <b>(510,105)</b>   | (555,503)                 |
| Operating profit before working capital changes  | <b>1,766,100</b>   | 1,646,252                 |
| (Increase)/decrease in stock of completed properties held for sale, properties<br>under development for sale and accounts receivable, prepayments and deposits | <b>(407,924)</b>   | 269,025                   |
| (Decrease)/increase in accounts payable, deposits received and accrued charges   | <b>(645,644)</b>   | 253,216                   |
| Net cash generated from operations   | <b>712,532</b>     | 2,168,493                 |

## 37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Purchase of subsidiaries

#### (i) PRC Property

On 24 October 2005, the Group acquired 51% of the share capital of Shanghai Ming Cheng Real Estate Development Co Ltd which holds a plot of land in Nanjing Xi Lu, Jingan District; on 15 November 2005, the Group acquired 51% of the share capital of Shanghai Jin Ci Hou Properties Co Ltd which holds two plots of land in Changde Lu and Nanjing Xi Lu, Jingan District and on 30 December 2005, the Group acquired 50.5% of the share capital of Shanghai Ji Xiang Properties Co Ltd, formerly a subsidiary of Shangri-La Asia Limited which holds a plot of land in Yanan Zhong Lu, Jingan District. The acquisitions enable the Group to develop the plots of land into a mixed-use development, consisting of a hotel, offices, retail podiums and serviced apartments, which will be a landmark in one of the prime business areas of Shanghai in association with Shangri-La Asia Limited.

#### (ii) Hong Kong Property

On 1 December 2005, the Group acquired the entire share capital of Fair Town Limited, a registered owner of the property located at 26-30 Des Voeux Road West, Hong Kong. The property was acquired for redevelopment purposes.

#### (iii) Logistics Network

On 28 April 2005, a 91% subsidiary of the Group acquired 100% of Marsvale Ltd (subsequently renamed as Kerry Records Management Ltd), a documents storage company operating in the United Kingdom. The acquired business contributed revenues of HK\$8,166,000 and net profit of HK\$1,419,000 to the Group for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, the revenues and profit before allocation attributable to the Group would have been HK\$9,752,000 and HK\$905,000, respectively.

On 13 August 2005, a 91% subsidiary of the Group acquired 63.5% of Orion Shipping & Forwarding Ltd, a freight forwarding company operating in the United Kingdom. The acquired business contributed revenues of HK\$23,791,000 and net profit of HK\$1,447,000 to the Group for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, the revenues and profit before allocation attributable to the Group would have been HK\$50,287,000 and HK\$2,147,000, respectively.

## 37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

## (b) Purchase of subsidiaries (Continued)

(iv) Details of net assets acquired and goodwill are as follows:

|   | 2005                        |                    |                   | 2004      |
|---|-----------------------------|--------------------|-------------------|-----------|
|   | PRC<br>Property<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 | HK\$'000  |
| Net assets acquired:  |                             |                    |                   |           |
| Property, plant and equipment/leasehold<br>land and land use rights | 2                           | 2,982              | <b>2,984</b>      | 618,751   |
| Property under development  | 740,578                     | 122,454            | <b>863,032</b>    | 498,021   |
| Associated companies  | –                           | –                  | –                 | 43,305    |
| Other investments   | –                           | –                  | –                 | 9,585     |
| Accounts and other receivables                                      | 602,787                     | 12,115             | <b>614,902</b>    | 609,615   |
| Cash and bank balances  | 24                          | 18,991             | <b>19,015</b>     | 298,178   |
| Accounts and other payables   | (695,935)                   | (13,892)           | <b>(709,827)</b>  | (571,439) |
| Tax recoverable   | –                           | 385                | <b>385</b>        | –         |
| Bank loans  | –                           | –                  | –                 | (445,267) |
| Deferred taxation   | –                           | 16                 | <b>16</b>         | (16,499)  |
|   | 647,456                     | 143,051            | <b>790,507</b>    | 1,044,250 |
| Less: minority interests  | (320,200)                   | (8,002)            | <b>(328,202)</b>  | (452,776) |
|   | 327,256                     | 135,049            | <b>462,305</b>    | 591,474   |
| Goodwill  | 2,707                       | 37,052             | <b>39,759</b>     | 143,560   |
|   | 329,963                     | 172,101            | <b>502,064</b>    | 735,034   |
| Settled by:   |                             |                    |                   |           |
| Cash  | 29,684                      | 172,101            | <b>201,785</b>    | 735,034   |
| Accounts payable  | 300,279                     | –                  | <b>300,279</b>    | –         |
|   | 329,963                     | 172,101            | <b>502,064</b>    | 735,034   |

## (c) Analysis of the net cash outflow in respect of the purchase of subsidiaries

|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|---|------------------|------------------|
| Cash consideration  | <b>201,785</b>   | 735,034          |
| Cash and bank balances acquired                             | <b>(19,015)</b>  | (298,178)        |
| Net cash outflow in respect of the purchase of subsidiaries | <b>182,770</b>   | 436,856          |

## 38 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

### (a) Purchases of services

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Marketing, consultancy and administrative management fees expense (note) | <b>18,423</b>    | 16,733           |

Note: This represents payment of services fee to Shangri-La International Hotel Management Limited, a subsidiary of Shangri-La Asia Limited ("SA"), a related Company of the Group, which provided marketing, consultancy and administrative management services to a member of the Group. The service fees payable during the year were determined at either a fixed amount or a certain percentage of the gross operating revenue of the relevant company in accordance with the agreement for the provision of the above services.

### (b) Key management compensation

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Salaries and other short-term benefits | <b>49,264</b>    | 36,459           |
| Share-based payments                   | <b>15,716</b>    | –                |
| Post-employment benefits               | <b>240</b>       | 240              |
|  | <b>65,220</b>    | 36,699           |

### (c) Year-end balances

|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|--|------------------|------------------|
| Receivables from related parties:  |                  |                  |
| Associated companies (note 18)   | <b>5,012,888</b> | 3,350,349        |
| Payables to related parties:   |                  |                  |
| Subsidiaries of SA   |                  |                  |
| – included under accounts payable, deposits received and accrued charges (note 28) | <b>323,294</b>   | –                |
| – included under amounts due to minority shareholders (note 31)                    | <b>393,883</b>   | 439,282          |
| Associated companies (note 18)   | <b>50,134</b>    | 35,612           |

### (d) Guarantees for banking and other facilities of certain associated companies

The Group has executed guarantees for banking and other facilities granted to certain associated companies. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2005 amounted to approximately HK\$102,473,000 (2004: HK\$52,909,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK\$112,573,000 (2004: HK\$235,463,000). The above-mentioned amounts are also reflected in the guarantees given by the Group for banking and other facilities disclosed in note 40(a).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 38 RELATED PARTY TRANSACTIONS (Continued)

#### (e) Other related party transactions

On 9 October 2005, the Company and SA, together with various other parties, entered into a joint venture contract for the establishment of a joint venture company to undertake a property development project in Pudong, Shanghai, PRC. On 30 November 2005, the Company and SA, together with various other parties, entered into a funding agreement in relation to the above-mentioned development. Details are set out in item (II) in the section headed "Connected Transactions" in the Report of the Directors.

As disclosed in last year's annual report, the Company and SA entered into a master agreement on 13 April 2004 relating to the joint acquisition, ownership and development of five sites in Jingan District, Shanghai, PRC. On 30 December 2005, as part of the transactions under the above-mentioned agreement, the Group acquired from a wholly owned subsidiary of SA a 50.5% interest in Shanghai Ji Xiang Properties Co. Ltd. at a consideration of US\$38,729,000 (approximately HK\$300,279,000).

### 39 COMMITMENTS

- (a) At 31 December 2005, the Group had capital commitments in respect of properties under development and property, plant and equipment not provided for in these accounts as follows:

|                                   | 2005<br>HK\$'000 | Group<br>2004<br>HK\$'000 |
|-----------------------------------|------------------|---------------------------|
| Contracted but not provided for   | <b>4,586,977</b> | 2,113,807                 |
| Authorised but not contracted for | <b>137,667</b>   | 286,114                   |
|                                   | <b>4,724,644</b> | 2,399,921                 |

- (b) At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

|  | 2005<br>HK\$'000 | Group<br>2004<br>HK\$'000 |
|--|------------------|---------------------------|
| Land and buildings:                    |                  |                           |
| Within one year                        | <b>61,844</b>    | 66,031                    |
| In the second to fifth year, inclusive | <b>101,437</b>   | 119,873                   |
| Over five years                        | <b>88,836</b>    | 108,688                   |
|  | <b>252,117</b>   | 294,592                   |
| Vessels:                               |                  |                           |
| Within one year                        | <b>46,338</b>    | 63,248                    |
| In the second to fifth year, inclusive | <b>110,340</b>   | 89,152                    |
|  | <b>156,678</b>   | 152,400                   |
|  | <b>408,795</b>   | 446,992                   |

### 39 COMMITMENTS (Continued)

- (c) At 31 December 2005, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases as follows:

|  | <i>Group</i>     |                  |
|--|------------------|------------------|
|  | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Land and buildings:                    |                  |                  |
| Within one year                        | <b>901,775</b>   | 730,821          |
| In the second to fifth year, inclusive | <b>718,866</b>   | 529,347          |
| Over five years                        | <b>473,066</b>   | 527,772          |
|  | <b>2,093,707</b> | 1,787,940        |

### 40 CONTINGENT LIABILITIES

#### (a) Guarantees for banking and other facilities

|   | <i>Group</i>     |                  | <i>Company</i>   |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
| Guarantees for banking and other facilities of certain subsidiaries, associated companies, investee companies and the set-up office of a project undertaken by the Group (notes (i) and (ii)) | <b>413,517</b>   | 493,493          | <b>1,361,039</b> | 1,609,201        |
| Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (iii))   | <b>48,346</b>    | 382,234          | <b>3,350</b>     | 6,461            |
|   | <b>461,863</b>   | 875,727          | <b>1,364,389</b> | 1,615,662        |

- (i) The Group has executed guarantees for banking and other facilities granted to certain associated companies, investee companies and the set-up office of a project undertaken by the Group. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2005 amounted to approximately HK\$413,517,000 (2004: HK\$493,493,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK\$423,617,000 (2004: HK\$676,047,000).
- (ii) The Company has executed guarantees to banks for facilities granted to certain subsidiaries, associated companies, investee companies and the set-up office of a project undertaken by the Group. The utilised amount of such facilities covered by the Company's guarantees which also represented the financial exposure of the Company as at 31 December 2005 amounted to approximately HK\$1,361,039,000 (2004: HK\$1,609,201,000). The total amount of such facilities covered by the Company's guarantees amounted to approximately HK\$1,481,614,000 (2004: HK\$1,969,455,000).

### 40 CONTINGENT LIABILITIES (Continued)

#### (a) Guarantees for banking and other facilities (Continued)

- (iii) The Group and the Company have executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's and the Company's guarantees which also represented the financial exposure of the Group and the Company as at 31 December 2005 amounted to approximately HK\$48,346,000 (2004: HK\$382,234,000) and HK\$3,350,000 (2004: HK\$6,461,000), respectively. The total amount of such facilities covered by the Group's and the Company's guarantees amounted to approximately HK\$148,922,000 (2004: HK\$903,110,000) and HK\$3,350,000 (2004: HK\$6,461,000), respectively.

#### (b) Other guarantees and undertakings

- (i) A wholly owned subsidiary of the Company, through its associated company, has a 20% interest in a company which is engaged in the development of a site in the Olympic Mass Transit Railway Station Development. Another wholly owned subsidiary of the Company, through its associated company, has a 32.5% interest in another company which is engaged in the development of an adjacent site. The companies developing the sites (the "Developers") were each granted exclusive rights to develop the relevant sites pursuant to separate development agreements (the "Development Agreements") entered into by each of the Developers and MTR Corporation Limited ("MTRC").

Pursuant to two deeds of guarantee in relation to each of the above developments, the Company has provided several guarantees in favour of the MTRC for the due and punctual performance and observance by each of the Developers of 20% and 32.5%, respectively, of the Developer's obligations, liabilities, stipulations, acts and duties under or in connection with the respective Development Agreements and the due and punctual payment of 20% and 32.5%, respectively, of all monies and liabilities due, owing or payable to the MTRC from or by each of the Developers under or in connection with the respective Development Agreements.

In consideration of the MTRC entering into and agreeing to the terms of the sale and purchase agreement (the "S & P Agreement") and certain trust arrangements (the "Trust Arrangements") in relation to the sale of an office development developed by the Developer in which the Group has a 20% interest, the Company has agreed to provide several guarantees and indemnities to indemnify MTRC against 20% of all claims, demands, cost, damages, losses, expenses and/or liabilities which MTRC may incur or suffer and which are in any way connected with or resulting from the entering into and/or the observance and/or performance of the S & P Agreement and/or the carrying out by MTRC of the Trust Arrangements. The Company has also guaranteed the payment on demand of 20% of the full amount of such costs, losses, expenses or liabilities.

## 40 CONTINGENT LIABILITIES (Continued)

### (b) Other guarantees and undertakings (Continued)

- (ii) The Group has a 15% effective interest in Western Harbour Tunnel Company Limited (“WHTCL”) which acquired a 30-year franchise from the Government of the Hong Kong Special Administrative Region (the “Government”) to build and operate the Western Harbour Crossing (the “Crossing”). Pursuant to a deed of guarantee dated 2 September 1993 as amended by a deed of novation dated 27 June 1995, a second deed of novation dated 12 October 1998 and a third deed of novation dated 30 May 2000 (the “Guarantee”), the Company together with the other beneficial shareholders of WHTCL have jointly and severally undertaken to the Government that if the aggregate of all costs incurred by WHTCL up to the operating date of the Crossing and all maintenance and repair costs incurred by WHTCL after the operating date of the Crossing but before the issuance of the maintenance certificate exceeds HK\$7,534,000,000 then they will pay to WHTCL such excess amount.

Pursuant to a shareholders agreement dated 30 December 1992 as amended by a cross-indemnity deed dated 20 December 1993, a supplemental deed dated 8 September 1994, a second supplemental deed dated 12 October 1998 and a third supplemental deed dated 23 May 2000 in respect of WHTCL, the Company together with the other beneficial shareholders have agreed that in relation to any claim made or asserted under the Guarantee, as between themselves, the total of all liabilities in respect of such claim and of all costs, charges and expenses suffered or incurred by any of them resulting therefrom or attributable thereto shall be shared by them in proportion to their respective ultimate ownership of the issued capital of WHTCL.

- (iii) A wholly owned subsidiary of the Company, through its associated company, has a 40% interest in a company which is engaged in the development of a site at the Hang Hau Mass Transit Railway Station Development (the “Hang Hau Developer”). The Hang Hau Developer was granted exclusive rights to develop the site pursuant to a development agreement (the “Hang Hau Development Agreement”) entered into by the Hang Hau Developer with, amongst others, MTRC.

Pursuant to a deed of guarantee in relation to the above development, the Company has provided several guarantees in favour of MTRC for the due and punctual performance and observance by the Hang Hau Developer of 40% of its obligations, liabilities, stipulations, acts and duties under or in connection with the Hang Hau Development Agreement and the due and punctual payment of 40% of all monies and liabilities due, owing or payable to MTRC from the Hang Hau Developer under or in connection with the Hang Hau Development Agreement.

### 40 CONTINGENT LIABILITIES (Continued)

#### (b) Other guarantees and undertakings (Continued)

- (iv) The Group has 38.2% interest in a company (the "Seller") which, pursuant to a sale and purchase agreement (the "Mortgage S&P Agreement"), has sold certain loans (the "Loans") to The Hong Kong Mortgage Corporation Limited (the "HKMC"). Pursuant to a support agreement (the "Support Agreement") entered into by the Company with, amongst others, the HKMC, the Company has severally undertaken that (i) if the Seller fails to repurchase any Loans in accordance with the Mortgage S&P Agreement, to, or to procure a third party approved by the HKMC to, complete repurchase of such Loans; and (ii) if the Seller fails to pay when due any amount in full in respect of the Loans required to be paid by it to the HKMC, to pay on behalf of the Seller on a several basis an amount equal to 38.2% of the amount that the Seller has failed to pay to the HKMC.

The Company has also severally undertaken with the HKMC that it shall indemnify and keep indemnified the HKMC, its directors, officers and employees and its successors and assignees from and against 38.2% of all liabilities, losses, damages, actions, proceedings, demands, claims, costs and expenses which may be brought against, suffered or incurred by such indemnified person by reason of any breach of the Seller's undertakings, representations and warranties in the Mortgage S&P Agreement and the Support Agreement or of any breach of the Company's representations, warranties and undertakings in the Support Agreement.

- (v) The Group has a 50% interest in a company ("Party 1") which owns a piece of land in Cheung Sha Wan while another company ("Party 2") owns an adjacent piece of land. Party 1 and Party 2 are negotiating the joint redevelopment of the two pieces of land. Prior to the joint redevelopment, the parties need to surrender the existing two pieces of land to the Government in exchange for the grant of a new lot for commercial/residential development with public car park facilities (the "Proposed Land Exchange"). The Proposed Land Exchange involves the grant of a street and its associated footpaths as part of the new lot and requires the permanent closure of the abovementioned street and its associated footpaths.

Pursuant to an undertaking (the "Undertaking") dated 24 May 2002, in consideration of the Government entering into and continuing the negotiations with Party 1 and Party 2 on the Proposed Land Exchange, the Company and other parties, including the holding companies of the shareholders of Party 1 and Party 2, have jointly and severally undertaken, covenanted and agreed that they shall indemnify and keep indemnified the Government and any of its officers from and against all and any actions (including judicial reviews), liabilities, demands, claims, expenses, costs and losses arising directly or indirectly out of or in connection with the gazetting of the permanent closure of the abovementioned street and its associated footpaths under the Roads (Works, Use and Compensation) Ordinance and the authorisation of such closure.

Pursuant to a deed of cross indemnity and a collateral deed of cross indemnity, both dated 24 May 2002, the Group's liabilities under the Undertaking shall be several and shall be determined based on its share of interest in the joint redevelopment.

## 40 CONTINGENT LIABILITIES (Continued)

### (b) Other guarantees and undertakings (Continued)

- (vi) A wholly owned subsidiary of the Company, Wealthy State Investments Limited (“Wealthy State”), has been granted the right to jointly develop a site in Sai Ying Pun, Hong Kong pursuant to a development agreement (the “SYP Development Agreement”) entered into between Wealthy State and Urban Renewal Authority (“URA”).

Pursuant to a guarantee in relation to the above development, the Company has provided guarantees in favour of URA for the due and punctual performance and fulfilment of all Wealth State’s obligations under the SYP Development Agreement or arising out of or in connection with the SYP Development Agreement (including Wealth State’s obligations to make payments under the terms of the SYP Development Agreement).

### (c) Litigation

Kerry EAS Logistics Limited (“KEAS”), formerly known as EAS International Transportation Limited, is involved in a legal case in which an airline operator, together with five other plaintiffs, including the insurers of the aircraft, are claiming for damages, costs and interest, against six defendants, including KEAS, on a joint and several basis in relation to the alleged damages amounting to approximately US\$65.6 million (equivalent to approximately HK\$511.7 million, based on the exchange rate of US\$1 = HK\$7.8) caused to an aircraft in 2000 in respect of the transportation of certain chemical substance.

The damages sought by the plaintiffs of approximately US\$65.6 million represent the market value of the aircraft at the time when the damage occurred less the resale value of the aircraft after repairs. According to the pleadings and the affidavits of the five other plaintiffs, the actual compensation made by them to the airline operator amounted to 15% of the total loss. The remaining 85% of the total loss was compensated by other reinsurers. These reinsurers have not brought any legal action against the six defendants as at the date of this report. Under the PRC laws, the maximum liability of the six defendants under the current legal case is only 15% of the total loss.

Based on the opinion of the legal advisers of the Group, it is unlikely that KEAS will be found liable for the claimed damages and losses. Accordingly, no provision has been made in the financial statements.

Pursuant to the sale and purchase agreement, the vendor of KEAS has undertaken to indemnify the Group in full in respect of all losses, costs, expenses and other responsibilities and liabilities arising in respect of various litigations against KEAS including the abovementioned legal case.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 41 PLEDGE OF ASSETS – GROUP

At 31 December 2005, the Group's total bank loans of HK\$9,334,386,000 (2004: HK\$6,156,810,000) included an aggregate amount of HK\$9,086,981,000 (2004: HK\$5,747,132,000) which is unsecured and an aggregate amount of HK\$247,405,000 (2004: HK\$409,678,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain properties and port facilities (notes 13 to 16);
- (ii) charges on all assets, including bank balances amounting to HK\$32,514,000 (2004: HK\$73,636,000), of certain subsidiaries; and
- (iii) assignments of insurance proceeds of certain properties.

### 42 ULTIMATE HOLDING COMPANY

The directors regard Kerry Group Limited, a company incorporated in the Cook Islands, as being the ultimate holding company.

#### 43. GROUP STRUCTURE – SUBSIDIARIES

As at 31 December 2005, the Company held interests in the following subsidiaries which are categorized according to the business divisions of the Group, namely, Property Division, Infrastructure Division, Logistics Network Division and Other Divisions as listed below:

| Name  | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of issued capital/ registered capital | Indirect interest held unless denoted with <sup>A</sup> |
|---|---------------------------------------|--|---|---|
| <b>Under Property Division</b>                                  |                                       |  |   |   |
| Aberporth Resources Limited                                     | BVI                                   | Investment holding   | US\$1   | 100%  |
| Able Time Group Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| * Amble Aim Sdn. Bhd.   | MAL                                   | Investment holding   | RM2   | 100%  |
| Ansellman Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Auto Plaza Limited  | HK                                    | Investment holding, property investment and carpark operation  | Ordinary HK\$4,998<br>Non-voting deferred HK\$2   | 100%  |
| Baron Development Limited                                       | BVI                                   | Investment holding   | US\$1   | 100%  |
| Barriedale Limited  | BVI                                   | Investment holding   | US\$10,000  | 100%  |
| <sup>λ^*</sup> Beihai Kerry Property Development Ltd.           | PRC                                   | Property development   | RMB5,931,363                                      | 100%  |
| <sup>μ^</sup> Beijing Jia Ao Real Estate Development Co., Ltd.  | PRC                                   | Property investment  | US\$77,967,600                                    | 71.25%  |
| <sup>μ^</sup> Beijing Kerry Centre Hotel Co., Ltd.              | PRC                                   | Hotel ownership and operation  | US\$33,000,000                                    | 71.25%  |
| Bethan Company Limited  | HK                                    | Dormant  | HK\$2   | 100%  |
| Big Sky Resources Limited                                       | BVI                                   | Investment holding   | US\$100   | 100%  |
| Burgo Inc   | BVI                                   | Dormant  | US\$1,000   | 100%  |
| Calistock Limited   | BVI                                   | Investment holding in Hong Kong  | US\$1   | 100%  |
| Cashel Assets Limited   | BVI                                   | Investment holding in Hong Kong  | US\$1   | 100%  |
| Clavering Services Limited                                      | BVI                                   | Investment holding   | US\$1,000   | 100%  |
| Comphor Company Limited   | BVI                                   | Investment holding   | US\$10  | 100%  |
| Darcey Investments Limited                                      | BVI                                   | Investment holding   | US\$100   | 100%  |
| Denver Rose Investments Limited                                 | BVI                                   | Investment holding in Hong Kong  | US\$1   | 100%  |
| Dragon Wisdom Limited   | BVI                                   | Dormant  | US\$1   | 100%  |
| Errol Company Ltd.  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Even Wise Limited   | HK                                    | Dormant  | HK\$1   | 100%  |
| Fair Page Limited   | HK                                    | Property investment  | HK\$2   | 100%  |
| Fair Town Limited   | HK                                    | Property investment  | HK\$1   | 100%  |
| Garden Streams Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Giant Noble Investments Limited                                 | BVI                                   | Investment holding   | US\$1   | 100%  |
| Goldash Holdings Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Golden Concord Properties Limited                               | HK                                    | Property investment  | HK\$1   | 100%  |
| Golden Explorer Group Limited                                   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Grandgain Holdings Limited                                      | BVI                                   | Investment holding   | US\$10,000  | 100%  |
| Harvard Developments Limited                                    | BVI                                   | Dormant  | US\$12  | 75%   |
| Hong Kong Shanghai Development Co Ltd.                          | SMA                                   | Investment holding   | HK\$8,000,000                                     | 65%   |
| Interseed Company Limited                                       | HK                                    | Property trading   | HK\$2   | 100%  |
| Irrewarra Holdings Limited                                      | BVI                                   | Investment holding   | US\$1   | 100%  |
| Julian Holdings Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kanya Corp.   | BVI                                   | Investment holding   | US\$1,000   | 100%  |
| Kerry Beijing (Guang Hua) Ltd                                   | SMA                                   | Investment holding   | HK\$1,000,000                                     | 75%   |
| Kerry Beijing (Shibalidian) Commercial Ltd.                     | SMA                                   | Dormant  | HK\$1   | 100%  |
| Kerry Beijing (Shibalidian) Development Ltd.                    | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Beijing (Shibalidian) Exhibition Centre Ltd.              | SMA                                   | Dormant  | HK\$1   | 100%  |
| Kerry Beijing (Shibalidian) Housing Ltd.                        | SMA                                   | Investment holding   | US\$1   | 100%  |
| Kerry Beijing (Shibalidian) Recreation Club Ltd.                | SMA                                   | Dormant  | HK\$1   | 100%  |
| <sup>λ^</sup> Kerry Cao Jia Yan Properties (Shanghai) Co., Ltd. | PRC                                   | Property development   | US\$13,400,000                                    | 100%  |
| <sup>λ^*</sup> Kerry Centre Real Estate (Shenzhen) Co. Ltd.     | PRC                                   | Property investment  | HK\$142,000,000                                   | 100%  |
| Kerry Development (China) Limited                               | HK                                    | Provision of management services   | HK\$1   | 100%  |
| * Kerry Development (Manzhouli) Co., Ltd.                       | PRC                                   | Property development   | US\$1,950,000                                     | 100%  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 43. GROUP STRUCTURE – SUBSIDIARIES (Continued)

| Name  | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of issued capital/ registered capital            | Indirect interest held unless denoted with <sup>Δ</sup> |
|---|---------------------------------------|--|--|---|
| <b>Under Property Division (Continued)</b>  |                                       |  |  |   |
| <sup>λ^</sup> Kerry Development (Shanghai) Co., Ltd.  | PRC                                   | Property development   | US\$40,000,000   | 100%  |
| <sup>λ^*</sup> Kerry Development (Shenzhen) Co., Ltd.   | PRC                                   | Property development   | HK\$233,350,000  | 100%  |
| Kerry Fuzhou (Gutian) Ltd.  | SMA                                   | Investment holding   | HK\$6,000,000  | 100%  |
| Kerry Guangxi (Beihai) Ltd  | SMA                                   | Investment holding   | HK\$1,500,000  | 100%  |
| Kerry Properties (Australia) Limited  | BVI                                   | Investment holding   | HK\$1  | 100%  |
| Kerry Properties (China) Limited  | BVI                                   | Investment holding   | HK\$4,554,642,958  | 100% <sup>Δ</sup>                                       |
| Kerry Properties (Chongqing) Ltd.   | SMA                                   | Investment holding   | HK\$1  | 100%  |
| Kerry Properties (H.K.) Limited   | HK                                    | Investment holding   | Ordinary HK\$1,000<br>Non-voting deferred<br>HK\$200,000,000 | 100%  |
| Kerry Properties (Hangzhou) Ltd.<br>(formerly known as Kerry Shanghai<br>(Zhu Yuan) Ltd.)   | SMA                                   | Investment holding   | HK\$85,000,000   | 100%  |
| Kerry Properties (Hohhot) Ltd.  | SMA                                   | Dormant  | HK\$1  | 100%  |
| Kerry Properties (Hong Kong) Limited  | BVI                                   | Investment holding   | HK\$413,179  | 100% <sup>Δ</sup>                                       |
| Kerry Properties (Macau) Limited<br>(formerly known as Centro de<br>Convenções e Exposições Macau, Limitada)                                      | Macau                                 | Construction and property development  | MOPI,000,000   | 71%   |
| Kerry Properties (Manzhouli) Ltd.   | SMA                                   | Investment holding   | HK\$1  | 100%  |
| Kerry Properties (Ningbo) Ltd.  | SMA                                   | Dormant  | HK\$1  | 100%  |
| Kerry Properties (Philippines) Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Kerry Properties (Shenzhen Central District) Ltd.   | SMA                                   | Dormant  | HK\$1  | 100%  |
| <sup>λ^*</sup> Kerry Properties (Shenzhen) Co., Ltd.  | PRC                                   | Property development   | HK\$112,082,975  | 100%  |
| Kerry Properties (Sydney) Pty Ltd   | Australia                             | Investment holding   | A\$1   | 100%  |
| Kerry Properties (Tianjin) Ltd.<br>(formerly known as Kerry Properties<br>(Lujiazui) Ltd. and before that as<br>Kerry Electricity (Ningxia) Ltd.) | SMA                                   | Dormant  | HK\$1  | 100%  |
| Kerry Properties (Yangzhou) Ltd.<br>(formerly known as Kerry Suzhou (Gucheng) Ltd.)   | SMA                                   | Investment holding   | HK\$1,000,000  | 100%  |
| * Kerry Properties Beijing (Shibidian)<br>Holdings Company Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Kerry Properties Beijing Kerry Centre Ltd.  | SMA                                   | Dormant  | HK\$1  | 100%  |
| Kerry Properties International Limited  | BVI                                   | Investment holding   | HK\$1  | 100% <sup>Δ</sup>                                       |
| Kerry Properties Shenzhen Kerry Centre Limited  | HK                                    | Investment holding   | HK\$5,000,000  | 100%  |
| <sup>^*</sup> Kerry Real Estate (Hangzhou) Co. Ltd.   | PRC                                   | Property development   | US\$62,000,000   | 100%  |
| <sup>^*</sup> Kerry Real Estate (Yangzhou) Co., Ltd.  | PRC                                   | Property development   | US\$3,352,350  | 100%  |
| Kerry Residences Limited  | HK                                    | Dormant  | HK\$2  | 100%  |
| Kerry Shanghai (Cao Jia Yan) Ltd.   | SMA                                   | Investment holding   | US\$2  | 100%  |
| Kerry Shanghai (Hongkou) Ltd.   | SMA                                   | Investment holding   | HK\$6,000,000  | 60%   |
| Kerry Shanghai (Jingan Beili) Ltd   | SMA                                   | Investment holding   | HK\$1,000,000  | 75%   |
| Kerry Shanghai Development Ltd  | SMA                                   | Investment holding   | HK\$1,000,000  | 100%  |
| Kerry Shanghai Pudong Investments Ltd.<br>(formerly known as Kerry Properties<br>(Shanghai Pudong Expo Centre) Ltd.)                              | SMA                                   | Dormant  | HK\$1  | 100%  |
| Kildare Limited   | HK                                    | Property trading   | HK\$2  | 100%  |
| Kingsfield Development Limited  | HK                                    | Dormant  | HK\$1  | 100%  |
| Mable Road Company Limited  | HK                                    | Property investment  | Ordinary HK\$10<br>Non-voting deferred HK\$10,000            | 100%  |
| Madigan Company Limited   | HK                                    | Property trading   | HK\$2  | 100%  |
| Magnifair Company Limited   | HK                                    | Property development   | HK\$10,000   | 100%  |
| Maple Crest Development Limited   | BVI                                   | Investment holding and<br>property trading in Hong Kong  | US\$120  | 75%   |
| Marrakesh Limited   | BVI                                   | Investment holding   | US\$1  | 100%  |
| Mazlo Holdings Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Mega Box Retail Management Limited  | HK                                    | Dormant  | HK\$2  | 100%  |
| MegaBox Development Company Limited<br>(formerly known as Princeton Investment<br>Company Limited)  | HK                                    | Property development   | HK\$2  | 100%  |
| Merlin Limited  | SMA                                   | Investment holding in the<br>People's Republic of China  | HK\$1,000,000  | 100%  |
| Mid-Levels Portfolio (Aigburth) Holdings Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Mid-Levels Portfolio (Aigburth) Limited   | Cook Islands                          | Property investment in Hong Kong   | US\$9  | 100%  |
| Mid-Levels Portfolio (Branksome) Holdings Limited   | BVI                                   | Investment holding   | US\$1  | 100%  |
| Mid-Levels Portfolio (Branksome) Limited  | HK                                    | Property investment  | HK\$1,000  | 100%  |
| Mid-Levels Portfolio (Century Tower II)<br>Holdings Limited   | BVI                                   | Investment holding   | US\$1  | 100%  |

#### 43. GROUP STRUCTURE – SUBSIDIARIES (Continued)

| Name  | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of issued capital/ registered capital        | Indirect interest held unless denoted with <sup>A</sup> |
|---|---------------------------------------|--|--|---|
| <b>Under Property Division (Continued)</b>                          |                                       |  |  |   |
| Mid-Levels Portfolio (Gladdon) Holdings Limited                     | BVI                                   | Investment holding   | US\$1  | 100%  |
| Mid-Levels Portfolio (Gladdon) Limited                              | HK                                    | Property investment  | HK\$1,000  | 100%  |
| Mid-Levels Portfolio (May Tower I) Holdings Limited                 | BVI                                   | Investment holding   | US\$1  | 100%  |
| Mid-Levels Portfolio (May Tower I) Limited                          | HK                                    | Dormant  | HK\$100  | 100%  |
| Mid-Levels Portfolio (Tavistock) Holdings Limited                   | BVI                                   | Investment holding   | US\$1  | 100%  |
| Mid-Levels Portfolio (Tavistock) Limited                            | HK                                    | Property investment  | HK\$1,000  | 100%  |
| Mid-Levels Portfolio (Tregunter Towers 1 & 2) Holdings Limited      | BVI                                   | Investment holding   | US\$100  | 100%  |
| Mid-Levels Portfolio (Tregunter Towers 1 & 2) Limited               | BVI                                   | Property investment in Hong Kong   | US\$1  | 100%  |
| Mid-Levels Portfolio (Valverde) Holdings Limited                    | BVI                                   | Investment holding   | US\$1  | 100%  |
| Mid-Levels Portfolio (Valverde) Limited                             | HK                                    | Property investment and trading  | HK\$1,000  | 100%  |
| Mid-Levels Portfolio Holdings Limited                               | BVI                                   | Investment holding   | US\$1  | 100%  |
| Nite Lites Limited  | BVI                                   | Investment holding   | HK\$10,000   | 100%  |
| NMC 6 Limited   | BVI                                   | Property investment in Hong Kong   | Ordinary US\$1   | 100%  |
| NMC 7 Limited   | BVI                                   | Property investment in Hong Kong   | Ordinary US\$1   | 100%  |
| NMC 8 Limited   | BVI                                   | Property investment in Hong Kong   | Ordinary US\$1   | 100%  |
| NMC 9 Limited   | BVI                                   | Property investment in Hong Kong   | Ordinary US\$1   | 100%  |
| Norbiton Group Limited  | BVI                                   | Investment holding   | HK\$10,000   | 100%  |
| Norminster Limited  | HK                                    | Investment holding   | HK\$1,000  | 100%  |
| Ocean City Investments Limited                                      | BVI                                   | Investment holding   | US\$1  | 75%   |
| Olsen Holdings Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Pembroke Development Investments Limited                            | BVI                                   | Investment holding in Hong Kong  | HK\$10,000   | 100%  |
| Pettico Limited   | HK                                    | Provision of finance services  | HK\$20   | 100%  |
| Pirton Resources Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Port Destiny Limited  | HK                                    | Dormant  | HK\$2  | 100%  |
| Prismatic Limited   | HK                                    | Property development and trading   | HK\$20   | 100%  |
| Purview Assets Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Rayhay Company Limited  | HK                                    | Provision of finance services  | HK\$2  | 100%  |
| <sup>λ^*</sup> Risenland Development (Fuzhou) Co., Ltd.             | PRC                                   | Property development   | HK\$44,000,000   | 100%  |
| Rodder Holdings Limited   | BVI                                   | Investment holding in Hong Kong  | US\$1  | 100%  |
| Roving Spirit Limited   | BVI                                   | Investment holding   | HK\$10,000   | 100%  |
| Sageman Limited   | BVI                                   | Investment holding   | US\$1  | 100%  |
| Scene View Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Senworld Investment Limited   | HK                                    | Property investment  | HK\$2  | 100%  |
| Shanghai Ji Xiang Properties Co., Ltd.                              | PRC                                   | Property development   | US\$76,000,000   | 50.50%  |
| <sup>^*</sup> Shanghai Jin Ci Hou Properties Company Limited        | PRC                                   | Property development   | US\$77,500,000   | 51%   |
| <sup>μ^</sup> Shanghai Gang Hu Properties Co., Ltd.                 | PRC                                   | Property investment and development  | US\$155,300,000  | 64.35%  |
| <sup>μ^</sup> Shanghai Kerry Real Estate Development Co., Ltd.      | PRC                                   | Property investment  | US\$12,000,000   | 55.20%  |
| <sup>^*</sup> Shanghai Ming Cheng Real Estate Development Co., Ltd. | PRC                                   | Property development   | US\$9,000,000  | 51%   |
| <sup>μ^</sup> Shanghai Xin Ci Hou Properties Co., Ltd.              | PRC                                   | Property investment  | US\$60,000,000   | 74.25%  |
| Smart State Holdings Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Spring Capital Holdings Limited                                     | BVI                                   | Dormant  | US\$1  | 100%  |
| Taskan Limited  | HK                                    | Property development   | HK\$2  | 100%  |
| Tellson International Limited                                       | BVI                                   | Investment holding   | US\$1  | 100%  |
| Templepatrick Limited   | HK                                    | Provision of finance service   | HK\$100  | 100%  |
| Travel Aim Investment B.V.  | Netherlands                           | Investment holding   | EUR18,151  | 100%  |
| Trebanos Investment Company Limited                                 | HK                                    | Dormant  | HK\$2  | 100%  |
| Ubagan Limited  | HK                                    | Dormant  | HK\$10,000   | 100%  |
| Viola Developments Limited  | BVI                                   | Investment holding   | US\$1  | 100%  |
| Washers Limited   | BVI                                   | Investment holding   | HK\$10,000   | 100%  |
| Wealthy State Investments Limited                                   | HK                                    | Property development   | HK\$1  | 100%  |
| Wing Tak Cheung Limited   | HK                                    | Property development   | HK\$10,000   | 100%  |
| Wirabay Limited   | BVI                                   | Provision of trustee services  | US\$1  | 100%  |
| Wisese Investment Company Limited                                   | HK                                    | Property investment  | HK\$2  | 75%   |
| Woody Company Limited   | HK                                    | Property investment  | HK\$2  | 100%  |
| Wymer Limited   | BVI                                   | Investment holding   | US\$5,000  | 100%  |
| Ying He Company Limited   | HK                                    | Investment holding   | Ordinary HK\$10<br>Non-voting deferred<br>HK\$21,000,000 | 100%  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 43. GROUP STRUCTURE – SUBSIDIARIES (Continued)

| Name  | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of issued capital/ registered capital | Indirect interest held unless denoted with <sup>Δ</sup> |
|---|---------------------------------------|--|---|---|
| <b>Under Infrastructure Division</b>  |                                       |  |   |   |
| Kerry-ChemQuest (Beijing) Waste Incineration Ltd.   | SMA                                   | Dormant  | HK\$1   | 51%   |
| Kerry CQ (Changzhou) Waste Incineration Ltd.  | SMA                                   | Investment holding   | HK\$1   | 51%   |
| Kerry CQ (Shanghai) Waste Incineration Limited  | BVI                                   | Dormant  | HK\$1   | 51%   |
| Kerry CQ Environmental Engineering Limited  | BVI                                   | Investment holding   | HK\$100   | 51%   |
| Kerry CQ Waste Incineration Limited   | BVI                                   | Investment holding   | HK\$100   | 51%   |
| Kerry Communications Limited<br>(formerly known as Kerry Waste Incineration Limited)          | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Electricity (Hubei Jingmen) Ltd.  | SMA                                   | Dormant  | HK\$1   | 100%  |
| Kerry Electricity (Jiangxi) Ltd.  | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Electricity (Zhongshan) Ltd.  | SMA                                   | Dormant  | HK\$1   | 100%  |
| Kerry Electricity Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Environmental Infrastructure Limited  | BVI                                   | Dormant  | HK\$1   | 100%  |
| Kerry Environmental Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Infrastructure (PRC) Limited  | BVI                                   | Investment holding   | US\$10,000  | 100%  |
| Kerry Infrastructure Development Limited  | HK                                    | Provision of management services and administrative support  | HK\$1   | 100%  |
| Kerry Infrastructure Limited  | BVI                                   | Investment holding   | HK\$595,026,381                                   | 100% <sup>Δ</sup>                                       |
| Kerry Telecommunications (Shanghai) Limited   | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Pinewealth Investments Ltd.<br>(formerly known as Kerry Electricity<br>(Inner Mongolia) Ltd.) | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Silverstone Assets Limited  | BVI                                   | Investment holding in Hong Kong  | US\$100,000                                       | 100%  |
| <b>Under Logistics Network Division</b>   |                                       |  |   |   |
| Able Plus Holdings Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Balkis Limited  | BVI                                   | Investment holding   | US\$10,000  | 100%  |
| Barrowdale Limited  | BVI                                   | Investment holding   | US\$1,000   | 100%  |
| Beaverton Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| @^* Beijing Eas Century Air Tickets Agency Co., Ltd.  | PRC                                   | Acting as sales agent of air passenger transport   | RMB4,000,000                                      | 70%   |
| Belminton Inc.  | BVI                                   | Investment holding   | US\$1,000   | 100%  |
| Bestford Resources Limited  | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Busyhigh Limited  | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Capabletech Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Capital Plus Assets Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| ^* CEN Worldwide (Thailand) Limited   | Thailand                              | General sales agent for airlines   | Baht500,000                                       | 49% #   |
| Charlicks New Guinea Ltd.   | Papua New Guinea                      | Dormant  | PGK54,000   | 99.99%  |
| * Clever Wise Management Limited  | BVI                                   | Provision of nominee services  | US\$1   | 70%   |
| Cremorne Investments Limited  | BVI                                   | Investment holding   | US\$100   | 100%  |
| Dec Limited   | BVI                                   | Investment holding   | US\$10,000  | 100%  |
| Denleigh Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Eas Cross Border Trucking Limited<br>(formerly known as Master Lion Investments Limited)      | HK                                    | Transportation services  | HK\$1   | 100%  |
| Eas Da Tong International Aircargo Company Limited  | HK                                    | Investment holding   | HK\$100,000                                       | 100%  |

#### 43. GROUP STRUCTURE – SUBSIDIARIES (Continued)

| Name   | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of issued capital/ registered capital           | Indirect interest held unless denoted with <sup>Δ</sup> |
|--|---------------------------------------|--|---|---|
| <b>Under Logistics Network Division (Continued)</b>  |                                       |  |   |   |
| Eas Da Tong International Trucking Company Limited   | HK                                    | Transportation services  | HK\$1,000,000   | 100%  |
| Eas Express Services Limited   | HK                                    | Provision of express services  | HK\$10,000  | 100%  |
| Eas International Aircargo Co. Limited   | HK                                    | Provision of freight forwarding services   | HK\$10,000  | 100%  |
| <sup>μ</sup> * EAS International Logistics (Shanghai) Co., Ltd.  | PRC                                   | Logistics business   | US\$6,000,000   | 70%   |
| Eas International Logistics Centre Limited   | HK                                    | Logistics services   | HK\$50,000,000  | 70%   |
| Eas International Shipping Co., Limited<br>(formerly known as Eas Da Tong International Shipping Company Limited)      | HK                                    | Provision of freight forwarding and shipping services  | HK\$1,000,000   | 70%   |
| Eas International Transportation (HK) Limited  | HK                                    | Investment holding   | HK\$100,000   | 70%   |
| <sup>λ^Δ</sup> * Eas Logistics (Shenzhen) Co., Ltd.  | PRC                                   | Warehouse logistics business   | US\$400,000   | 70%   |
| Ever Asset Group Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Evershine Equity Limited   | BVI                                   | Dormant  | US\$1   | 100%  |
| High Success Group Limited   | BVI                                   | Investment holding   | US\$10  | 70%   |
| Intelligain Investments Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Intellioccean Investments Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| International Enterprise Co. Limited   | HK                                    | Investment holding   | Ordinary HK\$10<br>Non-voting deferred<br>HK\$10,000        | 100%  |
| KLN Container Line Limited   | BVI                                   | Freight forwarding business  | HK\$1,200,000   | 100%  |
| <sup>Δ</sup> * KLN Siam Holdings Limited   | Thailand                              | Investment holding   | Common Baht49,000<br>Preference Baht51,000                  | 49% <sup>#</sup>  |
| Kerry Cargo Centre Limited   | HK                                    | Warehouse ownership  | HK\$2   | 100%  |
| <sup>μ</sup> Kerry Cargo Transportation Co. Ltd.<br>(formerly known as Eas Express Trucking Systems Co., Ltd.)         | PRC                                   | Provision of transportation services   | HK\$9,850,000   | 100%  |
| Kerry Cold Store (Hong Kong) Limited   | HK                                    | Warehouse operation  | HK\$20  | 100%  |
| Kerry D.G. Warehouse (Kowloon Bay) Limited   | HK                                    | Warehouse ownership  | HK\$20,000,000  | 100%  |
| Kerry Distribution (Hong Kong) Limited   | HK                                    | Provision of distribution services   | HK\$500,000   | 100%  |
| <sup>Δ</sup> * Kerry Distribution (Thailand) Limited   | Thailand                              | Provision of distribution services   | Baht20,000,000  | 71%   |
| * Kerry EAS Logistics (Qingdao) Co., Ltd.<br>(formerly known as EAS International Logistics (Qingdao) Limited Company) | PRC                                   | Logistics business   | US\$200   | 70%   |
| Kerry EAS Logistics (SHENZHEN) Ltd.<br>(formerly known as Shenzhen Eas International Transportation Ltd.)              | PRC                                   | Freight forwarding business  | US\$1,000,000   | 70%   |
| * Kerry EAS Logistics (Xiamen) Co., Ltd.<br>(formerly known as Eas Logistics (Xiamen) Co., Ltd.)                       | PRC                                   | Logistics business   | US\$1,100,000   | 70%   |
| Kerry EAS Logistics Limited<br>(formerly known as Eas International Transportation Ltd.)                               | PRC                                   | Freight forwarding and logistics business  | RMB150,000,000  | 70%   |
| Kerry EAS Warehouse (Zhuhai Free Trade Zone) Ltd.  | PRC                                   | Provision of cargo storage services  | HK\$1,000,000   | 70%   |
| <sup>λ^Δ</sup> * Kerry FFTZ Warehouse (Shenzhen) Ltd.  | PRC                                   | Warehouse and logistics business   | HK\$50,000,000  | 51%   |
| Kerry Facilities Management (Hong Kong) Limited  | HK                                    | Building management  | HK\$2   | 100%  |
| Kerry Facilities Management Services Limited   | HK                                    | Dormant  | HK\$2   | 100%  |
| * Kerry Freight (Australia) Pty Ltd  | Australia                             | Freight forwarding   | A\$2  | 100%  |
| Kerry Freight (Hong Kong) Limited  | HK                                    | Freight forwarding   | Ordinary HK\$10,000<br>Non-voting deferred<br>HK\$2,750,000 | 100%  |
| <sup>Δ</sup> Kerry Freight (Korea) Inc.  | Korea                                 | Freight forwarding   | Won500,000,000  | 50.99%  |
| <sup>Δ</sup> * Kerry Freight (Taiwan) Limited  | Taiwan                                | Freight forwarding   | TWD29,000,000   | 51%   |
| * Kerry Freight (Thailand) Limited   | Thailand                              | Freight forwarding business  | Baht11,500,000  | 57.80%  |
| <sup>Δ</sup> * Kerry Freight (USA) Inc.  | Delaware, U.S.A.                      | Dormant  | US\$1   | 100%  |
| Kerry Freight International (Taiwan) Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Freight International Limited  | HK                                    | Freight forwarding   | HK\$2   | 100%  |
| Kerry Freight Services (China) Limited   | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Freight Services (Europe) Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Freight Services (HKSAR) Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Freight Services (Korea) Limited   | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Freight Services (Philippines) Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Freight Services (Taiwan) Limited  | BVI                                   | Investment holding   | HK\$10,000  | 100%  |
| Kerry Freight Services (Thailand) Limited  | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Freight Services (U.K.) Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 43. GROUP STRUCTURE – SUBSIDIARIES (Continued)

| Name   | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of issued capital/ registered capital | Indirect interest held unless denoted with <sup>Δ</sup> |
|--|---------------------------------------|--|---|---|
| <b>Under Logistics Network Division (Continued)</b>  |                                       |  |   |   |
| Kerry Freight Services (USA) Limited   | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Freight Services Limited   | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Global Freight Limited   | BVI                                   | Freight forwarding and agency business and customs brokerage   | HK\$100,000                                       | 70%   |
| * Kerry Logistics (Australia) Pty Ltd  | Australia                             | Operation of logistics business, rail terminal and container depot                                   | A\$2,000,000                                      | 100%  |
| Kerry Logistics (Beijing) Ltd.   | SMA                                   | Investment holding   | US\$1   | 100%  |
| Kerry Logistics (China) Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Logistics (Futian FTZ) Investments Ltd.  | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Logistics (HKSAR) Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Logistics (Hong Kong) Limited  | HK                                    | Operation of logistics business  | HK\$10,000,000                                    | 100%  |
| * Kerry Logistics (Macau) Limited  | BVI                                   | Investment holding   | HK\$1   | 100%  |
| <sup>λ^*</sup> Kerry Logistics (Malaysia) Sdn Bhd  | MAL                                   | Logistics and freight forwarding   | RM1,000,000                                       | 67%   |
| <sup>λ^*</sup> Kerry Logistics (Shanghai Waigaoqiao) Co., Ltd.                                   | PRC                                   | Operation of logistics business  | HK\$44,000,000                                    | 100%  |
| Kerry Logistics (Shenzhen Futian) Investments Ltd.   | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Logistics (Shenzhen Yantian) Ltd.  | SMA                                   | Investment holding   | HK\$1   | 100%  |
| <sup>λ^*</sup> Kerry Logistics (Shenzhen) Co., Ltd.  | PRC                                   | Operation of logistics business  | HK\$3,300,000                                     | 100%  |
| * Kerry Logistics (Singapore) Pte. Ltd.  | Singapore                             | International sea and air forwarding   | S\$500,000  | 67%   |
| * Kerry Logistics (South East Asia) Pte. Ltd.  | Singapore                             | Investment holding   | S\$4,500,000                                      | 67%   |
| Kerry Logistics (Taiwan) Investments Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| <sup>^*</sup> Kerry Logistics (Thailand) Limited   | Thailand                              | Operation of logistics business  | Baht160,000,000                                   | 71%   |
| <sup>λ^*</sup> Kerry Logistics (Tianjin) Co., Ltd.   | PRC                                   | Operation of logistics business  | HK\$20,000,000                                    | 100%  |
| Kerry Logistics (Tianjin) Investments Ltd.   | SMA                                   | Investment holding   | HK\$10,000  | 100%  |
| Kerry Logistics (UK) Limited   | UK                                    | Sea and air freight forwarding   | £20,000   | 91%   |
| Kerry Logistics (Waigaoqiao) Ltd.  | SMA                                   | Investment holding   | HK\$1   | 100%  |
| * Kerry Logistics Holdings (Australia) Pty Ltd   | Australia                             | Investment holding   | A\$100  | 100%  |
| Kerry Logistics Infrastructure Limited   | BVI                                   | Investment holding   | HK\$10,000  | 100%  |
| Kerry Logistics Limited  | BVI                                   | Investment holding   | HK\$42,430,000                                    | 100%  |
| Kerry Logistics Network Limited  | Bermuda                               | Investment holding in Hong Kong  | HK\$500,000                                       | 100% <sup>Δ</sup>                                       |
| Kerry Logistics Services (Australia) Limited   | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Logistics Services (Korea) Limited   | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Logistics Services (South East Asia) Limited   | BVI                                   | Investment holding   | HK\$10,000  | 100%  |
| Kerry Logistics Services (Spain) Limited<br>(formerly known as Kerry Chemquest Investments Ltd.) | BVI                                   | Investment holding   | US\$1,000   | 100%  |
| Kerry Logistics Services (Thailand) Limited  | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Logistics Services Limited   | BVI                                   | Investment holding   | US\$2   | 100%  |
| Kerry Logistics Shanghai Corporation   | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Records Management Limited   | UK                                    | Documents storage  | £100  | 91%   |
| Kerry Records Management Services Limited  | HK                                    | Documents storage  | HK\$2   | 100%  |
| <sup>^*</sup> Kerry Siam Seaport Limited   | Thailand                              | Operating deep-sea wharf and warehouses  | Baht484,500,000                                   | 54.98%  |
| Kerry TC Warehouse 1 (Block A) Limited   | BVI                                   | Warehouse ownership in Hong Kong   | US\$1   | 100%  |
| Kerry TC Warehouse 1 (Block B) Limited   | BVI                                   | Warehouse ownership in Hong Kong   | US\$1   | 100%  |
| Kerry TC Warehouse 2 Limited   | HK                                    | Warehouse ownership  | HK\$10,000  | 100%  |
| Kerry TC Warehouse Holdings Limited  | BVI                                   | Investment holding   | HK\$10,000,000                                    | 100%  |
| Kerry Warehouse (Chai Wan) Limited   | HK                                    | Warehouse ownership  | HK\$10,000,000                                    | 100%  |
| Kerry Warehouse (Fanling 1) Limited  | HK                                    | Warehouse ownership  | HK\$2   | 100%  |
| Kerry Warehouse (Fanling 2) Limited  | HK                                    | Warehouse ownership  | HK\$2   | 100%  |
| Kerry Warehouse (HKSAR) Limited  | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Warehouse (Hong Kong) Limited  | HK                                    | Warehouse operation  | HK\$25,000,000                                    | 100%  |
| Kerry Warehouse (Kwai Chung) Limited   | HK                                    | Warehouse ownership  | HK\$30,000  | 100%  |
| Kerry Warehouse (Shatin) Limited   | HK                                    | Warehouse ownership  | HK\$10,000,000                                    | 100%  |

#### 43. GROUP STRUCTURE – SUBSIDIARIES (Continued)

| Name  | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of issued capital/ registered capital | Indirect interest held unless denoted with <sup>Δ</sup> |
|---|---------------------------------------|--|---|---|
| <b>Under Logistics Network Division</b> (Continued)   |                                       |  |   |   |
| Kerry Warehouse (Sheung Shui) Limited   | HK                                    | Warehouse ownership  | HK\$5,000,000                                     | 100%  |
| Kerry Warehouse (Tsuen Wan) Limited   | HK                                    | Warehouse ownership  | HK\$2   | 100%  |
| Kerry Warehouse (Yuen Long I) Limited   | HK                                    | Warehouse ownership  | HK\$2   | 100%  |
| Kerry Warehouse Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| KerryFlex Supply Chain Solutions Limited  | HK                                    | Provision of agency and distribution services  | HK\$5,000,000                                     | 100%  |
| Kimberley Inc.  | BVI                                   | Investment holding   | US\$1,000   | 100%  |
| * Kuok Pengangkutan Sdn. Bhd.   | MAL                                   | Freight forwarding and logistics   | RM2,500,000                                       | 31.22% <sup>#</sup>                                     |
| La Corte Investments Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Lap Sun Wholesaling Network Limited   | HK                                    | Wholesaling  | HK\$2   | 100%  |
| <sup>Δ</sup> * Logistics (Thailand) Limited   | Thailand                              | Investment holding   | Common Baht49,000<br>Preference Baht51,000        | 49% <sup>#</sup>  |
| Longstone Holdings Limited  | BVI                                   | Investment holding   | US\$100   | 100%  |
| Mainco Management Limited   | HK                                    | Building management  | HK\$10,000  | 100%  |
| Nettlefold Limited  | BVI                                   | Investment holding   | US\$10,000  | 100%  |
| Newtonmore Investments Limited  | BVI                                   | Investment holding   | HK\$1   | 100%  |
| Norwarth Investments Limited  | BVI                                   | Provision of management services   | US\$1   | 100%  |
| Omisoka Holdings Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Orion Shipping and Forwarding Limited   | UK                                    | Freight forwarding   | £20,000   | 57.79%  |
| * PT Kerry Logistics (Indonesia)  | Indonesia                             | Freight forwarding & logistics   | US\$50,000  | 60.30%  |
| Pacific Worth Group Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Pola Company Limited  | BVI                                   | Investment holding   | US\$1,000   | 100%  |
| Ponnelle Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Quintoll Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Renmark Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Rightful Investments Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Rocfaith Investments Limited  | SMA                                   | Investment holding   | US\$1   | 70%   |
| Shabu Inc.  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Shanghai Song Jiang Eas Logistics Co., Ltd.   | PRC                                   | Provision of transportation services   | RMB2,500,000                                      | 56%   |
| <sup>μ</sup> <sup>Δ</sup> * Shenzhen Kerry Yantian Port Logistics Company Limited             | PRC                                   | Operation of logistics business  | RMB88,000,000                                     | 55%   |
| Shine Concept Investments Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Sino Galaxy Investment Limited<br>(formerly known as Eas International Shipping Co., Limited) | HK                                    | Dormant  | HK\$15,600,000                                    | 70%   |
| Sky Wealth Investments Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| @ <sup>Δ</sup> * Suzhou Industrial Park District Eas International Logistics Co., Ltd.        | PRC                                   | Provision of logistics business  | RMB5,000,000                                      | 70%   |
| Terowie Holdings Limited  | BVI                                   | Investment holding   | HK\$10,000  | 100%  |
| Top Wise Agents Limited   | BVI                                   | Dormant  | US\$1   | 100%  |
| Torres Investments Limited  | BVI                                   | Investment holding   | HK\$10,000  | 100%  |
| Treasure Lake Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| * Trident International Limited   | UK                                    | Dormant  | £1  | 91%   |
| Twindale Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Wise Group Investments Limited  | SMA                                   | Investment holding   | US\$1   | 70%   |
| @ <sup>Δ</sup> * Wuxi Huatong Warehouse Services Co., Ltd.                                    | PRC                                   | Warehouse storage services   | RMB500,000  | 70%   |
| Yanawa Limited  | BVI                                   | Investment holding   | US\$1   | 100%  |
| Zinnerman Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 43. GROUP STRUCTURE – SUBSIDIARIES (Continued)

| Name  | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of issued capital/ registered capital       | Indirect interest held unless denoted with <sup>Δ</sup> |
|---|---------------------------------------|--|---|---|
| <b>Under Other Divisions</b>  |                                       |  |   |   |
| Alpine Project Management Ltd.  | SMA                                   | Project Management in Asia   | US\$1   | 100%  |
| Architectural Design and Management Services Limited                                | HK                                    | Provision of architectural services  | HK\$2   | 100%  |
| <sup>λ^*</sup> Beijing Kerry Datalinks Limited                                      | PRC                                   | Operation of internet data centre  | US\$2,100,000   | 100%  |
| Close Encounters Limited  | BVI                                   | Investment holding   | HK\$10,000  | 100%  |
| ibe-Datalinks (Beijing) Limited   | SMA                                   | Investment holding   | HK\$1   | 100%  |
| ibe-Tech Investments Limited  | BVI                                   | Investment holding   | US\$1   | 100% <sup>Δ</sup>                                       |
| ISA Investments Limited   | BVI                                   | Investment holding   | US\$1   | 100%  |
| Kerry Corporate Services Limited (formerly known as Fame Lead Investments Limited)  | HK                                    | Provision of corporate services  | HK\$1   | 100%  |
| Kerry Estate Management Limited   | BVI                                   | Investment holding   | HK\$10,000  | 100% <sup>Δ</sup>                                       |
| Kerry Overseas Project Management Limited (Jia Li Hai Wai Xiang Mu Guan Li Limited) | Liberia                               | Project management in Asia   | US\$100   | 100%  |
| Kerry Project Management (H.K.) Limited   | HK                                    | Project management   | HK\$300,000   | 100%  |
| Kerry Project Services Limited  | HK                                    | Provision of management services   | HK\$2   | 100%  |
| Kerry Properties Capital Limited  | BVI                                   | Dormant  | US\$10,000  | 100%  |
| <sup>λ^</sup> Kerry Properties Development Management (Shanghai) Co., Ltd.          | PRC                                   | Real estate management   | US\$350,000   | 100%  |
| Kerry Properties Nominees Limited   | BVI                                   | Provision of nominee services  | HK\$1,000   | 100%  |
| Kerry Properties Treasury Limited   | BVI                                   | Investment holding and group financing   | HK\$4,670,665,187                                       | 100% <sup>Δ</sup>                                       |
| Kerry Property Management Services Limited  | HK                                    | Property management  | HK\$20  | 100%  |
| Kerry Real Estate Agency Limited  | HK                                    | Estate agency  | HK\$2   | 100%  |
| <sup>λ^*</sup> Kerry Real Estate Management (Shenzhen) Ltd.                         | PRC                                   | Real estate management   | HK\$3,000,000   | 100%  |
| Kerry Real Estate Services (Beijing) Ltd.   | SMA                                   | Dormant  | HK\$1   | 100%  |
| Kerry Real Estate Services (Fuzhou) Ltd.  | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Real Estate Services (Shanghai) Ltd.  | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Kerry Real Estate Services (Shenzhen) Ltd.  | SMA                                   | Investment holding   | HK\$1   | 100%  |
| Southwark Profits Limited   | BVI                                   | Investment holding   | US\$100   | 100%  |
| Tellico Investment Limited  | Liberia                               | Investment holding   | US\$1   | 100%  |
| Toccate Company Limited   | HK                                    | Financing  | Ordinary HK\$10<br>Non-voting deferred<br>HK\$1,000,000 | 100%  |
| Upsmart Investments Limited   | HK                                    | Dormant  | HK\$2   | 100%  |
| Win House/Kai Tai (Joint Venture) Company Limited                                   | HK                                    | Provision of construction work   | HK\$100   | 75%   |
| Win House Industries Limited  | HK                                    | Investment holding and provision of construction work  | HK\$1,000,000   | 100%  |
| Wing Tsing Financial Services Limited   | BVI                                   | Group financing in Hong Kong   | US\$1   | 100%  |
| Wise Insight Finance Limited  | BVI                                   | Group financing in Hong Kong   | US\$1   | 100%  |
| <sup>λ^*</sup> Yu Quan Property Management (Fuzhou) Ltd.                            | PRC                                   | Real estate management   | HK\$500,000   | 100%  |

\* companies not audited by PricewaterhouseCoopers

^ English translation of name only

# deemed subsidiary

λ wholly foreign-owned enterprise

μ sino-foreign equity joint venture enterprise

@ domestic joint venture enterprise

HK Hong Kong

BVI British Virgin Islands

MAL Malaysia

SMA Samoa

PRC The People's Republic of China

UK United Kingdom

#### 44. GROUP STRUCTURE – ASSOCIATED COMPANIES

As at 31 December 2005, the Company held interests in the following associated companies which are categorized according to the business divisions of the Group, namely, Property Division, Infrastructure Division and Logistics Network Division as listed below:

| Name  | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of class of issued shares/ registered capital                                      | Interest held indirectly |
|---|---------------------------------------|--|--|--------------------------|
| <b>Under Property Division</b>                      |                                       |  |  |                          |
| *± Ariel Investments Limited                        | HK                                    | Investment holding   | 1,000,000 shares of HK\$1 each   | 45%                      |
| Bay Tower Properties Limited                        | BVI                                   | Investment holding   | 1,000 shares of US\$1 each   | 33.33%                   |
| μ^* Beijing BHL Logistics Limited                   | PRC                                   | Land resettlement  | US\$20,000,000   | 20%                      |
| * Benefit Bright (B.V.I.) Limited                   | BVI                                   | Investment holding in Hong Kong  | 1,000 shares of US\$1 each   | 32.50%                   |
| * Benefit Bright Limited                            | HK                                    | Property investment and trading  | 2 shares of HK\$1 each   | 32.50%                   |
| Brisbane Trading Company Limited                    | HK                                    | Investment holding, property development and trading   | 100,000 ordinary shares of HK\$10 each<br>108,376,196 non-voting deferred shares of HK\$1 each | 50%                      |
| * Capital Fun Limited                               | HK                                    | Provision of nominee services  | 2 shares of HK\$1 each   | 20%                      |
| * Cardiff Investments Limited                       | HK                                    | Investment holding   | 100,000 shares of HK\$1 each   | 30%                      |
| * Cavalcade Holdings Limited                        | BVI                                   | Investment holding   | 100 shares of US\$1 each   | 45%                      |
| Cheerjoy Development Limited                        | HK                                    | Property development   | 2 shares of HK\$1 each   | 35%                      |
| Cushion Company Limited                             | HK                                    | Dormant  | 10,000 shares of HK\$1 each  | 33.33%                   |
| EDSA Parking Services, Inc.                         | PHI                                   | Carpark operations   | 2,500 shares of Pesos 100 each   | 39.12%                   |
| EDSA Properties Holdings Inc.                       | PHI                                   | Property development, investment holding and real estate management                                  | 4,215,222,612 shares of Peso 1 each  | 39.12%                   |
| * Enterprico Investment Limited                     | HK                                    | Loan financing   | 100,000 ordinary shares of HK\$1 each  | 45%                      |
| *± Grand Creator Investment (BVI) Limited           | BVI                                   | Investment holding   | 10 shares of US\$1 each  | 40%                      |
| *± Grand Creator Investment Limited                 | HK                                    | Property development   | 2 shares of HK\$1 each   | 40%                      |
| *± Hang Hau Station (Project Management) Limited    | HK                                    | Project management   | 2 shares of HK\$1 each   | 40%                      |
| *± Hang Hau Station Construction Limited            | HK                                    | Dormant  | 2 shares of HK\$1 each   | 40%                      |
| * Harvest Sun (B.V.I.) Limited                      | BVI                                   | Investment holding in Hong Kong  | 100 shares of US\$1 each   | 20%                      |
| * Harvest Sun Limited                               | HK                                    | Property investment and trading  | 2 shares of HK\$1 each   | 20%                      |
| Hilaire Inc.  | BVI                                   | Investment holding   | 900 shares of US\$1 each   | 33.33%                   |
| *± Jacksons Landing Development Pty. Limited        | Australia                             | Property development   | 400 ordinary shares of A\$1 each   | 25%                      |
| *± Jacksons Landing Estate Management Pty Limited   | Australia                             | Property management  | 10 ordinary shares of A\$1 each  | 25%                      |
| * Kerry Hung Kai Warehouse (Cheung Sha Wan) Limited | HK                                    | Warehouse operation  | 5,000,000 shares of HK\$1 each   | 50%                      |
| * Kosco Limited                                     | BVI                                   | Provision of nominee services  | 1 share of US\$1   | 32.50%                   |
| * Olympian City 1 (Project Management) Limited      | HK                                    | Project management   | 2 shares of HK\$1 each   | 20%                      |
| * Olympian City 1 Management Company Limited        | HK                                    | Leasing and estate management  | 2 shares of HK\$1 each   | 20%                      |
| * Olympian City 2 (Project Management) Limited      | HK                                    | Project management   | 2 shares of HK\$1 each   | 32.50%                   |
| * Olympian City 2 Finance Company Limited           | HK                                    | Provision of finance services  | 1,000 shares of HK\$1 each   | 38.20%                   |
| * Olympian City 2 Management Company Limited        | HK                                    | Leasing and estate management  | 1,000 shares of HK\$1 each   | 32.50%                   |
| Point Perfect Investments Limited                   | BVI                                   | Investment holding   | 10 shares of US\$1 each  | 35%                      |
| Portstewart Limited                                 | HK                                    | Provision of finance services  | 2 shares of HK\$1 each   | 50%                      |
| *± Reca Limited                                     | BVI                                   | Provision of nominee services  | 1 share of US\$1   | 40%                      |
| *± Residence Oasis Finance Company Limited          | HK                                    | Provision of finance services  | 2 shares of HK\$1 each   | 40%                      |
| The Shang Grand Tower Corporation                   | PHI                                   | Property development   | 2,293,148 preferred shares of Peso 100 each<br>1,427,721 common shares of Peso 100 each        | 39.12%                   |
| Shangri-La Plaza Corporation                        | PHI                                   | Operation of shopping mall and other related activities  | 834,576,512 preferred shares of Peso 1 each<br>235,000,000 common shares of Peso 1 each        | 30.80%                   |
| ± Time Rank Limited                                 | HK                                    | Property trading   | 2 shares of HK\$1 each   | 50%                      |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 44. GROUP STRUCTURE – ASSOCIATED COMPANIES (Continued)

| Name  | Place of incorporation/ establishment | Principal activities (and place of operation if different from place of incorporation/establishment) | Particulars of class of issued shares/ registered capital | Interest held indirectly |
|---|---------------------------------------|--|---|--------------------------|
| <b>Under Property Division (Continued)</b>  |                                       |  |   |                          |
| * Top Spring Development (Beijing) Limited  | HK                                    | Investment holding   | 22,000,000 shares of HK\$1 each                           | 25%                      |
| * Twin Luck Worldwide Ltd.  | BVI                                   | Investment holding   | 2 shares of US\$1 each                                    | 50%                      |
| * Win Chanford Enterprises Limited  | HK                                    | Property investment  | 1,000,000 ordinary shares of HK\$1 each                   | 45%                      |
| * Wolver Hollow Company Limited   | HK                                    | Warehouse ownership  | 10,000 shares of HK\$1 each                               | 50%                      |
| *± Wu Wing International Company, Limited   | HK                                    | Property trading and investment  | 30,000,000 shares of HK\$1 each                           | 45%                      |
| <b>Under Infrastructure Division</b>  |                                       |  |   |                          |
| Adwood Company Limited  | HK                                    | Investment holding   | 10 shares of HK\$10 each                                  | 30%                      |
| ± Hong Kong Tunnels and Highways Management Company Limited   | HK                                    | Tunnel management  | 1,000,000 shares of HK\$1 each                            | 15% <sup>β</sup>         |
| Kerry CQ JV Environmental Engineering Limited   | BVI                                   | Investment holding   | 2 shares of HK\$1 each                                    | 50%                      |
| Kerry CQ Water (Hohhot) Limited   | BVI                                   | Investment holding   | 1 share of HK\$1  | 50%                      |
| ± Western Harbour Tunnel Company Limited  | HK                                    | Tunnel operation and management  | 40,000,000 shares of HK\$10 each                          | 15% <sup>β</sup>         |
| <b>Under Logistics Network Division</b>   |                                       |  |   |                          |
| ± Asia Airfreight Services Limited  | HK                                    | Provision of air cargo services  | 10,000 shares of HK\$1 each                               | 15% <sup>β</sup>         |
| ± Asia Airfreight Terminal Company Limited  | HK                                    | Air cargo handling terminal operation  | 360,000,000 shares of HK\$1 each                          | 15% <sup>β</sup>         |
| μ <sup>^</sup> Chiwan Container Terminal Co., Ltd   | PRC                                   | Port terminal operation  | US\$63,500,000  | 25%                      |
| α <sup>^</sup> * CV Global Logistics (Beijing) Limited  | PRC                                   | Logistics business   | RMB50,000,000   | 50%                      |
| μ* Dalian Hantong Logistics Co., Ltd.   | PRC                                   | Warehousing and container maintenance  | US\$2,720,000   | 35%                      |
| * Eas System (M) Sdn. Bhd.  | MAL                                   | Dormant  | 50,000 shares of RM1 each                                 | 34.27%                   |
| * Eas Transportation (M) Sdn. Bhd.  | MAL                                   | Dormant  | 1,500,000 shares of RM1 each                              | 48.30%                   |
| EPHI Logistics Holdings, Inc.   | PHI                                   | Investment holding   | 15,000 shares of Pesos 100 each                           | 40% <sup>Δ</sup>         |
| μ <sup>^</sup> * Kerry BHL Logistics Limited  | PRC                                   | Provision of logistics services  | US\$12,000,000  | 50%                      |
| Kerry Freight Philippines, Inc.   | PHI                                   | Freight and logistics business   | 20,000 shares of Pesos 100 each                           | 20.40%                   |
| * Kerry Salvat Logistics, S.A. (formerly known as East Asia Shipping International Espana Sociedad Anonima) | Spain                                 | Transportation forwarding and materials handling   | 20,000 shares of 6.01 Euro                                | 50%                      |
| <sup>^</sup> * Kerry Samyoung Logistics (Korea) Ltd.  | Korea                                 | Provision of logistics services, packing, loading and unloading services                             | 10,000 shares of Won5,000 each                            | 30.6%                    |
| μ <sup>^</sup> * Shanghai Kerry CHJ Logistics Limited   | PRC                                   | Operation of logistics business  | HK\$14,040,000  | 50%                      |
| α <sup>^</sup> * Shanghai Song Jiang Eas Logistics Co. Ltd.   | PRC                                   | Trucking   | RMB2,500,000  | 40%                      |

\* companies not audited by PricewaterhouseCoopers

<sup>^</sup> English translation of name only

<sup>β</sup> deemed associated company

μ sino-foreign equity joint venture enterprise

α domestic joint venture enterprise

± companies having a financial accounting period which is not coterminous with the Group

<sup>Δ</sup> being the interest fully controlled by the Group

HK Hong Kong

BVI British Virgin Islands

MAL Malaysia

PHI Philippines

PRC The People's Republic of China