## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The Company's parent company is China Overseas Holdings Limited, a company incorporated in Hong Kong, and its ultimate holding company is China State Construction Engineering Corporation, an entity established in the People's Republic of China. The registered office of the Company is situated at 10th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong. The Group's business activities are principally carried out in Hong Kong, Macau and other regions of the People's Republic of China ("the PRC").

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Group, comprising the Company and its subsidiaries, is principally engaged in property development and investment, infrastructure project investments, generation and supply of heat and electricity, real estate agency and management, investment holding and treasury operations. The Group had been engaged in building and civil construction, foundation engineering and project management until June, 2005 when such operations were disposed of (see Note 45).

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities have been changed in accordance with HKAS 1 "Presentation of Financial Statements". The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current and/or prior accounting years:

- Business combinations (HKFRS 3)
- Share-based payments (HKFRS 2)
- Financial instruments (HKAS 32 and HKAS 39)
- Leases (HKAS 17)
- The effects of changes in foreign exchange rates (HKAS 21)
- Investment properties (HKAS 40)
- Deferred tax related to investment properties (HKAS – INT-21)

The impact of these changes in accounting policies is discussed below. The impact on basic and diluted earnings per share is discussed in note 17.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

### Business combinations

HKFRS 3 *Business Combinations* is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

*Goodwill*

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3, under which goodwill previously recognised in reserves amounted to HK$393 million as at 1 January 2005 continues to be held in reserves and will be transferred to the retained profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. Goodwill arising on acquisitions on or after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition.

HKAS 21 *The Effects of Changes in Foreign Exchange Rates* requires goodwill to be treated as the assets and liabilities of the acquired foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current year, the Group acquired a foreign operation, and goodwill arose on the acquisition of that foreign operation has been translated at the closing rate at 31 December 2005, which has not resulted in a significant impact on the balance of the translation reserve at 31 December 2005.

*Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")*

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions on or after 1 January 2001 was presented as a deduction from assets and was released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005. A corresponding adjustment to the Group's retained profits of HK$111 million has been made.

### Share-based payments

HKFRS 2 *Share-based Payment* requires an expense to be recognised where the Group obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to the directors of the Company and the employees of the Group, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effects of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see Note 3 for the financial impact).

# 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

## Financial instruments

HKAS 32 *Financial Instruments: Disclosure and Presentation* requires retrospective application. The application of HKAS32 has resulted in the presentation of minority interests as a separate component in equity in the consolidated balance sheet which was previously deducted from the amounts due to minority shareholders.

HKAS 39 *Financial Instruments: Recognition and Measurement*, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

*Classification and measurement of equity instruments*

On 1 January 2005, the Group classified and measured its investments in syndicated property projects, which were previously carried at cost less identified impairment loss, as "available-for-sale financial assets" in accordance with the transitional provisions of HKAS 39. Available-for-sale financial assets are carried at fair value, with changes in fair value recognised in equity. An adjustment of HK$105,909,000 to the previous carrying amounts of such assets at 1 January 2005 has been made to equity (see Note 3 for the financial impact).

*Financial assets and financial liabilities other than equity instruments*

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than equity instruments (which were previously outside the scope of SSAP 24 *Investments in securities issued by the HKICPA*) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity investments". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, amounts due from associates, jointly controlled entities and syndicated property project companies were carried at cost or at nominal amount less provision for any identified impairment loss. On 1 January 2005, the Group classified and measured these items as "loans and receivables" in accordance with the transitional provisions of HKAS 39. Loans and receivables are carried at amortised cost determined using the effective interest method, less any identified impairment loss. As a result of this change in accounting policy, the carrying amounts of the amounts due from associates, jointly controlled entities and syndicated property project companies as at 1 January 2005 have been decreased by HK$7 million, HK$89 million and HK$32 million respectively in order to state these items at amortised cost less impairment loss in accordance with HKAS 39 and the carrying costs of the investments in associates, jointly controlled entities and syndicated property project companies have been correspondingly adjusted.

*Derivatives*

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39. For interest rate swap agreements that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has deemed such agreements as held for trading and recognised their fair value on 1 January 2005, resulting in a loss of HK$25 million which has been charged to the Group's retained earnings (see Note 3 for the financial impact).

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

### Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured at cost or revalued amount less depreciation and any identified impairment losses. Under HKAS 17 *Leases*, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments for land under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively and comparative figures for 2004 have been restated (see Note 3 for the financial impact).

### Investment properties

HKAS 40 *Investment Property* requires an investment property to be accounted for using the cost model or the fair value model. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amounts held in the investment property revaluation reserve and other property revaluation reserve, which was reclassified from investment property revaluation reserve, at 1 January 2005 have been transferred to the Group's retained profits (see Note 3 for the financial impact).

### Deferred tax related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amounts of the properties through sale in accordance with the predecessor Interpretation. HKAS Interpretation 21 ("HKAS-Int-21") *Income Taxes – Recovery of Revalued Non-Depreciable Assets* removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS-Int-21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see Note 3 for the financial impact).

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

### New standards and interpretations not yet effective

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective:

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures[1] |
| HKAS 19 (Amendment) | Actuarial gains and losses, group plans and disclosures[2] |
| HKAS 21 (Amendment) | Net Investment in a foreign operation[2] |
| HKAS 39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions[2] |
| HKAS 39 (Amendment) | The fair value option[2] |
| HKAS 39 & HKFRS 4 (Amendments) | Financial guarantee contracts[2] |
| HKFRS 6 | Exploration for and evaluation of mineral resources[2] |
| HKFRS 7 | Financial instruments: Disclosures[1] |
| HK(IFRIC) – INT 4 | Determining whether an arrangement contains a lease[2] |
| HK(IFRIC) – INT 5 | Rights to interests arising from decommissing, restoration and environmental rehabilitation funds[2] |
| HK(IFRIC) – INT 6 | Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3] |
| HK(IFRIC) – INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4] |

[1] *Effective for annual periods beginning on or after 1 January 2007.*
[2] *Effective for annual periods beginning on or after 1 January 2006.*
[3] *Effective for annual periods beginning on or after 1 December 2005.*
[4] *Effective for annual periods beginning on or after 1 March 2006.*

The directors of the Company anticipate that the application of these new standards and interpretations, except for HKAS 39 and HKFRS 4 (Amendments) *Financial guarantee contracts*, will have no material impact on the financial statements of the Group. HKAS 39 and HKFRS 4 (Amendments) require financial guarantee contracts be initially recognised at fair value. The Group is not yet in a position to quantify the effect of HKAS 39 and HKFRS 4 (Amendments) on the results of operations and financial position of the Group.

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in Note 2 on the results for the current and the prior year are as follows:

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Increase in fair value of investment properties | **157,504** | – |
| Gain on change in value of other property interest | **106,875** | – |
| Increase in deferred tax charge relating to investment properties and other property interest | **(52,101)** | – |
| Gain on change in fair value of interest rate swap agreements | **37,714** | – |
| Decrease in release of prepaid lease payments for land | **1,786** | 1,786 |
| Decrease in amortisation of goodwill | **3,226** | – |
| Decrease in negative goodwill released to income | **(8,017)** | – |
| Recognition of share-based payments as expenses | **(6,163)** | (3,297) |
| Imputed interest income on non-current interest-free amounts due from investee companies | **38,581** | – |
| Decrease in reversal of allowance for amount due from a syndicated property project company | **(30,000)** | – |
| Imputed interest expense on non-current interest free amounts | | |
| – due by the Group to minority shareholders | **(50,660)** | – |
| – due by a jointly controlled entity to equity participant | **(6,910)** | – |
| – due by an associate to equity participants | **(6,847)** | – |
| **Increase (decrease) in profit for the year** | **184,988** | (1,511) |
| Attributable to: | | |
| Equity shareholders of the Company | **224,848** | (1,511) |
| Minority Interests | **(39,860)** | – |
| | **184,988** | (1,511) |

Analysis of increase (decrease) in profit for the year by line items presented according to their function:

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Increase in fair value of investment properties | **157,504** | – |
| Gain on change in value of other property interest | **106,875** | – |
| Increase in other operating income | **68,278** | – |
| Decrease in impairment losses and allowances reversed | **(30,000)** | – |
| Increase in administrative expenses | **(1,151)** | (1,511) |
| Increase in finance costs | **(50,660)** | – |
| Decrease in share of profits of jointly controlled entities | **(6,910)** | – |
| Increase in share of losses of associates | **(6,847)** | – |
| Share of tax of associates and jointly controlled entities reclassified from (to): | | |
| – share of losses of associates | **(916)** | (5,946) |
| – share of profits of jointly controlled entities | **(18,020)** | – |
| – income tax expense | **18,936** | 5,946 |
| Increase in income tax expense regarding deferred tax charge relating to investment properties and other property interest | **(52,101)** | – |
| **Increase (decrease) in profit for the year** | **184,988** | (1,511) |

# 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

## The Group

The cumulative effects of the application of the new HKFRSs on the consolidated balance sheet at 31 December 2004 and 1 January 2005 are summarised below:

| | As at 31 December 2004 (originally stated) | Effects of adoption of | | | | | As at 31 December 2004 (restated) | Effects of adoption of | | | **As at 1 January 2005 (restated)** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | HKFRS 2 | HKAS 1 | HKAS 17 | HKAS 32 | HKAS 1 and HKAS-Int-21 | | HKFRS 3 | HKAS 39 | HKAS 40 | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| **Non-current Assets** | | | | | | | | | | | |
| Property, plant and equipment | 1,715,951 | – | – | (518,476) | – | – | 1,197,475 | – | – | – | **1,197,475** |
| Prepaid lease payments for land | – | – | – | 179,073 | – | – | 179,073 | – | – | – | **179,073** |
| Properties for development | 3,980,626 | – | (3,980,626) | – | – | – | – | – | – | – | **–** |
| Interests in jointly controlled entities | 1,665,664 | – | – | – | – | – | 1,665,664 | – | (15,900) | – | **1,649,764** |
| Interests in syndicated property projects | 594,037 | – | – | – | – | – | 594,037 | – | 105,909 | – | **699,946** |
| Negative goodwill | (111,338) | – | – | – | – | – | (111,338) | 111,338 | – | – | **–** |
| **Current Assets** | | | | | | | | | | | |
| Stock of properties | 8,256,209 | – | 3,886,286 | (2,283,791) | – | – | 9,858,704 | – | – | – | **9,858,704** |
| Prepaid lease payments for land | – | – | – | 11,196 | – | – | 11,196 | – | – | – | **11,196** |
| Deposits and prepayments | 204,805 | – | 94,340 | – | – | – | 299,145 | – | – | – | **299,145** |
| **Current Liabilities** | | | | | | | | | | | |
| Trade and other payables | (4,602,720) | – | – | 1,701,571 | – | – | (2,901,149) | – | – | – | **(2,901,149)** |
| **Non-current Liabilities** | | | | | | | | | | | |
| Other payables | (627,639) | – | – | 582,220 | – | – | (45,419) | – | – | – | **(45,419)** |
| Derivative financial instruments | – | – | – | – | – | – | – | – | (24,951) | – | **(24,951)** |
| Amounts due to minority shareholders | (684,522) | – | – | – | (498,213) | – | (1,182,735) | – | 50,660 | – | **(1,132,075)** |
| Deferred tax liabilities | (199,152) | – | – | 66,324 | – | (99,243) | (232,071) | – | – | – | **232,071** |
| **Total effects on assets and liabilities** | | – | – | (261,883) | (498,213) | (99,243) | | 111,338 | 115,718 | – | |
| **Capital and Reserves** | | | | | | | | | | | |
| Retained profits | 2,962,249 # | (3,297) | – | (22,440) | – | (82,773) | 2,853,739 | 111,338 | (40,851) | 161,685 | **3,085,911** |
| Share option reserve | – | 3,297 | – | – | – | – | 3,297 | – | – | – | **3,297** |
| Investment property revaluation reserve | 129,644 | – | – | – | – | (16,470) | 113,174 | – | – | (113,174) | **–** |
| Other property revaluation reserve | 287,954 | – | – | (239,443) | – | – | 48,511 | – | – | (48,511) | **–** |
| Investment revaluation reserve | – | – | – | – | – | – | – | – | 105,909 | – | **105,909** |
| Minority interests | – | – | – | – | (498,213) | – | (498,213) | – | 50,660 | – | **(447,553)** |
| **Total effects on equity** | | – | – | (261,883) | (498,213) | (99,243) | | 111,338 | 115,718 | – | |

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarised below:

| | As at 1 January 2004 (originally stated) HK$'000 | Effects of adoption of HKAS 1 and HKAS 32 HK$'000 | Effects of adoption of HKAS 17 HK$'000 | Effects of adoption of HKAS-Int-21 HK$'000 | As at 1 January 2004 (restated) HK$'000 |
|---|---|---|---|---|---|
| Capital and Reserves | | | | | |
| Retained profits | 2,286,474# | – | (17,400) | (82,773) | 2,186,301 |
| Investment property revaluation reserve | 80,068 | – | – | (7,193) | 72,875 |
| Other property revaluation reserve | 293,809 | – | (245,298) | – | 48,511 |
| Minority interests | – | (602,671) | – | – | (602,671) |
| Total effects on equity | | (602,671) | (262,698) | (89,966) | |

### The Company

The cumulative effects of the application of the new HKFRSs on the Company's balance sheet at 31 December 2004 and 1 January 2005 are summarised below:

| | As at 31 December 2004 (originally stated) HK$'000 | Effects of adoption of HKFRS 2 HK$'000 | Effects of adoption of HKAS 17 HK$'000 | As at 31 December 2004 (restated) HK$'000 | Effects of adoption of HKAS 39 HK$'000 | As at 1 January 2005 (restated) HK$'000 |
|---|---|---|---|---|---|---|
| Non-current Assets | | | | | | |
| Property, plant and equipment | 2,590 | – | (495) | 2,095 | – | 2,095 |
| Prepaid lease payments for land | – | – | 433 | 433 | – | 433 |
| Current Assets | | | | | | |
| Prepaid lease payments for land | – | – | 62 | 62 | – | 62 |
| Non-current Liabilities | | | | | | |
| Derivative financial instruments | – | – | – | – | (24,951) | (24,951) |
| Total effects on assets and liabilities | | – | – | | (24,951) | |
| Capital and Reserves | | | | | | |
| Retained profits | 781,806 # | (3,297) | – | 778,509 | (24,951) | 753,558 |
| Share option reserve | – | 3,297 | – | 3,297 | – | 3,297 |
| | | – | – | | (24,951) | |

The application of the new HKFRSs did not have a significant effect on the Company's equity at 1 January 2004.

# *The retained profits shown above include the dividend reserve which was previously presented as a separate component in reserves.*

## 4. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for certain properties and financial instruments which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Goodwill

*Goodwill arising on acquisitions prior to 1 January 2005*
Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill, which arose on acquisitions prior to 1 January 2001, continues to be held in reserves and will be charged to retained profits when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

*Goodwill arising on acquisitions on or after 1 January 2005*
Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate or a jointly controlled entity is included in the cost of the investment in the relevant associate or jointly controlled entity.

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Goodwill *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

### Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

As explained in Note 2 above, all negative goodwill at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

### Investments in subsidiaries

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

### Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of the changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of the losses is recognised.

### Investments in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which the venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

# 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

## Investments in jointly controlled entities *(Continued)*

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of the changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

## Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising or derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

## Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

## Impairment

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

# 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

## Impairment *(Continued)*

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

## Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as "financial assets at fair value through profit or loss", "loans and receivables" and "held to maturity investments". At each balance sheet date subsequent to initial recognition, available-for-sale financial assets (comprising investments in syndicated property project companies) are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

*Financial assets at fair value through profit or loss*

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss (comprising trading securities) are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including investments in infrastructure projects where the return therefrom is fixed, amounts due from associates, jointly controlled entities, syndicated property project companies, trade and other receivables, amounts due from investee companies and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities***

Financial liabilities (including bank loans, guaranteed notes payable, amounts due to minority shareholders, trade and other payables and amounts due to associates) are measured at amortised cost, using the effective interest rate method.

# 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

## Financial instruments *(Continued)*

***Financial liabilities*** *(Continued)*

*Derivatives that do not qualify for hedge accounting*

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged or cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

## Inventories

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

## Stock of properties

*Completed properties and properties under development*

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

*Properties for development*

Properties held for future development for sale, comprising mainly of land under operating leases, are stated at the lower of cost and net realisable value. Cost comprises prepaid lease payments for land, and other attributable expenses.

## Construction contracts

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

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

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

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

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Construction contracts *(Continued)*

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

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange translation reserve.

### Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement.

# 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

## Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received or receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## Retirement benefit costs

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

## Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

## Share options granted to employees

The fair value of services received, determined by reference to the fair value of share options granted at the grant date, is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

## Revenue recognition

*Sales of properties*

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

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

*Property rentals*
Rental income from properties under operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

*Supply of heat and electricity*
Revenue from supply of heat and electricity is recognised when heat and electricity are delivered.

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

*Real estate agency and management services*
Revenue from the provision of real estate agency and management services is recognised when services are provided.

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

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

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

*Project management contracts*
Revenue and profits from project management contracts are recognised when services are rendered.

*Dividend income*
Dividend income from investments is recognised when the Group's rights to receive payment have been established.

*Interest income*
Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

# 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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:

## Fair value of investment properties

Investment properties are carried in the balance sheet at 31 December 2005 at their fair value of HK$1,572 million. The fair value was based on a valuation on these properties conducted by an independent firm of professional valuer using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the income statement.

## Impairment of investments in jointly controlled entities

Management assessed the recoverability of the Group's investments in jointly controlled entities undertaking toll bridge projects in the PRC with an aggregate carrying amount of HK$1,202 million included in the balance sheet at 31 December 2005. The assessment was based on the projected revenue to be derived by these entities from the operation of toll bridges over the remaining joint venture periods discounted by a suitable rate to arrive at their present value. Should the actual toll revenue be less than that projected as a result of a reduction of road usage and/or toll fees, an impairment loss may arise.

## Impairment of stock of properties and amounts due from associates, jointly controlled entities and syndicated property project companies

Included in the consolidated balance sheet at 31 December 2005 are stock of properties with an aggregate carrying amount of HK$13,610 million, and amounts due from associates and jointly controlled entity engaging principally in property development activities of HK$847 million and HK$401 million respectively, and syndicated property project companies of HK$542 million. Management assessed the recoverability of these amounts based on an estimation of the net realisable value of the underlying properties which involves, inter-alia, considerable analyses of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development and a forecast of future sales. If the actual net realisable values of the underlying properties are more or less than expected as a result of changes in market condition and/or significant variation in the budgeted development cost, material reversal of or provision for impairment losses may result.

## Fair values of other financial assets and liabilities

The fair values of loans and receivables and financial liabilities are accounted for or disclosed in the financial statements. The calculation of fair values require the Group to estimate the future cash flows expected to arise from those assets and liabilities and suitable discount rates. Variations in the estimated future cash flows and the discount rates used may result in adjustments to the carrying amounts of these assets and liabilities and the amounts disclosed in the financial statements.

## Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. As at 31 December 2005, the carrying amount of goodwill is HK$65 million. Details of the calculation of recoverable amount are disclosed in Note 44.

## Useful lives of property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives which are determined by the Group. Should the useful lives of these assets differ from that previously estimated, the calculated of depreciation charges would be affected.

# 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investments in infrastructure projects, amounts due from associates, jointly controlled entities and syndicated property project companies, bank borrowings, guaranteed notes payable, trade receivables and payables, and bank deposits. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## Market risk

*(i)* *Currency risk*

Several subsidiaries have entered into agreements for sales of properties denominated in Renminbi. Certain trade receivables and payables, guaranteed notes payable and other borrowings of the Group are also denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

*(ii)* *Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet and in respect of the guarantees given by the Group is the amounts covered by the guarantees. The recoverability of each individual receivable and the Group's credit risk exposure are regularly reviewed to ensure that adequate provisions are made for impairment losses. The Group has established credit approvals and other monitoring procedures to ensure that follow-up actions are taken to minimise the potential losses from bad credit risk. In this regard, the directors of the Company consider that the Group's credit risk is adequately monitored.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are financial institutions with high credit standing.

The Group has no significant concentration of credit risk, with exposures adequately secured or spread over a number of counterparties and customers.

*(iii)* *Fair value interest rate risk*

The Group's fair value interest rate risk relates primarily to the investments in infrastructure projects where the return therefrom is fixed, and the fixed-rate guaranteed notes payable (see Note 39 for details of these notes). The Group currently does not have an interest rate hedging policy to hedge against its exposures to changes in fair values of these assets and liabilities. However, management closely monitors interest rate exposures and will consider entering into interest rate swap transactions to hedge significant interest rate risk should the need arise.

## Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loans (see Note 38). In the current year, the Group has been using interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, these interest rate swaps are not designated by the Group as hedging instruments for accounting purpose. The interest rate swaps have been accounted for as financial instruments held for trading (see Note 26(a)).

## 7. TURNOVER

Turnover represents proceeds from sales of properties, property rentals, revenue from supply of heat and electricity, revenue from infrastructure project investments, revenue from real estate agency and management services, revenue from construction contracts and project management and other income. An analysis of the Group's turnover for the year, for both continuing and discontinued operations, is as follows:

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Proceeds from sales of properties | **5,991,640** | 4,639,295 |
| Property rentals | **127,591** | 133,717 |
| Revenue from supply of heat and electricity | **273,087** | 235,704 |
| Revenue from infrastructure project investments | **26,976** | 29,163 |
| Revenue from real estate agency and management services | **179,914** | 90,434 |
| Other income *(Note)* | **372,138** | 179,351 |
| | **6,971,346** | 5,307,664 |
| **Discontinued operations** | | |
| Revenue from construction contracts and project management | **959,417** | 3,316,811 |
| | **7,930,763** | 8,624,475 |

*Note:* Other income mainly comprises of revenue from the provision of logistic operations, building design consultancy services, and manufacture and sale of cement.

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segment

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

Property development – development and sale of properties

Property investment – property letting

Infrastructure – investments in entities undertaking toll highways

Construction – building and civil construction, foundation engineering and project management

Segment information about these businesses is presented below.

# 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

## Business segment *(Continued)*
## REVENUE AND RESULTS
*Year ended 31 December 2005*

| | Continuing operations | | | | Discontinued operations | | |
|---|---|---|---|---|---|---|---|
| | Property development | Property investment | Infrastructure | Other operations | Construction | Intragroup eliminations | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **TURNOVER** | | | | | | | |
| External | 5,991,640 | 127,591 | 26,976 | 825,139 | 959,417 | – | 7,930,763 |
| Inter-segment | – | 484 | – | 264,415 | – | (264,899) | – |
| **Total** | 5,991,640 | 128,075 | 26,976 | 1,089,554 | 959,417 | (264,899) | 7,930,763 |

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

| | Property development | Property investment | Infrastructure | Other operations | Construction | Intragroup eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **RESULTS** | | | | | | | |
| Segment results | 1,462,466 | 501,839 | 20,934 | 90,412 | 32,509 | (11,239) | 2,096,921 |
| Interest income | | | | | | | 85,870 |
| Gain on change in value of other property interest | | | | | | | 106,875 |
| Other income | | | | | | | 139,393 |
| Unallocated corporate expenses | | | | | | | (137,502) |
| | | | | | | | 2,291,557 |
| Share of profits (losses) of | | | | | | | |
| Associates | (1,918) | – | – | (3,737) | – | – | (5,655) |
| Jointly controlled entities | (9,898) | – | 53,052 | 1,383 | – | – | 44,537 |
| Finance costs | | | | | | | (249,672) |
| Profit before tax | | | | | | | 2,080,767 |
| Income tax expense | | | | | | | (407,409) |
| **Profit for the year** | | | | | | | 1,673,358 |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Business segment *(Continued)*
### ASSETS AND LIABILITIES
*At 31 December 2005*

| | Continuing operations | | | | |
|---|---|---|---|---|---|
| | Property development | Property investment | Infrastructure | Other operations | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **ASSETS** | | | | | |
| Segment assets | **16,192,128** | **1,627,788** | **165,559** | **1,737,225** | **19,722,700** |
| Interests in associates | **212,731** | **–** | **–** | **12,666** | **225,397** |
| Interests in jointly controlled entities | **494,018** | **–** | **1,193,491** | **2,491** | **1,690,000** |
| Unallocated corporate assets | | | | | **3,503,843** |
| **Consolidated total assets** | | | | | **25,141,940** |
| **LIABILITIES** | | | | | |
| Segment liabilities | **(5,416,792)** | **(12,416)** | **(16)** | **(572,350)** | **(6,001,574)** |
| Unallocated corporate liabilities | | | | | **(8,360,120)** |
| **Consolidated total liabilities** | | | | | **(14,361,694)** |

### OTHER INFORMATION
*Year ended 31 December 2005*

| | Continuing operations | | | Discontinued operations |
|---|---|---|---|---|
| | Property development | Property investment | Other operations | Construction |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Additions to property, plant and equipment and investment properties | **28,827** | **11,298** | **184,337** | **10,479** |
| Depreciation and amortisation | **6,235** | **6,534** | **103,036** | **12,230** |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Business segment *(Continued)*
### REVENUE AND RESULTS

*Year ended 31 December 2004*

| | Continuing operations | | | | Discontinued operations | | |
|---|---|---|---|---|---|---|---|
| | Property development *HK$'000* | Property investment *HK$'000* | Infrastructure *HK$'000* | Other operations *HK$'000* | Construction *HK$'000* | Intragroup eliminations *HK$'000* | Consolidated *HK$'000* |
| TURNOVER | | | | | | | |
| External | 4,639,295 | 133,717 | 29,163 | 505,489 | 3,316,811 | – | 8,624,475 |
| Inter-segment | – | 5,011 | – | 453,385 | – | (458,396) | – |
| Total | 4,639,295 | 138,728 | 29,163 | 958,874 | 3,316,811 | (458,396) | 8,624,475 |

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

| | Property development *HK$'000* | Property investment *HK$'000* | Infrastructure *HK$'000* | Other operations *HK$'000* | Construction *HK$'000* | Intragroup eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|---|
| RESULTS | | | | | | | |
| Segment results | 1,290,855 | 100,352 | 28,527 | 141,272 | 75,289 | (5,011) | 1,631,284 |
| Interest income | | | | | | | 21,542 |
| Other income | | | | | | | 40,524 |
| Unallocated corporate expenses | | | | | | | (182,849) |
| | | | | | | | 1,510,501 |
| Share of profits (losses) of | | | | | | | |
| Associates | (10,685) | – | – | (7,766) | – | – | (18,451) |
| Jointly controlled entities | – | – | 17,026 | – | – | – | 17,026 |
| Finance costs | | | | | | | (155,857) |
| Profit before tax | | | | | | | 1,353,219 |
| Income tax expense | | | | | | | (201,720) |
| Profit for the year | | | | | | | 1,151,499 |

# 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

## Business segment *(Continued)*

### ASSETS AND LIABILITIES

*At 31 December 2004*

| | Continuing operations | | | | Discontinued operations | |
|---|---|---|---|---|---|---|
| | Property development *HK$'000* | Property investment *HK$'000* | Infrastructure *HK$'000* | Other operations *HK$'000* | Construction *HK$'000* | Consolidated *HK$'000* |
| ASSETS | | | | | | |
| Segment assets | 11,063,832 | 1,531,463 | 212,267 | 1,392,568 | 1,077,915 | 15,278,045 |
| Interests in associates | 1,127,000 | – | – | 52,008 | 118,625 | 1,297,633 |
| Interests in jointly controlled entities | 495,283 | – | 1,170,381 | – | – | 1,665,664 |
| Unallocated corporate assets | | | | | | 3,168,013 |
| Consolidated total assets | | | | | | 21,409,355 |
| LIABILITIES | | | | | | |
| Segment liabilities | (3,607,912) | (215,511) | (24) | (570,952) | (1,839,861) | (6,234,260) |
| Unallocated corporate liabilities | | | | | | (5,602,702) |
| Consolidated total liabilities | | | | | | (11,836,962) |

### OTHER INFORMATION

*Year ended 31 December 2004*

| | Continuing operations | | | Discontinued operations |
|---|---|---|---|---|
| | Property development *HK$'000* | Property investment *HK$'000* | Other operations *HK$'000* | Construction *HK$'000* |
| Additions to property, plant and equipment and investment properties | 9,375 | 34,343 | 596,138 | 35,183 |
| Depreciation and amortisation | 8,374 | 7,505 | 75,226 | 62,774 |
| Impairment losses on associates recognised | – | – | 27,631 | – |

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Geographical Segments

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

| | Turnover from continuing operations by geographical market | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **297,425** | 312,549 |
| The PRC | **6,673,921** | 4,995,115 |
| | **6,971,346** | 5,307,664 |

The turnover from the Group's discontinued construction business amounted to HK$959 million (2004: HK$3,317 million) in respect of the year, which was substantially derived in Hong Kong.

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

| | Carrying amounts of segment assets | | Additions to property, plant and equipment and investment properties | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **5,163,598** | 5,619,386 | **17,017** | 87,560 |
| The PRC | **19,445,662** | 15,506,027 | **223,464** | 588,278 |
| Macau | **532,680** | 283,942 | **1,365** | – |
| | **25,141,940** | 21,409,355 | **241,846** | 675,838 |

## 9. IMPAIRMENT LOSSES AND ALLOWANCES REVERSED

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| **Continuing operations** | | |
| Reversal of allowances for doubtful recovery of amounts due from | | |
| A syndicated property project company | **50,000** | 20,000 |
| An associate | **–** | 280,000 |
| Reversal of impairment losses on properties for sale | **–** | 80,000 |
| Impairment losses on associates provided | **–** | (27,631) |
| | **50,000** | 352,369 |

The allowance for doubtful recovery of the amount due from a syndicated property project company reversed in the current year was determined by the directors based on the estimated net selling prices of the properties held by the investee by reference to current market condition.

## 10. OTHER OPERATING INCOME

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Other operating income include: | | | | | | |
| Interest on bank deposits | **44,163** | 18,099 | **2,179** | 1,005 | **46,342** | 19,104 |
| Imputed interest income on amounts due from investee companies | **38,581** | – | **–** | – | **38,581** | – |
| Other interest income | **947** | 2,438 | **–** | – | **947** | 2,438 |
| Total interest income | **83,691** | 20,537 | **2,179** | 1,005 | **85,870** | 21,542 |
| Gain on change in value of interest rate swap agreements | **28,810** | – | **–** | – | **28,810** | – |
| Gain on disposal of associates | **26,769** | – | **–** | – | **26,769** | – |

## 11. FINANCE COSTS

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2005** **HK$'000** | 2004 HK$'000 | **2005** **HK$'000** | 2004 HK$'000 | **2005** **HK$'000** | 2004 HK$'000 |
| Interest on bank loans, overdrafts and other borrowings wholly repayable within five years | **214,740** | 174,409 | **1** | 32 | **214,741** | 174,441 |
| Interest on guaranteed notes not wholly payable within five years | **63,231** | – | **–** | – | **63,231** | – |
| Imputed interest expense on amounts due to minority shareholders | **50,660** | – | **–** | – | **50,660** | – |
| Other finance costs | **17,957** | 32,262 | **131** | 103 | **18,088** | 32,365 |
| Total finance costs | **346,588** | 206,671 | **132** | 135 | **346,720** | 206,806 |
| *Less:* Amount capitalised on development properties | **(96,916)** | (50,814) | **–** | – | **(96,916)** | (50,814) |
| | **249,672** | 155,857 | **132** | 135 | **249,804** | 155,992 |

The finance costs for both years presented were incurred on financial liabilities that are not carried at fair value through profit or loss. Borrowing costs capitalised during the year are calculated by applying an average capitalisation rate of 5.75% (2004: 5.5%) to expenditure on qualifying assets.

## 12. INCOME TAX EXPENSE

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2005 HK$'000** | 2004 HK$'000 | **2005 HK$'000** | 2004 HK$'000 | **2005 HK$'000** | 2004 HK$'000 |
| **Hong Kong Profits Tax** | | | | | | |
| Current year | **4,358** | 2,887 | **4,122** | 18,662 | **8,480** | 21,549 |
| Prior year's (over)underprovision | **(25,022)** | 4,787 | **–** | (62) | **(25,022)** | 4,725 |
| | **(20,664)** | 7,674 | **4,122** | 18,600 | **(16,542)** | 26,274 |
| **PRC income tax** | | | | | | |
| Current year | **376,160** | 207,723 | **–** | – | **376,160** | 207,723 |
| Prior year's overprovision | **–** | (21,328) | **–** | (3,594) | **–** | (24,922) |
| | **376,160** | 186,395 | **–** | (3,594) | **376,160** | 182,801 |
| | **355,496** | 194,069 | **4,122** | 15,006 | **359,618** | 209,075 |
| **Deferred tax** *(note 43)* | | | | | | |
| Current year | **51,913** | 7,651 | **–** | (1,500) | **51,913** | 6,151 |
| | **407,409** | 201,720 | **4,122** | 13,506 | **411,531** | 215,226 |

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

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

Details of deferred taxation are set out in Note 43.

## 12. INCOME TAX EXPENSE *(Continued)*

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

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| **Profit before tax** | | |
| Continuing operations | **2,048,258** | 1,277,930 |
| Discontinued operations | **36,631** | 88,795 |
| | **2,084,889** | 1,366,725 |
| Tax at the applicable tax rate of 33% (2004: 17.5%) | **688,013** | 239,177 |
| Tax effect of expenses not deductible for tax purpose | **41,761** | 12,023 |
| Tax effect of income not taxable for tax purpose | **(148,022)** | (31,261) |
| Overprovision in respect of prior years | **(25,022)** | (20,197) |
| Tax effect of tax losses not recognised | **114,372** | 47,308 |
| Tax effect of utilisation of tax losses not previously recognised | **(77,617)** | (82,070) |
| Tax effect of deductible temporary differences previously not recognised | **(62,959)** | – |
| Tax effect of share of results of associates and jointly controlled entities | **(12,831)** | 249 |
| Effect of different tax rates applicable to subsidiaries operating in other jurisdictions | **(106,164)** | 49,997 |
| **Income tax expense for the year** | **411,531** | 215,226 |

Following the disposal of the Group's construction business during the year, the Group's activities are substantially carried out in the PRC. In the preparation of the above reconciliation, the PRC statutory tax rate of 33% has been taken as the applicable tax rate for the current year. The applicable tax rate adopted in the prior year's reconciliation represents Hong Kong Profits Tax rate.

In addition to the amount charged to the income statement, deferred tax arising from revaluation of the Group's properties amounted to HK$4.5 million has been dealt with directly in equity.

## 13. PROFIT FOR THE YEAR

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2005 HK$'000** | 2004 HK$'000 | **2005 HK$'000** | 2004 HK$'000 | **2005 HK$'000** | 2004 HK$'000 |
| Profit for the year has been arrived at after charging (crediting): | | | | | | |
| Auditors' remuneration | **4,000** | 3,823 | **600** | 498 | **4,600** | 4,321 |
| Depreciation of property, plant and equipment | **106,048** | 88,973 | **12,230** | 62,774 | **118,278** | 151,747 |
| Amortization of prepaid lease payments for land | **11,196** | 8,724 | **–** | – | **11,196** | 8,724 |
| Amortisation of goodwill on acquisition of associates | **–** | 3,654 | **–** | 329 | **–** | 3,983 |
| Staff costs including directors' emoluments *(Note)* | **258,884** | 262,683 | **191,331** | 372,315 | **450,215** | 634,998 |
| Rental expenses in respect of land and buildings under operating leases | **14,246** | 12,380 | **–** | – | **14,246** | 12,380 |
| Share of tax of | | | | | | |
| Associates | **445** | 5,897 | **471** | 49 | **916** | 5,946 |
| Jointly controlled entities | **18,020** | – | **–** | – | **18,020** | – |
| Rental income in respect of land and buildings under operating leases, net of outgoings of HK$7,215,000 (2004: HK$26,562,000) | **(120,376)** | (107,155) | **–** | – | **(120,376)** | (107,155) |
| Net exchange gains on foreign currency borrowings less deposits | **(10,353)** | (1,926) | **–** | – | **(10,353)** | (1,926) |
| Dividends from unlisted investments | **(20,959)** | (2,100) | **–** | – | **(20,959)** | (2,100) |

*Note:* The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs capped at HK$20,000 to the scheme, which contribution is matched by employees.

The employees of the Company's subsidiaries established in the PRC are members of a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme.

The total cost charged to income statement of HK$19 million (2004: HK$33 million), which has been included in staff costs disclosed above, represents contributions payable to the schemes by the Group in respect of the current accounting period. At 31 December 2005, contributions of HK$0.4 million (2004: HK$2 million) due in respect of the year had not been paid over to the scheme.

## 14. PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS

As detailed in Note 45, the Company entered into an agreement to dispose of its entire interest in Zetson Enterprises Limited ("Zetson) which was, through its subsidiaries, principally engaged in project management, construction and other related activities. The disposal was completed and the Group's project management, construction and related activities were discontinued on 30 June 2005, on which date control of Zetson was passed.

The results of the activities carried out by Zetson sub-group for the period from 1 January 2005 to 30 June 2005, which have been included in the consolidated income statement, were as follows:

| | **1 January 2005 to 30 June 2005** ***HK$'000*** | Year ended 31 December 2004 *HK$'000* |
|---|---|---|
| Turnover | **959,417** | 3,316,811 |
| Cost of sales | **(899,588)** | (3,186,511) |
| | **59,829** | 130,300 |
| Other operating income | **4,288** | 4,618 |
| Administrative expenses | **(28,651)** | (46,745) |
| Operating profit | **35,466** | 88,173 |
| Finance costs | **(132)** | (135) |
| Share of profits of associates | **1,297** | 757 |
| Profit before tax | **36,631** | 88,795 |
| Income tax expense | **(4,122)** | (13,506) |
| Profit for the period/year | **32,509** | 75,289 |

The carrying amounts of the consolidated assets and liabilities of Zetson at the date of disposal are disclosed in Note 45.

## 15. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors of the Company are as follows:

| | Year ended 31 December 2005 | | | | |
|---|---|---|---|---|---|
| | **Directors' fees** | **Basic salaries, allowances and benefits-in-kind** | **Performance related bonus** | **Contributions to provident fund schemes** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Kong Qingping | **–** | **4,721** | **2,500** | **12** | **7,233** |
| Cui Duosheng | **–** | **3,526** | **2,200** | **12** | **5,738** |
| Yao Peifu | **–** | **3,035** | **2,200** | **12** | **5,247** |
| Hao Jian Min | **–** | **2,150** | **2,200** | **12** | **4,362** |
| Wu Jianbin | **–** | **2,475** | **2,200** | **12** | **4,687** |
| Xiao Xiao | **–** | **1,780** | **2,200** | **12** | **3,992** |
| Jin Xinzhong | **–** | **1,200** | **–** | **12** | **1,212** |
| Wang Man Kwan, Paul | **–** | **1,650** | **150** | **13** | **1,813** |
| Sun Wen Jie | **–** | **320** | **–** | **–** | **320** |
| Yip Chung Nam | **–** | **190** | **–** | **–** | **190** |
| Cheung Shiu Kit | **–** | **650** | **–** | **3** | **653** |
| Li Kwok Po, David | **200** | **–** | **–** | **–** | **200** |
| Lam Kwong Siu | **200** | **–** | **–** | **–** | **200** |
| Wong Ying Ho, Kennedy | **200** | **–** | **–** | **–** | **200** |
| | **600** | **21,697** | **13,650** | **100** | **36,047** |

| | Year ended 31 December 2004 | | | | |
|---|---|---|---|---|---|
| | Directors' fees | Basic salaries, allowances and benefits-in-kind | Performance related bonus | Contributions to provident fund schemes | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Kong Qingping | – | 4,466 | 1,150 | 12 | 5,628 |
| Cui Duosheng | – | 2,906 | 900 | 12 | 3,818 |
| Yao Peifu | – | 2,906 | 900 | 12 | 3,818 |
| Wu Jianbin | – | 1,586 | 800 | 12 | 2,398 |
| Sun Wen Jie | – | 170 | – | – | 170 |
| Yao Xiancheng | – | 817 | 106 | 2 | 925 |
| Yip Chung Nam | – | 1,757 | 254 | 12 | 2,023 |
| Nip Yun Wing | – | 964 | 360 | 9 | 1,333 |
| Cheung Shiu Kit | – | 1,646 | 175 | 12 | 1,833 |
| Li Kwok Po, David | 200 | – | – | – | 200 |
| Lam Kwong Siu | 200 | – | – | – | 200 |
| Wong Ying Ho, Kennedy | 200 | – | – | – | 200 |
| | 600 | 17,218 | 4,645 | 83 | 22,546 |

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

## 16. DIVIDENDS

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Ordinary shares | | |
| Interim, paid | | |
| HK 3 cents (2004: HK 2 cents) per share | **191,617** | 127,356 |
| Special interim | | |
| Distribution in specie (Note) (2004: Nil) | **424,017** | – |
| Final, proposed | | |
| HK 4 cents (2004: HK 4 cents) per share | **256,770** | 254,829 |
| Prior year's final dividend paid on shares issued subsequent to approval of financial statements | **167** | – |
| | **872,571** | 382,185 |

*Note:* During the year, a special dividend was paid to the Company's shareholders by way of a distribution of the shares in China State Construction International Holdings Limited ("CSCIHL") on the basis of one CSCIHL share for every 18 shares in the Company then held (Note 45). The carrying amount of the investment in CSCIHL as carried in the Company's balance sheet is minimal.

The final dividend of HK 4 cents (2004: HK 4 cents) per ordinary share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting. The amount of final dividend proposed was calculated based on the number of ordinary shares in issue at the date of approval of the financial statements.

## 17. EARNINGS PER SHARE

### From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the equity shareholders of the Company is based on the following data:

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (restated) |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share | **1,534,684** | 1,073,559 |

| | **2005** | 2004 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **6,405,883** | 6,284,885 |
| Effect of dilutive potential ordinary shares in respect of share options granted | **80,598** | 89,337 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **6,486,481** | 6,374,222 |

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

### From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the equity shareholders of the Company is based on the following data:

Earnings figures are calculated as follows:

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year attributable to equity shareholders of the Company | **1,534,684** | 1,073,559 |
| *Less:* Profit for the year from discontinued operations | **(32,509)** | (75,289) |
| Earnings for the purposes of basic and diluted earnings per share from continuing operations | **1,502,175** | 998,270 |

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

## 17. EARNINGS PER SHARE *(Continued)*

### From discontinued operations

Basic earnings per share for the discontinued operations is 0.51 cents (2004: 1.20 cents) per share and diluted earnings per share for the discontinued operations is 0.50 cents (2004: 1.18 cents) per share, based on the profit for the year from the discontinued operations of HK$33 million (2004: HK$75 million) and the denominators detailed above for both basic and diluted earnings per share.

### Impact of changes in accounting policies

Changes in the Group's accounting policies during the year are described in detail in Note 2. The following table summarises the impact on both basic and diluted earnings per share from continuing and discontinued operations as a result of the application of new accounting standards and interpretations:

| | **Impact on basic earnings per share** | | **Impact on diluted earnings per share** | |
|---|---|---|---|---|
| | **2005** ***HK cents*** | 2004 *HK cents* | **2005** ***HK cents*** | 2004 *HK cents* |
| Reported figure before adjustments | **20.5** | 17.1 | **20.2** | 16.8 |
| Adjustments arising from changes in accounting policies | **3.5** | – | **3.5** | – |
| Restated | **24.0** | 17.1 | **23.7** | 16.8 |

## 18. INVESTMENT PROPERTIES

| | *HK$'000* |
|---|---|
| **FAIR VALUE** | |
| At 1 January 2004 | 1,757,270 |
| Acquisition of a subsidiary | 31,020 |
| Disposals | (8,200) |
| Increase on revaluation recognised in equity | 53,110 |
| At 31 December 2004 | 1,833,200 |
| Additions | 9,756 |
| Reclassified from property, plant and equipment and prepaid lease payments for land | 187,000 |
| Disposal of a subsidiary | (824,724) |
| Disposals | (25,167) |
| Increase in fair value recognised in income statement | 391,495 |
| At 31 December 2005 | **1,571,560** |

## 18. INVESTMENT PROPERTIES *(Continued)*

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

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| **Investment properties on land:** | | |
| In Hong Kong | | |
| On long leases | **144,000** | 133,000 |
| On medium-term leases | **1,148,500** | 788,100 |
| In the PRC | | |
| On medium-term leases | **279,060** | 912,100 |
| | **1,571,560** | 1,833,200 |

The fair value of the Group's investment properties at 31 December 2005 has been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers not connected with the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation report on these properties was signed by a director of DTZ Debenham Tie Leung Limited who is a member of The Hong Kong Institute of Surveyors ("HKIS"). The valuation, which conforms to the Valuation Standards on Valuation of Properties published by the HKIS, was arrived at by considering the capitalised income to be derived from the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties.

During the year, certain properties with an aggregate fair value of HK$187 million were reclassified from property, plant and equipment and prepaid lease payments for land. The fair value of such properties at the date of reclassification was determined by reference to the valuation conducted by DTZ Debenham Tie Leung Limited on that date. The difference between the fair value of these properties and their carrying value amounted to HK$134 million, of which HK$107 million was attributable to leasehold interest in land which has been credited to income statement. The remaining balance of the difference of HK$27 million has been dealt with in reserve.

All of the Group's investment properties held under operating leases to earn rentals or for capital appreciation purposes are classified as investment properties and are accounted for using the fair value model.

## 19. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Heat and electricity supply facilities HK$'000 | Plant, machinery and equipment HK$'000 | Furniture, fixtures, office equipment and motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | |
| **COST** | | | | | | |
| At 1 January 2004 | 249,952 | 318,761 | 443,597 | 169,359 | 105,231 | 1,286,900 |
| Acquisition of subsidiaries | 2,250 | – | 189,822 | 4,883 | 37,581 | 234,536 |
| Additions | 88,546 | 59,660 | 53,721 | 53,477 | 154,878 | 410,282 |
| Disposal of subsidiaries | – | – | – | (326) | – | (326) |
| Other disposals | (31,456) | (572) | (8,492) | (30,467) | – | (70,987) |
| Transfers between categories | 6,792 | – | 4,887 | – | (11,679) | – |
| At 31 December 2004 | 316,084 | 377,849 | 683,535 | 196,926 | 286,011 | 1,860,405 |
| Exchange adjustments | 13,818 | 9,717 | 5,452 | 1,697 | 4,744 | 35,428 |
| Acquisition of subsidiaries | 7,404 | – | – | 3,367 | – | 10,771 |
| Additions | 43,371 | 19,680 | 7,661 | 69,999 | 115,223 | 255,934 |
| Disposal of subsidiaries | (206) | – | – | (3,656) | – | (3,862) |
| Disposal arising from discontinued operations | – | – | (405,507) | (38,544) | – | (444,051) |
| Other disposals | (20,335) | (6,949) | (2,127) | (55,465) | – | (84,876) |
| Government grants received | – | – | – | – | (34,615) | (34,615) |
| Reclassified to investment properties | (72,484) | – | – | – | – | (72,484) |
| Transfers between categories | 37,984 | 220,025 | – | – | (258,009) | – |
| At 31 December 2005 | 325,636 | 620,322 | 289,014 | 174,324 | 113,354 | 1,522,650 |
| **DEPRECIATION** | | | | | | |
| At 1 January 2004 | 42,930 | 3,513 | 387,712 | 98,462 | – | 532,617 |
| Provided for the year | 15,162 | 51,223 | 56,636 | 28,726 | – | 151,747 |
| Eliminated on disposals | (3,560) | (27) | (7,253) | (10,594) | – | (21,434) |
| At 31 December 2004 | 54,532 | 54,709 | 437,095 | 116,594 | – | 662,930 |
| Exchange adjustments | 803 | 1,821 | 1,072 | 1,330 | – | 5,026 |
| Provided for the year | 14,941 | 62,166 | 18,965 | 22,206 | – | 118,278 |
| Eliminated on disposal of subsidiaries | – | – | – | (2,370) | – | (2,370) |
| Eliminated on disposal arising from discontinued operations | – | – | (382,747) | (31,296) | – | (414,043) |
| Eliminated on other disposals | – | (928) | (1,972) | (15,520) | – | (18,420) |
| Eliminated on reclassifications | (42,366) | – | – | – | – | (42,366) |
| At 31 December 2005 | 27,910 | 117,768 | 72,413 | 90,944 | – | 309,035 |
| **NET BOOK VALUES** | | | | | | |
| **At 31 December 2005** | **297,726** | **502,554** | **216,601** | **83,380** | **113,354** | **1,213,615** |
| At 31 December 2004 | 261,552 | 323,140 | 246,440 | 80,332 | 286,011 | 1,197,475 |

The cost of construction in progress, on which the government grants apply is HK$115 million (2004: Nil).

## 19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Buildings<br>*HK$'000* | Furniture, fixtures, office equipment and motor vehicles<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| **THE COMPANY** | | | |
| **COST** | | | |
| At 1 January 2004 | 2,055 | 30,500 | 32,555 |
| Additions | – | 542 | 542 |
| Disposals | (1,105) | (689) | (1,794) |
| At 31 December 2004 | 950 | 30,353 | 31,303 |
| Additions | – | 2,017 | 2,017 |
| Disposals | – | (35) | (35) |
| At 31 December 2005 | 950 | 32,335 | 33,285 |
| **DEPRECIATION** | | | |
| At 1 January 2004 | 724 | 28,222 | 28,946 |
| Provided for the year | 47 | 1,182 | 1,229 |
| Eliminated on disposals | (316) | (651) | (967) |
| At 31 December 2004 | 455 | 28,753 | 29,208 |
| Provided for the year | 62 | 1,268 | 1,330 |
| Eliminated on disposals | – | (35) | (35) |
| At 31 December 2005 | 517 | 29,986 | 30,503 |
| **NET BOOK VALUES** | | | |
| **At 31 December 2005** | **433** | **2,349** | **2,782** |
| At 31 December 2004 | 495 | 1,600 | 2,095 |

## 20. PREPAID LEASE PAYMENTS FOR LAND

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2005** **HK$'000** | 2004 HK$'000 | **2005** **HK$'000** | 2004 HK$'000 |
| **Prepaid lease payments for land comprise:** | | | | |
| Leasehold land in Hong Kong on | | | | |
| Long lease | **1,043** | – | **–** | – |
| Medium-term lease | **9,797** | 30,731 | **–** | – |
| Leasehold land outside Hong Kong on | | | | |
| Medium-term lease | **199,884** | 159,538 | **433** | 495 |
| | **210,724** | 190,269 | **433** | 495 |
| Analysed for reporting purposes as | | | | |
| Non-current asset | **199,801** | 179,073 | **371** | 433 |
| Current asset | **10,923** | 11,196 | **62** | 62 |
| | **210,724** | 190,269 | **433** | 495 |

## 21. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **2005** **HK$'000** | 2004 HK$'000 |
| Unlisted shares, at cost | **83,773** | 9,927 |
| Amounts due from subsidiaries | **5,553,701** | 12,214,811 |
| *Less:* Allowances for doubtful recovery | **(1,966,000)** | (2,514,000) |
| | **3,671,474** | 9,710,738 |

The amounts due from subsidiaries, which are unsecured with no fixed repayment terms, carry interest at prime rate plus a specified margin.

The carrying amount of the amounts due from subsidiaries at 31 December 2005 approximates their fair value which was determined by the directors based on the present value of the estimated future cash flows discounted using the market rate prevailing at that date.

Particulars of the principal subsidiaries are set out in note 53.

## 22. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Cost of investments, unlisted | **14,972** | 214,245 |
| Share of post-acquisition profits less losses, and reserves net of dividends received | **111,698** | 71,286 |
| *Less:* Amortisation and impairment losses | **–** | (52,074) |
| | **126,670** | 233,457 |
| Amounts due from associates | **1,371,407** | 1,489,578 |
| *Less:* Allowances for doubtful recovery | **(425,402)** | (425,402) |
| Amount due within one year included in current assets *(Note 32)* | **(847,278)** | – |
| | **98,727** | 1,064,176 |
| | **225,397** | 1,297,633 |

| | THE COMPANY | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **–** | – |
| Amounts due from associates | **10,008** | 10,008 |
| | **10,008** | 10,008 |

The amounts due from the associates are unsecured with no fixed repayment terms. The amounts due from associates to the extent of HK$1,268 million (2004: HK$1,340 million) carry interest based on prime rate plus a specified margin with the remaining balance interest free.

The directors consider that the carrying amounts of the amounts due from associates to the Group and the Company at 31 December 2005 approximate their respective fair values.

## 22. INTERESTS IN ASSOCIATES *(Continued)*

Set out below are the particulars of the principal associates at 31 December 2005 which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group.

| **Name of entity** | **Place of incorporation and operations** | **Proportion of nominal value of issued ordinary capital/registered capital indirectly held** % | **Principal activities** |
|---|---|---|---|
| Chest Gain Development Limited | Hong Kong | 30 | Property development |
| Guangzhou Xin Yue Real Estate Development Co., Ltd. | PRC | 40 | Property development and trading |

Movements of goodwill included in the cost of investments in associates are set out below:

| | **THE GROUP** | |
|---|---|---|
| | **2005** *HK$'000* | 2004 *HK$'000* |
| **COST** | | |
| At 1 January | **33,248** | 38,777 |
| Eliminated on disposals | **(33,248)** | (5,529) |
| At 31 December | **–** | 33,248 |
| **AMORTISATION AND IMPAIRMENT** | | |
| At 1 January | **32,754** | 6,847 |
| Eliminated on disposals | **(32,754)** | (1,800) |
| Released to income | **–** | 3,982 |
| Impairment losses recognised | **–** | 23,725 |
| At 31 December | **–** | 32,754 |
| **CARRYING VALUES** | | |
| At 31 December | **–** | 494 |

## 22. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Total assets | **3,721,366** | 5,410,753 |
| Total liabilities | **(7,062,435)** | (8,005,403) |
| Net assets deficiency | **(3,341,069)** | (2,594,650) |
| Revenue | **494,516** | 5,298,192 |
| (Loss) profit for the year | **(264,312)** | 679,304 |

The amounts due from associates have been reduced to their estimated recoverable amounts by reference to the financial positions of the associates after taking into account the fair value of the properties held by the associates.

## 23. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Cost of investments, unlisted | **1,244,526** | 1,207,331 |
| Share of post-acquisition profits less losses, and reserves net of dividends received | **44,536** | – |
| | **1,289,062** | 1,207,331 |
| Amounts due from jointly controlled entities | **449,978** | 458,333 |
| *Less:* Amount due within one year included in current assets *(Note 32)* | **(49,040)** | – |
| | **400,938** | 458,333 |
| | **1,690,000** | 1,665,664 |

The amounts due from jointly controlled entities are unsecured and interest free with no fixed repayment terms.

The carrying amount of the amounts due from jointly controlled entities at 31 December 2005 approximates their fair value, which was determined by the directors based on the present value of the estimated future cash flows discounted using the market rate prevailing at that date.

Set out below are the particulars of the principal jointly controlled entitles at 31 December 2005, which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. These jointly controlled entities are established and operating in the PRC.

## 23. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

| Name of entity | Proportion of nominal value of registered capital held by the Group % | Operation period | Principal activities |
|---|---|---|---|
| 南京長江第二大橋有限責任公司 | 65 | 10 February 1999 to 25 March 2031 | Operation and management of a toll bridge |
| 深圳中海信和地產開發有限公司 | 50 | 28 April 2004 to 27 April 2014 | Property development |
| 中海月朗苑物業發展(深圳)有限公司 | 50 | 1 April 2004 to 1 April 2014 | Property development |
| Nanchang COB Infrastructure Ltd. | 55.24* | 29 March 2003 to 30 June 2025 | Operation and management of a toll bridge |
| Nanchang COIL City Bridge Ltd. | 55.24* | 29 March 2003 to 30 June 2025 | Operation and management of a toll bridge |
| Nanchang COVC City Bridge Ltd. | 55.24* | 29 March 2003 to 30 June 2025 | Operation and management of a toll bridge |

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

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Current assets | **1,888,255** | 299,332 |
| Non-current assets | **4,871,103** | 5,920,100 |
| Current liabilities | **1,783,296** | 1,574,368 |
| Non-current liabilities | **2,747,840** | 2,662,407 |
| Income | **436,910** | 343,095 |
| Expenses | **384,576** | 319,336 |

## 24. INTERESTS IN SYNDICATED PROPERTY PROJECT COMPANIES

| | THE GROUP | |
|---|---|---|
| | **2005** **HK$'000** | 2004 HK$'000 |
| **Unlisted** | | |
| Available-for-sale investments, at fair value | **153,637** | – |
| Investments, at cost | **–** | 46 |
| | **153,637** | 46 |
| Amounts due from syndicated property project companies | **769,864** | 901,491 |
| *Less:* Allowances for doubtful recovery | **(227,500)** | (307,500) |
| | **542,364** | 593,991 |
| | **696,001** | 594,037 |

The investments represent the Group's interests in the following syndicated property project companies which are carried at the balance sheet date at 31 December 2005 at fair value as estimated by the directors by reference to the fair value of the properties held by these companies.

The amounts due from syndicated property project companies are unsecured and interest free with no fixed repayment terms.

The carrying amount of the amounts due from syndicated property project companies at 31 December 2005 approximates their fair value which was determined by the directors based on the present value of the estimated future cash flows discounted using the market rate prevailing at that date.

The syndicated property project companies are incorporated and operating in Hong Kong unless otherwise indicated.

| **Name of entity** | **Attributable equity interests held by the Group** % | **Principal activities** |
|---|---|---|
| Benefit Bright Limited | 10 | Property development |
| Direct Profit Development Limited | 8 | Property development |
| Dramstar Company Limited | 12 | Property development |
| Harvest Sun Limited | 10 | Property development |
| Moricrown Ltd.* | 7 | Property development |
| Victory World Limited | 10 | Property development |

* *Incorporated in the British Virgin Islands*

## 25. INTERESTS IN INFRASTRUCTURE PROJECTS

| | THE GROUP | |
|---|---|---|
| | **2005** **HK$'000** | 2004 *HK$'000* |
| Unlisted investments, at cost | **244,265** | 244,265 |
| *Less:* Repayment of capital contributed | **(78,715)** | (63,725) |
| | **165,550** | 180,540 |
| Amount due from an infrastructure project company | **9** | 31,727 |
| *Less:* portion due within one year included in current assets *(Note 32)* | **(17,428)** | (46,717) |
| | **148,131** | 165,550 |

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

The amount due from an infrastructure project company is unsecured and interest free with no fixed repayment terms.

The average effective interest rate on these investments is 11% (2004: 12%) in respect of the year. The carrying amount of these investments at 31 December 2005 approximates their fair value which was determined by the directors based on the present value of the estimated future cash flows discounted using the market rates prevailing at that date.

Particulars of the investee companies at 31 December 2005, all of which are established and are operating in the PRC, are as follows:

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

## 26. OTHER ASSETS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2005** **HK$'000** | 2004 HK$'000 | **2005** **HK$'000** | 2004 HK$'000 |
| Derivative financial instruments *(Note a)* | **12,763** | – | **12,763** | – |
| Instalments receivable *(Note b)* | **9,022** | 32,123 | **–** | – |
| Pledged bank deposits *(Note c)* | **27,611** | 89,822 | **–** | – |
| | **49,396** | 121,945 | **12,763** | – |

*Notes:*

(a) The derivative financial instruments represent interest rate swap agreements entered into by the Group to manage its exposure to interest rate movements on its bank borrowings by swapping a portion of those borrowings from floating rates to fixed rates. These agreements are deemed to be financial instruments held for trading and are therefore carried at the balance sheet date at fair value, determined by reference to prices for equivalent instruments quoted by financial institutions. Changes in fair value are recognised directly in profit or loss.

Major terms of the interest rate swap agreements are as follows:

| **Notional amount outstanding at 31 December 2005** | **Maturity** | **Terms** |
|---|---|---|
| HK$480,000,000 | Notional amounts of HK$60 million and HK$420 million will mature in year 2006 and 2007 respectively | From HIBOR to the fixed rate of 3.98% per annum |
| HK$240,000,000 | Notional amounts of HK$30 million and HK$210 million will mature in year 2006 and 2007 respectively | From HIBOR to the fixed rate of 2.953% per annum |

(b) The instalments receivable are unsecured, carry interest at prime rate plus a specified margin and are not wholly repayable within five years. The directors consider that the carrying amount of the instalments receivable at 31 December 2005 approximates their fair value.

(c) The pledged bank deposits represent deposits pledged to banks to secure the banking facilities granted to the Group. The deposits, which carry variable interest rate, will be released upon the settlement of the relevant bank borrowings. The directors consider that the carrying amount of the bank deposits at 31 December 2005 approximates their fair value.

## 27. NEGATIVE GOODWILL

| | **THE GROUP** *HK$'000* |
|---|---|
| **GROSS AMOUNT** | |
| At 1 January 2004 and 31 December 2004 | 127,534 |
| **RELEASED TO INCOME** | |
| At 1 January 2004 | (8,179) |
| Included in other operating income | (8,017) |
| At 31 December 2004 | (16,196) |
| **CARRYING AMOUNT** | |
| At 31 December 2004 | 111,338 |
| Derecognised *(Note)* | (111,338) |
| At 1 January 2005 and 31 December 2005 | – |

*Note:* As explained in Note 2, all negative goodwill arising on acquisitions prior to 1 January 2005, which was previously released to income on a straight-line basis over a period of 12 years, was derecognised at the beginning of the current year as a result of the application of HKFRS 3.

## 28. INVENTORIES

| | **THE GROUP** | |
|---|---|---|
| | **2005** ***HK$'000*** | 2004 *HK$'000* |
| Raw materials and consumables, at cost | **36,641** | 41,037 |

## 29. STOCK OF PROPERTIES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Completed properties | **2,127,468** | 1,604,860 | **1,798** | 1,798 |
| Properties under development | **7,337,987** | 6,085,269 | **–** | – |
| Properties for development *(note)* | **4,144,276** | 2,168,575 | **–** | – |
| | **13,609,731** | 9,858,704 | **1,798** | 1,798 |

*Note:* The properties for development, which represent land held for development for sale, are expected not to be realised within 12 months from the balance sheet date.

## 30. TRADING SECURITIES

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Equity securities listed in Hong Kong | **11,489** | – |

## 31. TRADE AND OTHER RECEIVABLES

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

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

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Receivables, aged | | |
| 0-30 days | **400,699** | 606,742 |
| 31-90 days | **131,543** | 129,289 |
| Over 90 days | **467,914** | 418,900 |
| Retentions receivable | **–** | 359,545 |
| | **1,000,156** | 1,514,476 |

The directors consider that the carrying amounts of the Group's and the Company's trade and other receivables at 31 December 2005 approximate their respective fair values.

## 32. AMOUNTS DUE FROM INVESTEE COMPANIES

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Amounts due from | | |
| An associate *(Note 22)* | **847,278** | – |
| A jointly controlled entity *(Note 23)* | **49,040** | – |
| Infrastructure project companies *(Note 25)* | **17,428** | 46,717 |
| | **913,746** | 46,717 |

The directors consider that the carrying amounts of the amounts due from the investee companies at 31 December 2005 approximate their respective fair values.

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

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Contract in progress at the balance sheet date: | | |
| Contract costs incurred plus recognised profits less losses | **–** | 3,647,535 |
| *Less:* Progress billings | **–** | (3,729,152) |
| | **–** | (81,617) |
| Analysed for reporting purposes as: | | |
| Amounts due from contract customers | **–** | 31,608 |
| Amounts due to contract customers | **–** | (113,225) |
| | **–** | (81,617) |

At 31 December 2004, retentions held by customers for contract work amounted to approximately HK$360 million were included in trade and other receivables under current assets. No such retentions were included in the balance sheet at 31 December 2005.

## 34. TRADE AND OTHER PAYABLES

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

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Payables, aged | | |
| 0-30 days | **1,808,905** | 1,635,124 |
| 31-90 days | **51,620** | 140,602 |
| Over 90 days | **798,937** | 722,136 |
| Consideration for acquisition of investment payable *(note 41)* | **57,638** | 78,489 |
| Retentions payable | **151,130** | 324,798 |
| | **2,868,230** | 2,901,149 |

Of the retentions payable, an amount of HK$80 million (2004: HK$128 million) is due not within twelve months.

The directors consider that the carrying amounts of the Group's and the Company's trade and other payables at 31 December 2005 approximate their respective fair values.

## 35. OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets include deposits and prepayments, and bank balances and cash.

Other financial liabilities include amounts due to associates which are due within one year.

The directors consider that the carrying amounts of these financial assets and liabilities approximate their respective fair values.

# 36. SHARE CAPITAL

| | THE GROUP AND THE COMPANY | | | |
|---|---|---|---|---|
| | **2005** | | 2004 | |
| | **Number of shares** | **Nominal value** | Number of shares | Nominal value |
| | ***'000*** | ***HK$'000*** | *'000* | *HK$'000* |
| Ordinary shares of HK$0.1 each | | | | |
| Authorised | **10,000,000** | **1,000,000** | 10,000,000 | 1,000,000 |
| Issued and fully paid | | | | |
| At beginning of the year | **6,370,728** | **637,073** | 5,441,036 | 544,103 |
| Issue of shares | **85,990** | **8,599** | 959,640 | 95,964 |
| Shares repurchased | **(58,742)** | **(5,874)** | (29,948) | (2,994) |
| At end of the year | **6,397,976** | **639,798** | 6,370,728 | 637,073 |

## Issue of shares

During the year, the Company issued a total of 85,990,000 shares at prices ranging from HK$0.52 to HK$1.13 per share to employees upon the exercise of the share options granted, giving a total cash consideration of HK$82,534,000.

## Repurchase of shares

During the year, the Company repurchased 58,742,000 of its own shares on The Stock Exchange of Hong Kong Limited, details as follows:

| **Month of purchase** | **Number of ordinary shares of HK$0.1 each** | **Price per share Highest** | **Lowest** | **Aggregate consideration paid** |
|---|---|---|---|---|
| | *'000* | *HK$* | *HK$* | *HK$'000* |
| 2005 | | | | |
| April | 7,210 | 1.62 | 1.59 | 11,517 |
| May | 51,532 | 1.60 | 1.46 | 78,089 |
| | 58,742 | | | 89,606 |

## 36. SHARE CAPITAL *(Continued)*

### Repurchase of shares *(Continued)*

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

### Share option scheme

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

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

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

The fair value of share options granted is charged to the income statement on a straight-line basis over the vesting period in accordance with HKFRS 2 *Share-based Payment*.

## 36. SHARE CAPITAL *(Continued)*

### Share option scheme *(Continued)*

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

| Date of grant | Exercisable period | Subscription price per share HK$ | Number of shares under options granted: Outstanding at 1 January 2005 | Movements during the year: Exercised | Movements during the year: Cancelled | At 31 December 2005: Outstanding | At 31 December 2005: Exercisable | Closing price of shares at date of exercise HK$ |
|---|---|---|---|---|---|---|---|---|
| 17 July 1997 | 17 July 1998 – 16 July 2007 | 4.06 | 57,080,000 | – | (1,230,000) | 55,850,000 | 55,850,000 | N/A |
| 14 February 1998 | 14 February 1999 – 13 February 2008 | 1.08 | 126,120,000 | (54,860,000) | (860,000) | 70,400,000 | 70,400,000 | 1.53 to 3.325 |
| 30 September 1998 | 30 September 1999 – 29 September 2008 | 0.52 | 15,500,000 | (7,450,000) | – | 8,050,000 | 8,050,000 | 1.55 to 2.850 |
| 4 January 2000 | 4 January 2001 – 3 January 2010 | 0.58 | 33,950,000 | (13,360,000) | – | 20,590,000 | 20,590,000 | 1.53 to 3.075 |
| 18 June 2004 | 18 June 2005 – 17 June 2014 | 1.13 | 64,340,000 | (10,320,000) | (256,000) | 53,764,000 | 2,452,000 | 1.46 to 3.45 |
| | | | 296,990,000 | (85,990,000) | (2,346,000) | 208,654,000 | 157,342,000 | |
| **Weighted average exercise price** | | | **1.58** | **0.96** | **2.65** | **1.82** | **2.04** | |

## 36. SHARE CAPITAL *(Continued)*

### Share option scheme *(Continued)*

| Date of grant | Exercisable period | Subscription price per share HK$ | Outstanding at 1 January 2004 | Movements during the year: Granted | Movements during the year: Exercised | Movements during the year: Cancelled | At 31 December 2004: Outstanding | At 31 December 2004: Exercisable | Closing price of shares at date of exercise HK$ |
|---|---|---|---|---|---|---|---|---|---|
| | | | Number of shares under options granted | | | | | | |
| 17 July 1997 | 17 July 1998 – 16 July 2007 | 4.06 | 60,130,000 | – | – | (3,050,000) | 57,080,000 | 57,080,000 | N/A |
| 14 February 1998 | 14 February 1999 – 13 February 2008 | 1.08 | 151,020,000 | – | (22,500,000) | (2,400,000) | 126,120,000 | 126,120,000 | 1.54 to 1.81 |
| 30 September 1998 | 30 September 1999 – 29 September 2008 | 0.52 | 26,760,000 | – | (10,910,000) | (350,000) | 15,500,000 | 15,500,000 | 1.54 to 1.81 |
| 4 January 2000 | 4 January 2001 – 3 January 2010 | 0.58 | 49,180,000 | – | (15,230,000) | – | 33,950,000 | 33,950,000 | 1.54 to 1.81 |
| 24 October 2001 | 24 October 2002 – 23 October 2011 | 0.69 | 61,000,000 | – | (61,000,000) | – | – | – | 1.66 to 1.79 |
| 18 June 2004 | 18 June 2005 – 17 June 2014 | 1.13 | – | 65,140,000 | – | (800,000) | 64,340,000 | – | N/A |
| | | | 348,090,000 | 65,140,000 | (109,640,000) | (6,600,000) | 296,990,000 | 232,650,000 | |
| Weighted average exercise price | | | 1.41 | 1.13 | 0.74 | 2.43 | 1.58 | 1.70 | |

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

| | Outstanding at 1 January | Granted | Exercised | Cancelled | Reclassified *(Note)* | Outstanding at 31 December |
|---|---|---|---|---|---|---|
| | **Number of shares under options granted** | | | | | |
| | | **Movements during the year** | | | | |
| **2005** | **100,330,000** | **–** | **(6,942,000)** | **–** | **(23,450,000)** | **69,938,000** |
| 2004 | 108,110,000 | 20,740,000 | (6,120,000) | (500,000) | (21,900,000) | 100,330,000 |

*Note:* The 23,450,000 (2004: 21,900,000) share options represents the net balance of 35,540,000 (2004: 21,900,000) share options held by the directors who had resigned during the year and 12,090,000 (2004: Nil) share options held by certain directors who were appointed during the year.

# 36. SHARE CAPITAL *(Continued)*

## Share option scheme *(Continued)*

During the year ended 31 December 2004, 65,140,000 options were granted on 18 June 2004 by the Company at the exercise price of HK$1.13 per share. The vesting and exercisable periods regarding these options are as follows:

| Number of options granted | Vesting period | Exercisable period |
|---|---|---|
| 13,028,000 | 18 June 2004 to 17 June 2005 | 18 June 2005 to 17 June 2014 |
| 13,028,000 | 18 June 2004 to 17 June 2006 | 18 June 2006 to 17 June 2014 |
| 13,028,000 | 18 June 2004 to 17 June 2007 | 18 June 2007 to 17 June 2014 |
| 13,028,000 | 18 June 2004 to 17 June 2008 | 18 June 2008 to 17 June 2014 |
| 13,028,000 | 18 June 2004 to 17 June 2009 | 18 June 2009 to 17 June 2014 |

The estimated fair value of the 65,140,000 options granted on 18 June 2004 is HK$12,327,000 which was calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

| | |
|---|---|
| Weighted average share price | HK$1.11 |
| Exercise price | HK$1.13 |
| Expected volatility | 45.54% |
| Expected life | 1.5 – 10 years |
| Risk-free rate | 1.88 – 4.56% |
| Expected dividend yield | 5.42% |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 260 trading days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$6,163,000 for the year ended 31 December 2005 (2004: HK$3,297,000) in relation to share options granted by the Company.

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

## 37. SHARE PREMIUM AND RESERVES

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Share option reserve HK$'000 | Other property revaluation reserve HK$'000 | Dividend reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **THE COMPANY** | | | | | | | |
| At 1 January 2004 as originally stated | 5,220,609 | 9,930 | – | 1,511 | 191,174 | 690,357 | 6,113,581 |
| Transfer between categories | – | – | – | – | (191,174) | 191,174 | – |
| At 1 January 2004 as restated | 5,220,609 | 9,930 | – | 1,511 | – | 881,531 | 6,113,581 |
| Profit for the year | – | – | – | – | – | 250,853 | 250,853 |
| 2003 final dividend paid | – | – | – | – | – | (191,174) | (191,174) |
| Repurchase of own shares | – | 2,994 | – | – | – | (36,856) | (33,862) |
| Issue of shares | 1,514,933 | – | – | – | – | – | 1,514,933 |
| Share issue expenses | (32,646) | – | – | – | – | – | (32,646) |
| Recognition of share-based payments | – | – | 3,297 | – | – | – | 3,297 |
| Realised on disposal of properties | – | – | – | (1,511) | – | 1,511 | – |
| 2004 interim dividend paid | – | – | – | – | – | (127,356) | (127,356) |
| At 31 December 2004 as restated | 6,702,896 | 12,924 | 3,297 | – | – | 778,509 | 7,497,626 |
| Effects of changes in accounting policies *(note 3)* | – | – | – | – | – | (24,951) | (24,951) |
| At 1 January 2005 as restated | 6,702,896 | 12,924 | 3,297 | – | – | 753,558 | 7,472,675 |
| Profit for the year | – | – | – | – | – | 366,302 | 366,302 |
| 2004 final dividend paid | – | – | – | – | – | (254,996) | (254,996) |
| Repurchase of own shares | – | 5,874 | – | – | – | (90,030) | (84,156) |
| Issue of shares | 75,920 | – | (1,985) | – | – | – | 73,935 |
| Share issue expenses | (64) | – | – | – | – | – | (64) |
| Recognition of share-based payments | – | – | 6,163 | – | – | – | 6,163 |
| 2005 interim dividend paid | – | – | – | – | – | (191,617) | (191,617) |
| **At 31 December 2005** | **6,778,752** | **18,798** | **7,475** | **–** | **–** | **583,217** | **7,388,242** |

The Company's reserves available for distribution to shareholders at 31 December 2005 comprised the retained profits of HK$583 million (2004: HK$779 million).

## 37. SHARE PREMIUM AND RESERVES *(Continued)*

### THE GROUP

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

Of the Group's profit for the year, profit of HK$366 million (2004: HK$251 million) is dealt with in the accounts of the Company.

## 38. BANK LOANS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2005 *HK$'000*** | 2004 *HK$'000* | **2005 *HK$'000*** | 2004 *HK$'000* |
| Unsecured bank loans repayable | | | | |
| Within one year | **1,921,731** | 1,760,458 | **434,000** | 100,000 |
| More than one year, but not exceeding two years | **1,729,230** | 858,783 | **1,460,000** | – |
| More than two years, but not exceeding five years | **1,550,000** | 2,200,000 | **1,450,000** | 2,100,000 |
| | **5,200,961** | 4,819,241 | **3,344,000** | 2,200,000 |
| Secured bank loans repayable within one year | **–** | 45,283 | **–** | – |
| | **5,200,961** | 4,864,524 | **3,344,000** | 2,200,000 |
| *Less:* Amounts due within one year included in current liabilities | **(1,921,731)** | (1,805,741) | **(434,000)** | (100,000) |
| | **3,279,230** | 3,058,783 | **2,910,000** | 2,100,000 |

All the bank borrowings are variable-rate borrowings, thus exposing the Group to cash flow interest rate risk. The effective interest rate on bank borrowings denominated in Hong Kong dollars is based on HIBOR plus a specified margin. The effective interest rates on bank borrowings denominated in Renminbi range from 4.78% to 6.12% in respect of both of the years presented. The directors consider that the carrying amount of the bank loans approximates their fair value.

Including in the outstanding bank loans at 31 December 2005 are the following principal bank loans:

(a) a loan of HK$1,620 million granted on 23 July 2002, repayment of which commenced on 23 July 2005 and will continue until 23 July 2007. The loan is unsecured and carries interest at HIBOR plus 1%.

(b) a loan of HK$1,450 million granted on 28 July 2004, repayment of which will commence on 28 July 2008 and will continue until 28 July 2009. The loan is unsecured and carries interest at HIBOR plus 0.85%.

These principal bank loans shall become immediately due and payable in the event of the failure to perform or observe certain conditions set out in the loan agreements which include, inter alia, the compliance of certain undertakings given by the Company.

## 38. BANK LOANS *(Continued)*

The Group's borrowings are denominated in the following currencies:

| | **Hong Kong dollars** *HK$'000* | **RMB** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| At 31 December 2005 | 3,444,000 | 1,756,961 | 5,200,961 |
| At 31 December 2004 | 2,400,420 | 2,464,104 | 4,864,524 |

At 31 December 2005, the Group had available HK$1,880 million (2004: HK$2,200 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

## 39. GUARANTEED NOTES PAYABLE

| | **THE GROUP** | |
|---|---|---|
| | **2005** ***HK$'000*** | 2004 *HK$'000* |
| **Guaranteed notes payable** | | |
| Principal amount | **2,340,000** | – |
| *Less:* Unamortised note issue expenses and discount | **(19,555)** | – |
| | **2,320,445** | – |

During the year, a subsidiary of the Company issued guaranteed notes with an aggregate principal amount of US$300,000,000 ("the Notes") at the issue price of 99.404%. The Notes, which bear interest at the rate of 5.75% per annum payable semi-annually, are unconditionally and irrevocably guaranteed by the Company. The Notes shall become immediately due and payable in the event of the failure to perform or observe certain conditions set out in the Trust Deed which includes, inter alia, the negative pledge given by the Company and the said subsidiary. The Notes are subject to redemption on the occurrence of certain events and under certain conditions specified in the Trust Deed. The Notes, unless previously redeemed, or repurchased and cancelled, will mature on 13 July 2012 at their principal amount.

The fair value of the notes payable at 31 December 2005 was estimated at HK$2,256 million, which was determined based on the closing market price of the notes at that date.

## 40. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The minority shareholders of certain subsidiaries have provided advances to those subsidiaries which are unsecured and interest free. Such advances have no fixed repayment terms but repayment will not be demanded within one year from the balance sheet date. The carrying amount of the amounts due to minority shareholders at 31 December 2005 was estimated to be approximately equal to their fair value, which was determined by the directors based on the present value of the estimated future cash flows discounted using the market rates prevailing on that date.

## 41. OTHER PAYABLES

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Consideration for acquisition of subsidiaries payable | | |
| Within one year | **57,638** | 78,489 |
| More than one year, but not exceeding two years | **–** | 45,419 |
| | **57,638** | 123,908 |
| *Less:* Portion due within one year included in trade and other payables under current liabilities | **(57,638)** | (78,489) |
| | **–** | 45,419 |

The consideration for acquisition of subsidiaries payable were unsecured and interest free.

## 42. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured and interest free with no fixed repayment terms.

The directors consider that the carrying amounts of the amounts due from/to subsidiaries at 31 December 2005 approximates their fair value.

## 43. DEFERRED TAX LIABILITIES

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

| | Accelerated tax depreciation *HK$'000* | Revaluation of properties *HK$'000* | Others* *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| At 1 January 2004 as originally stated | 26,967 | 74,916 | 81,456 | 183,339 |
| Effect of changes in accounting policies | – | 22,671 | – | 22,671 |
| At 1 January 2004 as restated | 26,967 | 97,587 | 81,456 | 206,010 |
| (Credit) charge to income statement | (12,150) | – | 18,301 | 6,151 |
| Charge to equity | – | 9,277 | – | 9,277 |
| Acquisition of a subsidiary | – | – | 10,633 | 10,633 |
| At 31 December 2004 as rested | 14,817 | 106,864 | 110,390 | 232,071 |
| (Credit) charge to income statement | (9,970) | 52,167 | 9,716 | 51,913 |
| Charge to equity | – | 4,545 | – | 4,545 |
| Disposal of a subsidiary | – | – | (10,506) | (10,506) |
| **At 31 December 2005** | **4,847** | **163,576** | **109,600** | **278,023** |

* Include deferred tax liabilities is an amount of HK$71 million (2004: HK$63 million) in respect of income recognized by a subsidiary which is taxable in future years.

At the balance sheet date, the Group had unused tax losses of HK$4,378 million (2004: HK$4,321 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. These losses to the extent of HK$577 million (2004: HK$677 million) have not yet been agreed by the tax authority. Included in the tax losses are losses of HK$219 million (2004: HK$304 million) that will expire within five years. Other losses may be carried forward indefinitely.

## 44. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired subsidiaries for an aggregate consideration of HK$74.8 million, including 100% interest in each of Hua Yi Designing Consultants Limited and its wholly owned subsidiary, Hong Kong Hua Yi Designing Consultants (Shenzhen) Ltd. (together "Hua Yi Subgroup") *(Note 51(g))*. The subsidiaries acquired are principally engaged in the provision of building design consultancy services and investment holding. These transactions have been accounted for by the purchase method of accounting.

| | **Acquiree's carrying amount** *(Note)* *HK$'000* |
|---|---|
| Net assets acquired | |
| Property, plant and equipment | 10,771 |
| Prepaid lease payments for land | 13,883 |
| Trade and other receivables | 4,622 |
| Deposits and prepayments | 773 |
| Bank balances and cash | 9,415 |
| Trade and other payables | (20,404) |
| Rental and other deposits | (8,574) |
| Tax liabilities | (218) |
| | 10,268 |
| Goodwill on acquisition | 64,525 |
| | 74,793 |
| Satisfied by: | |
| Cash consideration paid | 74,793 |

*Note:* The carrying amounts of assets and liabilities acquired approximate their fair value.

## 44. ACQUISITION OF SUBSIDIARIES *(Continued)*

Net cash outflow arising on acquisition:

| | ***HK$'000*** |
|---|---|
| Cash consideration paid | **(74,793)** |
| Bank balances and cash acquired | **9,415** |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | **(65,378)** |

The goodwill arising on the acquisition of Hua Yi Subgroup is attributable to the anticipated future operating synergies from the combination.

Hua Yi Subgroup contributed HK$67 million turnover and HK$18 million to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, the Group's turnover for the year would have been increased by HK$16 million, and its profit for the year would have been increased by HK$2 million. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

As explained in Note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the goodwill, having an indefinite useful lives, has been allocated to the property development segment.

In respect of the year ended 31 December 2005, management determines that there is no impairment of goodwill based on the estimated recoverable amount of the cash generating units to which the goodwill relates. The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 10%. The cash flows beyond the 5-year period are projected using a zero growth rate. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this unit to exceed its aggregate recoverable amount.

## 45. DISCONTINUED OPERATIONS

On 30 June 2005, the Company entered into a sale and purchase agreement with China State Construction International Holdings Limited ("CSCIHL") and the holding company of both of the Company and CSCIHL, China Overseas Holdings Limited ("COHL"), for the disposal to CSCIHL of the Company's entire interest in Zetson Enterprises Limited ("Zetson") which is the holding company of entities engaging principally in construction, project management and other related activities, including the Construction Subsidiaries as referred to in note 51(a). The consideration for the disposal was satisfied by the transfer to the Company of the 357,409,867 issued shares in CSCIHL ("the Consideration Shares"), representing a 72.6% of its issued share capital, held by COHL.

The Consideration Shares were then distributed to the shareholders of the Company by way of a special dividend paid in the form of a distribution in specie.

## 45. DISCONTINUED OPERATIONS *(Continued)*

The aforementioned transactions, which did not give rise to any inflow of economic benefits to the Group, were intended to effect a distribution by the Company of its interest in Zetson to the shareholders, accordingly no gain or loss arising from such transactions was reported by the Group.

The consolidated net assets of Zetson at the date of disposal are set out below:

| | *HK$'000* |
|---|---|
| **ASSETS** | |
| Property, plant and equipment | 30,008 |
| Interests in associates | 27,144 |
| Interests in jointly controlled entities | 56,219 |
| Trade and other receivables | 716,469 |
| Amounts due from customers for contract work | 6,635 |
| Deposits and prepayments | 6,356 |
| Tax prepaid | 22,246 |
| Bank balances and cash | 485,800 |
| | 1,350,877 |
| **LIABILITIES** | |
| Trade and other payables | 736,394 |
| Amounts due to customers for contract work | 171,365 |
| Amounts due to jointly controlled entities | 4,949 |
| Tax liabilities | 14,104 |
| Bank loans | 48 |
| | 926,860 |
| **Net assets** | 424,017 |
| **Net cash outflow arising on the distribution:** | |
| Bank balances and cash disposed of | 485,800 |

During the year, Zetson and its subsidiaries contributed HK$77 million (2004: HK$375 million) to the Group's net operating cash flows, contributed HK$1 million (2004: paid HK$68 million) in respect of investing activities and paid HK$0.5 million (2004: HK$294 million) in respect of financing activities.

## 46. DISPOSAL OF SUBSIDIARIES

Other than the transactions outlined in Note 45, during the year the Group disposed of certain subsidiaries, which were established for the sole purpose of property development and investment in the PRC, for a consideration of HK$689 million.

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Net assets disposed of** | | |
| Investment properties | **824,724** | – |
| Property, plant and equipment | **1,492** | 326 |
| Stock of properties | **146,691** | 299,340 |
| Trade and other receivables | **18,657** | 437 |
| Deposits and prepayments | **52** | 12 |
| Bank balances and cash | **11,409** | 6,674 |
| Tax liabilities | **(2,229)** | – |
| Amounts due to minority shareholders | **(182,456)** | – |
| Deferred tax liabilities | **(10,506)** | – |
| Trade and other payables | **–** | (4,210) |
| Tax prepaid | **–** | 5,239 |
| | **807,834** | 307,818 |
| Exchange translation reserve | **(1,570)** | – |
| Net assets attributable to minority interests | **(117,494)** | – |
| Sales consideration | **(688,770)** | (389,000) |
| **Gain on disposal** | **–** | (81,182) |

**Net cash inflow arising on disposal:**

| | **2005** | 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash consideration | **688,770** | 389,000 |
| *Less:* Consideration receivable | **(1,887)** | (153,000) |
| Cash consideration received | **686,883** | 236,000 |
| Bank balances and cash disposed of | **(11,409)** | (6,674) |
| | **675,474** | 229,326 |

The subsidiaries disposed of did not contribute significantly to the Group's cash flows and turnover. The profit from operations of these subsidiaries included in the Group's financial statements amounted to HK$230 million, which mainly represents the increase in fair value of the investment properties recognised in respect of the year.

## 47. OPERATING LEASE COMMITMENTS

### The Group as lessor

At the balance sheet date, investment properties and other properties with carrying amounts of HK$1,439 million (2004: HK$1,646 million) and HK$344 million (2004: HK$231 million) respectively were let out under operating leases.

Property rental income earned during the year is HK$128 million (2004: HK$134 million), of which HK$113 million (2004: HK$114 million) was derived from the letting of investment properties. All of the properties leased out have committed tenants for the next one to three years without termination options granted to tenants.

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

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **77,342** | 91,721 |
| In the second to fifth year inclusive | **40,251** | 81,379 |
| After five years | **8,236** | 10,464 |
| | **125,829** | 183,564 |

### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due:

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **12,674** | 873 |
| In the second to fifth year inclusive | **39,938** | 2,324 |
| After five years | **–** | 836 |
| | **52,612** | 4,033 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for a term of not more than five years.

## 47. OPERATING LEASE COMMITMENTS *(Continued)*

### The Company as lessee

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due:

| | THE COMPANY | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **9,640** | – |
| In the second to fifth year inclusive | **38,560** | – |
| | **48,200** | – |

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

## 48. PROJECT AND OTHER COMMITMENTS

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

(a) Expenditure on property development projects

(i) Outstanding lease payments in respect of land use rights in the PRC under operating leases payable:

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **1,454,122** | 1,852,002 |
| In the second to fifth year inclusive | **825,783** | 582,220 |
| | **2,279,905** | 2,434,222 |
| (ii) Other development expenditure | | |
| – Authorised but not contracted | **9,066,258** | 1,093,874 |
| – Contracted but not provided for | **4,026,665** | 2,621,769 |
| | **13,092,923** | 3,715,643 |
| | **15,372,828** | 6,149,865 |

## 48. PROJECT AND OTHER COMMITMENTS *(Continued)*

| | THE GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| (b) Acquisitions contracted but not provided for | | |
| – Additional interest in subsidiaries | **588,000** | – |
| – Property, plant and equipment | **158,722** | 29,392 |

The additional interest in subsidiaries acquired represents the 21% interest in China Overseas Property Group Co., Ltd. of which 11% was held by a subsidiary of the Company's ultimate holding company, China State Construction Engineering Corporation ("CSCEC") *(Note 51(f))*. The acquisitions were completed subsequent to the balance sheet date.

(c) The Group has agreed to procure finance to a jointly controlled entity in accordance with the Group's interest therein to enable the jointly controlled entity to repay the loan to the extent of HK$369 million (2004: HK$482 million) from a joint venture partner, which remained outstanding at the balance sheet date, within three years from December 2004. The jointly controlled entity is principally engaged in the operation and management of a toll bridge in the PRC.

(d) The Group had outstanding commitment in respect of the capital contribution to the extent of HK$322 million (2004: HK$390 million) to a jointly controlled entity which is principally engaged in property development in the PRC. The Group's undertaking in this respect is guaranteed by the Company.

(e) In the prior year, the Group entered into a conditional agreement to acquire the entire interest in a PRC entity engaging principally in gold mining for a consideration of RMB100 million. The acquisition did not materialise and the agreement was cancelled during the year.

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

## 49. CONTINGENT LIABILITIES

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

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

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Subsidiaries | **–** | – | **636,538** | 2,309,908 |
| Associates | **9,500** | 16,533 | **9,500** | 16,533 |
| | **9,500** | 16,533 | **646,038** | 2,326,441 |

## 49. CONTINGENT LIABILITIES *(Continued)*

(b) At 31 December 2004, the Group and the Company had outstanding counter indemnities amounted to HK$748 million and HK$1,134 million respectively for surety bonds issued in respect of construction projects undertaken by the Group and a subsidiary of CSCEC, the Company's ultimate holding company. Such counter indemnities have been released during the year following the disposal of Zetson and its subsidiaries as detailed in note 45.

(c) The Group acted as guarantor for the repayment of the mortgage bank loans granted to purchasers of the Group's properties amounted to HK$3,091 million (2004: HK$2,461 million).

## 50. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank deposits and other assets with an aggregate carrying amount of HK$76 million (2004: HK$63 million) were pledged to secure the banking facilities granted to the Group and the purchasers of the Group's properties.

## 51. RELATED PARTY TRANSACTIONS

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

(a) Pursuant to a project management agreement and a deed of undertaking (together referred to as the "Project Management Agreement") entered into in 1993 between the Company's ultimate holding company, CSCEC, and the former subsidiaries of the Company, namely China Overseas Building Construction Limited, China Overseas Civil Engineering Limited and China Overseas Foundation Engineering Limited (together the "Construction Subsidiaries"), the Construction Subsidiaries were appointed by CSCEC as joint managers for each and every construction contract in Hong Kong participated by CSCEC since 1 January 1993 at a management fee payable by CSCEC, which was calculated based on 7 per cent. of the final contract sum receivable by CSCEC under such construction contracts. The rights and obligations of CSCEC under the Project Management Agreement were subsequently novated to its subsidiary (together with CSCEC referred to as "the CSCEC Group"). As disclosed in note 45, the Construction Subsidiaries had been disposed of during the year.

Project management fees paid or payable by the CSCEC Group to the Group pursuant to the Project Management Agreement amounted to HK$161 million (2004: HK$405 million) and hire charges in respect of plant and machinery leased by the Group to the CSCEC Group, calculated on a cost reimbursement basis, amounted to HK$21 million (2004: HK$53 million) in respect of the year.

The Company had agreed to provide counter indemnities to financial institutions issuing bid bonds and performance bonds for the CSCEC Group, which were required when lodging tenders for construction and engineering projects in Hong Kong, for an amount not exceeding HK$2,000 million from time to time. No fees were chargeable by the Company in this connection. The counter indemnities were released following the disposal of the Construction Subsidiaries during the year.

At 31 December 2004, the Group had outstanding trade receivables due from the CSCEC Group amounted to HK$199 million which were included in trade and other receivables. The trade receivables were fully settled during the year following the disposal of the Construction Subsidiaries.

## 51. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Pursuant to an agreement entered into in 2003 between a subsidiary of the Company, Shenzhen China Overseas Property Co., Ltd. ("SCOP") and a subsidiary of CSCEC, Shenzhen China Overseas Construction Engineering Company ("SCOCE"), SCOCE was appointed as the main contractor for the construction of the first phase of the property development project undertaken by SCOP at the contract price of RMB185 million. Construction fees paid by SCOP to SCOCE under the agreement amounted to HK$82 million (2004: HK$116 million) in respect of the year.

(c) Certain subsidiaries of the Company had appointed SCOCE as the main contractor for the construction of the property development projects undertaken by them, at an aggregate contract price of RMB152 million. Construction fees paid or payable by the said subsidiaries to SCOCE under the contracts amounted to HK$120 million (2004: HK$96 million) in respect of the year.

(d) In April 2005, Goodrich Company Limited ("Goodrich"), a subsidiary of the Company, awarded the piling installation works of the Group's property development project in Macau to China Construction Engineering (Macau) Company Limited ("CCE Macau"), a subsidiary of China Overseas Holdings Limited ("COHL") which is itself a subsidiary of CSCEC, at the contract sum of HK$56 million.

In August 2005, a construction management contract was entered into between Goodrich and CCE Macau, under which CCE Macau was appointed as the construction manager of Goodrich for the aforementioned property project in Macau at a management fee of HK$20 million plus a bonus payment for a maximum amount of HK$30 million payable upon the satisfaction of certain conditions stipulated in the said contract.

The contract sums and fees paid or payable by the Group under the aforementioned contracts amounted to a total of HK$53 million (2004: Nil) in respect of the year.

(e) In November 2005, the Company entered into agreements with each of CSCIHL, SCOCE and CCE Macau individually whereby the Group may continue to engage CSCIHL and its subsidiaries ("CSCIHL Group"), SCOCE and CCE Macau as construction contractors in Hong Kong, Shenzhen and Macau respectively upon successful tender for each of the three financial years ending 31 December 2008. If any contract is granted in favour of CSCIHL Group, SCOCE or CCE Macau, the total contract sum to be awarded by the Group to each of them shall not exceed HK$900 million, HK$1,600 million and HK$200 million respectively.

(f) During the year, the Group entered into a contract for the acquisition from Shenzhen China Overseas Investment Management Co., Ltd. ("SCOIM"), a subsidiary of CSCEC, the 11% interest in the registered capital of the Company's subsidiary, China Overseas Property Group Co., Ltd. ("COPG"), held by SCOIM for a cash consideration of RMB320 million.

(g) In May 2005, the Company and a subsidiary entered into an agreement to acquire from a subsidiary of COHL, the entired issued share capital of Hua Yi Designing Consultants Limited ("Hua Yi") and the loan in the sum of approximately HK$18 million owing to COHL by Hua Yi for the respective consideration of HK$75 million and HK$18 million. The agreement provides that should the audited net profit of Hua Yi for each of the years ended 31 December 2005 and 2006 be less than HK$17 million, COHL will pay or procure the seller to pay the shortfall to the Company.

(h) In April 2005, a subsidiary of the Company, China Overseas Property (Hong Kong) Company Limited ("COPHK"), entered into an agreement with a jointly controlled entity, China Real Estate Development Capital Partner, LP, for the disposal of COPHK's entire interest in and advances to its subsidiary, Classic China Product Limited ("CCP"), for a total consideration of HK$137 million. The principal activity of CCP is investment holding and its subsidiary, 中海月朗苑物業發展(深圳)有限公司(「中海月朗苑」), is engaged in the development of a property project in the PRC.

## 51. RELATED PARTY TRANSACTIONS *(Continued)*

(i) In April 2005, COPG entered into agreements with a subsidiary of CSCEC, Shenzhen China Overseas Property Management Co. Ltd., for the disposal of certain properties held by COPG for a total consideration of HK$30 million.

(j) In May 2005, COPG was appointed as the project manager and the sale agent for the property project undertaken by a jointly controlled entity, 中海月朗苑, in return for a project management fee of RMB4 million. Further, according to the relevant project management agreement, COPG is entitled to a marketing fee, which is calculated based on 3% of the total proceeds from sale of the property project undertaken by 中海月朗苑. Pursuant to the project management agreement, COPG has undertaken to pay for any development costs incurred for the project in excess of RMB231 million.

Project management fees and marketing fees paid or payable by 中海月朗苑 to COPG in respect of the year amounted to an aggregate of HK$3 million (2004: Nil).

(k) The Group had taken out insurance policies with China Overseas Insurance Limited ("COIL"), a subsidiary of CSCEC. The aggregate amount of premium paid or payable by the Group to COIL during the year amounted to HK$17 million (2004: HK$49 million).

(l) In the ordinary course of business, CSCEC and its subsidiary, COHL, acted as guarantors for certain banking facilities granted to the Group. No fees were chargeable by either CSCEC or COHL to the Group in this connection during the year.

(m) The Group acted as the contractor for the development of a property project owned by an associate at the contract price determined by the parties concerned. Construction fees for the project payable by the associate to the Group amounted to HK$10 million (2004: HK$44 million) in respect of the year. Construction fees receivable from the associate outstanding at the balance sheet date amounted to HK$1 million (2004: HK$21 million).

(n) In February 2005, the Group was awarded a foundation contract by a subsidiary of Sino Land Company Limited, which is a substantial shareholder of a subsidiary of the Company, at the contract sum of HK$40 million. Contract sums received or receivable by the Group under the contract amounted to HK$16 million (2004: Nil) in respect of the year.

In addition, pursuant to the construction contract awarded by a subsidiary of Sino Land Company Limited to the Group in last year, the construction fees paid or payable to the Group under the contract amounted to HK$153 million (2004: Nil) in respect of the year.

(o) During the year, the Group made purchases of construction materials from certain associates at the aggregate cost of HK$49 million (2004: HK$122 million).

(p) The remuneration of directors and other members of key management during the year was as follows:

| | **2005**<br>***HK$'000*** | 2004<br>*HK$'000* |
|---|---|---|
| Short-term benefits | **51,848** | 32,354 |
| Share-based payments | **2,772** | 1,500 |
| | **54,620** | 33,854 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 51. RELATED PARTY TRANSACTIONS *(Continued)*

(q) Transactions with other state-controlled entities in the PRC

The Group operates in an economic environment predominated by entities directly or indirectly owned or controlled by the PRC government. In addition, the Group is itself part of a larger group of companies under CSCEC which is controlled by the PRC government. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities ("State-controlled entities"). The directors consider those State-controlled entities are independent third parties so far as the Group's business with them are concerned.

In connection with their property development activities, the Group and its jointly controlled entities awarded construction and other works contracts to entities, which to the best knowledge of management, are State-controlled entities. These contracts with an aggregate contract sum of HK$1,764 million (2004: HK$1,677 million) remained outstanding as at year end, of which approximately HK$654 million (2004: HK$724 million) was paid or payable in respect of the year.

The Group and its jointly controlled entities have also entered into various transactions with government departments or agencies which include the acquisition of land mainly through tendering, the operation and management of toll bridges and the supply of heat and electricity to those government departments or agencies.

In addition, in the normal course of business, the Group and its jointly-controlled entities have maintained various trade balances with contractors and have entered into various deposits and lending transactions with banks and financial institutions which are state-controlled entities. In view of the nature of those transactions, the directors are of the opinion that separate disclosure would not be meaningful.

The Group and its jointly-controlled entities and associates are active in sales and lease of properties, supply of heat and electricity to consumers, operation and management of toll bridges the provision of real estate agency and management services, logistic and other services in various provinces in the PRC. The directors are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with State-controlled entities. However, the directors are of the opinion that the transactions with State-controlled entities are not significant to the Group's operations.

## 52. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies and the current year's presentation.

## 53. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following are the particulars of the subsidiaries at 31 December 2005 which, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All subsidiaries registered in the PRC are operating in the PRC. Unless otherwise specified, all other subsidiaries are incorporated and operating principally in Hong Kong.

| Name of entity | Paid up issued/ registered ordinary capital | Proportion of nominal value of issued/registered ordinary capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|
| Advocate Properties Limited | 100,000 shares of HK$1 each | – | 100 | Investment holding |
| Allways Success Development Limited | 100,000 shares of HK$1 each | – | 100 | Property investment |
| Arch Regent Investments Limited (i) | 1 share of US$1 | – | 100 | Investment holding |
| 北京中海豪庭房地產開發有限公司 (v) | RMB10,000,000 | – | 79 | Property development |
| 北京中海豪峰房地產開發有限公司 (v) | RMB50,000,000 | – | 79 | Property development |
| 北京中海地產有限公司 (v) | RMB10,000,000 | – | 79 | Property development |
| 北京中海天成房地產開發有限公司 (iv) | US$12,000,000 | – | 79 | Property development |
| 北京嘉益德房地產開發有限公司 (vi) | RMB10,000,000 | – | 79 | Property development |
| 北京國潤房地產開發經營有限公司 (vi) | RMB30,000,000 | – | 100 | Property development |
| Beijing Yorkley Real Estate Development Co., Ltd. (v) | US$12,000,000 | – | 75.1 | Property development |
| Beijing Zhong Hai Xing Ye Real Estate Development Co., Ltd. (v) | US$8,624,000 | – | 100 | Property development |
| Beijing Zhonghai Seagarden Real Estate Development Co., Ltd. (iv) | US$11,920,000 | – | 56.9 | Property development |
| Changchun China Overseas Property Co., Ltd. (iv) | RMB10,000,000 | – | 79 | Property development |
| China Overseas Building Management Limited | 100 shares of HK$1 each | – | 100 | Real estate management |
| China Overseas Financial (Cayman) I Limited (ix) | 1 share of US$1 | 100 | – | Issuance of notes |
| China Overseas Industrial Holdings Limited | 2 shares of HK$1 each | 100 | – | Investment holding |
| China Overseas Infrastructure Limited | 2 shares of HK$1 each | – | 100 | Investment holding |
| China Overseas Material Technology Company Limited | 100 shares of HK$1 each | – | 100 | Investment holding |
| China Overseas Port (Laizhou) Co., Ltd. (ii) | US$35,060,000 | – | 100 | Provision of port services |
| China Overseas Property Agency Limited | 2 shares of HK$1 each | – | 100 | Real estate agency |
| China Overseas Property Group Co., Ltd. (iii) | RMB610,200,000 | – | 79 | Property development, trading and investment and investment holding |
| China Overseas Property Limited | 100 shares of HK$10 each | 100 | – | Investment holding, property consultancy and real estate agency |
| China Overseas Property (Hong Kong) Co., Ltd. | 10,000,000 shares of HK$1 each | – | 79 | Investment holding |

## 53. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of entity | Paid up issued/ registered ordinary capital | Proportion of nominal value of issued/registered ordinary capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|
| China Overseas Property Services Limited | 10 shares of HK$10 each | – | 100 | Real estate management and investment holding |
| China Overseas Prosperous Citycharm Investments Limited (i) | 1 share of US$1 | 100 | – | Investment holding |
| China Overseas Security Services Limited | 2 shares of HK$1 each | – | 100 | Provision of security service |
| China Overseas (Zhong Guo) Limited | 5,000,000 shares of HK$10 each | – | 100 | Investment holding |
| Chung Hoi Finance Limited | 500,000 shares of HK$10 each | 100 | – | Loan financing, investment holding and security investments |
| 中海寶松物業發展(深圳)有限公司 (ii) | HK$262,500,000 | – | 100 | Property development |
| COB Development (Shanghai) Co., Ltd. (ii) | US$17,000,000 | – | 100 | Property development and trading |
| 中海興業(成都)發展有限公司 (ii) (COBD Holdings (Chengdu) Co., Ltd. (viii)) | US$20,000,000 | – | 100 | Property development |
| 中海信和(成都)物業發展有限公司 (ii) | HK$420,000,000 | – | 80 | Property development |
| 中海興業(寧波)有限公司 (ii) | US$33,000,000 | – | 100 | Property development |
| 中海發展(廣州)有限公司 (ii) (COBD Holdings (Guangzhou) Company Limited (viii)) | US$21,000,000 | – | 100 | Investment holding, building construction and project management |
| 中海發展(西安)有限公司 (ii) | US$12,000,000 | – | 100 | Property development |
| 中海發展(蘇州)有限公司 (ii) | US$45,000,000 | – | 100 | Property development |
| 中海地產諮詢(上海)有限公司 (ii) (C.O.B. Property Consultants (Shanghai) Co., Ltd. (viii)) | US$500,000 | – | 100 | Real estate agency |
| 中海物流(深圳)有限公司(ii) | RMB50,000,000 | – | 100 | Property investment and investment holding |
| Dong Kong Holdings Limited | 5,000,000 shares of HK$1 each | – | 100 | Investment holding |
| 佛山市中海房地產發展有限公司 (iv) | RMB200,000,000 | – | 100 | Property development |
| Further Good Development Limited | 100 shares of HK$1 each | – | 100 | Property trading |
| Gain Direct Limited (i) | 1 share of US$1 | – | 79 | Investment holding |
| Goldwell Development Limited | 100 shares of HK$1 each | – | 100 | Property development, trading and investment |
| Great Trend Investment Limited | 10,000 shares of HK$1 each | – | 100 | Investment holding |
| Guangzhou Haijin Real Estate Development Co., Ltd. (v) | RMB80,000,000 | – | 100 | Property development |
| 廣州海粵房地產發展有限公司 (v) (Guangzhou Haiyue Real Estate Development Co., Ltd. (viii)) | RMB138,000,000 | – | 100 | Property trading and investment |
| 廣州中海地產有限公司 (vi) | RMB100,000,000 | – | 100 | Property development |
| 廣州江東房地產開發有限公司 (v) | RMB99,800,000 | – | 85.8 | Property development |
| 廣州藍灣房地產開發有限公司 (vi) | RMB15,000,000 | – | 100 | Property development |

## 53. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of entity | Paid up issued/ registered ordinary capital | Proportion of nominal value of issued/registered ordinary capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|
| 廣州中海名都房地產發展有限公司 (v) | RMB400,000,000 | – | 100 | Property development |
| Hainan Ruler Limited (i) | 1 share of US$1 | 100 | – | Investment holding |
| Hua Yi Designing Consultants Limited | 1,000,000 shares of HK$1 each | 100 | – | Design consultancy services and investment holding |
| 香港華藝設計顧問(深圳)有限公司 (ii) | RMB12,000,000 | – | 100 | Design consultancy services |
| Kee Yet Company Limited | 2 shares of HK$1 each | – | 100 | Property development |
| Landcorp Investments Limited | 2 shares of HK$1 each | – | 100 | Investment holding |
| Macfull Limited | 1,000 shares of HK$1 each | – | 60 | Property development |
| Macwan Limited | 10 shares of HK$1 each | – | 70 | Property development |
| Macyat Limited | 10,000 shares of HK$1 each | – | 100 | Property development |
| Maxdo Investments Limited | 10,000,000 shares of HK$1 each | – | 100 | Investment holding |
| Maxjet Company Limited | 10 shares of HK$1 each | – | 90 | Property development |
| Mepork Services Limited | 100 shares of HK$1 each | – | 100 | Provision of building cleaning, maintenance and security services |
| 南京中海地產有限公司 (vi) | RMB20,000,000 | – | 79 | Property development |
| Ocean Group Limited | 2 shares of HK$1 each | – | 100 | Property investment |
| On Success Development Limited | 10,000 shares of HK$1 each | – | 100 | Property investment |
| Safe Future Investments Limited (i) & (vii) | 1 share of US$1 | – | 100 | Investment holding |
| Shanghai Hai Xing Realty Co., Ltd. (iv) | US$15,000,000 | – | 51 | Property trading and investment |
| 上海海創房地產有限公司 (vi) | RMB10,000,000 | – | 100 | Property development |
| 上海萬和房地產有限公司 (iv) | US$43,340,000 | – | 95 | Property development |
| 上海新海匯房產有限公司 (iv) | US$40,000,000 | – | 99.5 | Property development |
| 上海中海房地產有限公司 (vi) | RMB10,000,000 | – | 100 | Property development |
| 上海中海海華房地產有限公司 (vi) | RMB10,000,000 | – | 98 | Property development |
| 瀋陽皇姑熱電有限公司 (ii) | RMB210,000,000 | – | 100 | Generation and supply of heat and electricity |
| 瀋陽皇姑粉煤灰建材有限公司 (vi) | RMB8,000,000 | – | 90 | Manufacturing and sales of coal products |
| Shenzhen China Overseas Property Co., Ltd. (iv) | HK$50,000,000 | – | 79 | Property development |
| 深圳市中海運輸有限公司 (vi) | RMB10,000,000 | – | 75.5 | Provision of logistic services |
| 深圳市中海資訊科技有限公司 (vi) | RMB10,000,000 | – | 96.2 | Provision of logistic services |
| 深圳市中海投資有限公司 (vi) | RMB500,000,000 | – | 100 | Investment holding |
| 深圳市中海深圳灣房地產開發有限公司 (vi) | RMB10,000,000 | – | 40.3 | Property development |
| 深圳市中海日輝台物業發展有限公司 (前稱"深圳市海鵬物業發展有限公司") (vi) | RMB41,791,000 | – | 79 | Property development |
| 深圳市中海貨物代理有限公司 (vi) | RMB5,000,000 | – | 88 | Provision of logistic services |

## 53. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of entity | Paid up issued/ registered ordinary capital | Proportion of nominal value of issued/registered ordinary capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|
| Silver Yield Development Limited | 100 shares of HK$1 each | – | 100 | Property trading |
| Splendid Return Limited (i) | 50,000 shares of US$1 each | – | 100 | Investment holding |
| Taixing Huangneng Cement Manufacturing Co., Ltd. (ii) | US$7,120,000 | – | 100 | Manufacturing and sales of cement |
| 中海黃橋熱電(泰興)有限公司 (ii) | US$9,800,000 | – | 100 | Generation and supply of heat and electricity |
| Taixing China Overseas Qiwei Ferry Establishment Management Co., Ltd. (iv) | RMB108,990,000 | – | 70 | Provision of transportation facilities services |
| 泰興市浩通七圩汽渡運輸有限公司 (vi) | RMB12,440,000 | – | 70 | Provision of transportation services |
| Techflex Limited (i) & (vii) | 1 share of US$1 | – | 100 | Investment holding |
| Wealth Faith Developments Ltd. (i) | 1 share of US$1 | – | 100 | Investment holding |
| Widenews Company Limited | 2 shares of HK$1 each | – | 100 | Property development |
| Winwhole Development Limited | 100 shares of HK$1 each | – | 100 | Investment holding |
| Winwise Development Limited | 2 shares of HK$1 each | – | 100 | Investment holding |
| Yorkley Group Limited | 100 shares of HK$1 each | – | 75.1 | Investment holding |
| 中海物業管理廣州有限公司 (vi) (Zhonghai Property Management (Guangzhou) Co., Ltd. (viii)) | RMB15,800,000 | – | 100 | Investment holding and real estate management |
| Zhonghai Property Management (Shanghai) Co., Ltd. (ii) | US$610,000 | – | 100 | Real estate management |
| 中山市中海房地產開發有限公司 (vi) | RMB10,000,000 | – | 100 | Property development |

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

None of the subsidiaries had any debt securities in issue at the end of the year except for China Overseas Financial (Cayman) I Limited which has issued US$300,000,000 guaranteed notes *(see Note 39)*, none of which was held by the Group.