

Notes to the Accounts

1 General information

Tianjin Development Holdings Limited (the Company) and its subsidiaries (together the Group) is principally engaged in the provision of container handling and non-containerised goods stevedoring services, operation of toll roads, supply of utilities and property development.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suites 7-13, 36/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

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

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated.

2 Basis of preparation and accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The accounting policies and methods of computation used in the preparation of these consolidated financial statements are consistent with those used in the annual accounts for the year ended 31st December 2004, except that the Group has changed certain of its accounting policies following its adoption of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for accounting periods commencing on or after 1st January 2005.

The consolidated financial statements have been prepared in accordance with the new HKFRSs and are prepared under the historical cost convention, as modified by the revaluations of investment property, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments were applicable) at fair value through profit or loss, which are carried at fair value.

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

In 2004, the Group early adopted HKFRS 3 (Business Combination), HKAS 36 (Impairment of Assets) and HKAS 38 (Intangible Assets) and the key impact to the Group was summarised in the 2004 Annual Report.

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

2 Basis of preparation and accounting policies (Continued)

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 12	Amendment Scope of HKAS-Int 12 Consolidation-Special Purpose Entities
HKAS-Int 15	Operating Leases-Incentives
HKAS-Int 21	Income Taxes-Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 14, 16, 21, 23, 24, 27, 28, 31, 33, 37 and HKAS-Int 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates, jointly controlled entities and other disclosures.
- HKASs 2, 7, 8, 10, 14, 16, 23, 27, 28, 31, 33, 37 and HKAS-Int 12 and 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

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

Notes to the Accounts

2 Basis of preparation and accounting policies (Continued)

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

The adoption of revised HKAS 40 has resulted in a change in the accounting policy relating to classification of a piece land currently held for undetermined future use as investment property of which the changes in fair values are recorded in the income statement as part of other income.

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

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January 2005, the Group has to expense the cost of share options in the income statement. As at 31st December 2005, the Group does not have any share-based payments which were granted after 7th November 2002 and had not yet vested on 1st January 2005. Accordingly, no cost of share options needs to be expensed retrospectively in the income statement of the respective periods.

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

- (i) HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- (ii) HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- (iii) HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.
- (iv) HKAS 40 – there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st January 2005.
- (v) HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st January 2005.
- (vi) HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

There was no impact on opening retained earnings at 1st January 2004 from the adoption of HKAS 17, HKAS 39, HKAS-Int 15, HKAS 40, HKFRS 2 and HKFRS 3.

2 Basis of preparation and accounting policies (Continued)

Standards, interpretations and amendments to published standards that are not yet effective

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

Effective from 1st January 2006

HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease

Effective from 1st January 2007

HKFRS 7 and Amendment to HKAS 1	Financial Instruments: Disclosure, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures
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The Group has already commenced an assessment of the impact of these new standards, interpretations and amendments but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

(a) Consolidation

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

(i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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

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

Notes to the Accounts

2 Basis of preparation and accounting policies (Continued)

(a) Consolidation (Continued)

(i) Subsidiaries (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(ii) Transactions with minority interests

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

(iii) Associates

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

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(iv) Jointly controlled entities

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

2 Basis of preparation and accounting policies (Continued)

(b) Segment reporting

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

(c) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's presentation currency. The functional currency of the Company and the Group's subsidiaries in PRC is Renminbi.

The Directors consider that presentation of consolidated financial statements in Hong Kong dollars will facilitate analysis of financial information of the Group.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

(iii) *Group companies*

The balance sheet of subsidiaries, jointly controlled entities and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

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

Notes to the Accounts

2 Basis of preparation and accounting policies (Continued)

(d) Property, plant and equipment

Buildings comprise mainly offices premises. All other plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of building, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	25-40 years
Improvements on leased berth	35 years
Plant and machinery	7-25 years
Leasehold improvement, furniture and equipment	5-10 years
Motor vehicles	5-12 years
Others	5 years

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

During the year, one of the subsidiaries of the Group changed the estimated useful lives on depreciation of loading equipment from 11 years to 15 years. This change of accounting estimate has decreased the current year depreciation charge by approximately HK\$19 million.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(e) Investment property

Land held for undetermined future use and property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises land held under operating leases and the buildings thereon.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers.

Changes in fair values are recognised in the income statement as part of 'other income'.

2 Basis of preparation and accounting policies (Continued)

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries, associated companies or jointly controlled entities at the date of acquisition.

In accordance with HKFRS 3, goodwill arising on acquisition is retained at the carrying amount as a separate asset or, as applicable, included within investments in associated companies and joint ventures. Separately recognised goodwill is subject to impairment review annually and when there are indications that the carrying value may not be recoverable. Impairment losses on goodwill are not reversed. If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired company, the difference is recognised directly in the consolidated income statement. For goodwill which arose before 1st January 2001 and which has been taken into reserves, it would not be recognised in the income statement when the Group disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Amortisation of goodwill, which was in previous years amortised over its estimated useful life, ceased on 31st December 2003, and the related accumulated amortisation and impairment were eliminated against the cost of goodwill at 1st January 2004.

The profit or loss on disposal of subsidiary company, associates, or jointly controlled entity is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves. In prior years, the aforesaid profit and loss on disposal included any goodwill or negative goodwill taken to reserves and was not previously charged or recognised in the consolidated income statement.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life are tested for impairment annually. Assets that are subject to depreciation and amortisation are reviewed to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the consolidated income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a revaluation decrease. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Accounts

2 Basis of preparation and accounting policies (Continued)

(h) Financial assets

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

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Loans and receivables are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account and subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Available-for-sale financial assets are initially recognised at fair value plus transaction cost and subsequently carried at fair value.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss account in the year in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary investment securities classified as available-for-sale are recognised in equity. When investment securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities. In cases where the investments do not have a quoted market price in an active market, they are carried at cost less any accumulated impairment loss.

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

2 Basis of preparation and accounting policies (Continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a weighted average basis, comprises materials, direct labour and an appropriate portion of production overheads. Net realisable value is determined on the basis of anticipated sales proceed less estimated cost to completion and selling expenses.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Borrowings

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised costs basis until extinguished on conversion or maturity of the bonds. The remaining proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

Notes to the Accounts

2 Basis of preparation and accounting policies (Continued)

(m) Deferred income tax

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

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

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

(n) Employee benefits

(i) Employee leave entitlement

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement scheme obligations

Employees of the Group's PRC subsidiaries are members of state-managed employee pension scheme operated by the Tianjin Municipal People's Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the schemes. In addition, the Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. All these contributions are based on a certain percentage of the staff's salary and are charged to the income statement as incurred.

(iii) Share-based compensation

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

2 Basis of preparation and accounting policies (Continued)

(n) Employee benefits (Continued)

(iii) Share-based compensation (Continued)

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

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(p) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of business tax and discounts and other eliminating sales within the Group. Revenue is recognised as follows:

- (i) Sales of goods are recognised when goods are delivered to customers.
- (ii) Toll revenues are recognised when services are rendered.
- (iii) Port service income is recognised when services are rendered.
- (iv) Sales of properties are recognised on the transfer of risk and rewards of ownership, which generally coincides with the time the title has passed.
- (v) Sale of electricity and water is recognised based on meter readings of actual utilisation.
- (vi) Government supplemental income is recognised on accrual basis.
- (vii) Rental management fee income is recognised on accrual basis.
- (viii) Interest income from a financial asset is accrued on a time-proportion 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 asset to that assets net carrying amount.

Notes to the Accounts

2 Basis of preparation and accounting policies (Continued)

(p) Revenue recognition (Continued)

- (ix) Dividend income from investments is recognised when the right to receive payment is established.

(q) Assets under leases

(i) Operating lease

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

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment property acquired under finance leases are carried at their fair value.

(r) Dividend distribution

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

(s) Contingent liabilities and contingent assets

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

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

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

2 Basis of preparation and accounting policies (Continued)

(t) Share capital

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

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments to hedge for its risks exposures.

Majority of our revenues and operating expenses are denominated in Renminbi, a currency not freely convertible into other currencies, except under certain circumstances. The value of the Renminbi against other foreign currencies is subject to amendment by the PRC government. From 1994 until 21st July 2005, the rate at which the Renminbi was convertible into US dollars was fixed by the People's Bank of China at a stable rate of approximately RMB8.277 per US dollar. From 21st July 2005, the Renminbi was pegged to a basket of currencies instead. On 21st July 2005, this revaluation of the exchange rate resulted in the Renminbi appreciating against the US dollar and HK dollar by approximately two per cent. To the extent that the Renminbi appreciates further against US and HK dollars, our results of operations, which are presented in HK dollars, will increase, and to the extent that the Renminbi depreciates in value, our results of operations, as presented in HK dollars, will decrease.

(a) Market risk

(i) Foreign exchange risk

The principal subsidiaries of the Group operate in the PRC with almost all of the transactions settled in Renminbi and did not have significant exposure to foreign exchange risks during the year.

(ii) Price risk

The Group has minimal price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of accounts receivables represent the Group's maximum exposure to credit risks in relation to its financial assets. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible accounts receivables has been made in the financial statements.

Notes to the Accounts

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group has minimal liquidity risk.

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowing, details of which have been disclosed in note 34 of this report. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, accounts receivables and other receivables; and financial liabilities including trade payables, short term borrowings and other payables, approximate their fair value due to their short maturities.

The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group are discussed below.

(a) Estimated useful life of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the expected usage of the property, plant and equipment and the historical experience of the actual useful lives of the property, plant and equipment of similar nature and function. The useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date.

(b) Impairment of assets

The Group tests at least annually whether goodwill or assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of assets or cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

4 Critical accounting estimates and judgements (Continued)

(c) Fair value of available-for-sale investments

The fair value of each investment individually is determined at each balance sheet date by reference to comparable market information. It is also being reviewed whenever events or changes in circumstances indicate that carrying amount of the asset has been affected. The fair value also reflects any net discounted cashflows that could be expected from the investment.

5 Segment information

The Group is principally engaged in provision of container handling and non-containerised goods stevedoring services, operation of toll roads, supply of utilities and property development.

The associates of the Group are principally engaged in the manufacturing and sales of winery products, escalators and elevators.

Notes to the Accounts

5 Segment information (Continued)**(a) Primary reporting format – business segments**

	Year ended 31st December 2005							
	Port services	Operation of toll roads	Supply of utilities (Note (i))	Property development	Winery (Note (ii))	Elevator and escalator	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	870,928	210,332	988,810	19,361	149,671	-	-	2,239,102
Segment results	171,369	93,181	109,827	12,913	63,220	-	-	450,510
Gain on deemed disposal of partial interest in subsidiaries					235,370			235,370
Gain on disposal of an associate	4,986							4,986
Interest income								21,687
Net corporate expenses								(40,887)
Loss on redemption of convertible bonds								(8,473)
Operating profit								663,193
Finance costs								(97,534)
Share of profits/(losses) of								
Associates	1,019	-	-	-	57,515	87,481	80	146,095
Jointly controlled entities	-	-	-	-	37	-	(13,896)	(13,859)
Profit before income tax								697,895
Income tax expense								(73,015)
Profit for the year								624,880
Capital expenditure	159,205	1,932	4,724	25	-	-	11,921	177,807
Depreciation	76,267	45,091	39,897	111	1,761	-	3,707	166,834

5 Segment information (Continued)

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

	Year ended 31st December 2004 (Restated)							
	Port services	Operation of toll roads	Supply of utilities (Note (i))	Property development	Winery	Elevator and escalator	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	775,552	207,771	69,968	243,833	805,349	-	-	2,102,473
Segment results	98,757	784,856	4,449	862	227,619	-	-	1,116,543
Gain on deemed disposal of partial interest in a subsidiary								4,325
Impairment charge on investment in an associate							(120,000)	(120,000)
Interest income								19,985
Net corporate expenses								(40,433)
Operating profit								980,420
Finance costs								(55,517)
Share of profits/(losses) of								
Associates	1,826	-	-	-	-	77,484	(1,546)	77,764
Jointly controlled entities	-	-	-	-	1,059	-	(3,040)	(1,981)
Profit before income tax								1,000,686
Income tax expense								(137,156)
Profit for the year								863,530
Capital expenditure	97,391	2,289	454,055	17	93,643	-	945	648,340
Depreciation	92,131	46,082	1,957	106	22,888	-	2,641	165,805

Notes:

- (i) On 29th November 2004, the Group completed its acquisition of Tianjin TEDA Tsinlien Electric Power Company Limited ("Electricity Company") and Tianjin TEDA Tsinlien Water Supply Company Limited ("Water Company"). The Finance Bureau of Tianjin Economic and Technological Development Area ("TEDA") confirmed that it will grant to the Electricity Company and Water Company government supplemental income calculated at RMB 0.02 per kWh of electricity supplied and RMB2 per tonne of water supplied for five years to 31st December 2007.

Turnover generated from the supply of utilities includes about HK\$27.7 million (2004: HK\$2 million) and HK\$65.6 million (2004: HK\$4.5 million) of such government supplemental income granted to the Electricity Company and Water Company respectively.

- (ii) The winery business previously held as a subsidiary was spun off as a separate listed company on the Main Board of the Stock Exchange effective late January 2005 and the Group's interest was diluted to below 50%. The winery business was reported under share of results of associates thereafter. A gain of HK\$235,370,000 arose as a result of the spin off (Note 40(c)).

Notes to the Accounts

5 Segment information (Continued)**(a) Primary reporting format – business segments (Continued)**

The segment assets and liabilities at 31st December 2005 are as follows:

	Port services HK\$'000	Operation of toll roads HK\$'000	Supply of utilities HK\$'000	Property development HK\$'000	Winery HK\$'000	Elevator and escalator HK\$'000	Others HK\$'000	Group HK\$'000
Assets	1,497,673	3,381,452	932,792	380,602	-	47,801	3,116,016	9,356,336
Associates	27,928	-	-	-	580,288	368,515	46,613	1,023,344
Total assets	1,525,601	3,381,452	932,792	380,602	580,288	416,316	3,162,629	10,379,680
Liabilities	90,659	58,659	152,496	26,088	-	11,350	2,921,791	3,261,043

The segment assets and liabilities at 31st December 2004 are as follows:

	Port services HK\$'000	Operation of toll roads HK\$'000	Supply of utilities HK\$'000	Property development HK\$'000	Winery HK\$'000	Elevator and escalator HK\$'000	Others HK\$'000	Group HK\$'000
Assets	1,362,238	3,316,215	992,656	370,293	646,643	142,188	2,495,799	9,326,032
Associates	28,626	-	-	-	-	279,976	66,997	375,599
Total assets	1,390,864	3,316,215	992,656	370,293	646,643	422,164	2,562,796	9,701,631
Liabilities	40,759	60,093	135,405	30,415	298,406	9,329	2,465,581	3,039,988

5 Segment information (Continued)

(b) Secondary report format-geographical segments

	Turnover		Operating Result	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
PRC mainland	2,239,102	2,102,473	450,510	1,116,543
Total assets				
PRC mainland			8,842,427	9,207,538
Hong Kong			513,909	118,494
			9,356,336	9,326,032
Associates			1,023,344	375,599
			10,379,680	9,701,631
Capital expenditure				
PRC mainland			173,497	647,764
Hong Kong			4,310	576
			177,807	648,340

6 Other income

	2005 HK\$'000	2004 HK\$'000
Financial assets at fair value through profit or loss/short-term investments		
– fair value gains (realised and unrealised)	3,084	5,992
Gain on disposal of an associate	4,986	–
Interest income from bank deposits and others	21,687	19,985
Fair value gain on an investment property	15,343	–
Dividends from available-for-sale financial assets/long term investments	9,549	295
Sundries	22,274	19,455
	76,923	45,727

7 Gain on disposal of Income Receiving Right

Pursuant to an agreement with the Tianjin Municipal Government in 1997, one of the Group's subsidiaries, Jinzheng, was granted the exclusive right to operate, manage and maintain the Eastern Outer Ring Road in return for a fixed sum of income receivable annually from the Tianjin Government from 1997 to 2027 ("Income Receiving Right").

Notes to the Accounts

7 Gain on disposal of Income Receiving Right (Continued)

In 2004, Jinzheng disposed of its Income Receiving Right to Tianjin TEDA Investments Holding Co., Ltd. ("Tianjin TEDA") with effect from 1st January 2004 for a consideration of RMB750 million (approximately HK\$707 million) plus all interest payable in respect of an outstanding bank loan owed by Jinzheng. The consideration was satisfied in cash by Tianjin TEDA in February 2004 which was in turn used to repay the aforementioned bank loan of RMB750 million.

Subsequent to the disposal of its Income Receiving Right, Jinzheng continues to receive toll fees based on the volume of traffic flow and a pre-determined formula in accordance with the Eastern Outer Ring Road Toll Collection Agency Agreement dated 20th August 2003.

8 Operating profit

	2005 HK\$'000	2004 HK\$'000
Operating profit is stated after (crediting)/charging:		
Cost of inventories and completed properties held for sale sold	75,029	372,565
Employee benefit expense (Note 9)	385,080	326,453
Auditors' remuneration	3,109	2,820
Exchange gain	(14,842)	(241)
Amortisation of prepaid operating lease payment	1,520	833
Depreciation		
– charged to cost of sales	145,722	140,620
– charged to administrative expenses	21,112	25,185
Net loss on disposal of property, plant, equipment, leasehold land and land use rights	7,368	22,444
Operating lease expense on		
– Land and buildings	13,854	15,152
– Berths, railway and storage space	20,426	20,221
– Plant and equipment	20,997	7,633
Provision for bad and doubtful debts	16,538	6,627
Provision for obsolete stocks	–	1,116
Management fee paid to Tianjin Jinbin Expressway Management Company Limited	12,813	12,368
Toll collection management fee	7,374	7,776

9 Employee benefit expense

	2005 HK\$'000	2004 HK\$'000
Wages and salaries	283,551	226,798
Social security costs	63,358	63,475
Pension costs-defined contribution plans	38,171	36,180
	385,080	326,453

9 Employee benefit expense (Continued)

(a) Directors' and senior management's emoluments

The remuneration of each of the Director on the Company's Board for the year ended 31st December 2005 is set out below:

Name of Director	Fees HK\$'000	Salaries and other benefits ⁽ⁱ⁾ HK\$'000	Total HK\$'000
Wang Guanghao	-	1,945	1,945
Ren Xuefeng	-	581	581
Yu Rumin	-	-	-
Zhang Hongru	-	532	532
Nie Jiansheng	-	822	822
Wang Jiandong	-	419	419
He Xiuheng ⁽ⁱⁱ⁾	-	-	-
Yang Liheng ⁽ⁱⁱⁱ⁾	-	-	-
Sun Zengyin	-	-	-
Peng Jinhua	-	-	-
Ye Disheng	-	-	-
Cheung Wing Yui	180	-	180
Kwong Che Keung, Gordon	240	-	240
Lau Wai Kit	240	-	240
Cheng Hon Kwan	240	-	240
	900	4,299	5,199

Notes to the Accounts

9 Employee benefit expense (Continued)

(a) Directors' and senior management's emoluments (Continued)

The remuneration of each of the Director on the Company's Board for the year ended 31st December 2004 is set out below:

Name of Director	Fees HK\$'000	Salaries and other benefits ⁽ⁱ⁾ HK\$'000	Total HK\$'000
Wang Guanghao	1,296	264	1,560
Ren Xuefeng	209	132	341
Yu Rumin	–	–	–
Zhang Hongru	977	264	1,241
Nie Jiansheng	225	680	905
Wang Jiandong	225	180	405
He Xiuheng	–	–	–
Yang Liheng	–	–	–
Sun Zengyin	–	–	–
Peng Jinhua	–	–	–
Ye Disheng	–	–	–
Cheung Wing Yui	180	–	180
Kwong Che Keung, Gordon	240	–	240
Lau Wai Kit	240	–	240
Cheng Hon Kwan	240	–	240
Zhou Sichun	73	154	227
	3,905	1,674	5,579

Notes:

- (i) Other benefits include leave pay, insurance premium and club membership.
- (ii) Resigned on 1st January 2006.
- (iii) Resigned on 20th March 2006.

(b) Five highest paid individuals

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

	2005 HK\$'000	2004 HK\$'000
Basic salaries and other emoluments	1,853	1,939

9 Employee benefit expense (Continued)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	2005 HK\$'000	2004 HK\$'000
Emolument bands (HK\$)		
Nil – HK\$1,000,000	3	2
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	1

10 Finance costs

	2005 HK\$'000	2004 HK\$'000
Interest expenses:		
– bank borrowings	81,804	51,598
– other borrowings	14,548	–
– convertible bonds	1,182	3,919
	97,534	55,517

11 Income tax expense

The amount of taxation charged to the consolidated income statement represents:

	2005 HK\$'000	2004 (Restated) HK\$'000
Current taxation		
PRC income tax	62,351	135,322
Under provisions in prior years	–	3,154
Deferred income tax (Note 35)	10,664	(1,320)
	73,015	137,156

No provision for Hong Kong profits tax has been made as there is no estimated assessable profit for the year for the Group (2004: Nil). Provision for the PRC income tax has been made at the applicable rate of taxation on the estimated assessable profit for the year for each of the Group's subsidiaries and associates.

Share of associates' taxation for the year ended 31st December 2005 of HK\$56,469,000 (2004: HK\$21,239,000) are included in the income statement as share of profits of associates.

Notes to the Accounts

11 Income tax expense (Continued)

Rates applicable to principal subsidiaries:

On 6th November 1997, the Tianjin Finance Bureau approved that with effect from the listing of the Company, the income tax rate applicable to Tianjin Harbour Second Stevedoring Co., Ltd. and Tianjin Port Container Terminal Co., Ltd. is 15% and remained effective as at the year ended 2005.

On 12th November 1997, the State Tax Bureau approved that Tianjin Tai Kang Industrial Co., Ltd. ("Taikang") and Tianjin Heavenly Palace Winery Co., Ltd. ("Heavenly Palace") be exempted from income tax for two years starting from the first year of profit generation, followed by a 50% reduction for the next three years. The applicable tax rate of Taikang and Heavenly Palace for the current year is 30% and 33% respectively.

Pursuant to an approval document issued by the State Tax Bureau of Tianjin Economic and Technological Development Area (the "State Tax Bureau"), Tianjin Jinzheng Transportation Company ("Jinzheng") is entitled to an exemption from the PRC enterprise income tax for two years commencing from its first profit-making year of operation and thereafter, Jinzheng is entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is 7.5%. After the expiry of the tax relief period, Jinzheng is subject to an income tax rate of 15%, being the preferential tax rate applicable. Pursuant to the same document, the State Tax Bureau has confirmed that the first profit-making year of Jinzheng is the year of 2000.

Pursuant to the relevant laws and regulations in the PRC, Tianjin Mass Transit (Group) Development Co., Ltd. and its subsidiaries ("MTD Group") is exempted from income tax for two years starting from the first year of profit generation and thereafter, MTD Group is entitled to a 50% relief from the PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is 7.5%. After the expiry of the tax relief period, MTD Group is subject to an income tax rate of 15%, being the preferential tax rate applicable.

Electricity Company and Water Company are exempted from income tax for the two years starting from 2001 followed by a 50% reduction for the next three years.

The income tax expense on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territory in which the Group's principal subsidiaries operate, as follows:

	2005	2004
	HK\$'000	(Restated) HK\$'000
Profit before income tax	697,895	1,000,686
Calculated at applicable tax rates	117,718	169,979
Income of subsidiaries under tax reduction	(2,272)	(57,647)
Income not subject to taxation	(86,371)	(22,551)
Expenses not deductible for taxation purposes	24,101	33,741
Utilisation of previously unrecognised tax losses	-	(104)
Tax losses not recognised	19,839	13,738
Income tax expense	73,015	137,156

12 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of profit of HK\$16,850,000 (2004: loss of HK\$38,770,000).

13 Earnings per share

Basic

The calculation of the basic earnings per share was based on profit attributable to equity holders of the Company of HK\$573,169,000 (2004: HK\$563,803,000) and the weighted average number of ordinary 910,476,849 shares in issue (2004: 703,339,858 shares) during the year.

Diluted

The exercise of share options would have no material dilutive effect on basic earnings per share for the year ended 31st December 2005 (2004: Nil).

14 Dividends

	2005	2004
	HK\$'000	HK\$'000
2005 final proposed, of HK4.0 cents (2004: final, paid, of HK3.4 cents) per share	36,426	30,956
2005 interim, paid, of HK4.6 cents (2004: HK4.6 cents) per share	41,881	31,636
	78,307	62,592

At a meeting held on 20th April 2006 the directors proposed a final dividend of HK4.0 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2006.

15 Leasehold land and land use rights

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	69,787	41,627

Notes to the Accounts

15 Leasehold land and land use rights (Continued)

	2005	2004
	HK\$'000	HK\$'000
Beginning of year	41,627	33,954
Exchange differences	581	–
Additions	41,105	8,651
Acquisition of subsidiaries	–	27,314
Deemed disposal of partial interest in subsidiaries (Note 40(c))	(12,006)	–
Net disposal	–	(27,459)
Amortisation of prepaid operating lease payment	(1,520)	(833)
End of year	69,787	41,627

The Company had interests in leasehold land with net book value of HK\$27,459,000 held outside Hong Kong under leases between 10 to 50 years during 2004. Such interest was disposed of as at 31st December 2004.

16 Property, plant and equipment

Group

	Buildings	Improvement Toll roads	on leased berths	Plant and machinery	Leasehold improvement, furniture and equipment	Motor vehicles	Construction in progress	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost									
At 1st January 2005 (restated)	552,930	3,524,853	365,926	1,361,084	45,399	67,978	115,209	49,556	6,082,935
Additions	1,043	1,185	–	8,596	7,835	2,843	110,669	4,531	136,702
Exchange differences	9,491	69,819	7,248	24,831	919	886	689	137	114,020
Deemed disposal of partial interest in subsidiaries (Note 40(c))	(85,687)	–	–	(153,273)	(402)	(23,419)	(80,435)	(42,645)	(385,861)
Transfers upon completion	5,738	–	4,583	74,125	38	77	(84,561)	–	–
Disposals	(8,446)	–	–	(12,456)	(2,539)	(3,995)	–	(761)	(28,197)
At 31st December 2005	475,069	3,595,857	377,757	1,302,907	51,250	44,370	61,571	10,818	5,919,599
Accumulated depreciation and impairment									
At 1st January 2005 (restated)	91,662	307,506	33,232	387,714	8,660	30,720	–	34,137	893,631
Exchange differences	1,566	6,510	758	7,302	218	368	–	118	16,840
Charge for the year	20,063	43,585	10,411	79,878	6,736	4,397	–	1,764	166,834
Deemed disposal of partial interest in subsidiaries (Note 40(c))	(25,223)	–	–	(75,290)	(235)	(14,065)	–	(29,046)	(143,859)
Disposals	(4,114)	–	–	(6,962)	(1,837)	(2,856)	–	(463)	(16,232)
At 31st December 2005	83,954	357,601	44,401	392,642	13,542	18,564	–	6,510	917,214
Net book value									
At 31st December 2005	391,115	3,238,256	333,356	910,265	37,708	25,806	61,571	4,308	5,002,385

Notes to the Accounts

16 Property, plant and equipment (Continued)

	Buildings HK\$'000	Improvement Toll roads HK\$'000	Improvement on leased berths HK\$'000	Plant and machinery HK\$'000	Leasehold improvement, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Others HK\$'000	Total HK\$'000
Cost									
At 1st January 2004 (restated)	358,959	3,542,990	365,489	1,056,788	32,297	57,422	50,732	48,918	5,513,595
Additions	2,365	238	–	3,116	477	7,043	168,930	3,747	185,916
Acquisition of subsidiaries	152,423	–	–	254,940	12,258	6,838	–	–	426,459
Deemed disposal of partial interest in a subsidiary (Note 40(c))	–	–	–	–	–	–	–	(807)	(807)
Transfers upon completion	45,154	–	437	57,417	1,155	290	(104,453)	–	–
Disposals	(5,971)	(18,375)	–	(11,177)	(788)	(3,615)	–	(2,302)	(42,228)
At 31st December 2004 (restated)	552,930	3,524,853	365,926	1,361,084	45,399	67,978	115,209	49,556	6,082,935
Accumulated depreciation and impairment									
At 1st January 2004 (restated)	78,908	264,977	22,540	313,391	5,471	28,269	–	31,698	745,254
Charge for the year	14,264	44,501	10,692	82,200	3,846	5,409	–	4,893	165,805
Deemed disposal of partial interest in a subsidiary (Note 40(c))	–	–	–	–	–	–	–	(477)	(477)
Disposals	(1,510)	(1,972)	–	(7,877)	(657)	(2,958)	–	(1,977)	(16,951)
At 31st December 2004 (restated)	91,662	307,506	33,232	387,714	8,660	30,720	–	34,137	893,631
Net book value									
At 31st December 2004 (restated)	461,268	3,217,347	332,694	973,370	36,739	37,258	115,209	15,419	5,189,304

16 Property, plant and equipment (Continued)

Company

	Leasehold improvement, furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st January 2005	2,536	2,540	5,076
Exchange differences	71	50	121
Additions	2,768	248	3,016
Disposals	(1,731)	(264)	(1,995)
At 31st December 2005	3,644	2,574	6,218
Accumulated depreciation and impairment			
At 1st January 2005	1,358	2,540	3,898
Exchange differences	12	46	58
Charge for the year	329	50	379
Disposals	(1,114)	(264)	(1,378)
At 31st December 2005	585	2,372	2,957
Net book value			
At 31st December 2005	3,059	202	3,261
Cost			
At 1st January 2004	2,373	2,540	4,913
Additions	163	–	163
Disposals	–	–	–
At 31st December 2004	2,536	2,540	5,076
Accumulated depreciation and impairment			
At 1st January 2004	1,112	2,487	3,599
Charge for the year	246	53	299
Disposals	–	–	–
At 31st December 2004	1,358	2,540	3,898
Net book value			
At 31st December 2004	1,178	–	1,178

Notes to the Accounts

16 Property, plant and equipment (Continued)

(a) The cost of the Group's and the Company's property interests comprises:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Properties held in the PRC				
Medium term leases	475,069	552,930	-	-
Toll roads in the PRC				
Medium term leases	3,595,857	3,524,853	-	-
	4,070,926	4,077,783	-	-

(b) Toll revenue arising from the operations of Jinbin Expressway were pledged for bank loans of subsidiaries of the Group.

17 Investment property

	2005 HK\$'000	2004 HK\$'000
Beginning of year	347,813	347,813
Exchange difference	7,036	-
Fair value gains	15,343	-
End of year	370,192	347,813

Investment property represented a parcel of land located in Tianjin with undetermined future use. The land use rights of which will expire on 13th February 2052.

The investment property were revalued at 31 December 2005 by independent, professionally qualified valuer, Vigers Appraisal & Consulting Limited. Valuations were based on current prices in an active market for the relevant property.

The Group's interests in investment property at their net book values are analysed as follows:

	2005 HK\$'000	2004 HK\$'000
In PRC, held on remaining lease of 46 years	370,192	347,813

18 Goodwill

	2005 HK\$'000	2004 HK\$'000
At 1st January	400,349	54,096
Exchange differences	397	–
Acquisition of subsidiaries (Note 40(b))	–	346,253
At 31st December	400,746	400,349

Impairment tests for goodwill

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

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

	2005			2004		
	Operation of toll roads HK\$'000	Supply of utilities HK\$'000	Total HK\$'000	Operation of toll roads HK\$'000	Supply of utilities HK\$'000	Total HK\$'000
PRC	74,493	326,253	400,746	74,096	326,253	400,349

The recoverable amount of a CGU is determined based on value-in-use calculations.

For the segment of operation of toll roads, the calculations use cash flow projections based on a traffic and revenue study prepared by an independent professional traffic consultant covering the full licensed period for operation of the toll road where the projection is mainly based on the estimated toll increase, expected Gross Domestic Product growth rate, vehicle types using the toll road, existing road network and future transportation plan in Tianjin. The present value of cash flow projections is calculated by using a discount rate of approximately 15.5%.

For the segment of supply of utilities, the calculations use cash flow projections based on financial forecast prepared by management covering a forty-year operation period with key assumptions include revenue, cost of raw material, staff costs and other production costs and unchanged government supplemental income policy. Management determined these key assumptions based on past performance and its expectations on market development. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 2% per annum. The present value of cash flow projections is calculated by using a discount rate of approximately 9.6%.

Based on the impairment test of goodwill, in the opinion of the Directors, no impairment provision against the Group's goodwill as at 31st December 2005 is considered necessary.

Notes to the Accounts

19 Investments in subsidiaries

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	4,004,568	3,926,787

Details of principal subsidiaries, which in the directors' opinion, materially affect the results or net assets of the Group at 31st December 2005 are set out in note 45.

20 Interest in associates

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group's share of net assets				
– Listed shares in Hong Kong of Dynasty Fine Wines Group Limited (Note 5(a)(ii))	580,288	–	–	–
– Listed shares in Hong Kong of Wah Sang Gas Holdings Limited ("Wah Sang")	158,261	158,261	–	–
– Other unlisted shares	388,995	310,087	–	–
	1,127,544	468,348	–	–
Amounts due to associates	(1,920)	(1,882)	–	–
Amounts due from associates	17,720	29,133	4,000	4,000
Impairment of investment in Wah Sang (Note 20(i))	(120,000)	(120,000)	–	–
	1,023,344	375,599	4,000	4,000
Market value of listed shares				
– Listed shares in Hong Kong of Dynasty Fine Wines Group Limited	1,604,250	–	–	–
– Listed shares in Hong Kong of Wah Sang	(Note20(ii))	(Note20(ii))	–	–

20 Interest in associates (Continued)

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Beginning of year	375,599	359,260	4,000	4,000
Increase in investments	581,880	9,065	-	-
Dividends received	(75,712)	(2,512)	-	-
Share of associates' results				
– profit for the year	202,564	99,003	-	-
– taxation	(56,469)	(21,239)	-	-
Current accounts	(11,451)	23,304	-	-
Exchange differences	6,933	-	-	-
Impairment charge on investment in an associate	-	(120,000)	-	-
Derecognition of negative goodwill	-	28,718	-	-
End of year	1,023,344	375,599	4,000	4,000

Note (i):

Wah Sang had yet to release any up-to-date financial information and the trading of its shares remains suspended. Wah Sang is continuing its business operations and in the process of applying for a resumption of trading of its shares. The directors of the Company took a cautious view that the resumption of trading in Wah Sang's shares might not happen in the near term and considered provision of HK\$120 million for the probable impairment in value of the Group's investment in Wah Sang as at 31st December 2004 should be retained in the preparation of the Group's accounts for the year ended 31st December 2005.

Interests in associates at 31st December 2005 included goodwill of HK\$3,844,000 (2004: Nil).

- (a) Details of principal associates, which in the directors' opinion, materially affect the results or net assets of the Group at 31st December 2005 are set out in note 46.
- (b) The summary of the financial information of each of the material associate, Otis Elevator (China) Investment Company Limited ("Otis China") and Dynasty Fine Wines Group Limited ("Dynasty") are as follows:

(i) *Otis China*

	2005 HK\$'000	2004 HK\$'000
Turnover	5,858,921	5,101,773
Operating profit before income tax	724,497	564,233
Profit after income tax	519,686	460,943
Minority interests	(85,071)	(73,526)
Profits attributable to equity holders	434,615	387,417
Share of profit after income tax attributable to the Group	72,756	64,110

Notes to the Accounts

20 Interest in associates (Continued)*(i) Otis China (Continued)*

	2005	2004
	HK\$'000	HK\$'000
Assets and liabilities		
Property, plant and equipment	518,206	529,808
Other long term assets	373,242	201,310
Current assets	3,945,412	3,267,980
Current liabilities	(3,121,019)	(2,741,982)
Minority interests	(146,961)	(130,884)
Net assets	1,568,880	1,126,232
Share of net assets attributable to the Group	264,627	231,652

(ii) Dynasty

	2005
	HK\$'000
Turnover	947,489
Operating profit before income tax	229,358
Profit after income tax	181,408
Minority interests	2,417
Profits attributable to equity holders	178,991
Share of profit after income tax attributable to the Group	57,515

	2005
	HK\$'000
Assets and liabilities	
Property, plant and equipment	292,581
Other long term assets	29,514
Current assets	1,270,277
Current liabilities	(255,121)
Minority interests	(31,107)
Net assets	1,306,144
Share of net assets attributable to the Group	580,288

21 Jointly controlled entities

	Group	
	2005	2004
	HK\$'000	HK\$'000
Group's share of net assets	81,448	93,587
Amounts due from jointly controlled entities	274	149
	81,722	93,736

The Group's interest in its principal jointly controlled entities, all of which are unlisted, were as follows:

Name	Assets	Liabilities	Revenues	Profit/(loss) attributable to the Group	% interest held
2005					
Tianjin Haihe Dairy Company Limited	110,959	55,501	82,024	(13,896)	40
Others	33,965	7,975	7,114	37	25
	144,924	63,476	89,138	(13,859)	
2004					
Tianjin Haihe Dairy Company Limited	107,999	39,973	81,567	(3,040)	40
Others	25,593	32	7,417	1,059	25
	133,592	40,005	88,984	(1,981)	

There are no contingent liabilities relating to the Group's interest in the jointly controlled entities, and no contingent liabilities of the venture itself.

Details of jointly controlled entities are set out in note 47.

22 Available-for-sale financial assets/Long-term investments

	Group	
	2005	2004
	HK\$'000	HK\$'000
Beginning of year	188,625	170,820
Additions	-	17,843
Current accounts	-	(38)
Exchange difference	3,736	-
Realisation of an available-for-sale financial asset	(12,308)	-
End of year	180,053	188,625

Notes to the Accounts

22 Available-for-sale financial assets/Long-term investments (Continued)

Representing:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Unlisted investments, at cost	110,495	120,418
Loans to investee companies	69,558	68,207
	180,053	188,625

The available-for-sale financial assets are principally unlisted equity in certain entities established and operating in the PRC.

These unlisted equity investments of the Group are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

These unlisted equity investments of the Group included HK\$81.9 million (2004: HK\$81.9 million) representing the Group's investment in fourteen joint ventures which build, operate and manage Tang Jin Expressway in each of which the Group holds a 6.62% equity interest.

23 Completed properties held for sale

All completed properties are situated in the PRC. As at 31st December 2005, there is no property held for sale which have been pledged as securities for banking facilities granted to the Group (2004: Nil).

24 Other long-term assets

	Group	
	2005	2004
	HK\$'000	HK\$'000
Prepayment on plant and equipment for port operations	34,963	14,154

25 Inventories

	Group	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	3,391	96,813
Work in progress	2,864	24,475
Finished goods	2,052	119,796
Consumable stocks	125	21,244
	8,432	262,328

26 Amounts due from/(to) the parent company and subsidiaries

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

27 Amounts due from/(to) related companies

	Group	
	2005	2004
	HK\$'000	HK\$'000
Amounts due from related companies (Note a)	72,206	85,733
Amounts due to related companies (Note a)	(30,031)	(37,770)
Construction costs payable to a minority shareholder (Note a, b)	(91,885)	(90,100)
Amounts due to minority shareholders (Note a)	(171,522)	(20,545)
	(293,438)	(148,415)

Notes:

- (a) Amounts receivable and payable and amounts due to minority shareholders are unsecured, interest free and have no fixed repayment terms.
- (b) Amounts payable to Eastern Outer Ring Road Company Limited relate to the construction costs of a toll road owned by the Group.

28 Trade receivables

The aging analysis of the Group's trade receivables (net of provisions) is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within 30 days	178,752	294,467
30 to 90 days	40,293	40,350
91 to 180 days	3,039	15,021
Over 180 days	50,635	36,608
	272,719	386,446

The various group companies have different credit policies which are dependent on the requirements of the markets and the businesses which they operate. In general, credit terms of 90 days are given to customers.

Trade receivables due within 30 days include government supplemental income receivable from the Finance Bureau of TEDA as referred to in note 2(p)(vi) to these financial statements.

Notes to the Accounts

29 Financial assets at fair value through profit or loss/short-term investments

	Group	
	2005	2004
	HK\$'000	HK\$'000
Designated deposits	152,009	9,524
Listed shares in Hong Kong	10,427	9,239
Listed shares and unit trusts in PRC mainland	–	43,548
Unlisted shares in PRC	1,900	–
	164,336	62,311
Market values of listed shares	10,427	52,787

The designated deposits were placed with third party investment trust/securities companies in PRC mainland for earning investment income. Such deposits have maturity periods within one year from date of placement.

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other income in the income statements.

30 Cash and cash equivalents

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unrestricted bank balances	1,699,084	1,454,905	415,342	13,850
Short-term bank deposits	756,902	297,025	–	47,059
Balances with other financial institutions	49,329	204,379	–	–
	2,505,315	1,956,309	415,342	60,909

The effective interest rate on short-term bank deposits ranged from 1.15% to 2.25% per annum (2004: 1% to 2.25% per annum); these deposits have maturity from 41 to 363 days.

31 Share capital

	Number of shares	Ordinary shares
	(thousands)	HK\$'000
At 1st January 2004	684,849	68,485
Conversion of convertible bonds (Note (a))	2,900	290
Issue of shares (Note (b))	222,707	22,271
At 31st December 2004	910,456	91,046
Issue of shares (Note (d))	200	20
At 31st December 2005	910,656	91,066

31 Share capital (Continued)

The total authorised number of ordinary shares is 3,000 million shares (2004: 3,000 million shares) with a par value of HK\$0.10 per share (2004: HK\$0.10 per share). All issued shares are fully paid.

Notes:

- (a) As detailed in note 36(a), the Group has convertible bonds listed on the Luxembourg Stock Exchange. On 30th January 2004, a bondholder exercised their option to convert the bonds into shares of the Company by subscribing for 2,899,628 shares of the Company at HK\$2.69 each.
- (b) On 6th December 2004, 222,707,143 shares were allotted to Tianjin Investment Holdings Limited at HK\$ 3.15 per share as partial consideration for the acquisition of two subsidiaries in the Mainland China.

The shares issued arising from (a) and (b) above rank pari passu with the existing shares.

- (c) The Company has a share option scheme (the "Scheme") approved in an extraordinary general meeting on 22nd November 1997 under which the directors may, at their discretion and within 10 years from the approval date, invite any employees or executive directors of the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. The Company operates the Scheme for the purpose of promoting additional commitment and dedication to the long term objectives of the Group by the participants. The grant will expire on 21st November 2007 or an earlier date as determined by the board of directors. The cash consideration payable for each grant is HK\$1.

Prior to 1st September 2001, the subscription price is determined by the directors and shall be the higher of nominal value of the Company's share and a price not less than 80% of the market price immediately before the options are granted. The maximum number of shares issued to each employee or director in respect of which options may be granted shall not exceed 25% of the total shares in issue or to be issued under the Scheme. On 1st September 2001 when the amendments to the Listing Rules were effective, the subscription price shall be the higher of the closing price on the date of grant and the average closing price for the five business days immediately preceding the date of grant. The maximum number of shares issued and to be issued upon exercise of the options granted to each employee or director shall not exceed 1% of the total shares in issue in any 12-month period. Shares options granted since 1st September 2001 shall comply with the prevailing Listing Rules.

- (d) Movements in the number of share options outstanding during the year are as follows:

	2005		2004	
	Average exercise price in HK\$ per share	Options	Average exercise price in HK\$ per share	Options
At the beginning of the year	4.025	97,100,000	4.858	21,036,000
Granted (Note (i))	-	-	4.029	96,900,000
Exercised (Note (ii))	2.204	(200,000)	-	-
Lapsed	-	-	3.833	(11,336,000)
Cancelled	-	-	6.136	(9,500,000)
At the end of the year (Note (iii))	4.029	96,900,000	4.025	97,100,000

Out of the 96,900,000 outstanding options (2004: 97,100,000 options), 96,900,000 options (2004: 97,100,000) were exercisable. Options exercised in 2005 resulted in 200,000 shares (2004: Nil) being issued at HK\$0.1 each. The related closing share price at the date of exercise was HK\$3.8 per share.

Notes to the Accounts

31 Share capital (Continued)

- (d) Movements in the number of share options outstanding during the year (Continued):

Notes:

- (i) On 15th January 2004, the Company granted 90,000,000 share options to Deltaway Inc., an independent third party, to subscribe for shares of the Company at HK\$4.1 per share. The option was exercisable for a period of two years from the date when the approval was obtained from the Stock Exchange. The consideration for the grant of the option is HK\$2,400,000. In addition, 6,900,000 share options were granted to directors and employees of the Group on 23rd December 2004 at the exercise price of HK\$ 3.10 per share and expiring on 21st November 2007.

As at 31st December 2004, the Group did not have any share based payments which were granted after 7th November 2002 and which had not yet been vested on 1st January 2005; hence no share option to be fair valued.

- (ii) 200,000 options were exercised in 2005 (2004: Nil). Options exercised on 24th November 2005 resulted in 200,000 shares being issued at HK\$2.204, yielding net proceeds as follows:

	2005 HK\$'000	2004 HK\$'000
Ordinary share capital – at par	20	–
Share premium	420	–
Proceeds	440	–

- (iii) Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price HK\$	Number of options		Vested percentages	
		2005	2004	2005	2004
Third party					
24th February 2006	4.10	90,000,000	90,000,000	100%	100%
Directors					
21st November 2007	3.10	6,400,000	6,400,000	100%	100%
Continuous contract employees					
21st November 2007	2.204	–	200,000	N/A	100%
21st November 2007	3.10	500,000	500,000	100%	100%
		96,900,000	97,100,000		

32 Other reserves

Group

	Capital reserve	Share premium	General reserve	Goodwill reserve	Statutory reserves	Exchange reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	12,670	3,560,497	67,094	(575,430)	165,929	11,812	3,242,572
Issue of shares	-	686,767	-	-	-	-	686,767
Currency translation differences	-	-	-	-	-	(38)	(38)
Transfers	-	-	9,901	-	16,985	-	26,886
Released on deemed disposal of partial interest in a subsidiary	-	-	-	-	-	113	113
At 31st December 2004	12,670	4,247,264	76,995	(575,430)	182,914	11,887	3,956,300
At 1st January 2005	12,670	4,247,264	76,995	(575,430)	182,914	11,887	3,956,300
Issue of shares	-	420	-	-	-	-	420
Currency translation differences	-	-	-	-	-	110,838	110,838
Transfers	-	-	6,131	-	16,946	-	23,077
Released on deemed disposal of partial interest in subsidiaries	(3,240)	-	3,767	-	3,058	(121)	3,464
At 31st December 2005	9,430	4,247,684	86,893	(575,430)	202,918	122,604	4,094,099

- (a) Goodwill attributable to associates amounts to HK\$510,157,000 (2004: HK\$510,157,000). Retained profits attributable to associates and accumulated losses attributable to jointly controlled entities amounts to HK\$420,309,000 (2004: HK\$117,730,000) and HK\$19,273,000 (2004: HK\$5,413,000), respectively. All other reserves of the Group are dealt with in the accounts of the Company and its subsidiaries.
- (b) Statutory reserves and general reserves are reserves required by the relevant PRC laws applicable to the Group's subsidiaries and cannot be used for distribution in the form of cash dividends.
- (c) According to the Articles of Association of each of the Group's subsidiaries established in the PRC, a percentage of net profit as reported in the PRC statutory accounts may be transferred to reserve fund and enterprise expansion reserve. The percentage of appropriation is determined at the discretion of the board of directors of the respective subsidiaries. The reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in capital.

Notes to the Accounts

32 Other reserves (Continued)**Company**

	Exchange reserve	Share premium	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	–	3,560,497	3,560,497
Issue of shares	–	686,767	686,767
At 31st December 2004	–	4,247,264	4,247,264
Issue of shares	–	420	420
Currency translation differences	93,165	–	93,165
At 31st December 2005	93,165	4,247,684	4,340,849

33 Trade payables

The aging analysis of the Group's trade payables are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Below 30 days	4,740	44,137
30 to 90 days	4,124	337
91 to 180 days	7	1,870
Over 180 days	6,364	1,782
	15,235	48,126

34 Borrowings

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Non-current				
Bank borrowings:				
– Secured (Note a)	290,384	332,916	–	–
– Unsecured (Note a)	1,366,132	1,127,093	1,044,497	846,205
Convertible bonds (Note 36)	388,171	–	–	–
Loans from minority shareholders of subsidiaries (Note b)	–	192,493	–	–
	2,044,687	1,652,502	1,044,497	846,205
Current				
Bank borrowings:				
Current portion of non-current bank borrowings				
– Secured (Note a)	2,404	32,058	–	–
– Unsecured (Note a)	28,846	224,315	61,200	–
Short term loans and overdrafts				
– Unsecured	138,123	74,958	–	–
Convertible bonds (Note 36)	–	132,600	–	–
Loans from minority shareholders of subsidiaries (Note b)	201,029	–	–	–
	370,402	463,931	61,200	–
Total borrowings	2,415,089	2,116,433	1,105,697	846,205

The maturity of bank borrowings and convertible bonds is as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank borrowings:				
Within one year	169,373	331,331	61,200	–
In the second year	203,553	57,279	169,899	–
In the third to fifth years inclusive	932,290	1,026,056	874,598	846,205
After the fifth year	520,673	376,674	–	–
	1,825,889	1,791,340	1,105,697	846,205
Convertible bonds:				
Within one year	–	132,600	–	–
In the third to fifth years inclusive	388,171	–	–	–

Notes to the Accounts

34 Borrowings (Continued)

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank borrowings:				
Renminbi	720,192	890,535	-	-
US dollar	1,075,697	900,805	1,075,697	846,205
HK dollar	30,000	-	30,000	-
	1,825,889	1,791,340	1,105,697	846,205
Convertible bonds:				
US dollar	-	132,600	-	-
HK dollar	388,171	-	-	-
	388,171	132,600	-	-
Loans from minority shareholders of subsidiaries:				
Renminbi	201,029	192,493	-	-
	2,415,089	2,116,433	1,105,697	846,205

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

	Group		Company	
	2005 %	2004 %	2005 %	2004 %
Bank borrowings:				
Renminbi	6.70	6.68	-	-
US dollar	4.86	2.99	4.86	2.99

The carrying amounts of all bank borrowings approximated their fair values.

Notes:

- (a) The secured bank borrowings were secured by cash received from toll collection of toll roads and equity interests in certain subsidiaries of the Group.

Unsecured bank borrowings include, approximately HK\$292,788,000 (RMB304,500,000) was guaranteed by Tianjin Economic and Technological Development Investment Co., Ltd., a minority shareholder of certain subsidiaries.

- (b) Loans from a minority shareholder of subsidiaries is unsecured, carry interest at 6.4% per annum and have no fixed terms of repayment.

35 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using prevailing tax rate of the relevant subsidiaries of 15% (2004: 15%).

The movement on the deferred tax liabilities account in respect of accelerated tax depreciation is as follows:

Deferred tax liabilities

	2005 HK\$'000	2004 HK\$'000
At 1st January	67,895	65,662
Deferred taxation charged to income statement (Note 11)	10,664	2,233
Exchange difference	1,447	–
At 31st December	80,006	67,895

The movement on the deferred tax assets account in respect of provision for doubtful debts is as follows:

Deferred tax assets

At 1st January	8,156	–
Acquisition of subsidiaries (Note 40(b))	–	4,603
Deemed disposal of partial interest in subsidiaries (Note 40(c))	(3,553)	–
Deferred taxation charged to income statement (Note 11)	–	3,553
Exchange difference	92	–
At 31st December	4,695	8,156

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after 12 months	4,695	8,156
Deferred tax liabilities to be settled after 12 months	80,006	67,895

36 Convertible bonds

- (a) On 18th April 2002, the Group issued US\$20 million convertible bonds which are listed on the Luxembourg Stock Exchange and carry interest at 3% per annum payable semi-annually in arrears (the “3% Convertible Bonds”). Each bondholder has the option to convert the bonds into shares of the Company of HK\$0.10 each at a conversion price of HK\$2.69 per share, subject to adjustment, at any time from 18th April 2003 to 11th April 2005. The 3% Convertible Bonds had been fully redeemed in mid April 2005.

HKAS 32 “Financial Instruments: Disclosure and Presentation” requires the issuer of convertible bond to present the liability component and the equity component separately on the balance sheet. Upon initial recognition, the fair value of the liability component of convertible debt instruments is computed as the present value of the contractual stream of future cash flows. The Group did not adopt this accounting treatment to restate opening balances of the 3% Convertible Bonds as the directors considered the financial impact to be insignificant to the current year results and not meaningful given the 3% Convertible Bonds have been fully redeemed as at year end.

Notes to the Accounts

36 Convertible bonds (Continued)

- (b) On 19th December 2005, the Group issued zero coupon guaranteed convertible bonds with an aggregate principal amount of HK\$400 million (the "Convertible Bonds"). Each has the option to convert the bonds into shares of the Company of HK\$0.10 each at a conversion price of HK\$3.90 per share, subject to adjustment, at any time from 18th January 2006 to 12th December 2008. Unless previously redeemed, converted, or purchased and cancelled, the Convertible Bonds will be redeemed at 119.93% of its principal amount on 19th December 2008.

The fair value of the liability component and the equity conversion component were determined at issuance of the bonds.

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

	2005 HK\$'000
Face value of convertible bonds (net of transaction cost) issued on 19th December 2005	388,171
Equity component	-
Liability component on initial recognition at 19th December 2005 and 31st December 2005	388,171

The fair value is calculated using cash flows discounted at a rate of 6.42% per annum based on the indicative yield of non-convertible bonds issued in Hong Kong dollars with a rating BB and BBB whose maturity is 3 years.

Interest expenses on the bonds is calculated using the effective interest method by applying the effective interest rate of 7.079 % to the liability component.

37 Operating lease commitments

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

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Land and buildings				
Not later than one year	19,174	12,668	3,581	491
Later than one year and not later than five years	66,433	48,748	5,176	33
Later than five years	423,927	234,214	-	-
	509,534	295,630	8,757	524
Equipment, berths and railway				
Not later than one year	21,266	21,279	-	-
Later than one year and not later than five years	87,802	84,656	-	-
Later than five years	383,792	182,396	-	-
	492,860	288,331	-	-
Plant and machinery				
Not later than one year	3,797	5,760	-	-
Later than one year and not later than five years	15,189	18,118	-	-
Later than five years	56,959	29,167	-	-
	75,945	53,045	-	-
	1,078,339	637,006	8,757	524

Notes to the Accounts

38 Capital commitments

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised but not contracted for in respect of				
– Improvements on plant and machineries	–	13,584	–	–
– Land and buildings	–	103,252	–	–
	–	116,836	–	–
Contracted but not provided for in respect of				
– Land and buildings	69,012	3,229	–	–
– Improvements on plant and machineries	19,633	67,054	–	–
– Tang Jin Expressway	–	17,773	–	–
– Others	3,860	815	–	–
	92,505	88,871	–	–

39 Contingent liabilities

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in respect of banking facilities extended to				
– Subsidiaries	–	–	–	84,858
– A jointly controlled entity	19,231	18,857	–	–

40 Cash generated from operations

(a) Reconciliation of operating profit to net cash inflow from operations

	2005 HK\$'000	2004 HK\$'000
Operating profit	663,193	980,420
Adjustments for:		
– Interest income	(21,687)	(19,985)
– Depreciation	166,834	165,805
– Amortisation	1,520	833
– Net loss on disposal of property, plant, equipment, leasehold land and land use rights (Note (i))	7,368	22,444
– Fair value gain on an investment property	(15,343)	–
– Unrealised gain on financial assets at fair value through profit or loss/short term investments	(1,334)	(5,119)
– Impairment charge on investment in an associate	–	120,000
– Gain on deemed disposal of partial interest in subsidiaries/ a subsidiary	(235,370)	(4,325)
– Gain on disposal of an associate	(4,986)	–
Changes in working capital:		
– Inventories	86	(58,036)
– Trade receivables	15,458	122,225
– Other receivables, deposits and prepayments	55,546	(110,100)
– Trade payables	6,443	(23,085)
– Other payables and accruals	11,623	(45,254)
– Completed properties held for sale	11,488	201,300
– Financial assets at fair value through profit or loss/short-term investments	(98,548)	(3,882)
– Net amounts due from the parent company	(4,121)	3,951
– Net amounts due to related companies	168,899	(16,815)
Net cash inflow generated from operations	727,069	1,330,377

Note (i):

Proceeds from sale of property, plant, equipment, leasehold land and land use rights comprise:

	2005 HK\$'000	2004 HK\$'000
Proceeds from sales	4,489	30,292
Less: Net book amount	11,965	52,736
Exchange difference	(108)	–
Loss on sale	7,368	22,444

Notes to the Accounts

40 Cash generated from operations (Continued)**(b) Acquisition of subsidiaries**

	2005	2004
	HK\$'000	HK\$'000
Net assets acquired		
Available-for-sale financial assets/long term investments	-	1,121
Deferred tax assets (Note 35)	-	4,603
Property, plant and equipment	-	453,775
Inventories	-	137
Trade receivables	-	205,565
Other receivables, deposits and prepayments	-	2,647
Cash and cash equivalents	-	305,845
Amounts due from related companies	-	36,301
Trade payables	-	(54,002)
Other payables and accruals	-	(129,109)
Amounts due to related companies	-	(45,954)
Current income tax liabilities	-	(1,594)
Minority interests	-	(14,562)
Loans from a minority shareholder	-	(192,493)
	-	572,280
Goodwill on acquisition (Note 18)	-	346,253
	-	918,533
Satisfied by:		
Cash consideration	-	197,005
Allotment of shares	-	701,528
Other receivables, deposits and prepayments	-	20,000
	-	918,533
Analysis of net cash inflow in respect of acquisition of subsidiaries:		
Cash consideration	-	(197,005)
Cash and cash equivalents acquired	-	305,845
Net cash inflow in respect of the acquisition of subsidiaries	-	108,840

40 Cash generated from operations (Continued)**(c) Deemed disposal of partial interest in subsidiaries/a subsidiary**

	2005	2004
	HK\$'000	HK\$'000
Net assets/(liabilities) disposed		
Property, plant and equipment (Note 16)	242,002	330
Leasehold land and land use rights (Note 15)	12,006	–
Deferred income tax assets (Note 35)	3,553	–
Inventories	254,008	273
Trade receivables	106,037	1,240
Other receivables, deposits and prepayments	38,083	352
Cash and cash equivalents	167,143	5,536
Trade payables	(39,566)	(265)
Other payables and accruals	(206,222)	(1,411)
Bank borrowings	(14,143)	(2,452)
Current income tax liabilities	(21,972)	(15)
Amount due to related companies/a related company	(11,988)	(6,131)
Minority interests	(224,357)	4,980
Net assets disposed	304,584	2,437
Other reserves released upon deemed disposal	3,464	–
Gain on deemed disposal of partial interest in subsidiaries/a subsidiary (Note 5(a)(ii))	235,370	4,325
	543,418	6,762
Satisfied by:		
Investment in an associate	506,024	(990)
Amount due from an associate	37,394	7,752
	543,418	6,762
Analysis of net cash outflow in respect of deemed disposal of partial interest in subsidiaries/a subsidiary:		
Cash and cash equivalents disposed	(167,143)	(5,536)
Net cash outflow in respect of deemed disposal of partial interest in subsidiaries/a subsidiary	(167,143)	(5,536)

Notes to the Accounts

41 Related party transactions

The parent company of the Group is Tsinlien Group Company Limited, a company which is ultimately controlled by the PRC government and is hence a state-owned enterprise. In accordance with the revised HKAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are also deemed as related parties of the Group ("other state-owned enterprises").

There are business activities of the Group which are conducted with state-owned enterprises. For the purpose of the related party transactions disclosure in accordance with HKAS 24, the Company and its subsidiaries have established procedures to determine, to the extent possible, the identification of the ownership structure of its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have a multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that all material related party transactions and balances have been adequately disclosed.

The following are significant related party transactions and balances during and as at year ended 31st December 2005:

(a) Tsinlien Group Company Limited and its associates

	2005	2004
	HK\$'000	HK\$'000
(i) Transactions with Tsinlien Group Company Limited and its associates		
Management fee paid	1,055	919
Rental on land and buildings	3,700	4,440
(ii) Related year end balances	200	(3,925)

41 Related party transactions (Continued)**(b) Other state-owned enterprises**

	2005 HK\$'000	2004 HK\$'000
(i) Transactions with other state-owned enterprises		
Income		
Container handling and non-containerised goods stevedoring income	449,378	300,547
Toll fee income	147,495	155,450
Income from provision of utilities	196,252	14,521
Interest income	20,222	15,745
Expenses		
Purchases	782,515	103,790
Rental for berths, railway and storage services	20,426	20,221
Rental for land	6,620	6,554
Rental for equipment	3,887	3,910
Rental for pipelines and networks	18,657	1,283
Service fees for port related supporting services and auxiliary services	29,853	29,243
Temporary storage fees	22,918	14,280
Toll road maintenance charges	32,857	33,707
Finance costs	55,295	28,393
(ii) Balances with other state-owned enterprises		
Assets		
Financial assets at fair value through profit or loss/ short-term investments	152,009	54,486
Trade receivables	118,176	48,155
Other receivables	173,215	549
Amounts due from related parties	72,206	85,733
Deposits with state-owned banks	2,083,935	1,814,923
Liabilities		
Trade payables	4,528	7,533
Other payables	14,320	6,776
Amounts due to related parties	293,438	148,415
Loans obtained from state-owned banks	720,192	890,534

(c) Key management compensation

	2005 HK\$'000	2004 HK\$'000
Fees	-	2,932
Salaries and other emoluments	6,152	3,459
	6,152	6,391

Notes to the Accounts

41 Related party transactions (Continued)

- (d) During the year, the Group disposed of its interest in a subsidiary to a listed associate for a consideration of HK\$47,000,000.

42 Event after the balance sheet date

On 10th January 2006, the Company entered into a conditional agreement to acquire Tianjin TEDA Tsinlien Heat & Power Co., Ltd. ("Heat Company"), a company incorporated in the PRC with limited liability, from its parent company for a consideration of HK\$380 million. The consideration shall be satisfied as to HK\$305.1 million by cash and HK\$74.9 million by issuance and allotment of 20 million shares at HK\$3.745 credited as fully paid. Upon completion, the Company will own approximately 90.9421% of the entire equity interest of the Heat Company. Details of this transaction are set out in the announcement made by the Company dated 13th January 2006.

43 Parent company

The directors of the Company consider Tsinlien Group Company Limited, a company incorporated in Hong Kong, as being the parent company.

44 Approval of accounts

The accounts were approved by the board of directors on 20 April 2006.

45 Principal subsidiaries

Name	Principal activities	Issued and paid up capital/ registered capital	Percentage of effective equity interest held	
			2005	2004
<i>Established and operating in the People's Republic of China</i>				
Tianjin Harbour Second Stevedoring Co., Ltd.	Provision of stevedoring and storage services	RMB356,821,655	100 (note a)	100
Tianjin Port Container Terminal Co., Ltd.	Provision of containers transportation and storage services	RMB632,890,096	100 (note a)	100
Tianjin Heavenly Palace Winery Co., Ltd.	Investment holding	RMB353,730,400	100	100
Tianjin Tai Kang Industrial Co., Ltd.	Investment holding	RMB1,030,269,400	82.74	82.74
Tianjin Airfreight Port Equipment Manufacturing Co., Ltd.	Development and manufacturing of ground support aero-equipment	RMB32,220,000	51.93 (note a)	57.26 (note a)

45 Principal subsidiaries (Continued)

Name	Principal activities	Issued and paid up capital/ registered capital	Percentage of effective equity interest held	
			2005	2004
<i>Established and operating in the People's Republic of China (Continued)</i>				
Tianjin Gang Ning Real Estate Development Co., Ltd.	Properties investment	RMB50,000,000	100	100
Tianjin Development Assets Management Co., Ltd.	Investment holding	RMB32,076,000	100	100
Tianjin Jin Zheng Transportation Development Co., Ltd.	Operating and management of Eastern Outer Ring Road	RMB1,104,596,200	65.47 (note a) (note d) 67.60 (note c)	65.47 (note a) (note d) 67.60 (note c)
Tianjin Mass Transit (Group) Development Co., Ltd.	Operating and management of Jinbin Expressway	US\$11,992,000	46.80 (note a) (note d)	46.80 (note a) (note d)
Tianjin Mass Transit Development 2 Co., Ltd.	Operating and management of Jinbin Expressway	US\$11,012,000	46.80 (note a) (note d)	46.80 (note a) (note d)
Tianjin Mass Transit Development 3 Co., Ltd.	Operating and management of Jinbin Expressway	US\$10,976,000	46.80 (note a) (note d)	46.80 (note a) (note d)
Tianjin Mass Transit Development 4 Co., Ltd.	Operating and management of Jinbin Expressway	US\$10,996,000	46.80 (note a) (note d)	46.80 (note a) (note d)
Tianjin Mass Transit Development 5 Co., Ltd.	Operating and management of Jinbin Expressway	US\$11,020,000	46.80 (note a) (note d)	46.80 (note a) (note d)
Tianjin TEDA Tsinlien Electric Power Company Limited	Supply of electricity	RMB 314,342,450	94.36 (note a)	94.36 (note a)
Tianjin TEDA Tsinlien Water Supply Company Limited	Supply of water	RMB 163,512,339	91.41 (note a)	91.41 (note a)

Notes to the Accounts

45 Principal subsidiaries (Continued)

Name	Principal activities	Issued and paid up capital/ registered capital	Percentage of effective equity interest held	
			2005	2004
<i>Established in British Virgin Islands and operating in Hong Kong</i>				
Ace Advantages Investment Limited	Investment holding	US\$100	100	–
Dynamic Infrastructure Limited	Investment holding	US\$5	78 (note a) (note d)	78 (note a) (note d)
Team Resources Limited	Investment holding	US\$1	78 (note a) (note d)	78 (note a) (note d)
Golden Horse Resources Limited	Investment holding	US\$10,000	78 (note a) (note d)	78 (note a) (note d)
Leadport Holdings Limited	Investment holding	US\$1	100	–
China Mass Transit Development Co., Ltd.	Investment holding	US\$100	78 (note a) (note d)	78 (note a) (note d)
Famous Ever Group Limited	Investment holding	US\$1	100 (note b)	100 (note b)
Risenation Limited	Financing	US\$1	100	–
Shinesun Investment Limited	Investment holding	US\$100	100	–
<i>Established in Cayman Islands and operating in Hong Kong</i>				
Coastal Rapid Transit Company Limited	Investment holding	HK\$84,000,000	78 (note d)	78 (note d)
Tianjin Port Development Holdings Limited	Investment holding	HK\$1	100 (note a)	–

Notes:

- (a) Indirectly held by the Company
- (b) Represents equity interest in the paid up capital of the subsidiary
- (c) Represents profit sharing ratio in the subsidiary
- (d) Subsidiaries are not audited by PricewaterhouseCoopers

46 Principal associates

Name	Principal activities	Issued and paid up capital/ registered capital	Percentage of effective equity interest held	
			2005	2004
<i>Established and operating in the People's Republic of China</i>				
Tianjin Tianyang Grape Extracting Co., Ltd	Manufacturing and sales of winery product	RMB66,532,000	26.89 (note a)	60 (note a)
Sino-French Joint-Venture Dynasty Winery Ltd	Manufacturing and sales of winery product	RMB174,389,000	44.82 (note a)	62 (note a)
Shandong Yu Huang Grape Wine Co., Ltd	Manufacturing and sales of winery product	RMB6,866,812	29.13 (note a)	40.3 (note a)
China Tianjin Otis Elevator Co., Ltd.	Manufacturing and sales of elevators and escalators	US\$26,300,000	16.55 (note a)	16.55 (note a)
Guangzhou Otis Elevator Co., Ltd.	Manufacturing and sales of elevators and escalators	US\$12,000,000	16.22 (note a)	16.22 (note a)
Otis Elevator (China) Investment Company Limited	Investment holding	US\$79,625,000	16.55 (note a)	16.55 (note a)
Hangzhou Xizi Otis Elevator Co., Ltd.	Manufacturing and sales of elevators and escalators	US\$15,000,000	13.24 (note a)	13.24 (note a)
Walfen (Tianjin) Pharmaceutical Co., Ltd.	Research and development of bio-pharmaceutical products	RMB14,200,000	27 (note a)	27 (note a)
<i>Established in Cayman Islands and operating in Hong Kong</i>				
Dynasty Fine Wines Group Limited	Investment holding	HK\$124,500,000	44.82 (note a)	62 (note a)
<i>Established in British Virgin Islands and operating in Hong Kong</i>				
Pearl Harbour Investment Limited	Investment holding	US\$2	50	50
Grand Spirit Holdings Limited	Investment holding	US\$200	44.82 (note a)	62

Notes to the Accounts

46 Principal associates (Continued)

Name	Principal activities	Issued and paid up capital/ registered capital	Percentage of effective equity interest held	
			2005	2004
<i>Incorporated in Bermuda, operating in and shares listed in Hong Kong</i>				
Wah Sang Gas Holdings Limited	Investment holding	HK\$21,770,000	22.79 (note a)	22.79 (note a)
<i>Established and operating in Hong Kong</i>				
China Wafen Medical Limited	Investment holding	HK\$1,000	27 (note a)	27 (note a)

Note:

(a) The associates are indirectly held by the Company.

47 Jointly controlled entities

Name	Principal activities	Issued and paid up capital/ registered capital	Percentage of effective equity interest held	
			2005	2004
<i>Established and operating in the People's Republic of China</i>				
Tianjin Haihe Dairy Company Limited	Manufacturing and sale of dairy products	RMB200,000,000	40 (note a)	40 (note a)
Ning Xia Tiangong Yuma Winery Co., Ltd.	Manufacturing of unprocessed wine	RMB40,000,000	25 (note a)	25 (note a)
Tianjin Jingfa Investment Company Limited	Investment holding	RMB70,000,000	21.43 (note a)	21.43 (note a)

Note:

(a) The jointly controlled entities are indirectly held by the Company.