# Notes to the Financial Statements

## 1. GENERAL INFORMATION

COSCO International Holdings Limited ("the Company") and its subsidiaries ("the Group") are principally engaged in the provision of ship trading and supplying services, property development and property investment.

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its principal place of business is 47/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

The ultimate holding company of the Company is China Ocean Shipping (Group) Company ("COSCO"), a stated-owned enterprise established in the People's Republic of China (the "PRC").

These consolidated financial statements have been approved for issue by the board of directors on 11th April 2007.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### (b) Basis of preparation

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation (Continued)

*(i) Adoption of new HKFRS*

In 2006, the Group adopted the following new HKFRS, which are relevant to its operations:

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting for Forecast Intragroup Transactions |
| HKAS 39 and HKFRS 4 (Amendment) | Financial Guarantee Contracts |

The adoption of the above new HKFRS did not result in substantial changes to the Group's accounting policies and had no material effect on the financial statements.

*(ii) Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st January 2007 or later periods but which the Group has not early adopted, are as follows:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKFRS 29 | 1st March 2006 |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 | 1st May 2006 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives | 1st June 2006 |
| HKFRS 7 | Financial Instruments: Disclosures | 1st January 2007 |

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 these changes would have a significant impact on its results of operations and financial position.

### (c) Basis of consolidation

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Basis of consolidation (Continued)

All significant intercompany transactions, balances and unrealised gain on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) Subsidiaries

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

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.

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

### (e) Associated companies

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill identified on acquisition.

The Group's share of its associated companies post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

### (f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Joint ventures (Continued)

Investments in jointly controlled entities are accounted for by the equity method of accounting. The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill on acquisition.

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.

In the Company's balance sheet, the investment in a jointly controlled entity is stated at cost less provision for impairment losses. The result of a jointly controlled entity is accounted for by the Company on the basis of dividends received and receivable.

### (g) Intangible asset

Goodwill represents the excess of the cost of an acquisition over the fair value of the separable net assets of the subsidiaries, associated companies and jointly controlled entities at the date of acquisition.

After initial recognition, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

### (h) Properties

*(i) Investment properties*

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property is measured initially at cost, including related transaction cost. After initial recognition, investment properties are 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. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Properties (Continued)

*(i)* *Investment properties* (Continued)

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

Changes in fair values are recognised in the income statement.

*(ii)* *Properties under development for sale*

Properties under development for sale comprise prepayments for leasehold land and land use rights, development expenditure and borrowing costs capitalised. In the course of property development, the amortisation charge of leasehold land and land use rights is included as part of the costs of the properties under development for sale. In all other cases, the amortisation charge is recognised in the income statement.

The accounting policy for recognition of revenue from sale of properties under development for sale is set out in note 2(x)(i)(1).

*(iii)* *Completed properties held for sale*

Completed properties held for sale are included as current assets and stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less estimated selling expenses.

The accounting policy for recognition of revenue from sale of completed properties is set out in note 2(x)(i)(2).

*(iv)* *Prepaid premium for land leases*

Prepaid premium for land leases are up-front payments to acquire long-term interests in properties. The premiums are stated at cost and are amortised on a straight line basis over the lease period to the income statement.

### (i) Property, plant and equipment

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation of property, plant and equipment is calculated using straight line method to allocate cost less their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20 – 50 years |
| Machinery | 5 – 10 years |
| Equipment and motor vehicles | 3 – 5 years |
| Leasehold improvements | 3 – 5 years |
| Furniture and fixtures | 3 – 5 years |

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

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

The gain or loss on disposal of a property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

All direct and indirect costs relating to the construction of property, plant and equipment, including financing costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as the costs of the asset.

### (j) Impairment of assets

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

### (k) Inventories

Inventories, comprise stock and work in progress, are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, 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.

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

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. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

*(ii)* *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are not intended for trading. They are included in current assets, except for those with maturity greater than 12 months after the balance sheet date in which case they are classified as non-current assets.

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

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

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in the investment revaluation reserve. Upon disposal, the difference between net sale proceeds and the carrying value, and accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Investments (Continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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

### (m) Construction contracts in progress

Construction contracts in progress are stated at cost plus attributable profits less allowances for foreseeable losses and progress payments received and receivable. Contract costs comprise direct materials, direct labour, sub-contracting charges and an appropriate portion of construction overheads. Where progress billings received and receivable on construction contracts exceed contract costs incurred to date plus recognised profits less recognised losses, the net amount is treated as amounts due to contract customers. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings received and receivable on construction contracts, the net amount is treated as amounts due from contract customers.

The accounting policy for recognition of contract revenue is set out in note 2(x)(iii).

### (n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payment made under operating leases (net of any incentives received from the lessors) are charged to the income statement on a straight-line basis over the lease term.

### (o) Trade and other receivables

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with bank and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits with banks with maturity less than three months from the date of placement.

### (q) Assets held for sale and discontinuing operations

Assets held for sale represent assets attributable to discontinuing operations and other assets held for sale.

A discontinuing operation is a cash generating unit ("CGU") or a group of CGU of the Group that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

Assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The liabilities of the disposal group are classified as liabilities directly associated with assets held for sale. Prior year balances of amounts relating to assets held for sale and liabilities directly associated with assets held for sale are not re-presented.

The profit after tax of discontinuing operations is presented separately in the income statement as profit from discontinuing operations. Prior year amounts are re-presented.

### (r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (s) Contingent liabilities

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) 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, if the deferred income tax arises from the 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, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and joint controlled entities, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### (u) Foreign currency translation

*(i) Functional and presentation currency*

The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. The functional currency of the Group's subsidiaries in the PRC is Renminbi. The directors consider that presentation of the consolidated financial statements in Hong Kong dollars will facilitate analysis of the 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.

*(iii) Group companies*

Translation differences on non-monetary items are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity. On consolidation, the results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Foreign currency translation (Continued)

*(iii) Group companies* (Continued)

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

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.

### (v) Borrowing costs

Borrowings are recognised initially at fair value and subsequently stated at amortised cost. 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.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

### (w) Employee benefits

*(i) Pensions and retirement benefits*

Following the adoption of the Mandatory Provident Fund Scheme ("MPF Scheme") in December 2000, all staff of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK$1,000. The Group's contributions to this scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries in China Mainland. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the income statement as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) Employee benefits (Continued)

*(ii) 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. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

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

### (x) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transactions during the year will flow to the Group and these benefits can be measured reliably on the following bases.

*(i) Sale of properties*

(1) Properties under development for sale

Sale of properties is recognised on the transfer of risks and rewards of ownership. Deposits and instalments received on properties sold prior to their completion are included in current liabilities.

(2) Completed properties held for sale

Revenue from sale of completed properties held for sale is recognised upon completion of the sale and purchase contracts.

*(ii) Building management income*

Building management fee income is recognised when services are rendered.

*(iii) Construction contracts*

Revenue from construction contracts is recognised based on the stage of completion of the contracts when the outcome of the contracts can be ascertained with reasonable certainty. The stage of completion of a contract is established by reference to the gross billing value of contracting work to date as certified by qualified architects and/or engineers as compared to the total sum under the contract.

*(iv) Rental income*

Rental income is recognised on a straight-line basis over the terms of the respective leases.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (x) Revenue recognition (Continued)

*(v) Sale of coating products, spare parts and navigation equipment*

Revenue from the sale of coating products, spare parts and navigation equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time the goods are delivered to customers according to the sales agreements and titles have passed.

*(vi) Commission income*

(1) Agency commission income

Commission income from agency services is recognised when the terms of the agency contracts are fulfilled upon provision of services.

(2) Brokerage commission income

Brokerage commission income is recognised when premium becomes due.

*(vii) Dividend income*

Dividend income is recognised when the right to receive payment is established.

### (y) 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.

### (z) Dividend distribution

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

## 3. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (a) Currency risk

The Group is subject to foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of the Group's transactions, balances and investments are denominated in Hong Kong dollars, Renminbi and US dollars. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Price risk

The Group is exposed to equity securities price risk. To manage this exposure, the management of the Group maintains a portfolio of investments with different risk profiles.

### (c) Credit risk

The Group is exposed to credit risk in relation to its financial assets. To manage this exposure, the management of the Group has predetermined credit limits and other credit approval procedures. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed credit facilities. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

### (e) Fair value interest rate risk

The Group's fair value interest rate risk relates to fixed-rate borrowings. With the current level of debt which is low, the Group considers the exposure is minimal but will explore ways to reduce the exposure should new borrowings be required to support the Group's operations.

### (f) Fair value estimation

The fair value of financial instruments traded in active markets (such as shares of publicly listed companies) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing price at the year end date.

The fair value of financial instruments that are not traded in an active market is determined by using discounted cash flow valuation techniques.

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

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.

## 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

### (a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December 2006, the carrying amount of goodwill was HK$79,616,000. Details of the recoverable amount calculation are disclosed in note 7.

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

In making its judgement, the Group considers information from a variety of sources including:

(i) Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

### (c) Determination of fair value of shared-based compensation

The Group uses the Black-Scholes valuation model to determine the fair value of share options issued during the year. Under this model, the value of the share options is subject to a number of assumptions such as risk-free interest rate, expected life of the options and expected volatility based on annualised volatility of the closing price of the share. Therefore the value may be subjective and would change should any of the assumptions change.

### (d) Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31st December 2006 was HK$80,544,000. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life of 3 to 50 years, and after taking into account of their estimated residual value, using the straight-line method. The estimated useful life reflects the directors' best estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

## 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

### (e) Allowances for inventory

The management of the Group reviews the ageing analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

### (f) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer.

## 5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the provision of ship trading and supplying services, property development and property investment. Turnover recognised from the continuing operations of the Group during the year is as follows:

| | **2006**<br>**HK$'000** | **2005**<br>**HK$'000** |
|---|---:|---:|
| Sale of coating products | **1,227,719** | 902,621 |
| Sale of spare parts and navigation equipment | **311,765** | 350,023 |
| Ship trading and insurance brokerage commission income | **96,253** | 92,320 |
| Sale of properties | **227,573** | 90,654 |
| Rental income | **2,618** | 18,994 |
| Building management fee income | **537** | 2,608 |
| | **1,866,465** | 1,457,220 |

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

**Primary reporting format – business segments**

The Group is organised into two main business segments:

| | |
|---|---|
| Ship trading and supplying services | – manufacturing and trading of coating products<br>– provision of agency services in respect of trading of vessels, marine equipment and bareboat charter business<br>– trading of spare parts and navigation equipment for vessels<br>– provision of insurance brokerage services |
| Property development and property investment | – development of properties and holding of properties for rental purpose |

Other operations of the Group comprise mainly holding of financial assets and provision of building management services.

There were no transactions between business segments during both year 2006 and 2005.

**Secondary reporting format – geographical segments**

The Group's business segments operated in Hong Kong and China Mainland are as follows:

| | |
|---|---|
| Hong Kong | – provision of agency services in respect of trading of vessels, marine equipment and bareboat charter business<br>– trading of spare parts and navigation equipment for vessels<br>– provision of insurance brokerage services |
| China Mainland | – provision of agency services in respect of trading of vessels, marine equipment and bareboat charter business<br>– manufacturing and trading of coating products<br>– development of properties<br>– holding of properties for rental purpose<br>– provision of insurance brokerage services |

There were no transactions between geographical segments during both year 2006 and 2005.

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

### Primary reporting format – business segments

| | Continuing operations | | | | Discontinuing operations |
|---|---|---|---|---|---|
| | Ship trading and supplying services 2006 HK$'000 | Property development and property investment 2006 HK$'000 | Other operations 2006 HK$'000 | Total 2006 HK$'000 | (note 21(b)) 2006 HK$'000 |
| Segment turnover | 1,635,737 | 230,191 | 537 | 1,866,465 | 12,165 |
| Segment results | 168,472 | 17,361 | 48,864 | 234,697 | 25,494 |
| Gain on deemed disposal of partial interest in a jointly controlled entity | – | 279,043 | – | 279,043 | – |
| Unallocated corporate expenses, net of income | | | | (33,813) | – |
| Operating profit | | | | 479,927 | 25,494 |
| Finance income | | | | 36,572 | 576 |
| Finance costs | | | | (4,211) | (230) |
| Finance income – net | | | | 32,361 | 346 |
| Share of profits of jointly controlled entities | 12,280 | 152,587 | – | 164,867 | – |
| Profit before income tax | | | | 677,155 | 25,840 |
| Income tax expense | | | | (39,942) | – |
| Profit for the year | | | | 637,213 | 25,840 |
| The segment results have been arrived at after charging/(crediting) the following: | | | | | |
| Depreciation and amortisation (net) | 8,240 | 375 | 563 | 9,178 | – |
| Fair value gains on investment properties | – | (4,932) | – | (4,932) | – |
| Write-back of impairment loss on completed properties held for sale | – | – | – | – | (23,319) |
| Write-back of provision for claims and foreseeable losses on certain construction contracts | – | – | – | – | (3,422) |
| Capital expenditure | 31,643 | 421 | 2,740 | 34,804 | – |

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

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

| | Continuing operations | | | | Discontinuing operations |
|---|---|---|---|---|---|
| | Ship trading and supplying services 2006 HK$'000 | Property development and property investment 2006 HK$'000 | Other operations 2006 HK$'000 | Total 2006 HK$'000 | 2006 HK$'000 |
| Segment assets | 1,505,992 | 528,060 | 4,871 | 2,038,923 | – |
| Jointly controlled entities | 63,149 | 1,074,797 | – | 1,137,946 | – |
| Available-for-sale financial assets | – | – | 57,617 | 57,617 | – |
| Assets held for sale (note 21(d)) | – | 31,800 | – | 31,800 | 114,054 |
| Unallocated assets | | | | 312,685 | – |
| Total assets | | | | 3,578,971 | 114,054 |
| Segment liabilities | 846,706 | 233,991 | 281 | 1,080,978 | – |
| Current income tax liabilities | | | | 18,684 | – |
| Liabilities directly associated with assets held for sale (note 21(d)) | – | 306 | – | 306 | 114,098 |
| Unallocated liabilities | | | | 30,959 | – |
| Total liabilities | | | | 1,130,927 | 114,098 |

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

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

| | Continuing operations | | | | Discontinuing operations |
|---|---|---|---|---|---|
| | Ship trading and supplying services 2005 HK$'000 | Property development and property investment 2005 HK$'000 | Other operations 2005 HK$'000 | Total 2005 HK$'000 | (note 21(b)) 2005 HK$'000 |
| Segment turnover | 1,344,964 | 109,648 | 2,608 | 1,457,220 | 53,456 |
| Segment results | 122,602 | 334,269 | (5,035) | 451,836 | 56,587 |
| Unallocated corporate expenses, net of income | | | | (20,182) | – |
| Operating profit | | | | 431,654 | 56,587 |
| Finance income | | | | 17,950 | 486 |
| Finance costs | | | | (19,957) | (567) |
| Finance costs – net | | | | (2,007) | (81) |
| Share of profits of jointly controlled entities | 5,661 | 59,227 | – | 64,888 | – |
| Profit before income tax | | | | 494,535 | 56,506 |
| Income tax expense | | | | (25,398) | – |
| Profit for the year | | | | 469,137 | 56,506 |
| The segment results have been arrived at after charging/(crediting) the following: | | | | | |
| Depreciation and amortisation (net) | 7,756 | 2,498 | 240 | 10,494 | 221 |
| Fair value gains on investment properties and write-back of impairment loss on prepaid premium for land leases | – | (303,765) | – | (303,765) | – |
| Write-back of provision for claims and foreseeable losses on construction contracts | – | – | – | – | (53,199) |
| Capital expenditure | 24,123 | 294 | 183 | 24,600 | – |

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

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

| | Ship trading and supplying services 2005 HK$'000 | Property development and property investment 2005 HK$'000 | Building construction 2005 HK$'000 | Other operations 2005 HK$'000 | Group 2005 HK$'000 |
|---|---|---|---|---|---|
| Segment assets | 1,087,635 | 563,056 | 33,873 | 12,187 | 1,696,751 |
| Associated companies | – | – | 5,919 | – | 5,919 |
| Jointly controlled entities | 49,484 | 255,792 | – | – | 305,276 |
| Available-for-sale financial assets | – | – | – | 86,806 | 86,806 |
| Assets held for sale (note 21(c)) | – | – | 9,179 | – | 9,179 |
| Unallocated assets | | | | | 730,570 |
| Total assets | | | | | 2,834,501 |
| Segment liabilities | 655,993 | 272,113 | 109,199 | 357 | 1,037,662 |
| Current income tax liabilities | | | | | 7,038 |
| Unallocated liabilities | | | | | 2,764 |
| Total liabilities | | | | | 1,047,464 |

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

### Secondary reporting format – geographical segments

| | Turnover 2006 HK$'000 | Segment results 2006 HK$'000 | Total assets 2006 HK$'000 | Capital expenditure 2006 HK$'000 |
|---|---|---|---|---|
| Continuing operations: | | | | |
| Hong Kong | **388,448** | **65,162** | **467,108** | **4,334** |
| China Mainland | **1,478,017** | **169,535** | **1,571,815** | **30,470** |
| | **1,866,465** | **234,697** | **2,038,923** | **34,804** |
| Discontinuing operations: | | | | |
| Hong Kong | **12,165** | **25,494** | **114,054** | **–** |
| | **1,878,630** | **260,191** | **2,152,977** | **34,804** |
| Gain on deemed disposal of partial interest in a jointly controlled entity | | **279,043** | | |
| Unallocated corporate expenses, net of income | | **(33,813)** | | |
| Operating profit | | **505,421** | | |
| Jointly controlled entities | | | **1,137,946** | |
| Available-for-sale financial assets | | | **57,617** | |
| Assets held for sale | | | **31,800** | |
| Unallocated assets | | | **312,685** | |
| Total assets | | | **3,693,025** | |

## 5. TURNOVER AND SEGMENT INFORMATION (Continued)

### Secondary reporting format – geographical segments (Continued)

| | Turnover<br>2005<br>HK$'000 | Segment results<br>2005<br>HK$'000 | Total assets<br>2005<br>HK$'000 | Capital expenditure<br>2005<br>HK$'000 |
|---|---|---|---|---|
| Continuing operations: | | | | |
| Hong Kong | 440,186 | 388,783 | 313,281 | 14,870 |
| China Mainland | 1,017,034 | 63,053 | 1,383,470 | 9,730 |
| | 1,457,220 | 451,836 | 1,696,751 | 24,600 |
| Discontinuing operations: | | | | |
| Hong Kong | 53,456 | 56,587 | – | – |
| | 1,510,676 | 508,423 | 1,696,751 | 24,600 |
| Unallocated corporate expenses, net of income | | (20,182) | | |
| Operating profit | | 488,241 | | |
| Associated companies | | | 5,919 | |
| Jointly controlled entities | | | 305,276 | |
| Available-for-sale financial assets | | | 86,806 | |
| Assets held for sale | | | 9,179 | |
| Unallocated assets | | | 730,570 | |
| Total assets | | | 2,834,501 | |

## 6. INVESTMENT PROPERTIES

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| At 1st January | **32,614** | 947,702 |
| Exchange differences | **15** | (10) |
| Fair value gains (note 27) | **4,932** | 257,046 |
| Reclassified to assets held for sale (note 21(a)) | **(30,997)** | – |
| Disposal of subsidiaries (note 35(c)) | **–** | (1,172,124) |
| At 31st December | **6,564** | 32,614 |

The Group's interests in investment properties are analysed as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Outside Hong Kong, held on: | | |
| Leases of between 10 and 50 years | **6,564** | 4,914 |
| Leases of over 50 years | **–** | 27,700 |
| | **6,564** | 32,614 |

The investment properties were revalued as at 31st December 2006 on the basis of their open market value by an independent firm of Chartered Surveyors, DTZ Debenham Tie Leung Limited.

## 7. INTANGIBLE ASSET

| | Group 2006 HK$'000 | Group 2005 HK$'000 |
|---|---|---|
| **Goodwill** | | |
| **Cost** | | |
| At 1st January | **85,600** | 76,620 |
| Acquisition of a subsidiary (note 35(b)) | **–** | 8,980 |
| At 31st December | **85,600** | 85,600 |
| **Accumulated impairment** | | |
| At 1st January and 31st December | **(5,984)** | (5,984) |
| **Net book value at 31st December** | **79,616** | 79,616 |

**Impairment tests for goodwill**

Goodwill is allocated to the Group's cash generating units under ship trading and supplying services business segments as follows:

| | Group 2006 HK$'000 | Group 2005 HK$'000 |
|---|---|---|
| Agency services in respect of trading of vessels, marine equipment and bareboat charter business ("Ship trade business") | **35,590** | 35,590 |
| Trading of spare parts and navigation equipment for vessels ("Supply business") | **8,980** | 8,980 |
| Provision of insurance brokerage services ("Insurance business") | **35,046** | 35,046 |
| | **79,616** | 79,616 |

## 7. INTANGIBLE ASSET (Continued)

### Impairment tests for goodwill (Continued)

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

The key assumptions used for value-in-use calculations are as follows:

| | Ship trade business | Supply business | Insurance business |
|---|---|---|---|
| Growth rate | 5.0% | 5.0% | 5.0% |
| Discount rate | 6.9% | 6.9% | 6.9% |

Management determined the budgeted margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are after-tax and reflect specific risks relating to the relevant segments.

## 8. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings HK$'000 | Machinery, equipment and motor vehicles HK$'000 | Leasehold improvement HK$'000 | Furniture and fixtures HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1st January 2005** | | | | | | |
| Cost | 94,660 | 79,548 | 12,019 | 17,133 | – | 203,360 |
| Accumulated depreciation and impairment | (23,107) | (64,914) | (11,733) | (11,962) | – | (111,716) |
| Net book amount | 71,553 | 14,634 | 286 | 5,171 | – | 91,644 |
| **Year ended 31st December 2005** | | | | | | |
| Opening net book amount | 71,553 | 14,634 | 286 | 5,171 | – | 91,644 |
| Acquisition of a subsidiary (note 35(b)) | 3,686 | 455 | 366 | 180 | – | 4,687 |
| Additions | 2,092 | 7,291 | 6 | 1,544 | – | 10,933 |
| Exchange differences | 745 | 300 | (8) | 81 | – | 1,118 |
| Depreciation (note 28(a)) | (2,933) | (4,266) | (208) | (1,532) | – | (8,939) |
| Disposal of subsidiaries (note 35(c)) | (38,987) | – | – | – | – | (38,987) |
| Disposals | – | (345) | – | (81) | – | (426) |
| Closing net book amount | 36,156 | 18,069 | 442 | 5,363 | – | 60,030 |
| **At 31st December 2005** | | | | | | |
| Cost | 56,070 | 55,038 | 10,761 | 18,413 | – | 140,282 |
| Accumulated depreciation and impairment | (19,914) | (36,969) | (10,319) | (13,050) | – | (80,252) |
| Net book amount | 36,156 | 18,069 | 442 | 5,363 | – | 60,030 |
| **Year ended 31st December 2006** | | | | | | |
| Opening net book amount | **36,156** | **18,069** | **442** | **5,363** | **–** | **60,030** |
| Additions | **113** | **4,528** | **2,739** | **2,967** | **19,030** | **29,377** |
| Transfer between categories | **322** | **2,634** | **–** | **872** | **(3,828)** | **–** |
| Reclassified to assets held for sale (note 21(a)) | **–** | **–** | **(252)** | **(421)** | **–** | **(673)** |
| Exchange differences | **1,134** | **641** | **1** | **174** | **330** | **2,280** |
| Depreciation (note 28(a)) | **(2,594)** | **(4,760)** | **(590)** | **(1,623)** | **–** | **(9,567)** |
| Disposals | **(60)** | **(710)** | **–** | **(133)** | **–** | **(903)** |
| Closing net book amount | **35,071** | **20,402** | **2,340** | **7,199** | **15,532** | **80,544** |
| **At 31st December 2006** | | | | | | |
| Cost | **58,324** | **46,803** | **12,571** | **16,216** | **15,532** | **149,446** |
| Accumulated depreciation and impairment | **(23,253)** | **(26,401)** | **(10,231)** | **(9,017)** | **–** | **(68,902)** |
| Net book amount | **35,071** | **20,402** | **2,340** | **7,199** | **15,532** | **80,544** |

## 8. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Company

| | Machinery, equipment and motor vehicles HK$'000 | Leasehold improvement HK$'000 | Furniture and fixtures HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **At 1st January 2005** | | | | |
| Cost | 2,639 | 7,344 | 1,124 | 11,107 |
| Accumulated depreciation and impairment | (2,236) | (7,265) | (1,115) | (10,616) |
| Net book amount | 403 | 79 | 9 | 491 |
| **Year ended 31st December 2005** | | | | |
| Opening net book amount | 403 | 79 | 9 | 491 |
| Additions | 183 | – | – | 183 |
| Depreciation | (190) | (45) | (5) | (240) |
| Closing net book amount | 396 | 34 | 4 | 434 |
| **At 31st December 2005** | | | | |
| Cost | 2,822 | 7,344 | 1,124 | 11,290 |
| Accumulated depreciation and impairment | (2,426) | (7,310) | (1,120) | (10,856) |
| Net book amount | 396 | 34 | 4 | 434 |
| **Year ended 31st December 2006** | | | | |
| Opening net book amount | **396** | **34** | **4** | **434** |
| Additions | **571** | **1,565** | **601** | **2,737** |
| Depreciation | **(234)** | **(237)** | **(77)** | **(548)** |
| Disposals | **(9)** | **–** | **–** | **(9)** |
| Closing net book amount | **724** | **1,362** | **528** | **2,614** |
| **At 31st December 2006** | | | | |
| Cost | **3,018** | **8,909** | **736** | **12,663** |
| Accumulated depreciation and impairment | **(2,294)** | **(7,547)** | **(208)** | **(10,049)** |
| Net book amount | **724** | **1,362** | **528** | **2,614** |

## 9. PREPAID PREMIUM FOR LAND LEASES

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | HK$'000 | HK$'000 |
| At 1st January | **11,542** | 158,379 |
| Addition | **5,427** | – |
| Acquisition of a subsidiary (note 35(b)) | **–** | 8,714 |
| Exchange differences | **99** | – |
| Amortisation | **(459)** | (2,202) |
| Write-back of impairment loss (note 27) | **–** | 46,719 |
| Disposal of subsidiaries (note 35(c)) | **–** | (190,889) |
| Reclassified to assets held for sale (note 21(c)) | **–** | (9,179) |
| At 31st December | **16,609** | 11,542 |

The Group's interests in prepaid premium for land leases at their net book value are analysed as follows:

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | HK$'000 | HK$'000 |
| In Hong Kong, held on: | | |
| Leases of over 50 years | **6,381** | 6,389 |
| Leases of between 10 and 50 years | **2,090** | 2,204 |
| Outside Hong Kong, held on: | | |
| Leases of between 10 and 50 years | **5,346** | – |
| Leases of less than 10 years | **2,792** | 2,949 |
| | **16,609** | 11,542 |

## 10. SUBSIDIARIES

| | | Company | |
|---|---|---|---|
| | | **2006** | **2005** |
| | | **HK$'000** | **HK$'000** |
| (a) | Investments in subsidiaries | | |
| | Unlisted investments, at cost | **140,105** | 111,027 |
| (b) | Amounts due from/to subsidiaries | | |
| | Amounts due from subsidiaries | **3,177,431** | 2,870,580 |
| | Provision for impairment loss | **(1,112,093)** | (1,172,860) |
| | | **2,065,338** | 1,697,720 |
| | Amounts due to subsidiaries | **942,824** | 993,917 |

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. Particulars of the principal subsidiaries which, in the opinion of the directors, principally affect the results and/or assets and liabilities of the Group as at 31st December 2006 are set out in note 39 to the financial statements.

## 11. ASSOCIATED COMPANIES

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Share of net assets of associated companies | **–** | 5,919 |

The Group's interest in associated companies of HK$5,915,000 as at 31st December 2006 has been reclassified as assets held for sale (note 21(b)).

## 12. JOINTLY CONTROLLED ENTITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1st January | **305,276** | 210,454 | **42,808** | – |
| Additions | **407,842** | 43,823 | **–** | 42,808 |
| Share of exchange reserve of a jointly controlled entity (note 23) | **1,527** | – | **–** | – |
| Share of profits of jointly controlled entities | | | | |
| – profit before income tax | **264,280** | 106,554 | **–** | – |
| – income tax expense | **(99,413)** | (41,666) | **–** | – |
| | **164,867** | 64,888 | **–** | – |
| Gain on deemed disposal of partial interest in a jointly controlled entity (note(c), note 27) | **279,043** | – | **–** | – |
| Dividends received | **(20,609)** | (13,889) | **–** | – |
| At 31st December | **1,137,946** | 305,276 | **42,808** | 42,808 |

Notes:

(a) Particulars of the principal jointly controlled entities of the Group as at 31st December 2006 and 2005 are set out as follows:

| Name | Place of incorporation and operation | Principal activities | % of interest held |
|---|---|---|---|
| **2005** | | | |
| Sino Ocean Real Estate Development Co., Ltd. ("SORED") (note(c)) | PRC, equity joint venture | Property development in China Mainland | 20 |
| Jotun COSCO Marine Coatings (HK) Limited | Hong Kong | Manufacturing and trading of coating products | 50 |

## 12. JOINTLY CONTROLLED ENTITIES (Continued)

Notes: (continued)

| Name | Place of incorporation and operation | Principal activities | % of interest held |
|---|---|---|---|
| **2006** | | | |
| **Shine Wind Development Limited ("Shine Wind") (note(c))** | **British Virgin Islands** | **Investment holding** | **30.8** |
| **Jotun COSCO Marine Coatings (HK) Limited** | **Hong Kong** | **Manufacturing and trading of coating products** | **50** |

(b) Share of financial results and positions of the jointly controlled entities for the year ended and as at 31st December are as follows:

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Assets | | |
| Non-current assets | **639,449** | 202,321 |
| Current assets | **4,527,843** | 1,587,961 |
| | **5,167,292** | 1,790,282 |
| Liabilities | | |
| Non-current liabilities | **(1,520,344)** | (609,453) |
| Current liabilities | **(2,509,002)** | (875,553) |
| | **(4,029,346)** | (1,485,006) |
| Net assets | **1,137,946** | 305,276 |
| Revenues | **1,448,453** | 634,099 |
| Expenses | **(1,283,586)** | (569,211) |
| Profit for the year | **164,867** | 64,888 |
| Proportionate interest in capital commitments of jointly controlled entities | **59,619** | 78,099 |

## 12. JOINTLY CONTROLLED ENTITIES (Continued)

Notes: (continued)

(c) In October 2006, the Group completed the transaction to acquire 20% and 4% equity interests in SORED from COSCO and Tianjin Ocean Shipping Company, a fellow subsidiary respectively. Upon completion, the Group held a total of 44% equity interests in SORED. SORED underwent a group reorganisation by the end of 2006, pursuant to which the Group exchanged its interests in SORED for 44% shareholding interest in a new holding company, Shine Wind, which in turn holds 100% equity interest in SORED. Subsequent to the reorganisation, certain independent third-party investors subscribed for new shares in Shine Wind ("Subscription"). As a result, the Group's shareholding interest in Shine Wind was diluted to 30.8% of the enlarged issued capital of Shine Wind. The Subscription has resulted in the Group recording a gain on deemed disposal of partial interest in a jointly controlled entity amounting to approximately HK$279,043,000.

## 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| At 1st January | **86,806** | 84,538 |
| Acquisition of a subsidiary (note 35(b)) | **–** | 478 |
| Fair value gains recognised in equity (note 23) | **15,774** | 1,790 |
| Disposals | **(44,963)** | – |
| At 31st December | **57,617** | 86,806 |

There were no impairment provisions on available-for-sale financial assets as at 31st December 2006 and 2005.

Available-for-sale financial assets include the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Market value of listed equity securities in Hong Kong | **57,140** | 41,366 | **–** | – |
| Unlisted securities | **477** | 15,505 | **–** | 15,027 |
| Other available-for-sale financial assets | **–** | 29,935 | **–** | – |
| | **57,617** | 86,806 | **–** | 15,027 |

## 14. COMPLETED PROPERTIES HELD FOR SALE

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Land cost | **21,804** | 62,065 |
| Development cost | **57,883** | 51,150 |
| | **79,687** | 113,215 |
| Provision | **–** | (31,259) |
| | **79,687** | 81,956 |

The carrying value of completed properties held for sale is analysed as follows:

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| In Hong Kong, held on: | | |
| Leases of between 10 and 50 years | **–** | 11,138 |
| Outside Hong Kong, held on: | | |
| Leases of over 50 years | **79,687** | 70,818 |
| | **79,687** | 81,956 |

## 15. PROPERTIES UNDER DEVELOPMENT FOR SALE

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Land cost | **57,132** | 70,233 |
| Development cost | **163,542** | 197,110 |
| | **220,674** | 267,343 |

## 15. PROPERTIES UNDER DEVELOPMENT FOR SALE (Continued)

The carrying value of properties under development for sale is analysed as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Outside Hong Kong, held on: | | |
| Leases of over 50 years | **220,674** | 267,343 |

## 16. INVENTORIES

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Raw materials | **110,242** | 67,098 |
| Work in progress | **7,111** | 4,009 |
| Finished goods | **162,626** | 92,837 |
| | **279,979** | 163,944 |

The cost of inventories recognised as expense and included in cost of sales amounting to HK$1,209,487,000 (2005: HK$1,017,661,000) (note 28).

## 17. TRADE AND OTHER RECEIVABLES

| | Group 2006 HK$'000 | Group 2005 HK$'000 | Company 2006 HK$'000 | Company 2005 HK$'000 |
|---|---|---|---|---|
| Gross amounts due from customers for contract work (note 18) | **–** | 2,817 | **–** | – |
| Trade receivables | | | | |
| – fellow subsidiaries (note(a)) | **76,557** | 55,806 | **–** | – |
| – associated companies of COSCO (note(a)) | **146,684** | 88,151 | **–** | – |
| – jointly controlled entities (note(a)) | **605** | 1,601 | **–** | – |
| – third parties | **399,497** | 247,989 | **–** | – |
| Retention receivables | **–** | 24,286 | **–** | – |
| Deposits, prepayments and other receivables | **72,552** | 29,152 | **36,853** | 3,436 |
| Amounts due from fellow subsidiaries (note(a)) | **8,470** | 6,039 | **32** | 33 |
| Amount due from a jointly controlled entity (note(b)) | **19,395** | – | **19,395** | – |
| | **723,760** | 455,841 | **56,280** | 3,469 |

Notes:

(a) Amounts due from fellow subsidiaries, associated companies of COSCO and jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

(b) Amount due from a jointly controlled entity is unsecured, interest bearing at 0.5% above London Interbank Offered Rate and repayable on 31st January 2009.

(c) The carrying amounts of trade and other receivables approximate their fair values and are denominated in the following currencies:

| | Group 2006 HK$'000 | Group 2005 HK$'000 | Company 2006 HK$'000 | Company 2005 HK$'000 |
|---|---|---|---|---|
| Renminbi | **165,134** | 81,588 | **34,949** | – |
| Hong Kong dollars | **37,757** | 134,937 | **1,936** | 3,469 |
| United States dollars | **484,556** | 228,863 | **19,395** | – |
| Others | **36,313** | 10,453 | **–** | – |
| | **723,760** | 455,841 | **56,280** | 3,469 |

## 17. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (continued)

(d) As at 31st December, the ageing analysis of trade receivables is as follows:

| | Group | |
|---|---|---|
| | 2006 HK$'000 | 2005 HK$'000 |
| Current – 90 days | **321,161** | 218,825 |
| 91 – 180 days | **261,574** | 102,144 |
| Over 180 days | **40,608** | 72,578 |
| | **623,343** | 393,547 |

For sale of coating products, the majority of sales are on credit terms from 30 days to 90 days. Revenues from sale of properties and other operating revenue are billed according to the terms of the relevant contracts governing the transactions.

## 18. CONSTRUCTION CONTRACTS IN PROGRESS

| | Group | |
|---|---|---|
| | 2006 HK$'000 | 2005 HK$'000 |
| Contract costs incurred plus attributable profits less foreseeable losses to date | **5,547,610** | 5,560,345 |
| Progress billings received and receivable | **(5,616,655)** | (5,615,426) |
| | **(69,045)** | (55,081) |
| Reclassified to assets held for sale (note 21(b)) | **(79)** | – |
| Reclassified to liabilities directly associated with assets held for sale (note 21(b)) | **69,124** | – |
| | **–** | (55,081) |
| Representing: | | |
| Gross amounts due from customers for contract work included in trade and other receivables (note 17) | **–** | 2,817 |
| Gross amounts due to customers for contract work included in trade and other payables (note 24) | **–** | (57,898) |
| | **–** | (55,081) |

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | HK$'000 | HK$'000 |
| Market value of listed equity securities in Hong Kong | **616** | 350 |

Financial assets at fair value through profit or loss are presented within operating activities in the cash flow statement.

## 20. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Cash at bank and in hand | **426,556** | 345,941 | **460** | 1,217 |
| Short-term bank deposits | **435,631** | 928,144 | **160,908** | 554,465 |
| | **862,187** | 1,274,085 | **161,368** | 555,682 |

Notes:

(a) The carrying amounts of cash and cash equivalents approximate their fair values and are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Renminbi | **281,700** | 222,227 | **9** | – |
| Hong Kong dollars | **73,727** | 598,755 | **8,487** | 533,777 |
| United States dollars | **488,507** | 441,280 | **152,850** | 21,905 |
| Others | **18,253** | 11,823 | **22** | – |
| | **862,187** | 1,274,085 | **161,368** | 555,682 |

(b) The effective interest rate on short-term bank deposits was 4.71% (2005: 2.01%). These deposits have an average maturity of 19 days (2005: 30 days).

## 20. CASH AND CASH EQUIVALENTS (Continued)

Notes: (continued)

(c) Cash and cash equivalents include the following for the purposes of the cash flow statement:

| | Group | |
|---|---|---|
| | 2006 HK$'000 | 2005 HK$'000 |
| Cash and cash equivalents | | |
| – continuing operations | **862,187** | 1,274,085 |
| – assets held for sale | **38,664** | – |
| Less: Cash investments with maturity more than three months from date of placement | **(20,441)** | (4,465) |
| Restricted bank deposit | **(2,191)** | – |
| | **878,219** | 1,269,620 |

## 21. ASSETS HELD FOR SALE AND DISCONTINUING OPERATIONS

(a) On 29th December 2006, the Group entered into an agreement with an independent third party to dispose of the entire issued share capital of, and the shareholder's loan to, Wellbase Holdings Limited ("Wellbase"), a wholly-owned subsidiary at a consideration of HK$31,200,000, subject to adjustment. The disposal was completed in January 2007. The assets and liabilities of Wellbase have been classified as a disposal group held for sale and presented separately in the consolidated balance sheet. The operations of Wellbase are included under property development and property investment for segment reporting purpose.

The assets and liabilities of the disposal group are classified as held for sale as follows:

| | Group 2006 HK$'000 |
|---|---|
| Assets held for sale: | |
| Investment properties (note 6) | **30,997** |
| Property, plant and equipment (note 8) | **673** |
| Trade receivables | **17** |
| Deposits, prepayments and other receivables | **94** |
| Cash and cash equivalents | **19** |
| | **31,800** |
| Liabilities directly associated with assets held for sale: | |
| Accrued liabilities and other payables | **306** |

## 21. ASSETS HELD FOR SALE AND DISCONTINUING OPERATIONS (Continued)

(b) On 5th February 2007, the Group entered into an agreement to dispose of the entire issued share capital of, and the shareholder's loan to, COSCO International Construction Limited ("COSCO Construction"), a wholly-owned subsidiary, to COSCO (H.K.) Property Development Limited, a fellow subsidiary at a consideration of HK$2.00. The principal activity of COSCO Construction is building construction and maintenance. The disposal was effected pursuant to the Group's strategy of disposing non-core business and assets, and was completed in March 2007.

The assets and liabilities of COSCO Construction have been classified as a disposal group held for sale and presented separately in the consolidated balance sheet. The profit after tax of COSCO Construction is presented separately in the income statement as profit from discontinuing operations with the 2005 comparatives restated accordingly.

The assets and liabilities of the disposal group classified as held for sale are as follows:

| | **Group 2006 HK$'000** |
|---|---|
| Assets held for sale: | |
| Associated companies (note 11) | **5,915** |
| Completed properties held for sale | **34,400** |
| Gross amounts due from customers for contract work (note 18) | **79** |
| Trade receivables | **9,085** |
| Retention receivables | **22,293** |
| Deposits, prepayments and other receivables | **3,637** |
| Cash and cash equivalents | **38,645** |
| | **114,054** |
| Liabilities directly associated with assets held for sale: | |
| Gross amounts due to customers for contract work (note 18) | **69,124** |
| Trade payables | **11,625** |
| Retention payables | **23,521** |
| Accrued liabilities and other payables | **4,126** |
| Amounts due to associated companies | **5,702** |
| | **114,098** |

## 21. ASSETS HELD FOR SALE AND DISCONTINUING OPERATIONS (Continued)

An analysis of the results and the cash flows of discontinuing operations is as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Turnover | | |
| Building construction | **11,237** | 21,491 |
| Rental income | **646** | 730 |
| Sale of completed properties | **282** | 31,235 |
| | **12,165** | 53,456 |
| Cost of completed properties sold | **(90)** | (20,378) |
| Other operating costs | **(12,119)** | (20,052) |
| Gross (loss)/profit | **(44)** | 13,026 |
| Other income | | |
| Write-back of provision for claims and foreseeable losses on certain construction contracts | **3,422** | 53,199 |
| Write-back of impairment loss on completed properties held for sale | **23,319** | – |
| Gain on disposal of property, plant and equipment, net | **136** | 4,548 |
| Gain on disposal of assets held for sale | **3,678** | – |
| Recovery of legal cost in respect of litigation on a construction contract | **–** | 4,500 |
| Others | **2,062** | 540 |
| | **32,617** | 62,787 |
| Administrative and general expenses | **(7,079)** | (19,226) |
| Operating profit | **25,494** | 56,587 |
| Finance income | **576** | 486 |
| Finance costs | **(230)** | (567) |
| Finance income/(costs) – net | **346** | (81) |
| Profit from discontinuing operations | **25,840** | 56,506 |
| Net cash generated from operating activities | **7,362** | 4,045 |
| Net cash from investing activities | **28,569** | 7,480 |
| Net cash used in financing activities | **(230)** | (567) |
| Total net cash from discontinuing operations | **35,701** | 10,958 |

## 21. ASSETS HELD FOR SALE AND DISCONTINUING OPERATIONS (Continued)

(c) On 18th January 2006, the Group entered into a sale and purchase agreement to dispose of the land lease held by one of the Group's subsidiaries. The carrying amount of the land lease of HK$9,179,000 was transferred to non-current assets classified as held for sale as at 31st December 2005.

(d) Total assets held for sale and liabilities directly associated with assets held for sale are summarised as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Assets held for sale: | | |
| Wellbase (note(a)) | **31,800** | – |
| COSCO Construction (note(b)) | **114,054** | – |
| Prepaid premium for land lease (note(c)) | **–** | 9,179 |
| | **145,854** | 9,179 |
| Liabilities directly associated with assets held for sale: | | |
| Wellbase (note(a)) | **306** | – |
| COSCO Construction (note(b)) | **114,098** | – |
| | **114,404** | – |

## 22. SHARE CAPITAL

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Number of shares** | **HK$'000** | **Number of shares** | **HK$'000** |
| Authorised: | | | | |
| Shares of HK$0.10 each | **3,000,000,000** | **300,000** | 3,000,000,000 | 300,000 |
| Issued and fully paid: | | | | |
| At 1st January | **1,418,241,291** | **141,824** | 1,414,441,291 | 141,444 |
| Issue of shares upon exercise of share options (note) | **32,282,000** | **3,228** | 3,800,000 | 380 |
| At 31st December | **1,450,523,291** | **145,052** | 1,418,241,291 | 141,824 |

## 22. SHARE CAPITAL (Continued)

Particulars and movements of share options granted by the Company are as follows:

| | | | Number of share options | | | | | | Vested % | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category | Note | Exercise price HK$ | Outstanding as at 1st January 2006 | Granted during the year | Exercised during the year | Changed category during the year | Lapsed during the year | Outstanding as at 31st December 2006 | as at 31st December 2006 | as at 31st December 2005 |
| Directors | i | 0.57 | 7,800,000 | – | (300,000) | 3,200,000 | – | 10,700,000 | 100 | 100 |
| | ii | 1.37 | 5,200,000 | – | – | 1,300,000 | – | 6,500,000 | 100 | 100 |
| Continuous contract employees | i | 0.57 | 13,798,000 | – | (8,250,000) | (700,000) | – | 4,848,000 | 100 | 100 |
| | ii | 1.37 | 18,700,000 | – | (3,750,000) | (800,000) | – | 14,150,000 | 100 | 100 |
| | iii | 1.21 | 2,400,000 | – | (200,000) | – | – | 2,200,000 | 100 | 100 |
| Others | i | 0.57 | 32,550,000 | – | (13,512,000) | (2,500,000) | – | 16,538,000 | 100 | 100 |
| | ii | 1.37 | 29,250,000 | – | (6,270,000) | (500,000) | (1,450,000) | 21,030,000 | 100 | 100 |
| | | | 109,698,000 | – | (32,282,000) | – | (1,450,000) | 75,966,000 | | |

Notes:

(i) On 26th November 2003, the directors and employees of the Group were granted a total of 44,800,000 share options at an exercise price of HK$0.57 per share. In addition, 34,200,000 share options were granted to employees of COSCO and its subsidiaries and associated companies (other than the Group) (collectively "COSCO Group"). The share options are exercisable at any time from 23rd December 2003 to 22nd December 2008. A total of 22,062,000 (2005: 3,800,000) share options was exercised during the year.

(ii) On 2nd December 2004, the directors and employees of the Group were granted 32,650,000 share options at an exercise price of HK$1.37 per share. In addition, 23,250,000 share options were granted to employees of COSCO Group. The share options are exercisable at any time from 29th December 2004 to 28th December 2014. During the year, 10,020,000 (2005: nil) share options were exercised and 1,450,000 (2005: 2,750,000) share options were lapsed.

(iii) On 10th May 2005, the employees of the Group were granted 2,400,000 share options at an exercise price of HK$1.21 per share. The share options are exercisable at any time between 6th June 2005 and 5th June 2015. A total of 200,000 (2005: nil) share options was exercised during the year.

## 22. SHARE CAPITAL (Continued)

During the year, an aggregate of 32,282,000 (2005: 3,800,000) share options were exercised and a summary of which, analysed by exercise month, is set out below:

| | Number of share options exercised 2006 | 2005 |
|---|---|---|
| **Exercise month** | | |
| January | **4,300,000** | 500,000 |
| February | **2,450,000** | – |
| March | **3,750,000** | 500,000 |
| April | **7,650,000** | 1,000,000 |
| May | **680,000** | 500,000 |
| June | **350,000** | 500,000 |
| July | **1,280,000** | – |
| August | **4,240,000** | – |
| September | **1,650,000** | 800,000 |
| October | **2,400,000** | – |
| November | **3,482,000** | – |
| December | **50,000** | – |
| | **32,282,000** | 3,800,000 |

Exercise of the 32,282,000 (2005: 3,800,000) share options during the year yielded proceeds as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Ordinary share capital – at par | **3,228** | 380 |
| Share premium | **23,317** | 1,786 |
| Proceeds | **26,545** | 2,166 |

The weighted average closing price of the Company's shares on the dates when the share options were exercised was HK$2.04 (2005: HK$1.26).

## 23. RESERVES

### Group

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve (note(b)) HK$'000 | Contributed surplus HK$'000 | Exchange reserve HK$'000 | Investment revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1st January 2005** | 9,275 | – | 69,087 | 676,218 | (2,741) | 11,012 | 232,351 | 995,202 |
| Transfer of reserves | – | – | 18,715 | – | – | – | (18,715) | – |
| Capital reserve realised upon disposal of subsidiaries | – | – | (22,618) | – | – | – | 22,618 | – |
| Issue of shares upon exercise of share options | 1,786 | – | – | – | – | – | – | 1,786 |
| Exchange differences | – | – | – | – | 4,312 | – | – | 4,312 |
| Fair value gains on available-for-sale financial assets (note 13) | – | – | – | – | – | 1,790 | – | 1,790 |
| Employee share option benefits (note 28(c)) | – | 1,400 | – | – | – | – | – | 1,400 |
| Profit for the year (note(a)) | – | – | – | – | – | – | 496,463 | 496,463 |
| Dividends paid | – | – | – | – | – | – | (49,593) | (49,593) |
| **Balance at 31st December 2005** | 11,061 | 1,400 | 65,184 | 676,218 | 1,571 | 12,802 | 683,124 | 1,451,360 |
| Representing: | | | | | | | | |
| Reserves | 11,061 | 1,400 | 65,184 | 676,218 | 1,571 | 12,802 | 633,486 | 1,401,722 |
| 2005 proposed final and special dividends | – | – | – | – | – | – | 49,638 | 49,638 |
| | 11,061 | 1,400 | 65,184 | 676,218 | 1,571 | 12,802 | 683,124 | 1,451,360 |

## 23. RESERVES (Continued)

### Group (Continued)

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Capital reserve (note(b)) HK$'000 | Contributed surplus HK$'000 | Exchange reserve HK$'000 | Investment revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1st January 2006** | **11,061** | **1,400** | **65,184** | **676,218** | **1,571** | **12,802** | **683,124** | **1,451,360** |
| Transfer of reserves | – | – | 2,277 | – | – | – | (2,277) | – |
| Share of exchange reserve of a jointly controlled entity (note 12) | – | – | – | – | 1,527 | – | – | 1,527 |
| Investment revaluation reserve realised upon disposal of available-for-sale financial assets | – | – | – | – | – | (7,735) | – | (7,735) |
| Issue of shares upon exercise of share options | 23,433 | (116) | – | – | – | – | – | 23,317 |
| Exchange differences | – | – | (1,502) | – | 21,678 | – | – | 20,176 |
| Fair value gains on available-for-sale financial assets (note 13) | – | – | – | – | – | 15,774 | – | 15,774 |
| Profit for the year (note(a)) | – | – | – | – | – | – | 616,589 | 616,589 |
| Dividends paid | – | – | – | – | – | – | (64,760) | (64,760) |
| **Balance at 31st December 2006** | **34,494** | **1,284** | **65,959** | **676,218** | **24,776** | **20,841** | **1,232,676** | **2,056,248** |
| Representing: | | | | | | | | |
| Reserves | 34,494 | 1,284 | 65,959 | 676,218 | 24,776 | 20,841 | 1,170,303 | 1,993,875 |
| 2006 proposed final dividend | – | – | – | – | – | – | 62,373 | 62,373 |
| | 34,494 | 1,284 | 65,959 | 676,218 | 24,776 | 20,841 | 1,232,676 | 2,056,248 |

## 23. RESERVES (Continued)

### Company

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Contributed Surplus (note(d)) HK$'000 | Investment revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Balance at 1st January 2005** | 9,275 | – | 759,988 | 7,259 | 143,391 | 919,913 |
| Employee share option benefits | – | 1,400 | – | – | – | 1,400 |
| Issue of shares upon exercise of share options | 1,786 | – | – | – | – | 1,786 |
| Fair value gains on available-for-sale financial assets | – | – | – | 120 | – | 120 |
| Profit for the year | – | – | – | – | 409,782 | 409,782 |
| Dividends paid | – | – | – | – | (49,593) | (49,593) |
| **Balance at 31st December 2005** | 11,061 | 1,400 | 759,988 | 7,379 | 503,580 | 1,283,408 |
| Representing: | | | | | | |
| Reserves | 11,061 | 1,400 | 759,988 | 7,379 | 453,942 | 1,233,770 |
| 2005 proposed final and special dividends | – | – | – | – | 49,638 | 49,638 |
| | 11,061 | 1,400 | 759,988 | 7,379 | 503,580 | 1,283,408 |

## 23. RESERVES (Continued)

### Company (Continued)

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Contributed Surplus (note(d)) HK$'000 | Investment revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Balance at 1st January 2006** | **11,061** | **1,400** | **759,988** | **7,379** | **503,580** | **1,283,408** |
| Investment revaluation reserve realised upon disposal of available-for-sale financial asset | – | – | – | (7,379) | – | (7,379) |
| Issue of shares upon exercise of share options | 23,433 | (116) | – | – | – | 23,317 |
| Profit for the year | – | – | – | – | 133,815 | 133,815 |
| Dividends paid | – | – | – | – | (64,760) | (64,760) |
| **Balance at 31st December 2006** | **34,494** | **1,284** | **759,988** | **–** | **572,635** | **1,368,401** |
| Representing: | | | | | | |
| Reserves | 34,494 | 1,284 | 759,988 | – | 510,262 | 1,306,028 |
| 2006 proposed final dividend | – | – | – | – | 62,373 | 62,373 |
| | 34,494 | 1,284 | 759,988 | – | 572,635 | 1,368,401 |

Notes:

(a) Profit for the year of HK$616,589,000 (2005: profit of HK$496,463,000) includes a net profit of HK$164,867,000 (2005: HK$64,888,000) attributable to jointly controlled entities.

(b) Included in the capital reserve is an amount of HK$33,396,000 (2005: HK$31,119,000) which represents the Group's share of the statutory reserves of certain PRC subsidiaries.

(c) In 2004, part of the amount standing to the credit of the share premium account of the Company was offset against the entire accumulated losses as at 31st December 2003 of HK$1,680,335,000 and the remaining credit of the share premium account was transferred to contributed surplus.

(d) The balance of contributed surplus of the Company as at 1st January 2004 arose in 1992 when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired.

## 24. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Gross amounts due to customers for contract work (note 18) | **–** | 57,898 | **–** | – |
| Trade payables | | | | |
| – fellow subsidiaries (note(a)) | **29,061** | 2,698 | **–** | – |
| – associated companies of COSCO (note(a)) | **826** | 81 | **–** | – |
| – jointly controlled entities (note(a)) | **278** | 27 | **–** | – |
| – minority shareholder of a subsidiary (note(a)) | **7,100** | – | **–** | – |
| – third parties | **364,797** | 229,051 | **–** | – |
| Retention payables | **–** | 28,224 | **–** | – |
| Accrued liabilities and other payables | **562,177** | 537,194 | **12,236** | 5,906 |
| Amounts due to fellow subsidiaries (note(a)) | **51,176** | 60,768 | **–** | 1,112 |
| Amount due to ultimate holding company (note(a)) | **9,483** | 111 | **–** | – |
| Amounts due to jointly controlled entities (note(a)) | **–** | 186 | **–** | – |
| Amount due to minority shareholder of a subsidiary (note(a)) | **–** | 3,415 | **–** | – |
| Amounts due to associated companies (note(a)) | **–** | 5,706 | **–** | – |
| Dividend payable to minority shareholders of subsidiaries | **8,433** | 8,322 | **–** | – |
| | **1,033,331** | 933,681 | **12,236** | 7,018 |

Notes:

(a) Amounts due to ultimate holding company, fellow subsidiaries, associated companies of COSCO, jointly controlled entities, minority shareholder of a subsidiary and associated companies are unsecured, interest-free and have no fixed terms of repayment.

## 24. TRADE AND OTHER PAYABLES

Notes: (continued)

(b) The carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Renminbi | **549,822** | 587,918 | **–** | – |
| Hong Kong dollars | **69,968** | 181,025 | **12,236** | 7,018 |
| United States dollars | **364,668** | 148,028 | **–** | – |
| Others | **48,873** | 16,710 | **–** | – |
| | **1,033,331** | 933,681 | **12,236** | 7,018 |

(c) As at 31st December, the ageing analysis of trade payables is as follows:

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | HK$'000 | HK$'000 |
| Current – 90 days | **305,448** | 172,621 |
| 91 – 180 days | **80,668** | 19,714 |
| Over 180 days | **15,946** | 39,522 |
| | **402,062** | 231,857 |

## 25. BORROWINGS

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| **Long-term borrowing** | | |
| Loan from a fellow subsidiary (note(a)) | – | 96,090 |
| **Short-term borrowing** | | |
| Loan from a fellow subsidiary (note(a)) | – | 10,570 |
| Unsecured bank loans | **78,521** | – |
| **Total borrowings** | **78,521** | 106,660 |
| The above loans are repayable as follows: | | |
| Within one year | **78,521** | 10,570 |
| In the second year | – | 96,090 |
| | **78,521** | 106,660 |

Notes:

(a) The loan from a fellow subsidiary was unsecured and interest bearing ranging from 5.58% to 5.76% per annum.

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

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Renminbi | **15,931** | 106,660 |
| United States dollars | **62,590** | – |
| Total borrowings | **78,521** | 106,660 |

## 25. BORROWINGS (Continued)

Notes: (continued)

(c) The effective interest rates of borrowings during the year ended 31st December 2006 and 2005 are as follows:

| | 2006 | 2005 |
|---|---|---|
| Renminbi | **5.07%** | 4.94% |
| Hong Kong dollars | **–** | 1.63% |
| United States dollars | **6.47%** | 4.07% |

## 26. DEFERRED INCOME TAX LIABILITIES

Deferred income tax liabilities are calculated in full on temporary differences under liability method using a principal tax rate of 17.5% (2005: 17.5%).

The deferred income tax liabilities arise from accelerated depreciation allowances and its movements are as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| At 1st January | **85** | – |
| Deferred income tax charged to income statement (note 30) | **–** | 85 |
| At 31st December | **85** | 85 |

Deferred income tax assets are recognised for tax losses to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has unrecognised tax losses of HK$203,529,212 (2005: HK$189,459,537) from continuing operations to carry forward against future taxable income.

## 27. OTHER INCOME

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Fair value gains on investment properties (note 6) | **4,932** | 257,046 |
| Fair value gains on financial assets at fair value through profit or loss | **266** | 23 |
| Gain on disposal of available-for-sale financial assets (including investment revaluation reserve realised of HK$7,735,000) | **41,496** | – |
| Gain on deemed disposal of partial interest in a jointly controlled entity (note 12) | **279,043** | – |
| Gain on disposal of investment securities | **–** | 5,018 |
| Write-back of impairment loss on prepaid premium for land leases (note 9) | **–** | 46,719 |
| Write-back of provision for urban real estate tax | **1,988** | – |
| Write-back of provision for bad and doubtful debts | **–** | 8,082 |
| Recovery of bad debts | **529** | – |
| Dividend income from available-for-sale financial assets | **8,698** | 5,838 |
| Dividend income from financial assets at fair value through profit or loss | **38** | – |
| Gain on disposal of property, plant and equipment, net | **–** | 300 |
| Others | **2,879** | 3,004 |
| | **339,869** | 326,030 |

## 28. EXPENSES BY NATURE

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Cost of inventories sold (note 16) | **1,209,487** | 1,017,661 |
| Cost of properties sold | **182,435** | 59,553 |
| Outgoings for generating rental income | **728** | 2,344 |
| Depreciation (note 28(a)) | **4,786** | 4,815 |
| Amortisation of prepaid premium for land leases | **459** | 1,981 |
| Operating lease rental expense (note 28(b)) | **9,018** | 4,928 |
| Employee benefit expenses, including directors' emoluments (note 28(c)) | **76,196** | 76,705 |
| Net exchange loss | **994** | 2,333 |
| Loss on disposal of subsidiaries (note 35(c)) | **–** | 16,825 |
| Loss on disposal of property, plant and equipment | **52** | – |
| Provision for bad and doubtful debts | **7,793** | 1,013 |
| Write-off of bad debts | **582** | – |
| Provision for inventory obsolescence | **6,862** | 2,402 |
| Write-off of obsolete inventory | **1,424** | – |
| Provision for land appreciation tax | **17,864** | – |
| Provision for capital gains tax | **8,538** | – |
| Auditors' remuneration | **2,412** | 1,586 |
| Others | **196,777** | 159,450 |
| Total cost of sales, selling, administrative, general and other expenses | **1,726,407** | 1,351,596 |
| Cost of sales | **1,392,649** | 1,083,269 |
| Selling, administrative and general expenses | **289,649** | 245,754 |
| Other expenses | **44,109** | 22,573 |
| | **1,726,407** | 1,351,596 |

## 28. EXPENSES BY NATURE (Continued)

### (a) Depreciation

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Charge for the year (note 8) | **9,567** | 8,939 |
| Charged to cost of sales | **(3,933)** | (3,698) |
| Capitalised in inventories | **(848)** | (426) |
| | **4,786** | 4,815 |

### (b) Operating lease rental expense

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Land and buildings | **9,018** | 4,928 |

### (c) Employee benefit expenses, including directors' emoluments

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Wages and salaries | **85,507** | 86,191 |
| Employee share option benefits | **–** | 1,400 |
| Pension costs – defined contribution scheme (note) | **7,484** | 8,149 |
| Employee benefit expenses, including directors' emoluments (note 34(a)) | **92,991** | 95,740 |
| Charged to cost of sales | **(13,518)** | (15,966) |
| Capitalised in inventories | **(3,277)** | (3,069) |
| | **76,196** | 76,705 |

Note:

There were no forfeited contributions (2005: nil) utilised during the year and no forfeited contributions were available at year end to reduce future contributions.

There were no contributions (2005: nil) payable to the MPF Scheme at the year end.

## 29. FINANCE INCOME/(COSTS) – NET

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Interest income from bank deposits | **36,572** | 17,950 |
| Interest expenses on bank and other loans wholly repayable within five years | **(6,035)** | (23,585) |
| Other borrowing costs | **(1,598)** | (1,541) |
| Total borrowing costs incurred | **(7,633)** | (25,126) |
| Capitalised in properties under development for sale | **3,422** | 5,169 |
| | **(4,211)** | (19,957) |
| Finance income/(costs) – net | **32,361** | (2,007) |

## 30. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

China Mainland taxation has been calculated on the estimated assessable profit derived from the Group's operations in China Mainland for the year at the rates of taxation prevailing in China Mainland.

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **14,117** | 11,962 |
| – China Mainland taxation | **25,825** | 13,351 |
| Deferred income tax (note 26) | **–** | 85 |
| Tax expense | **39,942** | 25,398 |

## 30. INCOME TAX EXPENSE (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Company operates and the difference is set out below:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Profit before income tax from continuing operations (excluding share of profits of jointly controlled entities) | **512,288** | 429,647 |
| Calculated at a tax rate of 17.5% (2005: 17.5%) | **89,651** | 75,188 |
| Effect of different tax rate in China Mainland | **603** | 233 |
| Income not subject to tax | **(67,169)** | (60,135) |
| Expenses not deductible for tax purposes | **5,993** | 4,301 |
| Tax losses not recognised | **10,864** | 10,217 |
| Utilisation of previously unrecognised tax losses | **–** | (4,406) |
| Tax expense | **39,942** | 25,398 |

## 31. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$133,815,000 (2005: HK$409,782,000).

## 32. DIVIDENDS

The dividends paid in 2006 were HK$64,760,000 (2005: HK$49,593,000).

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Interim dividend paid of HK$0.01 (2005: HK$0.01) per ordinary share | **14,463** | 14,182 |
| Proposed special dividend of HK$0.014 per ordinary share | **–** | 19,855 |
| Proposed final dividend of HK$0.043 (2005: HK$0.021) per ordinary share | **62,373** | 29,783 |
| | **76,836** | 63,820 |

At the board meeting held on 11th April 2007, the directors proposed a final dividend of HK$0.043 per ordinary share for the year ended 31st December 2006. This proposed dividend is not reflected as dividend payable in the financial statements until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profit for the year ending 31st December 2007.

## 33. EARNINGS PER SHARE

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

| | 2006 | 2005 |
|---|---|---|
| Profit from continuing operations attributable to the equity holders of the Company | **HK$590,749,000** | HK$439,957,000 |
| Profit from discontinuing operations attributable to the equity holders of the Company | **HK$25,840,000** | HK$56,506,000 |
| Weighted average number of ordinary shares in issue | **1,437,184,579** | 1,416,855,538 |
| Basic earnings per share from continuing operations attributable to the equity holders of the Company | **41.10 HK cents** | 31.05 HK cents |
| Basic earnings per share from discontinuing operations attributable to the equity holders of the Company | **1.80 HK cents** | 3.99 HK cents |

(b) Diluted earnings per share is calculated based on the weighted average number of shares in issue after adjusting for the potential dilutive effect in respect of outstanding share options.

| | 2006 | 2005 |
|---|---|---|
| Profit from continuing operations attributable to the equity holders of the Company | **HK$590,749,000** | HK$439,957,000 |
| Profit from discontinuing operations attributable to the equity holders of the Company | **HK$25,840,000** | HK$56,506,000 |
| Adjusted weighted average number of ordinary shares in issue | **1,474,889,490** | 1,445,160,990 |
| Diluted earnings per share from continuing operations attributable to the equity holders of the Company | **40.05 HK cents** | 30.44 HK cents |
| Diluted earnings per share from discontinuing operations attributable to the equity holders of the Company | **1.75 HK cents** | 3.91 HK cents |

## 34. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

### (a) Directors' emoluments

Details of the emoluments paid and payable to the directors of the Company for the year ended 31st December 2006 are as follows:

| **Name of directors** | **Fees** | **Salaries and other emoluments** | **Total** |
|---|---|---|---|
| | **HK$'000** | **HK$'000** | **HK$'000** |
| Mr. Liu Guoyuan | **–** | **5,000** | **5,000** |
| Mr. Liang Yanfeng | **–** | **1,250** | **1,250** |
| Mr. Liu Hanbo (resigned on 9th August 2006) | **–** | **1,500** | **1,500** |
| Mr. Lin Libing | **–** | **1,080** | **1,080** |
| Mr. Wang Xiadong | **–** | **1,080** | **1,080** |
| Mr. Lin Wenjin | **–** | **810** | **810** |
| Mr. Chan Cheong Foon, Andrew | **190** | **–** | **190** |
| Mr. Kwong Che Keung, Gordon | **190** | **–** | **190** |
| Mr. Tsui Yiu Wa, Alec | **190** | **–** | **190** |
| | **570** | **10,720** | **11,290** |

Details of the emoluments paid and payable to the directors of the Company for the year ended 31st December 2005 are as follows:

| Name of directors | Fees | Salaries and other emoluments | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Mr. Liu Guoyuan | – | 3,750 | 3,750 |
| Mr. Liu Hanbo | – | 2,400 | 2,400 |
| Mr. Zhao Kaiji (resigned on 25th January 2006) | – | 660 | 660 |
| Mr. Lin Libing | – | 1,080 | 1,080 |
| Mr. Chan Cheong Foon, Andrew | 185 | – | 185 |
| Mr. Kwong Che Keung, Gordon | 185 | – | 185 |
| Mr. Tsui Yiu Wa, Alec | 185 | – | 185 |
| | 555 | 7,890 | 8,445 |

## 34. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

### (a) Directors' emoluments (Continued)

As at 31st December 2006, the directors of the Company had outstanding share options to subscribe for 17,200,000 shares of the Company (refer to note 22 for details).

The directors were granted share options by COSCO Pacific Limited ("COSCO Pacific"), a fellow subsidiary, details of which are as follows:

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| Category | Note | Exercise price HK$ | Outstanding as at 1st January 2006 | Granted during the year | Exercised during the year | Changed category during the year | Outstanding as at 31st December 2006 |
| Directors | i | 9.54 | 900,000 | – | (200,000) | – | 700,000 |
| | ii | 13.75 | 4,000,000 | – | (1,350,000) | 150,000 | 2,800,000 |
| Ex-directors* | i | 9.54 | 944,000 | – | (944,000) | – | – |
| | ii | 13.75 | 2,700,000 | – | (2,300,000) | – | 400,000 |
| | | | 8,544,000 | – | (4,794,000) | 150,000 | 3,900,000 |

The directors were granted share options by COSCO Corporation (Singapore) Limited ("COSCO SGP"), a fellow subsidiary, details of which are as follows:

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| Category | Note | Exercise price S$ | Outstanding as at 1st January 2006 | Granted during the year | Exercised during the year | Changed category during the year | Outstanding as at 31st December 2006 |
| Directors | iii | 0.807 | 1,500,000 | – | (1,500,000) | – | – |
| | iv | 1.230 | – | 1,800,000 | – | – | 1,800,000 |
| Ex-directors* | iii | 0.807 | 600,000 | – | (600,000) | – | – |
| | | | 2,100,000 | 1,800,000 | (2,100,000) | – | 1,800,000 |

* being directors who resigned during the year

## 34. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

### (a) Directors' emoluments (Continued)

The directors were granted share appreciation rights by China COSCO Holdings Company Limited ("China COSCO"), a fellow subsidiary, details of which are as follows:

| | | | Number of units of share appreciation rights | | | |
|---|---|---|---|---|---|---|
| Category | Note | Exercise price HK$ | Outstanding as at 1st January 2006 | Granted during the year | Exercised during the year | Outstanding as at 31st December 2006 |
| Directors | v | 3.195 | 2,175,000 | – | – | 2,175,000 |
| | vi | 3.588 | – | 1,565,000 | – | 1,565,000 |
| | | | 2,175,000 | 1,565,000 | – | 3,740,000 |

Notes:

(i) The share options were granted by COSCO Pacific during the period from 28th October 2003 to 6th November 2003 and are exercisable at any time within ten years from the respective date of grant of the share options.

(ii) The share options were granted by COSCO Pacific during the period from 25th November 2004 to 16th December 2004 and are exercisable at any time within ten years from the respective date of grant of the share options.

(iii) The share options were granted by COSCO SGP on 6th April 2005 and are exercisable at any time from 6th April 2006 to 5th April 2010.

(iv) The share options were granted by COSCO SGP on 21st February 2006 and are exercisable at any time from 21st February 2007 to 20th February 2011.

(v) These share appreciation rights ("Share Appreciation Rights") were granted by China COSCO in units with each unit representing one H share of China COSCO on 16th December 2005 pursuant to the share appreciation rights plan adopted by China COSCO (the "Plan"). These Share Appreciation Rights are exercisable at any time between 16th December 2007 and 15th December 2015. These Share Appreciation Rights represent personal interest held by the relevant participants as beneficial owners. The beneficial owners of these Share Appreciation Rights are entitled to the premium of the price of the issued shares of China COSCO over the exercise price of the share appreciation rights.

(vi) These Share Appreciation Rights were granted by China COSCO on 5th October 2006 pursuant to the Plan and are exercisable at any time between 5th October 2008 and 4th October 2016.

## 34. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: three) directors whose emoluments are reflected in the above analysis. The emoluments paid and payable to the remaining one (2005: two) individuals during the year are as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Basic salaries, other allowances and benefit-in-kind | **1,454** | 2,531 |
| Pension costs – defined contribution scheme | **12** | 21 |
| | **1,466** | 2,552 |

The emoluments of these individuals fell within the following bands:

| | Number of individuals | |
|---|---|---|
| **Emolument bands** | **2006** | **2005** |
| HK$1,000,001 – HK$1,500,000 | **1** | 1 |
| HK$1,500,001 – HK$2,000,000 | **–** | 1 |
| | **1** | 2 |

## 35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to cash generated from operations

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Operating profit | | |
| – continuing operations | **479,927** | 431,654 |
| – discontinuing operations | **25,494** | 56,587 |
| Depreciation of property, plant and equipment, net of amount capitalised | **8,719** | 8,513 |
| Amortisation of prepaid premium for land leases | **459** | 2,202 |
| Write-back of impairment loss on prepaid premium for land leases | **–** | (46,719) |
| Fair value gains on investment properties | **(4,932)** | (257,046) |
| Gain on disposal of available-for-sale financial assets | **(41,496)** | – |
| Gain on deemed disposal of partial interest in a jointly controlled entity | **(279,043)** | – |
| Gain on disposal of assets held for sale | **(3,678)** | – |
| Write-back of impairment loss on completed properties held for sale | **(23,319)** | – |
| Loss on disposal of subsidiaries | **–** | 16,825 |
| Write-back of provision for claims and foreseeable losses on certain construction contracts | **(3,422)** | (53,199) |
| Gain on disposal of property, plant and equipment | **(84)** | (4,848) |
| Employee share option benefits | **–** | 1,400 |
| Dividend income | **(8,736)** | (5,838) |
| Recovery of legal cost in respect of litigation on a construction contract | **–** | (4,500) |
| Operating profit before working capital changes | **149,889** | 145,031 |
| Decrease in properties under development for sale | **55,410** | 16,243 |
| Increase in completed properties held for sale | **(6,069)** | (31,078) |
| (Increase)/decrease in inventories | **(107,010)** | 55,901 |
| (Increase)/decrease in trade receivables, retention receivables, deposits, prepayments and other receivables | **(265,421)** | 8,491 |
| (Increase)/decrease in amounts due from fellow subsidiaries | **(2,431)** | 55,575 |
| Increase in amount due from a jointly controlled entity | **(19,395)** | – |
| Increase in financial assets at fair value through profit or loss | **(266)** | (23) |
| Increase in trade payables, accrued liabilities and other payables | **186,145** | 84,154 |
| Increase in construction contracts in progress | **17,386** | 1,499 |
| Decrease in amounts due to fellow subsidiaries | **(9,592)** | (30,356) |
| Increase/(decrease) in amount due to ultimate holding company | **9,372** | (747) |
| (Decrease)/increase in amounts due to jointly controlled entities | **(186)** | 186 |
| Decrease in amount due to minority shareholder of a subsidiary | **(3,415)** | (1,578) |
| Increase in dividend payable to minority shareholder of a subsidiary | **111** | 8,322 |
| Cash generated from operations | **4,528** | 311,620 |

## 35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Acquisition of a subsidiary

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Net assets acquired at fair value | | |
| Cash and cash equivalents | – | 89,786 |
| Property, plant and equipment (note 8) | – | 4,687 |
| Prepaid premium for land leases (note 9) | – | 8,714 |
| Jointly controlled entities | – | 1,015 |
| Available-for-sale financial assets (note 13) | – | 478 |
| Inventories | – | 2,941 |
| Trade and other receivables | – | 52,837 |
| Amounts due from fellow subsidiaries | – | 59,532 |
| Trade and other payables | – | (84,810) |
| Amounts due to fellow subsidiaries | – | (86,309) |
| Current income tax liabilities | – | (2,561) |
| | – | 46,310 |
| Goodwill (note 7) | – | 8,980 |
| Total consideration | – | 55,290 |
| Satisfied by: | | |
| Cash | – | 55,290 |
| Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary: | | |
| Cash consideration | – | 55,290 |
| Cash and cash equivalents acquired | – | (89,786) |
| Net cash generated from the acquisition of a subsidiary | – | (34,496) |

## 35. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (c) Disposal of subsidiaries

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Net assets disposed | | |
| Investment properties (note 6) | – | 1,172,124 |
| Leasehold buildings (note 8) | – | 38,987 |
| Prepaid premium for land leases (note 9) | – | 190,889 |
| Trade and other receivables | – | 6,086 |
| Cash and cash equivalents | – | 15,383 |
| Trade and other payables | – | (4,525) |
| Amounts due to fellow subsidiaries | – | (105) |
| Amounts due to holding companies | – | (14) |
| | – | 1,418,825 |
| Loss on disposal (note 28) | – | (16,825) |
| Total consideration | – | 1,402,000 |
| Satisfied by: | | |
| Cash | – | 1,402,000 |
| Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries: | | |
| Cash consideration | – | 1,402,000 |
| Cash and cash equivalents disposed | – | (15,383) |
| Net cash from the disposal of subsidiaries | – | 1,386,617 |

## 36. COMMITMENTS

### (a) Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Contracted but not provided for property, plant and equipment | **22,941** | – | **–** | – |
| Commitments in respect of capital contribution to a subsidiary | **–** | 28,602 | **–** | 28,602 |
| | **22,941** | 28,602 | **–** | 28,602 |

### (b) Operating lease commitments

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **8,334** | 10,255 | **4,818** | 6,384 |
| In the second to fifth years inclusive | **5,221** | 11,580 | **2,811** | 6,384 |
| Over five years | **–** | 3,724 | **–** | 3,724 |
| | **13,555** | 25,559 | **7,629** | 16,492 |

### (c) Future minimum rental payments receivable

The future minimum rental receivable under non-cancellable leases is as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| In the first year | **109** | 1,532 |
| In the second to third years inclusive | **–** | 163 |
| | **109** | 1,695 |

The Group's operating leases were for terms ranging from two to three years.

## 37. CONTINGENCIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Guarantee and counter-indemnity to bank guarantees in respect of due performance of management and remedial cost of a property undertaken by the Group | **43,000** | 43,000 | **35,000** | 35,000 |

## 38. RELATED PARTY TRANSACTIONS

The Group is controlled by COSCO (Hong Kong) Group Limited ("COSCO Hong Kong"), a company incorporated in Hong Kong, which owns 57.18% of the Company's shares as at 31st December 2006. The remaining 42.82% of the Company's shares is widely held. The parent of COSCO Hong Kong is COSCO, a state-owned enterprise established in the PRC.

COSCO itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with HKAS 24, other state-owned enterprises and their subsidiaries (other than COSCO group companies), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include COSCO and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government and other entities and corporations in which the Company is able to control or exercise significant influence.

For the purpose of related party transaction disclosures, the Group has identified, except where the amounts have been disclosed elsewhere in the accounts, to the extent practicable, its customers, suppliers and banks which are state-owned enterprises. The directors believe that meaningful information in respect of related party transactions has been adequately disclosed.

The following is a summary of the significant related party transactions carried out in the normal course of the Group's business and at terms no less favourable than those charged/being charged to/from other third party customers/suppliers of the Group.

## 38. RELATED PARTY TRANSACTIONS (Continued)

### (a) Sale of goods and provision of services to fellow subsidiaries, associated companies of COSCO and other related parties

| | | Group | |
|---|---|---|---|
| | Note | 2006 HK$'000 | 2005 HK$'000 |
| Rental income received from: | | | |
| – an intermediate holding company | (i) | **–** | 893 |
| – fellow subsidiaries | (i) | **–** | 11,839 |
| Sale of coating products to: | (ii) | | |
| – fellow subsidiaries | | **23,059** | 16,799 |
| – associated companies of COSCO | | **420,095** | 340,754 |
| – state-owned enterprises | | **26,412** | 6,422 |
| Sale of spare parts and navigation equipment to: | (iii) | | |
| – fellow subsidiaries | | **240,564** | 266,080 |
| – associated companies of COSCO | | **15,769** | – |
| – state-owned enterprises | | **1,009** | 18,829 |
| – jointly controlled entities | | **571** | – |
| Commission income in relation to provision of agency services to: | (iv) | | |
| – fellow subsidiaries | | **43,486** | 52,680 |
| – holding companies | | **7,131** | – |
| – jointly controlled entities | | **1,492** | – |
| Commission income in relation to provision of insurance brokerage services to: | (v) | | |
| – fellow subsidiaries | | **34,530** | 31,209 |
| – associated companies of COSCO | | **1,353** | – |
| – holding companies | | **64** | – |
| – state-owned enterprises | | **1,191** | 1,136 |
| Interest income received from state-owned banks | | **27,327** | 13,751 |

Notes:

(i) On 12th January 2004, tenancy agreements were entered into between certain subsidiaries of the Company as landlords, and COSCO Hong Kong or its subsidiaries as tenants, for the leasing of certain properties of the Group at COSCO Tower at an average monthly rental of approximately HK$28 per square foot. These subsidiaries were disposed of in the year ended 31st December 2005.

(ii) Sale of coating products to fellow subsidiaries, associated companies of COSCO and state-owned enterprises were conducted on terms as set out in the agreements governing these transactions.

## 38. RELATED PARTY TRANSACTIONS (Continued)

### (a) Sale of goods and provision of services to fellow subsidiaries, associated companies of COSCO and other related parties (Continued)

Notes: (continued)

(iii) Sale of spare parts and navigation equipment to fellow subsidiaries, associated companies of COSCO, state-owned enterprises and jointly controlled entities were conducted on terms as set out in the agreements governing these transactions.

(iv) Certain subsidiaries of the Company acted as agent of COSCO and its subsidiaries in respect of (a) sale and purchase of new and second hand vessels, (b) bareboat charter businesses, and (c) sale and purchase of marine equipment for new ship-building projects. According to the terms of the relevant engagement/commission agreements, the Group received commission income from vendors, ship-owners and equipment makers with respect to the transactions mentioned above.

(v) Commission income in relation to the provision of insurance brokerage services to fellow subsidiaries, associated companies of COSCO, holding companies and state-owned enterprises were calculated on terms as set out in the agreements governing these transactions.

### (b) Purchase of goods and services from fellow subsidiaries, associated companies of COSCO and other related parties

| | | Group | |
|---|---|---|---|
| | Note | 2006 HK$'000 | 2005 HK$'000 |
| Rental expenses paid to fellow subsidiaries | (i) | **(7,850)** | (3,301) |
| Commission expenses in relation to sale of coating products paid to: | (ii) | | |
| – fellow subsidiaries | | **(61)** | (1,882) |
| – associated companies of COSCO | | **(7,752)** | (7,062) |
| – state-owned enterprises | | **(495)** | – |
| – a minority shareholder | | **(96)** | (931) |
| Purchase of raw materials from minority shareholders of subsidiaries | (iii) | **(11,112)** | (5,642) |
| Purchase of construction materials from a fellow subsidiary | (iv) | **(2,189)** | (23,746) |
| Commission expenses paid to a fellow subsidiary in relation to purchase of construction materials | | **–** | (935) |
| Technology usage fee paid to minority shareholder of subsidiaries | (v) | **(7,039)** | (5,402) |
| Payment for land leases to the PRC government | | **(5,427)** | – |
| Interest expenses paid to state-owned banks | | **(1,729)** | (11,789) |
| Interest expense paid to a fellow subsidiary | (vi) | **(3,422)** | (4,436) |

## 38. RELATED PARTY TRANSACTIONS (Continued)

### (b) Purchase of goods and services from fellow subsidiaries, associated companies of COSCO and other related parties (Continued)

Notes:

(i) In August 2005, the Group leased certain properties from a wholly-owned subsidiary of COSCO Hong Kong at the average monthly rental of HK$697,825 for an initial term of 3 years. On 5th January 2006, the Group entered into a supplementary tenancy agreement with a wholly-owned subsidiary of COSCO Hong Kong to amend the terms to exclude one of the units, resulting in revised monthly rental of HK$567,325.

(ii) Commission paid was based on a certain percentage of sales amount in accordance with terms as set out in the agreements governing these transactions.

(iii) Purchase of raw materials from minority shareholders of a subsidiary were conducted on terms as set out in the agreements governing these transactions.

(iv) On 4th April 2005, a 51% owned subsidiary of the Company entered into a purchase agreement with a fellow subsidiary for the purchase of construction materials.

(v) Technology usage fee paid to minority shareholder of a subsidiary was made based on a certain percentage of the net sales amount in accordance with terms as set out in the agreements governing these transactions.

(vi) In 2005, a 51% owned subsidiary of the Company ("Borrower") entered into an agreement with a fellow subsidiary ("Lender") for a loan facility of RMB150,000,000 under which the Company together with the other shareholders of the Borrower agreed to provide the Lender with their guarantee on a joint and several basis. The loan is unsecured, interest bearing at 5.76% per annum and repayable before 5th April 2007. The amount of loan outstanding as at 31st December 2005 is RMB111,000,000 (approximately HK$106,660,000). The loan was fully repaid in 2006.

### (c) Balances with fellow subsidiaries, associated companies of COSCO and other related parties arising from sale and purchase of goods and services

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Receivables from fellow subsidiaries | **76,557** | 55,806 |
| Receivables from associated companies of COSCO | **146,684** | 88,151 |
| Receivables from jointly controlled entities | **605** | 1,601 |
| Receivables from state-owned enterprises | **9,583** | 3,026 |
| Payables to fellow subsidiaries | **29,061** | 2,698 |
| Payables to associated companies of COSCO | **826** | 81 |
| Payables to jointly controlled entities | **278** | 27 |
| Payables to minority shareholder of a subsidiary | **7,100** | – |
| Payables to state-owned enterprises | **686** | 114 |

## 38. RELATED PARTY TRANSACTIONS (Continued)

### (d) Balances with state-owned banks and loan from a fellow subsidiary

| | Group | |
|---|---|---|
| | 2006 HK$'000 | 2005 HK$'000 |
| Bank deposits with state-owned banks | **701,715** | 991,768 |
| Loans from state-owned banks | **47,032** | – |
| Loan from a fellow subsidiary | **–** | 106,660 |

**(e)** On 23rd June 2006, the Group entered into an agreement with Henan Provincial Investment Company for the disposal of its 54% interest in Henan Xin Zhong Yi Electric Power Co., Ltd at a consideration of RMB43,800,000 (approximately HK$43,612,000). The disposal was completed in October 2006.

## 39. PRINCIPAL SUBSIDIARIES

| Name | Place of incorporation and kind of legal entity | Particulars of issued share capital/ registered capital | % of interest held | Principal activities |
|---|---|---|---|---|
| **Operated in Hong Kong** | | | | |
| Capital Properties Limited# | Hong Kong | 2 ordinary shares of HK$1each | 100 | Provision of nominee services |
| Century Metro Development Limited | Hong Kong | 10,000 ordinary shares of HK$1 each | 100 | Property development |
| COSCO (Hong Kong) Insurance Brokers Limited | Hong Kong | 5,000,000 ordinary shares of HK$1 each | 100 | Provision of insurance brokerages and related services |
| COSCO International Infrastructure Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | Investment holding |
| COSCO International Land Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | Investment holding |
| COSCO International Ship Trading and Supplying Services Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | Investment holding |

## 39. PRINCIPAL SUBSIDIARIES (Continued)

| Name | Place of incorporation and kind of legal entity | Particulars of issued share capital/ registered capital | % of interest held | Principal activities |
|---|---|---|---|---|
| **Operated in Hong Kong (Continued)** | | | | |
| COSCO International Ship Trading Company Limited | Hong Kong | 500,000 ordinary shares of HK$1 each | 60 | Provision of agency services on ship trading business |
| COSCO Project Management Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | Investment holding |
| Cosmart Company Limited | Hong Kong | 2 ordinary shares of HK$1 each | 60 | Provision of agency services on ship trading business |
| Selwin Limited | Hong Kong | 1,000,000 ordinary shares of HK$1 each | 100 | Building construction |
| Shun Shing Construction & Engineering Company, Limited | Hong Kong | 5,352,000 ordinary shares of HK$100 each 120,000 non-voting deferred shares of HK$100 each | 100 | Building construction and maintenance |
| Success Gate Investments Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | Investment holding |
| Waily Development Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | Investment holding |
| Wealth Nice Investment Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | Property development |
| Yuantong Marine Service Company Limited | Hong Kong | 43,000,000 ordinary shares of HK$1 each | 100 | Trading of spare parts and navigation equipment for vessels |

## 39. PRINCIPAL SUBSIDIARIES (Continued)

| Name | Place of incorporation and kind of legal entity | Particulars of issued share capital/ registered capital | % of interest held | Principal activities |
|---|---|---|---|---|
| **Operated in British Virgin Islands** | | | | |
| Cash Rich Enterprises Limited | British Virgin Islands | 10,000 ordinary shares of US$1 each | 85.85 | Investment holding |
| COSCO (B.V.I.) Holdings Limited# | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| COSCO International Construction Limited | British Virgin Islands | 100 ordinary shares of US$1 each | 100 | Investment holding |
| COSCO International Infrastructure (BVI) Holdings Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| COSCO International Land (B.V.I.) Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| Graceful Nice Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| Leadfull Investments Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| Monoland Assets Limited | British Virgin Islands | 2 ordinary shares of US$1 each | 100 | Investment holding |
| Promise Keep Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| Raycle Match Development Ltd. | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| Top Elegant Investments Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |

## 39. PRINCIPAL SUBSIDIARIES (Continued)

| Name | Place of incorporation and kind of legal entity | Particulars of issued share capital/ registered capital | % of interest held | Principal activities |
|---|---|---|---|---|
| **Operated in British Virgin Islands (Continued)** | | | | |
| Trinity Developments Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| Uppermost Corporation# | British Virgin Islands | 1 ordinary share of US$1 | 100 | Investment holding |
| **Operated in the PRC** | | | | |
| COSCO Ship Beijing Company Limited | PRC, wholly foreign-owned enterprise | US$500,000 | 60 | Provision of agency services on ship trading business |
| New Central International Enterprises Co., Limited | Hong Kong | 1,000,000 ordinary shares of HK$1 each | 90 | Investment holding |
| Shanghai COSCO Honour Property Development Limited | PRC, equity joint venture | RMB 232,238,926 | 85 | Property development |
| Shanghai COSCO Kansai Paint & Chemicals Co., Ltd.# | PRC, equity joint venture | US$7,000,000 | 63.07 | Manufacturing and trading of coating products |
| Shenyang COSCO Yihe Property Development Co., Ltd. | PRC, equity joint venture | RMB 100,000,000 | 51 | Property development |
| Shenzhen COSCO Insurance Brokers Limited | PRC, equity joint venture | RMB 5,000,000 | 55 | Provision of professional services of insurance brokerages |
| Tianjin COSCO Kansai Paint & Chemicals Co., Ltd.# | PRC, equity joint venture | US$5,000,000 | 63.07 | Manufacturing and trading of coating products |

## 39. PRINCIPAL SUBSIDIARIES (Continued)

| Name | Place of incorporation and kind of legal entity | Particulars of issued share capital/ registered capital | % of interest held | Principal activities |
|---|---|---|---|---|
| **Operated in the PRC (Continued)** | | | | |
| Wellbase Holdings Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100 | Property investment |
| Xiang Li Yuan (Shanghai) Property Management Co., Ltd | PRC, wholly foreign-owned enterprise | US$500,000 | 100 | Property management services |
| Zhuhai COSCO Kansai Paint & Chemicals Co. Ltd.# | PRC, equity joint venture | US$5,700,000 | 64.71 | Manufacturing and trading of coating products |

# shares held directly by the Company

## 40. SUBSEQUENT EVENTS

On 9th March 2007, the Company granted share options to subscribe for 43,850,000 shares of the Company at an exercise price of HK$3.666 per share. These share options are exercisable at any time from 9th March 2009 to 8th March 2015.

On 16th March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1st January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31st December 2006. The Company will continue to evaluate the impact as more detailed regulations are announced.