

1 Principal accounting policies

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that investment properties are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared on a going concern basis as the Company Directors and the Group's management are confident that the Group's short-term bank borrowings and current portion of long-term bank borrowings will either be rolled over or replaced by new sources of financing when they become due.

(b) Group accounting

(i) Consolidation

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

Subsidiaries are those entities in which the Group controls the composition of the Board of Directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

1 Principal accounting policies (cont'd)

(b) Group accounting (cont'd)

(ii) Jointly controlled entities

A jointly controlled entity 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.

The consolidated profit and loss account 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 also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(iii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iv) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

1 Principal accounting policies (cont'd)

(c) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Other properties

Other properties are interests in land and buildings other than investment properties and are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on leasehold land and buildings is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rates used for this purpose are as follows:

Leasehold land	2 to 3 per cent
Buildings	2 to 4 per cent

(iii) Production facilities under construction

Production facilities under construction are stated at cost which comprise costs of construction, purchase cost of plant and machinery pending installation and interest charges arising from borrowings used to finance the construction.

No depreciation is provided for production facilities under construction until they are completed and put into commercial use.

1 Principal accounting policies (cont'd)

(c) Fixed assets (cont'd)

(iv) Other fixed assets

Other fixed assets, comprising plant and machinery and tools, leasehold improvements, furniture, fixtures and office equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Plant and machinery and tools	5 to 33 per cent
Leasehold improvements, furniture, fixtures and office equipment	20 per cent
Motor vehicles	20 to 33 per cent

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(v) Impairment and gain or loss on disposal of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset 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 profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

1 Principal accounting policies (cont'd)

(d) Assets under leases (cont'd)

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Interests in toll highways and bridges

Interests in toll highways and bridges comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructure is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets. The Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change. Amortisation of intangible operating rights is provided on a straight-line basis over periods of 20 to 30 years in which the operating rights are held.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that interests in toll highways and bridges are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(f) Intangibles

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net assets of the acquired subsidiary/associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges is amortised using the straight-line method over the maximum period of 20 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

Negative goodwill represents the excess of the Group's share of the fair value of the net assets acquired over the cost of acquisition and is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised.

1 Principal accounting policies (cont'd)

(f) Intangibles (cont'd)

(i) Goodwill/negative goodwill (cont'd)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably, negative goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges is amortised using the straight-line method over the maximum period of 20 years whereas negative goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in property investment not exceeding the fair values of the non-monetary assets acquired is amortised on the following bases:

- Properties under development and properties held for sales – amortisation is calculated based on the actual area of properties sold over the total available saleable area.
- Investment properties – amortisation is calculated using the straight-line method over the maximum period of 20 years.

Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

Goodwill/negative goodwill on acquisitions that occurred prior to 1st January 2001 was eliminated against reserves. Any impairment arising on goodwill is accounted for in the profit and loss account.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for acquisitions prior to 1st January 2001, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

1 Principal accounting policies (cont'd)

(g) Other investments

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

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

(h) Properties held for/under development

Properties held for/under development are stated at cost which comprises land cost, development and construction expenditures net of incidental rental income, borrowing costs capitalised and other direct costs attributable to the development, plus attributable profits recognised on the basis set out in note 1(q)(ii) taken up to date, less provisions for foreseeable losses and sales instalments received.

(i) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development and construction expenditure, borrowing costs capitalised and other incidental costs. Net realisable value is the estimated price at which a property can be realised less related expenses.

(j) 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.

(k) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

1 Principal accounting policies (cont'd)

(m) Contingent liabilities and contingent assets

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

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

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

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

(n) Deferred taxation

Deferred taxation 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 financial statements. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and of investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employers. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(iii) Medical benefits

The Group's contributions to defined contribution medical benefit scheme are expensed as incurred.

1 Principal accounting policies (cont'd)

(p) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(q) Revenue and profit recognition

- (i) Revenues arising from the sale of properties held for sale are recognised on the execution of the legally binding contracts of sale.
- (ii) The recognition of revenues from the sale of properties held for/under development in advance of completion commences when a legally binding contract of sale has been executed.

When properties held for/under development are sold in advance of completion, and there is reasonable certainty as to the outcome of the property development projects, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. The profit is computed each year as a proportion of the total estimated profit to completion, the proportion used being the proportion of construction costs incurred at the balance sheet date to total estimated construction costs to completion, limited to the amount of sales instalments received and subject to due allowance for contingencies.

Where purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profit, any profits previously recognised in accordance with the aforesaid policy are reversed.

- (iii) Operating lease rental income is recognised on a straight-line basis.
- (iv) Revenue from property management is recognised in the period in which the services are rendered.
- (v) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (vi) Toll revenue, net of revenue tax, is recognised on a receipt basis.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (viii) Dividend income is recognised when the right to receive payment is established.
- (ix) Agency fee revenue from property broking are recognised when the relevant agreement becomes unconditional or irrevocable.

1 Principal accounting policies (cont'd)

(r) Borrowing costs

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 profit and loss account in the year in which they are incurred.

(s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, properties held for/under development, properties held for sale, property development projects, receivables, interests in jointly controlled entities and associated companies. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to interests in toll highways and bridges (note 14) and fixed assets (note 16).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

2 Turnover, revenue and segment information

The Group is principally engaged in development, operation and management of toll highways and bridges, development, selling and management of properties and holding of investment properties and manufacturing and trading of newsprint. Revenues recognised are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Toll revenue from toll operations	400,212	428,873
Property management fee income	114,610	70,760
Rental income		
- Properties	367,050	319,066
- Car park	65,339	58,908
Sales revenue		
- Sales of properties	1,987,231	1,955,105
- Sales of newsprint	1,240,693	1,006,263
- Others	351,544	86,134
	<u>4,526,679</u>	<u>3,925,109</u>
Other revenues		
Interest income	5,587	8,450
Dividend income	14,904	3,483
Commission on properties sales and rental	15,065	19,616
	<u>35,556</u>	<u>31,549</u>
Total revenues	<u><u>4,562,235</u></u>	<u><u>3,956,658</u></u>

Turnover and segment results for the period are as follows:

Primary reporting format - business segments

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

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

There are no significant sales between the business segments.

2 Turnover, revenue and segment information (cont'd)

Secondary reporting format - geographical segments

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

Hong Kong – properties

China – toll operations, properties, and paper

Others – properties

There are no significant sales between the geographical segments.

Primary reporting format - business segments

	Toll operations		Properties		Paper		Group	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	<u>400,212</u>	<u>428,873</u>	<u>2,885,774</u>	<u>2,489,973</u>	<u>1,240,693</u>	<u>1,006,263</u>	<u>4,526,679</u>	<u>3,925,109</u>
Segment results	<u>148,790</u>	<u>185,289</u>	<u>530,881</u>	<u>591,423</u>	<u>95,296</u>	<u>90,293</u>	<u>774,967</u>	<u>867,005</u>
Interest income							5,587	8,450
Loss on deemed disposal of certain interests in a subsidiary							(481)	(94,942)
Unallocated operating costs							(36,587)	(58,922)
Finance costs							(112,512)	(224,733)
Share of profits less (losses) of:								
Jointly controlled entities	13,772	(20,419)	(36,793)	(29,274)	—	—	(23,021)	(49,693)
Associated companies	214,382	181,607	—	160	—	—	214,382	181,767
Profit before taxation							822,335	628,932
Taxation							(210,565)	(114,599)
Profit after taxation							611,770	514,333
Minority interests							(280,947)	(213,680)
Profit attributable to shareholders							<u>330,823</u>	<u>300,653</u>
Segment assets	2,229,404	2,335,043	18,052,478	18,062,645	1,495,642	1,716,186	21,777,524	22,113,874
Interests in jointly controlled entities	422,892	330,621	223,825	467,443	—	—	646,717	798,064
Interests in associated companies	1,671,842	1,671,076	88,506	82,033	—	—	1,760,348	1,753,109
Unallocated assets							<u>1,016,434</u>	<u>1,120,871</u>
Total assets							<u>25,201,023</u>	<u>25,785,918</u>
Segment liabilities	565,843	575,491	4,350,840	4,513,596	221,621	245,410	5,138,304	5,334,497
Unallocated liabilities							<u>9,360,611</u>	<u>10,107,239</u>
Total liabilities							<u>14,498,915</u>	<u>15,441,736</u>
Capital expenditure	3,788	20,703	133,368	101,407	68,303	107,704	205,459	229,814
Depreciation and amortisation	<u>113,871</u>	<u>111,113</u>	<u>(21,361)</u>	<u>(29,791)</u>	<u>118,931</u>	<u>102,958</u>	<u>211,441</u>	<u>184,280</u>

2 Turnover, revenue and segment information (cont'd)**Secondary reporting format - geographical segments**

	Turnover		Total assets		Capital expenditure	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	448,891	180,674	1,407,288	1,490,990	28,253	1,611
China	4,051,641	3,741,675	22,730,719	23,121,470	177,206	228,097
Overseas	26,147	2,760	46,582	52,587	—	106
	<u>4,526,679</u>	<u>3,925,109</u>	<u>24,184,589</u>	<u>24,665,047</u>	<u>205,459</u>	<u>229,814</u>
Unallocated assets			<u>1,016,434</u>	<u>1,120,871</u>		
Total assets			<u>25,201,023</u>	<u>25,785,918</u>		

3 Reversal of provision for doubtful debt

This relates to a receivable fully provided for in previous years as there was uncertainty on its ultimate recoverability. During the year, the Group's directors made a reassessment and concluded that the circumstances leading to the provision no longer exist and therefore, a reversal is made.

4 Loss on deemed disposal of certain interests in a subsidiary

During the year ended 31st December 2004, GZI Transport Limited ("GZT") issued 416,000 (2003: 64,448,000) shares upon the exercise of GZT's employee share options and consequently the Company's effective interest in GZT was reduced by 0.02% (2003: 2.66%). This results in a deemed disposal loss of HK\$481,000 (2003: HK\$94,942,000).

5 Write-back/(write-down) of properties held for/under development to net realisable value

	2004 HK\$'000	2003 HK\$'000
Write-back/(write-down) of properties held for/ under development to net realisable value	<u>44,546</u>	<u>(5,805)</u>

Certain properties held for/under development were written down to net realisable value in previous years. Due to the increase in the market value of these properties during the year, a write-back of the provision is made.

6 Profit from operations

Profit from operations is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
Crediting		
Gross rental income from investment properties	300,747	292,380
Less: direct outgoings	(27,486)	(29,530)
Net rental income from investment properties	273,261	262,850
Amortisation of negative goodwill		
- Included in cost of sales	42,007	37,811
- Included in administrative expenses	6,960	6,959
Write-back of other payables	1,300	45,527
Net exchange gain	2,275	6,367
Charging		
Auditors' remuneration	4,607	4,944
Advertising expenses	129,997	96,443
Cost of inventories sold	3,202,685	2,508,535
Depreciation		
- Owned fixed assets	148,544	119,521
- Leased fixed assets	23	14
Amortisation/depreciation of interests in toll highways and bridges (included in cost of sales)	101,392	98,163
Amortisation of goodwill (included in administrative expenses)	10,449	11,352
Loss on disposal of certain interests in a subsidiary	—	998
Loss on disposal of fixed assets	6,436	27,628
Loss on disposal of other investments	—	1,059
Staff costs (note 12)	299,642	259,386
Operating leases		
- Hire of plant and workshops (note 39(a))	16,215	17,350
- Land and buildings	47,783	43,654
Provision for doubtful debts	5,933	68,659

7 Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts	135,656	230,458
Interest element of finance leases	—	70
Premium on redemption of convertible bonds	—	1,950
Interests on		
- amount due to a minority shareholder of a subsidiary	4,643	—
- loan from the ultimate holding company	3,455	3,977
- loan from related companies	1,031	721
- convertible bonds	—	3,544
- other loans	23,126	3,285
Total borrowing costs incurred	167,911	244,005
Less: amount capitalised to properties held for/under development (note (i))	(55,399)	(19,272)
	<u>112,512</u>	<u>224,733</u>

Note:

- (i) The average interest rate of borrowing costs capitalised for the year ended 31st December 2004 was approximately 4.76 per cent per annum (2003: 5.31 per cent per annum).

8 Taxation

- (a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2003: 17.5 per cent) on the estimated assessable profit for the year.
- (b) China enterprise income taxation is provided on the profits of the Group's subsidiaries, associated companies and jointly controlled entities in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law") at rates ranging from 18 per cent to 33 per cent. Under the China Tax Law, certain of the Group's subsidiaries, associated companies and jointly controlled entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years.
- (c) China land appreciation tax is levied at progressive rates ranging from 30 per cent to 60 per cent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditures.

8 Taxation (cont'd)

(d) The amount of taxation charged to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	1,547	1,627
China enterprise income tax	135,656	78,974
China land appreciation tax	68,295	42,544
Under/(over)provision in prior years	5,296	(6,051)
Deferred taxation relating to the reversal of temporary differences	(31,852)	(30,949)
Deferred taxation resulting from an increase in tax rate	—	(1,019)
	<u>178,942</u>	<u>85,126</u>
Associated companies		
Share of China enterprise income tax	13,990	5,814
Share of deferred taxation	11,589	17,782
Jointly controlled entities		
Share of deferred taxation	<u>6,044</u>	<u>5,877</u>
Taxation charges	<u><u>210,565</u></u>	<u><u>114,599</u></u>

8 Taxation (cont'd)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the enterprise income tax rate of China, the home country of the Group, as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>822,335</u>	<u>628,932</u>
Calculated at China enterprise income tax rate of 33 per cent (note (i)) (2003: 33 per cent)	271,371	207,548
Effect of different taxation rates	(81,351)	(53,250)
Increase in opening net deferred tax assets resulting from an increase in tax rate	—	(1,019)
Effect of tax concession under tax holiday	(201)	(263)
Income not subject to taxation	(22,132)	(29,677)
Expenses not deductible for taxation purposes	36,246	44,051
Net effect of tax losses not recognised and utilisation of previously unrecognised tax losses	13,663	(8,094)
Under/(over)provision in prior years	5,296	(6,051)
Effect of land appreciation tax deductible for calculation of income tax purposes	<u>6,071</u>	<u>19,035</u>
	228,963	172,280
Land appreciation tax	<u>(18,398)</u>	<u>(57,681)</u>
Taxation charges	<u>210,565</u>	<u>114,599</u>

Note:

- (i) The rate of China enterprise income tax was adopted as majority of the Group's operations were carried out in China.

9 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$100,356,000 (2003: HK\$62,170,000).

10 Dividends

	2004 HK\$'000	2003 HK\$'000
Interim, paid, of HK\$0.0083 (2003: HK\$0.008) per ordinary share	52,531	49,502
Final, proposed, of HK\$0.009 (2003: HK\$0.0108) per ordinary share	57,266	68,038
	<u>109,797</u>	<u>117,540</u>

At a meeting held on 21st April 2005, the directors proposed a final dividend of HK\$0.009 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2005.

11 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$330,823,000 (2003: HK\$300,653,000).

The basic earnings per share is based on the weighted average number of 6,318,186,352 (2003: 6,146,494,166) ordinary shares in issue during the year. The diluted earnings per share is based on 6,424,401,643 (2003: 6,223,195,777) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 106,215,291 (2003: 76,701,611) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

12 Staff costs (including directors' emoluments)

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	221,989	198,757
Pension costs (defined contribution plans)	38,528	22,585
Medical benefits costs (defined contribution plans)	5,492	4,561
Social security costs	15,674	14,405
Termination benefits	1,554	763
Staff welfare	16,405	18,315
	<u>299,642</u>	<u>259,386</u>

Pension scheme arrangements

The Group operates a pension scheme for Hong Kong employees. The scheme is a defined contribution scheme and is administered by independent trustees. In relation to each employee, the employee contributes 5 per cent and the Group contributes 5 per cent to 15 per cent of the employee's basic salary to the scheme. There were no significant forfeited contributions in respect of employees who left the scheme prior to vesting fully in the contributions during the year and as at 31st December 2004 (2003: Nil).

The Group participates in the Mandatory Provident Fund Scheme ("MPF" Scheme) for Hong Kong employees. The Group's MPF Scheme contributions are at 5 per cent of the employee's relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK\$5,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

12 Staff costs (including directors' emoluments) (cont'd)**Pension scheme arrangements (cont'd)**

Subsidiaries of the Company in China are required to participate in a defined contribution retirement plan organised by the Guangzhou Municipal People's Government. All Chinese workers are entitled to a pension equal to a fixed proportion of their ending basic salary amount at their retirement date except for a substantial number of staff members of five subsidiaries in China who are employed by Guangzhou Highways Development Company ("GHDC"), the local partner, pursuant to highways management agreements (the "Management Agreements") executed between these subsidiaries and GHDC. Pursuant to the Management Agreements, details of which are disclosed in note 39(b) to the accounts, GHDC assumes full responsibility for the salaries and all statutory benefits, insurance and welfare funds required to be paid pursuant to relevant laws and regulations of China to the staff members and workers employed by GHDC to perform their duties required under the Management Agreements. The other subsidiaries are required to make contributions to the retirement plan at the rates of 16 per cent to 24 per cent of the basic salaries of their staff members.

The Group's contribution is charged to its profit and loss account and expenses incurred by the Group for the year amounted to HK\$38,528,000 (2003: HK\$21,363,000).

13 Directors' and senior management's emoluments

(a) The aggregate amounts of emoluments paid or payable to the Directors of the Company are as follows:

	2004	2003
	HK\$'000	HK\$'000
Fees (note (i))	86	76
Other emoluments:		
Basis salaries, housing allowances, other allowances and benefits in kind	5,767	8,004
Discretionary bonuses	10,772	7,434
Directors' pension	109	162
	16,734	15,676

Note:

(i) Directors' fees represent amounts paid to independent non-executive Directors.

13 Directors' and senior management's emoluments (cont'd)

- (b) The emoluments of the Directors fell within the following bands:

Emoluments bands	Number of directors	
	2004	2003
Nil - HK\$1,000,000	5 ¹	12 ¹
HK\$1,000,001 - HK\$1,500,000	1	2
HK\$1,500,001 - HK\$2,000,000	2	2
HK\$2,000,001 - HK\$2,500,000	1	3
HK\$2,500,001 - HK\$3,000,000	1	—
HK\$3,000,001 - HK\$3,500,000	1	—
HK\$3,500,001 - HK\$4,000,000	1	—
	<u>12</u>	<u>19</u>

¹ Included three (2003: two) independent non-executive Directors.

No Directors waived emoluments in respect of the years ended 31st December 2004 and 2003. No emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31st December 2004 and 2003.

- (c) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2004 are also directors whose emoluments are reflected in the analysis presented above.

14 Interests in toll highways and bridges

	Group		
	Intangible operating rights HK\$'000	Tangible infrastructure HK\$'000	Total HK\$'000
At 1st January 2004	1,750,864	348,783	2,099,647
Additions	3,121	—	3,121
Amortisation/depreciation charge	(88,945)	(12,447)	(101,392)
At 31st December 2004	<u>1,665,040</u>	<u>336,336</u>	<u>2,001,376</u>
At 31st December 2004			
Cost	2,146,227	403,755	2,549,982
Accumulated amortisation/depreciation	(481,187)	(67,419)	(548,606)
Net book value	<u>1,665,040</u>	<u>336,336</u>	<u>2,001,376</u>
At 31st December 2003			
Cost	2,143,106	403,755	2,546,861
Accumulated amortisation/depreciation	(392,242)	(54,972)	(447,214)
Net book value	<u>1,750,864</u>	<u>348,783</u>	<u>2,099,647</u>

The intangible operating rights and tangible infrastructure are located in China.

15 Other intangible assets

	Group		
	Goodwill	Negative goodwill	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	40,453	(575,706)	(535,253)
Amortisation charge	(3,674)	48,967	45,293
	<u>36,779</u>	<u>(526,739)</u>	<u>(489,960)</u>
At 31st December 2004	<u>36,779</u>	<u>(526,739)</u>	<u>(489,960)</u>
At 31st December 2004			
Cost	51,310	(629,602)	(578,292)
Accumulated amortisation	(14,531)	102,863	88,332
	<u>36,779</u>	<u>(526,739)</u>	<u>(489,960)</u>
At 31st December 2003			
Cost	51,310	(629,602)	(578,292)
Accumulated amortisation	(10,857)	53,896	43,039
	<u>40,453</u>	<u>(575,706)</u>	<u>(535,253)</u>

16 Fixed assets

(a) Group

	Investment properties HK\$'000	Other properties HK\$'000	Production facilities under construction HK\$'000	Plant and machinery and tools HK\$'000	Leasehold improvements, furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1st January 2004	4,845,537	366,760	259,378	1,247,023	211,432	72,030	7,002,160
Additions	122,978	985	66,340	1,706	7,322	3,007	202,338
Transfer (to)/from properties held for/under development	(164,825)	46,260	—	—	—	—	(118,565)
Revaluation surplus	76,750	—	—	—	—	—	76,750
Transfer	(76,729)	73,904	—	—	—	—	(2,825)
Transfer upon completion	—	13,447	(237,413)	187,740	36,226	—	—
Disposals	(28,406)	(35,440)	—	(22,028)	(7,017)	(4,933)	(97,824)
At 31st December 2004	4,775,305	465,916	88,305	1,414,441	247,963	70,104	7,062,034
Accumulated depreciation							
As 1st January 2004	—	106,198	—	470,436	128,822	45,622	751,078
Charge for the year	—	15,809	—	106,773	19,987	5,998	148,567
Transfer	—	(2,825)	—	—	—	—	(2,825)
Disposals	—	(20,585)	—	(25,549)	(1,941)	(3,341)	(51,416)
At 31st December 2004	—	98,597	—	551,660	146,868	48,279	845,404
Net book value							
At 31st December 2004	4,775,305	367,319	88,305	862,781	101,095	21,825	6,216,630
At 31st December 2003	4,845,537	260,562	259,378	776,587	82,610	26,408	6,251,082

16 Fixed assets (cont'd)

(b) Company

	Investment properties HK\$'000	Other properties HK\$'000	Leasehold improve- ments, furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation					
At 1st January 2004	9,375	14,338	9,234	4,465	37,412
Additions	—	—	765	—	765
Revaluation surplus	2,200	—	—	—	2,200
Transfer	(1,275)	1,275	—	—	—
At 31st December 2004	10,300	15,613	9,999	4,465	40,377
Accumulated depreciation					
At 1st January 2004	—	4,630	8,149	4,059	16,838
Charge for the year	—	361	469	146	976
At 31st December 2004	—	4,991	8,618	4,205	17,814
Net book value					
At 31st December 2004	10,300	10,622	1,381	260	22,563
At 31st December 2003	9,375	9,708	1,085	406	20,574

16 Fixed assets (cont'd)

- (c) The Group's and the Company's interests in investment properties and other properties at their net book values are analysed as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:				
Leases of between 10 to 50 years	724,500	720,000	—	—
Leases of over 50 years	131,850	156,416	20,747	18,900
Outside Hong Kong*, held on:				
Leases of between 10 to 50 years	25,524	183	175	183
Leases of over 50 years	4,260,750	4,229,500	—	—
	<u>5,142,624</u>	<u>5,106,099</u>	<u>20,922</u>	<u>19,083</u>

* Properties outside Hong Kong mainly comprise properties located in China.

- (d) Investment properties of the Group and the Company were revalued at 31st December 2004 on the basis of their open market value as determined by independent firm of professional surveyor, Greater China Appraisal Limited, employed by the Group. Other fixed assets of the Group and the Company are stated at cost less accumulated depreciation.
- (e) As at 31st December 2004, the net book values of fixed assets held under finance leases by the Group and the Company amounted to HK\$83,000 (2003: HK\$46,000).

17 Investments in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Investments in unlisted shares, at cost	29,332	36,587
Amounts due from subsidiaries (note (a))	<u>9,928,354</u>	<u>9,814,643</u>
	<u>9,957,686</u>	<u>9,851,230</u>
Amounts due to subsidiaries (note (b))	<u>(377,464)</u>	<u>(354,938)</u>

- (a) The amounts due from subsidiaries are unsecured and have no fixed terms of repayments. Except for the amounts of approximately HK\$7,405,982,000 (2003: approximately HK\$7,353,575,000) which are interest-free, all amounts due from subsidiaries are interest bearing at 2.5 to 5.5 per cent per annum.
- (b) The amounts due to subsidiaries are unsecured and have no fixed terms of repayments. Except for the amounts of approximately HK\$31,464,000 (2003: approximately HK\$31,445,000) which are interest-free, all amounts due to subsidiaries are interest bearing at Hong Kong Interbank Offered Rate (HIBOR) plus 0.6 per cent to HIBOR plus 1.25 per cent per annum.
- (c) Details of the principal subsidiaries of the Company as at 31st December 2004 are set out on pages 79 to 90.
- (d) None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December 2004 (2003: Nil).

18 Interests in jointly controlled entities

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	470,976	384,439
Goodwill on acquisition of a jointly controlled entity less accumulated amortisation	20,077	20,265
	<u>491,053</u>	<u>404,704</u>
Amounts due from jointly controlled entities (note (a))	188,843	411,825
Less: provision for amount due from jointly controlled entities	(33,179)	(18,465)
	<u>155,664</u>	<u>393,360</u>
	<u>646,717</u>	<u>798,064</u>
Amounts due to jointly controlled entities (note (a))	<u>(123,442)</u>	<u>(75,340)</u>

- (a) The amounts due from/(to) jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.
- (b) As at 31st December 2004, Guangzhou Western Second Ring Expressway Co Ltd of which 35% interest is held by the GZI Transport Ltd, a subsidiary of the Group, had a capital commitment of HK\$2,528,000,000.
- (c) Details of the principal jointly controlled entities of the Group as at 31st December 2004 are set out on page 91.

19 Interests in associated companies

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	747,987	651,060
Goodwill on acquisition of associated companies less accumulated amortisation	158,083	164,670
	<u>906,070</u>	<u>815,730</u>
Loans receivable from associated companies (note (a))	787,421	872,606
Amounts due from associated companies (note (b))	86,765	84,681
Less: provision for amount due from an associated company	(19,908)	(19,908)
	<u>854,278</u>	<u>937,379</u>
	<u>1,760,348</u>	<u>1,753,109</u>
Amounts due to associated companies (note (b))	<u>(112,150)</u>	<u>(112,221)</u>

19 Interests in associated companies (cont'd)

- (a) Except for loans in aggregate amount of HK\$568,414,000 (2003: HK\$653,816,000) which bear interest at prevailing Hong Kong dollars prime rates ranging of 5 to 5.125 per cent per annum; US dollars prime rates ranging from 4 to 5.25 per cent per annum and lending rates of financial institutions in China ranging from 5.31 to 6.12 per cent per annum, the remaining balance are unsecured, interest-free and have no fixed terms of repayment.
- (b) Amounts due from/(to) associated companies are unsecured, interest-free and have no fixed terms of repayment.
- (c) Details of the principal associated companies of the Group as at 31st December 2004 are set out on page 92.

20 Other investments

	Group	
	2004	2003
	HK\$'000	HK\$'000
Other investments, at cost	317,555	316,059
Less: Accumulated impairment losses	(56,208)	(56,208)
	261,347	259,851

Other investments mainly represent the Group's investments in co-operative joint ventures established in China for the development and management of highways and the development of properties.

21 Properties held for/under development and properties held for sale

Properties held for development include certain land parcels pending development. The amount of properties held for/under development and properties held for sale of the Group carried at net realisable value is approximately HK\$2,130,000,000 (2003: approximately HK\$2,575,000,000).

22 Inventories

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	103,982	59,113
Work-in-progress	78,335	113,327
Finished goods	12,971	47,687
	195,288	220,127

All inventories were stated at cost as at 31st December 2004 and 2003.

23 Amounts due from related companies and amounts due to minority shareholders of subsidiaries

- (a) Amounts due from related companies and amounts due to minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.
- (b) Details of the amounts due from related companies are:

	Group		Maximum balance outstanding during the year
	2004 HK\$'000	2003 HK\$'000	HK\$'000
Due from related companies			
Amounts due from related companies, which are beneficially owned by the ultimate holding company of the Company	3,234	3,678	3,766

24 Trade receivables

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

	Group	
	2004 HK\$'000	2003 HK\$'000
0 - 30 days	174,569	213,938
31 - 90 days	76,788	249,337
91 - 180 days	81,345	48,372
181 - 365 days	43,789	89,711
Over 1 year	186,277	65,736
	562,768	667,094

25 Bank and cash balances

Included in the bank and cash balances of the Group and the Company are deposits of approximately HK\$757,369,000 (2003: HK\$803,021,000) and HK\$59,000 (2003: HK\$4,026,000), respectively, denominated in Renminbi and placed with banks in China. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the China government.

As at 31st December 2004, the Group's bank deposits of HK\$70,747,000 (2003: HK\$56,143,000) were restricted in use pursuant to the regulations in relation to the pre-sales of properties in China.

26 Trade payables

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

The ageing analysis of the trade payables were as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0 - 30 days	32,433	75,453
31 - 90 days	70,560	16,247
91 - 180 days	24,008	40,828
181 - 365 days	65,755	62,674
1 - 2 year	39,243	203,040
Over 2 years	182,494	49,358
	<u>414,493</u>	<u>447,600</u>

27 Share capital

	Number of shares '000	HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.10 each	<u>10,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1st January 2003	6,118,102	611,810
Issue of shares for acquisition of subsidiaries	31,386	3,139
Issue of shares upon exercise of share options	<u>99,230</u>	<u>9,923</u>
At 31st December 2003	<u>6,248,718</u>	<u>624,872</u>
At 1st January 2004	6,248,718	624,872
Issue of shares upon exercise of share options (note a)	<u>102,880</u>	<u>10,288</u>
At 31st December 2004	<u>6,351,598</u>	<u>635,160</u>

Note:

- (a) During the year, 102,880,000 ordinary shares of HK\$0.1 each were issued upon the exercise of share options (see note 28).

28 Share options

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

As at 31st December 2004, there were outstanding options granted under an old share option scheme to subscribe for an aggregate of 9,626,000 shares of the Company. All options granted under the old share option scheme will continue to be valid and exercisable in accordance with the rules of the old share option scheme.

Particulars and movements of share options during the year are as follows:

Date of grant	Exercise period	Exercise price HK\$	Number of share options				
			as at 1st January 2004 '000	granted '000	exercised '000	lapsed '000	as at 31st December 2004 '000
Old share option scheme							
4th September 1998	4th September 1998 - 3rd September 2004	0.3936	52,000	—	(46,600)	(5,400)	—
14th December 1999	14th December 1999 - 13th December 2005	0.5008	14,174	—	(4,548)	—	9,626
New share option scheme							
2nd May 2003	2nd May 2003 - 1st May 2013	0.4100	152,150	—	(42,970)	—	109,180
2nd June 2003	2nd June 2003 - 1st June 2013	0.5400	61,950	—	(1,800)	—	60,150
27th October 2003	27th October 2003 - 26th October 2013	0.8140	12,620	—	(216)	—	12,404
23rd December 2003	23rd December 2003 - 22nd December 2013	0.8460	100,632	—	(170)	(228)	100,234
23rd June 2004	23rd June 2004 - 22nd June 2014	0.6300	—	320,310	(6,576)	(1,320)	312,414
			393,526	320,310	(102,880)	(6,948)	604,008

29 Reserves

(a) Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2003	5,649,409	1,815	49,841	(80,183)	477,355	6,098,237
Net proceeds from issue of ordinary shares	57,969	—	—	—	—	57,969
Exchange differences	—	—	—	3,748	—	3,748
Release of reserve upon disposal of properties held for/under development and properties held for sale	—	—	—	—	(66,070)	(66,070)
Release of reserve upon deemed disposal of certain interest in a subsidiary	—	—	(273)	(274)	—	(547)
Transfer	—	—	13,038	—	(13,038)	—
Profit attributable to shareholders	—	—	—	—	300,653	300,653
Dividends paid	—	—	—	—	(49,502)	(49,502)
At 31st December 2003	<u>5,707,378</u>	<u>1,815</u>	<u>62,606</u>	<u>(76,709)</u>	<u>649,398</u>	<u>6,344,488</u>
At 1st January 2004	5,707,378	1,815	62,606	(76,709)	649,398	6,344,488
Net proceeds from issue of ordinary shares	33,355	—	—	—	—	33,355
Exchange differences	—	—	—	(1,588)	—	(1,588)
Release of reserve upon disposal of properties held for/under development and properties held for sale	—	—	—	—	(30,675)	(30,675)
Release of reserve upon deemed disposal of certain interest in a subsidiary	—	—	(1)	(2)	—	(3)
Provision for impairment of goodwill	—	—	—	—	43,533	43,533
Transfer	—	—	16,792	—	(16,792)	—
Profit attributable to shareholders	—	—	—	—	330,823	330,823
Dividends paid	—	—	—	—	(120,792)	(120,792)
At 31st December 2004	<u>5,740,733</u>	<u>1,815</u>	<u>79,397</u>	<u>(78,299)</u>	<u>855,495</u>	<u>6,599,141</u>
Representing:						
2004 Final dividend proposed					57,266	
Others					798,229	
Retained profits as at 31st December 2004					<u>855,495</u>	

29 Reserves (cont'd)

(b) Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2003	5,649,409	1,815	313,225	5,964,449
Net proceeds from issue of ordinary shares	57,969	—	—	57,969
Profit for the year	—	—	62,170	62,170
Dividends paid	—	—	(49,502)	(49,502)
At 31st December 2003	<u>5,707,378</u>	<u>1,815</u>	<u>325,893</u>	<u>6,035,086</u>
At 1st January 2004	5,707,378	1,815	325,893	6,035,086
Net proceeds from issue of ordinary shares	33,355	—	—	33,355
Profit for the year	—	—	100,356	100,356
Dividends paid	—	—	(120,792)	(120,792)
At 31st December 2004	<u>5,740,733</u>	<u>1,815</u>	<u>305,457</u>	<u>6,048,005</u>
Representing:				
2004 Final dividend proposed			57,266	
Others			<u>248,191</u>	
Retained profits as at 31st December 2004			<u>305,457</u>	

- (c) Included in the Group's retained profits are retained profits amounting to HK\$801,941,000 (2003: HK\$613,138,000) and accumulated losses of HK\$294,922,000 (2003: HK\$265,856,000) which are attributable to associated companies and jointly controlled entities, respectively.
- (d) Statutory reserves represent enterprise expansion and general reserve funds set up by the subsidiaries and associated companies in China. As stipulated by regulations in China, the Company's subsidiaries and associated companies established and operated in China are required to appropriate a portion of their after-tax profit (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve fund may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the Group's statutory reserves is HK\$538,000 (2003: HK\$538,000) attributable to associated companies.

30 Long-term bank loans

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans				
Secured (note 38)	3,372,134	3,848,194	2,204,233	2,454,683
Unsecured	735,030	669,650	117,000	117,000
	<u>4,107,164</u>	<u>4,517,844</u>	<u>2,321,233</u>	<u>2,571,683</u>
Current portion of long-term bank loans	(959,499)	(875,394)	(513,935)	(367,452)
	<u>3,147,665</u>	<u>3,642,450</u>	<u>1,807,298</u>	<u>2,204,231</u>

At 31st December 2004, the long-term bank loans were repayable as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	959,499	875,394	513,935	367,452
In the second year	1,324,388	878,627	367,258	396,934
In the third to fifth year	1,823,277	2,763,823	1,440,040	1,807,297
	<u>4,107,164</u>	<u>4,517,844</u>	<u>2,321,233</u>	<u>2,571,683</u>

31 Other long-term loans

Other long-term loans are repayable over the following periods:

(a) Group

	2003					
	Obligations under finance leases HK\$'000	Loans from the ultimate holding company HK\$'000	Loans from related companies HK\$'000	Loans from minority shareholders of subsidiaries HK\$'000	Other loans HK\$'000	Total HK\$'000
Within one year	14	—	—	—	—	14
In the second year	29	—	—	—	—	29
In the third to fifth year	—	220,595	79,008	—	—	299,603
With no fixed repayment terms	—	10,066	65,809	561,420	15,600	652,895
	<u>43</u>	<u>230,661</u>	<u>144,817</u>	<u>561,420</u>	<u>15,600</u>	<u>952,541</u>
Less: Current portion of other long-term loans	(14)	—	—	—	—	(14)
	<u>29</u>	<u>230,661</u>	<u>144,817</u>	<u>561,420</u>	<u>15,600</u>	<u>952,527</u>
The balances are analysed as follows:						
Interest bearing	43	220,595	83,504	120,561	—	424,703
Non-interest bearing	—	10,066	61,313	440,859	15,600	527,838
	<u>43</u>	<u>230,661</u>	<u>144,817</u>	<u>561,420</u>	<u>15,600</u>	<u>952,541</u>

31 Other long-term loans (cont'd)

(a) Group (cont'd)

	2004			
	Obligations under finance leases HK\$'000	Loans from the ultimate holding company HK\$'000	Loans from related companies HK\$'000	Loans from minority shareholders of subsidiaries HK\$'000
				Total HK\$'000
Within one year	25	—	—	25
In the second year	25	—	—	25
In the third to fifth year	28	267,459	—	267,487
With no fixed repayment terms	—	31,431	127,917	623,235
	<u>78</u>	<u>298,890</u>	<u>127,917</u>	<u>890,772</u>
Less: Current portion of other long-term loans	(25)	—	—	(25)
	<u>53</u>	<u>298,890</u>	<u>127,917</u>	<u>890,747</u>
The balances are analysed as follows:				
Interest bearing	—	267,459	84,535	472,555
Non-interest bearing	78	31,431	43,382	418,217
	<u>78</u>	<u>298,890</u>	<u>127,917</u>	<u>890,772</u>

Except for an aggregate amount of HK\$120,561,000 (2003: HK\$120,561,000) which bears interest at the prevailing lending rates of financial institutions in China ranging from 5.76 to 6.12 per cent per annum, the interest bearing balances bear interest at HIBOR plus 1 per cent per annum.

31 Other long-term loans (cont'd)

(b) Company

	2004				2003			
	Obligations under finance lease HK\$'000	Loans from a ultimate holding company HK\$'000	Loan from a related company HK\$'000	Total HK\$'000	Obligations under finance lease HK\$'000	Loans from a ultimate holding company HK\$'000	Loan from a related company HK\$'000	Total HK\$'000
Within one year	25	—	—	25	14	—	—	14
In the second year	25	—	—	25	29	—	—	29
In the third to fifth year	28	361,907	84,535	446,470	—	252,906	83,504	336,410
With no fixed repayment terms	—	61,180	1,673	62,853	—	7,944	1,467	9,411
	78	423,087	86,208	509,373	43	260,850	84,971	345,864
Less: Current portion of other long-term loans	(25)	—	—	(25)	(14)	—	—	(14)
	53	423,087	86,208	509,348	29	260,850	84,971	345,850
The balances are analysed as follows:								
Interest bearing	—	361,907	84,535	446,442	43	252,906	83,504	336,453
Non-interest bearing	78	61,180	1,673	62,931	—	7,944	1,467	9,411
	78	423,087	86,208	509,373	43	260,850	84,971	345,864

The interest bearing balances bear interest at HIBOR plus 1 per cent per annum.

32 Deferred taxation

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

The movement on the deferred tax liabilities/(assets) account is as follows:

	2004 HK\$'000	2003 HK\$'000
At 1st January	3,611,475	3,684,171
Deferred taxation credited to profit and loss account (note 8)	(31,852)	(31,968)
Taxation credited to equity	(5,543)	(40,728)
At 31st December	<u>3,574,080</u>	<u>3,611,475</u>

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets:

	Group				
	Different bases in reporting expenses with tax authorities HK\$'000	Revaluation of properties HK\$'000	Tax loss HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January 2003	9,725	16,800	3,065	4,254	33,844
Credited/(charged) to profit and loss account	793	(1,645)	822	10,966	10,936
At 31st December 2003	<u>10,518</u>	<u>15,155</u>	<u>3,887</u>	<u>15,220</u>	<u>44,780</u>
At 1st January 2004	10,518	15,155	3,887	15,220	44,780
Credited to profit and loss account	11,230	—	5,536	685	17,451
At 31st December 2004	<u>21,748</u>	<u>15,155</u>	<u>9,423</u>	<u>15,905</u>	<u>62,231</u>

32 Deferred taxation (cont'd)

Deferred tax liabilities:

	Group				
	Revaluation of properties	Different bases in reporting revenue and expenses with tax authorities	Accelerated depreciation	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	3,604,233	76,576	24,810	12,396	3,718,015
Charged/(credited) to profit and loss account	(97,757)	84,984	(16,319)	8,060	(21,032)
Credited to retained profits	(40,728)	—	—	—	(40,728)
At 31st December 2003	<u>3,465,748</u>	<u>161,560</u>	<u>8,491</u>	<u>20,456</u>	<u>3,656,255</u>
At 1st January 2004	3,465,748	161,560	8,491	20,456	3,656,255
Charged/(credited) to profit and loss account	(81,366)	71,603	(218)	(4,420)	(14,401)
Credited to retained profits	(5,543)	—	—	—	(5,543)
At 31st December 2004	<u>3,378,839</u>	<u>233,163</u>	<u>8,273</u>	<u>16,036</u>	<u>3,636,311</u>

Deferred income tax assets are recognised for tax loss carry forwards and the revaluation of properties to the extent that realisation of the related tax benefit through the future taxation profits is probable. As at 31st December 2004, the Group has unrecognised tax losses of HK\$967 million (2003: HK\$752 million) for Hong Kong profits tax purposes with no expiry date and unrecognised tax benefits arising from revaluation of properties of HK\$251 million (2003: HK\$459 million).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets		
- Hong Kong profits tax	10,054	12,712
- China enterprise income tax	46,145	26,349
	<u>56,199</u>	<u>39,061</u>
Deferred tax liabilities		
- Hong Kong profits tax	15,648	19,449
- China enterprise income tax	1,576,982	1,506,745
- China land appreciation tax	2,037,649	2,124,342
	<u>3,630,279</u>	<u>3,650,536</u>

33 Notes to the consolidated cash flow statement

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

	2004 HK\$'000	2003 HK\$'000
Profit from operations	743,486	721,591
Depreciation and amortisation	211,441	184,280
Loss on disposal/deemed disposal of certain interests in a subsidiary	481	95,940
Loss on disposal of fixed assets	6,436	27,628
Loss on disposal of other investments	—	1,059
Interest income	(5,587)	(8,450)
Dividend income	(14,904)	(3,483)
Revaluation surplus on investment properties	(76,750)	(165,840)
(Write-back)/write-down of properties held for/under development to net realisable value	(44,546)	5,805
Operating profit before working capital changes	820,057	858,530
Net decrease in properties held for/under development and properties held for sale	857,212	982,306
Decrease/(increase) in inventories	24,839	(28,438)
Increase in trade receivables, other receivables, prepayments and deposits including amounts due from related companies	(63,133)	(71,033)
Decrease in trade payables, other payables and accrued charges	(206,700)	(749,618)
Net cash inflow generated from operations	1,432,275	991,747

33 Notes to the consolidated cash flow statement (cont'd)

(b) Deemed acquisition/ purchase of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	—	17,685
Other investments	—	1,402
Interest in jointly controlled entity	(24,242)	—
Amount due from a jointly controlled entity	(350,628)	—
Properties held for/under development	471,115	—
Inventories	—	21,938
Other receivables, prepayments and deposits	10,966	18,587
Bank balances and cash	2,339	16,683
Trade payables, other payables and accrued charges	(81,728)	(15,330)
Minority interests (note 33(d))	(27,822)	(617)
Bank loans	—	(28,037)
	—	32,311
Negative goodwill arising from the acquisition	—	(5,005)
Total cost of acquisition	—	27,306
Satisfied by:		
Issue of shares	—	27,306
Total cost of acquisition	—	27,306

In connection with the changes of terms on the joint venture agreement, a jointly controlled entity became a subsidiary of the Group. As there was no change in the shareholding interest attributable to the Group, the Group did not pay any consideration for the deemed acquisition.

The subsidiaries acquired during the year contributed HK\$36 million cash outflow from operating activities (2003: outflow of HK\$3 million), nil from investing activities (2003: outflow of HK\$1 million) and HK\$37 million inflow from financing activities (2003: nil).

33 Notes to the consolidated cash flow statement (cont'd)**(b) Deemed acquisition/purchase of subsidiaries (cont'd)**

Analysis of net inflow of cash and cash equivalents in respect of the deemed acquisition/purchase of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Cash consideration	—	—
Bank balances and cash acquired	2,339	16,683
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the deemed acquisition/purchase of subsidiaries	2,339	16,683
	<hr/> <hr/>	<hr/> <hr/>

(c) Disposal of certain interests in subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net asset value of the Group's interests disposed of	—	18,494
Negative goodwill released upon disposal	—	(8,857)
Loss on disposal	—	(998)
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of certain interests in subsidiaries	—	8,639
	<hr/> <hr/>	<hr/> <hr/>

33 Notes to the consolidated cash flow statement (cont'd)

(d) Analysis of changes in financing

	Share capital (including share premium) HK\$'000	Convertible bonds HK\$'000	Bank loans HK\$'000	Amounts due to associated companies and jointly controlled entities HK\$'000	Amounts due to minority shareholders of subsidiaries and other long-term loans HK\$'000	Minority interests HK\$'000
At 1st January 2003	6,261,219	200,623	6,763,073	185,162	764,922	3,403,865
Issue of ordinary shares for purchase of subsidiaries	27,306	—	—	—	—	—
Issue of ordinary shares for cash	43,725	—	—	—	—	—
Redemption of convertible bonds	—	(200,623)	—	—	200,623	—
Premium on redemption of convertible bonds	—	—	—	—	1,950	—
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	6,037
Increase in shareholdings of subsidiaries	—	—	—	—	—	(244,177)
Acquisition of subsidiaries	—	—	28,037	—	—	617
Decrease in shareholdings of a subsidiary	—	—	—	—	—	18,494
Minority interest share of profits	—	—	—	—	—	213,680
Deemed disposal of certain interests in a subsidiary	—	—	—	—	—	152,307
Minority interest share of exchange reserve	—	—	—	—	—	668
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	(129,377)
Transfer from minority interests	—	—	—	—	344	(344)
New borrowings	—	—	2,252,575	2,399	183,093	—
Repayments	—	—	(3,005,352)	—	(19,356)	(46,948)
At 31st December 2003	<u>6,332,250</u>	<u>—</u>	<u>6,038,333</u>	<u>187,561</u>	<u>1,131,576</u>	<u>3,374,822</u>

33 Notes to the consolidated cash flow statement (cont'd)**(d) Analysis of changes in financing (cont'd)**

	Share capital (including share premium) HK\$'000	Bank loans HK\$'000	Amounts due to associated companies and jointly controlled entities HK\$'000	Amounts due to minority shareholders of subsidiaries and other long-term loans HK\$'000	Minority interests HK\$'000
At 1st January 2004	6,332,250	6,038,333	187,561	1,131,576	3,374,822
Issue of ordinary shares for cash	43,643	—	—	—	—
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	4,476
Minority interest share of profits	—	—	—	—	280,947
Deemed acquisition of a subsidiary (note 33(b))	—	—	—	—	27,822
Deemed disposal of certain interests of a subsidiary	—	—	—	—	799
Minority interest share of exchange reserve	—	—	—	—	(2,066)
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	(218,993)
New borrowings	—	932,996	48,031	177,745	—
Repayments	—	(1,801,602)	—	(231,818)	—
At 31st December 2004	<u>6,375,893</u>	<u>5,169,727</u>	<u>235,592</u>	<u>1,077,503</u>	<u>3,467,807</u>

34 Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings (mainly arising from the related party transactions referred to in note 39(a)) as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	26,380	31,591
Later than one year and not later than five years	97,388	85,560
Later than five years	215,354	254,977
	<u>339,122</u>	<u>372,128</u>

The Company did not have any commitment under operating leases at 31st December 2004 (2003: Nil).

35 Future minimum rental payments receivable

At 31st December 2004, the Group and the Company had future minimum rental payments receivable under non-cancellable leases as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	296,187	331,295	70	28
Later than one year and not later than five years	495,792	527,200	—	—
Later than five years	12,803	129,839	—	—
	<u>804,782</u>	<u>988,334</u>	<u>70</u>	<u>28</u>

36 Other commitments

	Group	
	2004 HK\$'000	2003 HK\$'000
Capital commitments in respect of fixed assets:		
Contracted but not provided for	14,359	16,755
Authorised but not contracted for	—	—
	<u>14,359</u>	<u>16,755</u>

At 31st December 2004, the Group had financial commitments in respect of equity capital to be injected to a jointly controlled entity of approximately HK\$247,990,000 (2003: Nil).

37 Contingent liabilities

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
(a) Guarantees for mortgage facilities granted to certain buyers of the Group's properties (note)	250,520	117,052	—	—
(b) Guarantees for banking and loan facilities granted to subsidiaries	—	—	390,215	694,915
	<u>250,520</u>	<u>117,052</u>	<u>390,215</u>	<u>694,915</u>

- (c) At 31st December 2004 and 2003, the Group has pledged its income to be derived from its 24.3 per cent effective interest in an associated company to a bank in favour of a joint venture partner in this associated company (the "Joint Venture Partner"), in respect of the repayment of a bank loan by the Joint Venture Partner amounting to Rmb500 million (approximately HK\$467 million) and interest thereon (collectively referred to as "Relevant Loan").

A counter-indemnity has been provided by the Joint Venture Partner to the Group against all liabilities arising from such pledge. In addition, Yue Xiu has issued an indemnity to the Group under which any shortfall between the counter indemnity give by the Joint Venture Partner and the Relevant Loan to the bank will be satisfied/paid by Yue Xiu if the counter-indemnity given by the Joint Venture Partner to the Group is insufficient to cover the Relevant Loan.

Note:

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

38 Pledge of assets

At 31st December 2004, certain banking facilities and loans granted to the Group and the Company were secured by the following:

- certain of the Group's properties held for/under development, properties held for sale and investment properties with an aggregate carrying value of HK\$514 million (2003: HK\$665 million), HK\$291 million (2003: HK\$246 million and HK\$3,230 million (2003: HK\$3,573 million) respectively;
- floating charge over certain assets of certain subsidiaries with aggregate net book value (excluding intercompany loans) of HK\$4,086 million (2003: HK\$3,849 million);
- mortgages of the Group's shareholdings in certain subsidiaries; and
- charge over certain intercompany loans with an aggregate amount of HK\$3,648 million (2003: HK\$3,573 million).

39 Related party transactions

Significant related party transactions entered into in the normal course of the Group's business are as follows:

	2004 HK\$'000	2003 HK\$'000
Rental and utility expenses paid to a minority shareholder of a subsidiary (note (a))	260,384	186,303
Toll highways management fee paid and payable to a minority shareholder of subsidiaries (note (b))	62,235	62,223
Rental expenses and property management fee paid to the ultimate holding company (note (c))	1,025	1,056
Interest expenses paid to a minority shareholder of a subsidiary (note (d))	4,643	—
	278,287	250,582

Notes:

- (a) On 17th October 2002, the Group entered into a lease contract and a utilities supply contract with Guangzhou Paper Holdings Limited whereby Guangzhou Paper Holdings Limited agreed to lease certain fixed assets to the Group for 20 years at a monthly rental of RMB1,446,000 (equivalent to approximately HK\$1,364,000) and to supply electricity, water and steam to the Group for 20 years at certain pre-determined rates. The shareholders of the Company approved these transactions in an extraordinary general meeting held on 25th November 2002.
- (b) On 6th September 2004, management agreements in respect of toll road management fee were entered into between Guangzhou Highways Development Company ("GHDC"), a minority shareholder of subsidiaries, and certain subsidiaries engaging in the operation of toll highways in China, whereby GHDC carries out the day-to-day routine operational and maintenance services of the Guangshan Highway, Guangshen Highway, Guangcong Highway Section I and II, Provincial Highway 1909 and Guanghua Highway respectively including the collection of toll charges and repairs and maintenance in return for a fixed sum to be predetermined annually. Particulars of these management agreements have been published in a joint announcement dated 6th September 2004 issued by the Company and GZI Transport Limited.
- (c) Property management fee charged at HK\$51,000 for the year and rental expenses charged at HK\$88,000 per month from January to October and HK\$47,000 per month from November to December (2003: HK\$88,000 per month) were paid to Yue Xiu Enterprises (Holdings) Limited, the ultimate holding company.
- (d) Advance from Guangzhou Paper Holdings Limited, a minority shareholder of a subsidiary, bore interest at 5.31 per cent per annum during the year.

40 Ultimate holding company

The Directors regard Yue Xiu Enterprises (Holdings) Limited, a company incorporated in Hong Kong, as being the ultimate holding company.

41 Approval of accounts

The accounts were approved by the Board of Directors on 21st April 2005.