1 GENERAL INFORMATION

Guangzhou Investment Company Limited ("the Company") and its subsidiaries (together "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. The Group's operations are mainly in places within Hong Kong and Mainland China ("China"). During the year, the Group disposed of certain subsidiaries in China and the details of which are disclosed in Note 35.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 26 Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25th April 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(a) Effect of adopting new HKFRS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 3	Revenue - Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 21, 23, 24, 27, 28, 31, 33, HKAS-Int 15, HKFRS 5 and HK-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associated companies and jointly controlled entities and other disclosures.

– HKASs 2, 7, 8, 10, 23, 27, 28, 31, 33 and HKAS-Int 15 and HK-Int 4 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

– HKFRS 5 has affected the classification and valuation of non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(a) Effect of adopting new HKFRS (cont'd)

The adoption of HKAS 16 has resulted in a change in the accounting policy relating to the rental income from incidental operations that was earned before or during the construction of properties. Rental income from incidental operations are required to be recognised in the income statement. The Group applied this new policy retrospectively and accordingly the 2004 comparative figures had reflected the retrospective effect of the change.

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights to operating leases from properties under development, properties held for sale and property, plant and equipment. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. Amortisation of lease payments that is incurred during the construction period of properties under development is capitalised as part of properties under development. In prior years, the leasehold land included in leasehold land and buildings was accounted for at cost less accumulated depreciation and accumulated impairment losses; the land use rights included in properties under development and properties held for sale were accounted for at the lower of cost and net realisable value. The transitional provisions require retrospective application of this new policy and accordingly the 2004 comparative figures had reflected the retrospective effect of the change.

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

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of investment properties of which the changes in fair values are recorded in the income statement with effect from 1st January 2005. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale. The transitional provisions require retrospective application of this new policy and accordingly the 2004 comparative figures reflected the retrospective effect of the change.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(a) Effect of adopting new HKFRS (cont'd)

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods (Note 2.20).

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill and negative goodwill. Until 31st December 2004, goodwill was amortised on a straight-line basis over a maximum period of 20 years and assessed for an indication of impairment at each balance sheet date; negative goodwill not relating to any identifiable future losses or expenses at the date of acquisition and not exceeding the fair value of the non-monetary assets acquired, was recognised in the income statement over the period of utilisation of those assets. The transitional provisions of HKFRS 3 allow retrospective application of this new policy under certain situations, which are not applicable to the Group, and accordingly the 2004 comparative figures had not reflected the effect of this change. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1st January 2005, with accumulated amortisation as at 31st December 2004 being eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31st December 2005 onwards, goodwill will be tested annually for impairment, as well as when there is indication of impairment; excess of interest of the Group's share of the net identifiable assets of the acquired subsidiary/business at the date of acquisition over the cost of an acquisition is recognised in the income statement. Negative goodwill of approximately HK$526,739,000 as at 31st December 2004 has been transferred to retained earnings on 1st January 2005.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38 and no adjustment resulted from this reassessment.

The adoption of HK-Int 3 has resulted in a change in the accounting policy relating to revenue recognition arising from the sale of properties. Such revenue is recognised only upon completion of the related sale agreement, which refers to the time when properties are completed and delivered to the buyers. Until 31st December 2004, revenue from the sale of properties under development was recognised according to the percentage of completion method and the sale of other properties was recognised upon signing of sales and purchase agreements. The transitional provisions allow retrospective application of this new policy. However, the Group has chosen to apply this standard prospectively on 1st January 2005 as the management considered that it is impracticable to reflect the retrospective effect.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(a) Effect of adopting new HKFRS (cont'd)

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

- HKAS 16 under which the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transaction;
- HKAS 21 which requires prospective application for accounting goodwill and fair value adjustments as part of foreign operations;
- HKASs 32 and 39 which do not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to other investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognised at 1st January 2005;
- HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment property;
- HKAS-Int 15 which does not require the recognition of incentives for leases beginning before 1st January 2005;
- HKFRS 2 which only requires retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005;
- HKFRS 3 which is applied prospectively after the adoption date; and
- HK-Int 3 which allows prospective application.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(b) The impact of changes in accounting policies to the Group for the year ended 31st December 2004

The following are the effects of the changes in the accounting policies described above on individual account caption:

	Effect of adoption of				
	HKAS 17	**HKAS-Int 21**	**HKFRS 2**	**HKAS 16**	**Total**
Increase/(decrease)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Income statement items for the year ended 31st December 2004					
Revenue	—	—	—	2,465	2,465
Cost of sales	108,692	—	—	—	108,692
Administrative expenses	1,683	—	22,619	—	24,302
Taxation	(69,582)	245	—	—	(69,337)
Minority interest	(3,118)	13	—	—	(3,105)
Net profit attributable to equity holders of the Company	(37,675)	(258)	(22,619)	2,465	(58,087)
Earnings per share					
- basic (HK cents)	(0.60)	(0.00)	(0.35)	0.04	(0.91)
- diluted (HK cents)	(0.59)	(0.00)	(0.35)	0.04	(0.90)
Balance sheet items as at 31st December 2004					
Property, plant and equipment	(89,973)	—	—	—	(89,973)
Leasehold land and land use rights – non-current portion	4,778,439	—	—	—	4,778,439
Interest in jointly controlled entities	(3,282)	—	—	—	(3,282)
Properties under development	(7,986,404)	—	—	27,747	(7,958,657)
Properties held for sale	(885,501)	—	—	—	(885,501)
Leasehold land and land use rights – current portion	3,429,014	—	—	—	3,429,014
Total assets	(757,707)	—	—	27,747	(729,960)
Deferred tax liabilities	(287,709)	(212,038)	—	—	(499,747)
Total liabilities	(287,709)	(212,038)	—	—	(499,747)
Net assets	(469,998)	212,038	—	27,747	(230,213)
Reserves	(444,147)	202,805	—	27,747	(213,595)
Minority interests	(25,851)	9,233	—	—	(16,618)
Total equity	(469,998)	212,038	—	27,747	(230,213)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(c) The impact of changes in accounting policies to the Group for the year ended 31st December 2005

The following are the effects of the changes in the accounting policies described above on individual account caption:

	Effect on adoption							
	HKAS 17	HKAS 32 & 39	HKAS-Int 21	HKFRS 2	HK-Int 3	HKFRS 3	HKAS 16	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Increase/(decrease)								
Income statement items for the year ended 31st December 2005								
Revenue	—	—	—	—	(643,364)	—	1,897	(641,467)
Cost of sales	103,869	—	—	—	(445,154)	15,653	—	(325,632)
Administrative expenses	—	—	—	22,524	—	—	—	22,524
Finance costs	—	15,620	—	—	—	—	—	15,620
Taxation	(66,494)	—	(3,503)	—	(65,409)	—	—	(135,406)
Minority interest	(2,980)	—	575	—	—	—	—	(2,405)
Net profit attributable to equity holders of the Company	(34,395)	(15,620)	2,928	(22,524)	(132,801)	(15,653)	1,897	(216,168)
Earnings per share								
– basic (HK cents)	(0.54)	(0.24)	0.05	(0.35)	(2.08)	(0.24)	0.03	(3.38)
– diluted (HK cents)	(0.53)	(0.24)	0.05	(0.35)	(2.05)	(0.24)	0.03	(3.33)
Balance sheet items as at 31st December 2005								
Property, plant and equipment	(68,330)	—	—	—	—	—	—	(68,330)
Leasehold land and land use rights – non-current portion	4,372,994	—	—	—	—	—	—	4,372,994
Other intangible assets	—	—	—	—	—	511,086	—	511,086
Available-for-sale financial assets	—	354,912	—	—	—	—	—	354,912
Other investments	—	(161,991)	—	—	—	—	—	(161,991)
Properties under development	(8,206,652)	—	—	—	394,015	—	29,644	(7,782,993)
Properties held for sale	(150,533)	—	—	—	59,700	—	—	(90,833)
Trade receivables	—	—	—	—	(643,364)			(643,364)
Leasehold land and land use rights – current portion	3,190,945	—	—	—	—	—	—	3,190,945
Total assets	(861,576)	192,921	—	—	(189,649)	511,086	29,644	(317,574)
Deferred tax liabilities	—	75,573	(215,491)	—	—	—	—	(139,918)
Taxation payable	(354,203)	—	—	—	(65,408)	—	—	(419,611)
Other long-term loans	—	(15,620)	—	—	—	—	—	(15,620)
Total liabilities	(354,203)	59,953	(215,491)	—	(65,408)	—	—	(575,149)
Net assets	(507,373)	132,968	215,491	—	(124,241)	511,086	29,644	257,575
Reserves	(478,542)	129,267	205,733	—	(124,241)	505,446	29,644	267,307
Minority interests	(28,831)	3,701	9,758	—	—	5,640	—	(9,732)
Total equity	(507,373)	132,968	215,491	—	(124,241)	511,086	29,644	257,575

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(d) The impact of changes in accounting policies to the Company for the years ended 31st December 2004 and 2005

The following are the effects of the changes in the accounting policies described above on individual account caption:

	Effect on adoption of HKFRS 2 HK$'000
Increase/(decrease)	
Income statement items for the year ended 31st December 2004	
Administrative expenses	12,788
Profit for the year	(12,788)
Balance sheet items as at 31st December 2004	
Investment in subsidiaries	10,360
Net assets	10,360
Other reserve	26,635
Retained earnings	(16,275)
Total equity	10,360
Income statement items for the year ended 31st December 2005	
Administrative expenses	11,731
Profit for the year	(11,731)
Balance sheet items as at 31st December 2005	
Investment in subsidiaries	21,153
Net assets	21,153
Other reserve	49,159
Retained earnings	(28,006)
Total equity	21,153

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

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

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

- HKAS 19 (Amendment), Employee Benefits (effective from 1st January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the financial statements. The Group will apply this amendment from 1st January 2006.

- HKAS 39 (Amendment), The Fair Value Option (effective from 1st January 2006) This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1st January 2006.

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1st January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment of HKAS 1 from annual periods beginning 1st January 2007.

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Consolidation

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

(a) Subsidiaries

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.8).

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

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

(b) Transactions with minority interests

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.8).

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

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

(d) Joint ventures

A jointly controlled entity is a joint venture where 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. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.8).

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

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

2.3 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) 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, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

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

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

(ii) 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

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 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 unit-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.

2.6 Property, plant and equipment

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

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 costs are expensed in the income statement during the financial period in which they are incurred.

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

– Buildings	25-50 years
– Plant and machinery and tools	3-30 years
– Leasehold improvement, furniture, fixtures and office equipment	3-5 years
– Motor vehicles	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 (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts.

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.7 Investment properties (cont'd)

After initial recognition, investment property is carried at fair value. These valuations are performed by external valuers at least annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the external valuers use alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

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

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

Until 31st December 2004, increases in valuation were credited to the investment property revaluation reserve. Decreases in valuation were first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases were credited to operating profit up to the amount previously debited. Effective from 1st January 2005, changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property held for sale without redevelopment is classified as other assets held for sale, under HKFRS 5.

2.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associated company / jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated company and jointly controlled entities is included in interests in associated company and interests in jointly controlled entities respectively.

Until 31st December 2004, goodwill is amortised on a straight-line basis over its estimated economic life of five to ten years. Effective from 1st January 2005, the Group ceased amortisation of goodwill. Separately recognised goodwill is tested annually for impairment, as well as when there is indication of impairment, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Goodwill (cont'd)

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, associated company and jointly controlled entities, as other investments.

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

If the rights and interest in investments are to be surrendered by the Group upon the termination of related operating 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.

From 1st January 2005 onwards:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Financial assets (cont'd)

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.14).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Financial assets (cont'd)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.14.

2.11 Properties under development

For sales agreements entered into prior to 1st January 2005:

Properties under development are stated at cost which comprises land cost, development and construction expenditures, borrowing costs capitalised and other direct costs attributable to the development, plus attributable profits recognised on the basis set out in Note 2.22(ii) taken up to date, less provisions for foreseeable losses and sales instalments received.

For sales agreements entered into from 1st January 2005 onwards:

Properties under development are stated at cost which comprises land cost, development and construction expenditures, borrowing costs capitalised and other direct costs attributable to the development less provisions for foreseeable losses. Properties under development are stated at lower of cost and net realisable value. Net realisable value is the estimated price at which the property can be realised less related expenses. Income from incidental operation is recognised in the income statement.

2.12 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.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.14 Trade and other receivables

Until 31st December 2004, provision is made against trade and other receivables to the extent they are considered to be doubtful. Trade and other receivables in the balance sheet are stated net of such provision, if any.

Effective from 1st January 2005, trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.16 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

2.18 Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the assets for its intended use.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.19 Deferred income tax

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

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

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

2.20 Employee benefits

(a) Pension obligations

The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan.

Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statement. 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.

Effective from 1st January 2005, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.20 Employee benefits (cont'd)

(c) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

2.21 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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

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

2.22 Revenue recognition

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

(i) Revenues arising from the sale of completed properties held for sale are recognised on the execution of the legally binding contracts of sale.

(ii) For pre-completion contracts for sales of properties under development entered into before 1st January 2005:

The recognition of revenues from the sale of properties under development in advance of completion commences when a legally binding contract of sale has been executed.

When properties 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.

For pre-completion contracts for sales of properties under development entered into on or after 1st January 2005:

No revenue is recognised on the pre-completion contracts for sales of properties under development.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.22 Revenue recognition (cont'd)

(iii) Operating lease rental income is recognised on a straight-line basis over the lease period.

(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 is recognised on a receipt basis.

(vii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

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

(ix) Agency fee revenue from property broking is recognised when the relevant agreement becomes unconditional or irrevocable.

2.23 Leases

(a) Operating lease

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

(b) Finance lease

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

2.24 Government grants

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

Grants relating to income are deferred and recognised in the income statement 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 income statement on a straight-line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk, and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

(a) Foreign exchange risk

Majority of the subsidiaries of the Group operates in China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars. It has not hedged its foreign exchange rate risk.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the Chinese government.

(b) Price risk

The Group is exposed to property price and market rental risk because investment properties are carried at fair value. Any change in fair values is recognised in the financial statements.

(c) Credit risk

The Group has no significant concentrations of credit risk. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

(d) Liquidity risk

The Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(e) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. It has not hedged its cash flow and fair value interest rate risk.

3.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less impairment provision 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.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Depreciation of interests in toll highways and bridges

Interests in toll highways and bridges of the Group and investee companies comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructures is calculated to write off their costs on a unit-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.

At present, the range of annual traffic growth rates that have been projected for individual toll highways and bridges is around 2 per cent to 5 per cent.

(b) Estimated impairment of leasehold land and land use rights and properties, plant and equipment

Property, plant and equipment and leasehold land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of properties, plant and equipment, leasehold land and land use rights have been determined based on value-in-use calculations, taking into account the latest market information and past experience. These calculation and valuations require the use of judgement and estimates.

(c) Estimated write-downs of properties under development and properties held for sale

The Group writes down properties under development and properties held for sale to net realisable value based on assessment of the realisability of properties under development and properties held for sale, taking into account cost to completion based on past experience and net sales value based on prevailing market conditions. If there is an increase in cost to completion or a decrease in net sales value, the net realisable value will decrease and this might result in write-downs of properties under development for sale and completed properties for sale to net realisable value. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and write-downs of properties under development and properties held for sale in the periods in which such estimate is changed will be adjusted accordingly.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (cont'd)

(d) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of the information, the Group determines the amount within a range of reasonable fair value estimates. The Group employed an independent firm of professional surveyor, Greater China Appraisal Limited, to determine the open market values for the investment properties of the Group.

In making its judgment, 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.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(e) Estimate of fair value of share-based options

The Group has taken advantage of the transitional provisions of HKFRS 2 to apply the standard to grants of share options after 7th November 2002 and had not yet vested at 1st January 2005. Share options vested before 1st January 2005 totalling 230,790,200 were not included in the calculation of fair value of options granted.

The fair value of options granted was determined using the Black-Scholes valuation model which was performed by an independent valuer, Greater China Appraisal Limited. The significant inputs into the model were share price at the grant date, exercise price, standard deviation of expected share price returns, expected life of options, expected dividend paid out rate and annual risk-free rate. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year before the option grant date.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (cont'd)

(f) Current taxation and deferred taxation

The Group is subject to taxation in China and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

(g) Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31st December 2005 was approximately HK$1,614,567,000. The Group depreciates the buildings, plant and machinery and tools, leasehold improvement, furniture, fixtures and office equipment and motor vehicles on a straight line basis over the estimated useful life of 25-50 years, 3-30 years, 5 years and 3 to 5 years, respectively, and after taking into account of their estimated residual value, using the straight-line method, at the rate of 2% to 20% per annum, commencing from the date the asset is placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's assets.

(h) Accruals for construction cost of public facilities

The Group is required to construct certain public facilities in connection with obtaining the land use rights for construction of properties in China. The Group estimates the accrual for these costs for construction based on the historical actual construction costs plus the inflation rate. The Group regularly updates the construction schedules of public facilities and reviews the adequacy of accrued balance.

(i) Estimate of fair value of available-for-sale financial assets

The best evidence of fair value is current prices in an active market for similar available-for-sale financial assets. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

i) current prices in an active market for the available-for-sale financial assets of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

ii) recent prices of similar available-for-sale financial assets in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

5 TURNOVER, REVENUE AND SEGMENT INFORMATION

Turnover recognised is as follows:

	2005	2004
	HK$'000	HK$'000
Turnover		
Toll revenue from toll operations	**424,845**	400,212
Property management fee income	**137,050**	114,610
Rental income		
- Investment properties	**399,491**	316,820
- Other properties	**8,720**	50,230
- Car park	**111,550**	67,804
Sales revenue		
- Sales of properties	**1,247,447**	1,987,231
- Sales of newsprint	**1,194,252**	1,240,693
- Others	**431,643**	366,609
	3,954,998	4,544,209

Turnover and segment results for the period are as follows:

Primary reporting format - business segments

The Group operates mainly in Hong Kong and 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.

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.

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

Primary reporting format - business segments

For the year ended 31st December

	Toll operations		Properties		Paper		Group	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Turnover	**424,845**	400,212	**2,335,901**	2,903,304	**1,194,252**	1,240,693	**3,954,998**	4,544,209
Segment results	**130,479**	155,431	**3,022,868**	413,489	**96,820**	94,947	**3,250,167**	663,867
Interest income							**52,107**	35,970
Unallocated operation costs							**(85,209)**	(49,375)
Finance costs							**(301,746)**	(112,512)
Loss on deemed disposal of certain interests in a subsidiary							**(1,441)**	(481)
Share of profits less losses of:								
- A jointly controlled entity	**40,014**	10,112	**(1,804)**	(39,340)	**—**	—	**38,210**	(29,228)
- Associated companies	**184,414**	151,942	**17,648**	—	**—**	—	**202,062**	151,942
Profit before taxation							**3,154,150**	660,183
Taxation							**(270,477)**	(109,605)
Profit for the year							**2,883,673**	550,578
Capital expenditure	**300**	3,788	**475,971**	130,247	**383,265**	68,303	**859,536**	202,338
Depreciation and amortisation	**108,448**	113,871	**160,977**	104,403	**68,844**	118,931	**338,269**	337,205

Capital expenditure comprises additions to leasehold land and land use rights (Note 19), property, plant and equipment (Note 17) and investment properties (Note 18).

As at 31st December

	Toll operations		Properties		Paper		Group	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Segment assets	**2,468,584**	2,412,254	**17,398,149**	17,940,848	**2,127,807**	1,553,947	**21,994,540**	21,907,049
Interests in jointly controlled entities	**475,549**	422,892	**210,180**	220,543	**—**	—	**685,729**	643,435
Interests in associated companies	**1,686,542**	1,671,842	**1,402,584**	86,149	**—**	—	**3,089,126**	1,757,991
Unallocated assets							**1,326,246**	162,588
Total assets							**27,095,641**	24,471,063
Segment liabilities	**610,764**	732,535	**6,743,262**	6,588,288	**1,014,947**	483,538	**8,368,973**	7,804,361
Unallocated liabilities							**4,787,181**	6,194,807
Total liabilities							**13,156,154**	13,999,168

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

Secondary reporting format - geographical segments

	For the year ended 31st December				As at 31st December	
	Turnover		Capital expenditure		Total assets	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Hong Kong	**228,702**	451,356	**2,122**	28,253	**1,460,136**	1,407,288
China	**3,724,429**	4,066,706	**857,414**	174,085	**23,984,427**	22,000,759
Overseas	**1,867**	26,147	**—**	—	**35,711**	46,582
	3,954,998	4,544,209	**859,536**	202,338	**25,480,274**	23,454,629
Unallocated assets					**1,615,367**	1,016,434
Total assets					**27,095,641**	24,471,063

6 OTHER GAINS

	2005	2004
	HK$'000	HK$'000
Dividend income	**—**	14,904
Reversal of provision for doubtful debt	**—**	104,942
Write-back of impairment losses on properties under development	**—**	44,546
Excess of the fair value of additional interests in a subsidiary and an associated company over acquisition cost (Notes 34(b) and 35)	**198,214**	—
Gain on exchange of assets	**83,504**	—
	281,718	164,392

7 INTEREST INCOME

	2005	2004
	HK$'000	HK$'000
Interest income from bank deposits	**12,008**	5,587
Interest income from associated companies	**40,099**	30,383
	52,107	35,970

8 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and general and administrative expenses are analysed as follows:

	2005	2004
	HK$'000	HK$'000
Advertising expenses	**143,756**	129,997
Cost of inventories sold	**2,317,346**	3,202,685
Direct operating expenses arising from investment properties		
- that generate rental income	**241,399**	168,694
- that did not generate rental income	**656**	514
Depreciation:		
- Owned fixed assets	**128,315**	148,544
- Leased fixed assets	**34**	23
Amortisation/depreciation of interests in toll highways and bridges (included in cost of good sold)	**106,051**	104,681
Amortisation of leasehold land and land use rights	**103,869**	122,475
Operating leases		
- Hire of plant and workshops	**16,368**	16,215
- Land and buildings	**90,474**	47,783
Provision for doubtful debts	**19,676**	5,933
Auditors' remuneration	**5,248**	4,607
Employee benefit expenses (Note 14)	**418,527**	322,261
Provision for impairment of available-for		
- sale financial assets	**46,949**	—
Provision for impairment loss of property under development	**66,208**	—
Provision for impairment of property, plant and equipments	**69,539**	—

9 FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**220,369**	135,656
Interests on		
- amount due to a minority shareholder of a subsidiary	**66,313**	4,643
- loan from the ultimate holding company	**—**	3,455
- loans from related companies	**3,295**	1,031
- other loans	**45,365**	23,126
Total borrowing costs incurred	**335,342**	167,911
Less: amount capitalised in properties under development *(note)*	**(33,596)**	(55,399)
	301,746	112,512

Note:

The average interest rate of borrowing costs capitalised for the year ended 31st December 2005 was approximately 4.83 per cent per annum (2004: 4.76 per cent per annum).

10 TAXATION

(a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2004: 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.

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

	2005 HK$'000	2004 HK$'000
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	**2,133**	1,547
China enterprise income tax	**67,187**	135,656
China land appreciation tax	**12,419**	68,295
Under provision in prior years	**6,525**	5,296
Deferred taxation (Note 33)	**182,213**	(101,189)
	270,477	109,605

10 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, where majority of the Group's operations were carried out, as follows:

	2005 HK$'000	2004 HK$'000
Profit before taxation less share of profits less losses of associated companies and jointly controlled entities	**2,913,878**	537,469
Calculated at China enterprise income tax rate of 33 per cent (2004: 33 per cent)	**961,580**	177,365
Effect of different taxation rates	**(51,108)**	(81,351)
Effect of tax concession under tax holiday	**—**	(201)
Income not subject to taxation	**(733,951)**	(22,132)
Expenses not deductible for taxation purposes	**70,212**	56,852
Net effect of tax loss not recognized and utilisation of previously unrecognised tax losses	**45,884**	13,663
Under provision in prior years	**6,525**	5,296
Effect of land appreciation tax deductible for calculation of income tax purposes	**14,118**	19,646
	313,260	169,138
Land appreciation tax	**(42,783)**	(59,533)
Taxation charges	**270,477**	109,605

11 PROFIT FOR THE YEAR

The profit for the year is dealt with in the financial statements of the Company to the extent of HK$2,989,374,000 (2004: HK$87,568,000).

12 EARNINGS PER SHARE

Basic

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

	2005	2004
Profit attributable to equity holders of the Company (HK$'000)	**2,527,765**	272,736
Weighted average number of ordinary shares in issue ('000)	**6,392,162**	6,318,186
Basic earnings per share (HK cents)	**39.54**	4.32

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the period which are dilutive potential ordinary shares. Calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	2004
Profit attributable to equity holders of the Company (HK$'000)	**2,527,765**	272,736
Weighted average number of ordinary shares in issue ('000)	**6,392,162**	6,318,186
Adjustments for - share options ('000)	**99,097**	106,215
Weighted average number of ordinary shares for diluted earnings per share ('000)	**6,491,259**	6,424,401
Diluted earnings per share (HK cents)	**38.94**	4.25

13 DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim, paid, of HK$0.01 (2004: HK$0.0083) per ordinary share	**64,028**	52,531
Dividend in specie, paid, 16,269,505 units of GZI Real Estate Investment Trust	**44,370**	—
Final, proposed, of HK$0.02 (2004: HK$0.009) per ordinary share	**133,440**	57,266
Special, proposed, of HK$0.05 (2004: Nil) per ordinary share	**333,601**	—
	575,439	109,797

At a meeting held on 25th April 2006, the directors proposed a final dividend and special dividend of HK$0.02 and HK$0.05 per ordinary share, respectively. These proposed dividends are not reflected as dividend payables in these financial statements, but will be reflected as appropriations of retained profits for the year ending 31st December 2006.

14 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2005 HK$'000	2004 HK$'000
Wages, salaries and bonus	**300,226**	221,989
Pension costs (defined contribution plans)	**37,607**	38,528
Medical benefits costs (defined contribution plans)	**7,310**	5,492
Social security costs	**16,724**	15,674
Termination benefits	**1,563**	1,554
Staff welfare	**32,573**	16,405
Share options granted to directors and other employees	**22,524**	22,619
	418,527	322,261

14 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (cont'd)

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 2005.

The Group has also arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("MPF Scheme"), a defined contribution scheme managed by an independent trustee. The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. Both the employer's and the employees' contributions are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary.

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. The 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 employees.

The Group's contributions to the person schemes are charged to income statement and such expenses incurred by the Group for the year amounted to HK$37,607,000 (2004: HK$38,528,000).

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The remuneration of every Director for the year ended 31st December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Pension	Others (e)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
OU Bingchang	—	818	3,800	113	140	4,871
LIANG Yi	—	681	3,300	98	122	4,201
LI Fei	—	649	3,000	—	45	3,694
CHEN Guangsong	—	772	3,100	105	129	4,106
LIANG Ningguang	—	610	2,800	97	—	3,507
XIAO Boyan (a)	—	290	1,500	34	61	1,885
YU Lup Fat Joseph	68	—	—	—	—	68
LEE Ka Lun	68	—	—	—	—	68
LAU Hon Chuen Ambrose	68	—	—	—	—	68
Total	204	3,820	17,500	447	497	22,468

The remuneration of every Director for the year ended 31st December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Pension	Others (e)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
OU Bingchang	—	687	2,698	12	234	3,631
LIANG Yi	—	550	1,931	12	195	2,688
LI Fei	—	487	495	—	26	1,008
CHEN Guangsong	—	674	2,117	12	208	3,011
LIANG Ningguang	—	303	1,485	—	—	1,788
XIAO Boyan	—	550	1,541	55	195	2,341
YIN Hui (b)	—	35	—	—	—	35
YAN Yuk Fung (c)	—	76	11	8	367	462
WONG Chi Keung (d)	—	1,180	331	10	—	1,521
YU Lup Fat Joseph	38	—	—	—	—	38
LEE Ka Lun	38	—	—	—	—	38
LAU Hon Chuen Ambrose	10	—	—	—	—	10
Total	86	4,542	10,609	109	1,225	16,571

Notes:

(a) Resigned on 10th August 2005
(b) Resigned on 18th March 2004
(c) Resigned on 8th July 2004
(d) Resigned on 5th October 2004
(e) Others included housing allowance and share option benefits

No Directors waived emoluments in respect of years ended 31st December 2005 and 2004. 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 for both years presented.

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2005 are also directors whose emoluments are reflected in the analysis presented above.

16 INTERESTS IN TOLL HIGHWAYS AND BRIDGES

	Group		
	Intangible operating rights HK$'000	**Tangible infrastructure** HK$'000	**Total** HK$'000
At 1st January 2004			
Cost	2,197,752	403,755	2,601,507
Accumulated amortisation/depreciation	(401,834)	(54,972)	(456,806)
Net book amount	1,795,918	348,783	2,144,701
Year ended 31st December 2004			
Opening net book amount	1,795,918	348,783	2,144,701
Amortisation/depreciation	(92,234)	(12,447)	(104,681)
Closing net book amount	1,703,684	336,336	2,040,020
At 31st December 2004			
Cost	2,197,752	403,755	2,601,507
Accumulated amortisation/depreciation	(494,068)	(67,419)	(561,487)
Net book amount	1,703,684	336,336	2,040,020
Year ended 31st December 2005			
Opening net book amount	1,703,684	336,336	2,040,020
Exchange differences	38,116	7,932	46,048
Amortisation/depreciation	(93,290)	(12,761)	(106,051)
Closing net book amount	1,648,510	331,507	1,980,017
At 31st December 2005			
Cost	2,248,518	413,462	2,661,980
Accumulated amortisation/depreciation	(600,008)	(81,955)	(681,963)
Net book amount	1,648,510	331,507	1,980,017

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

17 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings 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
At 1st January 2004						
Cost	276,787	259,378	1,247,023	211,432	72,030	2,066,650
Accumulated depreciation	(106,198)	—	(470,436)	(128,822)	(45,622)	(751,078)
Net book amount	170,589	259,378	776,587	82,610	26,408	1,315,572
Year ended 31st December 2004						
Opening net book amount	170,589	259,378	776,587	82,610	26,408	1,315,572
Additions	985	66,340	1,706	7,322	3,007	79,360
Transfer from properties held for/under development	46,260	—	—	—	—	46,260
Transfer	76,729	—	—	—	—	76,729
Transfer upon completion	13,447	(237,413)	187,740	36,226	—	—
Disposals	(14,855)	—	3,521	(5,076)	(1,592)	(18,002)
Depreciation	(15,809)	—	(106,773)	(19,987)	(5,998)	(148,567)
Closing net book amount	277,346	88,305	862,781	101,095	21,825	1,351,352
At 31st December 2004						
Cost	375,943	88,305	1,414,441	247,963	70,104	2,196,756
Accumulated depreciation	(98,597)	—	(551,660)	(146,868)	(48,279)	(845,404)
Net book amount	277,346	88,305	862,781	101,095	21,825	1,351,352
Year ended 31st December 2005						
Opening net book amount	277,346	88,305	862,781	101,095	21,825	1,351,352
Exchange differences	9,330	2,547	36,618	4,976	1,258	54,729
Additions	58,958	326,301	33,384	12,174	12,219	443,036
Disposals	(9,492)	—	(23,719)	(2,045)	(1,406)	(36,662)
Reclassification	—	(36,546)	30,862	2,333	3,351	—
Impairment loss	(5,706)	—	(63,833)	—	—	(69,539)
Depreciation	(38,123)	—	(57,530)	(25,883)	(6,813)	(128,349)
Closing net book amount	292,313	380,607	818,563	92,650	30,434	1,614,567
At 31st December 2005						
Cost	397,542	380,607	1,410,089	249,349	78,062	2,515,649
Accumulated depreciation	(105,229)	—	(591,526)	(156,699)	(47,628)	(901,082)
Net book amount	292,313	380,607	818,563	92,650	30,434	1,614,567

17 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) Company

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1st January 2004				
Cost	14,338	9,234	4,465	28,037
Accumulated depreciation	(4,630)	(8,149)	(4,059)	(16,838)
Net book amount	9,708	1,085	406	11,199
Year ended 31st December 2004				
Opening net book amount	9,708	1,085	406	11,199
Additions	—	765	—	765
Transfer from investment properties	1,275	—	—	1,275
Disposals	—	—	—	—
Depreciation	(361)	(469)	(146)	(976)
Closing net book amount	10,622	1,381	260	12,263
At 31st December 2004				
Cost or valuation	15,613	9,999	4,465	30,077
Accumulated depreciation	(4,991)	(8,618)	(4,205)	(17,814)
Net book amount	10,622	1,381	260	12,263
Year ended 31st December 2005				
Opening net book amount	10,622	1,381	260	12,263
Exchange differences				
Addition	—	430	—	430
Disposals	—	(757)	—	(757)
Depreciation	(347)	(382)	(147)	(876)
Closing net book amount	10,275	672	113	11,060
At 31st December 2005				
Cost	15,613	1,545	4,465	21,623
Accumulated depreciation	(5,338)	(873)	(4,352)	(10,563)
Net book amount	10,275	672	114	11,060

17 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) Company (cont'd)

Properties with an aggregate carrying amount of HK$128 million (2004: Nil) were mortgaged as collateral for the Group's bank borrowings (Note 40).

The Group reviewed the useful lives of certain machinery and tools in current year. Certain machinery and tools with useful lives ranging from eight to fourteen years were changed to useful lives ranging from five to thirty years. This change in estimated useful life of fixed assets has been applied prospectively from 1st January 2005. The effect is to decrease the depreciation for the year ended 31st December 2005 by approximately HK$50,638,000, calculated based on the carrying value of machinery and tools as at 1st January 2005.

18 INVESTMENT PROPERTIES

(a) Group

	2005 HK$'000	2004 HK$'000
Beginning of the year	**4,775,305**	4,845,537
Exchange differences	**67,950**	—
Additions	**45,735**	122,978
Transfer from/(to) properties held for sale	**1,313,099**	(164,825)
Revaluation surplus	**—**	76,750
Transfer to property, plant and equipment	**—**	(76,729)
Disposals	**(3,699,571)**	(28,406)
Fair value gains credited to income statement	**798,919**	—
End of the year	**3,301,437**	4,775,305

(b) Company

	2005 HK$'000	2004 HK$'000
Beginning of the year	**10,300**	9,375
Revaluation surplus	**—**	2,200
Transfer to property, plant and equipment	**—**	(1,275)
Fair value gains credited to income statement	**200**	—
End of the year	**10,500**	10,300

18 INVESTMENT PROPERTIES (cont'd)

The investment properties were revalued at 31 December 2005 by independent, professional qualified valuers, Greater China Appraisal Limited. Valuations were performed using discounted cash flow projections based on estimates of future cash flow, derived from the terms of any existing lease and other contracts, and 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.

As at 31st December 2005, investment properties of HK$829 million (2004: HK$3,230 million) were mortgaged as collateral for the Group's bank borrowings (Note 40).

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
In Hong Kong:				
Leases of between 10 to 50 years	**340,140**	752,090	**—**	—
Leases of over 50 years	**110,600**	108,680	**10,500**	10,300
Outside Hong Kong*:				
Leases of between 10 to 50 years	**2,850,697**	3,914,535	**—**	—
	3,301,437	4,775,305	**10,500**	10,300

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

19 LEASEHOLD LAND AND LAND USE RIGHTS

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

	2005	2004
	HK$'000	HK$'000
Beginning of the year	**8,207,453**	8,954,789
Additions	**370,765**	—
Disposals	**(575,314)**	(526,098)
Transfer to investment properties	**(473,175)**	(98,763)
Amortisation	**(103,869)**	(122,475)
Exchange differences	**138,079**	—
End of the year	**7,563,939**	8,207,453
Analysed as:		
Non-current		
- in relation to properties held for development	**4,304,664**	4,745,032
- in relation to properties, plant and equipment	**68,330**	33,407
	4,372,994	4,778,439
Current		
- in relation to properties under development	**3,040,412**	2,724,934
- in relation to properties held for sale	**150,533**	704,080
	3,190,945	3,429,014
	7,563,939	8,207,453

	2005	2004
	HK$'000	HK$'000
In China:		
Land use rights of over 50 years	**3,562,689**	3,857,920
Land use rights of between 10 to 50 years	**3,745,503**	4,080,036
In Hong Kong:		
Leases of over 50 years	**255,747**	269,497
	7,563,939	8,207,453

Land use rights with carrying value of HK$1,570 million (2004: HK$1,241 million) as at 31st December 2005 were pledged as collateral for the Group's bank borrowings (Note 40).

20 INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/ (TO) SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Investments in unlisted shares, at cost	**60,480**	39,692
Amounts due from subsidiaries *(note (a))*	**10,168,355**	9,928,354
	10,228,835	9,968,046
Amounts due to subsidiaries *(note (b))*	**(30,968)**	(377,464)

Notes:

(a) The amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Except for the amounts of approximately HK$7,603,759,000 (2004: approximately HK$7,405,982,000) 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 interest free, unsecured and have no fixed terms of repayment (2004: approximately HK$346,000 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 Group as at 31st December 2005 are set out on pages 104 to 115.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005	2004
	HK$'000	HK$'000
Share of net assets	**538,624**	487,771
Amounts due from jointly controlled entities	**147,105**	155,664
	685,729	643,435
Amounts due to jointly controlled entities	**(83,559)**	(123,442)

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (cont'd)

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

	Aggregation	
	2005	2004
	HK$'000	HK$'000
Income	**335,854**	245,046
Expenses	**(221,529)**	(216,154)
Profit	**114,325**	28,892
Assets:		
Non-current assets	**3,804,767**	3,273,630
Current assets	**151,457**	64,455
	3,956,224	3,338,085
Liabilities:		
Non-current liabilities	**(2,109,634)**	(1,919,437)
Current liabilities	**(476,284)**	(203,478)
	(2,585,918)	(2,122,915)
Net assets	**1,370,306**	1,215,170

Details of the Group's jointly controlled entities are set out on page 116.

At 31st December 2005, Guangzhou Western Second Ring Expressway Co., Ltd., of which 35% interest is held by the Group, had a capital commitment of approximately HK$1,712,000,000 (2004: HK$2,528,000,000).

22 INTERESTS IN ASSOCIATED COMPANIES

	2005	2004
	HK$'000	HK$'000
Share of net assets	**2,281,294**	903,713
Loans receivable from associated companies *(Note)*	**747,322**	787,421
Amounts due from associated companies	**60,510**	66,857
	3,089,126	1,757,991
Amounts due to associated companies	**(119,938)**	(112,150)

Note:

The loan balances are unsecured, have no fixed repayment terms and bear interest at the prevailing Hong Kong dollars prime rates ranging from 5 to 7.75 (2004: 5 to 5.125) per cent per annum; US dollars prime rates ranging from 5.25 to 7.25 (2004: 4 to 5.25) per cent per annum and lending rates of financial institutions in China at 6.12 (2004: 6.12) per cent per annum.

All of the interests in associated companies held by the Group are unlisted except for an investment in an associated company with a carrying value of HK$1,208,569,000 which is listed in The Stock Exchange of Hong Kong Limited. The fair value of the interests in this associated company amounted to HK$1,382,520,000 as at 31st December 2005.

The summarised financial information of the Group's associated companies are as follows:

	Aggregation	
	2005	2004
	HK$'000	HK$'000
Assets	**8,603,624**	7,055,301
Liabilities	**(4,471,377)**	(4,520,231)
Net assets	**4,132,247**	3,535,070
Revenue	**1,405,088**	1,299,497
Profit	**738,379**	590,299

Details of the Group's associated companies are set out on page 117.

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31st December 2005 HK$'000
Opening adjustment on adoption of HKAS 39	
— Transfer from other investments	**261,347**
— Fair value adjustments credited to equity	**254,961**
— Transfer to other receivables	**(52,883)**
At the beginning of the year	**463,425**
Decrease in fair value charged to equity	**(62,040)**
Impairment losses	**(46,949)**
Disposals	**(11,600)**
Exchange differences	**12,076**
At the end of the year	**354,912**

Balances represent financial assets of unlisted securities stated at fair market value at 31st December 2005.

All the balances of available-for-sale financial assets are unlisted equity securities.

24 PROPERTIES UNDER DEVELOPMENT AND PROPERTIES HELD FOR SALE

The amount of properties under development and properties held for sale of the Group carried at net realisable value is approximately HK$360,000,000 (2004: approximately HK$2,140,000,000).

Properties under development and properties held for sale with carrying value of HK$632 million (2004: HK$514 million) and nil (2004: HK$291 million) respectively, were pledged as collateral for the Group's bank borrowings (Note 40).

25 INVENTORIES

	Group	
	2005 HK$'000	2004 HK$'000
Raw materials	**103,062**	103,982
Work-in-progress	**83,879**	78,335
Finished goods	**132,164**	12,971
	319,105	195,288

All inventories were stated at cost as at 31st December 2005 and 2004.

26 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	
	2005	2004
	HK$'000	HK$'000
0 - 30 days	**117,983**	174,569
31 - 90 days	**92,634**	76,788
91 - 180 days	**40,969**	81,345
181 - 365 days	**45,295**	43,789
Over 1 year	**134,794**	81,377
	431,675	457,868

The fair value of trade receivables approximately their carrying amounts.

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

27 BANK BALANCES AND CASH

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank in hand	**1,735,985**	803,000	**9,369**	11,922
Short-term bank deposits	**1,490,253**	27,910	**1,490,253**	27,910
	3,226,238	830,910	**1,499,622**	39,832

Included in the bank and cash balances of the Group and the Company are deposits of approximately HK$1,374,236,000 (2004: HK$757,369,000) and HK$51,000 (2004: HK$59,000), 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.

The effective interest rate on short-term bank deposits was 3.25% (2004: 0.07%). These deposits have an average maturity of 7 days (2004: 6 days).

28 TRADE PAYABLES

The ageing analysis of the trade payables were as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
0 - 30 days	**103,911**	32,433
31 - 90 days	**52,172**	70,560
91 - 180 days	**14,714**	24,008
181 - 365 days	**41,454**	65,755
1 - 2 years	**20,047**	39,243
Over 2 years	**141,892**	182,494
	374,190	414,493

29 SHARE CAPITAL

	Number of shares '000	**Amount HK$'000**
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	10,000,000	1,000,000
Issued and fully paid:		
At 1st January 2004	6,248,718	624,872
Issue of shares upon exercise of share options *(Note a)*	102,880	10,288
At 31st December 2004	6,351,598	635,160
At 1st January 2005	6,351,598	635,160
Issue of shares upon exercise of share options *(Note a)*	167,338	16,734
At 31st December 2005	6,518,936	651,894

Note:

(a) During the year, 167,338,000 (2004: 102,880,000) ordinary shares of HK$0.1 each were issued upon the exercise of share options (see note 30).

30 SHARE OPTIONS

Movements of share options are as follows:

	Number of share options '000
At 1st January 2004	393,526
Granted during the year	320,310
Exercised during the year	(102,880)
Lapsed during the year	(6,948)
At 31st December 2004	604,008
At 1st January 2005	604,008
Exercised during the year	(167,338)
Lapsed during the year	(11,656)
At 31st December 2005	425,014

30 SHARE OPTIONS (cont'd)

Particulars of share options as at 31st December 2005 and 31st December 2004 are as follows:

Date of grant	Exercise period	Exercise price HK$	Number of share options 2005 '000	Number of share options 2004 '000
Old share option scheme				
14th December 1999	14th December 2000 - 13th December 2005	0.5008	—	9,626
New share option scheme				
2nd May 2003	2nd May 2003 - 1st May 2013	0.4100	**33,510**	109,180
2nd June 2003	2nd June 2003 - 1st June 2013	0.5400	**58,182**	60,150
27th October 2003	27th October 2003 - 26th October 2013	0.8140	**11,224**	12,404
23rd December 2003	23rd December 2003 - 22nd December 2013	0.8460	**99,266**	100,234
23rd June 2004	23rd June 2004 - 22nd June 2014	0.6300	**222,832**	312,414
			425,014	604,008

On 26th June 2002, the Company adopted a new share option scheme, under which it may grant options to employees (including executive 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.

Out of 425,014,000 outstanding options as at 31st December 2005 (2004: 604,008,000 options), 200,797,000 options (2004: 230,790,200 options) were exercisable as at the year end.

The Group has taken advantage of the transitional provisions of HKFRS 2 to apply the standard to grants of share options after 7th November 2002 and had not yet vested at 1st January 2005. Share options vested before 1st January 2005 totalling 230,790,200 were not included in the calculation of fair value of options granted.

The fair value of options granted was determined using the Black-Scholes valuation model which was performed by an independent valuer, Greater China Appraisal Limited. The significant inputs into the model were share price at the grant date, exercise price, standard deviation of expected share price returns, expected life of options, expected dividend paid out rate and annual risk-free rate. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year before the option grant date.

31 RESERVES

(a) Group

	Share premium HK$'000	Capital redemption reserve HK$'000	Statutory reserves HK$'000	Exchange fluctuation reserve HK$'000	Employee share-based compen-sation reserves HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2004, as previously reported	5,707,378	1,815	62,606	(76,709)	—	649,398	6,344,488
Amortisation of leasehold land and land use rights	—	—	—	—	—	(406,472)	(406,702)
Adjustment for deferred tax arising from the revaluation of investment properties	—	—	—	—	—	203,063	203,063
Adjustment for rental income from incidental operation	—	—	—	—	—	25,282	25,282
Recognition of share-based options expenses	—	—	—	—	4,016	(4,016)	—
Balance at 1st January 2004, as restated	5,707,378	1,815	62,606	(76,709)	4,016	467,255	6,166,361
Currency translation differences, Group	—	—	—	(1,588)	—	—	(1,588)
Provision for impairment of goodwill	—	—	—	—	—	43,533	43,533
Release of reserve upon disposal of properties held for sales	—	—	—	—	—	(30,675)	(30,675)
Release of reserve upon deemed disposal of certain interest in a subsidiary	—	—	(1)	(2)	—	—	(3)
Profit attributable to shareholders	—	—	—	—	—	272,736	272,736
Transfers	—	—	16,792	—	—	(16,792)	—
Employee share option scheme expenses	—	—	—	—	22,619	—	22,619
Issue of shares net of issuing expenses	33,355	—	—	—	—	—	33,355
Dividend paid	—	—	—	—	—	(120,792)	(120,792)
Balance at 31st December 2004	5,740,733	1,815	79,397	(78,299)	26,635	615,265	6,385,546
Representing:							
2004 Final dividend proposed						57,266	
Others						557,999	
						615,265	

31 RESERVES (cont'd)

	Share premium HK$'000	Capital redemption reserve HK$'000	Statutory reserves HK$'000	Exchange fluctuation reserve HK$'000	Capital reserves HK$'000	Available-for-sales financial assets fair value reserves HK$'000	Employee share-based compen-sation reserves HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1st January 2005, as previously reported as equity	5,740,733	1,815	79,397	(78,299)	—	—	—	855,495	6,599,141
Amortisation of leasehold land and land use rights	—	—	—	—	—	—	—	(444,147)	(444,147)
Adjustment for deferred tax arising from the revaluation of investment properties	—	—	—	—	—	—	—	202,805	202,805
Adjustment for rental income from incidental operations								27,747	27,747
Recognition of share-based options expenses	—	—	—	—	—	—	26,635	(26,635)	—
Balance at 1st January 2005, as restated	5,740,733	1,815	79,397	(78,299)	—	—	26,635	615,265	6,385,546
Opening adjustment on adoption of HKAS 39	—	—	—	—	5,356	—	—	163,068	168,424
Opening adjustment on adoption of HKFRS 3	—	—	—	—	—	—	—	521,099	521,099
Balance at 1st January 2005 after opening adjustments, as restated	5,740,733	1,815	79,397	(78,299)	5,356	—	26,635	1,299,432	7,075,069
Currency translation differences, Group	—	—	—	228,439	—	—	—	—	228,439
Transfer to available-for-sale financial assets fair value reserves	—	—	—	—	—	163,068	—	(163,068)	—
Change of fair value of financial assets									
- gross	—	—	—	—	—	(37,457)	—	—	(37,457)
- tax	—	—	—	—	—	8,564	—	—	8,564
Release of reserve upon deemed disposal of certain interests in a subsidiary	—	—	(12)	46	—	—	—	—	34
Profit attributable to shareholders	—	—	—	—	—	—	—	2,527,765	2,527,765
Fair value adjustment to loans from minority shareholders of subsidiaries	—	—	—	—	5,356	—	—	—	5,356
Appropriation of reserves	—	—	31,594	—	—	—	—	(31,594)	—
Employee share option scheme expenses	—	—	—	—	—	—	22,524	—	22,524
Issue of shares net of issuing expenses	72,540	—	—	—	—	—	—	—	72,540
Dividend paid	—	—	—	—	—	—	—	(165,967)	(165,967)
At 31st December 2005	5,813,273	1,815	110,979	150,186	10,712	134,175	49,159	3,466,568	9,736,867
Representing:									
2005 Final and special dividend proposed								467,041	
Others								2,999,527	
								3,466,568	

31 RESERVES (cont'd)

Statutory reserves represent enterprise expansion and general reserve funds set up by the subsidiaries and associated companies in China. As stipulated by regulation in China, the Company's subsidiaries and associated companies established and operated in China are required to appropriate a portion of their after-tax profits (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 Regulations for the Implementation of the Law of The People's Republic of China on Joint Ventures Using Chinese and Foreign Investment, upon approval, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital.

(b) Company

	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2004, as previously reported	5,707,378	1,815	—	325,893	6,035,086
Recognition of share-based options expenses	—	—	4,016	(3,487)	529
At 1st January 2004, as restated	5,707,378	1,815	4,016	322,406	6,035,615
Net proceeds from issue of ordinary shares	33,355	—	—	—	33,355
Employee share option scheme expenses	—	—	22,619	—	22,619
Profit for the year	—	—	—	87,568	87,568
Dividends paid	—	—	—	(120,792)	(120,792)
At 31st December 2004	5,740,733	1,815	26,635	289,182	6,058,365
Representing:					
2004 Final dividend proposed				57,266	
Others				231,916	
Retained profits as at 31st December 2004				289,182	
At 1st January 2005, as previously reported	5,740,733	1,815	—	305,457	6,048,005
Recognition of share-based options expenses	—	—	26,635	(16,275)	10,360
At 1st January 2005, as restated	5,707,378	1,815	26,635	289,182	6,058,365
Net proceeds from issue of ordinary shares	72,540	—	—	—	72,540
Employee share option scheme expenses	—	—	22,524	—	22,524
Profit for the year	—	—	—	2,989,374	2,989,374
Dividends paid	—	—	—	(165,967)	(165,967)
At 31st December 2005	5,813,273	1,815	49,159	3,112,589	8,976,836
Representing:					
2005 Final and special dividend proposed				467,041	
Others				2,645,548	
Retained profits as at 31st December 2005				3,112,589	

32 BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Non-current				
Long-term bank borrowings				
- Secured	**2,866,479**	2,726,859	**1,501,506**	1,807,298
- Unsecured	**577,309**	420,806	**—**	—
Obligations under finance leases	**58**	53	**58**	53
Loans from ultimate holding company	**—**	298,890	**—**	423,087
Loans from related companies	**87,532**	127,917	**87,532**	86,208
Loans from minority shareholders of subsidiaries	**421,864**	463,887	**—**	—
	3,953,242	4,038,412	**1,589,096**	2,316,646
Current				
Bank overdrafts	**27,285**	24,763	**—**	—
Short-term bank borrowings				
- Secured	**48,077**	453,644	**160,000**	120,000
- Unsecured	**703,070**	608,919	**—**	—
Current portion of long-term bank borrowings				
- Secured	**457,089**	645,277	**131,539**	396,935
- Unsecured	**291,346**	314,222	**—**	117,000
Obligations under finance leases	**34**	25	**34**	25
	1,526,901	2,046,850	**291,573**	633,960
Total borrowings	**5,480,143**	6,085,262	**1,880,669**	2,950,606

32 BORROWINGS (cont'd)

The maturity of borrowings is as follows:

Group

	Bank borrowings and overdrafts		Other loans	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Within one year	**1,526,867**	2,046,825	**34**	25
In the second year	**812,478**	1,324,388	**34**	25
In the third to fifth year	**2,631,310**	1,823,277	**87,556**	267,487
With no fixed repayment terms	**—**	—	**421,864**	623,235
	4,970,655	5,194,490	**509,488**	890,772

Company

	Bank borrowings and overdrafts		Other loans	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Within one year	**291,539**	633,935	**34**	25
In the second year	**142,855**	367,258	**34**	25
In the third to fifth year	**1,358,651**	1,440,040	**87,556**	501,676
With no fixed repayment terms	**—**	—	**—**	7,647
	1,793,045	2,441,233	**87,624**	509,373

The effective interest rates at the balance sheet date were as follows:

	2005			2004		
	HK$	**RMB**	**USD**	HK$	RMB	USD
Bank overdrafts	**8%**	**—**	**—**	6%	—	—
Bank borrowings	**3.63%**	**5.21%**	**4.52%**	1.62%	4.99%	3.19%
Other loans	**3.82%**	**—**	**—**	1.33%	—	—

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

	Group		Company	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Hong Kong dollars	**1,943,904**	2,962,531	**1,880,669**	2,833,606
RMB	**3,499,034**	3,005,731	**—**	—
US dollars	**37,205**	117,000	**—**	117,000
	5,480,143	6,085,262	**1,880,669**	2,950,606

33 DEFERRED TAXATION

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

The movements on the deferred tax liabilities/(assets) account are as follows:

	2005 HK$'000	2004 HK$'000
At 1st January	**3,074,333**	3,181,065
Opening adjustment for revaluation of investment	**84,137**	—
As at 1st January, as restated	**3,158,470**	3,181,065
Deferred taxation charged/credited to income statement *(Note 10)*	**182,213**	(101,189)
Disposal of subsidiaries *(Note 35)*	**(1,174,673)**	—
Taxation credited to equity	**(8,564)**	(5,543)
At 31st December	**2,157,446**	3,074,333

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

	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 2004	45,842	15,155	3,887	15,220	80,104
(Charged)/credited to income statement	(18,596)	—	5,536	685	(12,375)
At 31st December 2004	27,246	15,155	9,423	15,905	67,729
At 1st January 2005	27,246	15,155	9,423	15,905	67,729
Credited/(charged) to income statement	79,654	8,962	2,606	(15,905)	75,317
At 31st December 2005	106,900	24,117	12,029	—	143,046

33 DEFERRED TAXATION (cont'd)

The movements in deferred tax liabilities (prior to offsetting of balances with the same jurisdiction) during the year are as follows:

	Revaluation of properties HK$'000	Accelerated depreciation HK$'000	Group Revaluation of Investment HK$'000	Others HK$'000	Total HK$'000
At 1st January 2004	3,232,222	8,491	—	20,456	3,261,169
Credited to income statement	(108,926)	(218)	—	(4,420)	(113,564)
Credited to retained profits	(5,543)	—	—	—	(5,543)
At 31st December 2004	3,117,753	8,273	—	16,036	3,142,062
At 1st January 2005	3,117,753	8,273	84,137	16,036	3,226,199
Charged/(credited) to income statement	259,818	(2,288)	—	—	257,530
Charged to reserves	—	—	(8,564)	—	(8,564)
Disposal of subsidiaries	(1,174,673)	—	—	—	(1,174,673)
At 31st December 2005	2,202,898	5,985	75,573	16,036	2,300,492

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 2005, the Group has unrecognised tax losses of HK$911 million (2004: HK$967 million) for Hong Kong profits tax purposes with no expiry date and unrecognised tax benefits arising from revaluation deficit of properties of HK$251 million (2004: HK$251 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:

	2005 HK$'000	2004 HK$'000
Deferred tax assets		
- Hong Kong profits tax	**8,844**	10,054
- China enterprise income tax	**59,136**	46,145
	67,980	56,199
Deferred tax liabilities		
- Hong Kong profits tax	**17,121**	15,648
- China enterprise income tax	**1,273,147**	1,466,916
- China land appreciation tax	**935,158**	1,647,968
	2,225,426	3,130,532

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK$'000	2004 HK$'000
Operating profit	3,163,517	614,011
Depreciation and amortisation	338,269	337,205
Loss on disposal/deemed disposal of certain interests in a subsidiary	1,441	481
Loss on disposal of fixed assets	11,452	6,436
Loss on disposal of available-for-sale financial assets	11,600	—
Dividend income	—	(14,904)
Gain on disposal of subsidiaries	(2,028,993)	—
Revaluation surplus on investment properties	(798,919)	(76,750)
Excess of the fair value of net assets acquired over acquisition cost	(198,214)	—
Provision for/(Write-back of provision for) impairment of properties under development	66,208	(44,546)
Provision for impairment of available-for-sale financial assets	46,949	—
Provision for impairment of property, plant and equipment	69,539	—
Employee compensation expenses	22,524	22,619
Operating profit before working capital changes	705,373	844,552
Net decrease in properties under development, properties held for sale and leasehold land and land use rights	142,953	802,234
(Increase)/decrease in inventories	(123,817)	24,839
Decrease/(increase) in trade receivables, other receivables prepayments and deposits including amounts due from related companies	272,460	(63,133)
Increase/(decrease) in trade payables and accrued charges	740,031	(206,700)
Decrease in financial derivatives	(29,021)	—
Decrease in amount due to ultimate holding company	(150,264)	—
Increase in amounts due to related companies	45,333	—
(Decrease)/increase in amount due to minority shareholders	(73,963)	7,696
Net cash inflow generated from operation	1,529,085	1,409,488

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Acquistion of additional interests in a subsidiary

	2005 HK$'000
Purchase consideration:	
– Cash	**86,109**
Fair value of net assets acquired (i)	**(180,345)**
Excess of the fair value of net assets acquired over acquisition cost *(Note 6)*	**(94,236)**
Net cash outflow arising from acquisition of additional interests in a subsidiary	**(86,109)**

Note:

(i) The fair value of net assets acquired is the net asset value of the subsidiary as at 30 June 2005.

35 BUSINESS COMBINATION

GZI Real Estate Investment Trust ("GZI REIT") was established by the Group for the purposes of divesting the commercial property operations and for the purposes of the listing on The Stock Exchange of Hong Kong Limited which involved two significant transactions, namely, the disposal of subsidiaries which owned the property operations (the "SPVs") and the acquisition of 41.7% interests in GZI REIT.

On 21st December 2005, the Group completed the disposal of the SPVs and received net sales proceeds of approximately HK$4,035 million which were settled as to HK$2,869 million in cash, HK$24 million in the form of receivable from GZI REIT and HK$1,142 million in the form of 41.7% interests in the units of GZI REIT. Thereafter, GZI REIT became an associated company of the Group. Details of the net assets disposed and the gain on disposal are as follows:

	2005 HK$'000
Net assets disposed	
Investment properties	**3,158,891**
Other receivables, prepayments and deposits	**10,673**
Bank balances and cash	**101,324**
Other payables and accrued charges	**(90,383)**
Deferred taxation	**(1,174,673)**
Total assets disposed	**2,005,832**
Consideration received:	
Cash	**2,982,094**
Investment in an associated company	**1,141,455**
Amount due from an associated company	**23,941**
	4,147,490
Direct costs for disposal	**(112,665)**
Total consideration received	**4,034,825**
Gain on disposal of subsidiaries	**2,028,993**
Net cash inflow arising from disposal of subsidiaries	**2,768,105**

35 BUSINESS COMBINATION (cont'd)

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
– Carrying value of net assets disposed	1,141,455
Fair value of net assets acquired *(i)*	(1,245,434)
Excess of the fair value of net assets acquired over acquisition cost (Note 6) *(ii)*	(103,979)

Net profit of GZI REIT shared by GICL in 2005 is HK$16,247,000.

Notes:

(i) The fair value of net assets acquired is the net asset value of GZI REIT as at 21st December 2005.

(ii) The amount has been recognised in the consolidated income statement.

Pursuant to Practice Note 15 of the Listing Rules, the Group declared a dividend in specie to its shareholders and distributed 16,269,505 units of GZI REIT immediately following the above transactions. Details of the distribution have been disclosed in Note 13 to the accounts.

36 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 41(b)) as follows:

	2005 **HK$'000**	2004 HK$'000
Not later than one year	**28,370**	26,380
Later than one year and not later than five years	**91,120**	97,388
Later than five years	**207,841**	215,354
	327,331	339,122

The Company did not have any commitment under operating leases at 31st December 2005 (2004: Nil).

37 FUTURE MINIMUM RENTAL PAYMENTS RECEIVABLE

At 31st December 2005, the Group and the Company had future minimum rental payments receivable under non-cancellable leases as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Not later than one year	**205,464**	296,187	**76**	70
Later than one year and not later than five years	**357,835**	495,792	**—**	—
Later than five years	**44,069**	12,803	**—**	—
	607,368	804,782	**76**	70

38 OTHER COMMITMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Capital commitments in respect of property, plant and equipment:		
Contracted but not provided for	**265,869**	14,359
Authorised but not contracted for	**—**	—
	265,869	14,359

At 31st December 2005, the Group had financial commitments in respect of equity capital to be injected to a jointly controlled entity of approximately HK$198,558,000 (2004: HK$247,990,000).

The Company did not have other commitments at 31st December 2005 (2004: Nil).

39 CONTINGENT LIABILITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
(a) Guarantees for mortgage facilities granted to certain buyers of the Group's properties *(Note)*	**264,272**	250,520	**—**	—
(b) Guarantees for banking and loan facilities granted to subsidiaries	**—**	—	**217,915**	390,215
	264,272	250,520	**217,915**	390,215

39 CONTINGENT LIABILITIES (cont'd)

(c) At 31st December 2005 and 2004, the Group has pledged the income derived from its 24.3% 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 Rmb500,000,000 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 Enterprises (Holdings) Limited ("Yue Xiu"), the ultimate holding company of the Company, has issued an indemnity to the Group under which any shortfall between the counter-indemnity given 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 of repayments. Such guarantees terminate upon issuance of the real estate ownership certificate.

40 PLEDGE OF ASSETS

At 31st December 2005, certain banking facilities and loans granted to the Group and the Company were secured by the following:

(a) certain of the Group's properties under development, properties held for sale, investment properties and other properties with an aggregate carrying value of HK$632 million (2004: HK$514 million), nil (2004: HK$291 million), HK$829 million (2004: HK$3,230 million) and HK128 million (2004: nil) respectively;

(b) certain of the Group's leasehold and land use rights with an aggregate carrying value of HK$1,570 million (2004: HK$1,241 million);

(c) floating charge over assets of certain subsidiaries of the Property Sub-group with aggregate net assets value of HK$7,745 million (2004: HK$4,086 million);

(d) mortgages of the Group's shareholdings in certain subsidiaries of the Property Sub-group; and

(e) assignment of shareholder's loan granted with an aggregate amount of HK$4,074 million (2004: HK$3,648 million).

41 SIGNIFICANT RELATED PARTY TRANSACTIONS

a) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarised the names of significant parties and nature of relationship with the Company as at 31st December 2005:

Significant related party	**Relationship with the Company**
Yue Xiu Enterprises (Holdings) Limited ("YXE")	The ultimate holding company
Yue Xiu International Development Limited ("YXIDL")	A subsidiary of YXE
Yue Xiu Hotel and Housing Limited	A subsidiary of YXE
Yue Xiu Corporate Consultancy and Services Company Limited	A subsidiary of YXE
Guangzhou Highways Development Company ("GHDC")	A minority shareholder of subsidiaries
Guangzhou Paper Holdings Limited ("GZPHL")	A minority shareholder of a subsidiary
Super Win Trading Limited ("SWTL")	A minority shareholder of a subsidiary
Smart Image Investment Limited ("SIIL")	A minority shareholder of a subsidiary
Festoon Enterprises Limited ("Festoon")	A minority shareholder of a subsidiary
Guangzhou Construction & Development Holdings Limited ("GCDHL")	A minority shareholder of a subsidiary
Guangdong Xinshidai Real Estate Limited	A jointly controlled entity of a subsidiary
Guangzhou Northern Second Ring Expressway Co., Limited. ("GNSR")	A jointly controlled entity of a subsidiary
Guangzhou Western Second Ring Expressway Co., Limited	A jointly controlled entity of a subsidiary
Hainan China City Property Development Co., Limited.	A jointly controlled entity of a subsidiary
Zhoushan Xinyuan Real Estate Development Co., Limited	A jointly controlled entity of a subsidiary
Guangdong Humen Bridge Co., Limited	An associated company of a subsidiary
Guangdong Qinglian Highway Development Co., Limited	An associated company of a subsidiary
Guangdong Shantou Bay Bridge Co., Limited	An associated company of a subsidiary
Guangzhou Northring Freeway Co., Limited	An associated company of a subsidiary
Guangzhou Xin Yue Real Estate Development Co., Limited	An associated company of a subsidiary
GZI Real Estate Investment Trust ("GZI REIT")	An associated company of a subsidiary
State-controlled enterprises (see (e) below)	Related parties of the Company

b) Transactions with related parties other than state-controlled enterprises

	2005	2004
	HK$'000	HK$'000
(i) Transaction with YXE		
Rental expenses and property management fee paid to YXE	**2,183**	1,025
Loan interest paid to YXE	**8,506**	3,456
(ii) Transaction with GZPHL		
Rental and utility expenses paid to GZPHL *(Note)*	**299,243**	260,384
(iii) Transaction with YXIDL		
Loan interest paid to YXIDL	**2,997**	1,031
(iv) Transaction with GZI REIT		
Asset management fee received from GZI REIT	**573**	—

Note:

On 17th October 2002, the Group entered into a lease contract and a utilities supply contract with GZPHL whereby GZPHL 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.

All the other related party transactions were carried out at the terms as agreed by the relevant parties.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

c) Balances with related parties other than state-controlled enterprises

	2005 HK$'000	2004 HK$'000
Amount due to ultimate holding company *(note i)*	**(148,626)**	—
Amounts due to associated companies *(note i)*	**(119,938)**	(112,150)
Loan receivable from associated companies *(note iii)*	**747,322**	787,421
Amounts due from associated companies *(note i)*	**60,150**	66,857
Amounts due from jointly controlled entities *(note i)*	**147,105**	155,664
Amounts due to jointly controlled entities *(note i)*	**(83,559)**	(123,442)
Amounts due to minority shareholders of subsidiaries *(note i)*	**(112,868)**	(186,831)
Loan from minority shareholders of subsidiaries *(note iv)*	**(421,864)**	(463,887)
Loan from related companies *(note ii)*	**(87,532)**	(127,917)
Amounts due from related companies *(note i)*	**1,510**	3,234
Amounts due to related companies *(note i)*	**(45,333)**	—

Notes:

(i) All balances are unsecured, interest-free and repayable on demand.

(ii) The loan balance of HK$87,532,000 (2004: HK$84,535,000) bears interest at Hong Kong Interbank Offered Rate plus 1 per cent per annum.

(iii) The loan balances are unsecured, have no fixed repayment terms and bears interests at the prevailing US dollars prime rates ranging from 5.250% to 7.250% (2004: 4.000% to 5.250%) per annum and lending rates of financial institutions in China at 6.120% (2004: 6.120%) per annum.

(iv) Except for an amount of HK$120,561,000 (2004: HK$120,561,000) which bears interest at the prevailing leading rates of financial institutions in China ranging from 4.00 to 6.12 per cent (2004: 5.76 to 6.12 per cent) per annum, the loan from minority shareholders of subsidiaries are interest-free and have no fixed repayment term.

d) Key management compensation

The aggregate amounts of emoluments paid or payable to the key management of the Group are as follows:

	2005 HK$'000	2004 HK$'000
Fees	**—**	—
Other emoluments:		
Basis salaries, housing allowances, other allowances and benefits in kind	**21,817**	17,579
Share-based payments	**853**	2,041
Pension	**447**	108
	23,117	19,728

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

e) Transactions with state-controlled enterprises

Under HKAS 24, business transactions between state-controlled enterprises controlled by Chinese government are within the scope of related party transactions. YXE, the ultimate holding company of the Group, is a state-controlled enterprise. The Group's key business transactions with other state-controlled enterprises are primarily related to construction and sales of newsprint activities. The related party transactions with other state-controlled enterprises were conducted in the ordinary course of business. Due to complex ownership structure, the Chinese government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known by the Group. Nevertheless, the Group believes that the following shall capture the material related party transactions.

(i) The Group sells properties and has supermarket business and thus, is likely to have extensive transactions with the employees of state controlled entities while such employees are on corporate business as well as key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers and are made on a cash basis. Due to the vast volume and the pervasiveness of these transactions, the management is unable to determine the aggregate amount of the transactions for disclosure. Therefore, the sales of properties and goods disclosed in note 5 do not include retail transactions with these related parties. Management believes that meaningful information relative to related party disclosures has been adequately disclosed.

(ii) As at 31st December 2005, more than 44% (2004: more than 91%) of bank deposits were with state-controlled banks; approximately 43% (2004: approximately 33%) of the trade receivables were with stated-controlled enterprises; all the land premium payable (2004: all) were with stated-controlled enterprises; approximately 33% (2004: nil) of the trade payable were with stated-controlled enterprises. For the year ended 31st December 2005, more than 54% (2004: more than 57%) of the group newsprint business of the Group were with stated-controlled enterprises; more than 88% (2004: more than 90%) of the construction activities were with stated-controlled enterprises; more than 17% (2004: more than 71%) of bank deposit interest income were from state-controlled banks. More than 29% (2004: more than 55%) of finance costs were from state-controlled banks.

(iii) On 29th December 2005, the Group entered into an agreement to transfer 6% of its equity interest in GNSR to GHDC for a cash consideration of HK$63,558,000.

(iv) For the year ended 31st December 2004, toll roads management fees paid and payable to GHDC amounted to HK$62,235,000.

42 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the international underwriting agreement entered into between the Company, GZI REIT Asset Management Limited, a subsidiary of the Group and the joint global coordinators and underwriters of the offering of the units of GZI REIT, the Group disposed of 87,450,000 units of GZI REIT to investors at HK$3.075 per unit in January 2006. The sales proceeds amounted to approximately HK$268,908,750. Immediately after the transaction, the Group's interests in GZI REIT decreased to approximately 30%. Details of the spin-off transactions were disclosed in Note 35 to the accounts.

43 ULTIMATE HOLDING COMPANY

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