



GUANGZHOU INVESTMENT COMPANY LIMITED

越秀投資有限公司

(Stock Code: 123)



2005 Annual Report

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Company Profile

Guangzhou Investment Company Limited (“Company”) was listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) in December 1992. Yue Xiu Enterprises (Holdings) Limited, the controlling shareholder of the Company, is the principle investment vehicle of the Guangzhou Municipal People’s Government in Hong Kong. The Company and its subsidiaries (“Group”) has built up several businesses consisting of property, paper and toll road mainly located in the Guangdong Province of the Mainland of China (“China”). These businesses all have substantial market share in Southern China. Regarding the China property business, the Group currently has property projects and land bank in Guangzhou Municipality with total gross floor area of 5,800,000 sq. meters. The newsprint plant has annual production capacity of 300,000 tonnes. The toll road business is conducted through GZI Transport Limited, a subsidiary of the Company separately listed on the Stock Exchange in 1997. GZI Transport Limited is currently operating an attributable length of 315.2 kms of toll road and bridge projects in Guangdong and other selective provinces of China.



	Year ended 31st December	
	2005 HK\$'000	2004 Restated HK\$'000
Turnover	3,954,998	4,544,209
Operating profit	3,163,517	614,011
Share of profits less (losses) of		
Jointly controlled entities	38,210	(29,228)
Associated companies	202,062	151,942
Profit attributable to shareholders	2,527,765	272,736
Basic earnings per share	HK39.54 cents	HK4.32 cents
Fully diluted earnings per share	HK38.94 cents	HK4.25 cents
Interest coverage	9.38 times	6.20 times

	As at 31st December	
	2005 HK\$'000	2004 Restated HK\$'000
Total assets	27,095,641	24,471,063
Total liabilities	13,156,154	13,999,168
Minority interests	3,550,726	3,451,189
Shareholders' funds	10,388,761	7,020,706
Net assets per share	HK\$1.59	HK\$1.11
Gearing ratio	32%	41%



The Group's major business operations are centered around the Guangzhou Municipality and its vicinity. In 2005, the Group benefited from the sustaining growth in Guangzhou's economy, and achieved satisfactory results in various business operations. Attributable profit to shareholders increased to HK\$2.528 billion, representing an increase of 827% compared to 2004. Earnings per share is approximately HK\$0.39, an increase of approximately 815% compared to 2004. The Board recommends a total dividend of HK\$0.08 per share for the year.

On 21st December 2005, the Group obtained approval from The Securities and Futures Commission and the Stock Exchange to spin-off a portfolio of 4 grade A office and prime commercial investment properties including White Horse Building for an aggregate area of approximately 160,000 square meters in the form of a real estate investment trust. The spin-off of GZI REIT (stock code:405) brought HK\$3.3 billion cash to the Group and a HK\$2 billion profit, resulting in significant contribution to the Group in terms of cash flow, capital structure, net asset value as well as profit, and realised the market value of the Group's investment properties.

As a result of the changes in Hong Kong accounting standards which require the change of profit recognition from percentage of completion method to recognition upon full completion of the project, the Group's book sales of GFA decreased to approximately 129,200 square meters, and book sales revenue also decreased to HK\$1.247 billion; representing a reduction of 58.52% and 37% respectively. However, with the improvement in rental revenue in both Hong Kong and Guangzhou (approximately HK\$520 million, an increase of 20% compared to 2004), a revaluation gain of HK\$799 million was recorded for the Group's properties.

Chairman's Statement

During the period, profit attributable to shareholders from toll road operations amounted to HK\$306 million, representing an increase of 10.4% compared to 2004. Attributable profit to shareholders from newsprint operations recorded an amount of HK\$33.0 million, an increase of 3.09% compared to 2004.

Looking into the future, Guangzhou Municipality in which the Group's major businesses are located, is expected to accelerate the development of various industries such as automobile manufacturing, heavy industry and logistics, exhibitions and conventions, financial and intermediaries, cultural and other services, etc; the object of which is to position Guangzhou Municipality as the economic hub of Southern China. Economic developments take business development opportunities in its stride. In light, the Group's future development strategy will be:

To proactively consider and, when the right opportunity arises, to prepare for the spin-off of the newsprint operation in Hong Kong, rationalizing the Group's segment structure and improving transparency of its business operations, and also providing a platform for the development of the newsprint business.

Focusing on property development business, maximize the advantage in the abundance of land reserve — planned development for 2006 would increase to 2.6 million square meters, and in response to the keen demand for residential units in the old town area, more high quality residence units shall be delivered. Anticipated supply of GFA available for sale in 2006 would be approximately 550,000 square meters.

Strengthen the operations of commercial properties — with a full understanding on the implications of the Central Government's series of macro economic policies targeting to prevent overheating in the property market, the Group would accordingly implement a consistent policy to expand its investment property portfolio in line with the market conditions, but fully aware of the operating risks, and take appropriate expansion in commercial property operation, achieving flexibility for sale or lease. After the spin-off of GZI REIT, the Group still maintains a portfolio of approximately 450,000 square meters of investment properties mainly in commercial properties and offices. Commercial properties under development in 2006 is expected to increase to about 1.1 million square meters, all located in business centers or prosperous districts in Guangzhou. Also, the Group had successfully secured the development right for the West Tower of the Mega Twin Towers in Pearl River New City, the GFA deliverable is approximately 400,000 square meters. The project is expected to become the tallest building of Guangzhou, and is currently under preliminary preparatory work. Over the next few years, the Group is expected to gradually increase its portfolio to approximately 2 million square meters of investment properties. The Group has granted a first right of refusal to GZI REIT when it was listed. We would make full use of the various properties that fit the description of this first right of refusal in interaction with the GZI REIT. We would offer those properties to the GZI REIT on a first refusal basis on the same terms and conditions offered to the Group and in compliance with applicable law and regulations, achieving a win/win situation for both parties.

Appropriately develop other downstream operations, maintaining long term stable development and return.

Guangdong Province will continue to expand its highway network over the coming years, and as long as the appropriate rate of return can be achieved, the Group will actively participate in investments in expressways.

The Group shall execute the above series of business development measures, and strive to improve its competitive capabilities, increase operating efficiency, compress costs, seize market opportunities, thereby bringing better return to shareholders.

I take this opportunity to express our gratitude to all Directors, senior management, and all staff members for their contribution to the Group. And I cordially thank all shareholders and friends in the banking and business community for their support and assistance to the Group.

Ou Bingchang
Chairman

Hong Kong, 25th April 2006

BUSINESS REVIEW

Mainly benefiting from the spin-off of approximately 160,000 square meters of investment properties including White Horse Building on 21st December 2005 through the listing of a real estate investment trust, apart from still owing approximately 31% of unit of the REIT, there was also a receipt of HK\$3.3 billion in cash; attributable profit to shareholders increased by 827% to HK\$2.528 billion; earning per share increased by 815% over last year to HK\$0.39 and NAV per share increased by 40% over last year to HK\$1.59. The overall financial position of the Group has been substantially improved. The Board recommended total dividend for the year at HK\$0.08 per share, an increase of 362% compared to last year; of which interim dividend was HK\$0.01 and final dividend being HK\$0.02 and a special dividend of HK\$0.05.

Property business

According to the changes in the Hong Kong financial reporting standard in 2005, the Group's property sales recognition basis was changed from percentage of completion method to recognition upon full completion of the project. As a result, floor space book sales during the period decreased to 129,200 square meters from 311,500 square meters last year, while sales proceeds decreased to HK\$1.247 billion from HK\$1.987 billion last year, representing a drop of 58.52% and 37%, respectively.

However, taking into account the unrecognized pre-sold floor space of 152,100 square meters and sales proceeds of HK\$882 million, as well as the sales to GZI REIT of 160,000 square meters at a sales proceeds of approximately HK\$4.362 billion, actual floor space sold for the period amounted to 441,300 square meters and sales proceeds was HK\$6.491 billion, representing an increase of 41.67% and 226.67%, respectively.

Starting from last year, the Group had been implementing a policy of "balanced development in residential and commercial property", and appropriately expanded its commercial property portfolio, apart from realizing the true value of the investment properties through the spin-off of GZI REIT, rental income also reached HK\$520 million, representing an increase of 20% compared to last year.

Other businesses

During the period, the Group's toll road operation realized a turnover of HK\$425 million, an increase of 6.2% compared to last year, the attributable profit in associated companies amounted to HK\$184 million, representing an increase of 20.9% compared to last year; the jointly controlled entity GSNR had outstanding performance, contributing HK\$40 million to the Group's attributable profit from the entity, representing a 295.7% increase compared to last year. The GWSR project which the Group participated 35%, is expected to be in operation by the end of 2006 ahead of schedule; by that time the Groups' operating income is expected to further increase.

During the period, despite the competition from increased newsprint production in the country affecting sales dropping to 275,000 tons, representing a drop of 11.58% compared to last year, but with the increase in market price and the strengthening of cost control by the Group and improvements made to production, attributable profit to shareholders increased by 3.09% to HK\$33.00 million for the period.

Future development strategy and business outlook

In 2005 Guangzhou Municipality, where most of the Group's businesses are located, has a GDP reaching RMB511.575 billion, representing an increase of 13% compared to the previous year. Economic development remained positive, and fixed assets investments continued to be strong; with keen internal demand, overall property price increased by 10.7% compared to the previous year, and average transaction price reached RMB5,114 per square meter, a breakthrough of the RMB5,000 mark for the first time since 2000.

At the same time, with full awareness of the series of measures implemented by the Central Government to prevent overheating in the property market, the Group would accordingly implement a consistent business strategy in line with the changes in market conditions. The future strategy would be: streamlining of organization, increase transparency, and on the basis of mainly developing residential property, making best use of the interaction in commercial properties between the Group and GZI REIT, to pursue a win/win situation while at the same time paying high attention to operating risk prevention. And looking into the future:

1. the Group is actively investigating to spin-off the newsprint operation in Hong Kong at an appropriate time, allowing the Group to concentrate its attention on property and infrastructure business and improve transparency; at the same time allowing the newsprint operation to have an independent platform, which is advantageous to its own development.
2. the Group will make use of the advantage of the vast land reserve: planned property development floor space for 2006 would expand gradually to 2.6 million square meters. Seizing the opportunity of robust market condition in Guangzhou with a rising property price, and in response to the keen demand for residential properties, appropriate sales expansion plan is adopted to increase sale. The expected floors space sales target would be approximately 550,000 square meters for 2006, mainly on residential units and an appropriate portion of villas. Major projects on sale include: Jiangnan New Mansion, Springland Garden, Xing Hui Ya Yuan (Happy Valley), Binjiang Yiyuan, Glade Village and Southern Le Sand. Between 2006 and 2007, the target is to complete approximately 1.2 million square meters of GFA, and the increase in sales would mainly come from residential projects like Jiang Nan New Village Phase 4, sector 1.4 Jiang Nan New Village Phase 3 section 7.



Southern Le Sand

3. the Group will accelerate the development of commercial properties. Currently the properties under construction is approximately 1.1 million square meters, including mainly the 2 office towers of Victory Plaza, Yue Xiu City Plaza, Yue Xiu New Metropolis Plaza, Asian Pacific Century Plaza and Nansha Commercial Centre etc. With the securing of the West Tower of the Mega Twin Towers project in Pearl River New City (estimate total GFA would amount to approximately 400,000 square meters), together with the Group's current portfolio of investment properties of over 400,000 square meters, over the next few years, the Group is able to own or complete around 2 million square meters of investment commercial properties and offices. At the time of the spin-off of GZI REIT, the Group granted a first right of refusal to the GZI REIT, and the Group will consider to make full use of those properties that fulfill the acquisition conditions in interaction with the GZI REIT; under similar terms and conditions, those properties shall be firstly considered by the GZI REIT for acquisition and mutual growth, thus achieving a win/win situation.
4. on the toll road operation: the Group will continue to focus on the investment on expressways, and with the high growth in highway network for the Guangdong Province in the coming years, as long as the return is appropriate, the Group will actively seek to participate in such investments.
5. the Group will also reorganize some of its businesses with good potentials, such as supermarket operation and car park operations etc., to grow these businesses, and at the appropriate time realize their potential value.



Jiang Nan New Mansion

FINANCIAL REVIEW

Analysis of results

For the year ended 31st December 2005, profits attributable to shareholders of the Group were approximately HK\$2,528 million, increased by 826.8% from 2004. The significant increase in profits attributable to shareholders was mainly attributable to the fact that the Company established GZI REIT by injection of four high quality investment properties, including White Horse Building, and successfully spun off from the Group and separate listed on the main board of the Stock Exchange to raise tremendous funds and release a huge amount of profits. Basic earnings per share of the Group were HK\$0.39, increased by 815% from 2004.

Turnover

Turnover of the Group for the year ended 31st December 2005 was approximately HK\$3,955 million, decreased by 13.0% from 2004. This was mainly attributable to the effect of a change in the accounting policy for recognising revenue from the sales of development properties of the property business.

Pursuant to the new Hong Kong Financial Reporting Standards implemented in 2005, revenue recognition for the sale of properties has been changed from the percentage of completion method to recognition upon full completion. Under the new method, the nominal sales area recognised for the year 2005 was approximately 129,200 square meters and the property sales income recognised was approximately HK\$1,247 million. For 2004, the sales area recognised based on the percentage of completion method was approximately 311,500 square meters. The property sales income recognised was approximately HK\$1,987 million. Despite the effect of the change in the accounting policy, property sales income for 2005 increased slightly over 2004. As the Group strengthened the asset enhancement of investment properties to continuously increase the value of investment properties, property rental income increased by 20%, to approximately HK\$520 million, over 2004. This initially reflected the achievement of the successful transformation of the single-line property business into the comprehensive commercial property business.

For the toll road business, despite the performance of certain Class I and II highways were compromised by overall enhancement of toll road services' quality, intensify toll inspection strength, heighten collection effectiveness, exploration of new toll road network in the Guangdong Province and surrounding provinces, the toll road's turnover for 2005 grew 6.2% over 2004 to approximately HK\$425 million.

For the newsprint business, because of intense competition in the industry, turnover for the newsprint business for the year slightly decreased by 3.7% to approximately HK\$1,194 million over 2004.

Gross profit

The property and newsprint businesses of the Group have been respectively affected by the changes in new Hong Kong Financial Reporting Standards and the intensive competition in the industries. Nevertheless, through strengthening corporate management and actively and effectively reducing costs, the Group recorded a gross profit of approximately HK\$1,053 million, increased by 9.9% from 2004.

Operating expenses

Operating expenses of the Group for 2005 were approximately HK\$1 billion, increased by 70.7% from 2004. The increase was related to the direct recognition of expenses of new projects for the previous period in the profit and loss account and was also affected by an increase in the share option expenses.

Valuation of investment properties

In 2005, benefiting from a pickup in the property market, the investment properties of the Group were revalued and recorded a surplus on revaluation of approximately HK\$799 million.

Finance costs

As affected by continuous increase in interest rates, the finance costs of the Group for 2005 increased by 168.2% to approximately HK\$302 million over 2004. However, following the separate listing of GZI REIT on the Stock Exchange, the funds raised were mainly used for repayment of bank borrowings. In December 2005, the Group repaid bank borrowings of HK\$1.5 billion, thereby significantly reducing the Group's bank borrowings. The interest expenses saving will be reflected in subsequent years, which would effectively offset the financial pressure created as a result of rising interest rates.

Share of results of associated companies and jointly controlled entities

During the period, the Group's share of profits of associated companies increased by 33.0% to approximately HK\$202 million. This was mainly attributable to the toll road business benefiting from an increase in the income from toll road and a reduction in the operating tax rate since June 2005. Because of the positive impact of an improvement in surrounding highway networks on the GNSR Expressway, the Group's share of profits of jointly controlled entities amounted to approximately HK\$38 million.



Xing Hui Ya Yuan

Management Discussion and Analysis

Taxation

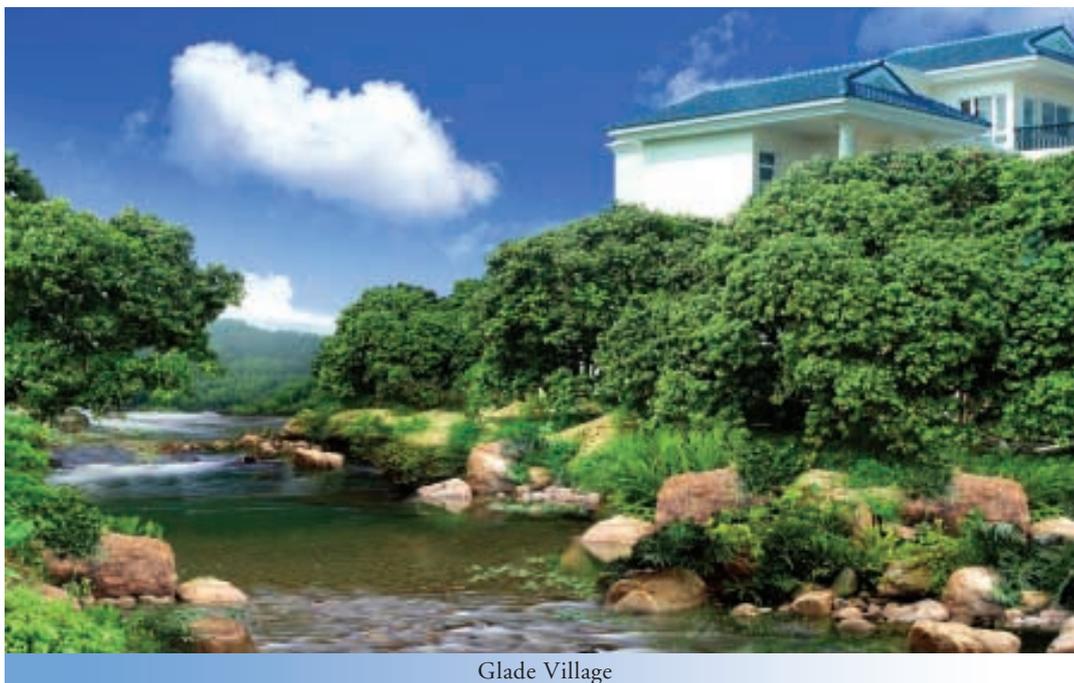
After the elimination of the taxation impact of the separate listing of GZI REIT, the tax expense of the Group increased from approximately HK\$110 million in 2004 to approximately HK\$270 million. This was mainly attributable to the deferred tax provided as a result of the revaluation of investment properties.

Final dividend

The Directors recommended the payment of final dividend of HK\$0.02 (2004: HK\$0.009) per share and a special dividend of HK\$0.05 (2004: nil) per share to shareholders whose names appear on the register of members of the Company on 15th June 2006. Subject to the approval of shareholders at the Annual General Meeting to be held on 15th June 2006, the final dividend and special dividend will be paid on or about 26th June 2006. Together with the interim dividend of HK\$0.01 (2004: HK\$0.0083) per share, total dividends for the year ended 31st December 2005 will amount to HK\$0.08 (2004: HK\$0.0173) per share.

Adoption of new and revised financial reporting standards

Due to the requirement to adopt the new and revised Hong Kong Financial Reporting Standards with effect from 1st January 2005, the Group has incorporated prior year and opening balances restatements in the financial statements included in this annual report. These restatements mainly related to the changes in accounting policy in respect of rental income recognition, leasehold land and land use rights, deferred taxation, shares-based payment and negative goodwill. The shareholders' equity on 31st December 2004 was adjusted downward by approximately HK\$213 million to HK\$7,021 million which does not have any impact on the Group's cash flow position.



Treasury policies

The Group's overall treasury and funding policy is that of risk management and liquidity control. Bank balances are generally placed as short term fixed rate deposits in bank accounts in Hong Kong and China. No fund is placed in non-bank institutions or invested in trading securities.

Financing arranged by the Group was mainly denominated in Hong Kong dollars. In respect of the Group's business activities in China that are conducted through its China subsidiaries, a portion of its borrowings was denominated in Renminbi to fund its operation in China during the financial year under review. As a whole, the core operation of the Group are therefore considered to be not exposed to foreign exchange rate risk to any significant extent. The Group did not enter into any currency hedging agreement during the financial year under review.



Southern Le Sand

Liquidity and financial resources

The Group believes the importance of healthy liquidity position to sustainability of the operation of the Group. The Group's major sources of liquidity are from recurring cash flow of the business and committed banking facilities.

Cash flow

The following table summaries the Group's cash flows for each of the two years ended 31st December 2005:

	2005	2004
	HK\$'000	HK\$'000
Net cash inflow from operating activities	1,079,930	1,157,745
Net cash inflow from investing activities	1,853,281	(213,396)
Net cash outflow from financing activities	(540,405)	(1,174,010)
Net increase / (decrease) in cash and cash equivalents	2,392,806	(229,661)
Cash and cash equivalents at year end	3,198,953	806,147

Net cash inflow from operating activities

In 2005, the net cash inflow from operating activities was approximately HK\$1,080 million, a decrease of HK\$78 million from HK\$1,158 million in 2004. Decrease in net cash inflow from operating activities was mainly due to the decrease in the revenue generated from the sales of properties.

Net cash inflow from investing activities

In 2005, net cash inflow from investing activities was HK\$1,853 million. The cash used in capital expenditure was overwritten by the cash generated from disposal of interest in subsidiaries.

Management Discussion and Analysis

Net cash outflow from financing activities

In 2005, the net cash outflow from financing activities was approximately HK\$540 million, mainly represented by the repayment of bank borrowings of approximately HK\$5,910 million which were mainly financed by the new bank loans of approximately HK\$5,684 million. As a result, there was a decrease in net cash outflow from financing activities of approximately HK\$634 million from approximately HK\$1,174 million in 2004.

During the past year, cash inflow of approximately HK\$89 million was raised from the issuance of approximately 167 million ordinary shares of HK\$0.01 upon exercise of share options. Furthermore, the Group raised approximately HK\$3,300 million in cash through the spin-off GZI REIT in December 2005. The majority of the net proceeds from spin-off transaction after related expenses together with the new loans were applied to repay bank borrowings of approximately HK\$5,910 million.

Working capital

As at 31st December 2005, the Group's working capital (current assets minus current liabilities) amounted approximately HK\$4,543 million which was increased by approximately HK\$2,144 million as compared to the end of 2004. The increase was mainly attributable to an increase in bank balances and cash. As at 31st December 2005, the Group's cash and cash equivalents amounted to approximately HK\$3,199 million.

Indebtedness

The indebtedness as of the end of the two years ended 31st December 2005 was as follows:

	2005 HK\$'000	2004 HK\$'000
Secured bank borrowings	3,371,645	3,825,780
Unsecured bank borrowings	1,571,725	1,343,947
Unsecured other borrowings	509,396	890,694
Obligations under finance leases	92	78
Bank overdrafts	27,285	24,763
Total indebtedness	<u>5,480,143</u>	<u>6,085,262</u>
Ageing analysis:		
Repayable within one year	1,526,901	2,046,850
In the second year	812,512	1,324,413
In the third to fifth year	2,718,866	2,090,764
With no fixed repayment terms	421,864	623,235
	<u>5,480,143</u>	<u>6,085,262</u>

By the end of 2005, the Group's total indebtedness was approximately HK\$5,480 million representing a decrease of approximately 10% compared to 2004. The main reason for the decrease was the repayment of certain bank borrowings with the net proceeds from the spin-off transaction. As a consequence, the Group's ratio of total indebtedness to total assets decreased from 25% in 2004 to 20% in 2005. Given the substantial decrease in indebtedness and corresponding future finance cost, the management is confident that the Group will achieve an improving liquidity and capital structure which will result in an improving gearing ratio.

Management Discussion and Analysis

Capital structure

The Group's capital structure as at 31st December 2005 and 2004 are summarised below:

	2005		2004	
	HK\$'000	%	HK\$'000	%
Bank borrowings (floating rates)				
Denominated in Renminbi	3,077,170	20.1	2,382,496	18.7
Denominated in United States dollars	37,205	0.2	117,000	0.9
Denominated in Hong Kong dollars	1,828,995	11.9	2,670,231	21.0
Total bank borrowings	4,943,370	32.2	5,169,727	40.6
Shareholders' funds plus negative goodwill	10,388,761	67.8	7,547,445	59.4
Total capitalisation	15,332,131	100.0	12,717,172	100.0
Gearing ratio	32%		41%	

As a result of improving capital efficiency of the Group, total bank borrowings share smaller portion of the total capitalisation of the Group, which is reduced from 41% to 32%. As at 31st December 2005, total bank borrowings was reduced by HK\$226 million to HK\$4,943 million. The ratio of total borrowings to total capitalisation (gearing ratio) was reduced from 41% to 32% in 2005.

As at 31st December 2005, shareholders' fund amounted to approximately HK\$10,389 million which accounted for about 68% of the Group's total capitalisation. The increase in shareholders' funds of approximately HK\$3,368 million mainly represented by the net profit retained for the year after appropriation of 2004 final dividend and 2005 interim dividend.

Details of the borrowings of the Group are set out in the notes to the financial statements of this annual report.

Interest rate exposure

Interest expenses accounted for a significant proportion of the Group's total expenses. As a result of this, the Group monitors its interest rate exposures closely and appropriate interest rate hedging measures will be adopted.

Foreign exchange exposure

Since the Group's principal operations are in China and most of the income is denominated in Renminbi, the Group is aware of possible currency exchange risk exposure. As such, the Group's hedging strategy is to use as much as practicable re-invested profits and debt financing denominated in Renminbi to match with the Renminbi capital expenditure requirements. Therefore, the Group aims to have minimal mismatches in currency and does not speculate in currency movements. Nevertheless, during the period when interest rate of Renminbi loan stands higher than foreign currency loan, the Group may consider equity and debt financing denominated in foreign currency as an alternative source of funding investment projects, in which the case, appropriate currency hedging measures will be adopted.

Capital expenditure

During the year, the Group had aggregate capital expenditure and investments totalling approximately HK\$54.1 million (2004: HK\$82.8 million) of which HK\$53.8 million was the initial equity capital contribution to a new investment project, the Guangzhou Western Second Ring Expressway. Other than the above, capital expenditure incurred on the purchase of non-current assets amounted to approximately HK\$860 million (2004: HK\$202 million).

Capital expenditure commitments

During the year 2004, the Group's subsidiary, GZI Transport Limited, had entered into a joint venture agreement to establish Guangzhou Western Second Ring Expressway Company Limited for a shareholding of 35.0 per cent., the outstanding committed equity capital contribution of the Group amounted to approximately Rmb206.5 million (equivalent to approximately HK\$198.6 million) as at 31st December 2005. Other than the above, the Group also has capital commitments in respect of property, plant and equipment amounted to approximately HK\$266 million as at 31st December 2005 (2004: HK\$14 million).

Pledge of assets

As at 31st December 2005, certain banking facilities and loans granted to the Group were secured by assets of the Group. Details of the pledge of assets are set out in note 40 to the financial statements.

Contingent liabilities

During the year, the Group had arranged bank financing for certain buyers of the Group's properties and provided guarantees to secure obligations for repayment of loans. As at 31st December 2005, the total contingent liabilities exposure amounted to approximately HK\$264 million (2004: HK\$251 million).

Employees and Remuneration Policy

As at 31st December 2005, the Group employed approximately 7,900 employees (2004: 7,080 employees), of whom approximately 7,750 employees (2004: 6,980 employees) were primarily engaging in the properties, toll roads and newsprint business.

The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted share option schemes, which award it employees according to the performance of the Group and individual employees. Promotion and salary adjustments are based on a performance related basis.

Disclosures Pursuant to Rule 13.21 of the Listing Rules

Reference was made to a HK\$3,800 million loan agreement dated 30th May 2005 ("Loan Agreement") with a final maturity in June 2010. In accordance with the terms of the Loan Agreement, it shall be an event of default if Yue Xiu Enterprises (Holdings) Limited ceases to maintain shareholding interest (whether directly or indirectly) of not less than 35 per cent in the issued voting share capital of the Company or an effective management control over the Company. And this obligation has been duly complied with.

Executive Directors

Mr Ou Bingchang, aged 59, was appointed executive director, Chairman and the General Manager of the Company in 2003. He is also the Chairman and the general manager of Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), the holding company of the Company, and the Chairman of GZI Transport Limited ("GZT"). Mr Ou graduated from China Pharmaceutical University in China. Prior to joining Yue Xiu in November 2002, he assumed leading roles in Guangzhou Pharmaceutical Factory, Economic Coordinating Office of Guangzhou Municipality and General Office of Guangzhou Municipal People's Government. During the period of serving as the director of the Guangzhou Municipal Transport Commission, Mr Ou had made distinguished contributions to Guangzhou Municipality in relation to transport planning, construction, development and management. He has over 30 years of experience in industrial technology, transportation network, enterprise and economic management.

Mr Liang Yi, aged 53, was appointed executive director of the Company in 2003. He is also a Vice Chairman of the Company, a director of Yue Xiu and GZT. Mr Liang graduated from the Chinese People's Liberation Army Engineering Soldier's University majoring in public administration. Prior to joining Yue Xiu in June 2001, he assumed leading roles in Guangzhou Chemical Industry Bureau and organizations under Committee of Guangzhou. Mr Liang had made outstanding contribution in establishing the administrative supervisory system of Guangzhou Municipality. He has over 20 years of experience in public administration.

Mr Li Fei, aged 53, was appointed executive director of the Company in 2002. He is also a Vice Chairman of the Company and a director of Yue Xiu. Mr. Li graduated from South China Normal University in China majoring in Chinese studies. He is responsible for the strategic planning, business development and operations of the property group of the Company.

Mr Chen Guangsong, aged 63, was appointed executive director of the Company in 2001. He is also a vice chairman of Yue Xiu and a director of GZT. Mr Chen obtained his bachelor's degree from the South China University of Technology in China. He had been the general manager of Guangzhou Gourmet & Food Factory, chairman and general manager of Guangzhou Light Industrial Group. Prior to joining the Group, Mr Chen was the director of Guangzhou Municipal Economic Commission from 1998 to April 2001 and had over 33 years of experience in corporate management.

Mr Tang Shouchun, aged 43, was appointed executive director of the Company on 28th February 2006. Mr Tang graduated from Nanjing Agricultural University and is a senior accountant, senior economist and registered asset appraiser in China, and has a Doctor degree in Agricultural Economics and Management. Prior to joining Yue Xiu in 2002, he taught at Southwestern University of Finance and Economics in Chengdu and was a vice professor of South China Normal University in Guangzhou. He had been a director and chief accountant of Guangzhou City Construction & Development Group Co. Ltd., responsible for overseeing financial accounting, financial management and capital operation of the company. He also participated in the planning and operation management of various large real estate projects. After joining Yue Xiu, Mr Tang has held the positions of Group financial controller and deputy general manager, overseeing the Group's financial and treasury affairs. He has extensive experience in the financial management and capital operation of large enterprises.

Mr Wang Hongtao, aged 56, was appointed executive director and Deputy General Manager of the Company on 28th February 2006. Mr Wang graduated from the Huadong Institute of Hydraulic with a major in port engineering. He joined Guangzhou City Construction & Development Group Co. Ltd. in 1985, and had taken up various leading positions in the planning and development department, Guangzhou Grandcity Development Ltd. and Guangzhou Investment Property Holdings Limited. He has nearly 30 years' experience in infrastructure and real estate development, specializing in real estate investment, project planning, development and construction as well as property operation and management.

Mr Wang has participated in and has been in charge of various large real estate development projects such as Guangzhou Jiang Nan Estate, Er Sha Island and Tianhe Construction Zone, and more than ten residential districts and commercial buildings such as Guangzhou Ming Ya Mansion, Galaxy City, Jiang Nan New Mansion, City Development Plaza and China Mayors Plaza. Among them, City Development Plaza and China Mayors Plaza were awarded the Luban Prize, the highest accolade awarded by the Ministry of Construction of China, while Lingnan Garden won the Zhan Tian You Civil Engineering Award. Mr Wang himself was awarded the Ministerial Award from the Ministry of Construction of China.

Directors' Profiles

Mr Wang is a senior economist, engineer and registered land valuer in China, and is a member of the Expert Committee of the Guangzhou Real Estate Industry Association. He is also the vice chairman of the Guangzhou Real Estate Industry Association, the Guangzhou Construction Industry Association and the Leasing Association of Guangzhou.

Independent Non-Executive Directors

Mr Yu Lup Fat Joseph, aged 58, has been an independent non-executive director of the Company since 1992. Mr Yu is the chairman of Tradeeasy Holdings Limited and is responsible for the Tradeeasy Group's corporate financial development and strategic business planning. He holds a master's degree in applied finance from Macquarie University in Australia and a diploma of management studies from the University of Hong Kong. Mr Yu has over 37 years of experience in investment, banking and finance.

Mr Lee Ka Lun, aged 51, has been an independent non-executive director of the Company since 2000. He is an accountant by profession and is the deputy chief executive of Lloyds TSB Bank plc, Hong Kong Branch. Mr Lee is a Fellow of the Association of Chartered Certified Accountants in UK and has over 20 years of experience in banking and auditing. He is an independent non-executive director of Denway Motors Limited and Chow Sang Sang Holdings International Limited.

Mr Lau Hon Chuen Ambrose, aged 58, has been an independent non-executive director of the Company since 2004. He is also an independent non-executive director of GZT. He holds a Bachelor of Laws degree from the University of London and is a Solicitor of the High Court of the Hong Kong Special Administrative Region, a China-Appointed Attesting Officer and a Notary Public. He is the senior partner of Messrs Chu & Lau, Solicitors & Notaries. Mr Lau is a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Selection Committee for The First Government of The Hong Kong Special Administrative Region and a Non-official Justice of Peace among his many public service appointments. He was awarded the Gold Bauhinia Star by The Government of The Hong Kong Special Administrative Region. He is also a director of The Hong Kong Mortgage Corporation Ltd., an independent non-executive director of companies listed on The Stock Exchange of Hong Kong Limited including Hong Kong Parkview Group Ltd., Beijing Enterprises Holdings Ltd., Glorious Sun Enterprises Ltd., Qin Jia Yuan Media Services Company Limited, as well as Wing Hang Bank Ltd.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the conduct and growth of its business.

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

The Company has complied with the Code Provisions save for certain deviations from Code Provisions A.2.1, A.4.1 and A.4.2, details of which will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

The Board of Directors ("Board") of the Company plays a crucial role in sustaining high standards of corporate governance and transparency and accountability of Company operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs in the interests of the Company.

The Board has delegated the supervision of the day-to-day management of the Company's business to the executive directorate, and focuses its attention on matters affecting the Company's overall strategic policies and finances, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial statements, dividend policy, major financial arrangements and major investments, treasury policies, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgment.

The Board comprises the following nine members :

Mr Ou Bingchang (*Chairman & General Manager*)

Mr Liang Yi (*Vice Chairman*)

Mr Li Fei (*Vice Chairman*)

Mr Chen Guangsong

Mr Liang Ningguang (resigned on 9th December 2005)

Mr Xiao Boyan (resigned on 10th August 2005)

Mr Tang Shouchun (appointed on 28th February 2006)

Mr Wang Hongtao (appointed on 28th February 2006)

Mr Yu Lup Fat Joseph*

Mr Lee Ka Lun*

Mr Lau Hon Chuen Ambrose*

* *Independent non-executive directors*

None of the members of the Board is related to one another.

During the year ended 31st December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considered all independent non-executive directors to be independent.

Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make valuable contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the non-executive directors of the Company is appointed for a specific term. However, all the non-executive directors of the Company are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association. All the non-executive directors of the Company had retired by rotation during the past 3 years. They have been re-elected.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company's Articles of Association, at the annual general meeting in every year one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, or such other manner of rotation as may be required by the Listing Rules or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time shall retire from office. A managing director and a director holding any other executive office shall not be subject to retirement by rotation. Further, any director appointed to fill a casual vacancy or as an addition to the Board shall retire at the next following annual general meeting and shall then be eligible for re-election.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

In order to ensure compliance with code provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the Articles of Association of the Company at the forthcoming annual general meeting.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction and a directors' guidelines on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

In year 2005, the Board held 12 meetings. The attendance record of each member of the Board is set out below :

Directors	Attendance of Board meetings in 2005
<i>Executive Directors</i>	
Ou Bingchang	12/12
Liang Yi	10/12
Li Fei	11/12
Chen Guangsong	11/12
Liang Ningguang ¹	9/9
Xiao Boyan ²	6/6
<i>Independent Non-executive Directors</i>	
Yu Lup Fat Joseph	5/12
Lee Ka Lun	5/12
Lau Hon Chuen Ambrose	6/12

Notes:

1. Resigned on 9th December 2005
2. Resigned on 10th August 2005

Practices and Conduct of Meetings

Notices of the two regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr Ou Bingchang is the Chairman and General Manager of the Company. The Chairman is responsible for overseeing the operation of the Board and providing leadership and direction towards achieving the Company's objectives. In contrast the General Manager of the Company is responsible for the operation of the business under the direction of the Board and the implementation of the policies and strategies set by the Board. The combination of the roles of the Chairman and the General Manager in one person is intended to ensure that the Board is in full control of the affairs of the Company and that the policies and strategies set by the Board would be efficiently and effectively implemented.

BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and Mr Yu Lup Fat Joseph is the chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31st December 2005 to review the financial results and reports, financial reporting and compliance procedures, internal control system and risk management system and the re-appointment of the external auditors. The attendance record of each Audit Committee member is set out below:

Directors	Attendance of Audit Committee meetings in 2005
Yu Lup Fat Joseph	2/2
Lee Ka Lun	2/2
Lau Hon Chuen Ambrose	2/2

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Company's annual results for the year ended 31st December 2005 has been reviewed by the Audit Committee.

Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors and Mr Tang Shouchun, an executive director, and Mr Lau Hon Chuen Ambrose is the chairman of the committee.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee met once on 25th April 2006 (with all members present) and reviewed and approved the remuneration policy and structure of the Company and remuneration packages of the executive directors for the year under review.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31st December 2005.

Specific employees who are likely to be in possession of unpublished price sensitive information have been requested to comply with the provisions of the Model Code. No incident of non-compliance was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31st December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 32.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31st December 2005 amounted to HK\$5,975,000 and HK\$4,676,000 respectively.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder interests and Company assets. In meeting its responsibility, the Board seeks to increase risk awareness of its business operations and puts in place policies and procedures, including the parameters of delegated authority, which provide for the identification and arrangement of business risk.

The Board assumes overall responsibility in monitoring the operation of the businesses within the Group. Executive directors are appointed to the boards of all significant material operating subsidiaries to attend their board meetings and to oversee the operations of those companies. Monitoring activities include the review and approval of business strategies, budgets and plans, and the setting of key business performance targets. The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies and similarly the management of each business is accountable for its conduct and performance.

Business plans and budgets are prepared annually by the management of individual businesses which are subject to review and approval by both the executive management teams and the executive directors as part of the Group's corporate planning. The Executive Directors hold monthly meetings to review management reports on the business results and key operating statuses of each core business.

The Group has established procedures and guidelines for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within each business with the approval levels for such expenditures being set by reference to the level of responsibility of each executive and officer.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairman of the Audit Committee are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.gzinvestment.com.hk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Group consist of three major businesses: properties, toll roads and paper. The principal activities of its principal subsidiaries, jointly controlled entities, associated companies are set out in the Group Structure section on pages 104 to 117.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 33.

The Directors have declared an interim dividend of HK\$0.01 per ordinary share, totalling approximately HK\$64 million which was paid on 8th November 2005.

The Directors have declared a dividend in specie of 16,269,505 units of GZI REIT, totalling approximately HK\$44 million which was paid on 20th December 2005.

The Directors recommend the payment of a final dividend of HK\$0.02 per ordinary share, totalling approximately HK\$133 million.

The Directors also recommend the payment of a special dividend of HK\$0.05 per ordinary share, totalling approximately HK\$334 million.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 17 to the financial statements.

MAJOR PROPERTY PROJECTS

Details of the major property projects held for/under development, for sale and for investment purposes of the Group in Guangzhou Municipality are set out in the List of Major Property Projects in Guangzhou Municipality section on pages 119 to 123.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the Hong Kong Companies Ordinance.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below.

	Year ended 31st December				
	2005	2004	2003	2002	2001
	HK\$'000	Restated HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results					
Profit/(loss) attributable to shareholders	<u>2,527,765</u>	<u>272,736</u>	<u>300,653</u>	<u>(960,230)</u>	<u>39,782</u>
Assets and liabilities					
Total assets	<u>27,095,641</u>	<u>24,471,063</u>	<u>25,785,918</u>	<u>26,685,015</u>	<u>19,961,555</u>
Total liabilities	<u>(13,156,154)</u>	<u>(13,999,168)</u>	<u>(15,441,736)</u>	<u>(16,571,103)</u>	<u>(7,005,499)</u>
Minority interests	<u>(3,550,726)</u>	<u>(3,451,189)</u>	<u>(3,374,822)</u>	<u>(3,403,865)</u>	<u>(6,425,518)</u>
Net assets	<u>10,388,761</u>	<u>7,020,706</u>	<u>6,969,360</u>	<u>6,710,047</u>	<u>6,530,538</u>

Comparative figures for the year ended 31st December 2004 have been restated to reflect the adoption of HKAS 16, HKAS 17, HK-Int 21 and HKFRS 2 which are effective for accounting periods commencing on or after 1st January 2005. The comparative figures for the three years ended 31st December 2003 have not been restated as the directors are of the opinion that it is impracticable to do so.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

INTEREST CAPITALISED

During the year, interest capitalised as development cost in respect of properties held under development and associated companies amounted to approximately HK\$34 million (2004: HK\$55 million).

DISTRIBUTABLE RESERVES

As at 31st December 2005, the distributable reserves of the Company available for distribution amounted to approximately HK\$3,113 million (2004: HK\$289 million).

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Mr Ou Bingchang	
Mr Liang Yi	
Mr Li Fei	
Mr Chen Guangsong	
Mr Liang Ningguang	- resigned on 9th December 2005
Mr Xiao Boyan	- resigned on 10th August 2005
Mr Tang Shouchun	- appointed on 28th February 2006
Mr Wang Hongtao	- appointed on 28th February 2006
Mr Yu Lup Fat Joseph*	
Mr Lee Ka Lun*	
Mr Lau Hon Chuen Ambrose*	

* *Independent non-executive directors*

Messrs Ou Bingchang, Liang Yi and Li Fei retire by rotation in accordance with Article 91 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Messrs Tang Shouchun and Wang Hongtao retire in accordance with Article 97 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors' Profiles are set out on pages 16 and 17.

DIRECTOR'S SERVICE CONTRACTS

None of the directors of the Company has a service contract with the Company which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

DIRECTOR'S INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its fellow subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Significant related party transactions, which also constitute as connected transactions under the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), required to be disclosed in accordance with the Listing Rules, are disclosed in notes 39(c), 41(b)(ii) and 41(e)(iii) to the financial statements. In respect of the lease and utility service transactions entered into between the Company and Guangzhou Paper Holdings Limited disclosed in note 41(b) to the financial statements, Messrs Yu Lup Fat Joseph, Lee Ka Lun and Lau Hon Chuen Ambrose, the independent non-executive directors of the Company, have confirmed that the transactions have been entered into in accordance with the terms of the relevant agreements governing such transactions.

The auditors of the Company have performed certain agreed-upon procedures in respect of the lease and utility service transactions entered into between the Group and Guangzhou Paper Holdings Limited and reported their findings to the Directors that the transactions (i) have received the approval of the board of directors; (ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) have not exceeded the cap for the transactions.

INTERESTS OF DIRECTORS

As at 31st December 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which are required to be recorded in the register maintained by the Company under Section 352 of the SFO or notified to the Company and the Stock Exchange were as follows:

1. Long positions in shares of the Company:

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
Mr Lee Ka Lun	Personal	1,050,000	0.02

2. Long positions in underlying shares of equity derivatives of the Company:

Name of Director	Date of grant	Exercise price per share HK\$	Number of share options outstanding as at 31st January and 31st December 2005
Mr Ou Bingchang	02/06/2003	0.5400	9,000,000
Mr Liang Yi	02/06/2003	0.5400	7,000,000
Mr Li Fei	02/06/2003	0.5400	7,000,000
Mr Chen Guangsong	02/06/2003	0.5400	8,000,000
Mr Yu Lup Fat Joseph	02/06/2003	0.5400	3,500,000
Mr Lee Ka Lun	02/06/2003	0.5400	2,450,000

Notes:

The share options are exercisable from 2nd June 2003 to 1st June 2013, of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant, respectively.

Save as disclosed herein, as at 31st December 2005, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed herein, at no time during the year was the Company, its holding company, its subsidiaries, or its fellow subsidiaries a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, the following persons have an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Long position in shares	Approximate % of interest
Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu”) (Note 1)	3,229,435,248	49.88
JPMorgan Chase & Co. (Note 2)	327,863,000	5.10

Notes:

- 1) The capacity of Yue Xiu in holding the 3,229,435,248 shares was, as to 10,928,184 shares, as beneficial owner and, as to 3,218,507,064 shares, attributable to interests of controlled corporations. Details of the breakdown of the shares held by Yue Xiu were as follows:

Name	Long position in shares
Yue Xiu	3,229,435,248
Excellence Enterprises Co., Ltd. (“Excellence”)	3,174,015,064
Bosworth International Limited (“Bosworth”)	2,279,312,904
Sun Peak Enterprises Ltd. (“Sun Peak”)	565,683,000
Novena Pacific Limited (“Novena”)	565,683,000
Shine Wah Worldwide Limited (“Shine Wah”)	158,049,000
Morrison Pacific Limited (“Morrison”)	158,049,000
Perfect Goal Development Co., Ltd. (“Perfect Goal”)	135,737,000
Greenwood Pacific Limited (“Greenwood”)	135,737,000
Yue Xiu Finance Company Limited (“YXF”)	44,492,000
Seaport Development Limited (“Seaport”)	35,233,160
Goldstock International Limited (“Goldstock”)	35,233,160

- (i) 2,279,312,904 shares were held by Bosworth, which was wholly-owned by Excellence which was, in turn, wholly-owned by Yue Xiu.
- (ii) 565,683,000 shares were held by Novena, which was wholly-owned by Sun Peak which was, in turn, wholly-owned by Excellence.
- (iii) 158,049,000 shares were held by Morrison, which was wholly-owned by Shine Wah which was, in turn, wholly-owned by Excellence.
- (iv) 135,737,000 shares were held by Greenwood, which was wholly-owned by Perfect Goal which was, in turn, wholly-owned by Excellence.
- (v) 44,492,000 shares were held by YXF, which was wholly-owned by Yue Xiu.
- (vi) 35,233,160 shares were held by Goldstock, which was wholly-owned by Seaport which was, in turn, wholly-owned by Excellence.
- 2) The capacity of JPMorgan Chase & Co. in holding the 327,863,000 shares was, as to 273,644,000 shares, as investment manager and, as to 54,219,000 shares, as approved lending agent.

SHARE OPTIONS

(i) The Company

Pursuant to the share option scheme (“Share Option Scheme”) approved by shareholders of the Company on 23rd June 1998, the board of directors of the Company (“Board”) may, at their discretion, offer to directors and employees of the Company or any of its subsidiaries options to subscribe for ordinary shares in the Company. The Share Option Scheme is designed to act as an incentive to employees and executives of the Group. The exercise price was determined by the Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 26th June 2002, the shareholders of the Company approved the resolutions relating to the termination of the Share Option Scheme and the adoption of a new share option scheme (“2002 Share Option Scheme”). Upon termination of the Share Option Scheme, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the Share Option Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 Share Option Scheme complies with the amendments to Chapter 17 of the Listing Rules.

Pursuant to the 2002 Share Option Scheme, the Board may grant to any person being an employee, officer, director, agent, consultant or representative of Yue Xiu, the Company or any of their respective subsidiaries (“Participants”) options to subscribe for shares in the Company. The purpose of the 2002 Share Option Scheme is to provide incentives to Participants to contribute to the Group and to enable the Group to recruit, retain and motivate high-calibre employees and attract human resources that are valuable to the Group. The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme is 10 per cent of the number of shares in issue as at the date of approval of the 2002 Share Option Scheme, but the Company may seek approval from its shareholders in a general meeting to refresh the 10 per cent limit. On 2nd June 2004, the shareholders of the Company approved the refreshment of the 10 per cent limit under the 2002 Share Option Scheme. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other schemes of the Company must not exceed 30 per cent of the shares of the Company in issue from time to time. The maximum entitlement of each Participant upon exercise of the options granted or to be granted within any 12-month period immediately preceding the proposed date of grant is limited to 1 per cent of the number of shares in issue as at the proposed date of grant. Any further grant of options in excess of this limit is subject to shareholders’ approval in general meeting. The share options are exercisable from the commencement date of the option period (which shall be a period to be notified by the Board at the time of the grant of an option, such period to commence on the date of grant or such later date as the Board may decide and expire on the last day of the period, which in any event shall not exceed 10 years from the date of grant), of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)), of the options granted under the relevant grant are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the commencement date of the option period respectively. After the second anniversary of the commencement date of the option period the restrictions will cease. In respect of a Participant who is an employee of Yue Xiu, the Company or any of their respective subsidiaries, the same limits on the exercise of the share options as described above shall also apply, except that the periods referred to in (i) and (ii) above shall commence from the later of: (a) the date of completion by such Participant of one year of continuous employment as permanent member of the staff of Yue Xiu, the Company or any of their respective subsidiaries, as the case may be; and (b) the commencement date of the option period, and the date when the restrictions cease shall be modified accordingly. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

Report of the Directors

Movements during the year of the options granted under the share option schemes of the Company to the employees of the Group other than the directors of the Company as disclosed on page 27 were as follows:

Number of share options							
outstanding as at 1st January 2005	exercised during the year	lapsed during the year	outstanding as at 31st December 2005	Exercise price per share HK\$	Date of grant	Exercisable period	Weighted average closing price (d) HK\$
9,626,000	4,568,000	5,058,000	—	0.5008	14/12/1999	14/12/2000 - 13/12/2005 (b)	0.826
109,180,000	72,058,000	3,612,000	33,510,000	0.4100	02/05/2003	02/05/2003 - 01/05/2013 (c)	0.761
23,200,000	768,000	1,200,000	21,232,000	0.5400	02/06/2003	02/06/2003 - 01/06/2013 (c)	0.800
12,404,000	1,180,000	—	11,224,000	0.8140	27/10/2003	27/10/2003 - 26/10/2013 (c)	0.941
100,234,000	968,000	—	99,266,000	0.8460	23/12/2003	23/12/2003 - 22/12/2013 (c)	0.947
312,414,000	87,796,000	1,786,000	222,832,000	0.6300	23/06/2004	23/06/2004 - 22/06/2014 (c)	0.872

Notes:

- (a) No options have been granted or cancelled during the year.
- (b) The options granted are exercisable in 2 tranches.
- (c) The options granted are exercisable in 3 tranches.
- (d) The weighted average closing price per share immediately before the dates on which the options were exercised.

(ii) GZT

Pursuant to the share option scheme (“GZT Scheme”) approved by shareholders of GZT on 3rd January 1997, the board of directors of GZT (“GZT Board”) may, at their discretion, grant to directors and employees of GZT or any of its subsidiaries options to subscribe for ordinary shares in GZT. The GZT Scheme is designed to act as an incentive to employees and executives of GZT and its subsidiaries. The exercise price is determined by the GZT Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of offer of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 25th June 2002, the shareholders of GZT approved the resolutions relating to the termination of the GZT Scheme and the adoption of a new share option scheme (“2002 GZT Scheme”). Upon termination of the GZT Scheme, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the GZT Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 GZT Scheme complies with the amendments to Chapter 17 of the Listing Rules.

Pursuant to the 2002 GZT Scheme with terms and conditions same as those of 2002 Share Option Scheme, the GZT Board may grant to any person being an employee, officer, director, agent, consultant or representative of the Company, Yue Xiu, GZT or any of their respective subsidiaries options to subscribe for shares in GZT.

Report of the Directors

Movements during the year of the options granted under the GZT Scheme to the employees of the Group were as follows:

outstanding as at 1st January 2005	Number of share options			outstanding as at 31st December 2005	Exercise price per share HK\$	Date of grant	Exercisable period	Weighted average closing price (c) HK\$
	exercised during the year	lapsed during the year						
1,114,000	792,000	92,000	230,000	0.7520	07/04/2000	07/04/2001 - 06/04/2006 (b)	2.589	

Notes:

- (a) No options have been granted or cancelled during the year.
- (b) All options are exercisable in 3 tranches.
- (c) The weighted average closing price per share of GZT immediately before the dates on which the options were exercised.

INDEPENDENT NON-EXECUTIVE DIRECTORS' FEES

Three independent non-executive directors of the Company each received HK\$68,000 as directors' fees for the year ended 31st December 2005.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this report and within the knowledge of the Directors, there was a sufficiency of public float of the Company's securities as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

No disclosures with regard to the Group's major customers and suppliers are made since the aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are less than 30 per cent of the Group's total sales and purchases respectively.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after balance sheet date is set out in note 42 to the financial statements.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ou Bingchang

Chairman

Hong Kong, 25th April 2006



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF GUANGZHOU INVESTMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 33 to 117 which have been prepared in accordance with Hong Kong Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25th April 2006

Consolidated Income Statement

For the year ended 31st December 2005

	Note	2005 HK\$'000	2004 Restated HK\$'000
Turnover	5	3,954,998	4,544,209
Cost of sales	8	(2,901,608)	(3,585,893)
Gross profit		1,053,390	958,316
Gain on disposal of subsidiaries	35	2,028,993	—
Revaluation surplus on investment properties		798,919	76,750
Other gains	6	281,718	164,392
Selling and distribution expenses	8	(190,019)	(178,451)
General and administrative expenses	8	(809,484)	(406,996)
Operating profit		3,163,517	614,011
Interest income	7	52,107	35,970
Finance costs	9	(301,746)	(112,512)
Share of profits less losses of			
– jointly controlled entities		38,210	(29,228)
– associated companies		202,062	151,942
Profit before tax		3,154,150	660,183
Taxation	10	(270,477)	(109,605)
Profit for the year	11	2,883,673	550,578
Attributable to			
Equity holders of the Company		2,527,765	272,736
Minority interests		355,908	277,842
		2,883,673	550,578
Earnings per share for profit attributable to the equity holders of the Company (expressed in HK cents per share)	12		
– Basic		39.54	4.32
– Diluted		38.94	4.25
Dividends	13	575,439	109,797

Consolidated Balance Sheet

As at 31st December 2005

	Note	2005 HK\$'000	2004 Restated HK\$'000
ASSETS			
Non-current assets			
Interests in toll highways and bridges	16	1,980,017	2,040,020
Negative goodwill		—	(526,739)
Property, plant and equipment	17	1,614,567	1,351,352
Investment properties	18	3,301,437	4,775,305
Leasehold land and land use rights	19	4,372,994	4,778,439
Interests in jointly controlled entities	21 & 41	685,729	643,435
Interests in associated companies	22 & 41	3,089,126	1,757,991
Deferred tax assets	33	67,980	56,199
Trade receivables, non-current portion		108,201	104,900
Available-for-sale financial assets	23	354,912	—
Other investments		—	261,347
		<u>15,574,963</u>	<u>15,242,249</u>
Current assets			
Properties under development	24	2,668,674	2,343,360
Properties held for sale	24	682,448	1,304,257
Leasehold land and land use rights	19	3,190,945	3,429,014
Other assets held for sale		397,000	—
Inventories	25	319,105	195,288
Amounts due from related companies	41	1,510	3,234
Trade receivables	26	431,675	457,868
Other receivables, prepayments and deposits		415,744	594,136
Tax recoverable		22,447	—
Charged bank deposits		164,892	70,747
Bank balances and cash	27	3,226,238	830,910
		<u>11,520,678</u>	<u>9,228,814</u>
LIABILITIES			
Current liabilities			
Trade payables	28	374,190	414,493
Land premium payable		617,319	729,410
Other payables and accrued charges		3,870,163	3,054,229
Amount due to ultimate holding company	41	148,626	—
Amounts due to related companies	41	45,333	—
Amounts due to jointly controlled entities	21 & 41	83,559	123,442
Amounts due to associated companies	22 & 41	119,938	112,150
Amounts due to minority shareholders of subsidiaries	41	112,868	186,831
Borrowings	32 & 41	1,526,901	2,046,850
Derivative financial instruments		—	29,021
Taxation payable		78,589	133,798
		<u>6,977,486</u>	<u>6,830,224</u>

Consolidated Balance Sheet

As at 31st December 2005

	Note	2005 HK\$'000	2004 Restated HK\$'000
Net current assets		4,543,192	2,398,590
Total assets less current liabilities		20,118,155	17,640,839
Non-current liabilities			
Borrowings	32	3,953,242	4,038,412
Deferred tax liabilities	33	2,225,426	3,130,532
		6,178,668	7,168,944
Net assets		13,939,487	10,471,895
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	651,894	635,160
Other reserves	31	6,270,299	5,770,281
Retained earnings			
– Proposed dividend	31	467,041	57,266
– Others	31	2,999,527	557,999
		10,388,761	7,020,706
Minority interests		3,550,726	3,451,189
Total equity		13,939,487	10,471,895

On behalf of the Board

Chen Guangsong
Director

Tang Shouchun
Director

Balance Sheet

As at 31st December 2005

	Note	2005 HK\$'000	2004 Restated HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	11,060	12,263
Investment properties	18	10,500	10,300
Investments in subsidiaries	20	10,228,835	9,968,046
		<u>10,250,395</u>	<u>9,990,609</u>
Current assets			
Other receivables, prepayments and deposits		20,524	30,595
Bank and cash balances	27	1,499,622	39,832
		<u>1,520,146</u>	<u>70,427</u>
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	20	30,968	377,464
Other payables and accrued charges		63,241	39,441
Amount due to ultimate holding company	41	164,889	—
Amount due to a related company	41	2,044	—
Borrowings	32	291,573	633,960
		<u>552,715</u>	<u>1,050,865</u>
Net current assets/(liabilities)		<u>967,431</u>	<u>(980,438)</u>
Total assets less current liabilities		<u>11,217,826</u>	<u>9,010,171</u>
Non-current liabilities			
Borrowings	32	1,589,096	2,316,646
Net assets		<u>9,628,730</u>	<u>6,693,525</u>
EQUITY			
Share capital	29	651,894	635,160
Other reserves	31	5,864,247	5,769,183
Retained earnings			
– Proposed dividend	31	467,041	57,266
– Others	31	2,645,548	231,916
Shareholders' funds		<u>9,628,730</u>	<u>6,693,525</u>
On behalf of the Board			

Chen Guangsong
Director

Tang Shouchun
Director

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	Note	2005 HK\$'000	2004 Restated HK\$'000
Net cash inflow generated from operations	34(a)	1,529,085	1,409,488
Interest received		52,107	35,970
Interest paid		(335,342)	(167,911)
Hong Kong profits tax paid		(7,518)	(1,558)
China taxation paid		(158,402)	(118,244)
Net cash inflow from operating activities		1,079,930	1,157,745
Investing activities			
Dividends received from jointly controlled entities and associated companies		53,229	94,060
Dividends received from other investments		—	14,904
Investment in toll highway and bridges		—	(3,121)
Purchases of property, plant and equipment, investment property and leasehold land and land use right		(859,536)	(202,338)
Sale of property, plant and equipment		25,210	39,972
Purchase of subsidiaries		—	2,339
Acquisition of additional interests in subsidiaries	34(b)	(86,109)	—
Disposal of certain interests in a subsidiary	35	2,768,105	—
Issue of a subsidiary's shares		664	315
Capital injection in a jointly controlled entity		(53,846)	(82,160)
Partial disposal of a jointly controlled entity		51,853	—
Purchases of other investments		—	(1,496)
Repayment from/(advance to) associated companies and jointly controlled entities		47,856	(5,124)
Increase in charged bank deposits		(94,145)	(70,747)
Net cash inflow/(outflow) from investing activities		1,853,281	(213,396)
Financing activities			
Issue of ordinary shares		89,274	43,643
Capital contribution from minority shareholders of subsidiaries		—	4,476
(Repayment to)/advance from associated companies		(32,095)	48,031
New bank loans		5,683,518	932,996
Repayment of bank loans		(5,909,875)	(1,801,602)
New other borrowings		48	170,049
Repayment of other borrowings		(51,202)	(231,818)
Dividends paid		(165,967)	(120,792)
Dividends paid to minority shareholders of subsidiaries		(154,106)	(218,993)
Net cash outflow from financing activities		(540,405)	(1,174,010)
Increase/(decrease) in cash and cash equivalents		2,392,806	(229,661)
Cash and cash equivalents at the beginning of year		806,147	1,035,808
Cash and cash equivalents at the end of year		3,198,953	806,147
Analysis of balances of cash and cash equivalents			
Bank balances and cash		3,226,238	830,910
Bank overdrafts		(27,285)	(24,763)
		3,198,953	806,147

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Note	Attributable to equity holders of the Company			Total HK\$'000
		Share capital	Reserves	Minority interests	
		HK\$'000	HK\$'000	HK\$'000	
Balance at 1st January 2005, as previously reported as equity		635,160	6,599,141	—	7,234,301
Balance at 1st January 2005, as previously separately reported as minority interests		—	—	3,467,807	3,467,807
Amortisation of leasehold land and land use rights	31	—	(444,147)	(25,851)	(469,998)
Adjustment for deferred tax arising from the revaluation of investment properties	31	—	202,805	9,233	212,038
Adjustment for rental income from incidental operations capitalised as property under development		—	27,747	—	27,747
Balance at 1st January 2005, as restated		635,160	6,385,546	3,451,189	10,471,895
Opening adjustment on adoption of HKAS 39	31	—	168,424	18,020	186,444
Opening adjustment on adoption of HKFRS 3	31	—	521,099	5,640	526,739
Balance at 1st January 2005 after opening adjustments, as restated		635,160	7,075,069	3,474,849	11,185,078
Currency translation differences	31	—	228,439	66,668	295,107
Release of reserve upon deemed disposal of certain interest in a subsidiary	31	—	34	2,071	2,105
Decrease in fair value of available-for-sale financial assets	31	—	(28,893)	(24,583)	(53,476)
Fair value adjustment on loans from minority interests	31	—	5,356	10,264	15,620
Net income recognised directly in equity		—	204,936	54,420	259,356
Profit for the year	31	—	2,527,765	355,908	2,883,673
Total recognised income for the year ended 31st December 2005		—	2,732,701	410,328	3,143,029
Employees share option scheme - value of employee services	31	—	22,524	—	22,524
Issue of share capital	31	16,734	72,540	—	89,274
Dividend paid	31	—	(165,967)	(154,106)	(320,073)
Acquisition of additional interests in a subsidiary		—	—	(180,345)	(180,345)
		16,734	(70,903)	(334,451)	(388,620)
Balance at 31st December 2005		651,894	9,736,867	3,550,726	13,939,487

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Note	Attributable to equity holders of the Company			Total HK\$'000
		Share capital HK\$'000	Reserves HK\$'000	Minority interests HK\$'000	
Balance at 1st January 2004, as previously reported as equity		624,872	6,344,488	—	6,969,360
Balance at 1st January 2004, as previously separately reported as minority interests		—	—	3,374,822	3,374,822
Amortisation of leasehold land and land use rights	31	—	(406,472)	(22,733)	(429,205)
Adjustment for deferred tax arising from the revaluation of investment properties	31	—	203,063	9,220	212,283
Adjustment for rental income from incidental operations capitalised as property under development	31	—	25,282	—	25,282
Balance at 1st January 2004, as restated		624,872	6,166,361	3,361,309	10,152,542
Currency translation differences	31	—	(1,588)	(2,066)	(3,654)
Release of reserve upon deemed disposal of certain interest in a subsidiary	31	—	(3)	799	796
Release of reserve upon disposal of properties held for sale	31	—	(30,675)	—	(30,675)
Provision for impairment of goodwill	31	—	43,533	—	43,533
Net income/(expenses) recognised directly in equity		—	11,267	(1,267)	10,000
Profit for the year	31	—	272,736	277,842	550,578
Total recognised income for the year ended 31st December 2004		—	284,003	276,575	560,578
Employees share option scheme – value of employee services	31	—	22,619	—	22,619
Issue of share capital	31	10,288	33,355	—	43,643
Capital contribution from minority shareholders of subsidiaries		—	—	4,476	4,476
Deemed acquisition of a subsidiary		—	—	27,822	27,822
Dividend paid	31	—	(120,792)	(218,993)	(339,785)
		10,288	(64,818)	(186,695)	(241,225)
Balance at 31st December 2004		635,160	6,385,546	3,451,189	10,471,895

Notes to the Financial Statements

For the year ended 31st December 2005

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.

Notes to the Financial Statements

For the year ended 31st December 2005

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:

Increase/(decrease)	Effect of adoption of				Total HK\$'000
	HKAS 17 HK\$'000	HKAS-Int 21 HK\$'000	HKFRS 2 HK\$'000	HKAS 16 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	<u>(37,675)</u>	<u>(258)</u>	<u>(22,619)</u>	<u>2,465</u>	<u>(58,087)</u>
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	<u>(757,707)</u>	<u>—</u>	<u>—</u>	<u>27,747</u>	<u>(729,960)</u>
Deferred tax liabilities	(287,709)	(212,038)	—	—	(499,747)
Total liabilities	<u>(287,709)</u>	<u>(212,038)</u>	<u>—</u>	<u>—</u>	<u>(499,747)</u>
Net assets	<u>(469,998)</u>	<u>212,038</u>	<u>—</u>	<u>27,747</u>	<u>(230,213)</u>
Reserves	(444,147)	202,805	—	27,747	(213,595)
Minority interests	(25,851)	9,233	—	—	(16,618)
Total equity	<u>(469,998)</u>	<u>212,038</u>	<u>—</u>	<u>27,747</u>	<u>(230,213)</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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							Total HK\$'000
	HKAS 17 HK\$'000	HKAS 32 & 39 HK\$'000	HKAS-Int 21 HK\$'000	HKFRS 2 HK\$'000	HK-Int 3 HK\$'000	HKFRS 3 HK\$'000	HKAS 16 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

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For the year ended 31st December 2005

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.

Notes to the Financial Statements

For the year ended 31st December 2005

5 TURNOVER, REVENUE AND SEGMENT INFORMATION

Turnover recognised is as follows:

	2005 HK\$'000	2004 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
	<u>3,954,998</u>	<u>4,544,209</u>

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.

Notes to the Financial Statements

For the year ended 31st December 2005

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	<u>424,845</u>	<u>400,212</u>	<u>2,335,901</u>	<u>2,903,304</u>	<u>1,194,252</u>	<u>1,240,693</u>	<u>3,954,998</u>	<u>4,544,209</u>
Segment results	<u>130,479</u>	<u>155,431</u>	<u>3,022,868</u>	<u>413,489</u>	<u>96,820</u>	<u>94,947</u>	<u>3,250,167</u>	<u>663,867</u>
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							<u>2,883,673</u>	<u>550,578</u>
Capital expenditure	300	3,788	475,971	130,247	383,265	68,303	859,536	202,338
Depreciation and amortisation	<u>108,448</u>	<u>113,871</u>	<u>160,977</u>	<u>104,403</u>	<u>68,844</u>	<u>118,931</u>	<u>338,269</u>	<u>337,205</u>

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							<u>27,095,641</u>	<u>24,471,063</u>
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							<u>13,156,154</u>	<u>13,999,168</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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
	<u>3,954,998</u>	<u>4,544,209</u>	<u>859,536</u>	<u>202,338</u>	<u>25,480,274</u>	<u>23,454,629</u>
Unallocated assets					1,615,367	1,016,434
Total assets					<u>27,095,641</u>	<u>24,471,063</u>

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	—
	<u>281,718</u>	<u>164,392</u>

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
	<u>52,107</u>	<u>35,970</u>

Notes to the Financial Statements

For the year ended 31st December 2005

8 EXPENSES BY NATURE

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

	2005 HK\$'000	2004 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	—
	<u> </u>	<u> </u>

9 FINANCE COSTS

	2005 HK\$'000	2004 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
	<u> </u>	<u> </u>
Total borrowing costs incurred	335,342	167,911
Less: amount capitalised in properties under development (<i>note</i>)	(33,596)	(55,399)
	<u> </u>	<u> </u>
	<u>301,746</u>	<u>112,512</u>

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).

Notes to the Financial Statements

For the year ended 31st December 2005

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)
	<u>270,477</u>	<u>109,605</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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	<u>2,913,878</u>	<u>537,469</u>
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	<u>14,118</u>	<u>19,646</u>
	313,260	169,138
Land appreciation tax	<u>(42,783)</u>	<u>(59,533)</u>
Taxation charges	<u>270,477</u>	<u>109,605</u>

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).

Notes to the Financial Statements

For the year ended 31st December 2005

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)	<u>2,527,765</u>	<u>272,736</u>
Weighted average number of ordinary shares in issue ('000)	<u>6,392,162</u>	<u>6,318,186</u>
Basic earnings per share (HK cents)	<u>39.54</u>	<u>4.32</u>

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)	<u>2,527,765</u>	<u>272,736</u>
Weighted average number of ordinary shares in issue ('000)	<u>6,392,162</u>	<u>6,318,186</u>
Adjustments for - share options ('000)	<u>99,097</u>	<u>106,215</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>6,491,259</u>	<u>6,424,401</u>
Diluted earnings per share (HK cents)	<u>38.94</u>	<u>4.25</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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	—
	<u>575,439</u>	<u>109,797</u>

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
	<u>418,527</u>	<u>322,261</u>

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).

Notes to the Financial Statements

For the year ended 31st December 2005

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 HK\$'000	Salary HK\$'000	Discretionary	Pension HK\$'000	Others (e) HK\$'000	Total HK\$'000
			bonuses 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 HK\$'000	Salary HK\$'000	Discretionary	Pension HK\$'000	Others (e) HK\$'000	Total HK\$'000
			bonuses 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.

Notes to the Financial Statements

For the year ended 31st December 2005

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	<u>1,795,918</u>	<u>348,783</u>	<u>2,144,701</u>
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	<u>1,703,684</u>	<u>336,336</u>	<u>2,040,020</u>
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	<u>1,703,684</u>	<u>336,336</u>	<u>2,040,020</u>
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	<u>1,648,510</u>	<u>331,507</u>	<u>1,980,017</u>
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	<u>1,648,510</u>	<u>331,507</u>	<u>1,980,017</u>

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

Notes to the Financial Statements

For the year ended 31st December 2005

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

Notes to the Financial Statements

For the year ended 31st December 2005

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	<u>9,708</u>	<u>1,085</u>	<u>406</u>	<u>11,199</u>
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	<u>10,622</u>	<u>1,381</u>	<u>260</u>	<u>12,263</u>
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	<u>10,622</u>	<u>1,381</u>	<u>260</u>	<u>12,263</u>
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	<u>10,275</u>	<u>672</u>	<u>113</u>	<u>11,060</u>
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	<u>10,275</u>	<u>672</u>	<u>114</u>	<u>11,060</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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	—
	<u>3,301,437</u>	<u>4,775,305</u>
End of the year	<u>3,301,437</u>	<u>4,775,305</u>

(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	—
	<u>10,500</u>	<u>10,300</u>
End of the year	<u>10,500</u>	<u>10,300</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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	—	—
	<u>3,301,437</u>	<u>4,775,305</u>	<u>10,500</u>	<u>10,300</u>

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

Notes to the Financial Statements

For the year ended 31st December 2005

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 HK\$'000	2004 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	<u>7,563,939</u>	<u>8,207,453</u>
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
	<u>4,372,994</u>	<u>4,778,439</u>
Current		
- in relation to properties under development	3,040,412	2,724,934
- in relation to properties held for sale	150,533	704,080
	<u>3,190,945</u>	<u>3,429,014</u>
	<u>7,563,939</u>	<u>8,207,453</u>
	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
	<u>7,563,939</u>	<u>8,207,453</u>

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).

Notes to the Financial Statements

For the year ended 31st December 2005

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

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

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 HK\$'000	2004 HK\$'000
	Share of net assets	538,624
Amounts due from jointly controlled entities	<u>147,105</u>	<u>155,664</u>
	<u>685,729</u>	<u>643,435</u>
Amounts due to jointly controlled entities	<u>(83,559)</u>	<u>(123,442)</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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).

Notes to the Financial Statements

For the year ended 31st December 2005

22 INTERESTS IN ASSOCIATED COMPANIES

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2005

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)
	<hr/>
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
	<hr/>
At the end of the year	<u>354,912</u>

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
	<hr/>	<hr/>
	<u>319,105</u>	<u>195,288</u>

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

Notes to the Financial Statements

For the year ended 31st December 2005

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 HK\$'000	2004 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
	<u>431,675</u>	<u>457,868</u>

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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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
	<u>3,226,238</u>	<u>830,910</u>	<u>1,499,622</u>	<u>39,832</u>

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).

Notes to the Financial Statements

For the year ended 31st December 2005

28 TRADE PAYABLES

The ageing analysis of the trade payables were as follows:

	Group	
	2005 HK\$'000	2004 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
	<u>374,190</u>	<u>414,493</u>

29 SHARE CAPITAL

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

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).

Notes to the Financial Statements

For the year ended 31st December 2005

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)
	<hr/>
At 31st December 2004	604,008
	<hr/> <hr/>
At 1st January 2005	604,008
Exercised during the year	(167,338)
Lapsed during the year	(11,656)
	<hr/>
At 31st December 2005	425,014
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Notes to the Financial Statements

For the year ended 31st December 2005

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	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.

Notes to the Financial Statements

For the year ended 31st December 2005

31 RESERVES

(a) Group

	Share premium	Capital redemption reserve	Statutory reserves	Exchange fluctuation reserve	Employee share-based compensation reserves	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	<u>5,740,733</u>	<u>1,815</u>	<u>79,397</u>	<u>(78,299)</u>	<u>26,635</u>	<u>615,265</u>	<u>6,385,546</u>
Representing:							
2004 Final dividend proposed						57,266	
Others						557,999	
						<u>615,265</u>	

Notes to the Financial Statements

For the year ended 31st December 2005

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	

Notes to the Financial Statements

For the year ended 31st December 2005

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 HK\$'000	Capital redemption reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Retained profits HK\$'000	Total 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	<u>5,740,733</u>	<u>1,815</u>	<u>26,635</u>	<u>289,182</u>	<u>6,058,365</u>
Representing:					
2004 Final dividend proposed				57,266	
Others				231,916	
Retained profits as at 31st December 2004				<u>289,182</u>	
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	<u>5,813,273</u>	<u>1,815</u>	<u>49,159</u>	<u>3,112,589</u>	<u>8,976,836</u>
Representing:					
2005 Final and special dividend proposed				467,041	
Others				2,645,548	
Retained profits as at 31st December 2005				<u>3,112,589</u>	

Notes to the Financial Statements

For the year ended 31st December 2005

32 BORROWINGS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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	—	—
	<u>3,953,242</u>	<u>4,038,412</u>	<u>1,589,096</u>	<u>2,316,646</u>
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
	<u>1,526,901</u>	<u>2,046,850</u>	<u>291,573</u>	<u>633,960</u>
Total borrowings	<u>5,480,143</u>	<u>6,085,262</u>	<u>1,880,669</u>	<u>2,950,606</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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
	<u>4,970,655</u>	<u>5,194,490</u>	<u>509,488</u>	<u>890,772</u>

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
	<u>1,793,045</u>	<u>2,441,233</u>	<u>87,624</u>	<u>509,373</u>

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
	<u>5,480,143</u>	<u>6,085,262</u>	<u>1,880,669</u>	<u>2,950,606</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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 (<i>Note 10</i>)	182,213	(101,189)
Disposal of subsidiaries (<i>Note 35</i>)	(1,174,673)	—
Taxation credited to equity	(8,564)	(5,543)
At 31st December	<u>2,157,446</u>	<u>3,074,333</u>

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	Revaluation of properties	Tax loss	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	<u>27,246</u>	<u>15,155</u>	<u>9,423</u>	<u>15,905</u>	<u>67,729</u>
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	<u>106,900</u>	<u>24,117</u>	<u>12,029</u>	<u>—</u>	<u>143,046</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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:

	Group				Total HK\$'000
	Revaluation of properties HK\$'000	Accelerated depreciation HK\$'000	Revaluation of Investment HK\$'000	Others 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	<u>3,117,753</u>	<u>8,273</u>	<u>—</u>	<u>16,036</u>	<u>3,142,062</u>
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	<u>2,202,898</u>	<u>5,985</u>	<u>75,573</u>	<u>16,036</u>	<u>2,300,492</u>

Deferred income tax assets are recognised for tax loss carry forwards and the revaluation of properties to the extent that realisation of the related tax benefit through the future taxation profits is probable. As at 31st December 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
	<u>67,980</u>	<u>56,199</u>
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
	<u>2,225,426</u>	<u>3,130,532</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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	<u>1,529,085</u>	<u>1,409,488</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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

(b) Acquisition of additional interests in a subsidiary

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

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	<u>(1,174,673)</u>
Total assets disposed	<u>2,005,832</u>
Consideration received:	
Cash	2,982,094
Investment in an associated company	1,141,455
Amount due from an associated company	23,941
	<u>4,147,490</u>
Direct costs for disposal	<u>(112,665)</u>
Total consideration received	<u>4,034,825</u>
Gain on disposal of subsidiaries	<u>2,028,993</u>
Net cash inflow arising from disposal of subsidiaries	<u>2,768,105</u>

Notes to the Financial Statements

For the year ended 31st December 2005

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)	<u>(1,245,434)</u>
Excess of the fair value of net assets acquired over acquisition cost (Note 6) (ii)	<u><u>(103,979)</u></u>

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	<u>207,841</u>	<u>215,354</u>
	<u><u>327,331</u></u>	<u><u>339,122</u></u>

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

Notes to the Financial Statements

For the year ended 31st December 2005

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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 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	—	—
	<u>607,368</u>	<u>804,782</u>	<u>76</u>	<u>70</u>

38 OTHER COMMITMENTS

	Group	
	2005 HK\$'000	2004 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	—	—
	<u>265,869</u>	<u>14,359</u>

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

Notes to the Financial Statements

For the year ended 31st December 2005

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).

Notes to the Financial Statements

For the year ended 31st December 2005

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 HK\$'000	2004 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 (<i>Note</i>)	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.

Notes to the Financial Statements

For the year ended 31st December 2005

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
	<u>23,117</u>	<u>19,728</u>

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.

Principal subsidiaries

As at 31st December 2005, the Company held shares/interests in the following principal subsidiaries:

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Able Step Investment Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Property investment
Beexiu Industrial (Shenzhen) Co., Ltd.	China, limited liability company	Registered capital HK\$7,000,000	—	100	—	100	Property development
Better Wealth Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
Bond Master Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Property investment
Bright Rise Investment Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Charcon Development Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Charm Smart Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Property development
Companhia de Fomento Predial Yue Xiu (Macau), Limitada	Macau	1 share of MOP198,000 and 1 share of MOP2,000	—	100	—	100	Property development
Companhia de Gestao Imobiliaria Hang Sao, Limitada	Macau	1 share of MOP99,000 and 1 share of MOP1,000	—	100	—	100	Property management
Crystal Path Investment Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Property investment
Dalian Perfect Base Property Development Co., Ltd.	China, limited liability company	Registered capital US\$7,500,000	—	100	—	100	Property development

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Dragon Yield Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	—	—	Investment holding
Elsburg Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
Eternal Fine International Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Ever Famous International Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
First-Win Group Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Front Riches Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
Fundscore Development Limited	Hong Kong	500,000 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
Glow Bright Investment Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Goldtech Worldwide Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Grand System Development Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Green Park Development Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Property investment
Guangzhou Bright Growth City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB88,315,800	—	95	—	95	Property development

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Guangzhou Carry Win City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB28,684,800	—	95	—	95	Property development
Guangzhou Central Funds City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB37,236,300	—	95	—	95	Property development
Guangzhou Charcon Real Estate Co., Ltd.	China, limited liability company	Registered capital HK\$259,670,000	—	100	—	100	Property development
Guangzhou Charfar Real Estate Company Limited	China, limited liability company	Registered capital RMB111,450,000	—	75	—	75	Property development
Guangzhou Charho Real Estate Company Limited	China, limited liability company	Registered capital US\$5,000,000	—	100	—	100	Property development
Guangzhou City Construction & Development Co. Ltd.	China, limited liability company	Registered capital RMB1,631,012,700	—	95	—	95	Property development
Guangzhou City Construction & Development Consulting Ltd.	China, limited liability company	Registered capital RMB2,145,800	—	98.13	—	98.13	Consulting services in property development
Guangzhou City Construction & Development Decoration Ltd.	China, limited liability company	Registered capital RMB35,882,800	—	98.62	—	98.62	Decoration and design
Guangzhou City Construction & Development Group Nansha Co. Ltd	China, limited liability company	Registered capital RMB25,000,000	—	95	—	95	Property development

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Guangzhou City Construction & Development Homecity Supermarket Ltd	China, limited liability company	Registered capital RMB33,178,900	—	98.13	—	98.13	Supermarket operator
Guangzhou City Construction & Development Jingcheng Property Co. Ltd.	China, limited liability company	Registered capital RMB13,712,500	—	95	—	95	Property development
Guangzhou City Construction & Development Property Ltd.	China, limited liability company	Registered capital RMB12,994,800	—	95	—	95	Property development and investment
Guangzhou City Construction Project Management Co. Ltd.	China, limited liability company	Registered capital RMB8,921,500	—	65	—	65	Project management
Guangzhou City Construction & Development Weicheng Enterprise Ltd.	China, limited liability company	Registered capital RMB955,300	—	80	—	80	Property investment
Guangzhou City Construction & Development Xingye Property Agent Ltd.	China, limited liability company	Registered capital RMB37,520,000	—	52	—	52	Real estate agency
Guangzhou Construction & Development Holdings (China) Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	100	—	Investment holding
Guangzhou Cowan City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB28,684,800	—	95	—	95	Property development

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Guangzhou Eastern Growth City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB12,734,400	—	95	—	95	Property development
Guangzhou Faithbond City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB16,231,400	—	95	—	95	Property development
GZ City Construction & Development Grandcity Parking Property Management Co. Ltd.	China, limited liability company	Registered capital RMB2,730,600	—	81.26	—	81.26	Car parking management
Guangzhou Grandcity Development Ltd.	China, limited liability company	Registered capital RMB539,578,600	—	100	—	100	Property development
Guangzhou Guangxiu City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB18,287,700	—	95	—	95	Property development
Guangzhou Honour City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB16,386,800	—	95	—	95	Property development
Guangzhou Investment (China Property) Company Limited	British Virgin Islands	5,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Guangzhou Investment Finance Company Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	—	100	—	Financial services
Guangzhou Investment (HK Property) Company Limited	British Virgin Islands	1 Ordinary share of HK\$1 each	—	100	—	100	Investment holding
Guangzhou Investment (Macau Property) Company Limited	British Virgin Islands	1 Ordinary share of HK\$1 each	—	100	—	100	Investment holding
Guangzhou Investment Property Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	100	—	Investment holding

Group Structure

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Guangzhou Jieyacheng Real Estate Development Co., Ltd.	China, limited liability company	Registered capital HK\$92,000,000	—	92	—	92	Property development
Guangzhou Keen Asia City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB14,083,200	—	95	—	95	Property development
Guangzhou May Hua City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB12,853,900	—	95	—	95	Property development
Guangzhou Million Top City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB28,684,800	—	95	—	95	Property development
¹ Guangzhou Nanxin Highways Development Company Limited	China, limited liability company	Registered capital RMB141,463,000	—	27.44	—	27.46	Development and management of Guangshen Highway linking Guangzhou and Shenzhen
Guangzhou Paper Co., Ltd.	China, limited liability company	Registered capital RMB924,680,000	—	51	—	51	Manufacture and sale of newsprint
Guangzhou Perfect City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB14,448,600	—	95	—	95	Property development
¹ Guangzhou Qiaowei Highways Development Company Limited	China, limited liability company	Registered capital RMB12,326,000	—	34.30	—	34.33	Investment holding
Guangzhou Seaport City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB23,074,600	—	95	—	95	Property development
Guangzhou Sincere Land City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB14,083,200	—	95	—	95	Property development
¹ Guangzhou Suiqiao Development Company Limited	China, limited liability company	Registered capital RMB1,000,000	—	34.30	—	34.33	Investment holding

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Guangzhou Sun Peak City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB14,440,300	—	95	—	95	Property development
¹ Guangzhou Taihe Highways Development Company Limited	China, limited liability company	Registered capital RMB155,980,000	—	27.44	—	27.46	Development and management of Guangcong Highway Section I linking Guangzhou and Conghua
¹ Guangzhou Tailong Highways Development Company Limited	China, limited liability company	Registered capital RMB116,667,000	—	17.49	—	17.50	Development and management of Guangcong Highway Section II linking Guangzhou and Conghua, and Provincial Highway 1909 linking Conghua and Longtan
Guangzhou Talent Gather City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB11,952,000	—	95	—	95	Property development
Guangzhou Tiyu Building Company Limited	China, limited liability company	Registered capital US\$26,700,000	—	100	—	100	Property development and investment
Guangzhou Top Jade City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB11,952,000	—	95	—	95	Property development
Guangzhou Tung Win City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB11,952,000	—	95	—	95	Property development
Guangzhou Unionwin City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB19,776,700	—	95	—	95	Property development

Group Structure

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
¹ Guangzhou Weian Highways Development Company Limited	China, limited liability company	Registered capital RMB175,750,000	—	27.44	—	27.46	Development and management of Guangshan Highway linking Guangzhou and Shantou
Guangzhou White Horse Clothings Market Ltd.	China, limited liability company	Registered capital RMB118,873,900	—	100	—	76.33	Property investment
Guangzhou Winbase City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB11,952,000	—	95	—	95	Property development
Guangzhou Winner City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB28,684,800	—	95	—	95	Property development
Guangzhou Xingcheng Enterprise Development Ltd.	China, limited liability company	Registered capital RMB154,612,700	—	95	—	95	Property investment
¹ Guangzhou Xinguang Highways Development Company Limited	China, limited liability company	Registered capital RMB143,333,000	—	18.87	—	18.88	Development and management of Guanghua Highway linking Guangzhou and Huadu
Guangzhou Yicheng Property Management Ltd.	China, limited liability company	Registered capital RMB3,403,700	—	85.68	—	85.68	Property management
Guangzhou Yieldwise City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB14,083,200	—	95	—	95	Property development
¹ Guangzhou Yue Peng Information Ltd.	China, limited liability company	Registered capital RMB160,000,000	—	34.30	—	34.33	Investment holding
Guangzhou Yue Xiu Property Management Company Limited	China, limited liability company	Registered capital RMB1,000,000	—	60	—	60	Property management

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Guangzhou Ziwei City Real Estates Co. Ltd.	China, limited liability company	Registered capital RMB59,618,800	—	95	—	95	Property development
GZI REIT Asset Management Limited	Hong Kong	10,000,000 Ordinary shares of HK\$1 each	100	—	—	—	Asset management
GZI Transport (Holdings) Limited	British Virgin Islands	1,848,497,550 Ordinary shares of HK\$1 each	—	51	—	51	Investment holding
¹ GZI Transport Limited	Bermuda	1,114,649,530 Ordinary shares of HK\$0.1 each	0.01	34.29	0.01	34.32	Investment holding
Honstar Investments Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
¹ Hunan Yue Tung Highway and Bridge Development Company Limited	China, limited liability company	Registered capital RMB21,000,000	—	25.73	—	25.75	Development and management of Xiang Jiang Bridge II in Hunan Province
Intro-Win Development Limited	Hong Kong	5,000,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Jamsin Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	—	100	—	Property holding
Jankon International Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Jumbo Good Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
Jumbo King Development Limited	Hong Kong, Singapore	2 Ordinary shares of HK\$1 each	100	—	100	—	Property investment
Kam Hon Investment Company Limited	Hong Kong	10,000 Ordinary shares of HK\$100 each	—	100	—	100	Investment holding

Group Structure

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Kingswell Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Property investment
¹ Kiu Fung Limited	British Virgin Islands	2 Ordinary shares of HK\$1 each	—	34.30	—	34.33	Investment holding
Light Home Development Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Merry Growth Development Limited	Hong Kong	100 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
Nation Harvest Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Pacific Max Industrial Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Perfect Base Development Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Raybeach Investment Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
Round Table Holdings Limited	British Virgin Islands	100 Ordinary shares of HK\$1 each	100	—	100	—	Investment holding
¹ Shaanxi Jinxiu Transport Co., Limited	China, limited liability company	Registered capital RMB100,000,000	—	34.30	—	34.33	Development and management of Xian-Lintong Expressway in Shaanxi Province
Sino Peace Development Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Property investment

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Smart Rise Development Limited	Hong Kong	100 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
¹ Smart Top Enterprises Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	34.30	—	34.33	Property holding
Sociedade de Fomento Predial Codo (Macau) Limitada	Macau	1 share of MOP99,000 and 1 share of MOP1,000	—	100	—	100	Property development
Star Noble Enterprises Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Super Gain Development Limited	British Virgin Islands	350,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Superland Development Ltd.	British Virgin Islands	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Takwill International Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Top Health International Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Viclong Company Limited	Hong Kong	100 Ordinary shares of HK\$100 each	—	100	—	100	Property investment
Winston Investment Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Property investment
Worldbest Development Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Yue Xiu APT Parking Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Car parking management
Yue Xiu Property Agency Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Property agency services

Group Structure

Principal subsidiaries (cont'd)

Name of subsidiary	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Effective percentage of attributable interest held by the Company				Principal Activities
			2005		2004		
			Direct	Indirect	Direct	Indirect	
Yue Xiu Property Consultants Limited	Hong Kong	100 Ordinary shares of HK\$1 each and 500,000 Non-voting deferred shares of HK\$1 each	—	100	—	100	Property management consultancy services
Yue Xiu Property Management Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Building management services
廣州白馬物業管理 有限公司	China, Limited liability Company	Registered capital RMB5,000,000	—	96.75	—	84.61	Property management

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

- ¹ These are subsidiaries as the Group's interests in these companies are held through subsidiaries which in turn hold more than 50% of the issued voting share capital in these companies.

Principal jointly controlled entities

As at 31st December 2005, the Group held the following principal jointly controlled entities:

Name of jointly controlled entity	Place of establishment and operation	Effective percentage of indirect interest in ownership/ voting power/profit sharing		Principal activities
		2005	2004	
Guangdong Xinshidai Real Estate Ltd.	China	45 33.33 44	45 33.33 44	Property development
Guangzhou Northern Second Ring Expressway Co., Limited	China	13.72 40 13.72	15.79 40 15.79	Development and management of Guangzhou Northern Second Ring Expressway in Guangzhou
Guangzhou South House Property Industry Co., Ltd.	China	30 28.57 30	30 28.57 30	Property development and management
Guangzhou Western Second Ring Expressway Co., Limited	China	12.01 33 12.01	12.02 33 12.02	Development and management of Guangzhou Western Second Ring Expressway in Guangzhou
Hainan China City Property Development Co., Ltd.	China	52 57.14 52	52 57.14 52	Property development

Principal associated companies

As at 31st December 2005, the Group held shares/interests in the following principal associated companies:

Name of associated company	Place of incorporation/ establishment and operation	Effective percentage holding		Principal activities
		2005	2004	
Companhia de Investimento Predial San Chee Lee, Limitada	Macau	25	25	Investment holding
Country Calm Investment and Development Company Limited	Macau	50	50	Property development
¹ Guangdong Humen Bridge Co., Ltd.	China	8.58	8.58	Development and management of Humen Bridge in Humen
¹ Guangdong Qinglian Highway Development Co., Ltd.	China	8.09	8.10	Development and management of National Highway 107 linking Qingyuan and Lianzhou
¹ Guangdong Shantou Bay Bridge Co., Ltd.	China	10.29	10.30	Development and management of Shantou Bay Bridge in Shantou
¹ Guangzhou Northring Freeway Co., Ltd.	China	8.33	8.34	Development and management of Guangzhou City Northern Ring Road
Guangzhou Xin Yue Real Estate Development Co. Ltd	China	28.20	28.20	Property development
* GZI Real Estate Investment Trust	Hong Kong	40.88	—	Property investment

¹ These are associated companies as the Group's interests in these companies are held through subsidiaries which in turn hold more than 20% of the issued voting share capital in these companies.

* Associate

BOARD OF DIRECTORS

Executive directors

Ou Bingchang (*Chairman*)
Liang Yi
Li Fei
Chen Guangsong
Tang Shouchun
Wang Hongtao

Independent non-executive directors & audit committee members

Yu Lup Fat Joseph
Lee Ka Lun
Lau Hon Chuen Ambrose

COMPANY SECRETARY

Yu Tat Fung

QUALIFIED ACCOUNTANT

Chow Wai Kit

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

WEBSITES TO ACCESS COMPANY INFORMATION

<http://www.gzinvestment.com.hk>
<http://www.hkex.com.hk>

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160 Lockhart Road
Wanchai, Hong Kong

SHARE REGISTRAR

Abacus Share Registrars Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

SHARE LISTING

The Company's shares are listed on:
The Stock Exchange of Hong Kong Limited
Singapore Exchange Securities Trading Limited

The stock codes are:
The Stock Exchange of Hong Kong Limited – 123
Reuters – 123.HK
Bloomberg – 123 HK

INVESTOR RELATIONS

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List of Major Property Projects in Guangzhou Municipality: Land Bank

(at Year End 2005)

Project	Land Use	Land Bank (sq. m)	Location
Cong Hua Glade Village Sheng Gong Town, Cong Hua, Guangzhou	Villa	863,600	Cong Hua
Nan Sha Commercial Center Nansha District, Guangzhou	Commercial/ Office	600,000	Nan Sha
Southern Le Sand Nansha District, Guangzhou	Villa	564,000	Nan Sha
West Tower of Mega- Twin Commercial Tower Zhu Jiang Estate Tian He, Guangzhou	Commercial/ Office	400,000	Tian He
Jiangnan New Village Hai Zhu District, Guangzhou	Residential	292,500	Hai Zhu
Springland Garden Baogang South Street, Hai Zhu District, Guangzhou	Residential	262,400	Hai Zhu
Jiang Nan New Mansion No. 40 Xin Gang Xi Road, Hai Zhu District, Guangzhou	Residential	227,000	Hai Zhu
Zhu Jiang Estate B2-10 Zhu Jiang Estate, Tian He, Guangzhou	Office	173,400	Tian He
Zhu Jiang Estate E3-1 Zhu Jiang Estate Tian He, Guangzhou	Residential	145,800	Tian He
Sports Stadium Building No.119 Lihua Road, Yue Xiu District, Guangzhou	Commercial/ Office	125,000	Yue Xiu
Zhu Jiang Estate B2-7 Zhu Jiang Estate Tian He, Guangzhou	Office	122,600	Tian He
Fu Hai Garden (Phase 2 of Lingnan Garden) Zengcha Road, Bai Yun District, Guangzhou	Residential	93,800	Bai Yun
Land N4 At the Crossing of Dongfeng Road and Jiefang Road, Yue Xiu District, Guangzhou	Office	45,000	Yue Xiu

List of Major Property Projects in Guangzhou Municipality: Under Development (at Year End 2005)

Project	Land Use	Floor Area under development (sq. m)	Location
* Springland Garden Baogang South Street, Hai Zhu District, Guangzhou	Residential	242,800	Hai Zhu
Asian Pacific Century Plaza (Commercial 12-1, 5) Tian He North Road, Tian He District, Guangzhou	Office/ Commercial	223,900	Tian He
* Cong Hua Glade Village Sheng Gong Town, Cong Hua, Guangzhou	Villa	150,000	Cong Hua
Nan Sha Commercial Center Nansha District, Guangzhou	Office Commercial Others	75,730 30,800 24,300	Nan Sha
* Yue Xiu City Plaza (formerly known as Yue Xiu Building) Dongfeng Road Central, Yue Xiu District, Guangzhou	Office Commercial Others	62,500 21,600 21,100	Yue Xiu
* Victory Plaza (Tower Building portion) No. 101 Ti Yu Xi Road, Tian He District, Guangzhou	Office	89,595	Tian He
* Yue Xiu New Metropolis plaza (Metro RJ-1) At the crossing of Zhongshan Liu Road and Jiefang Road, Yue Xiu District, Guangzhou	Office/Commercial	86,000	Yue Xiu
* Xing Hui Ya Yuan (Happy Valley Project) Pin Jiang Road, Zhu Jiang Estate, Tian He District, Guangzhou	Residential	58,400	Tian He
* Jiang Nan New Mansion No. 40 Xin Gang Xi Road, Hai Zhu District, Guangzhou	Residential	55,500	Hai Zhu
* Binjiang Yiyuan (Chi Gang Qiao Xi Area) Binjiang East Road, Hai Zhu District, Guangzhou	Residential	53,500	Hai Zhu
* Southern Le Sand Nansha District, Guangzhou	Villa	23,400	Nan Sha
* Xing Hui Qing Xuan (Sanyuanli project) Jichang Xi Road Baiyun District, Guangzhou	Residential	18,200	Bai Yun

* These include projects intended to be launched for pre-sale in 2006.

List of Major Property Projects in Guangzhou Municipality: For Rental in 2006

Project	Land Use	Available Sales Area (sq. m)	Location
Xiangkang Commercial Plaza Sanyuan Li Main Street, Bai Yun District, Guangzhou	Office/ Commercial Carpark	28,862 3,361	Bai Yun
Guang Yuan Cultural Centre No. 33 Jing Tai Zhi Street, Bai Yun District, Guangzhou	Commercial Carpark	18,585 11,323	Bai Yun
Galaxy City (Podium) Zhu Jiang Estate, Tian He District, Guangzhou	Commercial Carpark	9,441 19,434	Tian He
Hong Fa Building Nos. 19-21 Tian He Nan Er Road, Tian He District, Guangzhou	Office Carpark	13,328 15,000	Tian He
Jiangxing Building No. 82 Jiangnan Main Road Central, Hai Zhu District, Guangzhou	Office	17,951	Hai Zhu
Run Hui Building Jiang Nan Xi Road Hai Zhu District, Guangzhou	Commercial Carpark	11,188 7,000	Hai Zhu
Junhui Building (Podium) Nos. 5, 7, 9 Ti Yu Xi Road, Tian He District, Guangzhou	Commercial Carpark	7,825 8,660	Tian He
Lu Hu Building No. 123 Lu Jing Road, Bai Yun District, Guangzhou	Office/ Commercial	10,385	Bai Yun
Nan Guo Jia Yuan No.268 Zhong Shan South Road Tian He District, Guangzhou	Commercial	10,367	Tian He
Guang Bai Jiang Nan Dian No. 148 Jiang Nan Main Road Central Hai Zhu District, Guangzhou	Commercial	7,613	Hai Zhu
Tian Hui Ge Nos 12-42, Tian He Eastern Road Tian He District, Guangzhou	Commercial	6,031	Tian He

List of Major Property Projects in Guangzhou Municipality: For Rental in 2006 (cont'd)

Project	Land Use	Available Sales Area (sq. m)	Location
Tong De Garden 1-7,9 Xi Cha Road Bai Yun District, Guangzhou	Commercial	5,816	Bai Yun
Xinchuangju Building (Portion) No. 123 Ti Yu Xi Road, Tian He District, Guangzhou	Office	5,800	Tian He
Tian He South 4 District Building No 111, Ti Yu Xi Heng Street, Tian He District, Guangzhou	Office	5,646	Tian He
Luochong Wei 1,2 Building No 12,14, Zeng Cha Road Bai Yun District, Guangzhou	Commercial	4,719	Bai Yun
Tian Xing Ge No 450, Tian He North Road Tian He District, Guangzhou	Commercial	4,460	Tian He
Phase 2 of Tian Yu Garden (podium) Nos. 136-146 Lin He Central Road Tian He District, Guangzhou	Commercial	4,440	Tian He
Nan Kang Ge Bao Gang Road Hai Zhu District, Guangzhou	Commercial Carpark	1,753 818	Hai Zhu
Chao Hui Commercial Center Nos. 2-12, Tian Shou Road Tian He District, Guangzhou	Commercial	1,578	Tian He

List of Major Property Projects in Guangzhou Municipality: For Sales in 2006

Project	Land Use	Available Sales Area (sq.m)	Location
* Springland Garden Baogang South Street, Hai Zhu District, Guangzhou	Residential	126,159	Hai Zhu
* Victory Plaza (Tower Building portion) No. 101 Ti Yu Xi Road, Tian He District, Guangzhou	Office	85,000	Tian He
* Cong Hua Glade Village Sheng Gong Town, Cong Hua, Guangzhou	Villa	79,001	Cong Hua
* Southern Le Sand Nansha District, Guangzhou	Villa	58,532	Nan Sha
* Yue Xiu New Metropolis plaza (Metro RJ-1) At the crossing of Zhongshan Liu Road and Jiefang Road, Yue Xiu District, Guangzhou	Office	51,379	Yue Xiu
* Binjiang Yiyuan (Chi Gang Qiao Xi Area) Binjiang East Road, Hai Zhu District, Guangzhou	Residential	48,223	Hai Zhu
* Jiang Nan New Mansion No. 40 Xin Gang Xi Road, Hai Zhu District, Guangzhou	Residential	45,901	Hai Zhu
* Xing Hui Ya Yuan (Happy Valley Project) Pin Jiang Road, Zhu Jiang Estate, Tian He District, Guangzhou	Residential	26,950	Tian He
* Yue Xiu City plaza (formerly known as Yue Xiu Building) Dongfeng Road Central, Yue Xiu District, Guangzhou	Office	24,950	Yue Xiu
* Xinghui Qing Xuan (Sanyuanli Project) Jichang Xi Road, Baiyuan District, Guangzhou	Residential	1,863	Bai Yun

* These projects were classified as properties under development or properties held for sale in the Financial Statement as at 31st December 2005

Location Map of Major Property Projects in Guangzhou Urban Area

