



GUANGZHOU INVESTMENT COMPANY LIMITED

越秀投資有限公司

(Stock Code: 123)



2006 ANNUAL REPORT

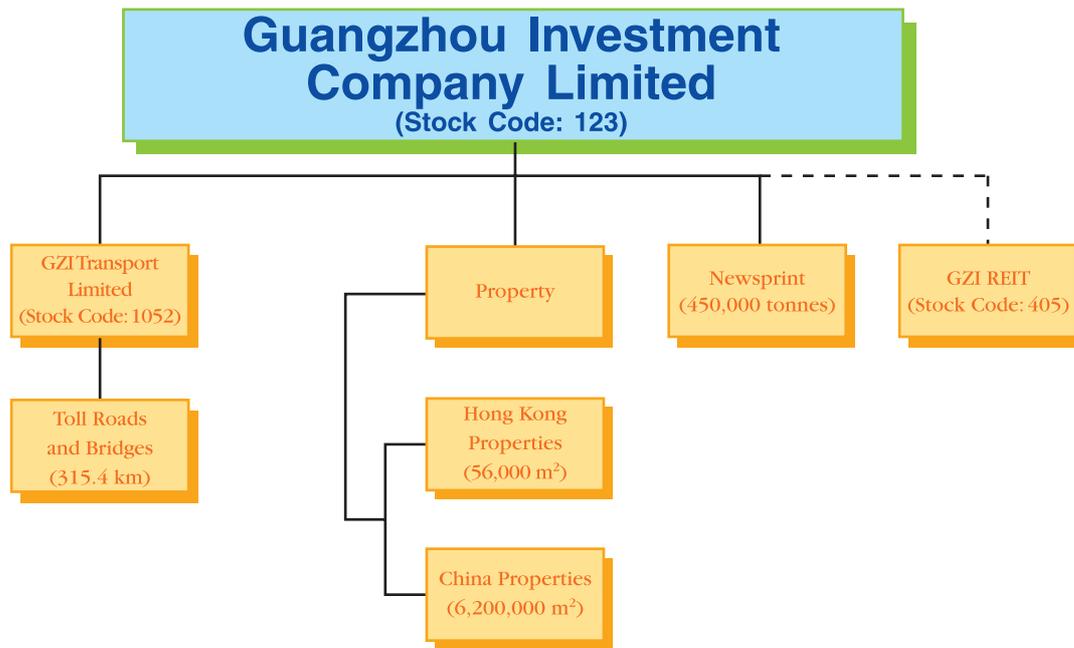


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Company Profile

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”) have built up several businesses consisting of property, newsprint and toll road mainly located in the Guangdong Province of the Mainland of the People’s Republic of China (“PRC”). These businesses all have substantial market shares in Southern China. Regarding the China property business, the Group currently has property projects under development and land bank in Guangzhou with total gross floor area of approximately 6.2 million sq. meters. The newsprint plant currently has annual production capacity of 450,000 tonnes. The toll road business is conducted through GZI Transport Limited (“GZT”), a subsidiary of the Company separately listed on the Stock Exchange in 1997. GZT is currently operating an attributable length of 315.4 km of toll road and bridge projects in Guangdong and other selective provinces of the PRC. The Group also holds a 31.33% interest in GZI Real Estate Investment Trust (“GZI REIT”), a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the first listed real estate investment trust in the world investing in real estate in the PRC.



Financial Highlights

| | Year ended 31 December | | |
|--|------------------------|------------------|--------|
| | 2006 HK\$'000 | 2005 HK\$'000 | Change |
| Revenue | 4,657,922 | 3,954,998 | ↑ 18% |
| Profit from operations | | | |
| - Before gain on disposal of subsidiaries ¹ | 1,036,764 | 1,134,524 | ↓ 9% |
| - After gain on disposal of subsidiaries ¹ | 1,036,764 | 3,163,517 | ↓ 67% |
| Share of profits less losses of | | | |
| - Jointly controlled entities | 60,431 | 38,210 | ↑ 58% |
| - Associated entities | 375,299 | 202,062 | ↑ 86% |
| Profit for the year | | | |
| - Before gain on disposal of subsidiaries ¹ | 1,019,969 | 854,680 | ↑ 19% |
| - After gain on disposal of subsidiaries ¹ | 1,019,969 | 2,883,673 | ↓ 65% |
| Profit attributable to equity holders of the Company | | | |
| - Before gain on disposal of subsidiaries ¹ | 712,615 | 498,772 | ↑ 43% |
| - After gain on disposal of subsidiaries ¹ | 712,615 | 2,527,765 | ↓ 72% |
| Earnings per share for profit attributable to the equity holders of the Company | | | |
| - Basic | 10.64 HK cents | 39.54 HK cents | ↓ 73% |
| - Fully diluted | 10.42 HK cents | 38.94 HK cents | ↓ 73% |
| Dividend per share | | | |
| - Interim, paid | 1.89 HK cents | 1.00 HK cents | ↑ 89% |
| - Final, proposed | 2.30 HK cents | 2.00 HK cents | ↑ 15% |
| Interest coverage | 4.26 times | 9.38 times | ↓ 55% |

| | As at 31 December | | |
|---|-------------------|------------------|--------|
| | 2006 HK\$'000 | 2005 HK\$'000 | Change |
| Total assets | 29,621,544 | 27,095,641 | ↑ 9% |
| Total liabilities | 14,645,386 | 13,156,154 | ↑ 11% |
| Shareholders' equity ² | 11,136,887 | 10,388,761 | ↑ 7% |
| Shareholders' equity per share ² | HK\$1.64 | HK\$1.55 | ↑ 6% |
| Gearing ratio | 21% | 13% | ↑ 8% |

¹ Disposal of subsidiaries refers to the spin off and separate listing of GZI REIT on the Stock Exchange in 2005.

² excluding minority interests

Chairman's Statement



The Group's businesses are mainly focused on Guangzhou, the political and economic centre of Pearl River Delta which is fastest growing economic region of the PRC. In 2006, the economy of Guangzhou grew at a high speed, and according to statistics based on registered resident population, gross domestic product ("GDP") per capita in Guangzhou exceeded USD10,000 for the first time. As a result, revenue of the Group amounted to HK\$4.658 billion for the year ended 31 December 2006, representing an increase of 18% as compared with the previous year. Profit attributable to equity holders of the Company reached approximately HK\$713 million, representing an increase of 43% as compared with last year on the same basis^(note 1). Earnings per share (basic) is approximately HK\$0.1064, and the recommended total dividend per share is HK\$0.0419 for the year.

The Group regards property business as its core business. While striving to satisfy the eager demand for housing of the different walks of life in Guangzhou, the Group fully understands the series of macro economic revision measures targeting at the property market implemented by the Central Government in 2006, and adopts the strategy of accelerating property development and further strengthening commercial property portfolio and proactively increases the Group's land bank at the same time, with the aim of ensuring a healthy, stable and sustainable development for the Group.

Chairman's Statement

Total GFA of properties sold and pre-sold and property allocated to the investment property portfolio in the year amounted to approximately 734,900 sq. m., of which:

GFA of properties sold with revenue recognised in the income statement amounted to approximately 261,600 sq. m., representing an increase of approximately 102.5% as compared with last year's approximately 129,200 sq. m. Relevant sales revenue reached approximately HK\$1.967 billion, representing an increase of approximately 58% as compared with last year.

GFA of properties under development pre-sold with revenue not yet recognised in the income statement amounted to approximately 240,300 sq. m., and the corresponding pre-sale proceeds amounted to approximately HK\$1.7 billion.

With the addition of properties to replenish its investment property portfolio, the total GFA of the Group's investment property portfolio increased by approximately 233,000 sq. m. to approximately 683,000 sq. m, representing an increase of 51.56% as compared to previous year. Revenue generated from investment properties reached approximately HK\$977 million, of which approximately HK\$747 million represented gain on revaluation.

Following last year's success in bidding for West Tower of Pearl River New City, the landmark project in Guangzhou for the construction of a mega tower exceeding 400 m. in height with GFA exceeding 430,000 sq. m., the Group invested approximately Rmb 2.9 billion in aggregate in the acquisition of 4 new sites, namely, the original Liwan cement plant site, the plot D3-7 at Pearl River New City and two plots 06NJY-1 and 06NJY-2 at Nansha District, Guangzhou; through open auctions and as a result increased its land bank by approximately 1.169 million sq. m. in GFA, as to approximately 780,000 sq. m. are earmarked for residential purposes and the balance for commercial and office purposes. The GFA of the total land bank of the Group increased to approximately 4.5 million sq. m.

The toll road business of the Group has achieved significant growth in the reporting year, profit attributable to equity holders of GZT amounted to approximately HK\$461 million, representing an increase of approximately 50.8% as compared to approximately HK\$306 million in last year. During the year, the Group shared approximately 34.3% results of GZT.

Meantime, the Group acquired an additional 20% equity interest in Guangzhou Northern Second Ring Expressway Company Limited ("GNSRE Company") for a consideration of Rmb666 million, and increased the Group's overall equity interest in that company to 60%, thus securing its first controlling equity interest in an expressway project in Guangdong Province.

Guangzhou Western Second Ring Expressway ("GWSR Expressway"), in which the Group holds an equity interest, opened for traffic ahead of schedule on 19 December 2006, creating a synergy with the Guangzhou Northern Second Ring Expressway ("GNSR Expressway"). It is expected that these two projects together will become the key growth driver of the Group's toll road business.

Last year, the newsprint business of the Group was affected by the drop in newsprint price in the PRC, while costs of raw materials and energy increased significantly. Furthermore, due to the construction of PM1 and PM9 in progress during the year, profit attributable to equity holders of the Company amounted to only HK\$15.39 million, representing a drop of 53% as compared to the previous year, despite an increase in sales volume and a 13% increase in sales revenue.

GZI REIT, in which the Group holds around 31.33% interest, outperformed its profit forecast as stated in its initial public offering circular by 2.8% with profit after taxation amounted to approximately HK\$206.7 million, and this brought along distribution in excess of HK\$64 million to the Group.

Looking into the future, the Group is well positioned to benefit from the continued economic growth of Guangdong Province, and we are full of confidence for the overall prospects of the Group's business.

For the property business, the Group will devote greater effort to both development and sales. It is expected that the GFA of properties under development would increase to approximately 2.44 million sq. m. from approximately 1.7 million sq. m. in 2006. In 2007, total GFA of properties completed is expected to exceed 500,000 sq. m. The Group plans to launch no less than eight projects for sale in the market. In the meantime, the Group will closely monitor the supply of land in the market, and will further increase its land bank whenever suitable projects are identified in terms of price and location.

Chairman's Statement

For toll road business, many expressways of the Group's portfolio are gradually maturing into the high growth phase, and it is expected that toll revenue would increase substantially. While continuing to properly manage its existing projects, the Group will take advantage of the excellent growth opportunities afforded by the planned regional development of the expressway network in Guangdong as outlined in the 11th Five Year Plan, and utilize various ways and means of corporate financing to increase our participation in various projects in order to build a solid foundation for long-term development and sustainable growth for our toll road business.

Following the gradual stabilization of PM1 since its trial run from the middle of 2006 and with the construction of PM9 going according to schedule, which is expected to be ready for trial production by the end of 2007, performance and competitive edge of our newsprint business is expected to improve with substantial additional production capacity.

It is expected that GZI REIT will proactively work out win-win business transactions with the Group.

The Group will maintain its focus on property business, and will further strengthen development of its toll road business. It will continue to increase operating efficiency, further reduce costs and seize market opportunities. We are confident that we will bring forth better return to investors in the coming year.

May I take this opportunity to thank you to all the directors, senior management and all the front line officers, for their hard work over the last year, and their contribution to the Group's development. I would also like to thank all the shareholders, relationship banks, partners in the business and the investment community for their continued strong support to our Group.

Ou Bingchang

Chairman

Note 1: Excluding the gain of approximately HK\$2,029 million on disposal of subsidiaries in relation to the spin-off and separate listing of GZI REIT in 2005.

BUSINESS REVIEW

The Group recorded total revenue of approximately HK\$4.658 billion in the year, representing an increase of 18% as compared to same period last year. Profit attributable to equity holders of the Company amounted to HK\$713 million, representing an increase of 43% as compared to last year on the same basis^(note 1). Earnings per share (basic) amounted to approximately HK\$0.1064, and recommended total dividend per share amounted to HK\$0.0419 for the whole year.

Property Business

Total GFA of properties sold and pre-sold and property allocated to the investment property portfolio during the year amounted to approximately 734,900 sq. m., of which:

GFA of properties sold with for revenue recognized in the income statement for the current year amounted to approximately 261,600 sq. m., and revenue so booked amounted to approximately HK\$1.967 billion. Major projects sold include Springland Garden, Xinghui Qing Xuan, Southern Le Sand Nansha, Glade Village Conghua, Yue Xiu New Metropolis Plaza and two warehouses in Tsuen Wan, Hong Kong. Compared to approximately 129,200 sq. m. in the last year, there is an increase of approximately 102.5%, reflecting the diminishing impact imparted by the change in accounting standards in relation to the booking of property sales from degree of completion accounting basis to completion basis in 2005.

GFA of properties under development pre-sold with revenue not yet recognized in the income statement amounted to approximately 240,300 sq. m., and the sale proceeds of such pre-sold properties amounted to approximately HK\$1.7 billion. Major projects include Towers B1 and B2 of Jiang Nan New Mansion, Xinghuai Ya Yuan, Blocks 5-8 of Springland Garden and East Tower of Victory Plaza, etc.

With the addition of properties to replenish its investment property portfolio, including Guangzhou Eastern Train Terminal underground shopping mall, Yue Xiu New Metropolis Plaza, etc., total GFA of the Group's investment property portfolio increased by about 233,000 sq. m., to approximately 683,000 sq. m., representing an increase of approximately 51.56% compared to last year. Revenue generated from the investment property portfolio amounted to approximately HK\$977 million, of which approximately HK\$747 million represented gain on property revaluation.

As a result of the increase in its investment property portfolio, property management income amounted to approximately HK\$213 million in the current year, representing an increase of about 56% as compared with last year.

The increases in GFA of its investment property portfolio and property management fee income brought along a stable revenue stream and a good foundation for interaction with GZI REIT.

Following last year's success in bidding for West Tower of Pearl River New City, the landmark project in Guangzhou for the construction of a mega tower exceeding 400m in height with GFA exceeding 430,000 sq. m., the Group invested a total of approximately Rmb2.9 billion in the acquisition of 4 new sites, namely, the site of the original Guangzhou cement plant in Liwan, plot D3-7 at Pearl River New City and two plots 06NJY-1 and 06NJY-2 at Nansha District, Guangzhou, through open auctions and as a result increased its land bank by approximately 1.169 million sq. m. in GFA, as to approximately 780,000 sq. m. are earmarked for residential purposes with the balance for commercial and office purposes. The GFA of the total land bank of the Group increased to approximately 4.5 million sq. m., which is expected to provide adequate supply for development for the next 3 to 5 years.

Note 1: Excluding the gain of approximately HK\$2,029 million on disposal of subsidiaries in relation to the spin-off and separate listing of GZI REIT in 2005.

Toll road business

The toll road business of the Group has achieved impressive results in the reporting year. Total revenue generated from jointly controlled entities and associated companies amounted to approximately HK\$765 million, representing an increase of about 17.70% as compared to approximately HK\$650 million recorded last year. Profit attributable to equity holders of GZT amounted to approximately HK\$461 million, representing an increase of approximately 50.8% as compared to last year's performance of approximately HK\$306 million. During the year, the Group shared approximately 34.3% results of GZT.

The Group acquired an additional 20% interest in GNSRE Company for the consideration of Rmb 666 million on 20 November 2006, and increased the Group's overall equity interest in that company to 60%, thus securing its first controlling equity interest in an expressway project in Guangdong Province. As the current level of traffic volume is still substantially below the designed capacity, we are confident that there is great growth potential in GNSR Expressway in the coming years despite the expressway has already recorded double-digit growth rates for the last 2 years.

GWSR Expressway, which connects with GNSR Expressway and in which the Group holds a 35% equity interest, opened for traffic ahead of schedule on 19 December 2006 and created synergy with the GNSR Expressway for increased traffic flow and revenue. It is expected that these two expressways will become a key growth driver for the Group's toll road business.

Newsprint business

In 2006, the newsprint business of the Group was affected by the drop in newsprint price in the PRC, while costs of raw materials and energy have soared significantly. Furthermore, with the building work of PM1 and PM9 in progress during the year, profit attributable to equity holders of the Company amounted to approximately HK\$15.39 million only, indicating a drop of about 53% as compared to the previous year, despite an increase in sales volume and a 13% increase in revenue.



Guangzhou Northern Second Ring Expressway

REIT business

As a result of an increase in occupancy rate of its 4 properties from approximately 95.5% at the end of 2005 to approximately 98.8% at the end of 2006, GZI REIT, in which the Group holds around a 31.33% equity interest, outperformed its profit forecast as stated in its initial public offering circular dated 12 December 2005 by approximately 2.8%, and recorded a full year profit after taxation of approximately HK\$206.7 million. According to the distribution policy of GZI REIT, 100% of this income is to be distributed to Unit Holders for the year 2006, 2007 and 2008, and thus will contribute a distribution of approximately HK\$64 million profit to the Group.

FUTURE OUTLOOK AND STRATEGY

The Group's businesses are mainly located in Guangzhou, the political and economic centre of Guangdong Province. In 2006, GDP of Guangdong Province amounted to approximately Rmb2,600 billion, accounting for approximately 12.4% of the corresponding national total of Rmb20,940 billion. Guangzhou, with its GDP of approximately Rmb600 billion, representing approximately 23.4% of that of Guangdong Province, is regarded as the region of strongest economic growth in the PRC. For the coming year, we believe that Guangzhou, as well as the whole of Guangdong Province, will continue to develop and grow in a healthy manner. With the continued improvement in the standard of living, there is growing demand for residential property, shopping mall and office buildings. The number of privately owned vehicles in Guangzhou increased substantially, from 6.3 vehicle per 100 households in 2005 to 10.0 vehicles per 100 households last year. Rapid growth in outbound tourism would continue to increase traffic volume of highways. On this basis, we are fully confident about the development of our property and toll road businesses. Our operating emphasis is as follows:

For the property business, we will devote greater effort to both development and sales. It is expected that the GFA of properties under development would increase to approximately 2.44 million sq. m. from approximately 1.7 million sq. m. in 2006. Total GFA of properties completed would exceed 500,000 sq. m. The Group plans to launch no less than 8 projects for sale in the market, including Xinghui Ya Yuan, Springland Garden, Binjiang Yiyuan phase 2, Fu Hai Garden, Yue Xiu City Plaza, East Tower of Victory Plaza, Southern Le Sand Nansha and Glade Village Conghua, and revenue should increase significantly. In the meantime, the Group will closely monitor the supply of land in the market, and will further increase its land bank whenever suitable projects are identified in terms of price and maturity of location to ensure a sustainable development.

For toll road business, our strategy is to focus on expressway projects. Many expressways of the Group's portfolio are gradually maturing into the high growth phase and it is expected that revenue would increase substantially. While continuing to properly manage its existing projects, we will take advantage of the excellent opportunities afforded by planned regional development of the new expressway network of up to 2700 km by 2010 in Guangdong as outlined in the 11th Five Year Plan. When these new expressways are completed, Guangdong Province will have total expressway mileage of over 5,000 km, basically forming a well-developed expressway network. The Group considers this a good investment opportunity not to be missed. The Group will strive to seize this opportunity, and utilize various ways and means of corporate financing to increase our participation in various projects in order to build a solid foundation for long-term development and sustainable growth for our toll road business.

Following the gradual stabilization of PM1 since trial run began in the middle of 2006 with the construction of PM9 going according to schedule, which is expected to be ready for trial operation by the end of 2007, and taking into consideration of further upgrade to other production lines as and when appropriate during the year, we expect that performance and competitive edge of our newsprint business will improve with substantial additional annual production capacity from approximately 450,000 tonnes to approximately 850,000 tonnes.



Yue Xiu New Metropolis Plaza

GZI REIT is expected to aggressively seek a win-win situation with the Group through business interaction.

The Group will maintain its focus on property business, and will further strengthen development of its toll road business. It will continue to increase operating efficiency, further reduce costs and seize market opportunities, with the aim of securing better return for all shareholders in the coming year.

FINANCIAL REVIEW

Analysis of results

Benefiting from the continued strong fixed assets investment and general economic development in the PRC and rebound of the Hong Kong economy, the Group capitalised on the growing momentum and secured promising results for the year 2006.

Profit for the year of the Group amounted to approximately HK\$1,020 million, representing a decrease of approximately 65% as compared with 2005. The substantial decrease in profit for the year was affected by the gain of approximately HK\$2,029 million on disposal of subsidiaries that held 4 investment properties by way of a spin-off and separate listing of GZI REIT last year. Excluding such gain, the Group achieved a promising growth of approximately 19% in profit for the year. For the same reason, the profit attributable to equity holders of the Company amounted to approximately HK\$713 million, representing a decrease of approximately 72% as compared with 2005. Excluding such gain, the Group achieved a cheering growth of approximately 43% in profit attributable to equity holders of the Company. Total assets of the Group and shareholders' equity increased to approximately HK\$29,622 million and HK\$11,137 million respectively, representing a growth of approximately 9% and 7% respectively.

Revenue

Revenue of the Group for the year ended 31 December 2006 was approximately HK\$4,658 million, increased by approximately 18% as compared with 2005. This was mainly attributable to the effect of an increase of revenue from property business and newsprint business.

The nominal property sales area recognised for the year 2006 was approximately 261,600 square meters (2005: approximately 129,200 square meters) and the property sales revenue recognised was approximately HK\$1,967 million, representing an increase of approximately 58% as compared with 2005. As several large property estates/commercial buildings of the Group were delivered to customers during the year such as Springland Garden, Glade Village District C, Southern Le Sand Phase 2, Yue Xiu New Metropolis Plaza and Yue Xiu City Plaza, the portfolio size of the properties engaging our property management services increased accordingly. On the other hand, the Group strengthened the asset enhancement of investment properties to continuously increase or retain the value of the investment properties which enhance the significant growth of the property management income by approximately 56% to approximately HK\$213 million. The decrease in rental income for the year by approximately 56% to approximately HK\$230 million was caused by the decrease in the portfolio size of investment properties through the spin off and separate listing of GZI REIT in last year.

Despite traffic diversion and surging oil prices affecting traffic volume and toll revenue of certain Class I and II highways, expressways such as Xian Expressway and Xiang Jiang Bridge II both performed remarkably. Toll revenue for 2006 grew by approximately 6% over 2005 to approximately HK\$449 million.

For the newsprint business, sales revenue for the year increased by approximately 13% to approximately HK\$1,352 million over 2005. Sales tonnage of newsprint increased by approximately 31% to 360,000 tonnes.

Gross profit

Although there was an increase in the overall revenue of the Group for the year 2006, the decrease in rental income of the Group has netted off the growing trend and led to a small decrease in the overall gross profit of the Group to approximately HK\$1,002 million, decreased by approximately 5% as compared to last year. Overall profit margin has decreased by 5 percentage points as compared to last year.

Operating expenses

Operating expenses of the Group for 2006 were approximately HK\$712 million, representing a decrease of 29% from 2005. Excluding certain specific provisions for impairment of certain assets in last year which amounted to approximately HK\$202 million, operating expenses in the current year generally decreased by approximately 11% as a result of tighter cost control.

Valuation of investment properties

In 2006, the Group proactively replenishes and maintains a balanced level of portfolio of investment properties. In 2006, the Group revalued its investment properties and recorded a revaluation surplus of approximately HK\$747 million (2005: HK\$799 million), mainly from the newly replenished properties.

Finance costs

The decrease in finance costs of approximately 36% to approximately HK\$194 million was mainly resulted from the decrease in average balance of borrowings over the year. Furthermore, finance costs capitalised as properties under development during the year have increased to approximately HK\$70 million.

Share of results of jointly controlled entities and associated entities

During the year, the Group's share of results of jointly controlled entities and associated entities have increased by approximately 81%, which is mainly attributable from the toll road business. Owing to the rapid economic development in Guangdong Province as well as an increase in cargo and passenger turnover, the share of results from jointly controlled entities and associated entities of toll business grew by approximately 41%. Furthermore, there was contribution of distribution from GZI REIT of approximately HK\$64 million.

Taxation

As the overall taxable profits for the year were more than last year, taxation for the year increased to approximately HK\$355 million.

Final dividend

The Directors recommended the payment of final dividend of HK\$0.023 per share (2005: HK\$0.02) per share to shareholders whose names appear on the register of members of the Company on 21 June 2007. Subject to the approval of shareholders at the Annual General Meeting to be held on 21 June 2007, the final dividend will be paid on 28 June 2007. Together with the interim dividend of HK\$0.0189 per share (2005: HK\$0.01), total dividends for the year ended 31 December 2006 will amount to HK\$0.0419 per share (2005: HK\$0.08, excluding dividend in specie).

Liquidity and financial resources

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



Victory Plaza

Cash flow

The following table summaries the Group's cash flows for each of the two years ended 31 December 2006:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Net cash inflow from operating activities | 1,209,701 | 1,079,930 |
| Net cash (outflow)/inflow from investing activities | (2,134,006) | 1,853,281 |
| Net cash outflow from financing activities | (38,577) | (540,405) |
| Net (decrease)/increase in cash and cash equivalents | <u>(962,882)</u> | <u>2,392,806</u> |
| Cash and cash equivalents at year end | <u>2,305,639</u> | <u>3,198,953</u> |

Net cash inflow from operating activities

During 2006, the net cash inflow from operating activities was approximately HK\$1,210 million, representing an increase of approximately HK\$130 million. This increase was in line with the Group's operating profit before gain on disposal of subsidiaries and mainly the result of better management in working capitals.

Net cash (outflow)/inflow from investing activities

During 2006, the net cash outflow from investing activities was approximately HK\$2,134 million. The change in cash outflow was mainly used for the purchase of property, plant and equipment and leasehold land and land use rights and prepayments for land use rights.

Net cash outflow from financing activities

During 2006, the net cash outflow from financing activities was approximately HK\$39 million. The decrease in net cash outflow was resulted from the increase of net borrowings and the payment of 2005 special dividend.

During the year, the decrease in cash and cash equivalents was mainly used for the capital expenditure in relation to the purchase of property, plant and equipment and the prepayments for land use rights.



Yue Xiu City Plaza

Working capital

As at 31 December 2006, the Group's working capital (current assets minus current liabilities) amounted to approximately HK\$1,868 million which was decreased by approximately 59% as compared to the end of 2005. The decrease was mainly attributable to a decrease in bank balances and cash and significant increase in receipt-in-advance in relation to pre-sold properties included in other payables. As at 31 December 2006, the Group's cash and cash equivalents amounted to approximately HK\$2,306 million.

Indebtedness

The indebtedness as at 31 December 2006 and 2005 was as follows:



Springland Garden

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Secured bank borrowings | 2,844,093 | 3,371,645 |
| Unsecured bank borrowings | 2,493,196 | 1,571,725 |
| Unsecured other borrowings | 501,353 | 509,396 |
| Obligations under finance leases | 136 | 92 |
| Bank overdrafts | 215 | 27,285 |
| Total indebtedness | 5,838,993 | 5,480,143 |
| Repayable: | | |
| Within one year | 2,076,346 | 1,526,901 |
| In the second year | 1,142,596 | 812,512 |
| In the third to fifth year | 2,170,313 | 2,718,866 |
| Other period but not repayable within one year | 449,738 | 421,864 |
| | 5,838,993 | 5,480,143 |

By the end of 2006, the Group's total indebtedness was approximately HK\$5,839 million, representing an increase of approximately 6.5% compared to 2005. Most of the new loans raised were used to finance the new production plant for newsprint business and new property projects. Since majority of the new loans were drawn-down only near the end of the year while the average borrowings balance for the year has decreased, finance costs for the year have reduced.

Capital structure

The Group's capital structure as at 31 December 2006 and 2005 are summarised below:

| | 2006 | | 2005 | |
|---|--------------------|------------|--------------------|------------|
| | HK\$'000 | % | HK\$'000 | % |
| Bank borrowings and overdrafts (floating rates): | | | | |
| Denominated in Renminbi | 4,388,349 | | 3,077,170 | |
| Denominated in Euro | 204,253 | | — | |
| Denominated in United States dollars | 37,242 | | 37,205 | |
| Denominated in Hong Kong dollars | 707,660 | | 1,856,280 | |
| | <u>5,337,504</u> | | <u>4,970,655</u> | |
| Total bank borrowings and overdrafts | 5,337,504 | | 4,970,655 | |
| Less: Charged bank deposits | (72,609) | | (164,892) | |
| Bank balances and cash | <u>(2,305,854)</u> | | <u>(3,226,238)</u> | |
| | | | | |
| Net bank borrowings and overdrafts | 2,959,041 | 21 | 1,579,525 | 13 |
| Shareholders' equity (excluding minority interests) | 11,136,887 | 79 | 10,388,761 | 87 |
| | <u>14,095,928</u> | <u>100</u> | <u>11,968,286</u> | <u>100</u> |
| | | | | |
| Total capitalisation | <u>14,095,928</u> | <u>100</u> | <u>11,968,286</u> | <u>100</u> |
| | | | | |
| Gearing ratio | 21% | | 13% | |

As a result of expansion of the Group's business and the increase in the required working capital, total net bank borrowings and overdrafts share larger portion of the total capitalisation of the Group as at 31 December 2006, which increased from 13% to 21%. As at 31 December 2006, total net bank borrowings and overdrafts has increased by approximately 87% to approximately HK\$2,959 million. The ratio of net bank borrowings and overdrafts to total capitalisation (gearing ratio) has increased to 21% from 13% in 2005.

As at 31 December 2006, shareholders' equity excluding minority interests amounted to approximately HK\$11,137 million and accounted for about 79% of the Group's total capitalisation. The increase in shareholders' equity by approximately 7%, or approximately HK\$748 million, was mainly represented by the net profit retained for the year after appropriation of 2005 final and special dividend, 2006 interim dividend and the increase in exchange fluctuation reserve.

Capital expenditure commitments

As at 31 December 2006, the Group has a committed equity capital balance payable to a jointly controlled entity, Guangzhou Western Second Ring Expressway Co., Ltd (“GWSRE Co.”) of Rmb105 million (equivalent to approximately HK\$105 million). This balance would be paid by stages in such amount and by such date as to be determined by the board of directors of GWSRE Co.

On 20 November 2006, the Group entered into an Equity Transfer Agreement with an independent third party, Guangzhou Development Infrastructure Investments Co., Ltd. (“Vendor”) to acquire an additional 20% equity interest in a jointly controlled entity, GNSRE Co. for a consideration of Rmb666 million. On the same date as the Equity Transfer Agreement was signed, i.e. on 20 November 2006, the Group remitted the deposit of HK\$132,580,000 (equivalent to approximately Rmb133,906,000) from its internal funds to the Vendor. As at 31 December 2006, the balance of the consideration of this acquisition was approximately Rmb532 million which will be payable in the equivalent HK dollars at the prevailing exchange rate within five days of attaining the relevant authority’s approval of the equity transfer. On 9 March 2007, the Group has obtained a bank loan facility of HK\$400 million to finance part of the consideration of the acquisition. On 15 March 2007, the acquisition was approved by the relevant authority. On 19 March 2007, the Group remitted HK\$543.8 million to settle the balance of the consideration of which HK\$143.8 million was from internal funds.

At 31 December 2006, the Group’s share of capital commitments of a jointly controlled entity not included in the above amounted to approximately HK\$244 million (2005: HK\$599 million).

Other than the above, capital expenditure committed on the purchase of non-current assets amounted to approximately HK\$2,238 million (2005: HK\$266 million). Except for the aforementioned capital commitments, the Group has no other material capital commitments as at 31 December 2006.

Contingent liabilities

During the year, the Group has arranged bank financing for certain buyers of the Group’s properties and provided guarantees to secure obligations for repayment of loans. As at 31 December 2006, the total contingent liabilities exposure amounted to approximately HK\$494 million (2005: HK\$264 million).

Treasury policies

The Group’s overall treasury and funding policy is that of risk management and liquidity control. The Group has centralised surplus fund and financing requirements to achieve better treasury control and lower cost of funds. Cash at banks are generally placed as short-term fixed rate deposits in bank accounts in Hong Kong and the PRC. The Group has neither placed fund in non-bank financial institutions nor invested in trading of marketable securities.

Interest rate exposure

Interest expenses accounted for a significant proportion of the Group’s finance costs. The Group’s policy on interest rate management involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise. Interest rate swaps to hedge exposure to floating rates are used when appropriate.

Foreign exchange exposure

Since the business of the Group is mainly operated in the PRC, revenue and cash flows are primarily denominated in Rmb. Financing arranged by the Group in Hong Kong was mainly denominated in Hong Kong dollars. In respect of the Group's business activities in the PRC that are conducted through its PRC subsidiaries, borrowings were mainly denominated in Rmb to fund their operation in the PRC during the period under review. In order to mitigate any possible foreign exchange exposure on borrowings arising from Renminbi appreciation, the Group will proactively consider new foreign currency borrowings while maintaining an appropriate level of gearing in anticipation of new investments in the PRC. At present, the trend of the change in the rate of exchange between Rmb and Hong Kong dollar is relatively forthright and the Group's currency exposure is therefore minimal. The Group will review and monitor the risks relating to foreign exchange from time to time and will employ currency swaps when appropriate to manage its currency exposure.

Employees and remuneration policy

As at 31 December 2006, the Group employed approximately 8,450 employees (31 December 2005: 8,080 employees), of whom approximately 8,310 employees (31 December 2005: 7,950 employees) were primarily engaged in the property, toll road and newsprint business. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs. The Group has also adopted share option schemes, with options awarded to employees according to their performance. Promotion and salary adjustments are based on performance.

Disclosures Pursuant to Rule 13.21 of the Listing Rules

Reference is made to a HK\$2,500 million loan agreement dated 18 December 2006 ("Loan Agreement") with a final maturity in December 2009. In accordance with the terms of the Loan Agreement, it shall be an event of default if (A) Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") ceases to maintain (i) its status as the single largest beneficial shareholder of the Company, or (ii) (whether directly or indirectly) a shareholding interest of not less than 35% in the issued voting share capital of the Company or (iii) an effective management control over the Company; or (B) Yue Xiu (with the Company) cease to maintain (i) their status as the single largest beneficial shareholder of GZT, or (ii) (whether combined directly or indirectly) a shareholder interest of not less than 35% in the issued voting share capital of GZT. This obligation has been duly complied with for the year ended 31 December 2006.

Executive Directors

Mr Ou Bingchang, aged 60, 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, the holding company of the Company, and the Chairman of 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 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 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 54, 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 the party Committee of Guangzhou Municipal People's Government. Mr Liang had made outstanding contribution in establishing the administrative supervisory system of Guangzhou. He has over 20 years of experience in public administration.

Mr Li Fei, aged 54, 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 Tang Shouchun, aged 44, was appointed executive director of the Company on 28 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 57, was appointed executive director and Deputy General Manager of the Company on 28 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.

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.

Directors' Profiles

Mr Li Xinmin, aged 55, was appointed executive director of the Company on 15 September 2006. He is also the Deputy Chairman of GZT. Mr Li has over 30 years of experience in highway construction and management. Prior to joining GZT in 2001, he served as the deputy general manager of Guangzhou Highways Construction Company, department head of the maintenance division of Guangzhou Highways Management Bureau and deputy director of Guangzhou Highways Management Bureau. From March 2004 to April 2005, Mr Li was the general manager of GZT.

Mr He Zili, aged 57, was appointed executive director of the Company on 15 September 2006. He is also a director of GZT. Mr He graduated from the Central Television University in China with an economics degree. Prior to joining Yue Xiu in 1991, he worked as a deputy manager of Guangzhou Taxi Company Limited in charge of finance and accounting. After joining Yue Xiu, Mr He had been the general manager of the finance department, the investment and business department, and the capital management department. Mr He is currently the deputy group financial controller of Yue Xiu and financial controller of the Company. He has over 40 years of experience in finance and accounting and is a senior accountant in China.

Ms Zhou Jin, aged 57, was appointed executive director of the Company on 19 April 2007. Ms Zhou attained tertiary level education. She has been working at Guangzhou City Construction & Development Holding Co. Ltd. and then Guangzhou City Construction & Development Co. Ltd. ("GCD") since 1979. During her term of service with GCD, she was head of major departments such as Human Resources and Administration Supervision. Ms Zhou is well experienced with the work-flow and management of property development and related operations. She has been in charge of the setting up and implementation of a series of operations and internal control systems and measures with emphasis on the GCD group's development and expansion of major operations.

Independent Non-Executive Directors

Mr Yu Lup Fat Joseph, aged 59, has been an independent non-executive director of the Company since 1992. Mr Yu 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 38 years of experience in investment, banking and finance.

Mr Lee Ka Lun, aged 52, has been an independent non-executive director of the Company since 2000. He is an accountant by profession. 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 59, 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 and A.4.1, details of which are 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, transparency and accountability of the Company's 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 business 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 members :

Mr Ou Bingchang (*Chairman & General Manager*)

Mr Liang Yi (*Vice Chairman*)

Mr Li Fei (*Vice Chairman*)

Mr Chen Guangsong (resigned on 28 November 2006)

Mr Tang Shouchun (appointed on 28 February 2006)

Mr Wang Hongtao (appointed on 28 February 2006)

Mr Li Xinmin (appointed on 15 September 2006)

Mr He Zili (appointed on 15 September 2006)

Ms Zhou Jin (appointed on 19 April 2007)

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 31 December 2006, 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.

In accordance with the Company's Articles of Association which were amended by a special resolution at the annual general meeting held on 15 June 2006 for the purpose of compliance with the CG Code, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

In accordance with the Company's Articles of Association, Mr Li Xinmin, Mr He Zili and Ms Zhou Jin having been appointed as executive directors of the Company, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In addition, Mr Yu Lup Fat Joseph, Mr Lee Ka Lun and Mr Lau Hon Chuen Ambrose shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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 2006, the Board held 7 meetings. The attendance record of each member of the Board is set out below :

| Directors | Attendance of Board meetings in 2006 |
|--|---|
| <i>Executive directors</i> | |
| Ou Bingchang | 7/7 |
| Liang Yi | 7/7 |
| Li Fei | 4/7 |
| Chen Guangsong ¹ | 6/6 |
| Tang Shouchun ² | 6/6 |
| Wang Hongtao ² | 4/6 |
| Li Xinmin ³ | 2/2 |
| He Zili ³ | 2/2 |
| <i>Independent non-executive directors</i> | |
| Yu Lup Fat Joseph | 7/7 |
| Lee Ka Lun | 7/7 |
| Lau Hon Chuen Ambrose | 5/7 |

Notes:

1. Resigned on 28 November 2006
2. Appointed on 28 February 2006
3. Appointed on 15 September 2006

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 three 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 the current Board practice, any material transaction 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 five meetings during the year ended 31 December 2006 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 2006 |
|-----------------------|---|
| Yu Lup Fat Joseph | 5/5 |
| Lee Ka Lun | 5/5 |
| Lau Hon Chuen Ambrose | 5/5 |

The Company's annual results for the year ended 31 December 2006 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 18 April 2007 (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 31 December 2006.

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 31 December 2006.

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 statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report".

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2006 amounted to HK\$6.8 million and HK\$1.2 million respectively.

INTERNAL CONTROLS

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company. The Board believes that the internal control system is adequate and effective.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' interests and Company's 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, to provide for the identification and management 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 expenditure. Operating expenditure is subject to overall budget control and is controlled within each business with the approval levels for such expenditure being set by reference to the level of responsibility of each executive and officer.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

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.

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Group consist of three major businesses: property, toll roads and newsprint. The principal activities of its principal subsidiaries, jointly controlled entities, associated entities are set out in the section headed "Group Structure" on pages 98 to 111.

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 35.

The Directors have declared an interim dividend of HK\$0.0189 per ordinary share, totalling HK\$127.84 million which was paid on 13 November 2006.

The Directors recommend the payment of a final dividend of HK\$0.023 per ordinary share, totalling HK\$156.78 million.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 32 to the financial statements.

DONATIONS

No charitable and other donations were made by the Group during the year.

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 section headed "List of Major Property Projects in Guangzhou Municipality" on pages 113 to 117.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

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

Report of the Directors

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 31 December | | | | |
|---|------------------------|---------------------|------------------------------|---------------------|---------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | Restated 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Results | | | | | |
| Profit/(loss) attributable to shareholders | <u>712,615</u> | <u>2,527,765</u> | <u>272,736</u> | <u>300,653</u> | <u>(960,230)</u> |
| At 31 December | | | | | |
| | 2006 HK\$'000 | 2005 HK\$'000 | Restated 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Assets and liabilities | | | | | |
| Total assets | <u>29,621,544</u> | <u>27,095,641</u> | <u>24,471,063</u> | <u>25,785,918</u> | <u>26,685,015</u> |
| Total liabilities | <u>(14,645,386)</u> | <u>(13,156,154)</u> | <u>(13,999,168)</u> | <u>(15,441,736)</u> | <u>(16,571,103)</u> |
| Minority interests | <u>(3,839,271)</u> | <u>(3,550,726)</u> | <u>(3,451,189)</u> | <u>(3,374,822)</u> | <u>(3,403,865)</u> |
| Shareholders' equity (excluding minority interests) | <u>11,136,887</u> | <u>10,388,761</u> | <u>7,020,706</u> | <u>6,969,360</u> | <u>6,710,047</u> |

Comparative figures for the year ended 31 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 1 January 2005. The comparative figures for the two years ended 31 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 under development amounted to approximately HK\$70 million (2005: HK\$34 million).

DISTRIBUTABLE RESERVES

As at 31 December 2006, the distributable reserves of the Company available for distribution amounted to HK\$2,740 million (2005: HK\$3,113 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 | (resigned on 28 November 2006) |
| Mr Tang Shouchun | (appointed on 28 February 2006) |
| Mr Wang Hongtao | (appointed on 28 February 2006) |
| Mr Li Xinmin | (appointed on 15 September 2006) |
| Mr He Zili | (appointed on 15 September 2006) |
| Ms Zhou Jin | (appointed on 19 April 2007) |
| Mr Yu Lup Fat Joseph * | |
| Mr Lee Ka Lun * | |
| Mr Lau Hon Chuen Ambrose* | |

* *Independent non-executive directors*

Messrs Yu Lup Fat Joseph, Lee Ka Lun and Lau Hon Chuen Ambrose 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. Mr Li Xinmin, Mr He Zili and Ms Zhou Jin 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 17 and 18.

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 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 note 41(b) 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)(II) 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.

Report of the Directors

INTERESTS OF DIRECTORS

As at 31 December 2006, 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 Tang Shouchun | Personal | 2,340,000 | 0.03 |
| Mr Yu Lup Fat Joseph | Personal | 3,500,000 | 0.05 |
| Mr Lee Ka Lun | Personal | 3,500,000 | 0.05 |

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 1 January 2006 | exercised during the year | weighted average closing price (d) HK\$ | outstanding as at 31 December 2006 |
| Mr Ou Bingchang | 02/06/2003 (a) | 0.54 | 9,000,000 | — | N/A | 9,000,000 |
| Mr Liang Yi | 02/06/2003 (a) | 0.54 | 7,000,000 | — | N/A | 7,000,000 |
| Mr Li Fei | 02/06/2003 (a) | 0.54 | 7,000,000 | — | N/A | 7,000,000 |
| Mr Tang Shouchun | 23/06/2004 (b) | 0.63 | 3,900,000(c) | (2,340,000) | 1.45 | 1,560,000 |
| Mr Wang Hongtao | 23/06/2004 (b) | 0.63 | 320,000(c) | (320,000) | 1.50 | — |
| Mr Yu Lup Fat Joseph | 02/06/2003 (a) | 0.54 | 3,500,000 | (3,500,000) | 1.34 | — |
| Mr Lee Ka Lun | 02/06/2003 (a) | 0.54 | 2,450,000 | (2,450,000) | 1.35 | — |

Notes:

- The share options are exercisable from 2 June 2003 to 1 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)) are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant, respectively.
- The share options are exercisable from 23 June 2004 to 22 June 2014, of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)) are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant, respectively.
- Balance as at 28 February 2006, date of appointment of Mr Tang Shouchun and Mr Wang Hongtao as directors of the Company.
- The weighted average closing price per share immediately before the dates on which the options were exercised.

Save as disclosed herein, as at 31 December 2006, 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.

DISCLOSEABLE INTERESTS OF SHAREHOLDERS UNDER THE SECURITIES AND FUTURES ORDINANCE

As at 31 December 2006, 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 | Capacity | Long position in shares | Approximate % of interest |
|-------------------------|--------------------------------------|----------------------------|------------------------------|
| Yue Xiu (<i>Note</i>) | Interests of controlled corporations | 3,077,935,248 | 45.24 |

Note:

The capacity of Yue Xiu in holding the 3,077,935,248 shares was 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 | 3,077,935,248 |
| Excellence Enterprises Co., Ltd. ("Excellence") | 3,068,548,981 |
| Bosworth International Limited ("Bosworth") | 2,173,846,821 |
| 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 |
| Seaport Development Limited ("Seaport") | 35,233,160 |
| Goldstock International Limited ("Goldstock") | 35,233,160 |
| Yue Xiu Finance Company Limited ("YXF") | 9,386,267 |

- (i) 2,173,846,821 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) 35,233,160 shares were held by Goldstock, which was wholly-owned by Seaport which was, in turn, wholly-owned by Excellence.
- (vi) 9,386,267 shares were held by YXF, which was wholly-owned by Yue Xiu.

SHARE OPTIONS

(i) The Company

On 26 June 2002, the shareholders of the Company approved the resolutions relating to the termination of an old share option scheme and the adoption of a new share option scheme (“2002 Share Option Scheme”). 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 2 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 28 were as follows:

| Number of share options | | | Exercise price per share HK\$ | Date of grant | Exercisable period | Weighted average closing price (c) HK\$ |
|----------------------------------|---------------------------|------------------------------------|-------------------------------|---------------|-----------------------------|---|
| outstanding as at 1 January 2006 | exercised during the year | outstanding as at 31 December 2006 | | | | |
| 33,510,000 | (21,080,000) | 12,430,000 | 0.4100 | 02/05/2003 | 02/05/2003 - 01/05/2013 (b) | 1.34 |
| 29,232,000 | (22,232,000) | 7,000,000 | 0.5400 | 02/06/2003 | 02/06/2003 - 01/06/2013 (b) | 1.48 |
| 11,224,000 | (8,104,000) | 3,120,000 | 0.8140 | 27/10/2003 | 27/10/2003 - 26/10/2013 (b) | 1.41 |
| 99,266,000 | (80,546,000) | 18,720,000 | 0.8460 | 23/12/2003 | 23/12/2003 - 22/12/2013 (b) | 1.43 |
| 218,612,000 | (144,030,000) | 74,582,000 | 0.6300 | 23/06/2004 | 23/06/2004 - 22/06/2014 (b) | 1.42 |

Notes:

- (a) No options have been granted or cancelled during the year.
- (b) The options are exercisable in 3 tranches.
- (c) 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 3 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.

On 25 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 substantially the same as those under the 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:

| Number of share options | | | Exercise price per share HK\$ | Date of grant | Exercisable period |
|---|------------------------------|---|-------------------------------------|---------------|-----------------------------|
| outstanding as at 1 January 2006 | lapsed during the year | outstanding as at 31 December 2006 | | | |
| 230,000 | (230,000) | — | 0.7520 | 07/04/2000 | 07/04/2001 - 06/04/2006 (b) |

Note:

- (a) No options have been granted, exercised or cancelled during the year.
- (b) All options are exercisable in 3 tranches.

INDEPENDENT NON-EXECUTIVE DIRECTORS' FEES

Three independent non-executive directors of the Company each received HK\$125,000 as directors' fees for the year ended 31 December 2006.

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 the 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, 19 April 2007



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

TO THE SHAREHOLDERS OF GUANGZHOU INVESTMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Guangzhou Investment Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 97, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 19 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------|------------------|------------------|
| Revenue | 5 | 4,657,922 | 3,954,998 |
| Cost of sales | | (3,656,141) | (2,901,608) |
| Gross profit | | 1,001,781 | 1,053,390 |
| Gain on disposal of subsidiaries | | — | 2,028,993 |
| Fair value gains on investment properties | | 747,025 | 798,919 |
| Other gains | 6 | — | 281,718 |
| Selling and distribution expenses | | (193,003) | (190,019) |
| General and administrative expenses | | (519,039) | (809,484) |
| Profit from operations | 7 | 1,036,764 | 3,163,517 |
| Interest income | 8 | 96,557 | 52,107 |
| Finance costs | 9 | (193,891) | (301,746) |
| Share of profits less losses of | | | |
| - Jointly controlled entities | | 60,431 | 38,210 |
| - Associated entities | | 375,299 | 202,062 |
| Profit before taxation | | 1,375,160 | 3,154,150 |
| Taxation | 10 | (355,191) | (270,477) |
| Profit for the year | | 1,019,969 | 2,883,673 |
| Profit for the year | | | |
| - Before gain on disposal of subsidiaries | | 1,019,969 | 854,680 |
| - After gain on disposal of subsidiaries | | 1,019,969 | 2,883,673 |
| Attributable to | | | |
| - Equity holders of the Company | | 712,615 | 2,527,765 |
| - Minority interests | | 307,354 | 355,908 |
| | | 1,019,969 | 2,883,673 |
| Profit for the year attributable to equity holders of the Company | | | |
| - Before gain on disposal of subsidiaries | | 712,615 | 498,772 |
| - After gain on disposal of subsidiaries | | 712,615 | 2,527,765 |
| Earnings per share for profit attributable to the equity holders of the Company (expressed in HK cents per share) | 12 | | |
| - Basic | | 10.64 | 39.54 |
| - Diluted | | 10.42 | 38.94 |
| Dividends | 13 | 284,625 | 575,439 |

Consolidated Balance Sheet

As at 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|--|---------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Interests in toll highways and bridges | 16 | 1,943,681 | 1,980,017 |
| Property, plant and equipment | 17 | 2,354,331 | 1,614,567 |
| Investment properties | 18 | 5,625,185 | 3,301,437 |
| Leasehold land and land use rights | 19 | 4,737,407 | 4,372,994 |
| Interests in jointly controlled entities | 21 & 41 | 898,170 | 685,729 |
| Interests in associated entities | 22 & 41 | 2,995,294 | 3,089,126 |
| Deferred tax assets | 34 | 135,689 | 67,980 |
| Other non-current assets | 23 | 324,096 | 108,201 |
| Available-for-sale financial assets | 24 | 418,269 | 354,912 |
| | | <u>19,432,122</u> | <u>15,574,963</u> |
| Current assets | | | |
| Properties under development | 25 | 2,230,173 | 2,668,674 |
| Properties held for sale | | 728,951 | 682,448 |
| Leasehold land and land use rights | 19 | 2,182,789 | 3,190,945 |
| Prepayments for land use rights | 36 | 1,272,233 | — |
| Other assets held for sale | | 15,000 | 397,000 |
| Inventories | 26 | 233,895 | 319,105 |
| Trade receivables | 27 | 585,226 | 431,675 |
| Other receivables, prepayments and deposits | | 420,630 | 417,254 |
| Taxation recoverable | | 142,062 | 22,447 |
| Charged bank deposits | | 72,609 | 164,892 |
| Bank balances and cash | 28 | 2,305,854 | 3,226,238 |
| | | <u>10,189,422</u> | <u>11,520,678</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables | 29 | 198,428 | 374,190 |
| Land premium payable | | 637,134 | 617,319 |
| Other payables and accrued charges | | 5,220,253 | 4,380,487 |
| Borrowings | 33 | 2,076,346 | 1,526,901 |
| Taxation payable | | 189,657 | 78,589 |
| | | <u>8,321,818</u> | <u>6,977,486</u> |
| Net current assets | | <u>1,867,604</u> | <u>4,543,192</u> |
| Total assets less current liabilities | | <u>21,299,726</u> | <u>20,118,155</u> |

Consolidated Balance Sheet

As at 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------|-------------------|-------------------|
| Non-current liabilities | | | |
| Borrowings | 33 | 3,762,647 | 3,953,242 |
| Deferred tax liabilities | 34 | 2,560,921 | 2,225,426 |
| | | <u>6,323,568</u> | <u>6,178,668</u> |
| Net assets | | <u>14,976,158</u> | <u>13,939,487</u> |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 30 | 680,354 | 651,894 |
| Other reserves | 32 | 6,897,267 | 6,270,299 |
| Retained earnings | | | |
| – Proposed dividends | 32 | 156,781 | 467,041 |
| – Others | 32 | 3,402,485 | 2,999,527 |
| | | <u>11,136,887</u> | <u>10,388,761</u> |
| Minority interests | | <u>3,839,271</u> | <u>3,550,726</u> |
| Total equity | | <u>14,976,158</u> | <u>13,939,487</u> |

On behalf of the Board

Liang Yi
Director

Tang Shouchun
Director

Balance Sheet

As at 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 17 | 10,731 | 11,060 |
| Investment properties | 18 | 10,680 | 10,500 |
| Interests in subsidiaries | 20 | 10,293,139 | 10,228,835 |
| | | <u>10,314,550</u> | <u>10,250,395</u> |
| Current assets | | | |
| Other receivables, prepayments and deposits | | 19,903 | 20,524 |
| Bank balances and cash | 28 | 20,088 | 1,499,622 |
| | | <u>39,991</u> | <u>1,520,146</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Amounts due to subsidiaries | 20 | 30,920 | 30,968 |
| Other payables and accrued charges | | 113,068 | 194,224 |
| Borrowings | 33 | 40 | 291,573 |
| | | <u>144,028</u> | <u>516,765</u> |
| Net current (liabilities)/assets | | <u>(104,037)</u> | <u>1,003,381</u> |
| Total assets less current liabilities | | <u>10,210,513</u> | <u>11,253,776</u> |
| Non-current liabilities | | | |
| Borrowings | 33 | 759,156 | 1,625,046 |
| Net assets | | <u>9,451,357</u> | <u>9,628,730</u> |
| EQUITY | | | |
| Share capital | 30 | 680,354 | 651,894 |
| Other reserves | 32 | 6,031,152 | 5,864,247 |
| Retained earnings | | | |
| – Proposed dividends | 32 | 156,781 | 467,041 |
| – Others | 32 | 2,583,070 | 2,645,548 |
| Total equity | | <u>9,451,357</u> | <u>9,628,730</u> |

On behalf of the Board

Liang Yi
Director

Tang Shouchun
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|--|-------|--------------------|------------------|
| Operating activities | | | |
| Net cash inflow generated from operations | 35(a) | 1,606,179 | 1,529,085 |
| Interest received | | 65,477 | 52,107 |
| Interest paid | | (248,261) | (335,342) |
| Hong Kong profits tax paid | | (818) | (7,518) |
| China taxation paid | | (212,876) | (158,402) |
| Net cash inflow from operating activities | | 1,209,701 | 1,079,930 |
| Investing activities | | | |
| Dividends received from jointly controlled entities and associated entities | | 124,582 | 53,229 |
| Partial disposal of an associated entity | 35(b) | 261,213 | — |
| Prepayments for property, plant and equipment | | (191,516) | — |
| Prepayments for acquisition of an additional interest in a jointly controlled entity | 42(b) | (132,580) | — |
| Purchases of property, plant and equipment, leasehold land and land use rights and available-for-sale financial assets | | (797,085) | (859,536) |
| Prepayments for land use rights | | (1,272,233) | — |
| Disposal of property, plant and equipment | | 18,702 | 25,210 |
| Acquisition of additional interests in subsidiaries | | — | (86,109) |
| Disposal of certain interests in a subsidiary | | — | 2,768,105 |
| Issue of a subsidiary's shares | | — | 664 |
| Capital injection in a jointly controlled entity | | (101,500) | (53,846) |
| Partial disposal of a jointly controlled entity | | — | 51,853 |
| (Advance to)/repayment from associated entities and jointly controlled entities | | (135,872) | 47,856 |
| Increase/(decrease) in charged bank deposits | | 92,283 | (94,145) |
| Net cash (outflow)/inflow from investing activities | | (2,134,006) | 1,853,281 |

Consolidated Cash Flow Statement

For the year ended 31 December 2006

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------------------|------------------|
| Financing activities | | |
| Issue of ordinary shares | 190,851 | 89,274 |
| Capital contribution from minority shareholders of subsidiaries | 3,846 | — |
| Advance from/(repayment to) associated entities | 271,246 | (32,095) |
| New bank loans | 3,761,641 | 5,683,518 |
| Repayment of bank loans | (3,520,341) | (5,909,875) |
| New other borrowings | 44,581 | 48 |
| Repayment of other borrowings | (51,573) | (51,202) |
| Dividends paid | (597,149) | (165,967) |
| Dividends paid to minority shareholders of subsidiaries | (141,679) | (154,106) |
| | <u>(38,577)</u> | <u>(540,405)</u> |
| Net cash outflow from financing activities | | |
| (Decrease)/Increase in cash and cash equivalents | (962,882) | 2,392,806 |
| Cash and cash equivalents at the beginning of year | 3,198,953 | 806,147 |
| Exchange gains on cash and cash equivalents | 69,568 | — |
| | <u>2,305,639</u> | <u>3,198,953</u> |
| Cash and cash equivalents at the end of year | | |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances and cash | 2,305,854 | 3,226,238 |
| Bank overdrafts | (215) | (27,285) |
| | <u>2,305,639</u> | <u>3,198,953</u> |

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

| | Note | Attributable to equity holders of the Company | | | Total HK\$'000 |
|---|---------|---|----------------------|--------------------------------|-------------------|
| | | Share capital HK\$'000 | Reserves HK\$'000 | Minority interests HK\$'000 | |
| Balance at 1 January 2006 | | 651,894 | 9,736,867 | 3,550,726 | 13,939,487 |
| Currency translation differences | 32 | — | 397,336 | 104,535 | 501,871 |
| Increase in fair value of available-for-sale financial assets | 32 | — | 45,411 | 3,565 | 48,976 |
| Share of change in fair value of cash-flow hedges of an associated entity | 32 | — | (11,155) | — | (11,155) |
| Fair value adjustment to loans from minority shareholders of subsidiaries | 32 | — | 5,703 | 10,924 | 16,627 |
| Net income recognised directly in equity | | — | 437,295 | 119,024 | 556,319 |
| Profit for the year | | — | 712,615 | 307,354 | 1,019,969 |
| Total recognised income for the year ended 31 December 2006 | | — | 1,149,910 | 426,378 | 1,576,288 |
| Employees share option scheme - value of employee services | 32 | — | 4,514 | — | 4,514 |
| Issue of shares net of issuing expenses | 31 & 32 | 28,460 | 162,391 | — | 190,851 |
| Dividends paid | 32 | — | (597,149) | (141,679) | (738,828) |
| Capital injection to a subsidiary | 32 | — | — | 3,846 | 3,846 |
| | | 28,460 | (430,244) | (137,833) | (539,617) |
| Balance at 31 December 2006 | | 680,354 | 10,456,533 | 3,839,271 | 14,976,158 |

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

| | Note | Attributable to equity holders of the Company | | | Total |
|---|---------|---|-----------|--------------------|------------|
| | | Share capital | Reserves | Minority interests | |
| | | HK\$'000 | HK\$'000 | HK\$'000 | |
| Balance at 1 January 2005 | | 635,160 | 7,075,069 | 3,474,849 | 11,185,078 |
| Currency translation differences | 32 | — | 228,439 | 66,668 | 295,107 |
| Release of reserve upon deemed disposal of certain interest in a subsidiary | 32 | — | 34 | 2,071 | 2,105 |
| Decrease in fair value of available-for-sale financial assets | 32 | — | (28,893) | (24,583) | (53,476) |
| Fair value adjustment to loans from minority shareholder of subsidiaries | 32 | — | 5,356 | 10,264 | 15,620 |
| Net income recognised directly in equity | | — | 204,936 | 54,420 | 259,356 |
| Profit for the year | | — | 2,527,765 | 355,908 | 2,883,673 |
| Total recognised income for the year ended 31 December 2005 | | — | 2,732,701 | 410,328 | 3,143,029 |
| Employees share option scheme - value of employee services | 32 | — | 22,524 | — | 22,524 |
| Issue of shares net of issuing expenses | 31 & 32 | 16,734 | 72,540 | — | 89,274 |
| Dividends paid | 32 | — | (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 31 December 2005 | | 651,894 | 9,736,867 | 3,550,726 | 13,939,487 |

1 GENERAL INFORMATION

Guangzhou Investment Company Limited (“the Company”) and its subsidiaries (together “the Group”) is principally engaged in development, selling and management of properties and holding of investment properties, operation and management of toll highways and bridges and manufacturing and trading of newsprint. The Group’s operations are mainly conducted in Hong Kong and Mainland China (“China”).

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

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited and Singapore Exchange Securities Trading 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 19 April 2007.

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 investment properties, available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(a) Effect of adopting new HKFRS

In 2006, the Group adopted the following amendments and interpretation of HKFRS, which are effective in 2006 and are relevant to the Group's operations:

- Amendments to HKAS 39 and HKFRS 4 "Financial Guarantee Contracts". The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to certain subsidiaries as insurance contracts. Consequently the adoption of the amendments does not have any significant impact on the Group's consolidated financial statements.
- HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease". The Group has reviewed its contracts. The adoption of this interpretation does not have any significant impact on classification of the leases of the Group and on the expenses recognised in respect of them.

The following standards, amendments and interpretations of HKFRS are effective in 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment, Employee Benefits
- HKAS 21 Amendment, Net Investment in a Foreign Operation;
- HKAS 39 Amendment, Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment, The Fair Value Option;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment, First-time Adoption of International Financial Reporting Standards and HKFRS 6 Amendment, Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market-Waste Electronical and Electronic Equipment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

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

The following new standards, amendments and interpretations of HKFRS have been issued but are not effective in 2006 and have not been early adopted:

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for accounting periods commencing on or after 1 November 2006). The Group will apply HK(IFRIC)-Int 10 from annual period beginning 1 January 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements;
- HK(IFRIC)-Int 11, HKFRS 2 - Group and Treasury Share Transaction (effective for accounting periods commencing on or after 1 March 2007). The Group will apply this interpretation from annual period beginning 1 January 2008, but it is not expected to have any significant impact on the Group's consolidated financial statements;
- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for accounting periods commencing on or after 1 January 2008). The Group is not yet in a position to state whether substantial changes to the Group's principal accounting policies and presentation of the consolidated financial statements will be resulted. The Group will apply this interpretation from annual period beginning 1 January 2008;
- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective for accounting periods commencing on or after 1 January 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual period beginning 1 January 2007; and
- HKFRS 8, Operating Segments (effective for accounting periods commencing on or after 1 January 2009). The Group will apply HKFRS 8 from annual period beginning 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated financial statements other than presentational changes and additional disclosures in respect of segment information.

The following interpretations of HKFRS have been issued but are not effective in 2006 and are not relevant to the Group's operations:

- HK(IFRIC) - Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for accounting periods commencing on or after 1 March 2006);
- HK(IFRIC) - Int 8, Scope of HKFRS 2 (effective for accounting periods commencing on or after 1 May 2006); and
- HK(IFRIC) - Int 9, Reassessment of embedded derivatives (effective for accounting periods commencing on or after 1 June 2006).

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 at 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an 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 and are recorded in the income statement. Purchases from minority interests result in goodwill, being the excess of any consideration paid over the acquired share of the carrying value of net assets of the subsidiary. If the consideration is less than the acquired share 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)

2.2 Consolidation (cont'd)

(c) Jointly controlled entities

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 investments in jointly controlled entities include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. 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 entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Associated entities

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

The Group's share of its associated 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 an associated entity equals or exceeds its interest in the associated 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 associated entities.

Unrealised gains on transactions between the Group and its associated entities are eliminated to the extent of the Group's interests in the associated entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated entities 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 the income statement, 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 the income statement 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

Tangible infrastructures

Major costs incurred in restoring tangible infrastructures of toll highway to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

Depreciation of tangible infrastructures of toll highway is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period of 30 to 36 years over the projected total traffic volume throughout the life of the asset. The Group reviews regularly the projected total traffic volume throughout the life of the asset, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

The Group has been granted by the relevant local government authorities the rights to operate the toll highway for period of 30 to 36 years. According to the relevant governments' approval documents and the relevant regulations the Group is responsible for the construction of the toll highway and the acquisition of the related facilities and equipment and it is also responsible for the operations and management, maintenance and overhaul of the toll highway during the approved operating periods. The toll fees collected during the operating periods is attributable to the Group. The relevant toll highway assets are required to be returned to the local government authorities when the operating rights periods expire without any payments to be made to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options.

Intangible operating rights

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 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 |

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.6 Property, plant and equipment (cont'd)

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 2.8).

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

Production facilities under construction are stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the production facilities under construction is transferred to property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of production facilities under construction.

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.

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 period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.7 Investment properties (cont'd)

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 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 plan is classified as other assets held for sale, under HKFRS 5.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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). Assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

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.

(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. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.12).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.9 Financial assets (cont'd)

(c) 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 from the balance sheet date.

Regular purchases and sales of investments are recognised on the 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 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 – net', 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.

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 and other receivables is described in Note 2.12.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Properties under development and properties held for sale

Properties under development and properties held for sale are stated at the lower of cost and net realisable value. The cost of properties under development and properties held for sale comprises development and construction expenditure, finance costs capitalised and other direct costs attributable to the development. Net realisable value is the estimated selling price at which the property can be realised less related expenses. Income from incidental operation is recognised in the income statement.

2.11 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 finance costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. 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.

2.13 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.

2.14 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.16 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.

2.17 Finance costs

Finance 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 finance costs are charged to the income statement in the period in which they are incurred.

2.18 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, jointly controlled entities and associated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.19 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 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 future payments is available.

(b) Share-based compensation

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

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

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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.20 Provisions

Provisions are recognised when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated. 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 expenditure 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.

2.21 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.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised as follows:

- (a) Revenue from sales of properties is recognised upon completion of sale agreements, which refers to the time when the relevant properties have been completed and delivered to the purchasers pursuant to the sale agreements. Deposits and instalments received on properties sold prior to their completion are included in current liabilities.
- (b) Operating lease rental income is recognised on a straight-line basis over the lease period.
- (c) Revenue from property management is recognised in the period in which the services are rendered.
- (d) Revenue from the sales 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.
- (e) Toll revenue is recognised on a receipt basis.
- (f) 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.
- (g) Dividend income is recognised when the right to receive payment is established.
- (h) Agency fee revenue from property broking is recognised when the relevant agreement becomes unconditional or irrevocable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.22 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.

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.

(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.

2.23 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 property, plant and equipment 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.

2.24 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Contingent liabilities and contingent assets

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

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

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

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

2.26 Financial guarantees

Financial guarantee contracts under which the Group accepts significant risk from a third party by agreeing to compensate that party on the occurrence of a specified uncertain future event are accounted for in a manner similar to insurance contracts.

Provisions are recognised when it is probable that the Group has obligations under such guarantees and an outflow of economic resources will be required to settle the obligations.

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 their transactions denominated in Renminbi. In addition, the Group has certain borrowings denominated in Euro. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi and Euro 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 equity securities price risk in regard to its available-for-sale financial assets.

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.1 Financial risk factors (cont'd)

(c) **Credit risk**

The Group has no significant concentrations of credit risk. Cash transactions are limited to high-credit-quality institutions. The Group has policies in place to ensure that sales are made to buyers/customers with an appropriate financial strength and appropriate percentage of down payment.

(d) **Liquidity risk**

Due to the capital intensive nature of the Group's business, 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 mainly from bank balances and borrowings. Bank balances and borrowings that are subject to variable rates expose the Group to cash flow interest rate risk. Bank balances and borrowings that are subject to 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 estimated credit adjustments of trade and other 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 7 per cent.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (cont'd)

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

Property, plant and equipment, 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 property, 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.

(c) Estimated write-downs of properties under development and properties held for sale to net realisable value

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 which takes 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 which may result in writing down properties under development and properties held 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 of properties under development and properties held for sale is adjusted in the period in which such estimate is changed.

(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 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 properties of different nature, condition or location (or subject to different lease or other contracts), with adjustments 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, 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 sheet date.

The principal assumptions underlying management's estimate of fair value are those relating 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, and actual transactions of 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.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (cont'd)

(e) 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 the related payments. 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 difference will impact the income tax and deferred tax provisions in the period in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when 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 difference will impact the recognition of deferred taxation assets and taxation in the period in which such estimate is changed.

(f) Depreciation and amortisation

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value 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 property, plant and equipment.

(g) 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 as adjusted for the effect of inflation. The Group regularly updates the construction schedules of public facilities and reviews the adequacy of the accrued balance.

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

5 REVENUE AND SEGMENT INFORMATION

Revenue recognised is as follows:

| | 2006 | 2005 |
|-----------------------------------|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Sales revenue | | |
| - Sales of properties | 1,966,685 | 1,247,447 |
| - Sales of newsprint | 1,352,070 | 1,194,252 |
| | 3,318,755 | 2,441,699 |
| Toll revenue from toll operations | 448,531 | 424,845 |
| Property management fee income | 213,388 | 137,050 |
| Rental income | 229,727 | 519,761 |
| Others | 447,521 | 431,643 |
| | 4,657,922 | 3,954,998 |

Revenue and segment results for the year 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 - operation and management of toll highways and bridges
- Paper - manufacturing and trading of newsprint

There are no significant sales between these 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 – properties, toll operations and paper
 Others – properties

There are no significant sales between these geographical segments.

Segment assets consist primarily of interests in toll highways and bridges, property, plant and equipment, investment properties, leasehold land and land use rights, other non-current assets, available-for-sale financial assets, properties under development, properties held for sale, inventories, trade receivables, other receivables, prepayments and deposits, prepayments for land use rights and bank balances and cash. Unallocated assets comprise primarily deferred tax assets, current tax recoverable and corporate assets which are not directly attributable to other segments or cannot be allocated to other segments on a reasonable basis.

5 REVENUE AND SEGMENT INFORMATION (cont'd)

Secondary reporting format - geographical segments (cont'd)

Segment liabilities comprise primarily operating liabilities and borrowings directly attributable to a segment. Unallocated liabilities comprise items such as taxation payable, deferred tax liabilities and corporate liabilities which are not directly attributable to other segments or cannot be allocated to other segments on a reasonable basis.

Capital expenditure comprises additions to tangible infrastructures of toll highways and bridges (Note 16), property, plant and equipment (Note 17), investment properties (Note 18) and leasehold land and land use rights (Note 19).

Primary reporting format - business segments

| | For the year ended 31 December | | | | | | | |
|---------------------------------|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Properties | | Toll operations | | Paper | | Group | |
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Revenue | <u>2,857,321</u> | <u>2,335,901</u> | <u>448,531</u> | <u>424,845</u> | <u>1,352,070</u> | <u>1,194,252</u> | <u>4,657,922</u> | <u>3,954,998</u> |
| Segment results | <u>816,537</u> | <u>3,022,868</u> | <u>184,784</u> | <u>130,479</u> | <u>82,360</u> | <u>96,820</u> | <u>1,083,681</u> | <u>3,250,167</u> |
| Interest income | | | | | | | 96,557 | 52,107 |
| Unallocated operation costs | | | | | | | (46,917) | (86,650) |
| Finance costs | | | | | | | (193,891) | (301,746) |
| Share of profits less losses of | | | | | | | | |
| - Jointly controlled entities | (14,782) | (1,804) | 75,213 | 40,014 | — | — | 60,431 | 38,210 |
| - Associated entities | 134,045 | 17,648 | 241,254 | 184,414 | — | — | 375,299 | 202,062 |
| Profit before taxation | | | | | | | 1,375,160 | 3,154,150 |
| Taxation | | | | | | | (355,191) | (270,477) |
| Profit for the year | | | | | | | <u>1,019,969</u> | <u>2,883,673</u> |
| Capital expenditure | 588,034 | 475,971 | 5,273 | 300 | 472,044 | 383,265 | 1,065,351 | 859,536 |
| Depreciation and amortisation | <u>112,041</u> | <u>160,977</u> | <u>114,122</u> | <u>108,448</u> | <u>74,667</u> | <u>68,844</u> | <u>300,830</u> | <u>338,269</u> |

Notes to the Financial Statements

5 REVENUE AND SEGMENT INFORMATION (cont'd)

| | At 31 December | | | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Properties | | Toll operations | | Paper | | Group | |
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Segment assets | 19,794,688 | 17,398,149 | 2,530,249 | 2,468,584 | 3,063,982 | 2,127,807 | 25,388,919 | 21,994,540 |
| Interests in jointly controlled entities | 227,000 | 210,180 | 671,170 | 475,549 | — | — | 898,170 | 685,729 |
| Interests in associated entities | 1,249,478 | 1,402,584 | 1,745,816 | 1,686,542 | — | — | 2,995,294 | 3,089,126 |
| Unallocated assets | | | | | | | 339,161 | 1,326,246 |
| Total assets | | | | | | | 29,621,544 | 27,095,641 |
| Segment liabilities | 8,731,318 | 6,743,262 | 507,047 | 610,764 | 1,907,570 | 1,014,947 | 11,145,935 | 8,368,973 |
| Unallocated liabilities | | | | | | | 3,499,451 | 4,787,181 |
| Total liabilities | | | | | | | 14,645,386 | 13,156,154 |

Secondary reporting format - geographical segments

| | For the year ended 31 December | | | | At 31 December | |
|--------------------|--------------------------------|------------------|---------------------|------------------|------------------|------------------|
| | Revenue | | Capital expenditure | | Total assets | |
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Hong Kong | 611,097 | 228,702 | 2,168 | 2,122 | 991,199 | 1,460,136 |
| China | 4,044,409 | 3,724,429 | 1,063,183 | 857,414 | 28,252,008 | 23,984,427 |
| Overseas | 2,416 | 1,867 | — | — | 39,176 | 35,711 |
| | 4,657,922 | 3,954,998 | 1,065,351 | 859,536 | 29,282,383 | 25,480,274 |
| Unallocated assets | | | | | 339,161 | 1,615,367 |
| Total assets | | | | | 29,621,544 | 27,095,641 |

6 OTHER GAINS

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Excess of fair value of additional interests in a subsidiary and an associated entity over the acquisition cost | — | 198,214 |
| Gain on exchange of assets | — | 83,504 |
| | — | 281,718 |

7 PROFIT FROM OPERATIONS

The following items have been charged to the profit from operations:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|-------------------|-------------------|
| Advertising expenses | 152,874 | 143,756 |
| Amortisation/depreciation of interests in toll highways and bridges (included in cost of sales) | 111,624 | 106,051 |
| Amortisation of leasehold land and land use rights | 80,295 | 103,869 |
| Auditors' remuneration | 8,019 | 5,248 |
| Cost of inventories/properties sold included in cost of sales | 3,106,855 | 2,317,346 |
| Depreciation | | |
| - Owned property, plant and equipments | 108,875 | 128,315 |
| - Leased property, plant and equipments | 36 | 34 |
| Direct operating expenses arising from investment properties | | |
| - that generate rental income | 42,972 | 241,399 |
| - that did not generate rental income | 129 | 656 |
| Employee benefit expenses (<i>Note 14</i>) | 500,651 | 418,527 |
| Operating leases | | |
| - Hire of plant and workshops | 17,350 | 16,368 |
| - Land and buildings | 7,373 | 90,474 |
| Provision for doubtful debts | 6,457 | 19,676 |
| Provision for impairment of available-for-sale financial assets | 10,982 | 46,949 |
| Provision for impairment of properties under development and properties held for sale | 12,843 | 66,208 |
| Provision for impairment of property, plant and equipment | 1,959 | 69,539 |
| | <u>11,811,100</u> | <u>10,311,000</u> |

8 INTEREST INCOME

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Interest income from bank deposits | 65,477 | 12,008 |
| Interest income from associated entities | 31,080 | 40,099 |
| | <u>96,557</u> | <u>52,107</u> |

9 FINANCE COSTS

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Interest on bank loans and overdrafts wholly repayable within five years | 244,620 | 307,921 |
| Interest on | | |
| - loans from minority shareholders of subsidiaries | 15,620 | 15,620 |
| - loan from a substantial shareholder | 375 | 8,506 |
| - loans from related companies | 3,266 | 3,295 |
| Total finance costs incurred | 263,881 | 335,342 |
| Less: amount capitalised as properties under development (<i>note (i)</i>) | (69,990) | (33,596) |
| | <u>193,891</u> | <u>301,746</u> |

Note:

- (i) The average interest rate of finance costs capitalised for the year ended 31 December 2006 was approximately 5.38 per cent per annum (2005: 4.83 per cent per annum).

10 TAXATION

- (a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2005: 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 entities 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 entities 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 expenditure including costs of land, development and construction.

10 TAXATION (cont'd)

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

Company and subsidiaries

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--------------------------------|------------------|------------------|
| Current taxation | | |
| Hong Kong profits tax | 2,547 | 2,133 |
| China enterprise income tax | 126,982 | 67,187 |
| China land appreciation tax | 75,618 | 12,419 |
| Under-provision in prior years | 48,266 | 6,525 |
| Deferred taxation | 101,778 | 182,213 |
| | <u>355,191</u> | <u>270,477</u> |

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:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation less share of profits less losses of jointly controlled entities and associated entities | <u>939,430</u> | <u>2,913,878</u> |
| Calculated at China enterprise income tax rate of 33 per cent (2005: 33 per cent) | 310,012 | 961,580 |
| Effect of different taxation rates | (35,789) | (51,108) |
| Income not subject to taxation | (7,025) | (733,951) |
| Expenses not deductible for taxation purposes | 34,400 | 70,212 |
| Net effect of tax loss not recognised and utilisation of previously unrecognised tax losses | (2,822) | 45,884 |
| Under-provision in prior years | 48,266 | 6,525 |
| Effect of land appreciation tax deductible for calculation of income tax purposes | (4,013) | 14,118 |
| | <u>343,029</u> | <u>313,260</u> |
| Land appreciation tax | 12,162 | (42,783) |
| Taxation charges | <u>355,191</u> | <u>270,477</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\$224,411,000 (2005: HK\$2,989,374,000).

12 EARNINGS PER SHARE

Basic

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

| | 2006 | 2005 |
|---|------------------|------------------|
| Profit attributable to equity holders of the Company (HK\$'000) | <u>712,615</u> | <u>2,527,765</u> |
| Weighted average number of ordinary shares in issue ('000) | <u>6,698,470</u> | <u>6,392,162</u> |
| Basic earnings per share (HK cents) | <u>10.64</u> | <u>39.54</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 year which are dilutive potential ordinary shares. Calculation is made 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.

| | 2006 | 2005 |
|--|------------------|------------------|
| Profit attributable to equity holders of the Company (HK\$'000) | <u>712,615</u> | <u>2,527,765</u> |
| Weighted average number of ordinary shares in issue ('000) | <u>6,698,470</u> | <u>6,392,162</u> |
| Adjustments for share options ('000) | <u>139,365</u> | <u>99,097</u> |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | <u>6,837,835</u> | <u>6,491,259</u> |
| Diluted earnings per share (HK cents) | <u>10.42</u> | <u>38.94</u> |

13 DIVIDENDS

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Interim, paid, of HK\$0.0189 (2005: HK\$0.01) per ordinary share | 127,844 | 64,028 |
| Dividend in specie, paid, 16,269,505 units of GZI Real Estate Investment Trust | — | 44,370 |
| Final, proposed, of HK\$0.023 (2005: HK\$0.02) per ordinary share | 156,781 | 133,440 |
| Special, proposed, of Nil (2005: HK\$0.05) per ordinary share | — | 333,601 |
| | <u>284,625</u> | <u>575,439</u> |

At a meeting held on 19 April 2007, the directors proposed a final dividend of HK\$0.023 per ordinary share. This proposed dividend is not reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained profits in the year ending 31 December 2007.

14 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------------------|------------------|
| Wages, salaries and bonus | 394,685 | 300,226 |
| Pension costs (defined contribution plans) | 29,631 | 37,607 |
| Medical benefits costs (defined contribution plans) | 7,685 | 7,310 |
| Social security costs | 20,535 | 16,724 |
| Termination benefits | 159 | 1,563 |
| Staff welfare | 43,442 | 32,573 |
| Share-based payments | 4,514 | 22,524 |
| | <u>500,651</u> | <u>418,527</u> |

Pension scheme arrangements

The Group operates a defined contribution scheme ("ORSO Scheme") for certain Hong Kong employees as defined in the Occupational Retirement Schemes Ordinance. Contributions to the scheme by the employer and employees are calculated at 5 per cent to 15 per cent and 5 per cent respectively of the employees' basic salaries.

The Group's contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There are no forfeited contributions for both years presented.

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

Subsidiaries of the Company in China are required to participate in defined contribution retirement plans organised by the respective Provincial or Municipal People's Government, and make monthly contributions to the retirement plans equivalent to 16 per cent to 24 per cent of the monthly salaries of the employees.

Notes to the Financial Statements

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The remuneration of every Director for the year ended 31 December 2006 is set out below:

| Name of Director | Fees HK\$'000 | Salaries HK\$'000 | Discretionary | Pension | Total HK\$'000 |
|------------------------------------|------------------|----------------------|---------------------|-------------------|-------------------|
| | | | bonuses HK\$'000 | costs HK\$'000 | |
| OU Bingchang | — | 882 | 6,000 | 176 | 7,058 |
| LIANG Yi | — | 700 | 5,800 | 140 | 6,640 |
| LI Fei | — | 700 | 4,800 | — | 5,500 |
| CHEN Guangsong (<i>note (i)</i>) | — | 683 | 4,500 | 136 | 5,319 |
| TANG Shouchun (<i>note (ii)</i>) | — | 584 | 3,600 | 117 | 4,301 |
| WANG Hongtao (<i>note (ii)</i>) | — | 349 | 3,600 | — | 3,949 |
| LI Xinmin (<i>note (iii)</i>) | — | 204 | 1,200 | 41 | 1,445 |
| HE Zili (<i>note (iii)</i>) | — | 162 | 1,200 | 32 | 1,394 |
| YU Lup Fat Joseph | 125 | — | — | — | 125 |
| LEE Ka Lun | 125 | — | — | — | 125 |
| LAU Hon Chuen Ambrose | 125 | — | — | — | 125 |
| Total | 375 | 4,264 | 30,700 | 642 | 35,981 |

Notes:

- (i) Resigned on 28 November 2006
- (ii) Appointed on 28 February 2006
- (iii) Appointed on 15 September 2006

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

| Name of Director | Fees HK\$'000 | Salaries HK\$'000 | Discretionary | Pension | Others | Total HK\$'000 |
|---|------------------|----------------------|---------------------|-------------------|-----------------------------------|-------------------|
| | | | bonuses HK\$'000 | costs HK\$'000 | (<i>note (iii)</i>) 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 (<i>note (ii)</i>) | — | 610 | 2,800 | 97 | — | 3,507 |
| XIAO Boyan (<i>note (i)</i>) | — | 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 |

Notes:

- (i) Resigned on 10 August 2005
- (ii) Resigned on 9 December 2005
- (iii) Others include housing allowance and share-based payments

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

No Directors waived emoluments in respect of the years ended 31 December 2006 and 2005. No emoluments were paid or payable by the Group to any Director 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 years ended 31 December 2006 and 2005 are also Directors whose emoluments are reflected in the analysis presented above.

16 INTERESTS IN TOLL HIGHWAYS AND BRIDGES

| | Intangible operating rights | Group Tangible infrastructures | Total |
|---------------------------------------|--|---|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2005 | | | |
| 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 31 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 31 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> |
| Year ended 31 December 2006 | | | |
| Opening net book amount | 1,648,510 | 331,507 | 1,980,017 |
| Exchange differences | 62,028 | 13,260 | 75,288 |
| Amortisation/depreciation | (98,016) | (13,608) | (111,624) |
| Closing net book amount | <u>1,612,522</u> | <u>331,159</u> | <u>1,943,681</u> |
| At 31 December 2006 | | | |
| Cost | 2,333,900 | 430,000 | 2,763,900 |
| Accumulated amortisation/depreciation | (721,378) | (98,841) | (820,219) |
| Net book amount | <u>1,612,522</u> | <u>331,159</u> | <u>1,943,681</u> |

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

Notes to the Financial Statements

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 1 January 2005 | | | | | | |
| Cost | 375,943 | 88,305 | 1,414,441 | 247,963 | 70,104 | 2,196,756 |
| Accumulated depreciation and impairment | (98,597) | — | (551,660) | (146,868) | (48,279) | (845,404) |
| Net book amount | <u>277,346</u> | <u>88,305</u> | <u>862,781</u> | <u>101,095</u> | <u>21,825</u> | <u>1,351,352</u> |
| Year ended 31 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 | <u>292,313</u> | <u>380,607</u> | <u>818,563</u> | <u>92,650</u> | <u>30,434</u> | <u>1,614,567</u> |
| At 31 December 2005 | | | | | | |
| Cost | 397,542 | 380,607 | 1,410,089 | 249,349 | 78,062 | 2,515,649 |
| Accumulated depreciation and impairment | (105,229) | — | (591,526) | (156,699) | (47,628) | (901,082) |
| Net book amount | <u>292,313</u> | <u>380,607</u> | <u>818,563</u> | <u>92,650</u> | <u>30,434</u> | <u>1,614,567</u> |
| Year ended 31 December 2006 | | | | | | |
| Opening net book amount | 292,313 | 380,607 | 818,563 | 92,650 | 30,434 | 1,614,567 |
| Exchange differences | 14,349 | 11,271 | 47,369 | 3,721 | 955 | 77,665 |
| Additions | 640 | 534,938 | 13,673 | 12,456 | 8,288 | 569,995 |
| Transfer from properties under development | 227,692 | — | — | — | — | 227,692 |
| Disposals | (19,080) | — | — | (4,907) | (731) | (24,718) |
| Reclassification | 9,737 | (769,255) | 755,923 | 2,696 | 899 | — |
| Impairment loss | (1,959) | — | — | — | — | (1,959) |
| Depreciation | (21,464) | — | (57,389) | (23,475) | (6,583) | (108,911) |
| Closing net book amount | <u>502,228</u> | <u>157,561</u> | <u>1,578,139</u> | <u>83,141</u> | <u>33,262</u> | <u>2,354,331</u> |
| At 31 December 2006 | | | | | | |
| Cost | 663,287 | 157,561 | 2,225,036 | 261,870 | 87,007 | 3,394,761 |
| Accumulated depreciation and impairment | (161,059) | — | (646,897) | (178,729) | (53,745) | (1,040,430) |
| Net book amount | <u>502,228</u> | <u>157,561</u> | <u>1,578,139</u> | <u>83,141</u> | <u>33,262</u> | <u>2,354,331</u> |

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 1 January 2005 | | | | |
| Cost | 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 31 December 2005 | | | | |
| Opening net book amount | 10,622 | 1,381 | 260 | 12,263 |
| Additions | — | 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 31 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>113</u> | <u>11,060</u> |
| Year ended 31 December 2006 | | | | |
| Opening net book amount | 10,275 | 672 | 113 | 11,060 |
| Additions | — | 319 | — | 319 |
| Disposals | — | (5) | — | (5) |
| Depreciation | (297) | (233) | (113) | (643) |
| Closing net book amount | <u>9,978</u> | <u>753</u> | <u>—</u> | <u>10,731</u> |
| At 31 December 2006 | | | | |
| Cost | 15,613 | 1,627 | 4,047 | 21,287 |
| Accumulated depreciation | (5,635) | (874) | (4,047) | (10,556) |
| Net book amount | <u>9,978</u> | <u>753</u> | <u>—</u> | <u>10,731</u> |

Properties with an aggregate carrying amount of HK\$133 million (2005: HK\$128 million) were mortgaged as collateral for the Group's bank borrowings (Note 40).

18 INVESTMENT PROPERTIES

(a) Group

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Beginning of the year | 3,301,437 | 4,775,305 |
| Exchange differences | 135,088 | 67,950 |
| Additions | 21,548 | 45,735 |
| Transfer from properties held for sale, properties under development, leasehold land and land use rights | 1,474,575 | 1,313,099 |
| Transfer to other assets held for sale | — | (397,000) |
| Disposals | (54,488) | (3,302,571) |
| Fair value gains credited to income statement | 747,025 | 798,919 |
| End of the year | <u>5,625,185</u> | <u>3,301,437</u> |

(b) Company

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------------------|------------------|
| Beginning of the year | 10,500 | 10,300 |
| Fair value gains credited to income statement | 180 | 200 |
| End of the year | <u>10,680</u> | <u>10,500</u> |

18 INVESTMENT PROPERTIES (cont'd)

The investment properties were revalued at 31 December 2006 by independent, professional qualified valuers, Greater China Appraisal Limited. Valuations were performed using discounted cash flow projections based on estimates of future cash flows 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, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

As at 31 December 2006, investment properties of HK\$2,988 million (2005: HK\$1,725 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 | |
|--|------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| In Hong Kong: | | | | |
| Leases of between 10 to 50 years | 386,220 | 340,140 | — | — |
| Leases of over 50 years | 112,480 | 110,600 | 10,680 | 10,500 |
| Outside Hong Kong (note (i)): | | | | |
| Leases or land use rights of between 10 to 50 years | 5,126,485 | 2,850,697 | — | — |
| | 5,625,185 | 3,301,437 | 10,680 | 10,500 |

Note:

- (i) Properties outside Hong Kong mainly comprise properties located in China.

19 LEASEHOLD LAND AND LAND USE RIGHTS

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

| | Group | |
|---|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| Beginning of the year | 7,563,939 | 8,207,453 |
| Additions | 246,116 | 370,765 |
| Disposals | (589,016) | (575,314) |
| Transfer to investment properties | (533,298) | (473,175) |
| Amortisation | (80,295) | (103,869) |
| Exchange differences | 312,750 | 138,079 |
| End of the year | <u>6,920,196</u> | <u>7,563,939</u> |
| Analysed as: | | |
| Non-current | | |
| - in relation to properties held for development | 4,657,010 | 4,304,664 |
| - in relation to property, plant and equipment | 80,397 | 68,330 |
| | <u>4,737,407</u> | <u>4,372,994</u> |
| Current | | |
| - in relation to properties under development (<i>Note (i)</i>) | 1,853,654 | 3,040,412 |
| - in relation to properties held for sale | 329,135 | 150,533 |
| | <u>2,182,789</u> | <u>3,190,945</u> |
| | <u>6,920,196</u> | <u>7,563,939</u> |

Note:

- (i) Included in the balance is an amount of approximately HK\$323 million (2005: Nil) which represents the land use rights that the Group has contributed into a property project in exchange for certain property units to be developed on the land upon completion of the project.

19 LEASEHOLD LAND AND LAND USE RIGHTS (cont'd)

| | Group | |
|---|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| In China: | | |
| Land use rights of over 50 years | 4,279,377 | 4,440,246 |
| Land use rights of between 10 to 50 years | 2,389,912 | 2,867,946 |
| In Hong Kong: | | |
| Leases of over 50 years | 250,207 | 255,747 |
| Leases of between 10 to 50 years | 700 | — |
| | <u>6,920,196</u> | <u>7,563,939</u> |

Land use rights with an aggregate net book amount of approximately HK\$410 million (2005: HK\$950 million) as at 31 December 2006 were pledged as collateral for the Group's bank borrowings (Note 40).

20 INTERESTS IN SUBSIDIARIES

| | Company | |
|---|-------------------|-------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| Investments in unlisted shares, at cost | 60,480 | 60,480 |
| Amounts due from subsidiaries (<i>note (a)</i>) | 10,232,659 | 10,168,355 |
| | <u>10,293,139</u> | <u>10,228,835</u> |
| Amounts due to subsidiaries (<i>note (b)</i>) | <u>(30,920)</u> | <u>(30,968)</u> |

- (a) The amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Except for the amounts of approximately HK\$7,986,004,000 (2005: approximately HK\$7,603,759,000) 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 repayable on demand.
- (c) Details of the principal subsidiaries of the Group as at 31 December 2006 are set out on pages 98 to 109.

Majority of the Company's amounts due from/(to) subsidiaries are denominated in HK dollar.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | Group | |
|--|-----------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | 707,580 | 538,624 |
| Amounts due from jointly controlled entities (<i>note 41(c)</i>) | 190,590 | 147,105 |
| | 898,170 | 685,729 |
| Amounts due to jointly controlled entities (<i>note 41(c)</i>) | (130,678) | (83,559) |

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

| | 2006 | 2005 |
|-------------------------|-------------|-----------|
| | HK\$'000 | HK\$'000 |
| Revenue | 138,005 | 117,801 |
| Expenses | (74,570) | (70,296) |
| Taxation | (3,004) | (9,295) |
| Profit for the year | 60,431 | 38,210 |
| Assets | | |
| Non-current assets | 1,746,188 | 1,321,595 |
| Current assets | 196,487 | 151,427 |
| | 1,942,675 | 1,473,022 |
| Liabilities | | |
| Non-current liabilities | (1,114,146) | (743,313) |
| Current liabilities | (120,949) | (191,085) |
| | (1,235,095) | (934,398) |
| Net assets | 707,580 | 538,624 |

Details of the Group's jointly controlled entities are set out on page 110.

Majority of the Group's amounts due from/(to) jointly controlled entities are denominated in Renminbi.

22 INTERESTS IN ASSOCIATED ENTITIES

| | Group | |
|---|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| Share of net assets | 2,537,494 | 2,281,294 |
| Loans receivable from associated entities (<i>note 41(c)</i>) | 319,218 | 747,322 |
| Amounts due from associated entities (<i>note 41(c)</i>) | 138,582 | 60,510 |
| | <u>2,995,294</u> | <u>3,089,126</u> |
| Amounts due to associated entities (<i>note 41(c)</i>) | <u>(112,150)</u> | <u>(119,938)</u> |

All the interests in associated entities held by the Group are unlisted except for an investment in an associated entity with a carrying value of HK\$1,002,455,000 (2005: 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 entity amounted to HK\$3,070,000,000 (2005: HK\$1,382,520,000) as at 31 December 2006.

The Group's interests in its associated entities were as follows:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|-----------------------|------------------|------------------|
| Revenue | <u>539,512</u> | <u>351,760</u> |
| Profit after taxation | <u>375,299</u> | <u>202,062</u> |
| Assets | 3,860,251 | 4,005,517 |
| Liabilities | (1,322,757) | (1,724,223) |
| Net assets | <u>2,537,494</u> | <u>2,281,294</u> |

Details of the Group's associated entities are set out on page 111.

Majority of the Group's amounts due from/(to) associated entities are denominated in Renminbi.

23 OTHER NON-CURRENT ASSETS

| | Group | |
|---|----------------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Prepayments for acquisition of property, plant and equipment | 191,516 | — |
| Prepayment for acquisition of additional interest in a jointly controlled entity (<i>Note 42(b)</i>) | 132,580 | — |
| Non-current portion of trade receivables (due over one year) | — | 108,201 |
| | 324,096 | 108,201 |
| | 324,096 | 108,201 |

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|--|----------------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Beginning of the year | 354,912 | 463,425 |
| Additions | 789 | — |
| Increase/(decrease) in fair value credited/(charged) to equity | 73,099 | (62,040) |
| Impairment losses | (10,982) | (46,949) |
| Disposals | — | (11,600) |
| Transfer to other assets held for sale | (15,000) | — |
| Exchange differences | 15,451 | 12,076 |
| | 418,269 | 354,912 |
| | 418,269 | 354,912 |

All the balances of available-for-sale financial assets are unlisted securities and are located in China.

25 PROPERTIES UNDER DEVELOPMENT

As at 31 December 2006, properties under development of HK\$576 million (2005: HK\$1,660 million) were pledged as collateral for the Group's bank borrowings (*Note 40*).

26 INVENTORIES

| | Group | |
|------------------|----------------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 82,845 | 103,062 |
| Work-in-progress | 68,071 | 83,879 |
| Finished goods | 82,979 | 132,164 |
| | 233,895 | 319,105 |
| | 233,895 | 319,105 |

Notes to the Financial Statements

27 TRADE RECEIVABLES

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

| | Group | |
|----------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| 0 - 30 days | 123,068 | 117,983 |
| 31 - 90 days | 113,451 | 92,634 |
| 91 - 180 days | 83,952 | 40,969 |
| 181 - 365 days | 102,683 | 45,295 |
| Over 1 year | 162,072 | 134,794 |
| | <u>585,226</u> | <u>431,675</u> |

There is no significant concentration of credit risk with respect to trade receivables. Majority of the Group's trade receivables are denominated in Renminbi.

28 BANK BALANCES AND CASH

| | Group | | Company | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Cash at bank and in hand | 2,194,375 | 1,735,985 | 5,227 | 9,369 |
| Short-term bank deposits | 111,479 | 1,490,253 | 14,861 | 1,490,253 |
| | <u>2,305,854</u> | <u>3,226,238</u> | <u>20,088</u> | <u>1,499,622</u> |

Included in the bank balances and cash of the Group and the Company are deposits of approximately HK\$2,057,070,000 (2005: HK\$1,490,910,000) and HK\$53,000 (2005: HK\$51,000), respectively, denominated in Renminbi and placed with banks in China. The conversion of these Renminbi denominated balances into foreign currencies in China is subject to rules and regulations of foreign exchange control promulgated by the Chinese government.

The effective interest rate on short-term bank deposits was 3.45% (2005: 3.25%). These deposits have an average maturity of 7 days (2005: 7 days).

Cash and cash equivalents are denominated in the following currencies:

| | Group | | Company | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Hong Kong Dollar | 164,235 | 415,193 | 16,092 | 230,812 |
| Renminbi | 2,057,070 | 1,490,910 | 53 | 51 |
| United States Dollar | 84,549 | 1,320,135 | 3,943 | 1,268,759 |
| | <u>2,305,854</u> | <u>3,226,238</u> | <u>20,088</u> | <u>1,499,622</u> |

29 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

| | Group | |
|----------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| 0 - 30 days | 61,916 | 103,911 |
| 31 - 90 days | 69,648 | 52,172 |
| 91 - 180 days | 49,640 | 14,714 |
| 181 - 365 days | 7,965 | 41,454 |
| 1 - 2 years | 8,741 | 20,047 |
| Over 2 years | 518 | 141,892 |
| | 198,428 | 374,190 |
| | 198,428 | 374,190 |

Majority of the Group's trade payables are denominated in Renminbi.

30 SHARE CAPITAL

| | Number of shares '000 | Amount HK\$'000 |
|--|-----------------------------|--------------------|
| Authorised: | | |
| 10,000,000,000 ordinary shares of HK\$0.10 each | 10,000,000 | 1,000,000 |
| Issued and fully paid: | | |
| At 1 January 2005 | 6,351,598 | 635,160 |
| Issue of shares upon exercise of share options (<i>Note a</i>) | 167,338 | 16,734 |
| At 31 December 2005 | 6,518,936 | 651,894 |
| At 1 January 2006 | 6,518,936 | 651,894 |
| Issue of shares upon exercise of share options (<i>Note a</i>) | 284,602 | 28,460 |
| At 31 December 2006 | 6,803,538 | 680,354 |

Note:

- (a) During the year, 284,602,000 (2005: 167,338,000) ordinary shares of HK\$0.1 each were issued upon the exercise of share options (see note 31).

31 SHARE OPTIONS

Movements of share options of the Company are as follows:

| | Number of share options '000 |
|---------------------------|---------------------------------|
| At 1 January 2005 | 604,008 |
| Exercised during the year | (167,338) |
| Lapsed during the year | (11,656) |
| | <hr/> |
| At 31 December 2005 | 425,014 |
| | <hr/> <hr/> |
| At 1 January 2006 | 425,014 |
| Exercised during the year | (284,602) |
| | <hr/> |
| At 31 December 2006 | 140,412 |
| | <hr/> <hr/> |

Particulars of share options of the Company as at 31 December 2006 and 31 December 2005 are as follows:

| Date of grant | Exercise period | Exercise price HK\$ | Number of share options | |
|------------------|--|------------------------|-------------------------|----------------|
| | | | 2006 '000 | 2005 '000 |
| 2 May 2003 | 2 May 2003 — 1 May 2013 | 0.4100 | 12,430 | 33,510 |
| 2 June 2003 | 2 June 2003 — 1 June 2013 | 0.5400 | 30,000 | 58,182 |
| 27 October 2003 | 27 October 2003 — 26 October 2013 | 0.8140 | 3,120 | 11,224 |
| 23 December 2003 | 23 December 2003 — 22 December 2013 | 0.8460 | 18,720 | 99,266 |
| 23 June 2004 | 23 June 2004 — 22 June 2014 | 0.6300 | 76,142 | 222,832 |
| | | | <hr/> | <hr/> |
| | | | 140,412 | 425,014 |
| | | | <hr/> <hr/> | <hr/> <hr/> |

On 26 June 2002, the Company adopted a 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 26 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.

Notes to the Financial Statements

31 SHARE OPTIONS (cont'd)

As at 31 December 2006, all (2005: 296,890,000) of the outstanding share options were exercisable.

The fair value of options granted was determined using the Black-Scholes valuation model 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 payout 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 a period of one year before the date when the options were granted.

32 RESERVES

(a) Group

| | Share premium | Capital redemption reserve | Statutory reserves (note a) | Exchange fluctuation reserve | Capital reserves | Cash-flow hedging reserve | Available-for-sale financial assets fair value reserves | Employee share-based compensation reserves | Retained profits | Total |
|---|------------------|----------------------------|-----------------------------|------------------------------|------------------|---------------------------|---|--|------------------|-------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2006 | 5,813,273 | 1,815 | 110,979 | 150,186 | 10,712 | — | 134,175 | 49,159 | 3,466,568 | 9,736,867 |
| Currency translation differences | — | — | — | 397,336 | — | — | — | — | — | 397,336 |
| Share of change in fair value of cash-flow hedges of an associated entity | — | — | — | — | — | (11,155) | — | — | — | (11,155) |
| Change of fair value of financial assets | | | | | | | | | | |
| - gross | — | — | — | — | — | — | 67,778 | — | — | 67,778 |
| - taxation | — | — | — | — | — | — | (22,367) | — | — | (22,367) |
| Profit attributable to shareholders | — | — | — | — | — | — | — | — | 712,615 | 712,615 |
| Fair value adjustment to loans from minority shareholders of subsidiaries | — | — | — | — | 5,703 | — | — | — | — | 5,703 |
| Appropriation of reserves | — | — | 22,768 | — | — | — | — | — | (22,768) | — |
| Employee share option scheme expenses | — | — | — | — | — | — | — | 4,514 | — | 4,514 |
| Issue of shares net of issuing expenses | 162,391 | — | — | — | — | — | — | — | — | 162,391 |
| Transfer upon exercise of share options | 32,985 | — | — | — | — | — | — | (32,985) | — | — |
| Dividends paid | — | — | — | — | — | — | — | — | (597,149) | (597,149) |
| At 31 December 2006 | <u>6,008,649</u> | <u>1,815</u> | <u>133,747</u> | <u>547,522</u> | <u>16,415</u> | <u>(11,155)</u> | <u>179,586</u> | <u>20,688</u> | <u>3,559,266</u> | <u>10,456,533</u> |
| Representing: | | | | | | | | | | |
| 2006 Final dividend proposed | | | | | | | | | 156,781 | |
| Others | | | | | | | | | <u>3,402,485</u> | |
| | | | | | | | | | <u>3,559,266</u> | |

Notes to the Financial Statements

32 RESERVES (cont'd)

(a) Group (cont'd)

| | Share premium HK\$'000 | Capital redemption reserve HK\$'000 | Statutory reserves (note a) HK\$'000 | Exchange fluctuation reserve HK\$'000 | Capital reserves HK\$'000 | Available -for-sale financial assets fair value reserves HK\$'000 | Employee share -based compen- sation reserves HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|------------------------------|--|---|--|---------------------------------|---|--|---------------------------------|-------------------|
| At 1 January 2005 | 5,740,733 | 1,815 | 79,397 | (78,299) | 5,356 | — | 26,635 | 1,299,432 | 7,075,069 |
| Currency translation differences | — | — | — | 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) |
| - taxation | — | — | — | — | — | 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 |
| Dividends paid | — | — | — | — | — | — | — | (165,967) | (165,967) |
| At 31 December 2005 | <u>5,813,273</u> | <u>1,815</u> | <u>110,979</u> | <u>150,186</u> | <u>10,712</u> | <u>134,175</u> | <u>49,159</u> | <u>3,466,568</u> | <u>9,736,867</u> |
| Representing: | | | | | | | | | |
| 2005 Final and special dividends proposed | | | | | | | | 467,041 | |
| Others | | | | | | | | 2,999,527 | |
| | | | | | | | | <u>3,466,568</u> | |

Note:

- (a) Statutory reserves represent enterprise expansion and general reserve funds set up by the subsidiaries, jointly controlled entities and associated entities in China. As stipulated by regulation in China, the Company's subsidiaries and associated entities 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 funds may be used for increasing capital.

Notes to the Financial Statements

32 RESERVES (cont'd)

(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 1 January 2006 | 5,813,273 | 1,815 | 49,159 | 3,112,589 | 8,976,836 |
| Issue of shares net of issuing expenses | 162,391 | — | — | — | 162,391 |
| Employee share option scheme expenses | — | — | 4,514 | — | 4,514 |
| Transfer upon exercise of share options | 32,985 | — | (32,985) | — | — |
| Profit for the year | — | — | — | 224,411 | 224,411 |
| Dividends paid | — | — | — | (597,149) | (597,149) |
| | <u>6,008,649</u> | <u>1,815</u> | <u>20,688</u> | <u>2,739,851</u> | <u>8,771,003</u> |

Representing:

2006 Final dividend proposed

Others

156,781

2,583,070

2,739,851

| | Share premium HK\$'000 | Capital redemption reserve HK\$'000 | Employee share-based compensation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|------------------------------|--|--|---------------------------------|-------------------|
| At 1 January 2005 | 5,740,733 | 1,815 | 26,635 | 289,182 | 6,058,365 |
| Issue of shares net of issuing expenses | 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) |
| | <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 dividends proposed

Others

467,041

2,645,548

3,112,589

33 BORROWINGS

| | Group | | Company | |
|--|-------------------------|-------------------------|-----------------------|-------------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Non-current | | | | |
| Long-term bank borrowings | | | | |
| - Secured | 2,076,945 | 2,866,479 | 707,445 | 1,537,456 |
| - Unsecured | 1,184,253 | 577,309 | — | — |
| Obligations under finance leases | 96 | 58 | 96 | 58 |
| Loans from related companies (<i>note 41(c)</i>) | 51,615 | 87,532 | 51,615 | 87,532 |
| Loans from minority shareholders of subsidiaries (<i>note 41(c)</i>) | 449,738 | 421,864 | — | — |
| | <u>3,762,647</u> | <u>3,953,242</u> | <u>759,156</u> | <u>1,625,046</u> |
| Current | | | | |
| Bank overdrafts | 215 | 27,285 | — | — |
| Short-term bank borrowings | | | | |
| - Secured | 230,000 | 48,077 | — | — |
| - Unsecured | 1,182,243 | 703,070 | — | — |
| Current portion of long-term bank borrowings | | | | |
| - Secured | 537,148 | 457,089 | — | 131,539 |
| - Unsecured | 126,700 | 291,346 | — | — |
| Loan from a subsidiary | — | — | — | 160,000 |
| Obligations under finance leases | 40 | 34 | 40 | 34 |
| | <u>2,076,346</u> | <u>1,526,901</u> | <u>40</u> | <u>291,573</u> |
| Total borrowings | <u><u>5,838,993</u></u> | <u><u>5,480,143</u></u> | <u><u>759,196</u></u> | <u><u>1,916,619</u></u> |

The maturity of borrowings is as follows:

Group

| | Bank borrowings and overdrafts | | Other loans | |
|---|--------------------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Within one year | 2,076,306 | 1,526,867 | 40 | 34 |
| In the second year | 1,142,500 | 812,478 | 96 | 34 |
| In the third to fifth year | 2,118,698 | 2,631,310 | 51,615 | 87,556 |
| With no fixed repayment terms (<i>Note (i)</i>) | — | — | 449,738 | 421,864 |
| | <u>5,337,504</u> | <u>4,970,655</u> | <u>501,489</u> | <u>509,488</u> |

Note:

- (i) Loans from minority shareholders of subsidiaries are not repayable within one year.

Notes to the Financial Statements

33 BORROWINGS (cont'd)

Company

| | Bank borrowings and overdrafts | | Other loans | |
|----------------------------|--------------------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Within one year | — | 291,539 | 40 | 34 |
| In the second year | — | 142,855 | 96 | 34 |
| In the third to fifth year | 707,445 | 1,394,601 | 51,615 | 87,556 |
| | <u>707,445</u> | <u>1,828,995</u> | <u>51,751</u> | <u>87,624</u> |

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

| | 2006 | | | | 2005 | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|
| | HK\$ | Rmb | USD | EUR | HK\$ | Rmb | USD |
| Bank overdrafts | 8.24% | — | — | — | 8.00% | — | — |
| Bank borrowings | 4.85% | 5.54% | 5.43% | 4.28% | 3.63% | 5.21% | 4.52% |
| Other loans | 5.15% | — | — | — | 3.82% | — | — |

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

| | Group | | Company | |
|-----------------------|------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Hong Kong Dollars | 759,411 | 1,943,904 | 759,196 | 1,916,619 |
| Renminbi | 4,838,087 | 3,499,034 | — | — |
| Euro | 204,253 | — | — | — |
| United States Dollars | 37,242 | 37,205 | — | — |
| | <u>5,838,993</u> | <u>5,480,143</u> | <u>759,196</u> | <u>1,916,619</u> |

The fair values of borrowings approximate their carrying amounts.

Notes to the Financial Statements

34 DEFERRED TAXATION

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

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

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------------------|------------------|
| At 1 January | 2,157,446 | 3,158,470 |
| Deferred taxation charged to income statement (<i>note 10(d)</i>) | 150,044 | 182,213 |
| Disposal of subsidiaries | — | (1,174,673) |
| Deferred taxation charged/(credited) to equity | 24,123 | (8,564) |
| Exchange differences | 93,619 | — |
| | <u>2,425,232</u> | <u>2,157,446</u> |
| At 31 December | <u>2,425,232</u> | <u>2,157,446</u> |

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

| | Group | | | | |
|--|---|--|------------------------|--------------------|-------------------|
| | Different bases in reporting expenses with tax authorities HK\$'000 | Revaluation of properties HK\$'000 | Tax losses HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| At 1 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 31 December 2005 | <u>106,900</u> | <u>24,117</u> | <u>12,029</u> | <u>—</u> | <u>143,046</u> |
| At 1 January 2006 | 106,900 | 24,117 | 12,029 | — | 143,046 |
| Exchange differences | 4,122 | 1,098 | 122 | 67 | 5,409 |
| Credited/(charged) to income statement | 48,969 | 4,884 | (2,764) | 3,153 | 54,242 |
| At 31 December 2006 | <u>159,991</u> | <u>30,099</u> | <u>9,387</u> | <u>3,220</u> | <u>202,697</u> |

Notes to the Financial Statements

34 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 | | | | | |
|---|--|---|--|--|--------------------|-------------------|
| | Revaluation of properties HK\$'000 | Accelerated depreciation HK\$'000 | Revaluation of investments HK\$'000 | Different bases in reporting revenue with tax authorities HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| At 1 January 2005 | 2,998,417 | 8,273 | 74,400 | 119,287 | 16,036 | 3,216,413 |
| Charged/(credited) to income statement | 259,818 | (2,288) | — | 9,786 | — | 267,316 |
| Credited to reserves | — | — | (8,564) | — | — | (8,564) |
| Disposal of subsidiaries | (1,174,673) | — | — | — | — | (1,174,673) |
| At 31 December 2005 | <u>2,083,562</u> | <u>5,985</u> | <u>65,836</u> | <u>129,073</u> | <u>16,036</u> | <u>2,300,492</u> |
| At 1 January 2006 | 2,083,562 | 5,985 | 65,836 | 129,073 | 16,036 | 2,300,492 |
| Exchange differences | 94,931 | — | 3,458 | — | 639 | 99,028 |
| Charged/(credited) to income statement | 196,558 | 15,555 | — | (10,389) | 2,562 | 204,286 |
| Charged to reserves | — | — | 24,123 | — | — | 24,123 |
| At 31 December 2006 | <u>2,375,051</u> | <u>21,540</u> | <u>93,417</u> | <u>118,684</u> | <u>19,237</u> | <u>2,627,929</u> |

Deferred income tax assets are recognised for tax losses carried forward and revaluation of properties to the extent that realisation of the related tax benefits through future taxation profits is probable. As at 31 December 2006, the Group has unrecognised tax losses of HK\$845 million (2005: HK\$911 million) for Hong Kong profits tax purposes with no expiry date and unrecognised tax benefits arising from revaluation of properties of HK\$251 million (2005: 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 on the consolidated balance sheet:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|-------------------------------|------------------|------------------|
| Deferred tax assets | | |
| - Hong Kong profits tax | 6,218 | 8,844 |
| - China enterprise income tax | 129,471 | 59,136 |
| | <u>135,689</u> | <u>67,980</u> |
| Deferred tax liabilities | | |
| - Hong Kong profits tax | 16,056 | 17,121 |
| - China enterprise income tax | 1,603,919 | 1,273,147 |
| - China land appreciation tax | 940,946 | 935,158 |
| | <u>2,560,921</u> | <u>2,225,426</u> |

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------------------|------------------|
| Profit from operations | 1,036,764 | 3,163,517 |
| Depreciation and amortisation | 300,830 | 338,269 |
| Loss on disposal/deemed disposal of certain interests in a subsidiary | — | 1,441 |
| Loss on disposal of property, plant and equipment | 6,016 | 11,452 |
| Loss on disposal of available-for-sale financial assets | — | 11,600 |
| Loss on partial disposal of an associated entity | 2,656 | — |
| Gain on disposal of subsidiaries | — | (2,028,993) |
| Fair value gains on investments properties | (747,025) | (798,919) |
| Excess of fair value of additional interests in a subsidiary and an associated entity over the acquisition cost | — | (198,214) |
| Provision for impairment of properties under development and properties held for sale | 12,843 | 66,208 |
| Provision for impairment of available-for-sale financial assets | 10,982 | 46,949 |
| Provision for impairment of property, plant and equipment | 1,959 | 69,539 |
| Employee compensation expenses | 4,514 | 22,524 |
| | <hr/> | <hr/> |
| Profit from operations before working capital changes | 629,539 | 705,373 |
| Net (increase)/decrease in investment properties, properties under development, properties held for sale and leasehold land and land use rights | (97,868) | 142,953 |
| Decrease/(increase) in inventories | 85,210 | (123,817) |
| Decrease in other assets held for sale | 397,000 | — |
| (Increase)/decrease in trade receivables, other receivables and prepayments and deposits | (48,726) | 272,460 |
| Increase in trade payables and other payables and accrued charges | 744,643 | 740,031 |
| Decrease in financial derivatives | — | (29,021) |
| Decrease in amount due to a substantial shareholder | (71,702) | (150,264) |
| (Decrease)/increase in amounts due to related companies | (20,894) | 45,333 |
| Decrease in amounts due to minority shareholders | (11,023) | (73,963) |
| | <hr/> | <hr/> |
| Net cash inflow generated from operations | <u>1,606,179</u> | <u>1,529,085</u> |

(b) During the year, the Group disposed of certain interests in an associated entity with a carrying value of approximately HK\$263 million for a cash consideration of approximately HK\$261 million, resulting in a loss on disposal of approximately HK\$2 million.

36 COMMITMENTS UNDER OPERATING LEASES

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land, buildings, plant and workshop (arising mainly from the related party transactions referred to in note 41(b) except for the commitment disclosed in note (i) below) as follows:

| | Group | |
|---|------------------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Not later than one year (<i>Note (i)</i>) | 2,764,276 | 28,370 |
| Later than one year and not later than five years | 140,497 | 91,120 |
| Later than five years | 213,828 | 207,841 |
| | 3,118,601 | 327,331 |
| | 3,118,601 | 327,331 |

Note:

- (i) In 2006, the Group entered into several agreements with certain third parties to acquire land use rights in Guangzhou at a total consideration of approximately HK\$2,932 million. The Group prepaid approximately HK\$1,267 million for these land use rights, the ownership certificates of which have not been obtained as at 31 December 2006. The prepayment is included in prepayments for land use rights on the consolidated balance sheet.

In 2005, the Group won the bid for a land use right in Guangzhou at an offer price of approximately HK\$1,057 million. As at 31 December 2006, the Group prepaid approximately HK\$5 million (2005: HK\$5 million) for this land use right and was in the process of negotiating the detailed terms of the acquisition agreement with the relevant government authority. The prepayment is included in prepayments for land use rights on the consolidated balance sheet.

The Company did not have any significant commitment under operating leases at 31 December 2006 (2005: Nil).

37 FUTURE MINIMUM RENTAL PAYMENTS RECEIVABLE

At 31 December 2006, the Group had future minimum rental payments receivable under certain non-cancellable leases as follows:

| | Group | |
|---|-----------------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Not later than one year | 199,160 | 205,464 |
| Later than one year and not later than five years | 452,897 | 357,835 |
| Later than five years | 105,082 | 44,069 |
| | 757,139 | 607,368 |
| | 757,139 | 607,368 |

During the year, the Group entered into a fifteen years' lease agreement with a third party, whereby a property is leased to the third party who acts as the head tenant and operates a shopping mall in the property. In return, the Group is entitled to a share of the sub-lease rental income to be received by the third party during the lease period which has been included in the above analysis.

38 OTHER COMMITMENTS

| | Group | |
|---|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 |
| Capital commitments in respect of property, plant and equipment | | |
| - Contracted but not provided for | 1,645,872 | 265,869 |
| - Authorised but not contracted for | 592,470 | — |
| | <u>2,238,342</u> | <u>265,869</u> |

At 31 December 2006, the Group had financial commitments in respect of equity capital to be injected into two jointly controlled entities of approximately HK\$637,294,000 (2005: one jointly controlled entity of approximately HK\$198,558,000), of which HK\$532,294,000 relates to an acquisition as disclosed as subsequent event in note 42(b).

At 31 December 2006, the Group's share of capital commitments of a jointly controlled entity not included in the above amounted to HK\$243,600,000 (2005: HK\$599,200,000).

The Company did not have significant capital commitments at 31 December 2006 (2005: Nil).

39 CONTINGENT LIABILITIES

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties (<i>Note (i)</i>) | 494,444 | 264,272 | — | — |
| Guarantees for banking and loan facilities granted to subsidiaries | — | — | 357,115 | 217,915 |
| | <u>494,444</u> | <u>264,272</u> | <u>357,115</u> | <u>217,915</u> |

Note:

- (i) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

40 SECURITIES FOR BANKING FACILITIES

At 31 December 2006, certain banking facilities and loans granted to the Group and the Company were secured by:

- (a) mortgages of certain of the Group's properties under development, investment properties and property, plant and equipment with an aggregate carrying value of HK\$576 million (2005: HK\$1,660 million), HK\$2,988 million (2005: HK\$1,725 million) and HK\$133 million (2005: HK\$128 million) respectively;
- (b) mortgages of certain of the Group's leasehold land and land use rights with an aggregate carrying value of HK\$410 million (2005: HK\$950 million);
- (c) pledge of the Group's investments in certain subsidiaries with net assets value of HK\$390 million (2005: HK\$7,745 million);
- (d) assignment of shareholder's loans between certain companies in the consolidated group with an aggregate amount of HK\$3,410 million (2005: HK\$6,795 million); and
- (e) corporate guarantee provided by a minority shareholder of a subsidiary in the amount of HK\$835 million (2005: HK\$519 million).

41 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table below summarises the names of related parties and nature of relationship with the Company as at 31 December 2006:

| Related parties | Relationship with the Company |
|--|--|
| Yue Xiu Enterprises (Holdings) Limited ("YXE") | A substantial shareholder |
| Yue Xiu International Development Limited ("YXIDL") | A subsidiary of YXE |
| Yue Xiu Finance Company Limited ("YXF") | A subsidiary of YXE |
| Guangzhou Construction & Development Group Co., Ltd. ("GCDGL") | A minority shareholder of certain subsidiaries |
| Guangzhou Paper Holdings Limited ("GZPHL") | A minority shareholder of a subsidiary |
| Guangzhou Northern Second Ring Expressway Co., Ltd. ("GNSR") | A jointly controlled entity |
| Guangzhou Western Second Ring Expressway Co., Ltd. | A jointly controlled entity |
| Guangdong Humen Bridge Co., Ltd. | An associated entity |
| Guangdong Qinglian Highway Development Co., Ltd. | An associated entity |
| Guangdong Shantou Bay Bridge Co., Ltd. | An associated entity |
| Guangzhou Northring Freeway Co., Ltd. | An associated entity |
| GZI Real Estate Investment Trust ("GZI REIT") | An associated entity |

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

(b) Transactions with related parties (cont'd)

Save as disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| (I) Transactions with YXE | | |
| Rental expenses and property management fee paid to YXE | (1,690) | (2,183) |
| Loan interest paid to YXE | (375) | (8,506) |
| Service fees paid to YXE | (600) | — |
| (II) Transaction with GZPHL | | |
| Rental and utility expenses paid to GZPHL (<i>Note (i)</i>) | (279,112) | (299,243) |
| (III) Transactions with YXF | | |
| Management fee paid to YXF | (332) | — |
| Service fees paid to YXF | (90) | — |
| (IV) Transaction with YXIDL | | |
| Loan interest paid to YXIDL | (3,266) | (2,997) |
| (V) Transaction with GCDGL | | |
| Deposit for potential acquisition of certain properties (<i>Note (ii)</i>) | (44,615) | — |
| (VI) Transactions with GZI REIT | | |
| Asset management fee received from GZI REIT | 23,765 | 573 |
| Decoration expenses received from GZI REIT (<i>Note (iii)</i>) | 371 | — |
| Tenancy services fee received from GZI REIT | 12,279 | — |
| Rental expenses paid to GZI REIT | (3,139) | — |

Notes:

- (i) The rental and utility expenses paid to GZPHL were conducted in accordance with the terms of the waiver granted by the shareholders in early 2005.
- (ii) The deposit for potential acquisition of certain properties of approximately HK\$44,615,000 was refunded by GCDGL to the Group during the year upon cancellation of the acquisition plan.
- (iii) In January 2006, the Group entered into an agreement (the "Main Contract") of HK\$5,052,065 with GZI REIT in connection with the renovation of certain units of White Horse Building. Pursuant to supplementary agreements entered into between the Group, GZI REIT and two third-party subcontractors dated 28 January 2006, the Group subcontracted part of the contract work, amounting to HK\$4,647,900 of the contract sum of the Main Contract, to these third-party subcontractors.
- (iv) In connection with the Group's acquisition of Guangzhou Construction & Development Holdings (China) Limited in 2002, GCDGL agreed to bear any obligations to construct public facilities in excess of those previously agreed with GCDGL.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

(c) Balances with related parties

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Amounts due to a substantial shareholder (<i>note (i) and (vi)</i>) | (76,924) | (148,626) |
| Amounts due to associated entities (<i>note (ii) and (vii)</i>) | (112,150) | (119,938) |
| Loans receivable from associated entities (<i>note (iv) and (vii)</i>) | 319,218 | 747,322 |
| Amounts due from associated entities (<i>note (ii) and (viii)</i>) | 160,726 | 60,510 |
| Amounts due from jointly controlled entities (<i>note (ii) and (vii)</i>) | 190,590 | 147,105 |
| Amounts due to jointly controlled entities (<i>note (ii) and (vi)</i>) | (130,678) | (83,559) |
| Amounts due to minority shareholders of subsidiaries (<i>note (ii) and (vi)</i>) | (101,845) | (112,868) |
| Loans from minority shareholders of subsidiaries (<i>note (v) and (ix)</i>) | (449,738) | (421,864) |
| Loans from related companies (<i>note (iii) and (vi)</i>) | (51,615) | (87,532) |
| Amounts due from related companies (<i>note (ii) and (vi)</i>) | — | 1,510 |
| Amounts due to related companies (<i>note (ii) and (vi)</i>) | <u>(24,439)</u> | <u>(45,333)</u> |

Notes:

- (i) The balance at 31 December 2006 is unsecured, interest-free and repayable on demand. The balance at 31 December 2005 is unsecured, repayable on demand and bears interest at Hong Kong Interbank Offered Rate plus 1 per cent per annum.
- (ii) All balances are unsecured, interest-free and repayable on demand.
- (iii) The loan balance of HK\$51,615,000 (2005: HK\$87,532,000) bears interest at Hong Kong Interbank Offered Rate plus 1 per cent per annum.
- (iv) The loan balances are unsecured, have no fixed repayment terms and bear interest at the prevailing US dollars prime rates ranging from 7.50% to 8.25% (2005: 5.25% to 7.25%) per annum and lending rates of financial institutions in China at 6.12% (2005: 6.12%) per annum.
- (v) Except for an amount of HK\$129,000,000 (2005: HK\$120,561,000) which bears interest at the prevailing lending rates of financial institutions in China ranging from 6.12% to 6.84% (2005: 6.12%) per annum, the loans from minority shareholders of subsidiaries are interest-free and have no fixed repayment term.
- (vi) These balances are included in other receivables, prepayments and deposits or other payables and accrued charges, as appropriate.
- (vii) These balances are included in interests in jointly controlled entities or interests in associated entities, as appropriate.
- (viii) The balance is included in interests in associated entities except for an amount of approximately HK\$22,144,000 (2005: Nil) which is included in other receivables, prepayments and deposits.
- (ix) These balances are included in long-term borrowings.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (cont'd)

(d) Key management compensation

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

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Fees | 375 | 204 |
| Other emoluments: | | |
| Basis salaries, housing allowances, other allowances and benefits in kind | 34,964 | 21,320 |
| Share-based payments | — | 497 |
| Pension costs | 642 | 447 |
| | <u>35,981</u> | <u>22,468</u> |

42 EVENTS AFTER THE BALANCE SHEET DATE

- (a) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law changes the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% to 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items have yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Company will evaluate the impact as more detailed regulations are announced.
- (b) On 20 November 2006, the Group entered into an agreement with Guangzhou Development Infrastructure Investments Co., Ltd., to acquire an additional 20% equity interest in a jointly controlled entity, Guangzhou Northern Second Ring Expressway Co., Ltd., for a consideration of Rmb666,200,000. A deposit of HK\$132,580,000 (equivalent to approximately Rmb133,906,000) was paid on 20 November 2006. The acquisition was completed in March 2007 and financed by a 5-year unsecured bank loan and internal funds.

Group Structure

Principal subsidiaries

At 31 December 2006, 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 |
|--|---|--|---|----------|--------|----------|----------------------|
| | | | 2006 | | 2005 | | |
| | | | 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 |
| 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 |

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 |
|--|---|--|---|----------|--------|----------|----------------------|
| | | | 2006 | | 2005 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Dragon Yield Holdings Limited | British Virgin Islands | 1 Ordinary share of US\$1 each | 100 | — | 100 | — | Investment holding |
| Easy Excel Development Limited | Hong Kong | 2 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |
| Elsburg Limited | Hong Kong | 10,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |
| 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 |
| 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 |
| 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 |

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 |
|--|---|--|---|----------|--------|----------|---|
| | | | 2006 | | 2005 | | |
| | | | 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 |

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 |
|--|---|--|---|--------------|--------|----------|---|
| | | | 2006 | | 2005 | | |
| | | | 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 |

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 |
|--|---|--|---|----------|--------|----------|---------------------------|
| | | | 2006 | | 2005 | | |
| | | | 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 |
|---|---|--|---|----------|--------|----------|---|
| | | | 2006 | | 2005 | | |
| | | | 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 | — | 27.44 | 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 | — | 34.30 | 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 | — | 34.30 | 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 |
|---|---|--|---|----------|--------|----------|---|
| | | | 2006 | | 2005 | | |
| | | | 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 | — | 27.44 | 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 | — | 17.49 | 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 |
|--|---|--|---|--------------|--------|----------|--|
| | | | 2006 | | 2005 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| ¹ Guangzhou Weian Highways Development Company Limited | China, limited liability company | Registered capital Rmb175,750,000 | — | 27.44 | — | 27.44 | 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 | — | 100 | 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 | — | 18.87 | 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 Rmb260,000,000 | — | 34.30 | — | 34.30 | Investment holding |
| Guangzhou Yue Xiu Property Management Company Limited | China, limited liability company | Registered capital Rmb1,000,000 | — | 60 | — | 60 | Property management |

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 |
|--|--|---|---|----------|--------|----------|---|
| | | | 2006 | | 2005 | | |
| | | | 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 | — | 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 | 1,115,441,530 Ordinary shares of HK\$0.1 each | 0.01 | 34.29 | 0.01 | 34.29 | 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 | — | 25.73 | 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 |
|---|---|--|---|----------|--------|----------|--|
| | | | 2006 | | 2005 | | |
| | | | 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 | — | 34.30 | 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 |
| 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 | — | 34.30 | 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 |
| Smart Rise Development Limited | Hong Kong | 100 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |

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 |
|--|---|--|---|----------|--------|----------|--------------------------|
| | | | 2006 | | 2005 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| ¹ Smart Top Enterprises Limited | Hong Kong | 2 Ordinary shares of HK\$1 each | — | 34.30 | — | 34.30 | 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 |
| Solution Investment Limited | Hong Kong | 2 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |
| 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 |
|---|---|--|---|----------|--------|----------|---|
| | | | 2006 | | 2005 | | |
| | | | 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 | — | 96.75 | 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.

Group Structure

Principal jointly controlled entities

At 31 December 2006, 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 |
|---|--------------------------------------|---|-------|---|
| | | 2006 | 2005 | |
| Guangdong Xinshidai Real Estate Ltd. | China | 45 | 45 | Property development |
| | | 33.33 | 33.33 | |
| | | 44 | 44 | |
| Guangzhou Northern Second Ring Expressway Co., Limited | China | 13.72 | 13.72 | Development and management of Guangzhou Northern Second Ring Expressway in Guangzhou |
| | | 40 | 40 | |
| | | 13.72 | 13.72 | |
| Guangzhou South House Property Industry Co., Ltd. | China | 30 | 30 | Property development and management |
| | | 28.57 | 28.57 | |
| | | 30 | 30 | |
| Guangzhou Western Second Ring Expressway Co., Limited | China | 12.01 | 12.01 | Development and management of Guangzhou Western Second Ring Expressway in Guangzhou |
| | | 33 | 33 | |
| | | 12.01 | 12.01 | |
| Hainan China City Property Development Co., Ltd. | China | 52 | 52 | Property development |
| | | 57.14 | 57.14 | |
| | | 52 | 52 | |

Group Structure

Principal associated entities

At 31 December 2006, the Group held shares/interests in the following principal associated entities:

| Name of associated entities | Place of incorporation/ establishment and operation | Effective percentage holding | | Principal activities |
|---|---|---------------------------------|-------|--|
| | | 2006 | 2005 | |
| 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 | 8.09 | Development and management of National Highway 107 linking Qingyuan and Lianzhou |
| ¹ Guangdong Shantou Bay Bridge Co., Ltd. | China | 10.29 | 10.29 | Development and management of Shantou Bay Bridge in Shantou |
| ¹ Guangzhou Northring Freeway Co., Ltd. | China | 8.33 | 8.33 | Development and management of Guangzhou City Northern Ring Road |
| Guangzhou Xin Yue Real Estate Development Co. Ltd | China | 28.20 | 28.20 | Property development |
| ¹ GZI Real Estate Investment Trust | Hong Kong | 31.33 | 40.07 | Property investment |

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

BOARD OF DIRECTORS

Executive directors

Mr Ou Bingchang (*Chairman*)
Mr Liang Yi
Mr Li Fei
Mr Tang Shouchun
Mr Wang Hongtao
Mr Li Xinmin
Mr He Zili
Ms Zhou Jin (appointed on 19 April 2007)

Independent non-executive directors & audit committee members

Mr Yu Lup Fat Joseph
Mr Lee Ka Lun
Mr Lau Hon Chuen Ambrose

COMPANY SECRETARY

Mr Yu Tat Fung

QUALIFIED ACCOUNTANT

Mr Chow Wai Kit

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

HONG KONG LEGAL ADVISORS

Baker & McKenzie
Paul, Hastings, Janofsky & Walker

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>

REGISTERED OFFICE

26th Floor
Yue Xiu Building
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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ADR DEPOSITARY BANK

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Telephone : (646) 885 3218
Facsimile : (646) 885 3043

List of Major Property Projects in Guangzhou Municipality: Land Bank (at Year End 2006)

| Project | Land Use | Gross Floor Area (sq. m) | Location |
|--|------------------------|-----------------------------|----------|
| Southern Le Sand Nan Sha Nansha District, Guangzhou | Villa | 1,044,900 | Nan Sha |
| Cong Hua Glade Village Sheng Gong Town, Cong Hua, Guangzhou | Villa | 863,600 | Cong Hua |
| Nan Sha Commercial Center Nansha District, Guangzhou | Commercial/Office | 525,600 | Nan Sha |
| the original Liwan cement plant site Li Wan District, Guangzhou | Residential/Commercial | 451,600 | Li Wan |
| Jiangnan New Village Hai Zhu District, Guangzhou | Residential | 292,500 | Hai Zhu |
| Springland Garden Baogang South Street, Hai Zhu District, Guangzhou | Residential | 181,000 | Hai Zhu |
| Jiang Nan New Mansion No. 40 Xin Gang Xi Road, Hai Zhu District, Guangzhou | Residential | 251,600 | Hai Zhu |
| Pearl River New City B2-10 Pearl River New City, Tian He, Guangzhou | Office | 173,400 | Tian He |
| Pearl River New City E3-1 Pearl River New City Tian He, Guangzhou | Residential | 145,800 | Tian He |
| Sports Stadium Building No.119 Liuhua Road, Yue Xiu District, Guangzhou | Commercial/Office | 125,000 | Yue Xiu |
| Pearl River New City B2-7 Pearl River New City Tian He, Guangzhou | Office | 122,600 | Tian He |
| Pearl River New City D3-7 Pearl River New City Tian He, Guangzhou | Commercial/Office | 106,800 | Tian He |
| Fu Hai Garden (Phase 2 of Lingnan Garden) Zengcha Road, Bai Yun District, Guangzhou | Residential | 51,100 | 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 2006)

| Project | Land Use | Floor Area under Development (sq. m) | Location |
|---|--------------------------------|--|----------|
| West Tower of Mega-Twin Commercial Tower Zhu Jiang Estate Tian He, Guangzhou | Commercial/Office | 448,700 | Tian He |
| * Springland Garden Baogang South Street, Hai Zhu District, Guangzhou | Residential | 296,900 | Hai Zhu |
| Asian Pacific Century Plaza (Commercial 12-1, 5) Tian He North Road, Tian He District, Guangzhou | Office/Commercial | 232,000 | Tian He |
| * Southern Le Sand Nansha District, Guangzhou | Villa | 180,000 | Nan Sha |
| Nan Sha Commercial Center Nansha District, | Office Commercial Others | 75,500 33,560 20,900 | Nan Sha |
| * Victory Plaza (Tower Building portion) No. 101 Ti Yu Xi Road, Tian He District, Guangzhou | Office | 90,550 | Tian He |
| * Cong Hua Glade Village Sheng Gong Town, Cong Hua, Guangzhou | Villa | 87,900 | Cong Hua |
| * 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 | 53,300 | Hai Zhu |
| * Fu Hai Garden Zengcha Road, Bai Yun District, Guangzhou | Residential | 37,670 | Bai Yun |

* These include projects intended to be launched for pre-sale in 2007

List of Major Property Projects in Guangzhou Municipality: For Rental in 2007

| Project | Land Use | Rentable Area (sq. m) | Location |
|--|-------------------|-----------------------|----------|
| Tian He Rail Station East Commercial Plaza Tian He District, Guangzhou | Commercial | 85,019 | Tian He |
| Jin Han Building No.119Liuhua Road Yue Xiu District, Guangzhou | Office | 45,833 | Yue Xiu |
| Xiangkang Commercial Plaza Sanyuan Li Main Street, Bai Yun District, Guangzhou | Office/Commercial | 28,862 | Bai Yun |
| Yue Xiu city New Metropolis DongFengZhong Road Yue Xiu District, Guangzhou | Commercial | 19,161 | Yue Xiu |
| Guang Yuan Cultural Centre No. 33 Jing Tai Zhi Street, Bai Yun District, Guangzhou | Commercial | 18,585 | Bai Yun |
| Jiangxing Building No. 82 Jiangnan Main Road Central, Hai Zhu District, Guangzhou | Office | 17,951 | Hai Zhu |
| Yue Xiu city Plaza Dong Feng ZHON Road Yue Xiu District, Guangzhou | Commercial | 15,476 | Yue Xiu |
| Hong Fa Building Nos. 19-21 Tian He Nan Er Road, Tian He District, Guangzhou | Office | 13,328 | Tian He |
| XingHuiGuoJi Pearl River New City Tian He District, Guangzhou | Commercial | 12,797 | Tian He |
| Run Hui Building Jiang Nan Xi Road Hai Zhu District, Guangzhou | Commercial | 11,188 | Hai Zhu |
| 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 | 10,305 | Tian He |

List of Major Property Projects in Guangzhou Municipality: For Rental in 2007

| Project | Land Use | Rentable Area (sq. m) | Location |
|---|------------|--------------------------|----------|
| Unsoild Units of Blocks 9 to 11 Springland Garden Hai Zhu District, Guangzhou | Commercial | 8,998 | Hai Zhu |
| Galaxy City (Podium) Pearl River New City Tian He District, Guangzhou | Commercial | 8,799 | Tian He |
| Junhui Building (Podium) Nos. 5, 7, 9 Ti Yu Xi Road, Tian He District, Guangzhou | Commercial | 7,825 | Tian He |
| Guang Bai Jiang Nan Dian No. 148 Jiang Nan Main Road Central Hai Zhu District, Guangzhou | Commercial | 7,613 | Hai Zhu |
| Bin Jiang Yi yuan Bin Jiang Dong Road Hai Zhu District, Guangzhou | Commercial | 7,068 | Hai Zhu |
| Tian Hui Ge Nos 12-42, Tian He Eastern Road Tian He District, Guangzhou | Commercial | 6,031 | Tian He |
| 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 |
| Total number of Carparks | Commercial | 5,124 (units) | |

List of Major Property Projects in Guangzhou Municipality: For Sale in 2007

| Project | Land Use | Available for Sale Area (sq. m) | Location |
|--|-------------|---------------------------------|----------|
| * Southern Le Sand Nansha District, Guangzhou | Villa | 130,000 | Nan Sha |
| * Cong Hua Glade Village Sheng Gong Town, Cong Hua, Guangzhou | Villa | 100,000 | Cong Hua |
| * Springland Garden Baogang South Street, Hai Zhu District, Guangzhou | Residential | 60,000 | Hai Zhu |
| * Binjiang Yiyuan (Chi Gang Qiao Xi Area) Binjiang East Road, Hai Zhu District, Guangzhou | Residential | 43,000 | Hai Zhu |
| * Fu Hai Garden (Phase 1) Zengcha Road, Bai Yun District, Guangzhou | Residential | 35,000 | Bai Yun |
| * Victory Plaza (Tower Building portion) No. 101 Ti Yu Xi Road, Tian He District, Guangzhou | Office | 34,000 | Tian He |
| * Yue Xiu City plaza (formerly known as Yue Xiu Building) Dongfeng Road Central, Yue Xiu District, Guangzhou | Office | 19,000 | Yue Xiu |

* These projects were classified as properties under development or properties held for sale in the Consolidated Financial Statement as at 31 December 2006

Location Map of Major Property Projects of the Group in Guangzhou Urban Area

