



越秀投資有限公司

**GUANGZHOU INVESTMENT COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 123)**

**2005 Interim Results Announcement**

The directors of Guangzhou Investment Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company, its subsidiaries, associated companies and jointly controlled entities (collectively “the Group”) for the six months ended 30th June 2005 as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE SIX MONTHS ENDED 30TH JUNE 2005**

	<i>Note</i>	<b>Unaudited Six months ended 30th June 2005</b>	<b>2004</b>
		<i>HK\$'000</i>	<i>Restated HK\$'000</i>
Turnover	3	1,588,191	2,274,010
Cost of sales		<u>(1,237,618)</u>	<u>(1,734,213)</u>
Gross profit		350,573	539,797
Other revenues		6,839	9,795
Selling and distribution expenses		(55,125)	(63,168)
General and administrative expenses		(279,046)	(202,539)
Revaluation surplus on investment properties		<u>662,539</u>	<u>—</u>
Profit from operations	4	685,780	283,885
Finance costs		(114,092)	(75,463)
Share of profits less losses of			
Jointly controlled entities		14,534	252
Associated companies		<u>103,008</u>	<u>91,343</u>
Profit before taxation		689,230	300,017
Taxation	5	<u>(327,893)</u>	<u>(58,057)</u>

	<i>Note</i>	<b>Unaudited</b>	
		<b>Six months ended 30th June</b>	
		<b>2005</b>	<b>2004</b>
		<i>HK\$'000</i>	<i>Restated HK\$'000</i>
Profit for the period		<u>361,337</u>	<u>241,960</u>
Attributable to			
Equity holders of the Company		132,434	111,506
Minority interests		<u>228,903</u>	<u>130,454</u>
		<u>361,337</u>	<u>241,960</u>
Earnings per share for profit attributable to the equity holders of the Company during the period	6		
— Basic		<u>HK2.08 cents</u>	<u>HK1.77 cents</u>
— Diluted		<u>HK2.05 cents</u>	<u>HK1.73 cents</u>
Interim dividend	7	<u>64,028</u>	<u>52,531</u>

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 30TH JUNE 2005 AND 31ST DECEMBER 2004**

	<b>As at</b>	
	<b>30th June 2005</b>	<b>31st December 2004</b>
<i>Note</i>	<i>Unaudited HK\$'000</i>	<i>Restated HK\$'000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Interests in toll highways and bridges	1,951,634	2,001,376
Other intangible assets	45,365	(489,960)
Fixed assets	1,375,794	1,351,358
Investment properties	5,458,801	4,775,305
Leasehold land and land use rights	3,124,223	3,291,022
Interests in jointly controlled entities	739,254	643,437
Interests in associated companies	1,775,477	1,760,348
Deferred tax assets	56,538	56,199
Other receivables-non current portion	104,900	104,900
Available-for-sale financial assets	387,380	—
Other investments	—	261,347
	<u>15,019,366</u>	<u>13,755,332</u>
<b>Current assets</b>		
Properties held for/under development	4,090,234	3,567,636
Properties held for sale	1,079,953	1,235,566
Leasehold land and land use rights	3,738,029	3,766,295
Inventories	208,816	195,288
Amount due from related companies	1,219	3,234
Trade receivables	8 427,637	457,868
Other receivables, prepayments and deposits	469,692	593,644
Charged bank deposits	91,586	70,747
Bank balances and cash	<u>1,178,174</u>	<u>830,910</u>
	<u>11,285,340</u>	<u>10,721,188</u>

		<u>As at</u>	
		<b>30th</b>	<b>31st</b>
		<b>June</b>	<b>December</b>
<i>Note</i>		<b>2005</b>	<b>2004</b>
		<i>Unaudited</i>	<i>Restated</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
	Trade payables	9 358,974	414,493
	Land premium payables	785,685	729,410
	Other payables and accrued charges	3,657,210	3,054,229
	Amounts due to jointly controlled entities	120,661	123,442
	Amounts due to associated companies	112,150	112,150
	Amounts due to minority shareholders	149,092	186,831
	Borrowings	1,607,449	2,046,850
	Derivative financial instruments	33,228	29,021
	Taxation payable	96,479	133,798
		<u>6,920,928</u>	<u>6,830,224</u>
	<b>Net current assets</b>	<u>4,364,412</u>	<u>3,890,964</u>
	<b>Total assets less current liabilities</b>	<u>19,383,778</u>	<u>17,646,296</u>

		<b>As at</b>	
		<b>30th June 2005</b>	<b>31st December 2004</b>
<i>Note</i>		<i>Unaudited HK\$'000</i>	<i>Restated HK\$'000</i>
<b>Non-current liabilities</b>			
	Borrowings	4,590,722	4,038,412
	Deferred tax liabilities	<u>3,469,419</u>	<u>3,159,380</u>
		<u>8,060,141</u>	<u>7,197,792</u>
<b>Net assets</b>		<u>11,323,637</u>	<u>10,448,504</u>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
	Share capital	637,913	635,160
	Other reserves	10 5,918,499	5,770,281
	Retained earnings	10	
	— Proposed dividend	64,028	57,266
	— Others	<u>1,118,357</u>	<u>527,661</u>
		7,738,797	6,990,368
	Minority interests	<u>3,584,840</u>	<u>3,458,136</u>
<b>Total equity</b>		<u>11,323,637</u>	<u>10,448,504</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30TH JUNE 2005**

	Note	Unaudited			Total HK\$'000
		Attributable to equity holders of the Company		Minority interests	
		Share capital HK\$'000	Reserves HK\$'000	HK\$'000	
Balance at 1st January 2005, as previously reported as equity		635,160	6,599,141	—	7,234,301
Balance at 1st January 2005, as previously separately reported as minority interests		—	—	3,467,807	3,467,807
Amortisation of leasehold land and land use rights	10	—	(459,085)	(18,904)	(477,989)
Adjustment for deferred tax arising from the revaluation of investment properties	10	—	215,152	9,233	224,385
Balance at 1st January 2005, as restated		635,160	6,355,208	3,458,136	10,448,504
Opening adjustment on adoption of HKAS 39	10	—	134,387	6,066	140,453
Opening adjustment on adoption of HKFRS 3	10	—	529,685	5,640	535,325
Balance at 1st January 2005 after opening adjustment, as restated		<u>635,160</u>	<u>7,019,280</u>	<u>3,469,842</u>	<u>11,124,282</u>
Currency translation differences	10	—	2,695	1,062	3,757
Decrease in fair value of available-for-sales financial assets	10	—	(21,673)	(43,964)	(65,637)
Net expenses recognised directly in equity		—	(18,978)	(42,902)	(61,880)
Profit for the period		—	132,434	228,903	361,337
Total recognised income for the six months ended 30th June 2005		<u>—</u>	<u>113,456</u>	<u>186,001</u>	<u>299,457</u>
Employees share option scheme - value of employee services	10	—	15,126	—	15,126
Issue of share capital	10	2,753	10,350	—	13,103
Dividend relating to 2004	10	—	(57,328)	(71,003)	(128,331)
		<u>2,753</u>	<u>(31,852)</u>	<u>(71,003)</u>	<u>(100,102)</u>
Balance at 30th June 2005		<u><u>637,913</u></u>	<u><u>7,100,884</u></u>	<u><u>3,584,840</u></u>	<u><u>11,323,637</u></u>
Balance at 1st January 2004, as previously reported as equity		624,872	6,344,488	—	6,969,360
Balance at 1st January 2004, as previously separately reported as minority interests		—	—	3,374,822	3,374,822
Amortisation of leasehold land and land use rights	10	—	(421,230)	(16,209)	(437,439)
Adjustment for deferred tax arising from the revaluation of investment properties	10	—	216,413	9,220	225,633
Balance at 1st January 2004, as restated		<u>624,872</u>	<u>6,139,671</u>	<u>3,367,833</u>	<u>10,132,376</u>
Currency translation differences	10	—	(496)	(170)	(666)
Release of reserve upon disposal of properties held for sales	10	—	(8,933)	—	(8,933)
Net expenses recognised directly in equity		—	(9,429)	(170)	(9,599)
Profit for the period		—	111,506	130,454	241,960

	Note	Unaudited			Total HK\$'000
		Attributable to equity holders of the Company		Minority interests	
		Share capital HK\$'000	Reserves HK\$'000	Minority interests HK\$'000	
Total recognised income for the six months ended 30th June 2004		—	102,077	130,284	232,361
Employees share option scheme - value of employee services	10	—	6,223	—	6,223
Issue of share capital	10	7,369	22,536	—	29,905
Deemed acquisition of a subsidiary		—	—	27,822	27,822
Dividend relating to 2003	10	—	(68,123)	(179,034)	(247,157)
		<u>7,369</u>	<u>(39,364)</u>	<u>(151,212)</u>	<u>(183,207)</u>
Balance at 30th June 2004		<u>632,241</u>	<u>6,202,384</u>	<u>3,346,905</u>	<u>10,181,530</u>

## 1 Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim accounts should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods commencing on or after 1st January 2005.

These interim financial information have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these accounts. The HKFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

## 2 Change in accounting policies

### (a) *Effect of adopting new HKFRS*

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

HKAS 1	Presentation of Financial Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 3	Revenue — Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of new/revised HKASs 1, 8, 16, 21, 24 and HKAS-Int 15 and HK-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and jointly controlled entities and other disclosures.
- HKASs 8,16 and HKAS-Int 15 and HK-Int 4 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group's entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

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



The adoption of revised HKAS 40 has resulted in a change in the accounting policy of investment properties of which the changes in fair values are recorded in the profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use or through use and subsequent sale. In prior years, the carrying amount of that asset was expected to be recovered through sale.

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

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was amortised on a straight-line basis over a maximum period of 20 years and assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1st January 2005 and the accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment. The carrying amount of negative goodwill as at 1st January 2005 has been derecognised at 1st January 2005 with a corresponding adjustment to the opening balance of retained earnings.

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

The adoption of HK-Int 3 has resulted in a change in the accounting policy relating to revenue recognition arising from pre-completion contracts for the sale of properties under development for sale. Such revenue is recognised only upon completion of sale agreement, which refers to the time when properties are completed and delivered to the buyers. In prior years, the percentage of completion method was used as the policy to recognise revenue arising from pre-completion contracts for the sale of properties under development for sale.

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

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

(b) *The impact of changes in accounting policies to the Group*

The following is a summary of effect of the changes in the accounting policies described above on equity as at 1st January 2005 and results and earnings per share for the six months 30th June 2004:

<b>Equity</b>	<b>Increase/(decrease) As at 1st January 2005 HK\$'000</b>
Amortisation of leasehold land and land use rights ( <i>note i</i> )	(477,989)
Revaluation surplus of financial assets ( <i>note ii</i> )	140,453
Decrease in deferred tax on change of basis of recovery of revalued assets ( <i>note iii</i> )	224,385
De-recognition of negative goodwill ( <i>note v</i> )	<u>535,325</u>
	<u>422,174</u>
	<b>For the six months ended</b>
<b>Results</b>	<b>30th June 2004 HK\$'000</b>
Amortisation of leasehold land and land use rights ( <i>note i</i> )	(15,682)
Expenses related to share options scheme ( <i>note iv</i> )	<u>(6,223)</u>
	<u>(21,905)</u>
Attributable to:	
Equity holders of the Company	(19,699)
Minority interests	<u>(2,206)</u>
	<u>(21,905)</u>
	<b>For the six months ended</b>
<b>Earnings per share</b>	<b>30th June 2004 HKcents</b>
Basic and diluted	
Amortisation of leasehold land and land use rights ( <i>note i</i> )	(0.21)
Expenses related to share options scheme ( <i>note iv</i> )	<u>(0.10)</u>
	<u>(0.31)</u>

The following is effect of changes in the accounting policies described above on individual accounting caption:

Increase/(decrease)	(note i)	(note ii)	(note iii)	(note iv)	(note v)	Total HK\$'000
	Effect on adoption of HKAS 17 HK\$'000	Effect on adoption of HKAS 39 HK\$'000	Effect on adoption of HKAS-Int 21 HK\$'000	Effect on adoption of HKFRS 2 HK\$'000	Effect on adoption of HKFRS 3 HK\$'000	
Profit and loss accounts items for the period ended 30 June 2004						
Cost of sales	23,901	—	—	—	—	23,901
Administrative expenses	3,527	—	—	6,223	—	9,750
Taxation	(11,746)	—	—	—	—	(11,746)
Minority interests	(2,206)	—	—	—	—	(2,206)
Earnings per share						
— basic (HKcents)	(0.21)	—	—	(0.10)	—	(0.31)
— diluted (HK cents)	(0.21)	—	—	(0.10)	—	(0.31)
Balance sheet items as at 1 January 2005						
Fixed assets	(89,967)	—	—	—	—	(89,967)
Leasehold land and land use rights — non-current portion	3,291,022	—	—	—	—	3,291,022
Other intangible assets	—	—	—	—	535,325	535,325
Interest in jointly controlled entities	(3,280)	—	—	—	—	(3,280)
Available-for-sales financial assets	—	456,231	—	—	—	456,231
Other investments	—	(261,347)	—	—	—	(261,347)
Properties held for/under development	(6,734,381)	—	—	—	—	(6,734,381)
Properties held for sale	(954,192)	—	—	—	—	(954,192)
Leasehold land and land use rights — current portion	3,766,295	—	—	—	—	3,766,295
Other receivables, prepayments and deposits	—	15,008	—	—	—	15,008
Total assets	(724,503)	209,892	—	—	535,325	20,714
Deferred tax liabilities	(246,514)	69,439	(224,385)	—	—	(401,460)
Total liabilities	(246,514)	69,439	(224,385)	—	—	(401,460)
Net assets	(477,989)	140,453	224,385	—	535,325	422,174
Reserves	(459,085)	134,387	215,152	—	529,685	420,139
Minority interests	(18,904)	6,066	9,233	—	5,640	2,035
Total equity	(477,989)	140,453	224,385	—	535,325	422,174

The adoption of HK-Int 3 has resulted in a change in the accounting policy relating to revenue recognition arising from pre-completion contracts for the sale of properties under development for sale and the effect for the consolidated balance sheet as at 30th June 2005 and consolidated profit and loss account for the period ended 30th June 2005 are as follows:

	<b>As at 30th June 2005</b> <i>HK'000</i>
Increase in properties under development	394,476
	<b>For the six month ended</b> <b>30th June 2005</b> <i>HK'000</i>
Decrease in sales	543,030
Decrease in cost of sales	394,476
Decrease in taxation	49,023
Decrease in earnings per share (HK cents)	1.52
Decrease in diluted earnings per share (HK cents)	1.50

### 3 Segment information

The Group is principally engaged in development, operation and management of toll highways and bridges, development, selling and management of properties and holding of investment properties, manufacturing and trading of newsprint. Turnover and segment results for the period are as follows:

#### Primary reporting format — business segments

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

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

There are no significant sales between the business segments.

#### Secondary reporting format — geographical segments

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

- Hong Kong — properties
- China — properties, paper and toll operations
- Others — properties

There are no significant sales between the geographical segments.

**Primary reporting format — business segments**

	Six months ended 30th June								
	Toll operations		Properties		Paper		Group		
	Restated		Restated		Restated		Restated		
	2005	2004	2005	2004	2005	2004	2005	2004	
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Turnover	<u>204,006</u>	<u>191,002</u>	<u>767,512</u>	<u>1,520,151</u>	<u>616,673</u>	<u>562,857</u>	<u>1,588,191</u>	<u>2,274,010</u>	
Segment results	<u>87,926</u>	<u>70,925</u>	<u>551,399</u>	<u>181,094</u>	<u>68,505</u>	<u>52,493</u>	707,830	304,512	
Interest income							3,789	3,077	
Unallocated operation costs							(25,839)	(23,704)	
Finance costs							(114,092)	(75,463)	
Share of profits less losses of:									
— Jointly controlled entities	20,008	252	(5,474)	—	—	—	14,534	252	
— Associated companies	103,008	91,035	—	308	—	—	<u>103,008</u>	<u>91,343</u>	
Profit before taxation							689,230	300,017	
Taxation							<u>(327,893)</u>	<u>(58,057)</u>	
Profit for the period							<u>361,337</u>	<u>241,960</u>	
Capital expenditure	1,309	4,404	84,350	542	101,569	30,558	187,228	35,504	
Depreciation and amortisation	<u>52,057</u>	<u>56,883</u>	<u>79,094</u>	<u>66,807</u>	<u>57,964</u>	<u>61,332</u>	<u>189,115</u>	<u>185,022</u>	

	As at 30th June 2005 and 31st December 2004								
	Toll operations		Properties		Paper		Group		
	Restated		Restated		Restated		Restated		
	30th June 2005	31st December 2004	30th June 2005	31st December 2004	30th June 2005	31st December 2004	30th June 2005	31st December 2004	
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Segment assets	2,120,203	2,229,404	18,684,566	17,331,255	1,592,434	1,495,642	22,397,203	21,056,301	
Interests in jointly controlled entities	495,482	422,892	243,772	220,545	—	—	739,254	643,437	
Interests in associated companies	1,686,656	1,671,842	88,821	88,506	—	—	1,775,477	1,760,348	
Unallocated assets							<u>1,392,772</u>	<u>1,016,434</u>	
Total assets							<u>26,304,706</u>	<u>24,476,520</u>	
Segment liabilities	722,574	768,172	10,401,586	9,430,464	589,427	506,246	11,713,587	10,704,882	
Unallocated liabilities							<u>3,267,482</u>	<u>3,323,134</u>	
Total liabilities							<u>14,981,069</u>	<u>14,028,016</u>	

Secondary reporting format — geographical segments

	For the six months ended 30th June				As at 30th June 2005 and 31st December 2004	
	Turnover		Capital expenditure		Total assets	
	<i>Restated</i>		<i>Restated</i>		<i>Restated</i>	
	2005	2004	2005	2004	30 June 2005	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	82,853	392,883	1,686	925	1,319,396	1,362,281
China	1,504,457	1,856,258	185,533	34,579	23,558,495	22,051,223
Overseas	881	24,869	9	—	34,043	46,582
	<u>1,588,191</u>	<u>2,274,010</u>	<u>187,228</u>	<u>35,504</u>	24,911,934	23,460,086
Unallocated asset					<u>1,392,772</u>	<u>1,016,434</u>
Total assets					<u>26,304,706</u>	<u>24,476,520</u>

4 **Profit from operations**

Profit from operations is stated after charging the following:

	Six months ended 30th June	
	2005	<i>Restated</i> 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	966,073	1,520,737
Depreciation and amortisation	189,115	185,022
Staff costs	143,263	133,960
Provision for doubtful debts	49,272	2,891

5 **Taxation**

- (a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2004: 17.5 per cent) on the estimated assessable profit for the period.
- (b) China enterprise income taxation is provided on the profits of the Group's subsidiaries, associated companies and jointly controlled entities in Mainland China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law") at 18 per cent to 33 per cent. Under the China Tax Law, certain of the Group's subsidiaries, associated companies and jointly controlled entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years.
- (c) China land appreciation tax is levied at progressive rates ranging from 30 per cent to 60 per cent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditure.

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

	<b>Six months ended 30th June</b>	
	<b>2005</b> <i>HK\$'000</i>	<i>Restated</i> <b>2004</b> <i>HK\$'000</i>
Current taxation		
— Hong Kong profits tax	809	1,086
— Underprovision in prior years	5,545	—
— China enterprise income tax	33,821	48,785
— China land appreciation tax	2,210	8,695
Deferred taxation in relation to the origination and reversal of temporary differences	<u>285,508</u>	<u>(509)</u>
	<u>327,893</u>	<u>58,057</u>

Share of China enterprise income taxation attributable to the following are included in the profit and loss account as share of results of associated companies and a jointly controlled entity:

	<b>Six months ended 30th June</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Associated companies		
— current taxation	8,521	7,138
— deferred taxation	5,648	5,794
Jointly controlled entities		
— current taxation	602	—
— deferred taxation	<u>1,668</u>	<u>1,748</u>

## 6 Earnings per share

### Basic

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

	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b> <i>Restated</i>
Profit attributable to equity holders of the Company (HK\$'000)	<u>132,434</u>	<u>111,506</u>
Weighted average number of ordinary shares in issue ('000)	<u>6,362,643</u>	<u>6,300,121</u>
Basic earnings per share (HK cents)	<u>2.08</u>	<u>1.77</u>

### Diluted

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



	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b> <i>Restated</i>
Profit attributable to equity holders of the Company (HK\$'000)	<u>132,434</u>	<u>111,506</u>
Weighted average number of ordinary shares in issue ('000)	6,362,643	6,300,121
Adjustments for - share options ('000)	<u>96,957</u>	<u>131,390</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>6,459,600</u>	<u>6,431,511</u>
Diluted earnings per share (HK cents)	<u>2.05</u>	<u>1.73</u>

7 **Dividend**

	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
2005 interim, proposed of HK\$0.01 (2004: HK\$0.0083) per share	<u>64,028</u>	<u>52,531</u>

8 **Trade receivables**

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

	<b>30th June</b>	<b>31st December</b>
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	118,889	174,569
31 - 90 days	97,266	76,788
91 - 180 days	37,260	81,345
181 - 365 days	74,318	43,789
Over 1 year	<u>99,904</u>	<u>81,377</u>
	<u>427,637</u>	<u>457,868</u>

9 **Trade payables**

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

The ageing analysis of the trade payables is as follows:

	<b>30th June</b>	<b>31st December</b>
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	98,352	32,433
31 - 90 days	31,629	70,560
91 - 180 days	54,962	24,008
181 - 365 days	3,962	65,755
1 - 2 year	35,905	39,243
Over 2 years	<u>134,164</u>	<u>182,494</u>
	<u>358,974</u>	<u>414,493</u>

10 Reserves

	(Unaudited)						
	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Employee share-based compensation reserves <i>HK\$'000</i>	Retained Profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1st January 2004, as previously reported	5,707,378	1,815	62,606	(76,709)	—	649,398	6,344,488
Amortisation of leasehold land and land use rights	—	—	—	—	—	(421,230)	(421,230)
Adjustment for deferred tax arising from the revaluation of investment properties	—	—	—	—	—	216,413	216,413
Recognition of share-based options expenses	—	—	—	—	4,016	(4,016)	—
Balance at 1st January 2004, as restated	5,707,378	1,815	62,606	(76,709)	4,016	440,565	6,139,671
Currency translation differences, Group	—	—	—	(496)	—	—	(496)
Release of reserve upon disposal of properties held for sales	—	—	—	—	—	(8,933)	(8,933)
Profit attributable to equity holders of the Company	—	—	—	—	—	111,506	111,506
Transfers	—	—	260	—	—	(260)	—
Employee share option scheme expenses	—	—	—	—	6,223	—	6,223
Issue of shares net of issuing expenses	22,536	—	—	—	—	—	22,536
Dividend paid	—	—	—	—	—	(68,123)	(68,123)
Balance at 30th June 2004	5,729,914	1,815	62,866	(77,205)	10,239	474,755	6,202,384
Currency translation differences, Group	—	—	—	(1,092)	—	—	(1,092)
Provision for impairment of goodwill	—	—	—	—	—	43,533	43,533
Release of reserve upon disposal of properties held for sales	—	—	—	—	—	(21,742)	(21,742)
Release of reserve upon deemed disposal of certain interest in a subsidiary	—	—	(1)	(2)	—	—	(3)
Profit attributable to equity holders of the Company	—	—	—	—	—	157,582	157,582
Transfers	—	—	16,532	—	—	(16,532)	—
Employee share option scheme expenses	—	—	—	—	16,396	—	16,396
Issue of shares net of issuing expenses	10,819	—	—	—	—	—	10,819
Dividend paid	—	—	—	—	—	(52,669)	(52,669)
Balance at 31st December 2004	<u>5,740,733</u>	<u>1,815</u>	<u>79,397</u>	<u>(78,299)</u>	<u>26,635</u>	<u>584,927</u>	<u>6,355,208</u>
Representing:							
2004 Final dividend proposed						57,266	
Others						<u>527,661</u>	
						<u>584,927</u>	

	(Unaudited)							
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Available- for-sales financial assets fair value reserves HK\$'000	Employee share- based compen- sation reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1st January 2005, as previously reported as equity	5,740,733	1,815	79,397	(78,299)	—	—	855,495	6,599,141
Amortisation of leasehold land and land use rights	—	—	—	—	—	—	(459,085)	(459,085)
Adjustment for deferred tax arising from the revaluation of investment properties	—	—	—	—	—	—	215,152	215,152
Recognition of share-based options expenses	—	—	—	—	—	26,635	(26,635)	—
Balance at 1st January 2005, as restated	5,740,733	1,815	79,397	(78,299)	—	26,635	584,927	6,355,208
Opening adjustment on adoption of HKAS 39	—	—	—	—	—	—	134,387	134,387
Opening adjustment on adoption of HKFRS 3	—	—	—	—	—	—	529,685	529,685
Balance at 1st January 2005 after opening adjustments, as restated	5,740,733	1,815	79,397	(78,299)	—	26,635	1,248,999	7,019,280
Currency translation differences, Group	—	—	—	2,695	—	—	—	2,695
Change of fair value of financial assets								
- gross	—	—	—	—	(21,038)	—	—	(21,038)
- tax	—	—	—	—	(635)	—	—	(635)
Profit attributable to equity holders of the Company	—	—	—	—	—	—	132,434	132,434
Transfers	—	—	7,333	—	134,387	—	(141,720)	—
Employee share option scheme expenses	—	—	—	—	—	15,126	—	15,126
Issue of shares net of issuing expenses	10,350	—	—	—	—	—	—	10,350
Dividend relating to 2004	—	—	—	—	—	—	(57,328)	(57,328)
At 30th June 2005	<u>5,751,083</u>	<u>1,815</u>	<u>86,730</u>	<u>(75,604)</u>	<u>112,714</u>	<u>41,761</u>	<u>1,182,385</u>	<u>7,100,884</u>
Representing:								
2005 Interim dividend proposed							64,028	
Others							<u>1,118,357</u>	
							<u>1,182,385</u>	

## 11 Event after balance sheet date

On 21st September 2005, the Group has been successful in the tender for the right to build the West Tower of Zhujiang New City Twin Towers in Guangzhou (the “Project”). The site area of the Project amounts to 31,085 square meters and the project is expected to commence this year and to be completed in 2009. As the Group has yet to enter into formal agreement in relation to the tender, the Company’s directors consider it to be more appropriate to make an estimate of the financial effect at a later stage when detailed terms of development of West Tower are finalized.

## **BUSINESS REVIEW**

Benefited from the increase in the valuation of rental properties and continuous growth in the toll road and newsprint manufacturing business, for the six months ended 30th June 2005, profits attributable to shareholders grew to HK\$132 million with an increase of 19 per cent. However, due to changes in the accounting policies on property business, during the period, the turnover of the Group dropped to HK\$1,588 million, representing a drop of 30 per cent as compared to the same period in 2004.

### **Property business**

Influenced by the change in the accounting policy of revenue recognition from sale of properties under development, the amount recognized on property sales has drastically decreased. However, benefited from the continuous improvement on the commercial environment in Guangzhou, with continual increase in the level of rents and occupancy ratio for rental properties, the valuation of the Group’s rental properties have increased.

During the period, the Group’s revenue recognition of property sales on the books changed from the percentage completion method to recognition upon full completion of the project. The floor area of properties sold during the period dropped to 25,000 sq. m., with turnover of HK\$277 million, representing a fall of 83 per cent and 75 per cent respectively as compared with the same period last year.

Starting from last year, the Group has implemented the business strategy of “emphasis in both development of residential properties and operation of commercial properties”. Through due expansion of the commercial property portfolio, riding on the synergy effect of commercial properties, the earnings from rental properties have achieved stable growth. The newly launched commercial properties, namely Fortune Plaza and Victory Plaza, being promoted with clear market positioning, appealed to a lot of multi-national companies and premium commercial tenants. For instance, among the major tenants of Fortune Plaza there are 2 top ten banks in the world and a famous local department store in Guangzhou has moved into Victory Plaza and set up a new branch store there. For the six months ended 30th

June 2005, the aggregate revenue from rental properties in Guangzhou and Hong Kong amounted to HK\$244 million, with an increase of 21 per cent as compared to the same period last year. Due to the increase in revenue, valuation of the Group's rental properties increased by HK\$663 million.

**Other businesses: impressive growth in profitability of toll road business, steady increase in profit from newsprint production business**

During the period, the Group's major toll road business recorded a turnover of HK\$204 million, with an increase of 7 per cent as compared to the same period last year. During the period, profits attributed to associated companies amounted to HK\$103 million, with an increase of 13 per cent as compared to the same period last year. The performance was particularly promising for the jointly controlled entity Northern Second Ring Expressway which benefited from the improvement of adjacent road networks. It boosted profit attributable to jointly controlled entities to HK\$14.53 million in the first half of 2005, with a very substantial increase of 57 times as compared with the same period last year.

In the first half of 2005, the domestic market showed strong demand for newsprint and the selling prices rose successively. The newsprint production business of the Group has fully leveraged on this opportunity and recorded after-tax profits of HK\$49.02 million, with an increase of 36 per cent as compared to the same period last year. Moreover, the Group has strengthened its internal management control, re-engineered its production processes and tremendously reduced the labour and management cost, resulting in rising corporate profits.

**Future Strategies and Prospects**

In the first half of 2005, the national GDP in Guangzhou has increased by approximately 11 per cent amounting to RMB 210.3 billion. The economic growth remains lucrative and was higher than the average growth rate of 9.5 per cent for China. Starting from the second half of 2004, the Central Government has implemented a range of economic control measures so as to avoid overheat in the property market. The Group believed that the macro economic revision policies of China will enhance the healthy development of the property market in Guangzhou. The Group has amassed ample business experience of over two decades in Guangzhou. Such experience would enable it to manage and avoid risks of potential policy changes. Based on the foundation built upon the well-established strategy of the year, the Group would, through appropriate adjustment of development and sales plans, further strengthening of our capability in mastering the short-term trend of the market and capitalizing on our competitive advantages, aim at delivering outstanding market performance. During the period, the Group's floor area under construction amounted to approximately 1.2 million sq. m. The Group's residential projects under construction

primarily include Jiangnan New Mansion, Binjiang Yi Yuan, Spring Land Garden, Xinghui Ya Yuan and Xinghui Qing Xuan. All of them are located at locations with convenient transportation. With the innovative design, they would bring favourable benefits to the Group. Major commercial projects are discussed below. Yue Xiu City Plaza is located at Dong Feng Chong Road of Guangzhou, with a total construction area of approximately 100,000 sq. m. It has a podium housing financial services, niche retail mall and high end multi-functional business clubs, food and beverages and other commercial facilities. Asia Pacific Century Plaza is adjacent to Citic Plaza, a landmark of Guangzhou, with a total construction area of approximately 220,000 sq.m. It is a large scale integrated property development featuring a super five-star hotel, A-grade office building, shopping arcade and a cultural recreational centre. It is expected that the plaza may become the future super commercial flagship in the central Tianhe district. Two office towers will be constructed on the podium of Victory Plaza, with gross construction area of approximately 90,000 sq. m. This project will be equipped with high tech intelligent facilities which is expected to set new benchmarks for the future market of top grade office buildings in Guangzhou. Yue Xiu New Metropolis Plaza situated in the traditional golden commercial circle of Guangzhou with a total construction area of approximately 80,000 sq. m. is an integrated commercial property sitting on top of the exit of an underground station.

Going forward, Guangzhou tends to rapidly develop various modern service industries, namely logistics, exhibition and convention, finance, intermediary and cultural services so as to upgrade the status and function of Guangzhou as a regional economic centre in Southern China. In the first half of this year, Guangzhou has revised the boundaries of its administrative districts to provide effective room for spatial planning of its economic development. After the adjustment, the demarcation of district territories can be rationalized for the spatial diversification of its industries, whereby optimizing the overall economic layout of Guangzhou. In particular, Nansha, a new district with a real coast-line of Guangzhou, has primarily focused on developing port services, heavy and petro-chemical and mechanical industries. The near term targeted population size for Nansha is around 1 million. The benefits brought about by the establishment of this new district as a new economical belt in the southern part of Guangzhou would become more manifest over time. The Group has substantial land reserves in Nansha, and thus it would greatly benefit from the rapid development of Nansha. This is borne out by the positive sale volume recorded for Southern Le Sand Phase 1 and 2 developed by the Group. Our toll road and newsprint production business would also have room for further development. Overall, the business of our Group is closely aligned with the economic development of Guangzhou, and it would definitely become one of the key beneficiaries from such development. The Group will continuously strengthen its own competitive capability and will bring better returns to its shareholders.

The Board is pleased to announce that a consortium comprising the Company, Guangzhou City Construction & Development Co. Ltd. (“GCCD”), a company in which the Group has a 95% interest, and Guangzhou City Construction & Development Holdings Limited, the party that owns the remaining 5% interest in GCCD, has been successful in the tender for the right to build the West Tower of Zhujiang New City Twin Towers in Guangzhou (the “Project”), which is intended to integrate the various functions of a hotel, conference facilities, sightseeing, tourism and commerce. The Project is expected to be the highest building in Guangzhou. Construction of the Project is expected to commence this year and to be completed in 2009. Further announcement will be made by the Company in respect of the Project as and when appropriate.

## **FINANCIAL REVIEW**

### **Analysis of results**

The turnover of the Group for the six months ended 30th June 2005 was HK\$1,588,191,000, representing a decrease of 30 per cent as compared with the corresponding period of 2004. The decrease in turnover was mainly attributable to change of accounting policies in the recognition of revenue derived from sales of the properties under development. The turnover from the transportation and newsprint businesses have increased by 7 per cent and 10 per cent respectively by taking advantage of the continual economic growth in the PRC.

For the Group’s property business, pursuant to the HK-Int 3: Revenue - Pre-completion Contracts for the Sale of Development Properties issued by Hong Kong Institute of Certified Public Accountant, the revenue from the sale of development properties is not recognised by using the percentage completion method. Instead, the revenue is recognised upon the completion of projects. Since the properties sales were focused mainly on presale projects and to a lesser extent on completed projects in the first half of 2005, the revenue recorded from sales of properties in the first half of 2005 were HK\$276,530,000 as compared to HK\$1,108,000,000 as recorded based on the percentage completion method for the corresponding period in 2004. Rental income of properties grew by 21 per cent to HK\$244,480,000 as compared with the corresponding period of 2004. The increase was mainly attributable to the rise in the level of rent and occupancy ratio of the Group’s commercial properties located in the core regions of Guangzhou City. The Group’s toll road business benefited from the gradual improvement of highway network and the natural growth of traffic capacity. The turnover for the first half of 2005 was HK\$204,006,000, up by 7 per cent compared with the same period of 2004. Due to strong domestic demand in the newsprint business, unit selling price had recorded an increase. The turnover for the first half of 2005 was HK\$616,670,000, representing an increase of 10 per cent compared with the corresponding period of 2004.

In line with the change of the accounting policies in the recognition of revenue derived from the properties sales, the gross profit of the Group declined by 35 per cent to HK\$350,573,000 in the first half of 2005 as compared with the same period of last year.

As the Group has adopted measures to tighten the control over cost and expenses, the selling and distribution expenses dropped 13 per cent to HK\$55,125,000 in the first half of 2005. Affected by the accounting treatment of share-based payment under the new accounting standard and the provision of bad debts for certain trade receivables, the general and administrative expenses of the Group increased by 38 per cent to HK\$279,046,000 in the first half of 2005. With the adoption of the new HKAS 40, a gain on revaluation of investment properties amounted to HK\$662,539,000 was recorded during the period.

Owing to the forgone of expenses to be amortised within a period of 5 year in respect of a syndicated loan facilities and the increase of interest rate in the first half of 2005 compared to that of last year, the financial expenses of the Group rose by 51 per cent to HK\$114,092,000 in the same period.

The Group's profit attributable to associated companies grew by 13 per cent to HK\$103,008,000 in the first half of 2005, which was mainly attributable to the toll road business of Humen Bridge and Northern Ring Road that benefited from the continual economic growth of the Pearl River Delta Region. The share of profit after tax and interest income recorded a growth of 24.1 per cent and 15 per cent respectively. Northern Second Ring Expressway being benefited from the opening of Jing Zhu Expressway, Guanghui Expressway and New Guangzhou Airport, the profit attributable to jointly controlled entities was HK\$14,534,000 in the first half of 2005, representing a substantial increase of 57 times compared with the corresponding period of last year.

For the six months ended 30th June 2005, the profit before tax of the Group was HK\$689,230,000, representing an increase of 130 per cent over the corresponding period as a result of the gain on revaluation of investment properties.

For the six months ended 30th June 2005, the taxation including deferred tax of the Group was HK\$327,893,000, representing an increase of 465 per cent over the corresponding period of last year.

For the six months ended 30th June 2005, the profit after tax of the Group was HK\$361,337,000, representing an increase of 49 per cent over the corresponding period of last year as a result of the benefits derived from the gain on revaluation of investment properties.



For the six months ended 30th June 2005, the minority interest was increased by 75 per cent to HK\$228,903,000 as a result of the substantial increase of profit after tax.

For the six months ended 30th June, 2005, the profit attributable to the equity holders of the Company was increased by 19 per cent to HK\$132,434,000. Basic earnings per share was HK2.08 cents, up by 18 per cent compared with the corresponding period of 2004.

### **Interim dividend**

The board of directors of the Company has resolved to declare an interim dividend for 2005 of HK\$0.01 (2004:HK\$0.0083) per share payable on 8th November 2005 to shareholders whose names appear on the register of members on 28th October 2005. Interim dividend pay out ratio will be 48 per cent.

### **Earnings per share**

	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
		<i>Restated</i>
Weighted average number of shares in issue	6,362,643,190	6,300,120,794
Profit attributable to shareholders (HK\$)	132,434,000	111,506,000
Basic earnings per share (HK cents)	2.08	1.77
Fully diluted earnings per share (HK cents)	2.05	1.73

Total issued shares outstanding as at 30th June 2005 was 6,379,125,914 shares.

### **Liquidity and capital resources**

As at 30th June 2005, the Group had bank deposits and cash including charged bank deposits amounted to HK\$1,270 million (2004: HK\$902 million), of which the majority was RMB dollars.

As at 30th June 2005, the Group had outstanding bank borrowings excluding bank overdrafts (“Bank Borrowings”) of approximately HK\$5,341 million (2004: HK\$5,170 million), of which about 44 per cent of the Bank Borrowings was denominated in RMB with the remaining in HK dollars.

The following table shows the repayment schedule of the Bank Borrowings:

Repayable within

	<i>HK\$'000</i>
One year	1,597,302
One to two years	768,277
Two to five years	<u>2,975,098</u>
Total	<u>5,340,677</u>

Approximately 30 per cent of the Bank Borrowings are repayable within one year, of which 84 per cent is RMB loans.

### **Treasury policies**

The Group continues to ensure that its businesses are financed from a variety of competitive sources and that committed facilities are available for refinancing and business growth. In addition, currency and interest rate are actively managed on a conservative basis.

On 30th May 2005, the Group secured a HK\$3.8 billion 5-year term loan facility to refinance existing bank borrowings with an appropriate level of working capital for business growth.

The Group's financing activities continue to be well received and fully supported by its bankers. The Group will consider new financing while maintaining an appropriate level of gearing in anticipation of new investments or maturity of bank loans.

It is the Group's treasury policy not to engage in speculative transactions. Foreign currency transaction exposure is managed in accordance with treasury guidelines, utilizing forward contracts and interest rate and currency swaps.

The Group's borrowings will be mostly in HK dollar and hence exposed to exchange rate risk associated with market movement against RMB income. Fluctuation in interest rate could also increase the cost of borrowings as they are currently exposed to floating LIBOR basis. Interest rate and currency swap facilities have been put in place for the Group to mitigate the interest and exchange rate risks, where appropriate and at times of interest rate and exchange rate uncertainty or volatile, the Group will consider utilizing plain vanilla hedging instrument to minimize the risks of underlying exposures.

### **Capital expenditures and investments**

In the first half of 2005, the Group had a capital expenditure and investment amounting to approximately HK\$52.6 million for the equity capital contribution to a jointly controlled entity, the Guangzhou Western Second Ring Expressway Company Limited ("GWSR Expressway Company"). Capital expenditures incurred on the purchase of fixed assets and production facilities amounted to approximately HK\$187 million.

## Capital and other commitments

As at 30th June 2005, the Group had an equity capital balance commitment to GWSR Expressway of RMB206.5 million (equivalent to approximately HK\$193.9 million). This balance would be paid in stages upon further approval by the board of directors of GWSR Expressway Company.

## Contingent Liabilities

As at 30th June 2005, the Group had arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation for repayment of loans amounted to HK\$126 million (2004: HK\$250 million).

## Capital structure

The following table summarises the components of the Group's capital structure:

	30th June 2005		31st December 2004 (Restated)	
	HK\$'000	%	HK\$'000	%
Bank Borrowings(floating rates)				
Denominated in RMB	2,360,677	18	2,382,496	20
Denominated in US dollars	—	—	117,000	1
Denominated in HK dollars	<u>2,980,000</u>	<u>23</u>	<u>2,670,231</u>	<u>22</u>
Total Borrowings	5,340,677	41	5,169,727	43
Shareholders' funds	<u>7,738,797</u>	<u>59</u>	<u>6,990,368</u>	<u>57</u>
Total capitalization	<u>13,079,474</u>	<u>100</u>	<u>12,160,095</u>	<u>100</u>
Gearing Ratio	41%		43%	

## Interest Coverage

Interest coverage was 3.7 times (2004 Restated: 7.4 times) for the first half of 2005 measuring on the operating profit after share of profit less losses of associated companies and jointly controlled entities and adjusted for non-cash items. The drop in interest coverage was mainly caused by the increase of interest expenses during the period.

## Employees

As at 30th June 2005, the Group had approximately 7,250 employees, of whom approximately 7,120 employees were primarily engaging in the properties, toll roads and newsprint businesses.

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

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions of the Code on Corporate Governance Practices (“Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the six months ended 30th June 2005, except for the following deviations:

### Code Provision A.2.1

The 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 of directors of the Company (“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.

### Code Provisions A.4.1 and A.4.2

The code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

The code provision A.4.2 (last sentence) stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

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.

