

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 resident entity of the Guangzhou Municipal People’s Government in Hong Kong. The Company and its subsidiaries (“Group”) has built up several businesses consisting of property, paper and toll road mainly located in the Guangdong Province of the Mainland of China (“China”). These businesses all have substantial market share in Southern China. Regarding the China property business, the Group currently has property projects and land bank in Guangzhou Municipality with total gross floor area of 5,190,000 sq. meters. The newsprint plant has annual production capacity of 300,000 tonnes. The toll road business is conducted through GZI Transport Limited, a subsidiary of the Company separately listed on the Stock Exchange in 1997. GZI Transport Limited is currently operating an attributable length of 317.8 kms of toll road and bridge projects in Guangdong and other selective provinces of China.



| | Year ended 31st December | |
|--|--------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Turnover | 4,526,679 | 3,925,109 |
| Operating profit | 743,486 | 721,591 |
| Share of profits less (losses) of | | |
| Jointly controlled entities | (23,021) | (49,693) |
| Associated companies | 214,382 | 181,767 |
| Profit attributable to shareholders | 330,823 | 300,653 |
| Basic earnings per share | HK5.24 cents | HK4.89 cents |
| Fully diluted earnings per share | HK5.15 cents | HK4.83 cents |
| Interest coverage | 5.80 times | 4.47 times |

| | As at 31st December | |
|---|---------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Total assets | 25,201,023 | 25,785,918 |
| Total liabilities (including minority interests) | 17,966,722 | 18,816,558 |
| Shareholders' funds | 7,234,301 | 6,969,360 |
| Net assets per share | HK\$1.14 | HK\$1.12 |
| Gearing ratio | 40% | 44% |



During 2004, each and every business of the Group achieved satisfactory results. The profit attributable to shareholders surged to approximately HK\$330,823,000, representing an increase of 10 per cent as compared with that of 2003. Basic earnings per share amounted to approximately HK\$5.24 cents, representing an increase of 7.2 per cent as compared with that of 2003.

The Group's businesses are mainly concentrated in Guangzhou and its peripheral areas. Therefore, the Group's results benefited from the continuous rapid growth of the Guangzhou economy. In 2004, Guangzhou's GDP first broke RMB410 billion mark, representing an increase of 15 per cent as compared with that of 2003, and Guangzhou experienced a growth rate of over 15 per cent for two consecutive years. In terms of registered households, GDP per capita exceeded US\$6,000. Unemployment rate in the urban area was the lowest in five years. With the privilege of hosting the 2010 Asian Games, the gradual implementation of "9+2" Pan Pearl River Delta Economic Cooperation, the opening of the new Guangzhou New Baiyuan International Airport, and the construction of a new railway station, the economy of Guangzhou is entering into a new phase of development. There are increasing demands on better working conditions, living environment and better quality of cultural life. As a result, the property, toll road and newsprint businesses of the Group achieved satisfactory results in 2004. Turnover from properties development and leasing business was approximately HK\$2,354 million, representing an increase of 3.5 per cent as compared with that of 2003. The profit attributable to shareholders from toll road business was approximately HK\$276 million, representing an increase of 23.5 per cent as compared with that of 2003. Turnover from newsprint business was approximately HK\$1,241 million, representing an increase of 23.3 per cent as compared with that of 2003.

In 2004, the State implemented successive policies to control the supply of land and financing of properties. These policies were intended to further standardize the property market with the objective of ensuring the development of a sustainable and healthy property market. These new policies undoubtedly presented great development opportunities to large and reputable developers such as the Group. In 2004, the Group proactively aligned itself with the market adjustment, further clarified its overall strategies to focus on the property market of Guangzhou, and expanded the development and operation of commercial properties in a timely fashion. The aim was to gradually transform a mainly unidimensional property development business into a balanced property development and investment business, breaking away from a mere property developer and moving towards the realization of the business model of a “commercial property operator”.

With the economic development of Guangzhou entering into a new phase, there will be more investment in the construction of infrastructure facilities, the construction of inter-city transportation system within the Pearl River Delta will be pushed ahead, with the aim to create an “One hour economic zone” in Pearl River Delta Region (including Hong Kong and Macau) and greater efforts will be devoted to quicken the development of Nansha, with emphasis in capital intensive industries. All these policies and city developments will be beneficial to the expansion of various businesses of the Group in future.

From now on, the Group will capitalize on the opportunities ahead and will leverage on its strength and competence to establish its commercial property business. Comprehensive strategies for procuring the establishment of an integrated property business with balanced investments in both property development and investment will be promptly formulated. At the same time, the Group will strengthen its property management business and will increase its portfolio of multi-function commercial property with ancillary supermarkets or chainstores. While at least maintaining the current level of development in medium-priced and up market residential properties, the Group will increase its product mix by expanding the development of shopping centres, offices and hotels according to market conditions, thereby attaining a balanced development structure for the middle-tier and luxurious products. The toll road business will principally focus in the expansion of high quality expressways. The manufacturing of newsprint will seek to increase its market share through consolidation of internal resources and increase in production capacities. The Group will further enhance its competitiveness and operating efficiency and devote to reducing costs as it has been, to bring higher investment returns for our shareholders.

I wish to take this opportunity to express my gratitude to the directors, senior management and all staff for their hardwork in the management and operation of our businesses during the past year. I also wish to thank all shareholders, our bankers and our business partners for their strong support for the Group.

Ou Bingchang

Chairman

Hong Kong, 21st April 2005

BUSINESS REVIEW

During 2004, each and every business of the Group achieved satisfactory results. Total sales of properties in Guangzhou and Hong Kong amounted to approximately HK\$1,987 million. Profit attributable to shareholders of GZI Transport Limited, a toll road business subsidiary of the Group, was HK\$276 million, representing an increase of 23.5 per cent as compared with that of 2003. Sales income from Guangzhou Paper Co., Ltd. (“Guangzhou Paper”) amounted to approximately HK\$1,241 million, representing an increase of 23.3 per cent as compared with that of 2003.

Property business

Tapping on excellent opportunities offered by the upward moving Guangzhou property prices in 2004, which was a breakthrough of the virtually flat pricing trend for the past years, and a robust rebound of the property market in Hong Kong, the Group promptly launched its properties projects for sale, which mitigated the effect of substantial increase in costs of construction raw materials, and obtained satisfactory results.



Southern Le Sand

Up to 311,500 sq. meters in the floor area of the Group's properties in Hong Kong and Guangzhou were sold, which mainly included the first and second phases of Jiang Nan New Mansion, phase 3 of Springland Garden, the first and second phases of Southern Le Sand in Nansha, Glade Village in Chonghua, and part of Xing Hui International. These properties were located adjacent to subway stations or superb community neighborhoods. Therefore sales were very active. During the period, remaining units in Run Hui Building, Ju Ya Mansion, Wen De Ya Xuan and Block 23 of Springland Garden were sold. The Group thus effectively reduced its number of completed properties pending for sale to a historical low level.

In Hong Kong, the Group launched the Pokfulam Terrace project in Pokfulam during the year under review, which was well received by the market. About 7,700 sq. meters of floor area were sold, with sales amounting to HK\$326 million.

In view of enhancing the competitiveness of the Company's core businesses and to reduce market risks, the business strategies for the Group's properties business was set as “emphasis in both development of residential properties and operation of commercial properties, so as to generate stable development and steady stream of revenue in the long term”.

In view of the macro-economic control measures imposed on the economy, by leveraging on the quality of its properties and the reputation of its brand, the Group gradually transformed from engaging in a single line of business of properties development to a comprehensive commercial properties operator with emphasis in both sales of and investment in properties. Through appropriate horizontal expansion in the scale of its operation in commercial properties, vertical integration of the upstream and downstream operations has been realized as a result of the radial nature of the operation of commercial properties. This in turn promoted further development of various supporting businesses. During the year, when new projects such as Victory Plaza and Fortune Square officially commenced operation, area of properties leased out by the Group increased to approximately 600,000 sq. meters, with rental income amounting to approximately HK\$367 million, representing an increase of 15 per cent as compared with that of 2003. The Group will pursue horizontal expansion and vertical integration for its property development, and bring long-term and steady income for the shareholders.

By allocating the Group's large land bank in an appropriate manner, the Group will expand the development for commercial properties and offices, so as to cope with the development trend of Guangzhou as the centre of Pan Pearl River Delta Economic Region.

As a result of the rapid growth in the economy of Guangzhou and the indirect benefits deriving from Guangzhou being the centre of Pan Pearl River Delta Economic Region, demand from the market as a whole with respect to high quality working environment, living conditions and infrastructure facilities continued to increase. By sufficiently leveraging on the advantage of the Group having a large land bank, it will expand the development of middle-tier and luxurious residential properties, shopping centers, offices and hotels as appropriate, whilst still focusing on the development of residential properties. The development of the tower building for Victory Plaza, Subway RJ-1, Tianhe Commercial 12-1, 5 will proceed successively. The Group will thus have different products to meet the needs of the market in future.

Other businesses

Earnings from the toll road business continued to grow, and the production and sales of newsprint business rose sharply.

Despite the traffic diversion effect caused by the new roads on the Group's certain non-expressway highways resulted in the fall of income for such highways in 2004, traffic volume for the expressways of the associated companies of GZI Transport, rose sharply, benefiting from the economic boom in Guangdong Province, in particular, Pan Pearl River Delta Economic Region, commencement of operation for Jingzhu Expressway, rise in living standards, and the substantial increase in car ownership by households. Compared with 2003, daily average traffic volume of GNSR Expressway, Humen Bridge and Xian Expressway increased by 147.9 per cent, 21.8 per cent and 37.4 per cent respectively. Profit attributable to shareholders from GZI Transport increased by 23.5 per cent to approximately HK\$276 million as compared with that of 2003.

Guangzhou Paper continued to maintain bigger market share in the domestic newsprint market during the year. As the boom in demand for newsprint in China continued, through cost controls and strengthening management, improvement in production programs, more than 301,800 tonnes of newsprint were produced by Guangzhou Paper for the year, with 311,200 tonnes of newsprint sold, representing an increase of 19.6 per cent as compared with that of 2003. Meanwhile, by adopting a series of management measures, such as reducing consumption and wastage of various types of raw materials, extensive downsizing of staff and reduction of finance costs by early repayment of bank loans, the pressure on the substantial increase in costs brought by the surge in price of raw materials and energy was relieved to a significant extent. The operation of Guangzhou Paper maintained its steady development. During the year under review, Guangzhou Paper recorded a turnover of approximately HK1,241 million, representing an increase of 23.3 per cent as compared with that of 2003.



Binjiang Yiyuan

FINANCIAL REVIEW

Analysis of results

During 2004, the Group's turnover rose sharply by 15.3 per cent to HK\$4,526,679,000, of which income from properties sale and leasing business accounted for 52 per cent of the turnover. The increase in turnover was mainly attributable to the sale of Pokfulam Terrace in Hong Kong by its property arm.

For the Group's property business, despite competition in the property market of Guangzhou remained keen in 2004, income from properties sales and leasing business from the Group's properties in Guangzhou and Hong Kong still recorded growth at various rates, with sales income recorded a slight increase of 1.6 per cent to HK\$1,987,231,000, and rental income recorded a sharp increase of 15 per cent to HK\$367,050,000, reflecting a continuous growth in contribution from the Group's rental properties. As for the Group's toll road business, despite the adverse impact on the traffic of Class 1 and Class 2 highways occasioned by the evolution of the highway network in Guangzhou and continuous diversion effect brought about by the new expressways, which resulted in the decrease of the Group's turnover from toll road business by 6.7 per cent to HK\$400,212,000, certain expressways of the Group benefited from the commencement of operation of Jingzhu Expressway and Guanghui Expressway, and witnessed rapid growth in traffic and income. For the newsprint business, turnover rose sharply by 23.3 per cent to HK\$1,240,693,000 due to continued rising demand for newsprint in China.

Due to increased costs of raw materials in China and increased costs of sales for certain projects of the property business in 2004, gross profit margin of the Group decreased by 9.7 per cent to HK\$1,052,767,000.

The Group implemented stringent costs control measures in 2004. However, as the selling and administrative expenses for Guangzhou City Construction & Development Homecity Supermarket was accounted for for the full year, the Group's selling and administrative expenses slightly increased by 5.4 per cent to HK\$570,594,000. In addition, surplus in the revaluation of investment properties amounted to HK\$76,750,000, impairment provision on projects under construction of HK\$44,546,000 and a provision for doubtful debt of HK\$104,942,000 made in prior years were written back in 2004.

The Group's finance costs decreased by 49.9 per cent to HK\$112,512,000 in 2004, which was mainly attributable to the continual repayment of bank borrowings by the Group and capitalization of interests for projects under construction of the property business.

The Group's share of profit of associated companies rose sharply by 17.9 per cent to HK\$214,382,000, which was mainly attributable to the growth in earnings on the toll road projects of the Group's toll road business, including Humen Bridge, Northern Ring Expressway and Shantou Bay Bridge. Notwithstanding an earning of HK\$13,772,000 attributable to GNSR Expressway, a jointly controlled entity of the toll road business, the Group's share of loss of jointly controlled entities was HK\$23,021,000 in 2004, resulting from provision on impairment for the property business attributable to jointly controlled entities.

The Group's taxation charge in 2004 was HK\$210,565,000, representing an increase of 83.7 per cent as compared with that of 2003, which was mainly attributable to the increase in profit before taxation for the year.

Minority interests of the Group in 2004 increased by 31.5 per cent to HK\$280,947,000, which was mainly attributable to the increase in profit before taxation for the year, which resulted in a corresponding increase in minority interests.

For the year ended 31st December 2004, the Group's profit attributable to shareholders increased by 10 per cent to HK\$330,823,000, and basic earnings per share was HK5.24 cents.



Jiang Nan New Mansion

Final dividend

The Directors recommended the payment of final dividend of HK\$0.009 (2003: HK\$0.0108) per share to shareholders whose names appear on the register of members of the Company on 26th May 2005. Subject to the approval of shareholders at the Annual General Meeting to be held on 26th May 2005, the final dividend will be paid on 16th June 2005. Together with the interim dividend of HK\$0.0083 (2003: HK\$0.008) per share, total dividends for the year ended 31st December 2004 will amount to HK\$0.0173 (2003: HK\$0.0188) per share, representing a dividend pay out ratio of 33 per cent.

Earnings per share

| | For the year ended 31st December | |
|---|----------------------------------|---------------|
| | 2004 | 2003 |
| Weighted average number of shares in issue | 6,318,186,352 | 6,146,494,166 |
| Profit attributable to shareholders (HK\$) | 330,823,000 | 300,653,000 |
| Basic earnings per share (HK cents) | 5.24 | 4.89 |
| Fully diluted earnings per share (HK cents) | 5.15 | 4.83 |

During the year, 102,880,000 shares were issued upon exercise of share options. Total issued shares outstanding as at 31st December 2004 was 6,351,597,914 shares.



Binjiang Yiyuan

Analysis of cash flows

In 2004, the Group's net cash inflow from operating activities increased significantly to HK\$1,150 million (2003: HK\$648 million). The increment was continuously contributed by the Group's Property and Newsprint businesses. In addition, interest paid reduced by approximately 31 per cent as a result of repayment of bank borrowings. Net cash outflow from investing activities of HK\$143 million (2003: net cash inflow HK\$105 million) was mainly caused by further capital injection and advances to the Group's associated companies and jointly controlled entities and purchase of fixed assets during the year. Net cash outflow from financing activities amounted to HK\$1,166 million (2003: HK\$763 million) mainly due to net repayment of bank and other borrowings, payment of dividends and repayment to minority shareholders during the year of 2004.

Liquidity and capital resources

The Group continues to maintain a stable liquidity position. As at 31st December 2004, the Group had bank deposits, cash and bank balances of approximately HK\$902 million (2003: HK\$1,075 million). Same as last year, the majority of the bank balances and cash were RMB dollars deposits and cash.

As at 31st December 2004, the Group had outstanding bank borrowings excluding bank overdrafts ("Bank Borrowings") of approximately HK\$5,170 million (2003: HK\$6,038 million), representing a remarkable decrease of 14 per cent compared with last year. Approximately 52 per cent of Bank Borrowings was denominated in HK dollars, 46 per cent in RMB and 2 per cent in US dollars.

No new term financing was put in place during the year with the focus being repayment and prepayment of existing Bank Borrowings. The management believes that the cash in hand, balance with bank and/or dividends repatriated from the Group's subsidiaries, associated companies and jointly controlled entities in Hong Kong and China are sufficient to meet the Group's short term working capital and other short term RMB, HK dollars and US dollars Bank Borrowings, finance costs and dividend payments. The management will consider new bank financing at more competitive terms while maintaining an appropriate level of gearing in anticipation of new investments or maturity of Bank Borrowings.

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



Guangzhou Yue Xiu Building

Repayable within

| | HK\$'000 |
|-------------------|------------------|
| One year | 2,022,062 |
| One to two years | 1,324,388 |
| Two to five years | 1,823,277 |
| Total | <u>5,169,727</u> |

Given its improved financial position subsequent to the business restructuring at the end of 2002, the Group's credit has become significantly more attractive to the banking community. The liquidity risk of the Group has been further reduced by early refinancing and extension of the loan tenure. The management is confident that short term loans, especially RMB loans, could be refinanced or further extended as planned by one to three years upon maturity.

Treasury policies

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

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

Capital expenditures

During the year, the Group had aggregate capital expenditure totalling HK\$82.2 million for the initial equity capital contribution to a new investment project, the GWSR Expressway. Capital expenditure incurred on the purchase of fixed assets amounted to approximately HK\$202 million.



Glade Village

Management Discussion and Analysis

Capital and other commitments

On 24th May 2004, the Group's subsidiary, GZI Transport Limited, had entered into a joint venture agreement to establish Guangzhou Western Second Ring Expressway Company Limited ("GWSR Expressway Company") for a shareholding of 35.0 per cent, the outstanding committed equity capital contribution of the Group was HK\$248 million as at 31st December 2004.

Contingent liabilities

During the year, the Group had arranged bank financing for certain purchasers of property units and provided, guarantees to secure obligations for repayment of loans amounted to HK\$250 million (2003 : HK\$117 million).

Capital structure

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

| | 31st December 2004 | | 31st December 2003 | |
|--|--------------------|------------|--------------------|-----|
| | HK\$'000 | % | HK\$'000 | % |
| Bank Borrowings (floating rates) | | | | |
| Denominated in RMB | 2,382,496 | 18 | 2,687,883 | 20 |
| Denominated in US dollars | 117,000 | 1 | 125,067 | 1 |
| Denominated in HK dollars | 2,670,231 | 21 | 3,225,383 | 23 |
| Bank Borrowings | 5,169,727 | 40 | 6,038,333 | 44 |
| Shareholders' funds plus negative goodwill | 7,761,040 | 60 | 7,545,066 | 56 |
| Bank capitalization | 12,930,767 | 100 | 13,583,399 | 100 |
| Gearing Ratio | 40% | | 44% | |

As at 31st December 2004, Bank Borrowings reduced by approximately 14 per cent to HK\$5,170 million resulting in an improvement of Gearing Ratio from 44 per cent to 40 per cent.

Interest coverage

Interest coverage was 5.80 times (2003: 4.47 times) for the year of 2004 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 improvement was due to the increase in profit from operations after share of profit less losses of associated companies and jointly controlled entities, together with the decline in interest expenses.

Employees

As at 31st December 2004, the Group had approximately 7,080 employees, of whom approximately 6,980 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.

Executive Directors

Mr Ou Bingchang, aged 58, was appointed executive director, Chairman and the General Manager of the Company in 2003. He is also the Chairman and the general manager of Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), the holding company of the Company, and the Chairman of GZI Transport Limited ("GZT"). Mr Ou graduated from China Pharmaceutical University in China. Prior to joining Yue Xiu in November 2002, he assumed leading roles in Guangzhou Pharmaceutical Factory, Economic Coordinating Office of Guangzhou Municipality and General Office of Guangzhou Municipal People's Government. During the period of serving as the director of the Guangzhou Municipal Transport Commission, Mr Ou had made distinguished contributions to Guangzhou Municipality in relation to transport planning, construction, development and management. He has over 30 years of experience in industrial technology, transportation network, enterprise and economic management.

Mr Liang Yi, aged 52, was appointed executive director of the Company in 2003. He is also the Vice Chairman of the Company, a director of Yue Xiu and GZT. Mr Liang graduated from the Chinese People's Liberation Army Engineering Soldier's University majoring in public administration. Prior to joining Yue Xiu in June 2001, he assumed leading roles in Guangzhou Chemical Industry Bureau and organizations under Committee of Guangzhou. Mr Liang had made outstanding contribution in establishing the administrative supervisory system of Guangzhou Municipality. He has over 20 years of experience in public administration.

Mr Chen Guangsong, aged 62, was appointed executive director of the Company in 2001. He is also the vice chairman of Yue Xiu and a director of GZT. Mr Chen obtained his bachelor's degree from the South China University of Technology in China. He had been the general manager of Guangzhou Gourmet & Food Factory, chairman and general manager of Guangzhou Light Industrial Group. Prior to joining the Group, Mr Chen was the director of Guangzhou Municipal Economic Commission from 1998 to April 2001 and had over 33 years of experience in corporate management.

Mr Li Fei, aged 52, was appointed executive director of the Company in 2002. He is also a director of Yue Xiu. Mr. Li graduated from the 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 Liang Ningguang, aged 51, was appointed executive director and Deputy General Manager of the Company in 1992. He is also a director of GZT. Mr Liang graduated from the Central Television University in China majoring in finance and obtained a master's degree in business administration from the Murdoch University in Australia. He is also a member of the Chinese Institute of Certified Public Accountants and a senior accountant. Mr Liang is a responsible officer (dealing director and an investment adviser) licensed under the Securities and Futures Ordinance of Hong Kong. He was previously a deputy director of the Guangzhou Municipal Taxation Bureau and had over 20 years of experience in finance and management prior to joining Yue Xiu in 1989.

Mr Xiao Boyan, aged 60, was appointed executive director and Deputy General Manager of the Company in 1997. He is also a director and deputy general manager of Yue Xiu. Mr Xiao graduated from the department of calcium silicate of the South China Technical College in China and is a cement engineer. Prior to joining Yue Xiu in 1997, he was the general manager of Guangzhou Cement Factory and the chairman and general manager of Guangzhou Cement Company Limited. He has over 27 years of experience in corporate operation and management.

Independent Non-Executive Directors

Mr Yu Lup Fat Joseph, aged 57, has been an independent non-executive director of the Company since 1992. Mr Yu is the chairman of Tradeeasy Holdings Limited and is responsible for the Tradeeasy Group's corporate financial development and strategic business planning. He holds a master's degree in applied finance from Macquarie University in Australia and a diploma of management studies from the University of Hong Kong. Mr Yu has over 36 years of experience in investment, banking and finance.

Mr Lee Ka Lun, aged 50, has been an independent non-executive director of the Company since 2000. He is an accountant by profession and is the deputy chief executive of Lloyds TSB Bank plc, Hong Kong Branch. Mr Lee is a Fellow of the Association of Chartered Certified Accountants in UK and has over 20 years of experience in banking and auditing.

Mr Lau Hon Chuen Ambrose, aged 57, 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 also 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., a non-executive director of 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 latter five companies are all listed on The Stock Exchange of Hong Kong Limited.

The Directors submit their report together with the audited accounts for the year ended 31st December 2004.

Principal activities

The principal activities of the Group consist of three major businesses: properties, toll roads and paper. The principal activities of its principal subsidiaries, jointly controlled entities, associated companies are set out in the Group Structure section on pages 79 to 92.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 26.

The Directors have declared an interim dividend of HK\$0.0083 per ordinary share, totalling HK\$52,531,000 which was paid on 8th November 2004.

The Directors recommend the payment of a final dividend of HK\$0.009 per ordinary share, totalling HK\$57,266,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the accounts.

Donations

Charitable donations made by the Group during the year amounted to HK\$10,000.

Fixed assets

Details of the movements in fixed assets of the Group and the Company are set out in note 16 to the accounts.

Major property projects

Details of the major property projects held for/under development, for sale and for investment purposes of the Group in Guangzhou Municipality are set out in the List of Major Property Projects in Guangzhou Municipality section on pages 96 to 102.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 27 to the accounts.

Pre-emptive rights

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

Five year financial summary

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

| | Year ended 31st December | | | | |
|--|--------------------------|---------------------|---------------------|--------------------|--------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Results | | | | | |
| Profit/(loss) attributable to shareholders | <u>330,823</u> | <u>300,653</u> | <u>(960,230)</u> | <u>39,782</u> | <u>53,582</u> |
| Assets and liabilities | | | | | |
| Total assets | <u>25,201,023</u> | <u>25,785,918</u> | <u>26,685,015</u> | <u>19,961,555</u> | <u>19,604,175</u> |
| Total liabilities | <u>(14,498,915)</u> | <u>(15,441,736)</u> | <u>(16,571,103)</u> | <u>(7,005,499)</u> | <u>(6,424,889)</u> |
| Minority interests | <u>(3,467,807)</u> | <u>(3,374,822)</u> | <u>(3,403,865)</u> | <u>(6,425,518)</u> | <u>(6,693,740)</u> |
| Net assets | <u>7,234,301</u> | <u>6,969,360</u> | <u>6,710,047</u> | <u>6,530,538</u> | <u>6,485,546</u> |

Purchase, sale and redemption of the Company's shares

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

Interest capitalised

During the year, interest capitalised as development cost in respect of properties held for/under development and associated companies amounted to approximately HK\$55,399,000 (2003: HK\$19,272,000).

Distributable reserves

As at 31st December 2004, the distributable reserves of the Company available for distribution amounted to HK\$305,457,000 (2003: HK\$325,893,000).

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 Chen Guangsong | |
| Mr Li Fei | |
| Mr Liang Ningguang | |
| Mr Xiao Boyan | |
| Mr Yin Hui | - resigned on 18th March 2004 |
| Mr Wong Chi Keung | - resigned on 5th October 2004 |
| Ms Yan Yuk Fung | - resigned on 8th July 2004 |
| Mr Yu Lup Fat Joseph * | |
| Mr Lee Ka Lun * | |
| Mr Lau Hon Chuen Ambrose* | - appointed on 30th September 2004 |

* *Independent non-executive directors*

Messrs Xiao Boyan, Yu Lup Fat Joseph and Lee Ka Lun 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 Lau Hon Chuen Ambrose retires in accordance with Article 97 of the Company's Articles of Association at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

The company has received annual confirmation of independence from the three independent non-executive directors of the Company in accordance with Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange and the Company considered all independent non-executive directors to be independent.

The Directors' Profiles are set out on pages 13 and 14.

Director's service contracts

Each of Messrs Ou Bingchang and Liang Yi had entered into a service agreement with GZI Transport Limited ("GZT"), a subsidiary of the Company, which, after an initial fixed term of one year commencing from 8th January 2003 and 28th February 2003 respectively, had been extended for a further term of two years unless terminated sooner by GZT giving to the relevant Director three months' prior written notice or by the relevant Director giving to GZT six months' prior written notice.

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

Director's interest in contracts

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

Connected transactions

Significant related party transactions, which also constitute as connected transactions under the Listing Rules on the Stock Exchange, required to be disclosed in accordance with the Listing Rules, are disclosed in notes 37(c) and 39(a) to (b) to the accounts. In respect of transactions disclosed in notes 39(a) to (b) to the accounts, 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 also confirmed in its letter to the Directors that the transactions disclosed in notes 39(a) to (b) to the accounts (i) have received the approval of the board of directors; (ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) have not exceeded the cap for the transactions.

Interests of Directors

As at 31st December 2004, 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 Liang Ningguang | Personal | 400,000 | 0.01 |
| Mr Xiao Boyan | Personal | 500,000 | 0.01 |
| Mr Lee Ka Lun | Personal | 1,050,000 | 0.02 |

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

| Name of Director | Date of grant | Exercise price per share HK\$ | Number of share options | | |
|----------------------|----------------|----------------------------------|------------------------------------|---------------------------|--------------------------------------|
| | | | outstanding as at 1st January 2004 | exercised during the year | outstanding as at 31st December 2004 |
| Mr Ou Bingchang | 02/06/2003 (b) | 0.5400 | 9,000,000 | — | 9,000,000 |
| Mr Liang Yi | 02/06/2003 (b) | 0.5400 | 7,000,000 | — | 7,000,000 |
| Mr Chen Guangsong | 02/06/2003 (b) | 0.5400 | 8,000,000 | — | 8,000,000 |
| Mr Li Fei | 02/06/2003 (b) | 0.5400 | 7,000,000 | — | 7,000,000 |
| Mr Liang Ningguang | 02/06/2003 (b) | 0.5400 | 7,000,000 | — | 7,000,000 |
| Mr Xiao Boyan | 02/06/2003 (b) | 0.5400 | 7,000,000 | — | 7,000,000 |
| Ms Yan Yuk Fung* | 14/12/1999 (a) | 0.5008 | 800,000 | 800,000 (c) | — |
| | 02/06/2003 (b) | 0.5400 | 3,000,000 | 1,800,000 (d) | 1,200,000 |
| Mr Yu Lup Fat Joseph | 02/06/2003 (b) | 0.5400 | 3,500,000 | — | 3,500,000 |
| Mr Lee Ka Lun | 02/06/2003 (b) | 0.5400 | 2,450,000 | — | 2,450,000 |

Notes :

- (a) The share options are exercisable from 14th December 2000, the first anniversary of the date of grant, to the business day preceding the sixth anniversary of the date of grant, of which a maximum of 30 per cent and 100 per cent thereof are exercisable from the first and second anniversaries of the date of grant, respectively.
- (b) The share options are exercisable from 2nd June 2003 to 1st June 2013, of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant, respectively.
- (c) The weighted average closing price per share immediately before the date on which the options were exercised was HK\$0.69.
- (d) The weighted average closing price per share immediately before the date on which the options were exercised was HK\$0.66.

* Ms Yan Yuk Fung resigned as director of the Company with effect from 8th July 2004

Save as disclosed herein, as at 31st December 2004, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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

Interests of substantial shareholders

As at 31st December 2004, the following persons have an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

| Name | Long position in shares | Approximate % of interest |
|--|----------------------------|------------------------------|
| Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu”) (<i>Note 1</i>) | 3,229,435,248 | 50.99 |
| JPMorgan Chase & Co. (<i>Note 2</i>) | 423,978,000 | 6.68 |

Notes:

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

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

- (i) 2,279,312,904 shares were held by Bosworth, which was wholly-owned by Excellence which was, in turn, wholly-owned by Yue Xiu.
- (ii) 565,683,000 shares were held by Novena, which was wholly-owned by Sun Peak which was, in turn, wholly-owned by Excellence.
- (iii) 158,049,000 shares were held by Morrison, which was wholly-owned by Shine Wah which was, in turn, wholly-owned by Excellence.
- (iv) 135,737,000 shares were held by Greenwood, which was wholly-owned by Perfect Goal which was, in turn, wholly-owned by Excellence.
- (v) 44,492,000 shares were held by YXF, which was wholly-owned by Yue Xiu.
- (vi) 35,233,160 shares were held by Goldstock, which was wholly-owned by Seaport which was, in turn, wholly-owned by Excellence.
- 2) The capacity of JPMorgan Chase & Co. in holding the 423,978,000 shares was, as to 400,010,000 shares, as investment manager and, as to 23,968,000 shares, as approved lending agent.

Share options

(i) The Company

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

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

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

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 19 were as follows :

| Number of share options | | | | | Exercise price per share HK\$ | Date of grant | Exercisable period | Weighted average closing price (d) HK\$ |
|------------------------------------|-------------------------|---------------------------|------------------------|--------------------------------------|-------------------------------|---------------|-----------------------------|---|
| outstanding as at 1st January 2004 | granted during the year | exercised during the year | lapsed during the year | outstanding as at 31st December 2004 | | | | |
| 52,000,000 | — | 46,600,000 | 5,400,000 | — | 0.3936 | 04/09/1998 | 04/09/1999 - 03/09/2004 (b) | 0.941 |
| 13,374,000 | — | 3,748,000 | — | 9,626,000 | 0.5008 | 14/12/1999 | 14/12/2000 - 13/12/2005 (b) | 0.840 |
| 152,150,000 | — | 42,970,000 | — | 109,180,000 | 0.4100 | 02/05/2003 | 02/05/2003 - 01/05/2013 (c) | 0.688 |
| 8,000,000 | — | — | — | 8,000,000 | 0.5400 | 02/06/2003 | 02/06/2003 - 01/06/2013 (c) | N/A |
| 12,620,000 | — | 216,000 | — | 12,404,000 | 0.8140 | 27/10/2003 | 27/10/2003 - 26/10/2013 (c) | 0.942 |
| 100,632,000 | — | 170,000 | 228,000 | 100,234,000 | 0.8460 | 23/12/2003 | 23/12/2003 - 22/12/2013 (c) | 0.896 |
| — | 320,310,000 | 6,576,000 | 1,320,000 | 312,414,000 | 0.6300 | 23/06/2004 | 23/06/2004 - 22/06/2014 (c) | 0.723 |

Notes:

- (a) No options have been cancelled during the year.
- (b) The options granted are exercisable in 2 tranches. If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
- (c) The options granted are exercisable in 3 tranches.
- (d) The weighted average closing price per share immediately before the dates on which the options were exercised.

The closing prices of the shares immediately before the dates on which the options were granted during the year were as follows:

| Date of grant | Closing price immediately before the date of grant |
|---------------|--|
| 23/06/2004 | HK\$0.62 |

The Directors consider that it is inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to shareholders.

(ii) GZT

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

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

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

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 | | Number of share options | | Exercise price per share HK\$ | Date of grant | Exercisable period (c) | Weighted average closing price (d) HK\$ |
|------------------------------------|---------------------------|--------------------------------------|--|-------------------------------|---------------|-------------------------|---|
| outstanding as at 1st January 2004 | exercised during the year | outstanding as at 31st December 2004 | | | | | |
| 1,530,000 | 416,000 | 1,114,000 | | 0.7520 | 07/04/2000 | 07/04/2001 - 06/04/2006 | 2.272 |

Notes:

- (a) No options have been granted, cancelled or lapsed during the year.
- (b) All options are exercisable in 3 tranches.
- (c) If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
- (d) The weighted average closing price per share of GZT immediately before the dates on which the options were exercised.

Independent non-executive directors’ fees

Two of independent non-executive directors of the Company each received HK\$38,000 and the other non-executive director of the Company received HK\$10,000 as directors’ fees for the year ended 31st December 2004.

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.

Compliance with the Code of Best Practice of the Listing Rules

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in appendix 14 of the Listing Rules throughout the year ended 31st December 2004, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association. In the opinion of the Directors, this meets the same objective of the Code of Best Practice.

Audit committee

Pursuant to the Listing Rules, an audit committee ("Audit Committee"), comprising three independent non-executive directors, namely Mr Yu Lup Fat Joseph, Mr Lee Ka Lun and Mr Lau Hon Chuen Ambrose, was established.

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the board of directors of the Company. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

Auditors

The accounts 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, 21st April 2005



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF GUANGZHOU INVESTMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 26 to 92 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21st April 2005

Consolidated Profit and Loss Account

For the year ended 31st December 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------|------------------|------------------|
| Turnover | 2 | 4,526,679 | 3,925,109 |
| Cost of sales | | (3,473,912) | (2,758,973) |
| Gross profit | | 1,052,767 | 1,166,136 |
| Other revenues | 2 | 35,556 | 31,549 |
| Selling and distribution expenses | | (178,451) | (127,154) |
| General and administrative expenses | | (392,143) | (414,033) |
| Reversal of provision for doubtful debt | 3 | 104,942 | — |
| Loss on deemed disposal of certain interests in a subsidiary | 4 | (481) | (94,942) |
| Write-back/(write-down) of properties held for/under development to net realisable value | 5 | 44,546 | (5,805) |
| Revaluation surplus on investment properties | | 76,750 | 165,840 |
| Profit from operations | 6 | 743,486 | 721,591 |
| Finance costs | 7 | (112,512) | (224,733) |
| Share of profits less losses of | | | |
| - jointly controlled entities | | (23,021) | (49,693) |
| - associated companies | | 214,382 | 181,767 |
| Profit before taxation | | 822,335 | 628,932 |
| Taxation | 8 | (210,565) | (114,599) |
| Profit after taxation | | 611,770 | 514,333 |
| Minority interests | | (280,947) | (213,680) |
| Profit attributable to shareholders | 9 | 330,823 | 300,653 |
| Dividends | 10 | 109,797 | 117,540 |
| Earnings per share | 11 | | |
| Basic | | HK 5.24 cents | HK 4.89 cents |
| Fully diluted | | HK 5.15 cents | HK 4.83 cents |

Consolidated Balance Sheet

As at 31st December 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------|-------------------|-------------------|
| Non-current assets | | | |
| Interests in toll highways and bridges | 14 | 2,001,376 | 2,099,647 |
| Other intangible assets | 15 | (489,960) | (535,253) |
| Fixed assets | 16 | 6,216,630 | 6,251,082 |
| Deferred tax assets | 32 | 56,199 | 39,061 |
| Interests in jointly controlled entities | 18 | 646,717 | 798,064 |
| Interests in associated companies | 19 | 1,760,348 | 1,753,109 |
| Other investments | 20 | 261,347 | 259,851 |
| | | <u>10,452,657</u> | <u>10,665,561</u> |
| Current assets | | | |
| Properties held for/under development | 21 | 10,302,017 | 10,244,614 |
| Properties held for sale | 21 | 2,189,758 | 2,455,354 |
| Inventories | 22 | 195,288 | 220,127 |
| Amounts due from related companies | 23 | 3,234 | 3,678 |
| Trade receivables | 24 | 562,768 | 667,094 |
| Other receivables, prepayments and deposits | | 593,644 | 454,196 |
| Bank and cash balances | 25 | 901,657 | 1,075,294 |
| | | <u>14,748,366</u> | <u>15,120,357</u> |
| Current liabilities | | | |
| Trade payables | 26 | 414,493 | 447,600 |
| Land premium payable | | 729,410 | 708,300 |
| Other payables and accrued charges | | 3,083,250 | 3,195,338 |
| Amounts due to jointly controlled entities | 18 | 123,442 | 75,340 |
| Amounts due to associated companies | 19 | 112,150 | 112,221 |
| Amounts due to minority shareholders of subsidiaries | 23 | 186,831 | 179,135 |
| Bank loans | | | |
| - secured | 38 | 453,644 | 838,692 |
| - unsecured | | 608,919 | 681,797 |
| Bank overdrafts - unsecured | | 24,763 | 39,486 |
| Current portion of long-term bank loans | 30 | 959,499 | 875,394 |
| Current portion of other long-term loans | 31 | 25 | 14 |
| Taxation payable | | 133,798 | 42,906 |
| | | <u>6,830,224</u> | <u>7,196,223</u> |
| Net current assets | | <u>7,918,142</u> | <u>7,924,134</u> |
| Total assets less current liabilities | | <u>18,370,799</u> | <u>18,589,695</u> |

Consolidated Balance Sheet

As at 31st December 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|--------------------------------|------|------------------|------------------|
| Non-current liabilities | | | |
| Long-term bank loans | 30 | 3,147,665 | 3,642,450 |
| Other long-term loans | 31 | 890,747 | 952,527 |
| Deferred tax liabilities | 32 | 3,630,279 | 3,650,536 |
| | | <u>7,668,691</u> | <u>8,245,513</u> |
| Minority interests | | <u>3,467,807</u> | <u>3,374,822</u> |
| Net assets | | <u>7,234,301</u> | <u>6,969,360</u> |
| Financed by: | | | |
| Share capital | 27 | 635,160 | 624,872 |
| Reserves | 29 | 6,599,141 | 6,344,488 |
| Shareholders' funds | | <u>7,234,301</u> | <u>6,969,360</u> |

On behalf of the Board

Chen Guangsong
Director

Liang Ningguang
Director

Balance Sheet

As at 31st December 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------|------------------|------------------|
| Non-current assets | | | |
| Fixed assets | 16 | 22,563 | 20,574 |
| Investments in subsidiaries | 17 | 9,957,686 | 9,851,230 |
| | | <u>9,980,249</u> | <u>9,871,804</u> |
| Current assets | | | |
| Other receivables, prepayments and deposits | | 30,595 | 42,733 |
| Bank and cash balances | 25 | 39,832 | 190,394 |
| | | <u>70,427</u> | <u>233,127</u> |
| Current liabilities | | | |
| Amounts due to subsidiaries | 17 | 377,464 | 354,938 |
| Other payables and accrued charges | | 39,441 | 42,495 |
| Bank loan - secured | 38 | 120,000 | 120,000 |
| Bank overdrafts - unsecured | | — | 9,993 |
| Current portion of long-term bank loans | 30 | 513,935 | 367,452 |
| Current portion of other long-term loans | 31 | 25 | 14 |
| | | <u>1,050,865</u> | <u>894,892</u> |
| Net current liabilities | | <u>(980,438)</u> | <u>(661,765)</u> |
| Total assets less current liabilities | | <u>8,999,811</u> | <u>9,210,039</u> |
| Non-current liabilities | | | |
| Long-term bank loans | 30 | 1,807,298 | 2,204,231 |
| Other long-term loans | 31 | 509,348 | 345,850 |
| | | <u>2,316,646</u> | <u>2,550,081</u> |
| Net assets | | <u>6,683,165</u> | <u>6,659,958</u> |
| Financed by: | | | |
| Share capital | 27 | 635,160 | 624,872 |
| Reserves | 29 | 6,048,005 | 6,035,086 |
| Shareholders' funds | | <u>6,683,165</u> | <u>6,659,958</u> |
| On behalf of the Board | | | |

Chen Guangsong
Director

Liang Ningguang
Director

Consolidated Cash Flow Statement

For the year ended 31st December 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|---|-------|------------------|------------------|
| Net cash inflow generated from operations | 33(a) | 1,432,275 | 991,747 |
| Interest received | | 5,587 | 8,450 |
| Interest paid | | (167,911) | (242,055) |
| Hong Kong profits tax paid | | (1,558) | (2,059) |
| China enterprise income tax paid and land appreciation tax paid | | (118,344) | (108,110) |
| Net cash inflow from operating activities | | <u>1,150,049</u> | <u>647,973</u> |
| Investing activities | | | |
| Dividends received from jointly controlled entities and associated companies | | 94,060 | 125,012 |
| Dividends received from other investments | | 14,904 | 32,392 |
| Investment in toll highway and bridges | | (3,121) | (11,223) |
| Purchases of fixed assets | | (202,338) | (200,906) |
| Sale of fixed assets | | 39,972 | 7,036 |
| Purchase of subsidiaries | 33(b) | 2,339 | 16,683 |
| Disposal of certain interests in a subsidiary | 33(c) | — | 8,639 |
| Issue of a subsidiary's shares to its minority shareholders | | 315 | 56,818 |
| Capital injection into a jointly controlled entity | | (82,160) | — |
| Disposal of a jointly controlled entity | | — | 59,346 |
| Purchases of other investments | | (1,496) | — |
| (Advance to)/ repayment from associated companies and jointly controlled entities | | (5,124) | 11,409 |
| Net cash (outflow)/inflow from investing activities | | <u>(142,649)</u> | <u>105,206</u> |

Consolidated Cash Flow Statement

For the year ended 31st December 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|---|-------|-----------------------|-------------------------|
| Financing activities | 33(d) | | |
| Issue of ordinary shares | | 43,643 | 43,725 |
| Capital contribution from minority shareholders of subsidiaries | | 4,476 | 6,037 |
| Advance from associated companies | | 48,031 | 2,399 |
| New bank loans | | 932,996 | 2,252,575 |
| Repayment of bank loans | | (1,801,602) | (3,005,352) |
| Addition of other borrowings | | 177,745 | 183,093 |
| Repayment of other borrowings | | (231,818) | (19,356) |
| Dividends paid | | (120,792) | (49,502) |
| Dividends paid to minority shareholders of subsidiaries | | (218,993) | (176,325) |
| Net cash outflow from financing activities | | <u>(1,166,314)</u> | <u>(762,706)</u> |
| Decrease in cash and cash equivalents | | (158,914) | (9,527) |
| Cash and cash equivalents at the beginning of year | | <u>1,035,808</u> | <u>1,045,335</u> |
| Cash and cash equivalents at the end of year | | <u><u>876,894</u></u> | <u><u>1,035,808</u></u> |
| Analysis of balances of cash and cash equivalents | | | |
| Bank balances and cash | | 901,657 | 1,075,294 |
| Bank overdrafts | | (24,763) | (39,486) |
| | | <u><u>876,894</u></u> | <u><u>1,035,808</u></u> |

Consolidated Statement of Changes in Equity

for the year ended 31st December 2004

| | Note | 2004 HK\$'000 | 2003 HK\$'000 |
|--|---------|-------------------------|-------------------------|
| Total equity as at 1st January | | <u>6,969,360</u> | <u>6,710,047</u> |
| Exchange differences arising on translation of the accounts of foreign subsidiaries, associated companies and jointly controlled entities | 29 | (1,588) | 3,748 |
| Release of reserve upon disposal of properties held for/under development and properties held for sale | 29 | (30,675) | (66,070) |
| Release of reserve upon deemed disposal of certain interest in a subsidiary | 29 | (3) | (547) |
| Provision for impairment of goodwill | 29 | <u>43,533</u> | <u>—</u> |
| Net gain/(loss) not recognised in the profit and loss account | | <u>11,267</u> | <u>(62,869)</u> |
| Profit attributable to shareholders | 29 | 330,823 | 300,653 |
| Dividends paid | 29 | (120,792) | (49,502) |
| Issue of shares net of issuing expenses | 27 & 29 | <u>43,643</u> | <u>71,031</u> |
| Total equity as at 31st December | | <u><u>7,234,301</u></u> | <u><u>6,969,360</u></u> |

1 Principal accounting policies

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

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

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

(a) Basis of preparation

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

(b) Group accounting

(i) Consolidation

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

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

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

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

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

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

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

1 Principal accounting policies (cont'd)

(b) Group accounting (cont'd)

(ii) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

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

(iii) Associated companies

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

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

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

(iv) Translation of foreign currencies

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

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

1 Principal accounting policies (cont'd)

(c) Fixed assets

(i) Investment properties

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

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

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

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

(ii) Other properties

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

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

(iii) Production facilities under construction

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

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

1 Principal accounting policies (cont'd)

(c) Fixed assets (cont'd)

(iv) Other fixed assets

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

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

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

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

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

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

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

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(d) Assets under leases

(i) Finance leases

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

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

1 Principal accounting policies (cont'd)

(d) Assets under leases (cont'd)

(ii) Operating leases

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

(e) Interests in toll highways and bridges

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

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

(f) Intangibles

(i) Goodwill/negative goodwill

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

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

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

1 Principal accounting policies (cont'd)

(f) Intangibles (cont'd)

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

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

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

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

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

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

(ii) Research and development costs

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

(iii) Impairment of intangible assets

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

1 Principal accounting policies (cont'd)**(g) Other investments**

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

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

(h) Properties held for/under development

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

(i) Properties held for sale

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

(j) Inventories

Inventories, comprise stock and work in progress, are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Accounts receivable

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

(l) Cash and cash equivalents

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

1 Principal accounting policies (cont'd)

(m) Contingent liabilities and contingent assets

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

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

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

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

(n) Deferred taxation

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

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

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

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Medical benefits

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

1 Principal accounting policies (cont'd)

(p) Government grants

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

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

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

(q) Revenue and profit recognition

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

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

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

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

1 Principal accounting policies (cont'd)

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(s) Segment reporting

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

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

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

2 Turnover, revenue and segment information

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

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

Turnover and segment results for the period are as follows:

Primary reporting format - business segments

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

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

There are no significant sales between the business segments.

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

Secondary reporting format - geographical segments

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

Hong Kong – properties

China – toll operations, properties, and paper

Others – properties

There are no significant sales between the geographical segments.

Primary reporting format - business segments

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

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

Secondary reporting format - geographical segments

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

3 Reversal of provision for doubtful debt

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

4 Loss on deemed disposal of certain interests in a subsidiary

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

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

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

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

6 Profit from operations

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

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

7 Finance costs

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

Note:

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

8 Taxation

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

8 Taxation (cont'd)

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

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

8 Taxation (cont'd)

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

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

Note:

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

9 Profit attributable to shareholders

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

10 Dividends

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

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

11 Earnings per share

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

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

12 Staff costs (including directors' emoluments)

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

Pension scheme arrangements

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

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

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

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

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

13 Directors' and senior management's emoluments

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

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

Note:

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

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

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

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

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

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

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

14 Interests in toll highways and bridges

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

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

15 Other intangible assets

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

16 Fixed assets

(a) Group

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

16 Fixed assets (cont'd)

(b) Company

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

16 Fixed assets (cont'd)

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

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

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

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

17 Investments in subsidiaries

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

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

18 Interests in jointly controlled entities

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

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

19 Interests in associated companies

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

19 Interests in associated companies (cont'd)

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

20 Other investments

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

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

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

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

22 Inventories

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

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

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

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

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

24 Trade receivables

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

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

25 Bank and cash balances

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

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

26 Trade payables

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

The ageing analysis of the trade payables were as follows:

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

27 Share capital

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

Note:

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

28 Share options

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

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

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

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

29 Reserves

(a) Group

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

29 Reserves (cont'd)

(b) Company

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

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

30 Long-term bank loans

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

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

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

31 Other long-term loans

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

(a) Group

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

31 Other long-term loans (cont'd)

(a) Group (cont'd)

| | 2004 | | | | Total HK\$'000 |
|---|---|--|---|--|-------------------|
| | Obligations under finance leases HK\$'000 | Loans from the ultimate holding company HK\$'000 | Loans from related companies HK\$'000 | Loans from minority shareholders of subsidiaries HK\$'000 | |
| Within one year | 25 | — | — | — | 25 |
| In the second year | 25 | — | — | — | 25 |
| In the third to fifth year | 28 | 267,459 | — | — | 267,487 |
| With no fixed repayment terms | — | 31,431 | 127,917 | 463,887 | 623,235 |
| | <u>78</u> | <u>298,890</u> | <u>127,917</u> | <u>463,887</u> | <u>890,772</u> |
| Less: Current portion of other long-term loans | (25) | — | — | — | (25) |
| | <u>53</u> | <u>298,890</u> | <u>127,917</u> | <u>463,887</u> | <u>890,747</u> |
| The balances are analysed as follows: | | | | | |
| Interest bearing | — | 267,459 | 84,535 | 120,561 | 472,555 |
| Non-interest bearing | 78 | 31,431 | 43,382 | 343,326 | 418,217 |
| | <u>78</u> | <u>298,890</u> | <u>127,917</u> | <u>463,887</u> | <u>890,772</u> |

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

31 Other long-term loans (cont'd)

(b) Company

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

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

32 Deferred taxation

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

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

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

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

Deferred tax assets:

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

32 Deferred taxation (cont'd)

Deferred tax liabilities:

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

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

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

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

33 Notes to the consolidated cash flow statement

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

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

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

(b) Deemed acquisition/ purchase of subsidiaries

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

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

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

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

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

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

(c) Disposal of certain interests in subsidiaries

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

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

(d) Analysis of changes in financing

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

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

(d) Analysis of changes in financing (cont'd)

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

34 Commitments under operating leases

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

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

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

35 Future minimum rental payments receivable

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

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

36 Other commitments

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

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

37 Contingent liabilities

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

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

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

Note:

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

38 Pledge of assets

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

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

39 Related party transactions

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

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

Notes:

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

40 Ultimate holding company

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

41 Approval of accounts

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

Principal subsidiaries

As at 31st December 2004, 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 |
|--|---|--|---|----------|--------|----------|----------------------|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Able Step Investment Limited | Hong Kong | 1 Ordinary share of HK\$1 each | — | 100 | — | — | Property investment |
| Beexiu Industrial (Shenzhen) Co., Ltd. | China, limited liability company | Registered capital HK\$7,000,000 | — | 100 | — | 100 | Property development |
| Better Wealth Development Limited | Hong Kong | 2 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property development |
| Bond Master Limited | Hong Kong | 1 Ordinary share of HK\$1 each | — | 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 | — | — | Property investment |
| Dalian Perfect Base Property Development Co., Ltd. | China, limited liability company | Registered capital US\$7,500,000 | — | 100 | — | 100 | Property development |
| Elsburg Limited | Hong Kong | 10,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |
| Eternal Fine International Limited | Hong Kong | 10,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Investment holding |

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 |
|--|---|--|---|----------|--------|----------|----------------------|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Ever Famous International Limited | Hong Kong | 10,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Investment holding |
| First-Win Group Limited | British Virgin Islands | 1 Ordinary share of US\$1 each | — | 100 | — | 100 | Investment holding |
| Front Riches Limited | Hong Kong | 10,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |
| Fundscore Development Limited | Hong Kong | 500,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |
| Glow Bright Investment Limited | Hong Kong | 2 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Investment holding |
| Goldtech Worldwide Limited | British Virgin Islands | 1 Ordinary share of US\$1 each | — | 100 | — | 100 | Investment holding |
| Grand System Development Limited | Hong Kong | 10,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Investment holding |
| Green Park Development Limited | Hong Kong | 1 Ordinary share of HK\$1 each | — | 100 | — | — | Property investment |
| Guangzhou Bright Growth City Real Estates Co. Ltd. | China, limited liability company | Registered capital RMB88,315,800 | — | 95 | — | 95 | Property development |
| 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 |

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 |
|---|--|---|---|----------|--------|----------|---|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| 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 RMB8,000,000 | — | 95 | — | 95 | Property development |
| 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 & Development Supervising Ltd. | China, limited liability company | Registered capital RMB8,921,500 | — | 65 | — | 65 | Project management |

Principal subsidiaries (cont'd)

| Name of subsidiary | Place of incorporation/ establishment and operation and kind of legal entity | Issued and fully paid up share capital/registered capital | Effective percentage of attributable interest held by the Company | | | | Principal activities |
|---|---|--|---|----------|--------|----------|---------------------------|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| 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 |
| 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 |
| Guangzhou Grandcity Automobile Services Co. | 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 |

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 |
|---|--|---|---|----------|--------|----------|--|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| 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 |
| 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 |
| * Guangzhou Nanxin Highways Development Company Limited | China, limited liability company | Registered capital RMB141,463,000 | — | 27.46 | — | 27.47 | 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 |

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 |
|--|---|--|---|----------|--------|----------|---|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Guangzhou Perfect City Real Estates Co. Ltd. | China, limited liability company | Registered capital RMB14,448,600 | — | 95 | — | 95 | Property development |
| * Guangzhou Qiaowei Highways Development Company Limited | China, limited liability company | Registered capital RMB12,326,000 | — | 34.33 | — | 34.34 | 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 |
| * Guangzhou Suiqiao Development Company Limited | China, limited liability company | Registered capital RMB1,000,000 | — | 34.33 | — | 34.34 | Investment holding |
| Guangzhou Sun Peak City Real Estates Co. Ltd. | China, limited liability company | Registered capital RMB14,440,300 | — | 95 | — | 95 | Property development |
| * Guangzhou Taihe Highways Development Company Limited | China, limited liability company | Registered capital RMB155,980,000 | — | 27.46 | — | 27.47 | Development and management of Guangcong Highway Section I linking Guangzhou and Conghua |
| * Guangzhou Tailong Highways Development Company Limited | China, limited liability company | Registered capital RMB116,667,000 | — | 17.50 | — | 17.51 | Development and management of Guangcong Highway Section II linking Guangzhou and Conghua, and Provincial Highway 1909 linking Conghua and Longtan |

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 |
|--|---|--|---|----------|--------|----------|---|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| 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 |
| * Guangzhou Weian Highways Development Company Limited | China, limited liability company | Registered capital RMB175,750,000 | — | 27.46 | — | 27.47 | 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 | — | 76.33 | — | 76.33 | Property investment |
| Guangzhou Winbase City Real Estates Co. Ltd. | China, limited liability company | Registered capital RMB11,952,000 | — | 95 | — | 95 | Property development |
| Guangzhou Winner City Real Estates Co. Ltd. | China, limited liability company | Registered capital RMB28,684,800 | — | 95 | — | 95 | Property development |
| Guangzhou Xingcheng Enterprise Development Ltd. | China, limited liability company | Registered capital RMB154,612,700 | — | 95 | — | 95 | Property investment |

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 |
|---|---|--|---|--------------|--------|----------|---|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| * Guangzhou Xinguang Highways Development Company Limited | China, limited liability company | Registered capital RMB143,333,000 | — | 18.88 | — | 18.89 | 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 |
| * Guangzhou Yue Peng Information Ltd. | China, limited liability company | Registered capital RMB160,000,000 | — | 34.33 | — | 34.33 | Investment holding |
| Guangzhou Yue Xiu Property Management Company Limited | China, limited liability company | Registered capital RMB1,000,000 | — | 60 | — | 60 | Property management |
| Guangzhou Ziwei City Real Estates Co. Ltd. | China, limited liability company | Registered capital RMB59,618,800 | — | 95 | — | 95 | Property development |
| GZI Transport (Holdings) Limited | British Virgin Islands | 1,848,497,550 Ordinary shares of HK\$1 each | — | 51 | — | 51 | Investment holding |
| * GZI Transport Limited | Bermuda | 1,114,649,530 Ordinary shares of HK\$0.1 each | 0.01 | 34.32 | 0.01 | 34.33 | Investment holding |
| Honstar Investments Limited | British Virgin Islands | 1 Ordinary share of US\$1 each | — | 100 | — | 100 | Investment holding |
| * Hunan Yue Tung Highway and Bridge Development Company Limited | China, limited liability company | Registered capital RMB21,000,000 | — | 25.75 | — | 25.76 | Development and management of Xiang Jiang Bridge II in Hunan Province |

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 |
|------------------------------------|--|---|---|----------|--------|----------|----------------------|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| 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 |
| Kingswell Limited | Hong Kong | 1 Ordinary share of HK\$1 each | — | 100 | — | — | Property investment |
| * Kiu Fung Limited | British Virgin Islands | 2 Ordinary shares of HK\$1 each | — | 34.33 | — | 34.34 | 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 |

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 |
|--|---|--|---|----------|--------|----------|---|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Pacific Max Industrial Limited | Hong Kong | 10,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Investment holding |
| Perfect Base Development Limited | Hong Kong | 1,000,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Investment holding |
| Raybeach Investment Limited | Hong Kong | 10,000 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |
| Round Table Holdings Limited | British Virgin Islands | 100 Ordinary shares of HK\$1 each | 100 | — | 100 | — | Investment holding |
| * Shaanxi Jinxiu Transport Co., Limited | China, limited liability company | Registered capital RMB100,000,000 | — | 34.33 | — | 34.34 | Development and management of Xian-Lintong Expressway in Shaanxi Province |
| Sino Peace Development Limited | Hong Kong | 1 Ordinary share of HK\$1 each | — | 100 | — | — | Property investment |
| Smart Rise Development Limited | Hong Kong | 100 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property investment |
| * Smart Top Enterprises Limited | Hong Kong | 2 Ordinary shares of HK\$1 each | — | 34.33 | — | 34.34 | 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 |

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 |
|--|---|--|---|----------|--------|----------|------------------------|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Star Noble Enterprises Limited | Hong Kong | 1,000,000 Ordinary shares of HK\$1 each | — | 100 | — | 60 | 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 | — | — | 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 Investment (China) Company Limited | China, limited liability company | Registered capital RMB39,015,773.09 | 100 | — | 100 | — | Investment holding |

Principal subsidiaries (cont'd)

| Name of subsidiary | Place of incorporation/ establishment and operation and kind of legal entity | Issued and fully paid up share capital/registered capital | Effective percentage of attributable interest held by the Company | | | | Principal activities |
|---|---|---|---|----------|--------|----------|---|
| | | | 2004 | | 2003 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Yue Xiu Property Agency Limited | Hong Kong | 2 Ordinary shares of HK\$1 each | — | 100 | — | 100 | Property agency services |
| 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 |

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.

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

Principal jointly controlled entities

As at 31st December 2004, 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 |
|---|--------------------------------------|--|-------|---|
| | | 2004 | 2003 | |
| Guangdong Xinshidai Real Estate Ltd. | China | 45 | 45 | Property development |
| | | 33.33 | 33.33 | |
| | | 44 | 44 | |
| Guangzhou Northern Second Ring Expressway Co., Limited | China | 15.79 | 15.80 | Development and management of Guangzhou Northern Second Ring Expressway in Guangzhou |
| | | 40 | 50 | |
| | | 15.79 | 15.80 | |
| 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 | 12.02 | — | Development and management of Guangzhou Western Second Ring Expressway in Guangzhou |
| | | 33 | — | |
| | | 12.02 | — | |
| Hainan China City Property Development Co., Ltd. | China | 52 | 31.20 | Property development |
| | | 57.14 | 28.57 | |
| | | 52 | 31.20 | |
| Zhoushan Xinyuan Real Estate Development Co., Ltd. | China | 38 | 38 | Property development |
| | | 33.33 | 33.33 | |
| | | 38 | 38 | |

Principal associated companies

As at 31st December 2004, the Group held shares/interests in the following principal associated companies:

| Name of associated company | Place of incorporation/ establishment and operation | Effective percentage holding | | Principal activities |
|--|--|------------------------------|-------|--|
| | | 2004 | 2003 | |
| 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 |
| * Guangdong Humen Bridge Co., Ltd. | China | 8.58 | 8.58 | Development and management of Humen Bridge in Humen |
| * Guangdong Qinglian Highway Development Co., Ltd. | China | 8.10 | 8.10 | Development and management of National Highway 107 linking Qingyuan and Lianzhou |
| * Guangdong Shantou Bay Bridge Co., Ltd. | China | 10.30 | 10.30 | Development and management of Shantou Bay Bridge in Shantou |
| * Guangzhou Northring Freeway Co., Ltd. | China | 8.34 | 8.34 | Development and management of Guangzhou City Northern Ring Road |
| Guangzhou Xin Yue Real Estate Development Co. Ltd | China | 28.20 | 28.20 | Property development |

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

Advance to Entity

The advance made by the Group to the following entity exceeded 8.0 per cent of the Market Capitalisation (note 5) as at 31st December 2004 and are required to be disclosed under Rule 13.20 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as follows:

| Name of the Entity | Percentage of indirect attributable interest held by the Company | Advances as at 31st December 2004 (Note 1) | | Interest rate | Total (A + B) HK\$ million |
|----------------------------------|--|--|--|------------------|----------------------------------|
| | | Interest bearing (A) HK\$ million | Non-interest bearing (B) HK\$ million | | |
| Guangdong Humen Bridge Co., Ltd. | 8.58 | 525.0 | — | (Note 2) | 525.0 |

Financial Assistance to Affiliated Companies

The financial assistance provided by the Group to the affiliated companies of the Company which in aggregate exceeded 8.0 per cent of the Market Capitalisation (note 5) as at 31st December 2004 (the “Relevant Affiliated Companies”) and are required to be disclosed under Rule 13.22 of the Listing Rules as follows:

| Name of affiliated companies | Percentage of indirect attributable interest held by the Company | Advances as at 31st December 2004 (Note 1) | | Interest rate | Total (A + B) HK\$ million |
|---|--|--|--|------------------|----------------------------------|
| | | Interest bearing (A) HK\$ million | Non-interest bearing (B) HK\$ million | | |
| Guangdong Humen Bridge Co., Ltd. | 8.58 | 525.0 | — | (Note 2) | 525.0 |
| Guangdong Qinglian Highway Development Co., Ltd. | 8.10 | — | 219.0 | — | 219.0 |
| Guangdong Shantou Bay Bridge Co., Ltd. | 10.30 | 43.4 | — | (Note 3) | 43.4 |
| Hainan China City Property Development Co. Ltd. | 52.00 | — | 49.7 | — | 49.7 |
| Guangdong Xinshidai Real Estate Ltd. | 45.00 | — | 10.1 | — | 10.1 |
| Zhoushan Xinyuan Real Estate Development Co., Ltd. | 38.00 | — | 2.6 | — | 2.6 |
| Total (Note 4) | | 568.4 | 281.4 | | 849.8 |

Disclosures Pursuant to Chapter 13 of the Listing Rules

Financial Assistance to Affiliated Companies (cont'd)

Notes:

- (1) The advances were shareholders' loans representing part of the investment costs injected by the Group in proportion to the Group's equity interest in such entity and affiliated companies. These advances are unsecured and have no fixed term of repayment. There were no committed capital injections nor guarantees given to or for the above entity and affiliated companies.
- (2) Of these interest-bearing advances, approximately HK\$419.7 million was charged at US prime rate; approximately HK\$105.2 million was charged at lending rates of financial institutions in China; and the remaining balance was charged at Hong Kong prime rate.
- (3) Of these interest-bearing advances, approximately HK\$9.1 million was charged at Hong Kong prime rate; and approximately HK\$34.3 million was charged at lending rates of financial institutions in China.
- (4) The total amount of financial assistance provided by the Group to the affiliated companies of the Company exceeded 8.0 per cent of the Market Capitalisation.
- (5) Market Capitalisation means the market capitalisation of the Company as at 31st December 2004 amounting to HK\$4,839,917,610 based on the total number of 6,351,597,914 shares of the Company in issue on 31st December 2004 and average closing price of HK\$0.762 per share for the five business days immediately preceding 31st December 2004.

Pro Forma Combined Balance Sheet of Affiliated Companies

In accordance with Rule 13.22 of the Listing Rules, a pro forma combined balance sheet of the Company's Relevant Affiliated Companies as at 31st December 2004 and the Group's attributable interest therein are set out below:

| | |
|---|------------------|
| | HK\$'000 |
| Long term assets | 5,953,102 |
| Current assets | 544,783 |
| Current liabilities | (152,774) |
| Long term liabilities | (4,126,080) |
| Net assets | <u>2,219,031</u> |
| | HK\$'000 |
| Attributable interest to the Group | |
| Net assets | 268,280 |
| Shareholder's loans receivable | 849,821 |
| Goodwill on acquisition less amortisation | 158,083 |
| | <u>1,276,184</u> |

Disclosures Pursuant to Rule 13.21 of the Listing Rules

Reference was made to a term loan facility agreement dated 5th September 2001 ("2001 loan agreement") and an agreement supplemental to the 2001 loan agreement dated 7th September 2004 in respect of an extension of the final maturity to September 2005 for the outstanding principal amount of US\$15,000,000, a HK\$2,630 million loan agreement dated 23rd September 2002 with a final maturity in December 2007, a HK\$100 million loan agreement dated 16th June 2003 with a final maturity in December 2005 and a HK\$300 million loan agreement dated 23rd June 2003 with a final maturity in June 2008. In accordance with the terms of the aforementioned agreements, it is an event of default if Yue Xiu ceases to own (directly or indirectly) at least (in the case of the 2001 loan agreement) 40 per cent or (in the case of the other three loan agreements) 30 per cent of the issued share capital of the Company. The obligation has been complied with.

BOARD OF DIRECTORS

Executive directors

Ou Bingchang (*Chairman*)
Liang Yi
Chen Guangsong
Li Fei
Liang Ningguang
Xiao Boyan

Independent non-executive directors & audit committee members

Yu Lup Fat Joseph
Lee Ka Lun
Lau Hon Chuen Ambrose

COMPANY SECRETARY

Yu Tat Fung

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

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

WEBSITES TO ACCESS COMPANY INFORMATION

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

REGISTERED OFFICE

24th Floor
Yue Xiu Building
160-174 Lockhart Road
Wanchai, Hong Kong

SHARE REGISTRAR

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

SHARE LISTING

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

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

INVESTOR RELATIONS

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List of Major Property Projects in Guangzhou Municipality: For Sales in 2005

| Project | Land Use | Available Sales Area (sq. m) | Location |
|--|-------------------------|------------------------------|----------|
| * Phase 1 and 2 of Jiang Nan New Mansion No. 40 Xin Gang Xi Road, Hai Zhu District, Guangzhou | Residential | 49,400 | Hai Zhu |
| * Phase I, II and III of Springland Garden Baogang South Street, Hai Zhu District, Guangzhou | Residential | 50,100 | Hai Zhu |
| * Xing Hui Ya Yuan (Happy Valley Project) Pin Jiang Road, Zhu Jiang Estate, Tian He District, Guangzhou | Residential | 45,900 | Tian He |
| * Phase 1 of Binjiang Yiyuan (Chi Gang Qiao Xi Area) Binjiang East Road, Hai Zhu District, Guangzhou | Residential | 44,100 | Hai Zhu |
| * Sanyuanli Project Airport West Road, Bai Yun District, Guangzhou | Residential | 13,800 | Bai Yun |
| Fortune Square Nos. 114-118 Ti Yu Dong Road, Guangzhou | Office | 7,500 | Tian He |
| * Xing Hui International Zhu Jiang Estate E1-1, Tian He District, Guangzhou | Apartment and office | 11,300 25,700 | Tian He |
| * Yue Xiu Building Dongfeng Zhong Road Yue Xiu District Guangzhou | Apartment and office | 18,400 29,400 | Yue Xiu |
| * Glade Village (Phase 1 of District B, District C, District D) Sheng Gong Town Cong Hua Guangzhou | Villa | 77,400 | Cong Hua |
| * Southern Le Sand (Initial Phase Area and Phase 2) Nansha Development Zone Panyu Guangzhou | Villa and apartment | 78,700 28,700 | Panyu |
| Junhui Shopping Mall (Annex Building) Nos. 5, 7, 9 Ti Yu Xi Road, Tian He District, Guangzhou | Commercial Carpark | 8,600 9,000 | Tian He |

List of Major Property Projects in Guangzhou Municipality: For Sales in 2005

(cont'd)

| Project | Land Use | Available Sales Area (sq. m) | Location |
|--|--------------------|------------------------------|----------|
| Galaxy City Shopping Centre (Annex Building) | Commercial | 10,200 | Tian He |
| Zhu Jiang Estate E2-1 and E2-2, Tian He District, Guangzhou | Carpark | 23,000 | |
| Xiangkang Commercial Plaza | Office, Commercial | 28,600 | Bai Yun |
| Sanyuan Li Main Street, Bai Yun District, Guangzhou | Carpark | 3,400 | |

* These projects were classified as properties under development or properties held for sale in the Financial Statement as at 31st December 2004.

List of Major Property Projects in Guangzhou Municipality: For Rental in 2005

| Project | Land Use | Available Sales Area (sq. m) | Location |
|--|---------------------------------|------------------------------|-----------|
| Victory Plaza No. 101 Ti Yu Xi Road, Tian He District, Guangzhou | Commercial/ Carpark | 27,700 24,900 | Tian He |
| Fortune Square Nos. 114-118 Ti Yu Dong Road, Tian He District, Guangzhou | Office Commercial Carpark | 19,700 17,900 8,500 | Tian He |
| City Development Plaza No. 189 Ti Yu Xi Road, Tian He District, Guangzhou | Office Commercial Carpark | 32,600 11,300 12,300 | Tian He |
| White Horse Building No. 16 Zhan Nan Road, Yue Xiu District, Guangzhou | Commercial Carpark | 48,500 4,200 | Yue Xiu |
| Hong Fa Building Nos. 19-21 Tian He Nan Er Road Tian He District, Guangzhou | Office Carpark | 14,100 15,000 | Tian He |
| Jiangxing Building No. 82 Jiangnan Main Road Central, Hai Zhu District, Guangzhou | Office | 17,500 | Hai Zhu |
| Xinchuangju Building (Portion) No. 123 Ti Yu Xi Road, Tian He District, Guangzhou | Office | 5,800 | Tian He |
| Guang Yuan Cultural Centre No. 33 Jing Tai Zhi Street, Bai Yun District, Guangzhou | Commercial Carpark | 18,600 11,300 | Bai Yun |
| Golden Arch Residence Er Sha Island, Dong Shan District Guangzhou | Residential/ Shopping units | 9,160 | Dong Shan |

List of Major Property Projects in Guangzhou Municipality: Under Development (at Year End 2004)

| Project | Land Use | Available Sales Area (sq. m) | Location |
|---|---|---|----------|
| * Phase 2 of Jiang Nan New Mansion No. 40 Xingang Xi Road, Hai Zhu District, Guangzhou | Residential Others | 48,900 11,300 | Hai Zhu |
| * Phase 2 and 3 of Springland Garden Gongye Main Road, Hai Zhu District, Guangzhou | Residential Commercial Others | 48,200 25,500 31,300 | Hai Zhu |
| * Phase 1 and 2 of Binjiang Yiyuan (Chi Gang Qiao Xi Area) Binjiang East Road, Hai Zhu District, Guangzhou | Residential Commercial Others | 88,000 8,100 19,400 | Hai Zhu |
| Victory Project (Tower Building portion) No. 101 Ti Yu Xi Road, Tian He District, Guangzhou | Office | 88,700 | Tian He |
| * Xing Hui Ya Yuan (Happy Valley Project) Pin Jiang Road, Zhu Jiang Estate, Tian He District, Guangzhou | Residential Commercial Others | 45,900 2,800 9,900 | Tian He |
| * Xing Hui International Zhu Jiang Estate E1-1, Tian He District, Guangzhou | Apartment Office Commercial Club house Others | 11,300 25,700 13,500 2,900 12,700 | Tian He |
| Commercial 12-1, 5 (Basement, portion of annex building) Tianhe Bei Road, Tian He District, Guangzhou | Commercial Others | 48,900 35,300 | Tian He |
| No. RJ-1 MTR Project Junction of Zhongshan Road and Jiefang Bei Road, Yue Xiu District, Guangzhou | Office Commercial Club house Others | 53,500 16,700 1,800 15,200 | Yue Xiu |

List of Major Property Projects in Guangzhou Municipality: Under Development (cont'd) (at Year End 2004)

| Project | Land Use | Available Sales Area (sq. m) | Location |
|---|---|--------------------------------------|----------|
| * Yue Xiu Building Dongfeng Zhong Road, Yue Xiu District, Guangzhou | Apartment Office Commercial Others | 18,400 42,300 24,500 21,400 | Yue Xiu |
| * Sanyuanli Project Airport West Road, Bai Yun District, Guangzhou | Residential Commercial Others | 13,800 1,000 3,200 | Bai Yun |
| 5-3 Huangshi Huangshi Road, Bai Yun District, Guangzhou | Carpark | 21,300 | Bai Yun |
| * Glade Village (District C, Hotel of District C) Sheng Gong Town, Cong Hua, Guangzhou | Residential Others | 67,400 31,500 | Cong Hua |
| * Southern Le Sand (Initial Phase Area Phase 2) Nansha Development Zone, Panyu, Guangzhou | Residential | 64,600 | Panyu |

* These include projects intended to be launched for pre-sale in 2005.

List of Major Property Projects in Guangzhou Municipality : Land Bank

(at Year End 2004)

| Project | Land Use | Available Sales Area (sq. m) | Location |
|--|----------------------------|------------------------------|----------|
| Phase 3 of Jiangnan District 7 Jiangnan Xi Village, Hai Zhu District, Guangzhou | Residential | 53,400 | Hai Zhu |
| | Commercial | 6,000 | |
| | Others | 14,000 | |
| Phase 4 of Jiangnan Districts 1 and 4 Baogang Main Street Central, Hai Zhu District, Guangzhou | Residential | 98,800 | Hai Zhu |
| | Commercial | 26,200 | |
| | Others | 16,400 | |
| Jiang Nan New Mansion (Phase 3, Phase 4) No. 40 Xin Gang Xi Road, Guangzhou | Commercial and residential | 227,000 | Hai Zhu |
| Springland Garden (Phase 4, Phase 5) Baogang South Street, Hai Zhu District, Guangzhou | Commercial and residential | 389,400 | Hai Zhu |
| Fu Hai Garden (Phase 2 of Lingnan Garden) Zengcha Road, Bai Yun District, Guangzhou | Residential | 69,600 | Bai Yun |
| | Others | 19,100 | |
| Tian He Commercial 12-1, 5 (Tower Building portion) Tianhe Bei Road, Tian He District, Guangzhou | Office | 108,200 | Tian He |
| | Hotel | 31,500 | |
| Sports Stadium No.119 Liuhua Road, Yue Xiu District, Guangzhou | Commercial, Office | 125,000 | Yue Xiu |
| Land N4 At the crossing of Dongfeng Road and Jiefang Road, Yue Xiu District, Guangzhou | Office | 45,000 | Yue Xiu |
| Glade Village Sheng Gong Town, Cong Hua, Guangzhou | Residential | 944,400 | Cong Hua |
| Southern Le Sand Nansha Development Zone, Panyu, Guangzhou | Residential | 1,106,500 | Panyu |
| Huadu Villa Huadu, Guangzhou | Residential | 90,500 | Huadu |

Location Map of Major Property Projects in Guangzhou Urban Area



- Investment properties
- Properties held for sale
- Land bank
- Properties under development
- Local landmark