

Notes to the Financial Statements

For the Year ended 31 December 2000

1. General

The Company is an exempted company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of the subsidiaries and infrastructure joint ventures are investment holding and the investment in, development, operation and management of toll roads and expressways in People's Republic of China (the "PRC").

2. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted the following revised or new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants for the first time:

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 14 (Revised)	Leases
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

With the exception of SSAP 9 (Revised) and SSAP 30, the adoption of the above standards has had no material effect on amounts reported in prior years.

In accordance with SSAP 9 (Revised), dividends declared after the balance sheet date are not recognised as a liability in the balance sheet. In previous years, the declaration of dividends after the balance sheet date was treated as an adjusting post balance sheet event. The effect of this change has been to increase shareholders' funds at 1 January 1999 and 2000 by HK\$123,436,000 and HK\$113,133,000 respectively.

In accordance with SSAP 30, goodwill that was previously charged against reserves has been retrospectively recognised as an asset. The effect of this change has been to increase shareholders' funds at 1 January 1999 and 2000 by HK\$6,717,000 and HK\$3,001,000 respectively. No amortisation has been recognised in respect of prior year as the amount involved is insignificant.

All of the Standards listed above have been applied in advance of their effective dates.

Financial Statements

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally acceptable in Hong Kong. The principal accounting policies adopted are set out below:

Notes to the Financial Statements

For the Year ended 31 December 2000

3. Significant Accounting Policies (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

On acquisition or disposal, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Goodwill

Goodwill (negative goodwill) represents the difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary or joint venture at the effective date of acquisition. Goodwill is recognised as an asset and is amortised using the straight line method over its estimated useful life, which is generally 3 to 20 years. Negative goodwill arising on acquisition is recognised as income on a systematic basis over the remaining weighted average useful life of the non-monetary assets acquired.

On the disposal of an investment in a subsidiary or a joint venture, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

A subsidiary is an enterprise over which the Company, has control either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in joint ventures

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

Notes to the Financial Statements

For the Year ended 31 December 2000

3. Significant Accounting Policies (Continued)

Infrastructure joint ventures

Joint venture arrangements which involve the establishment of a separate entity for investment in and development, operation and management of toll roads and expressways and in which each venturer has an interest are referred to as infrastructure joint ventures.

The Group's infrastructure joint ventures are Sino-foreign co-operative joint ventures registered in the PRC in respect of which the partners' cash/profit sharing ratios and the share of net assets upon the expiration of the joint venture periods are predetermined in accordance with the joint venture agreements and may not be in proportion to their capital contribution ratios.

Where the Group's interest in the joint venture is such that it establishes joint control over the economic activity of the joint venture with other venturers, the Group's interests in the joint ventures are carried at cost plus its share of post-acquisition undistributed reserves of the joint ventures in accordance with the defined cash/profit sharing ratios less any decline in value that is other than temporary and borrowing costs capitalised in accordance with the Group's accounting policy. Borrowing costs capitalised will be amortised from the date of the opening of the relevant highways and expressways over the remaining terms of the relevant joint ventures or where shorter, the useful life of relevant highways and expressways.

Revenue recognition

Toll revenue, net of business tax, is recognised on a receipt basis. Minimum income undertakings are recognised when receivable in accordance with the joint venture agreements.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Toll highway operation right

Toll highway operation right is recognised as an asset and stated in the balance sheet at cost.

Depreciation of toll highway operation rights is provided on the basis of a sinking fund calculation where annual depreciation amounts compounded at a rate of the six per cent. per annum will be equal to the cost of the highway operation rights at the end of the relevant or respective joint venture period.

Financial Statements

Notes to the Financial Statements

For the Year ended 31 December 2000

3. Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment other than construction in progress are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is of other items of property, plant and equipment charged so as to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method, on the following bases :

Freehold land	Nil
Buildings	4% - 5%
Leasehold improvements	Over the term of the lease, or three years, whichever is shorter
Furniture, fixtures and equipment	10% - 25%
Plant and machinery	10%
Motor vehicles	12.5% - 25%

No depreciation is provided for construction in progress until such assets are ready for their intended use.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as other investments.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories and ginseng crops

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Company uses the full absorption costing method to value its ginseng crops. Included in crop costs are seed, labour, applicable overheads and supplies. Costs are allocated each year based on the total number of acres under cultivation during the year.

Those crop costs relating to the acreage harvested and sold have been charged to the income statement as cost of inventories sold.

Notes to the Financial Statements

For the Year ended 31 December 2000

3. Significant Accounting Policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation the financial statements of Group's overseas operations which are denominated in currencies other than the Hong Kong dollar and which operate in the PRC and overseas are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves. Such translation differences are recognised as income or expenses in the period in which the relevant overseas operation is disposed of.

Financial Statements

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Research and development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity.

Notes to the Financial Statements

For the Year ended 31 December 2000

3. Significant Accounting Policies (Continued)

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverse, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

Notes to the Financial Statements

For the Year ended 31 December 2000

4. Turnover

Turnover of the Group represents toll revenue, net of business tax, minimum income undertakings and amounts received and receivable for goods sold during the year.

In relation to a number of the Group's PRC joint ventures, the Group has obtained minimum income undertakings from the PRC joint venture partners in accordance with the relevant joint venture agreements. Any shortfall of the Group's share of the cash/profit of these PRC joint ventures below the minimum income undertakings will be borne by the PRC joint venture partners. The amount of minimum income shortfall recorded by the Group from its PRC joint venture partners for the year is analysed as follows:

	2000	1999
	HK\$'000	HK\$'000
Minimum income undertakings from:		
Partner of a PRC subsidiary	2,394	3,138
Partners of other joint ventures	219,894	212,995
	222,288	216,133

5. Gain on Disposal of Interest in an Infrastructure Joint Venture

The gain on disposal in the prior year represented the gain (net of tax) on disposal of the Group's 45% interest in an infrastructure joint venture, Shenzhen Meiguan Highway Co., Ltd, which operates the Shenzhen Meilin - Guanlan Expressway in Shenzhen, PRC.

Financial Statements

6. Gain Recognised on Repurchase of Secured Loans

The gain recognised in the prior year represented the difference between the carrying value and the consideration paid upon the repurchase of certain secured loans.

7. Allowance for Doubtful Minimum Income Undertakings

The amount recognised in the prior year represented an allowance for doubtful minimum income undertakings given by the PRC joint venture partners in the infrastructure joint ventures of Guangxi Hengjing Highway Development Co., Ltd. and Guangxi Lutong Highway Development Co., Ltd.

Notes to the Financial Statements

For the Year ended 31 December 2000

8. Operating Profit: Group

	2000	1999
	HK\$'000	HK\$'000
Operating profit has been arrived at after charging:		
Amortisation of toll highway operation right	4,940	4,650
Auditors' remuneration	1,429	1,000
Depreciation of property, plant and equipment		
– owned assets	10,658	1,687
– assets under finance leases	248	–
	10,906	1,687
Less: capitalised in inventories and ginseng crops	(8,530)	–
	2,376	1,687
Loss on disposal of investments in securities	–	792
Operating lease rentals in respect of rented premises	5,875	1,913
Less: capitalised in inventories and ginseng crops	(3,155)	–
	2,720	1,913
Pre-operating expenses written off	–	3,694
Research and development	1,966	–
Staff costs	56,793	33,351
Provident fund scheme contributions, net of forfeited contributions of HK\$435,000 (1999: HK\$227,000)	1,278	713
Less: capitalised in inventories and ginseng crops	(16,310)	–
Total staff costs	41,761	34,064
and after crediting:		
Exchange gain	1,120	510
Gain on disposal of property, plant and equipment	22	64

Financial Statements

Notes to the Financial Statements

For the Year ended 31 December 2000

9. Directors' and Employees' Emoluments

Directors' Emoluments

	2000 HK\$'000	1999 HK\$'000
Fees:		
Non-executive directors	710	600
Independent non-executive directors	430	300
	1,140	900
Other emoluments (executive directors):		
Salaries and other benefits	9,281	9,928
Performance related incentive payments	5,288	3,136
Retirement benefit scheme contributions	377	402
	14,946	13,466
	16,086	14,366

The emoluments were paid to the directors with the following bands :

	2000 Number of Directors	1999 Number of Directors
Nil to HK\$1,000,000	13	12
HK\$1,500,001 to HK\$2,000,000	-	-
HK\$2,000,001 to HK\$2,500,000	1	-
HK\$2,500,001 to HK\$3,000,000	-	1
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$3,500,001 to HK\$5,500,000	-	-
HK\$5,500,001 to HK\$6,000,000	-	1
HK\$6,000,001 to HK\$7,500,000	-	-
HK\$7,500,001 to HK\$8,000,000	1	-

Details of share options held by individual directors at 31 December 2000 are set out in note 27.

Financial Statements

Notes to the Financial Statements

For the Year ended 31 December 2000

9. Directors' and Employees' Emoluments (Continued)

Employees' Emoluments

During the year, the five highest paid individuals included three directors (1999: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (1999: two) highest paid individuals were as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other benefits	2,876	2,771
Performance related incentive payments	496	520
Retirement benefit scheme contributions	171	144
	3,543	3,435

The emoluments were paid to the employees with the following band :

	2000 Number of employees	1999 Number of employees
HK\$1,500,001 to HK\$2,000,000	2	2

Financial Statements

10. Share of Operating Profit of Joint Ventures

	2000 HK\$'000	1999 HK\$'000
Share of operating profit of infrastructure joint ventures before depreciation	519,694	479,830
Depreciation of toll highway operation rights	(115,434)	(109,151)
	404,260	370,679
Share of post-acquisition loss of a joint venture	(798)	-
	403,462	370,679