

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. 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 goodwill or capital reserve 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, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) 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.

(d) 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 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.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries, associated companies and jointly controlled entities acquired and is taken to reserves in the year of acquisition.

(f) Fixed assets

(i) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs, including related borrowing costs, of bringing the asset to its present working condition and location for its intended use.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

(ii) *Depreciation of toll highways and bridges*

Interests in toll highways and bridges represent their respective operating rights.

Depreciation of toll highways and bridges is provided on the basis of a sinking fund calculation where annual depreciation amounts compounded at rates ranging from 3.9 to 7 per cent per annum will be equal to the cost of the relevant toll highways and bridges at the end of the joint venture periods.

(iii) *Amortisation of leasehold land*

Amortisation of leasehold land is calculated to write off its costs over the unexpired period of the lease on a straight-line basis.

(iv) *Construction in progress*

All direct and indirect costs relating to the construction of fixed assets including interest and financing costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as the costs of the fixed assets.

(v) *Depreciation of leasehold buildings*

Leasehold buildings are depreciated over the unexpired period of the lease on a straight-line basis or over their estimated useful lives to the Group whichever is shorter. The principal annual rates used for this purpose is 4 per cent per annum.

(vi) *Depreciation of other fixed assets*

Other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives to the Group on a straight line basis. The principal annual rates used for this purpose are ranging from 10 per cent to 33 per cent per annum.

No depreciation is provided in respect of construction in progress.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(f) Fixed assets (cont'd)

(vii) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset is the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(viii) Cost of restoring and improving fixed assets

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(g) Revenue recognition

(i) Toll revenue, net of revenue tax, is recognised on a receipt basis. Guaranteed income is recognised on a received and receivable basis in accordance with the joint venture contracts and relevant agreements.

(ii) Dividend income is recognised when the right to receive payment is established except for dividends from subsidiaries which are recognised when determined by the holding company's right to receive payment is established by virtue of its control over the subsidiary.

(iii) Interest income is recognised on a time proportion basis, taken into account the principal amounts outstanding and the interest rates applicable.

(iv) Business tax refund is recognised on a receipt basis.

(h) Borrowing costs

Borrowing costs are capitalised when funds are borrowed to finance the Group's highways and bridges construction and development projects up to the commencement of economic operations of the respective toll highways and bridges. Borrowing costs capitalised will be amortised from the date of the commencing of operations of the respective highways and bridges over the remaining terms of the relevant joint ventures as in note (f)(ii) above. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(i) Other investment

Other investment held for long term is stated at cost less aggregate amortisation and any provision made to the extent that the Directors consider significant diminution in value other than temporary in nature has taken place. Amortisation is provided to write off the cost of other investment over its joint venture period on a straight-line basis. The results of other investment are accounted for on the basis of dividends received and receivable.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) 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 accounts of subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(l) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are 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.

(m) Convertible bonds

Convertible bonds are stated at the aggregate of the net proceeds from the issue less amount converted into shares. The net proceeds represent the consideration received on the issue of bonds after deduction of issuing costs. Issuing costs which comprise costs incurred directly in connection with the issue of bonds are amortised on a straight-line basis over the term of the bonds which is the earliest date at which the bonds would be redeemed.

When bonds are converted into shares, the amount recognised in respect of the shares issued upon conversion is the amount at which the liability of the bonds is stated as at the date of conversion less that related unamortised issuing costs attributable to the bonds converted.

NOTES TO THE ACCOUNTS

2 REVENUE AND TURNOVER

The Group is principally engaged in development, operation and management of toll highways and bridges in the Mainland of China ("China"). Revenues recognised during the year are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Turnover		
Toll revenue	468,266	465,596
Guaranteed income	—	1,953
	<u>468,266</u>	<u>467,549</u>
Other revenues		
Dividend income	32,916	38,145
Interest income	10,450	9,635
Business tax refund	1,460	15,658
	<u>44,826</u>	<u>63,438</u>
Total revenues	<u><u>513,092</u></u>	<u><u>530,987</u></u>

No analysis of the Group's turnover and contribution to operating profit by activity and geographic area had been prepared as they were principally derived from the operations of the Group's toll projects in China.

3 OPERATING PROFIT

	Group	
	2000 HK\$'000	1999 HK\$'000
The operating profit is stated after crediting and charging the following:		
Crediting		
Net exchange gain	<u>809</u>	<u>—</u>
Charging		
Depreciation of fixed assets	59,557	57,598
Auditors' remuneration		
– current year	916	750
– over provision for previous year	(82)	(170)
Amortisation of other investment	8,818	12,143
Net exchange loss	—	1,361
Staff costs	11,679	10,245
Retirement benefit cost	<u>781</u>	<u>729</u>

NOTES TO THE ACCOUNTS

4 FINANCE COSTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest on bank loans	46,345	58,912
Interest on convertible bonds	6,650	6,686
	<u>52,995</u>	<u>65,598</u>
Total borrowing costs incurred	<u>52,995</u>	<u>65,598</u>

5 TAXATION – GROUP

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax during the year (1999: nil).
- (b) Overseas taxation is provided on the profits of the Group's subsidiaries and an associated company in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). Under the China Tax Law, the Group's subsidiaries, associated companies and jointly controlled entity in China are entitled to an income tax holiday for two to five years from its first profit making year and a 50 per cent reduction in income tax for the following three to five years. The applicable reduced income tax rate is 15 per cent. The Group's subsidiaries, associated companies and jointly controlled entity in China are qualified for the aforesaid tax holiday during the year.
- (c) The amount of taxation charged to the consolidated profit and loss account represents:

	2000 HK\$'000	1999 HK\$'000
Overseas taxation	17,284	19,046
Deferred taxation (note 19)	2,679	10,798
	<u>19,963</u>	<u>29,844</u>
Share of taxation attributable to an associated company	4,837	5,164
Share of deferred taxation attributable to associated companies	4,548	–
	<u>29,348</u>	<u>35,008</u>
	<u>29,348</u>	<u>35,008</u>

NOTES TO THE ACCOUNTS

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$148,091,000 (1999: HK\$95,799,000).

7 DIVIDENDS

	Company	
	2000 HK\$'000	1999 HK\$'000
Interim, paid, of 3.0 cents (1999: 2.0 cents) per share	31,125	20,750
Final, proposed, of 1.0 cent (1999: 5.0 cents) per share	10,375	51,875
	<u>41,500</u>	<u>72,625</u>

8 EARNINGS PER SHARE – GROUP

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$282,513,000 (1999: HK\$267,403,000). The fully diluted earnings per share is based on adjusted profit of HK\$289,163,000 (1999: HK\$267,403,000) on the assumption that the outstanding convertible bonds had been converted at the beginning of the year and has saved interest payable thereon.

The basic earnings per share is based on the weighted average of 1,037,503,530 (1999: 1,037,503,521) shares in issue during the year. The fully diluted earnings per share is based on 1,100,796,489 (1999: 1,049,232,796) shares which is the weighted average number of shares in issue during the year plus the weighted average of 63,292,959 (1999: 11,729,275) shares deemed to be issued at no consideration if all outstanding share options and convertible bonds had been exercised.

9 RETIREMENT BENEFITS COSTS

The Group's contributions for Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There were no forfeited contributions in current year (1999: HK\$29,000).

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of the emoluments payable to directors of the Company during the year are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Fees	152	152
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	6,000	6,000
Discretionary bonuses	8,869	8,074
	<u>15,021</u>	<u>14,226</u>

Directors' fees disclosed above included HK\$114,000 (1999: HK\$114,000) paid to independent non-executive directors.

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

Emolument bands HK\$	Number of directors	
	2000	1999
Nil – 1,000,000	5*	8*
1,000,001 – 1,500,000	8	6
1,500,001 – 2,000,000	2	2

* Included three (1999: three) independent non-executive directors.

No directors waived emoluments in respect of the years ended 31st December 1999 and 2000.

- (c) Under the Company's share option scheme, a director has been granted during the year options to acquire 450,000 shares in the Company at an exercise price of HK\$0.7520 per share. The exercisable period of these options are from 7th April 2001 to the business day preceding 7th April 2006.

Apart from a director who exercised his options to subscribe for 240,000 ordinary shares (1999: nil) in Guangzhou Investment Company Limited ("GZI"), the Company's ultimate holding company, none of the directors of the Company exercised their share options during the year.

- (d) The five highest paid individuals in the years ended 31st December 1999 and 2000 are also directors of the Company and the details of their remuneration have already been disclosed above.

NOTES TO THE ACCOUNTS

11 FIXED ASSETS

(a) Group

	Toll highways and bridges HK\$'000	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost						
At 1st January 2000	2,776,034	31,313	13,032	4,263	–	2,824,642
Additions	–	–	423	15	5,464	5,902
Disposals	–	–	(90)	(282)	–	(372)
At 31st December 2000	<u>2,776,034</u>	<u>31,313</u>	<u>13,365</u>	<u>3,996</u>	<u>5,464</u>	<u>2,830,172</u>
Accumulated depreciation						
At 1st January 2000	126,036	2,491	2,244	1,391	–	132,162
Charge for the year	56,255	1,253	1,192	857	–	59,557
Disposals	–	–	(52)	(267)	–	(319)
At 31st December 2000	<u>182,291</u>	<u>3,744</u>	<u>3,384</u>	<u>1,981</u>	<u>–</u>	<u>191,400</u>
Net book value						
At 31st December 2000	<u>2,593,743</u>	<u>27,569</u>	<u>9,981</u>	<u>2,015</u>	<u>5,464</u>	<u>2,638,772</u>
At 31st December 1999	<u>2,649,998</u>	<u>28,822</u>	<u>10,788</u>	<u>2,872</u>	<u>–</u>	<u>2,692,480</u>

The Group's interests in leasehold land and buildings at their net book values are analysed as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	7,604	7,964
Leases of between 10 to 50 years	19,965	20,858
	<u>27,569</u>	<u>28,822</u>

NOTES TO THE ACCOUNTS

11 FIXED ASSETS (cont'd)

(b) Company

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost			
At 1st January 2000	1,270	1,727	2,997
Addition	19	–	19
Disposals	(22)	–	(22)
	<u>1,267</u>	<u>1,727</u>	<u>2,994</u>
At 31st December 2000	1,267	1,727	2,994
Accumulated depreciation			
At 1st January 2000	363	836	1,199
Charge for the year	148	402	550
Disposals	(13)	–	(13)
	<u>498</u>	<u>1,238</u>	<u>1,736</u>
At 31st December 2000	498	1,238	1,736
Net book value			
At 31st December 2000	<u>769</u>	<u>489</u>	<u>1,258</u>
At 31st December 1999	<u>907</u>	<u>891</u>	<u>1,798</u>

12 INVESTMENTS

		Group		Company	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Subsidiaries	(a)	–	–	3,086,535	2,983,212
Jointly controlled entity	(b)	258,800	129,296	–	–
Associated companies	(c)	1,313,934	1,336,923	–	–
Other investment	(d)	171,928	180,746	–	–
		<u>1,744,662</u>	<u>1,646,965</u>	<u>3,086,535</u>	<u>2,983,212</u>