

NOTES TO THE ACCOUNTS

12 INVESTMENTS (cont'd)

(a) Investments in subsidiaries

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	1,848,497	1,848,497
Amounts due from subsidiaries (note (i))	1,951,589	1,891,183
Amounts due to subsidiaries (note (i))	<u>(713,551)</u>	<u>(756,468)</u>
	<u>3,086,535</u>	<u>2,983,212</u>

(i) The amounts due from and to subsidiaries are unsecured, interest free and have no fixed terms of repayments.

(ii) Details of subsidiaries of the Company as at 31st December 2000 are set out on pages 56 to 59.

(b) Investment in a jointly controlled entity

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets other than goodwill	<u>258,800</u>	<u>129,296</u>

Details of the Group's interest in a jointly controlled entity are set out on page 59. None of the participating parties has unilateral control over the economic activity of the joint venture.

(c) Investments in associated companies

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets other than goodwill	<u>1,313,934</u>	<u>1,336,923</u>

Details of the Group's associated companies are set out on page 60.

NOTES TO THE ACCOUNTS

12 INVESTMENTS (cont'd)

(d) Other investment

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted investment, at cost	206,197	206,197
Less: amortisation	(34,269)	(25,451)
	171,928	180,746

As at 31st December 2000, the Group held 82 per cent registered capital in Zhejiang Dongyang Shunfu Road Construct Co., Ltd. ("Zhejiang Dongyang"), a co-operative joint venture established in China and is engaged in the development and management of part of Provincial Highway 37 and part of Provincial Highway 39 in Dongyang of Zhejiang Province, China. Pursuant to the joint venture agreement, the Group is entitled to a fixed annual investment income throughout the joint venture period of 30 years. At the end of the joint venture period, all remaining rights and interests in the joint venture will be surrendered to the other joint venture partner. The Directors consider that the Group has not participated in the management of this joint venture and Zhejiang Dongyang is treated as an other investment.

In October 2000, the Group entered into an agreement with the joint venture partner in Zhejiang Dongyang to sell its 49 per cent interest in it to this joint venture partner. The transaction is expected to be completed in June 2001.

13 BANK BALANCES AND CASH

Included in the bank balances and cash of the Group and the Company are deposits placed with banks in China of approximately HK\$349,186,000 (1999: HK\$362,250,000) and HK\$66,026,000 (1999: HK\$125,029,000) respectively.

14 SHORT-TERM BANK LOANS

At 31st December 2000, short-term bank loans of HK\$39,000,000 (1999: HK\$234,000,000) of the Group and the Company is secured by the Group's interest in a toll road project in China. The remaining short-term bank loans of HK\$355,140,000 (1999: HK\$323,832,000) of the Group is unsecured.

NOTES TO THE ACCOUNTS

15 SHARE CAPITAL

	Company	
	2000 HK\$'000	1999 HK\$'000
Authorised		
2,000,000,000 ordinary shares of HK\$0.1 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid		
1,037,530,530 ordinary shares of HK\$0.1 each	<u>103,750</u>	<u>103,750</u>

Pursuant to a share option scheme approved at a special general meeting of the Company on 3rd January 1998, the Directors may, at their discretion, grant directors and employees of the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. Particulars and movements of the share options during the year are as follows:

Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2000	Options granted during the year	*Options cancelled during the year	Options exercised during the year	Balance outstanding as at 31st December 2000
6th August 1997	2.4080	34,350,000	–	(10,850,000)	–	23,500,000
4th September 1998	0.7632	23,700,000	–	–	–	23,700,000
22nd December 1999	0.9984	37,340,000	–	–	–	37,340,000
7th April 2000	0.7520	–	17,220,000	–	–	17,220,000
		<u>95,390,000</u>	<u>17,220,000</u>	<u>(10,850,000)</u>	<u>–</u>	<u>101,760,000</u>

* Options are cancelled during the year by reason of cessation of services of option holders.

The aforesaid share options are exercisable at any time within the period from the first anniversary date of the grant to the business day preceding the sixth anniversary date of the grant, of which a maximum of 30 per cent, 60 per cent and 100 per cent thereof are exercisable from the first, second and third anniversaries of the date of grant respectively. Exercise in full of all outstanding share options would result in the issue of 101,760,000 ordinary shares with proceeds of HK\$124,906,000.

16 RESERVES

Group

	Share premium HK\$'000	Reserve arising from consolidation (note (a)) HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserves, enterprise expansion and general reserve funds (note (b)) HK\$'000	Retained earnings (note (c)) HK\$'000	Total HK\$'000
At 1st January 1999	847,551	1,209,911	6,272	8,556	307,752	2,380,042
Goodwill arising from acquisition of subsidiaries	-	(20,963)	-	-	-	(20,963)
Exchange differences	-	-	621	-	-	621
Profit for the year	-	-	-	-	267,403	267,403
Dividends (note 7)	-	-	-	-	(72,625)	(72,625)
Transfer to statutory reserves	-	-	-	10,326	(10,326)	-
At 31st December 1999	<u>847,551</u>	<u>1,188,948</u>	<u>6,893</u>	<u>18,882</u>	<u>492,204</u>	<u>2,554,478</u>
Opening reserve At 1st January 2000	847,551	1,188,948	6,893	18,882	492,204	2,554,478
Profit for the year	-	-	-	-	282,513	282,513
Dividends (note 7)	-	-	-	-	(41,500)	(41,500)
At 31st December 2000	<u>847,551</u>	<u>1,188,948</u>	<u>6,893</u>	<u>18,882</u>	<u>733,217</u>	<u>2,795,491</u>

(a) Reserve arising from consolidation represents the difference between the nominal value of the shares/registered capital of the subsidiaries acquired and the nominal value of the shares issued by Kiu Fung Limited as consideration therefor.

(b) Enterprise expansion and general reserve funds represent funds set up by the operating subsidiaries and associated companies in China. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval, the general reserve funds 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\$1,536,000 (1999: HK\$1,536,000) attributable to an associated company.

(c) Included in the Group's retained profits is HK\$392,469,000 (1999: HK\$255,225,000) attributable to associated companies.

NOTES TO THE ACCOUNTS

16 RESERVES (cont'd)

Company

	Share premium HK\$'000	Contributed surplus (note (a)) HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 1999	847,551	1,773,497	17,296	2,638,344
Profit for the year	–	–	95,799	95,799
Dividends (note 7)	–	–	(72,625)	(72,625)
	<u>847,551</u>	<u>1,773,497</u>	<u>40,470</u>	<u>2,661,518</u>
At 31st December 1999	<u>847,551</u>	<u>1,773,497</u>	<u>40,470</u>	<u>2,661,518</u>
Opening reserve				
At 1st January 2000	847,551	1,773,497	40,470	2,661,518
Profit for the year	–	–	148,091	148,091
Dividends (note 7)	–	–	(41,500)	(41,500)
	<u>847,551</u>	<u>1,773,497</u>	<u>147,061</u>	<u>2,768,109</u>
At 31st December 2000	<u>847,551</u>	<u>1,773,497</u>	<u>147,061</u>	<u>2,768,109</u>

- (a) The contributed surplus represents the difference between the nominal value of the shares issued by the Company in exchange for all the issued ordinary shares of Kiu Fung Limited and the value of net assets of the underlying subsidiaries acquired by the Company as at 3rd January 1997. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.
- (b) Distributable reserves of the Company at 31st December 2000 amounted to HK\$1,920,558,000 (1999: HK\$1,813,967,000).

NOTES TO THE ACCOUNTS

17 LONG-TERM LIABILITIES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank loans (note (a))				
Secured	179,400	234,000	179,400	234,000
Unsecured	420,560	500,935	–	–
Convertible bonds (note 18)	–	95,000	–	95,000
Loans from minority shareholders (note (b))	41,505	45,809	–	–
Less: current portion of long-term liabilities	<u>(394,140)</u>	<u>(557,832)</u>	<u>(39,000)</u>	<u>(234,000)</u>
	<u><u>247,325</u></u>	<u><u>317,912</u></u>	<u><u>140,400</u></u>	<u><u>95,000</u></u>

- (a) At 31st December 2000, the Group's and Company's bank loans were wholly repayable within five years.
- (b) The loans from minority shareholders are unsecured, interest free and have no fixed terms of repayment.
- (c) At 31st December 2000, the Group's bank loans were repayable as follows:

	Bank loan (secured)		Bank loans (unsecured)	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Within one year	39,000	234,000	355,140	323,832
In the second year	50,700	–	65,420	64,953
In the third to fifth year	89,700	–	–	112,150
	<u>179,400</u>	<u>234,000</u>	<u>420,560</u>	<u>500,935</u>

18 CONVERTIBLE BONDS

The Company had issued convertible bonds ("the Bonds") amounting to HK\$95,000,000 on 14th December 1998 and remained outstanding as at 31st December 2000. The Bonds bear interest at a rate of 7 per cent per annum payable semi-annually in arrears in June and December of each year. Each bond will, at the option of the holder, be convertible on or before the business day immediately preceding 14th December 2001 into fully-paid ordinary shares of the Company of HK\$0.1 each at a price of HK\$2.0424 per share (subject to adjustment). Shares issued on conversion will rank pari passu in all respects with shares in issue at the time of conversion.

Unless previously repaid, redeemed, purchased or converted, the Bonds will be repaid on 14th December 2001 at their principal amount with accrued interest up to 13th December 2001. Each holder of the Bonds are entitled to require the Company to redeem all or part of their Bonds at their principal amount together with accrued interest on 14th December 1999 and 2000, the first and second anniversaries of the date of issue. During the year, no Bonds were repaid, redeemed, purchased or converted.

NOTES TO THE ACCOUNTS

19 DEFERRED TAXATION

	Group	
	2000	1999
	HK\$'000	HK\$'000
At 1st January	10,798	–
Transfer from profit and loss account (note 5(c))	2,679	10,798
	<u>13,477</u>	<u>10,798</u>
At 31st December	<u>13,477</u>	<u>10,798</u>
Provided for in respect of accelerated timing difference	<u>13,477</u>	<u>10,798</u>

20 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2000	1999
	HK\$'000	HK\$'000
Operating profit	325,006	339,099
Interest income	(10,450)	(9,635)
Dividend income	(32,916)	(38,145)
Amortisation of other investment	8,818	12,143
Depreciation of fixed assets	59,557	57,598
Loss on disposal of fixed assets	9	–
(Increase)/decrease in other receivables, deposits and prepayments	(6,436)	44,705
Decrease in other payables and accrued charges including due to minority shareholders and holding company	(5,951)	(29,177)
	<u>337,637</u>	<u>376,588</u>

NOTES TO THE ACCOUNTS

20 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of changes in financing during the year

	Convertible bonds		Bank loans		Minority interests		Loans from minority shareholders	
	2000	1999	2000	1999	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	95,000	95,000	734,935	898,374	1,099,841	1,060,913	45,809	-
Purchase of subsidiaries	-	-	-	-	-	2,073	-	47,103
Minority interests in share of profits	-	-	-	-	106,779	108,896	-	-
Capital contributed by minority shareholders	-	-	-	-	5,364	-	-	-
Dividends paid to minority shareholders	-	-	-	-	(75,958)	(50,922)	-	-
Transfer from minority interests	-	-	-	-	(15,518)	(21,119)	15,518	21,119
Net cash outflow from financing	-	-	(134,975)	(163,439)	-	-	(19,822)	(22,413)
At 31st December	<u>95,000</u>	<u>95,000</u>	<u>599,960</u>	<u>734,935</u>	<u>1,120,508</u>	<u>1,099,841</u>	<u>41,505</u>	<u>45,809</u>

NOTES TO THE ACCOUNTS

21. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) At 31st December 2000, the Group had the following financial commitments and guarantee in respect of:

	2000 HK\$'000	1999 HK\$'000
Capital and shareholder's loan injection to a jointly controlled entity approximately	76,261	205,000
Guarantee to a bank in respect of bank loan granted to a jointly controlled entity	953,271	953,271
Capital injection to an associated company	<u>12,336</u>	<u>–</u>

- (b) At 31st December 2000 and 1999, the Group has pledged the income 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 Enterprises (Holdings) Ltd ("Yue Xiu"), a substantial shareholder of the Company, has issued an indemnity to the Group under which any shortfall 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.

- (c) On 8th December 2000, the Group entered into an agreement with a subsidiary of Yue Xiu to acquire the remaining 49 per cent interest in Xian-Lintong Expressway at a total consideration of HK\$173,000,000. The acquisition was completed on 15th February 2001.
- (d) At 31st December 2000, the Group had the following capital commitments:

	2000 HK\$'000	1999 HK\$'000
(i) Share of capital commitments of a jointly controlled entity (mentioned in (a)) in respect of construction cost of a toll road project:		
Contracted but not provided for	1,028,116	1,286,916
Authorised but not contracted for	–	–
	<u>1,028,116</u>	<u>1,286,916</u>

- (ii) A subsidiary of the Group entered into a contract for a construction project of a toll road amount to Rmb125,530,000 (HK\$117,318,000). The Group committed to inject Rmb69,042,000 (HK\$64,525,000) into the project and the remaining will be borne by a minority shareholder.

NOTES TO THE ACCOUNTS

22 RELATED PARTY TRANSACTIONS

In addition to those disclosed in note 21(a), (b) and (c), the Group had the following material transactions with its related parties during the year:

	2000 HK\$'000	1999 HK\$'000
Management fee paid to the ultimate holding company (note (a))	1,000	1,000
Fixed cost toll highways management fee paid and payable to a minority shareholder (note (b))	<u>60,813</u>	<u>59,336</u>

- (a) Pursuant to a services agreement entered into on 6th December 1996, inter alia, between GZI, the ultimate holding company and Kiu Fung Limited, a subsidiary of the Company, the GZI group provides certain services to the Group in connection with the Group's day-to-day operations, in return for a fee based on the actual cost of providing the services plus 10 per cent.
- (b) Fixed cost services agreements were entered into between Guangzhou Highways Development Company ("GHDC"), a minority shareholder, 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 service fee at the fixed rate of 18 per cent of the gross aggregate toll revenue of each of the toll highways per annum.

The directors of the Company are of the opinion that the above transactions were entered into in the normal course of business.

23 ULTIMATE HOLDING COMPANY

The Directors regard Guangzhou Investment Company Limited, a company incorporated in Hong Kong, as being the ultimate holding company.

24 APPROVAL OF ACCOUNT

The accounts were approved by the board on 6th April 2001.