

## Notes to the Accounts

### 1 Basis of preparation

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

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
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

### 2 Principal accounting policies

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

#### (a) 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 has the power to govern their financial and operating policies so that the Group obtains benefits from these activities. 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 for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## Notes to the Accounts

### 2 Principal accounting policies (cont'd)

#### (b) 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.

#### (c) 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.

#### (d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share 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 occurring on or after 1st January 2001 is amortised on the basis of a sinking fund calculation over the period for which the Group is granted the rights to operate the highways or bridges. For all other acquisitions, goodwill is generally 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.

## Notes to the Accounts

### 2 Principal accounting policies (cont'd)

#### (d) Goodwill (cont'd)

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 "Business combinations", that goodwill previously written off against reserves has not been restated. However where an impairment loss has arisen since the date of acquisition on goodwill previously written off against reserves, and previously there was not a policy to recognise such impairment losses, this change in accounting policy has been applied retrospectively and the impairment losses have been recognised as a prior year adjustment to opening retained earnings in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies". The comparative accounts for 2000 have been restated to conform to the changed policy. As detailed in Note 21, the opening retained earnings for 2000 have been reduced by HK\$427,306,000 which is the amount of the adjustment in respect of impairment of goodwill relating to periods prior to 2000. This change has resulted in a reduction in profit by HK\$157,243,000 for impairment of goodwill for the year ended 31st December 2000.

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

#### (e) Interests in toll highways and bridges

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

Amortisation of interests in toll highways and bridges is provided on the basis of a sinking fund calculation where annual amortisation amounts compounded at predetermined rates will be equal to the cost of the relevant toll highways and bridges at the end of the joint venture periods.

The sinking fund rates have been reviewed during the year with reference to the revised traffic flow projections of the respective toll highways and bridges. As a result, the rates have been changed to 0.8 - 4.8 per cent (2000: 3.9 - 7.0 per cent) per annum. The effect on the financial statements for the year ended 31st December 2001 is to increase the amortisation charge for the year by HK\$21,056,000.

## Notes to the Accounts

### 2 Principal accounting policies (cont'd)

#### (f) Fixed assets

##### (i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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.

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.

##### (ii) 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.

##### (iii) 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 rate used for this purpose is 4 per cent per annum.

##### (iv) 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.

##### (v) 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.

No depreciation is provided in respect of construction in progress.

##### (vi) 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 proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

## Notes to the Accounts

### 2 Principal accounting policies (cont'd)

#### (f) Fixed assets (cont'd)

- (vii) 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.
- (ii) Dividend income is recognised when the right to receive payment is established.
- (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 construction of highways and bridges up to the commencement of economic operations of the toll highways and bridges.

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

#### (i) Other investments

Other investments held for long term are stated at cost less accumulated impairment losses. The results of other investments are accounted for on the basis of dividends received and receivable.

#### (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.

## Notes to the Accounts

### 2 Principal accounting policies (cont'd)

#### (k) Contingent liabilities

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.

#### (l) Translation of foreign currencies

Transactions in foreign currency 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 sheet of subsidiaries, a jointly controlled entity 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.

#### (m) 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.

#### (n) 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 Principal accounting policies (cont'd)

#### (o) 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.

#### (p) Dividends

In accordance with SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 21, this change has resulted in an increase in retained earnings at 1st January 2001 by HK\$10,375,000 (1st January 2000: HK\$51,875,000) which is the reversal of the provision for the 2000 (1999) proposed final dividend previously recorded as a liability as at 31st December 2000 (31st December 1999) although not approved until after balance sheet date.

## Notes to the Accounts

### 3 Turnover and revenues

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	
	2001	2000
	HK\$'000	HK\$'000
Turnover		
Toll revenue	<b>418,616</b>	468,266
Other revenues		
Dividend income	<b>20,462</b>	32,916
Interest income	<b>6,397</b>	10,450
Business tax refund	<b>201</b>	1,460
	<b>27,060</b>	44,826
Total revenues	<b>445,676</b>	513,092

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

Business segment information is not required as the revenue, results and assets of the toll projects represent more than 90 per cent of the total revenue, results and assets of the Group respectively.

### 4 Provision for impairment of goodwill

As at 31st December 2001, the Group performed an assessment of the fair value of its goodwill that had previously been eliminated against reserves in light of the revised traffic flow projections of the respective toll highways and bridges. The assessment was based on value in use of the assets as determined at the cash generating unit (the respective toll highways and bridges) based on the present value of estimated future cash flows discounted at rates ranging from 9.0 per cent to 25.5 per cent. As a result, it was determined that a diminution in value had occurred, and in accordance with the transitional provisions of SSAP 30 "Business combinations", the Group has retrospectively restated the profit for 2000 to conform to the changed policy. The opening retained earnings for 2000 have been reduced by HK\$427,306,000 which is the amount of the adjustment in respect of impairment of goodwill relating to periods prior to 2000. This change has resulted in a reduction in profit by HK\$157,243,000 for the year ended 31st December 2000 (note 2(d) and 21).

## Notes to the Accounts

### 5 Operating profit

	Group	
	2001 HK\$'000	2000 HK\$'000
The operating profit is stated after crediting and charging the following:		
<u>Crediting</u>		
Gain on disposal of a subsidiary (note 25(b))	14,591	—
Net exchange gain	3,001	809
	<b>17,592</b>	<b>809</b>
<u>Charging</u>		
Depreciation of fixed assets	3,219	3,302
Amortisation of interests in toll highways and bridges	79,663	56,255
Amortisation of goodwill	1,751	—
Amortisation of other investment	4,162	8,818
Auditors' remuneration		
- current year	900	916
- over provision in previous year	(80)	(82)
Loss on disposal of other investment	2,589	—
Staff costs	10,272	11,679
Retirement benefit costs	745	781
	<b>107,321</b>	<b>80,835</b>

### 6 Finance costs

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans	46,894	46,345
Interest on convertible bonds	6,322	6,650
Interest on amount due to minority shareholder of a jointly controlled entity	1,480	—
	<b>54,696</b>	<b>52,995</b>
Total borrowing costs incurred		
Less: amount capitalised in investment in a jointly controlled entity	(5,548)	—
	<b>49,148</b>	<b>52,995</b>

The interest rates applied to funds borrowed generally and used for construction of toll highway by a jointly controlled entity range from LIBOR+1 per cent to LIBOR+2.25 per cent per annum.

## Notes to the Accounts

### 7 Taxation

- (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 (2000: 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 a jointly controlled entity in China are entitled to an income tax holiday for two to five years from its first profit making year following by a 50 per cent reduction in income tax for the next three to five years. The applicable reduced income tax rate is 15 to 24 per cent. The Group's subsidiaries, associated companies and a 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:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Overseas taxation	<b>21,642</b>	17,284
Deferred taxation (note 24)	<b>672</b>	2,679
	<b>22,314</b>	19,963
Share of taxation attributable to an associated company	<b>3,618</b>	4,837
Share of deferred taxation attributable to associated companies	<b>3,895</b>	4,548
	<b>29,827</b>	29,348

### 8 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$138,526,000 (2000 as restated: loss of HK\$9,152,000).

## Notes to the Accounts

### 9 Dividends

	Company	
	2001 HK\$'000	2000 HK\$'000
Interim, paid, of 3.0 cents (2000: 3.0 cents) per share	31,408	31,125
Final, proposed, of 2.5 cents (2000: 1.0 cent) per share (note (b))	26,115	10,375
	<u>57,523</u>	<u>41,500</u>

- (a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st December 1999 and 2000 were HK\$51,875,000 and HK\$10,375,000 respectively. Under the Group's new accounting policy as described in note 2(p), these have been written back against reserves as at 1st January 2000 and 2001 as set out in note 21 and are now charged in the period in which they were proposed.
- (b) At a meeting held on 16th April 2002 the directors declared a distribution out of contributed surplus in the form of final dividend of 2.5 cents per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of contributed surplus for the year ending 31st December 2002.

### 10 Earnings per share

The calculation of basic and fully diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$220,304,000 (2000 as restated: HK\$125,270,000).

The basic earnings per share is based on the weighted average number of 1,041,941,262 (2000: 1,037,503,530) shares in issue during the year. The fully diluted earnings per share is based on 1,072,246,222 (2000 as restated: 1,054,282,584) shares which is the weighted average number of shares in issue during the year plus the weighted average of 30,304,960 (2000 as restated: 16,779,054) shares deemed to be issued at no consideration if all outstanding share options had been exercised.

### 11 Retirement benefit costs

The Group's contributions to the retirement scheme for Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions in current year amounted to HK\$10,000 (2000: nil).

## Notes to the Accounts

### 12 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:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Fees	<b>152</b>	152
Other emoluments:		
Basic salaries, housing allowances, share options, other allowances and benefits in kind	<b>8,758</b>	6,000
Discretionary bonuses	<b>5,095</b>	8,869
	<b><u>14,005</u></b>	<u>15,021</u>

Directors' fees disclosed above included HK\$114,000 (2000: HK\$114,000) paid to independent non-executive directors.

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

<b>Emolument bands</b>	<b>Number of directors</b>	
	<b>2001</b>	2000
HK\$		
Nil - 1,000,000	<b>13*</b>	5*
1,000,001 - 1,500,000	<b>5</b>	8
1,500,001 - 2,000,000	<b>2</b>	2

\* Included three (2000: three) independent non-executive directors.

No directors waived emoluments in respect of the years ended 31st December 2000 and 2001.

- (c) Apart from certain directors who exercised their options to subscribe for 2,360,000 ordinary shares (2000: nil) in the Company and 1,470,000 (2000: 240,000) ordinary shares 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 or, where appropriate, since their appointment as directors of the Company.

## Notes to the Accounts

### 12 Directors' and senior management's emoluments (cont'd)

- (d) The five individuals whose emoluments were the highest in the Group for the year include four (2000: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining (2000: nil) individual during the year, which fell within the HK\$1,000,001 - HK\$1,500,000 emolument band, are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	<b>970</b>	—
Discretionary bonuses	<b>157</b>	—
	<b>1,127</b>	—
	<b>1,127</b>	—

### 13 Goodwill

		HK\$'000
At 1st January 2001		—
Acquisition of the remaining interest in a subsidiary		51,525
Amortisation charge		(1,751)
		49,774
At 31st December 2001		49,774
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Cost	<b>51,525</b>	—
Accumulated amortisation	<b>(1,751)</b>	—
	<b>49,774</b>	—
Net book amount	<b>49,774</b>	—

On 15th February 2001, the Group had completed the acquisition of the remaining 49 per cent interest in Xian Expressway at a cash consideration of HK\$173 million. Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the subsidiary acquired at the date of acquisition.

## Notes to the Accounts

### 14 Interests in toll highways and bridges

	HK\$'000	
At 1st January 2001, as previously reported	—	
Effect of adoption of SSAP 29	2,593,743	
	<u>2,593,743</u>	
At 1st January 2001, as restated	2,593,743	
Disposal of interests in toll highways and bridges	(241,399)	
Amortisation charge	(79,663)	
	<u>2,272,681</u>	
At 31st December 2001	<u><u>2,272,681</u></u>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Cost	<b>2,503,527</b>	2,776,034
Accumulated amortisation	<b>(230,846)</b>	(182,291)
	<u>2,272,681</u>	<u>2,593,743</u>
Net book amount	<u><u>2,272,681</u></u>	<u><u>2,593,743</u></u>

Previously, the Group classified interests in toll highways and bridges under fixed assets. Effective from 1st January 2001, the Group has reclassified the interests in toll highways and bridges with a net book value of HK\$2,593,743,000 as intangible assets as a result of adoption of SSAP 29 "Intangible assets".

## Notes to the Accounts

### 15 Fixed assets

#### (a) Group

	Interests in 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 2001, as previously reported	2,776,034	31,313	13,365	3,996	5,464	2,830,172
Effect of adoption of SSAP 29 (note 14)	(2,776,034)	—	—	—	—	(2,776,034)
At 1st January 2001, as restated	—	31,313	13,365	3,996	5,464	54,138
Additions	—	4	210	651	29,443	30,308
Disposals	—	—	(5,285)	(1,014)	(34,907)	(41,206)
At 31st December 2001	—	31,317	8,290	3,633	—	43,240
Accumulated depreciation						
At 1st January 2001, as previously reported	182,291	3,744	3,384	1,981	—	191,400
Effect of adoption of SSAP 29 (note 14)	(182,291)	—	—	—	—	(182,291)
At 1st January 2001, as restated	—	3,744	3,384	1,981	—	9,109
Charge for the year	—	1,253	1,188	778	—	3,219
Disposals	—	—	(728)	(223)	—	(951)
At 31st December 2001	—	4,997	3,844	2,536	—	11,377
Net book value						
At 31st December 2001	—	26,320	4,446	1,097	—	31,863
At 31st December 2000, as restated	—	27,569	9,981	2,015	5,464	45,029

## Notes to the Accounts

### 15 Fixed assets (cont'd)

#### (a) Group (cont'd)

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

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	<b>7,246</b>	7,604
Leases of between 10 to 50 years	<b>19,074</b>	19,965
	<b>26,320</b>	27,569

#### (b) Company

	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st January 2001	1,267	1,727	2,994
Additions	19	—	19
At 31st December 2001	1,286	1,727	3,013
Accumulated depreciation			
At 1st January 2001	498	1,238	1,736
Charge for the year	155	227	382
At 31st December 2001	653	1,465	2,118
Net book value			
At 31st December 2001	633	262	895
At 31st December 2000	769	489	1,258

## Notes to the Accounts

### 16 Investments

#### (a) Investments in subsidiaries

	<b>Company</b>	
	<b>2001</b>	As restated 2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>1,848,497</b>	1,848,497
Provision for impairment losses (note 2(d))	<b>(584,549)</b>	(584,549)
	<b>1,263,948</b>	1,263,948
Amounts due from subsidiaries (note (i))	<b>2,038,221</b>	1,951,589
Amounts due to subsidiaries (note (i))	<b>(1,027,097)</b>	(713,551)
	<b>2,275,072</b>	2,501,986

- (i) The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayments.
- (ii) Details of subsidiaries of the Company as at 31st December 2001 are set out on pages 71 to 74.

## Notes to the Accounts

### 16 Investments (cont'd)

#### (b) Investment in a jointly controlled entity

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets other than goodwill	<u>436,592</u>	<u>258,800</u>

Details of the Group's interest in a jointly controlled entity are set out on page 75. None of the participating parties has unilateral control over the economic activity of the joint venture. As at 31st December 2001, the expressway of the jointly controlled entity has not yet commenced operation.

The results of the jointly controlled entity for the year ended 31st December 2001 are prepared in accordance with the accounting regulations of the People's Republic of China. Adjustments have been made to the accounts as considered appropriate by the directors in order to comply with accounting principles generally accepted in Hong Kong. Extract of the adjusted financial information of Guangzhou Northern Second Ring Expressway Co., Limited for the year ended 31st December 2001 is as follows:

	2001	2000
	HK\$'000	HK\$'000
Operating results		
Turnover	<u>—</u>	<u>—</u>
Profit before taxation	<u>—</u>	<u>—</u>
Financial position		
Long-term assets	1,880,339	1,216,467
Current assets	373,040	306,907
Current liabilities	(10,389)	(9)
Long-term liabilities	<u>(1,401,869)</u>	<u>(1,018,701)</u>
Shareholders' funds	<u>841,121</u>	<u>504,664</u>

#### (c) Investments in associated companies

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets other than goodwill	<u>1,294,830</u>	<u>1,313,934</u>

Details of the Group's associated companies are set out on page 75.

## Notes to the Accounts

### 16 Investments (cont'd)

#### (c) Investments in associated companies (cont'd)

The results of the associated companies for the year ended 31st December 2001 are prepared in accordance with the accounting regulations of the People's Republic of China. Adjustments have been made to the accounts as considered appropriate by the directors in order to comply with accounting principles generally accepted in Hong Kong. Extract of the adjusted financial information of the major associated companies, namely Guangdong Humen Bridge Co., Ltd. and Guangdong Qinglian Highway Development Co., Ltd. for the year ended 31st December 2001 is as follows:

	<b>Guangdong Humen Bridge Co., Ltd.</b>		<b>Guangdong Qinglian Highway Development Co., Ltd.</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Operating results				
Turnover	<b>322,247</b>	295,456	<b>253,711</b>	326,729
Profit before taxation	<b>241,607</b>	224,389	<b>41,778</b>	119,135
Financial position				
Long-term assets	<b>2,702,846</b>	2,766,074	<b>3,159,151</b>	3,222,343
Current assets	<b>35,067</b>	75,283	<b>226,350</b>	222,658
Current liabilities	<b>(29,988)</b>	(30,406)	<b>(239,843)</b>	(229,489)
Long-term liabilities	<b>(162,077)</b>	(156,702)	<b>(1,682,151)</b>	(1,785,514)
Shareholders' funds	<b>2,545,848</b>	2,654,249	<b>1,463,507</b>	1,429,998

#### (d) Other investments

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted investments, at cost	<b>153,114</b>	206,197
Accumulated amortisation	—	(34,269)
	<b>153,114</b>	171,928

## Notes to the Accounts

### 17 Bank balances and cash

Included in the bank balances and cash of the Group and the Company are deposits denominated in Renminbi and placed with banks in China of approximately HK\$493,301,000 (2000: HK\$349,186,000) and HK\$72,783,000 (2000: HK\$66,026,000) respectively. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

### 18 Amounts due to minority shareholders

Except for an amount of HK\$92,523,000 (2000: nil) which bears interest at 4 per cent per annum and repayable within one year, the remaining balances are unsecured, interest-free and have no fixed repayment terms.

### 19 Short-term bank loans

At 31st December 2001, the short-term bank loans of HK\$233,645,000 (2000: HK\$355,140,000) of the Group are unsecured.

## Notes to the Accounts

### 20 Share capital

	Company	
	2001 HK\$'000	2000 HK\$'000
Authorised		
2,000,000,000 ordinary shares of HK\$0.1 each	<b>200,000</b>	200,000
Issued and fully paid		
1,044,581,530 (2000: 1,037,503,530) ordinary shares of HK\$0.1 each	<b>104,458</b>	103,750

During the year, 7,078,000 ordinary shares of HK\$0.1 each were issued upon exercise of share options.

Pursuant to a share option scheme approved at a special general meeting of the Company on 3rd January 1997, 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 2001	Options exercised during the year	Balance outstanding as at 31st December 2001
6th August 1997	2.4080	23,500,000	—	23,500,000
4th September 1998	0.7632	23,700,000	(198,000)	23,502,000
22nd December 1999	0.9984	37,340,000	(3,448,000)	33,892,000
7th April 2000	0.7520	17,220,000	(3,432,000)	13,788,000
		101,760,000	(7,078,000)	94,682,000

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 94,682,000 ordinary shares with proceeds of HK\$118,731,000.

## Notes to the Accounts

### 21 Reserves

#### Group

	Share premium HK\$'000	Reserve arising from consolidation (note (a)) HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserves (note (b)) HK\$'000	Retained earnings (note (c)) HK\$'000	Total HK\$'000
At 1st January 2000, as previously reported	847,551	1,188,948	6,893	18,882	492,204	2,554,478
Effect of adoption of SSAP 9 (revised)	—	—	—	—	51,875	51,875
Effect of adoption of SSAP 30 (note 2(d))	—	427,306	—	—	(427,306)	—
At 1st January 2000, as restated	<u>847,551</u>	<u>1,616,254</u>	<u>6,893</u>	<u>18,882</u>	<u>116,773</u>	<u>2,606,353</u>
Profit for the year, as restated	—	—	—	—	125,270	125,270
Effect of adoption of SSAP 30 (note 2(d))	—	157,243	—	—	—	157,243
1999 Final dividend	—	—	—	—	(51,875)	(51,875)
2000 Interim dividend (note 9)	—	—	—	—	(31,125)	(31,125)
At 31st December 2000, as restated	<u>847,551</u>	<u>1,773,497</u>	<u>6,893</u>	<u>18,882</u>	<u>159,043</u>	<u>2,805,866</u>
Representing:						
Retained earnings					148,668	
2000 Final dividend proposed					10,375	
					<u>159,043</u>	

## Notes to the Accounts

### 21 Reserves (cont'd)

#### Group (cont'd)

	Share premium HK\$'000	Reserve arising from consolidation (note (a)) HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserves (note (b)) HK\$'000	Retained earnings (note (c)) HK\$'000	Total HK\$'000
At 1st January 2001, as previously reported	847,551	1,188,948	6,893	18,882	733,217	2,795,491
Effect of adoption of SSAP 9 (revised)	—	—	—	—	10,375	10,375
Effect of adoption of SSAP 30 (note 2(d))	—	584,549	—	—	(584,549)	—
	<u>847,551</u>	<u>1,773,497</u>	<u>6,893</u>	<u>18,882</u>	<u>159,043</u>	<u>2,805,866</u>
At 1st January 2001, as restated	847,551	1,773,497	6,893	18,882	159,043	2,805,866
Premium on issue of shares	5,467	—	—	—	—	5,467
Reserve realised upon disposal of a subsidiary	—	(68,000)	—	—	—	(68,000)
Exchange differences	—	—	(1,983)	—	—	(1,983)
Profit for the year	—	—	—	—	220,304	220,304
2000 Final dividend (note 9)	—	—	—	—	(10,375)	(10,375)
2001 Interim dividend (note 9)	—	—	—	—	(31,408)	(31,408)
Transfer to statutory reserves	—	—	—	6,216	(6,216)	—
	<u>853,018</u>	<u>1,705,497</u>	<u>4,910</u>	<u>25,098</u>	<u>331,348</u>	<u>2,919,871</u>
At 31st December 2001	853,018	1,705,497	4,910	25,098	331,348	2,919,871
Representing:						
Retained earnings					305,233	
2001 Final dividend proposed					26,115	
					<u>331,348</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) Statutory reserves represent enterprise expansion and general reserve 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 (2000: HK\$1,536,000) attributable to an associated company.
- (c) Included in the Group's retained profits is HK\$504,700,000 (2000: HK\$392,469,000) attributable to associated companies.

## Notes to the Accounts

### 21 Reserves (cont'd)

#### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Total HK\$'000
At 1st January 2000,				
as previously reported	847,551	1,773,497	40,470	2,661,518
Effect of adoption of SSAP 9 (revised)	—	—	51,875	51,875
Effect of adoption of SSAP 30	—	—	(427,306)	(427,306)
	847,551	1,773,497	(334,961)	2,286,087
At 1st January 2000, as restated	847,551	1,773,497	(334,961)	2,286,087
Loss for the year, as restated	—	—	(9,152)	(9,152)
1999 Final dividend	—	—	(51,875)	(51,875)
2000 Interim dividend (note 9)	—	—	(31,125)	(31,125)
	847,551	1,773,497	(427,113)	2,193,935
At 31st December 2000, as restated	847,551	1,773,497	(427,113)	2,193,935
Representing:				
Accumulated losses			(437,488)	
2000 Final dividend proposed			10,375	
			(427,113)	
			(427,113)	
At 1st January 2001,				
as previously reported	847,551	1,773,497	147,061	2,768,109
Effect of adoption of SSAP 9 (revised)	—	—	10,375	10,375
Effect of adoption of SSAP 30	—	—	(584,549)	(584,549)
	847,551	1,773,497	(427,113)	2,193,935
At 1st January 2001, as restated	847,551	1,773,497	(427,113)	2,193,935
Premium on issue of shares	5,467	—	—	5,467
Profit for the year	—	—	138,526	138,526
2000 Final dividend (note 9)	—	—	(10,375)	(10,375)
2001 Interim dividend (note 9)	—	—	(31,408)	(31,408)
	853,018	1,773,497	(330,370)	2,296,145
At 31st December 2001	853,018	1,773,497	(330,370)	2,296,145
Representing:				
Contributed surplus		1,747,382		
2001 Final dividend proposed		26,115		
		1,773,497		
		1,773,497		

## Notes to the Accounts

### 21 Reserves (cont'd)

#### Company (cont'd)

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.

### 22 Long-term liabilities

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans				
Secured (note (a))	<b>299,776</b>	179,400	<b>140,400</b>	179,400
Unsecured	<b>355,140</b>	65,420	—	—
Loans from minority shareholders (note (b))	<b>39,380</b>	41,505	—	—
Less: current portion of long-term liabilities	<b>(74,075)</b>	(39,000)	<b>(50,700)</b>	(39,000)
	<b>620,221</b>	247,325	<b>89,700</b>	140,400

- (a) At 31st December 2000 and 2001, the Group's and Company's bank loans were secured by the Group's interest in two toll road projects in China and 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 2001, the Group's bank loans were repayable as follows:

	Bank loans (secured)		Bank loans (unsecured)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	<b>74,075</b>	39,000	—	—
In the second year	<b>86,125</b>	50,700	<b>355,140</b>	65,420
In the third to fifth year	<b>139,576</b>	89,700	—	—
	<b>299,776</b>	179,400	<b>355,140</b>	65,420

## Notes to the Accounts

### 23 Convertible bonds

The Company had issued convertible bonds (“the Bonds”) amounting to HK\$95,000,000 on 14th December 1998. 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.

The Bonds were redeemed on 14th December 2001 at their principal amount with accrued interest up to 13th December 2001.

### 24 Deferred taxation

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
At 1st January	<b>13,477</b>	10,798
Transfer from profit and loss account (note 7(c))	<b>672</b>	2,679
Disposal of a subsidiary (note 25(b))	<b>(849)</b>	—
	<hr/>	<hr/>
At 31st December	<b>13,300</b>	13,477
	<hr/> <hr/>	<hr/> <hr/>
Provided for in respect of accelerated depreciation allowances	<b>13,300</b>	13,477
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Accounts

### 25 Notes to the consolidated cash flow statement

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

	<b>2001</b>	As restated 2000
	<b>HK\$'000</b>	HK\$'000
Operating profit	<b>244,477</b>	167,763
Interest income	<b>(6,397)</b>	(10,450)
Dividend income	<b>(20,462)</b>	(32,916)
Amortisation of other investment	<b>4,162</b>	8,818
Amortisation of goodwill	<b>1,751</b>	—
Amortisation of interests in toll highways and bridges	<b>79,663</b>	56,255
Depreciation of fixed assets	<b>3,219</b>	3,302
Provision for impairment of goodwill	—	157,243
Loss on disposal of fixed assets	—	9
Gain on disposal of a subsidiary	<b>(14,591)</b>	—
Loss on disposal of other investment	<b>2,589</b>	—
Exchange difference	<b>(3,001)</b>	—
Decrease/(increase) in other receivables, deposits and prepayments	<b>9,199</b>	(6,436)
Increase/(decrease) in other payables and accrued charges including amounts due to minority shareholders and holding company	<b>10,779</b>	(5,951)
	<b>311,388</b>	337,637
Net cash inflow from operating activities	<b>311,388</b>	337,637

## Notes to the Accounts

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

#### (b) Disposal of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Net assets disposed		
Fixed assets	281,309	—
Other receivables, deposits and prepayments	3,046	—
Cash and bank balances	2,125	—
Due to minority shareholders	(5,924)	—
Other payables and accrued charges	(5,559)	—
Taxation	(23,215)	—
Deferred taxation	(849)	—
Minority interests	(78,391)	—
	172,542	—
Consolidation reserve	(68,000)	—
Exchange fluctuation reserve	(2,311)	—
Gain on disposal	14,591	—
	116,822	—
Represented by:		
Cash	116,822	—

The subsidiary disposed of during the year contributed approximately HK\$44,619,000 to the Group's turnover and approximately HK\$28,432,000 to the Group's operating profit.

#### (c) Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Cash consideration	116,822	—
Cash and bank balances disposed	(2,125)	—
	114,697	—

## Notes to the Accounts

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

#### (d) Major non-cash transaction

Part of the capital injection into a jointly controlled entity during the year amounted to HK\$92,523,000 with HK\$1,480,000 interest thereon was financed by a minority shareholder.

#### (e) Analysis of changes in financing during the year

	Share capital (including share premium)				Convertible bonds		Bank loans		Minority interests		Loans from minority shareholders	
	2001		2000		2001		2000		2001		2000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	951,301	951,301	95,000	95,000	599,960	734,935	1,120,508	1,099,841	41,505	41,505	45,809	45,809
Issue of shares	6,175	—	—	—	—	—	—	—	—	—	—	—
Minority interests												
in share of profits	—	—	—	—	—	—	64,942	106,779	—	—	—	—
Capital contributed												
by minority shareholders	—	—	—	—	—	—	10,558	5,364	—	—	—	—
Dividends paid to												
minority shareholders	—	—	—	—	—	—	(61,868)	(75,958)	—	—	—	—
Transfer from												
minority interests	—	—	—	—	—	—	(4,222)	(15,518)	4,222	15,518	—	—
Purchase of minority												
interests	—	—	—	—	—	—	(121,475)	—	—	—	—	—
Disposals of a												
subsidiary (note 25(b))	—	—	—	—	—	—	(78,391)	—	—	—	—	—
Net cash (outflow)/												
inflow from financing	—	—	(95,000)	—	288,601	(134,975)	—	—	(6,347)	—	(19,822)	—
At 31st December	957,476	951,301	—	95,000	888,561	599,960	930,052	1,120,508	39,380	39,380	41,505	41,505

## Notes to the Accounts

### 26 Commitments and contingent liabilities

- (a) At 31st December 2001, the Group and the Company had the following financial commitments and guarantee in respect of:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Capital and shareholder's loan injection to a jointly controlled entity	—	76,161	—	—
Guarantee to a bank in respect of bank loan granted to a jointly controlled entity	—	953,271	—	—
Guarantee to a bank in respect of bank loan granted to a subsidiary	—	—	<b>159,375</b>	—
Capital injection to an associated company	—	12,336	—	—
	<u>—</u>	<u>12,336</u>	<u>—</u>	<u>—</u>

- (b) At 31st December 2001 and 2000, 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 (equivalent 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) Limited ("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) At 31st December 2001, the Group had the following capital commitments:

	2001 HK\$'000	2000 HK\$'000
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
Capital commitments in respect of acquisition of remaining interest in a subsidiary:		
Contracted but not provided for	<b>135,561</b>	—
	<u>135,561</u>	<u>—</u>

## Notes to the Accounts

### 27 Related party transactions

In addition to those disclosed in note 26(b), the Group had carried out in the normal course of business, the following material transactions with its related parties during the year:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Management fee paid to the ultimate holding company (note (a))	<b>1,300</b>	1,000
Fixed cost toll highways management fee paid and payable to a minority shareholder (note (b))	<b><u>58,332</u></b>	<u>60,813</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.
- (c) On 15th February 2001, the Group acquired from a subsidiary of Yue Xiu the remaining 49 per cent interest in Xian Expressway. The consideration of HK\$173,000,000 was settled in cash. Goodwill arising from the acquisition amounted to HK\$51,525,000.
- (d) On 10th August 2001, GHDC advanced HK\$92,523,000 to the Group which is interest bearing at 4 per cent per annum and repayable within one year.

## Notes to the Accounts

### 28 Subsequent events

- (a) On 10th January 2002, the Group acquired the remaining 34 per cent interest in Onwell Enterprises Limited which is engaged in investment holding in Guangdong Qinglian Highway Development Co., Ltd. The remaining balances of the consideration as at 31st December 2001 of HK\$121,249,000 and HK\$14,312,000 were settled in cash on 10th January 2002 and 2nd April 2002 respectively. Negative goodwill arising from the acquisition amounted to HK\$9,698,000.
- (b) On 12th April 2002, the Group had entered into an Agreement to transfer 5 per cent of its interest in a jointly controlled entity to GHDC for a total consideration of Rmb51.1 million (equivalent to approximately HK\$48.2 million), subject to satisfaction of certain conditions. The total consideration will be satisfied on completion as to (1) Rmb34.9 million (equivalent to approximately HK\$32.9 million) by way of the procurement of the transfer of an aggregate of 0.995 per cent effective interest in an existing associated company, Guangdong Humen Bridge Co., Ltd. effective from 1st January 2002; and (2) Rmb16.2 million (equivalent to approximately HK\$15.3 million) in cash.

### 29 Ultimate holding company

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

### 30 Approval of account

The accounts were approved by the board on 16th April 2002.