



Notes to the Financial Statements

For the year ended 31st December, 2001

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 21st June, 2001. The Company's ultimate holding company is Jiangsu Yue Da Group Company Limited, which is a state-owned enterprise established with limited liability in the People's Republic of China (the "PRC").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are the management and operation of highways in the PRC.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has since 12th November, 2001 become the holding company of the companies now comprising the Group. Details of the Group Reorganisation are set out in the prospectus dated 19th November, 2001 issued by the Company.

The shares of the Company were listed on the Stock Exchange with effect from 29th November, 2001.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

The Group's books and records are maintained in Renminbi, the currency in which the majority of the Group's transactions are denominated.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the 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 10 years.

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



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For the year ended 31st December, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Toll revenue is recognised on a receipt basis.

Compensation income is recognised on a received and receivable basis in accordance with the relevant agreements.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less depreciation, amortisation and accumulated impairment losses.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

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 6% to 8% per annum will equal the cost of the toll highways and bridges at the end of the joint venture period of the relevant company.

Depreciation and amortisation are provided to write off the cost of other items of property, plant and equipment over their estimated useful lives, and after taking into account their estimated residual value, using the straight line method, as follows:

Land use rights	Over the shorter of the term of the lease or the joint venture period of the relevant company
Buildings	Over the shorter of 20 years or the joint venture period of the relevant company
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The gain or loss arising on the 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which represent 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 these qualifying 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.



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For the year ended 31st December, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs (continued)

All other borrowings costs are recognised as an expense in the period which they are incurred.

Impairment

At each balance sheet date, the Group review 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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

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 the resulting 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.

Retirement benefits costs

The amounts of the contributions payable in respect of the year to the Group's defined contribution retirement benefits schemes are charged to the income statement.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign 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.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

3. SEGMENTAL INFORMATION

The Group is engaged solely in the management and operation of highways in the PRC. All identifiable assets of the Group are located in the PRC.

Notes to the Financial Statements

For the year ended 31st December, 2001

4. COMPENSATION INCOME

During the year, the Group entered into agreements with certain independent third parties which carried out installation work of fibre optic cables along the highways operated by the Group in Yancheng, the PRC. Pursuant to the agreements, those independent third parties agreed to make payments in an aggregate amount of RMB4,552,000 to the Group as compensation for loss of revenue during the course of the installation work.

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

Directors' emoluments (note 6)
Contributions to retirement benefits schemes
Other staff costs

Amortisation of goodwill
Auditors' remuneration
Depreciation and amortisation of property, plant and equipment
Operating lease rentals in respect of land and buildings
Repair and maintenance charges

and after crediting:

Interest income

	2001 RMB'000	2000 RMB'000
Directors' emoluments (note 6)	395	—
Contributions to retirement benefits schemes	635	540
Other staff costs	6,243	6,290
	<u>7,273</u>	<u>6,830</u>
Amortisation of goodwill	161	161
Auditors' remuneration	745	21
Depreciation and amortisation of property, plant and equipment	19,709	18,409
Operating lease rentals in respect of land and buildings	680	580
Repair and maintenance charges	5,919	9,537
and after crediting:		
Interest income	<u>239</u>	<u>91</u>

6. DIRECTORS' EMOLUMENTS

Directors' fees
Basic salaries and allowances paid to executive directors

	2001 RMB'000	2000 RMB'000
Directors' fees	—	—
Basic salaries and allowances paid to executive directors	395	—
	<u>395</u>	<u>—</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

7. EMPLOYEES' EMOLUMENTS

In 2001, all the five highest paid individuals were executive directors of the Company, details of whose emoluments are included in note 6 above.

Notes to the Financial Statements

For the year ended 31st December, 2001

7. EMPLOYEES' EMOLUMENTS (continued)

In 2000, the five highest paid individuals did not include any directors of the Company. The emoluments of the five highest paid individuals are as follows:

	2001 RMB'000	2000 RMB'000
Basic salaries and allowances	—	237
Contributions to retirement benefits schemes	—	20
	<u>—</u>	<u>257</u>

8. INTEREST EXPENSES

	2001 RMB'000	2000 RMB'000
The interest expenses represent interest on		
— bank borrowings wholly repayable within five years	1,072	803
— a loan from a joint venture partner of a subsidiary not wholly repayable within five years	5,339	6,289
— a loan from a fellow subsidiary not wholly repayable within five years	<u>3,326</u>	<u>6,545</u>
	<u>9,737</u>	<u>13,637</u>

9. INCOME TAX EXPENSES

	2001 RMB'000	2000 RMB'000
PRC income tax	1,198	1,708
Deferred taxation (note 19)	<u>1,263</u>	<u>1,560</u>
	<u>2,461</u>	<u>3,268</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The reduced tax rate for the relief period is 7.5%. The charge of PRC income tax for the year has been provided for after taking these tax incentives into account. The Group's PRC subsidiaries were still within the PRC income tax relief period during the year.

Details of deferred taxation are set out in note 19.

Notes to the Financial Statements

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10. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation. However, during the year, certain subsidiaries of the Company declared dividends with an aggregate amount of RMB44,239,000 (2000: RMB3,672,000) to their then shareholders, prior to the Group Reorganisation. The portion of dividends deemed attributable to the Company was RMB41,982,000 (2000: RMB1,873,000).

11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of RMB21,792,000 (2000: RMB24,719,000) and on the weighted average of 145,589,041 (2000: 140,000,000) shares that would have been in issue throughout the year on the assumption that the Group Reorganisation had been completed on 1st January, 2000.

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary shares in issue.

12. PROPERTY, PLANT AND EQUIPMENT

	Toll highways and bridges RMB'000	Land and buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
THE GROUP COST						
At 1st January, 2001	491,782	2,219	2,231	1,692	—	497,924
Additions	3,000	—	129	—	3,820	6,949
Disposals	—	—	(85)	—	—	(85)
At 31st December, 2001	<u>494,782</u>	<u>2,219</u>	<u>2,275</u>	<u>1,692</u>	<u>3,820</u>	<u>504,788</u>
DEPRECIATION						
At 1st January, 2001	53,185	245	980	751	—	55,161
Charge for the year	18,892	106	423	288	—	19,709
Eliminated on disposals	—	—	(63)	—	—	(63)
At 31st December, 2001	<u>72,077</u>	<u>351</u>	<u>1,340</u>	<u>1,039</u>	<u>—</u>	<u>74,807</u>
NET BOOK VALUE						
At 31st December, 2001	<u>422,705</u>	<u>1,868</u>	<u>935</u>	<u>653</u>	<u>3,820</u>	<u>429,981</u>
At 31st December, 2000	<u>438,597</u>	<u>1,974</u>	<u>1,251</u>	<u>941</u>	<u>—</u>	<u>442,763</u>

The land and buildings are situated in the PRC and held under medium term land use rights.



Notes to the Financial Statements

For the year ended 31st December, 2001

13. GOODWILL

	THE GROUP
	RMB'000
COST	
At 1st January, 2001 and at 31st December, 2001	1,608
AMORTISATION	
At 1st January, 2001	483
Charge for the year	161
At 31st December, 2001	644
NET BOOK VALUE	
At 31st December, 2001	964
At 31st December, 2000	1,125

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY
	2001 RMB'000
Unlisted shares, at cost	231,959

The carrying value of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group Reorganisation.

Notes to the Financial Statements

For the year ended 31st December, 2001

14. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries at 31st December, 2001 are as follows:

Name of subsidiary	Country of incorporation or establishment/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Yue Da Infrastructure Limited	British Virgin Islands	Shares — US\$10,000	100	—	Investment holding
Yancheng Tongda Highway Co., Ltd. ("Yancheng Tongda") (note i)	PRC	Registered capital — US\$12,000,000	—	66.67	Management and operation of the Xin Fu section of National Highway 204
Langfang Tongda Highway Co., Ltd. ("Langfang Tongda") (note ii)	PRC	Registered capital — US\$11,250,000	—	51	Management and operation of the Wen An section of National Highway 106

Notes:

- i. Yancheng Tongda is a sino-foreign co-operative joint venture. The term of the joint venture is 23 years (from 29th September, 1995 to 28th September, 2018). Under the joint venture contract of Yancheng Tongda, the Group is entitled to the full amount of the distributable profits of Yancheng Tongda for the first ten years of its joint venture term. During the eleventh to fourteenth year of Yancheng Tongda's joint venture term, the distributable profits of Yancheng Tongda will be shared between the Group and the joint venture partner in the proportion of 80% and 20% respectively. During the fifteenth year to the twenty-second year of Yancheng Tongda's joint venture term, the Group and the joint venture partner will share in the distributable profits of Yancheng Tongda each year in the proportion of 5% and 95% respectively. In the twenty-third year of Yancheng Tongda's joint venture term, the distributable profits of Yancheng Tongda will be shared between the Group and the joint venture partner in accordance with their capital contribution ratio.
- ii. Langfang Tongda is a sino-foreign co-operative joint venture. The term of the joint venture is 16 years (from 19th May, 1997 to 18th May, 2013). The distributable profits of Langfang Tongda are shared between the Group and the joint venture partner in accordance with their capital contribution ratio.

15. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount as at 31st December, 2000 was unsecured and interest-free. During the year, the amount was partially settled in cash and partially capitalised in the following manner as part of the Group Reorganisation (the "Loan Capitalisation"):

- (i) an amount due from the fellow subsidiary in the sum of RMB5,182,000 together with an outstanding amount of loan from the fellow subsidiary in the sum of RMB45,354,000 were assigned from the fellow subsidiary to Yue Da Infrastructure Limited; and
- (ii) the amount of RMB40,172,000, representing the net balance payable by Yue Da Infrastructure Limited to the fellow subsidiary in connection with the assignment set out in 15(i) above, was capitalised as an additional capital in Yue Da Infrastructure Limited.

Notes to the Financial Statements

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16. AMOUNTS DUE TO FELLOW SUBSIDIARIES/AMOUNT DUE TO A SUBSIDIARY

The amounts were unsecured, interest-free and have no fixed repayment terms.

17. AMOUNTS DUE TO JOINT VENTURE PARTNERS OF SUBSIDIARIES

THE GROUP

	2001 RMB'000	2000 RMB'000
Current portion of an advance from a joint venture partner of a subsidiary (note 20)	2,546	—
Amounts due to joint venture partners of subsidiaries	<u>2,013</u>	<u>5,565</u>
	<u><u>4,559</u></u>	<u><u>5,565</u></u>

The amounts due to joint venture partners of subsidiaries were unsecured, interest-free and have no fixed repayment terms.

18. UNSECURED SHORT-TERM BORROWINGS

THE GROUP

	2001 RMB'000	2000 RMB'000
Current portion of long-term borrowings (note 21)	7,735	22,806
Bank borrowings (note i)	15,000	15,000
Loan from a joint venture partner of a subsidiary (note ii)	<u>—</u>	<u>2,000</u>
	<u><u>22,735</u></u>	<u><u>39,806</u></u>

Notes:

- i. The bank borrowings as at 31st December, 2001 were granted to a non-wholly owned subsidiary of the Company and were guaranteed by the Company while the amounts as at 31st December, 2000 were guaranteed by a joint venture partner of a subsidiary and certain fellow subsidiaries of the Company.
- ii. The amount was interest-free and fully settled during the year.

19. DEFERRED TAXATION

At the balance sheet date, the provided deferred taxation represents the tax effect of the timing differences arising from depreciation charge based on the accounting policies adopted by the Group and those adopted by the relevant subsidiaries for tax purposes. There was no significant unprovided deferred taxation during the year or at the balance sheet date.



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20. ADVANCE FROM A JOINT VENTURE PARTNER OF A SUBSIDIARY

	THE GROUP	
	2001 RMB'000	2000 RMB'000
The advance is payable as follows:		
Within one year	2,546	—
Between one to two years	3,491	—
Between two to five years	<u>3,491</u>	<u>—</u>
	9,528	—
Less: Amount due within one year and included under current liabilities (note 17)	<u>(2,546)</u>	<u>—</u>
	<u><u>6,982</u></u>	<u><u>—</u></u>

The amounts were unsecured and interest-free. Pursuant to an agreement dated 30th September, 2001 and entered into between Langfang Tongda, the joint venture partner of Langfang Tongda and Yue Da Infrastructure Limited, the repayment of an amount due to the joint venture partner of RMB10,473,000 at 30th September, 2001 will be made by three equal installments during a period of three years but subject to the availability of adequate working capital for that purpose.

Notes to the Financial Statements

For the year ended 31st December, 2001

21. UNSECURED LONG-TERM BORROWINGS

	THE GROUP	
	2001 RMB'000	2000 RMB'000
Loans from joint venture partners of subsidiaries	87,258	102,443
Loan from a fellow subsidiary	—	60,436
	<u>87,258</u>	<u>162,879</u>
Less: Amount due within one year and included under current liabilities (note 18)	<u>(7,735)</u>	<u>(22,806)</u>
Amount due after one year	<u><u>79,523</u></u>	<u><u>140,073</u></u>

The loans were repayable as follows:

	2001 RMB'000	2000 RMB'000
Within one year	7,735	22,806
Between one to two years	7,735	15,785
Between two to five years	25,500	47,356
Over five years	<u>46,288</u>	<u>76,932</u>
	<u><u>87,258</u></u>	<u><u>162,879</u></u>

Other than the loan from a joint venture partner of a subsidiary amounting to RMB43,560,000 (2000: RMB51,000,000) which carried no interest, the remaining balance of the above loans carried interest at 11.7% per annum on the outstanding principal at the balance sheet date.

During the year, the loan from a fellow subsidiary was partly settled in cash and the remaining balance of such loan was capitalised pursuant to the Loan Capitalisation (see note 15).

Notes to the Financial Statements

For the year ended 31st December, 2001

22. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
On date of incorporation	1,000,000	100
Increase during the period	<u>1,999,000,000</u>	<u>199,900</u>
At 31st December, 2001	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Issue of share to initial subscriber	1	—
Issue of further shares before Group Reorganisation	999,999	—
Issue of shares on Group Reorganisation	1,000,000	200
Issue of shares by capitalisation of share premium account (the "Capitalisation Issue")	138,000,000	13,800
Issue of shares to the public	<u>60,000,000</u>	<u>6,000</u>
At 31st December, 2001	<u>200,000,000</u>	<u>20,000</u>
Shown in the balance sheet as		<u>RMB21,000,000</u>

The Company was incorporated on 21st June, 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. On 13th July, 2001, one share was allotted and issued nil paid to the initial subscriber and such share was then transferred to a sole shareholder. On the same date, 999,999 shares were allotted and issued nil paid to the then sole shareholder.

Pursuant to resolutions in writing of the sole shareholder of the Company passed on 12th November, 2001:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of a further 1,000,000 shares of HK\$0.10 each; and
- (b) as consideration of the Company's acquisition of the entire issued share capital of Yue Da Infrastructure Limited pursuant to the Group Reorganisation, the Company
 - (i) allotted and issued, credited as fully paid at par, an aggregate of 1,000,000 new shares to the then sole shareholder; and
 - (ii) credited as fully paid at par the 1,000,000 shares of HK\$0.10 each issued nil paid on 13th July, 2001 and held by the sole shareholder.



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22. SHARE CAPITAL (continued)

Pursuant to further resolutions in writing passed by the sole shareholder of the Company on 12th November, 2001:

- (a) the authorised share capital of the Company was increased from HK\$200,000 to HK\$200,000,000 by the creation of a further 1,998,000,000 shares; and
- (b) conditional on the share premium account of the Company being credited as a result of the issue of shares to the public, the directors were authorised to capitalise HK\$13,800,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 138,000,000 shares for allotment and issue to the holders whose names appeared on the register of members of the Company at the close of business on 12th November, 2001 in proportion to their then existing holdings in the Company.

On 28th November, 2001, by means of new issue of shares to the public, the Company issued a total of 60,000,000 new ordinary shares of HK\$0.10 each at a price of HK\$0.89 per share. At the same time, the Company credited as fully paid at par the 138,000,000 shares of HK\$0.10 each, capitalised pursuant to a resolution in writing passed by the sole shareholder of the Company on 12th November, 2001.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

For the purposes of the preparation of the consolidated balance sheet, the balance of the share capital at 31st December, 2000 represents 140,000,000 shares of the Company of HK\$0.10 each comprising the aggregate of shares issued immediately after the completion of the Group Reorganisation and the Capitalisation Issue, being HK\$14,000,000 or equivalent to RMB14,700,000.

23. SHARE OPTION SCHEME

Pursuant to a written resolution passed on 12th November, 2001, the Company has adopted a share option scheme under which selected participants including directors and employees of the Company and its subsidiaries may be granted options to subscribe for shares of the Company. No option has been granted under the scheme since its adoption.

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24. RESERVES

	Share premium RMB'000	Non- distributable reserves RMB'000	Special reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
THE GROUP					
At 1st January, 2000	—	(1,365)	102,516	81,874	183,025
Net profit for the year	—	—	—	24,719	24,719
Transfers	—	186	—	(186)	—
Dividends	—	—	—	(1,873)	(1,873)
At 31st December, 2000	—	(1,179)	102,516	104,534	205,871
Premium arising on issue of shares to the public	49,770	—	—	—	49,770
Surplus arising from Loan Capitalisation	—	—	40,172	—	40,172
Expenses incurred in connection with the issue of shares	(19,383)	—	—	—	(19,383)
Transfer upon Capitalisation Issue	(14,490)	—	14,490	—	—
Net profit for the year	—	—	—	21,792	21,792
Transfers	—	52	—	(52)	—
Dividends	—	—	—	(41,982)	(41,982)
At 31st December, 2001	<u>15,897</u>	<u>(1,127)</u>	<u>157,178</u>	<u>84,292</u>	<u>256,240</u>
	Share premium RMB'000	Contributed surplus RMB'000	Accumulated loss RMB'000	Total RMB'000	
THE COMPANY					
Surplus arising from Group Reorganisation	—	231,750	—	—	231,750
Premium arising on issue of shares to the public	49,770	—	—	—	49,770
Expenses incurred in connection with the issue of shares	(19,383)	—	—	—	(19,383)
Transfer upon Capitalisation Issue	(14,490)	—	—	—	(14,490)
Net loss for the period	—	—	(1,650)	—	(1,650)
At 31st December, 2001	<u>15,897</u>	<u>231,750</u>	<u>(1,650)</u>	—	<u>245,997</u>

The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's PRC subsidiaries under the PRC laws and regulations and capital deficit arising from capital injections by the Group into the Company's PRC subsidiaries in the form of foreign currencies.

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired on the basis that the Group Reorganisation had been completed on 1st January, 2000 and the surplus arising pursuant to the Loan Capitalisation.

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued for the acquisition.



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25. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 RMB'000	2000 RMB'000
Profit before tax	26,988	32,209
Interest expenses	9,737	13,637
Interest income	(239)	(91)
Depreciation and amortisation of property, plant and equipment	19,709	18,409
Amortisation of goodwill	161	161
Loss on disposal of property, plant and equipment	22	5
(Increase) decrease in deposits and other receivables	(372)	873
Decrease in accruals and other payables	(3,185)	(444)
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>52,821</u>	<u>64,759</u>

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26. ANALYSIS OF CHANGES IN FINANCING ACTIVITIES DURING THE YEAR

	Share capital and share premium RMB'000	Amounts due to fellow subsidiaries RMB'000	Amounts due to joint venture partners of subsidiaries RMB'000	Bank borrowings RMB'000	Advance from a joint venture partner of a subsidiary RMB'000	Loans from fellow subsidiaries RMB'000	Loans from joint venture partners of subsidiaries RMB'000
At 1st January, 2000	14,700	635	4,584	5,000	—	97,507	115,317
Borrowings raised	—	—	981	25,000	—	—	—
Repayment of borrowings	—	(1)	—	(15,000)	—	(37,071)	(10,874)
At 31st December, 2000	14,700	634	5,565	15,000	—	60,436	104,443
Proceeds from issue of shares to the public	56,070	—	—	—	—	—	—
Expenses incurred in connection with the issue of shares	(19,383)	—	—	—	—	—	—
Transfer upon Capitalisation Issue	(14,490)	—	—	—	—	—	—
Repayment of borrowings	—	(509)	—	(15,000)	(945)	(15,082)	(9,745)
Borrowings raised	—	—	6,921	15,000	—	—	—
Reclassified to advance from a joint venture partner of a subsidiary Upon Loan Capitalisation (note 15)	—	—	(10,473)	—	10,473	—	—
Set-off against an amount due from a joint venture partner of a subsidiary (note 27(ii))	—	—	—	—	—	(45,354)	—
At 31st December, 2001	<u>36,897</u>	<u>125</u>	<u>2,013</u>	<u>15,000</u>	<u>9,528</u>	<u>—</u>	<u>87,258</u>

27. MAJOR NON-CASH TRANSACTIONS

- (i) During the year, an amount due from a fellow subsidiary and a loan from a fellow subsidiary in the sums of RMB5,182,000 and RMB45,354,000 respectively were settled pursuant to the Loan Capitalisation (see note 15).
- (ii) During the year, a loan from a joint venture partner of a subsidiary amounting to RMB7,440,000 was agreed to be set off against an amount due from the joint venture partner.



Notes to the Financial Statements

For the year ended 31st December, 2001

28. PLEDGE OF ASSETS

As at 31st December, 2000, the Group provided certain securities in respect of bank loans granted to a fellow subsidiary. The bank loans were fully settled during the year. At 31st December, 2000, the securities given by the Group were as follows:

- (i) Certain bank balances held by the Group of RMB49,000;
- (ii) Assignment of all beneficial interests and rights in the above bank balances; and
- (iii) Assignment of toll operating and collection rights in the toll highways operated by the Group.

All of the above securities were released by the relevant bank during the year.

29. RETIREMENT BENEFITS SCHEMES

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 18% to 20% of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

In addition, the Group is the progress of establishing a mandatory provident fund scheme for qualifying employees in Hong Kong.

30. OPERATING LEASE COMMITMENTS

At 31st December, 2001, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP AND THE COMPANY	
	2001 RMB'000	2000 RMB'000
Within one year	784	—
In the second to fifth year inclusive	1,437	—
	<u>2,221</u>	<u>—</u>

Operating lease payments represent rentals payable by the Group and the Company for certain of its office premises and staff quarters. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. All the above operating lease commitments are payable to a fellow subsidiary.

Notes to the Financial Statements

For the year ended 31st December, 2001

31. RELATED PARTY AND CONNECTED TRANSACTIONS AND BALANCES

(I) Related and connected parties

During the year, the Group had significant transactions and balances with certain related parties, which are also deemed to be connected persons pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions with these related parties during the year, and significant balances with them at the balance sheet date, are as follows:

(i) Transactions

Related parties	Nature of transactions	Notes	THE GROUP	
			2001 RMB'000	2000 RMB'000
<i>Fellow subsidiary</i>				
Yue Da Enterprise Group (H.K.) Company Limited	Interest expenses	(a)	3,326	6,545
<i>Associate of ultimate holding company</i>				
Yancheng Haiyue Hotel	Rentals paid on land and buildings	(b)	500	500

(ii) Balances

Details of balance with certain related parties at the balance sheet date are set out in notes 15, 16, 18 and 21, respectively.

(iii) Others

Details of guarantees given to or by certain connected related parties are set out in note 18.

Details of securities given by the Group in respect of certain bank loans granted to a related party are set out in note 28.

Details of operating lease commitment with a related party are set out in note 30.

Notes:

(a) The interest was charged at 11.7% per annum on the outstanding principal.

(b) The rentals was charged in accordance with the relevant tenancy agreement.

Notes to the Financial Statements

For the year ended 31st December, 2001

31. RELATED PARTY AND CONNECTED TRANSACTIONS AND BALANCES (continued)

(II) Other connected parties

The significant transactions with other connected parties during the year, and significant balances with them at the balance sheet date, are as follows:

Connected parties	Nature of transactions/balances	Notes	THE GROUP	
			2001 RMB'000	2000 RMB'000
(i) Transactions				
<i>Affiliated company of a joint venture partner of a subsidiary</i>				
Langfang Municipal Communications Bureau	Repair and maintenance charges	(a)	4,592	7,304
<i>Joint venture partners of subsidiaries</i>				
Langfang Transport and Highway Engineering Company Limited	Interest expenses	(b)	5,339	6,289
Yancheng Xinfu Highway Company Limited	Maintenance charges	(c)	1,327	1,232
<i>Non-wholly owned subsidiary</i>				
Langfang Tongda	Interest income	(b)	2,231	—
(ii) Balances				
<i>Non-wholly owned subsidiaries</i>				
Langfang Tongda	Balance of Langfang Tongda with another member of the Group at 31st December:			
	— other payable to Langfang Tongda	(d)	2,284	—
	— unsecured long-term borrowings to Langfang Tongda	(e)	45,354	—
Yancheng Tongda	Balance of Yancheng Tongda with another member of the Group at 31st December:			
	— other payable to Yancheng Tongda	(d)	5,486	—



Notes to the Financial Statements

For the year ended 31st December, 2001

31. RELATED PARTY AND CONNECTED TRANSACTIONS AND BALANCES (continued)

(II) Other connected parties (continued)

Details of balances with other connected parties at the balance sheet date are set out in notes 17, 18, 20 and 21, respectively.

Notes:

- (a) For the six months ended 30th June, 2001, the repair and maintenance charges in respect of the relevant toll highways were charged at 15% of the total amount of gross toll collected. Commencing 1st July, 2001, the repair and maintenance charges were at 8% of the total amount of gross toll collected.
- (b) The interest was charged at 11.7% per annum on the outstanding principal.
- (c) The maintenance charges in respect of the relevant toll highways were RMB20,000 per kilometre each year starting from 1997, with an annual increment of RMB2,000 per kilometre.
- (d) The amount was unsecured, interest-free and has no fixed repayment terms.
- (e) The loan was unsecured, carried interest at 11.7% per annum and was repayable in accordance with the terms of the agreement.