

31 December 2001

1. CORPORATE INFORMATION

The principal place of business of Shenzhen International Holdings Limited is situated at Rooms 2206–2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

Continuing operations:

- total logistics and transportation ancillary services
- property investment
- investment holding

Discontinued operations (note 5):

- passenger transportation business
- property development and sale

At 31 December 2001, Ultrarich International Limited (“Ultrarich”), a wholly owned subsidiary of Shenzhen Investment Holding Corporation (“SIHC”), and other enterprises wholly owned by SIHC were the owners of approximately 4,836.3 million and 132.7 million ordinary shares of the Company respectively, representing an aggregate of approximately 44.31% equity interest of the Company therein. SIHC and Ultrarich are considered as substantial shareholders of the Company as defined in the Securities (Disclosure of Interests) Ordinance.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements.

- SSAP 9 (Revised) : “Events after the balance sheet date”
- SSAP 14 (Revised) : “Leases”
- SSAP 18 (Revised) : “Revenue”
- 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”

- Interpretation 12 : “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13 : “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

These SSAPs prescribe new accounting measurement and disclosures practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significance effect on the financial statements, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. It has made certain amendments to the previous accounting measurement treatments, however, these amendments have not had a material effect on the amounts previously recorded in the profit and loss account and balance sheet, therefore no prior year adjustments have been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, as further detailed in note 33 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management determines whether the Group’s predominant risks or returns are based on business segments or geographical segments and to choose one of these bases to be the primary segment information reporting format, with the other as the secondary reporting format. The principal impact of this SSAP is the inclusion of additional segment reporting disclosures, which are set out in note 6 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisition in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 17 to the financial statements. The required new additional disclosures are included in note 17 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, leasehold land and buildings and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, a joint venture or jointly-controlled entity, in which the Group has a long term interest and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represent the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated economic useful life of not exceeding 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of positive goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event on an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represent the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identified liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable negative goodwill previously credited to the consolidated reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is provided on the straight-line basis to write off the cost or valuation of each asset over the following estimated useful lives:

Leasehold land	Over the terms of the leases
Buildings	15–50 years or over the terms of the leases, whichever is shorter
Leasehold improvements	4 years or over the terms of the leases, whichever is shorter
Plant and machinery	3–10 years
Furniture, fixtures, equipment and motor vehicles	3–8 years

Construction in progress represents the direct costs of construction incurred plus interest capitalised up to the date of completion in connection with the construction of fixed assets less any impairment losses. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Expenditure in respect of the acquisition of vehicle licenses is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis to write off the cost of intangible assets over the contracted terms of the companies owning the licenses or the terms of the licenses, whichever is shorter.

Leased assets

Leases that transfer substantially all of the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Investment securities

Investment securities in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less impairment losses, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account, to the extent of the amounts previously charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities (continued)

Investments other than investment securities are classified as other investments and are stated at their fair values on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.

Properties under development for sale

Properties under development for sale are stated at cost less impairment losses.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, interest capitalised up to the date of completion and other direct expenses capitalised. Net realisable value is determined by the directors based on prevailing market conditions.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the provision of services, when such services are rendered;
- (c) from the sale of properties held for sale, on the execution of a binding sales agreement;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) rental income under operating leases, on the straight-line basis over the terms of the rental agreements;
- (f) dividend and investment income, when the shareholders' right to receive payment is established;
- (g) vehicle rental income from drivers, on a straight-line basis over the terms of the contracts; and
- (h) from the sale of properties under development, on the percentage of completion basis, when legally binding unconditional sales contracts are signed and exchanged, provided that the construction work has progressed to a stage that the ultimate realisation of profit can be reasonably determined. The percentage of completion basis is calculated by reference to the proportion of construction costs incurred up to the accounting date to estimated total construction costs to completion of the development. The revenue recognised is limited to the extent of the non-refundable sales proceeds received, after taking into account due allowance for contingencies.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate for the year is based on the weighted average cost of the related borrowings.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries outside Hong Kong and the Group's share of the net assets of associates and jointly-controlled entities outside Hong Kong are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund MPF Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme (continued)

Prior to the MPF Scheme being effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in this scheme. This scheme operated in a similar way to the MPF Scheme, except that when an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

The Company's subsidiaries in the People's Republic of China except Hong Kong and Macau (the "PRC") are members of the state-managed retirement benefits scheme operated by the PRC government. The retirement scheme contributions, which are based on a certain percentage of the salaries of the PRC subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

4. TURNOVER

Turnover represents income generated from total logistics and transportation ancillary services, properties investment, passenger transportation services and property development and sale, net of business tax and other surcharges.

5. DISCONTINUED OPERATIONS

During the year, in view of the strategic plan of the Group to shift its business focus to develop logistics and related business, the Group disposed of its entire 60% equity interest in Shenzhen Shentou Transportation Group Co. Ltd. and its subsidiaries ("SSTG") to SIHC and discontinued the Group's passenger transportation and property development and sale businesses.

The effective date of the disposal of SSTG for accounting purpose was 8 October 2001. Further details of the above disposal transaction is set out in note 36(d) to the financial statements.

The consolidated profit and loss account has consolidated the financial results of SSTG for the period from 1 January 2001 to 30 June 2001 (the "Period") based on the audited management accounts of SSTG for the Period rather than up to 8 October 2001, the effective date of disposal. The directors considered that the financial impact on the consolidation of the financial results of SSTG for the Period rather than up to 8 October 2001 did not have a significant impact on the Group's consolidated financial statements as a whole. This was because the financial impact resulted from the non-consolidation of the financial results of SSTG from 1 July 2001 to 8 October 2001 has had no significant impact on the "Net profit from ordinary activities attributable to shareholders" and did not significantly affect the financial information of SSTG presented under the "Gain on disposal of discontinued operations" and the "Profit from operating activities from discontinued operations" as shown on the face of the consolidated profit and loss account.

Due to the disposal of the Group's entire 60% equity interest in SSTG as mentioned above, the prior year comparative amounts for "Turnover for discontinuing operations" and "Profit from operating activities for discontinued operations" as shown on the consolidated profit and loss account have been reclassified to include the financial results of SSTG for the year ended 31 December 2000 so as to conform with the current year's presentation.

6. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as further explained in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are organised and managed separately, according to the nature of their operations and the products and services they provide. Each segment of the Group's business represent a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

Continuing operations:

- (a) Total logistic and transportation segment to provide value-added and modernised competitive logistic services;
- (b) Property investment segment invests in prime office and commercial spaces for their rental income;
- (c) Investment holding segment invests in logistics and other infrastructure projects with high-growth potential; and
- (d) Information and Hi-tech related manufacturing segment.

Discontinued operations (note 5):

- (a) Passenger transportation segment to provide public transportation services within Shenzhen and its neighbouring areas in the PRC; and
- (b) Property development and sale segment invests in construction projects as a developer.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

6. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:						
Sales to external customers	—	10,898	491,872	643,606	491,872	654,504
Segment results	83,588	66,986	138,210	92,107	221,798	159,093
Other segment information:						
Segment assets	50,335	692,722	3,062,703	3,173,213	3,113,038	3,865,935
Capital expenditure	460	1,029	367,363	978,988	367,823	980,017

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Group	
	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	22,242	90,644
Cost of services provided	342,024	448,383
Provisions for obsolete and slow-moving inventories	—	6,601
Depreciation	101,782	135,779
Net loss on disposal of fixed assets	3,013	6,265
Amortisation of intangible assets*	6,839	10,327
Minimum lease payments under operating lease in respect of leasehold land and buildings	1,137	5,258
Auditors' remuneration	880	1,450
Revaluation deficit of the Group's leasehold land and buildings**	4,534	6,935
Revaluation deficit of the leasehold land and buildings for subsidiaries disposed of during the year**	14,534	—
Provisions for bad and doubtful debts	—	5,053
Impairment of properties held for sale***	4,210	4,620
Impairment of unlisted equity investment securities	—	3,065
Impairment of listed equity investment securities	—	530
Impairment of properties under development for sale	—	472
Write off of goodwill	—	200
Loss on disposal of a discontinued operation	—	967
Staff costs (including directors' remuneration — note 9)		
Wages and salaries	92,360	84,405
Pension contributions	13,211	11,947
	105,571	96,352

* The amortisation of intangible assets is included in "Cost of sales" on the face of the consolidated profit and loss account.

** The revaluation deficits of the leasehold land and buildings of the Group and those subsidiaries disposed of are included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** The impairment of properties held for sale is included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. PROFIT FROM OPERATING ACTIVITIES (continued)

The Group's profit from operating activities is arrived at after crediting:

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest income on cash and cash equivalents	(18,334)	(27,286)
Interest income on other loan receivables	(86)	(597)
Interest income on other investments	(8,154)	(820)
Dividend income from listed equity investment securities	(59)	(15)
Gain on disposal of interests in associates	(47,528)	(19,850)
Gain on dilution of interests in associates	108,795	(37,856)
Gain on disposal of unlisted equity investment securities	—	(6,466)
Gain on disposal of properties held for sale	—	(31,055)
Gain on disposal of subsidiaries	(53,745)	(53,368)
Gain on disposal of other investments	(614)	(394)
Write back of impairment of a jointly-controlled entity	—	(2,824)
Recovery of bad and doubtful debts provided for in prior years	—	(9,190)
Net unrealised gain on other investments	(2,352)	(160)
Gross rental income	(22,402)	(18,907)
Less: outgoings	4,252	1,416
Net rental income	(18,150)	(17,491)
Exchange gains, net	—	(990)
Negative goodwill recognised as income*	(5,620)	—

* The movement in negative goodwill recognised in the profit and loss account are included in the "Other revenue and gains" on the face of the consolidated profit and loss account.

8. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans wholly repayable within five years	19,328	24,533
Interest on other loans wholly repayable within five years	3,165	535
Interest on finance leases	1,167	2,188
Interest on amounts due to substantial shareholder	291	—
Interest on convertible bond	18,245	16,592
Total interest	42,196	43,848
Less: interest capitalised	(1,530)	—
	40,666	43,848

The capitalisation rate applied to funds borrowed and used for the development of construction in progress ranged between 1.5% and 7.2% per annum.

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	562	250
Other emoluments:		
Basic salaries, other allowances and benefits in kind for executive directors	4,790	3,606
Pension scheme contributions	137	—
	5,489	3,856

The number of directors whose remunerations fell within the following bands is as follow:

	Number of directors	
	2001	2000
Nil–HK\$1,000,000	7	16
HK\$1,000,001–HK\$1,500,000	1	1
HK\$1,500,001– HK\$2,000,000	2	—
	10	17

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

There was no share options granted to the directors during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2000: two) non-director, highest paid employees are set out below:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Salaries and other emoluments	1,908	1,215

The number of the non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of individuals	
	2001	2000
Nil–HK\$1,000,000	2	2

There was no share options granted to the five highest paid employees during the year.

11. TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2000: 16%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Group:		
Current year provision:		
Hong Kong	—	6,028
Outside Hong Kong	5,465	8,963
Overprovision of prior years:		
Outside Hong Kong	—	(3,260)
	5,465	11,731
Associates:		
Outside Hong Kong	4,911	2,485
Jointly-controlled entities:		
Outside Hong Kong	644	1,172
Tax charge for the year	11,020	15,388

11. TAX (continued)

The principal components of the Group's deferred tax assets/(liabilities) not recognised at the balance sheet date in the financial statements are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Tax losses carried forward	8,496	6,141
Accelerated depreciation allowances	(1,096)	(1,144)
	7,400	4,997

The Company had no significant deferred tax assets at the balance sheet date. Deferred tax has not been provided for the Group and the Company as there were no significant timing difference giving rise to deferred tax liabilities at the balance sheet date (2000: Nil).

The revaluations of the Group's fixed assets and investment properties do not constitute timing differences and, consequently, the amounts of potential deferred tax thereon have not been quantified.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is HK\$83,895,000 (2000: HK\$81,685,000).

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$251,412,000 (2000: HK\$112,221,000) and the weighted average of 11,149,618,520 (2000: 10,002,379,186) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$251,412,000 (2000: HK\$112,221,000). The weighted average number of ordinary shares used in the calculation is the 11,149,618,520 (2000: 10,002,379,186) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 47,116,571 (2000: 161,369,389) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

14. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:							
At beginning of year	477,204	42,222	6,719	3,356	594,650	15,141	1,139,292
Additions	28,647	5,472	2,658	472	119,583	6,134	162,966
Acquisition of subsidiaries	29,693	173,129	—	—	1,257	778	204,857
Disposals	(5,490)	(11,690)	(1,537)	—	(50,325)	(1,147)	(70,189)
Disposal of subsidiaries	(436,471)	(41,889)	(6,369)	(3,828)	(655,958)	(9,396)	(1,153,911)
Transfer from construction in progress	34,536	(37,621)	3,085	—	—	—	—
Revaluation	(27,109)	—	—	—	—	—	(27,109)
At 31 December 2001	101,010	129,623	4,556	—	9,207	11,510	255,906
At 31 December 2001:							
At cost	36,842	129,623	4,556	—	9,207	11,510	191,738
At directors' valuation in 2001	35,678	—	—	—	—	—	35,678
At professional valuation in 2001	22,000	—	—	—	—	—	22,000
At professional valuation in 1999	6,490	—	—	—	—	—	6,490
	101,010	129,623	4,556	—	9,207	11,510	255,906
At 31 December 2000:							
At cost	—	42,222	6,719	3,356	594,650	15,141	662,088
At professional valuation in 2000	171,945	—	—	—	—	—	171,945
At professional valuation in 1999	305,259	—	—	—	—	—	305,259
	477,204	42,222	6,719	3,356	594,650	15,141	1,139,292
Accumulated depreciation and impairment:							
At beginning of year	8,753	—	3,100	398	63,321	4,212	79,784
Charge for the year	8,523	—	1,705	1,890	86,245	3,419	101,782
Written back on disposals	(459)	—	(1,383)	—	(40,311)	(641)	(42,794)
Disposal of subsidiaries	(7,897)	—	(1,560)	(2,288)	(105,370)	(2,302)	(119,417)
Revaluation	(8,041)	—	—	—	—	—	(8,041)
At 31 December 2001	879	—	1,862	—	3,885	4,688	11,314
Net book value:							
At 31 December 2001	100,131	129,623	2,694	—	5,322	6,822	244,592
At 31 December 2000	468,451	42,222	3,619	2,958	531,329	10,929	1,059,508

14. FIXED ASSETS (continued)

Group (continued)

The leasehold land and buildings of the Group included above are held under the following lease terms:

	Group	
	2001 HK\$'000	2000 HK\$'000
Situated in Hong Kong:		
Medium term leases	23,567	49,873
Long term leases	3,874	7,363
	27,441	57,236
Situated outside Hong Kong:		
Short term leases	—	873
Medium term leases	27,179	400,986
Long term leases	9,143	8,310
Unspecified	36,368	1,046
	72,690	411,215
	100,131	468,451

At the balance sheet date, certain leasehold land and buildings in Hong Kong were revalued on an open market, existing use basis by RHL Appraisal Ltd., an independent firm of professional valuers, at HK\$22,000,000. The resulting revaluation deficits amounted to approximately HK\$4,534,000 has been charged to the profit and loss account.

At the balance sheet date, interest capitalised in construction in progress by the Group amounted to approximately HK\$5,304,000 (2000: nil).

At the balance sheet date, the Group is in the progress of applying for building ownership certificates for certain of its leasehold land and buildings situated in the PRC (the "Properties") with carrying values of approximately HK\$36,368,000. The carrying values of the Properties was stated at their historical construction cost.

Had the Group's revalued leasehold land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$139,023,000 (2000: HK\$510,617,000).

At the balance sheet date, certain leasehold land and buildings of the Group with net book values of HK\$22,000,000 (2000: HK\$202,866,000) were pledged to banks to secure bank borrowings as set out in note 28 to the financial statements.

15. INVESTMENT PROPERTIES

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
At valuation:		
At beginning of year	271,626	232,000
Arising from acquisition of subsidiaries	—	39,626
Transfer from properties held for sale	11,000	—
Disposal of subsidiaries	(39,626)	—
At 31 December	243,000	271,626

The Group's investment properties included above are held under the following lease terms:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Situated outside Hong Kong:		
At valuation:		
Medium term leases	232,000	271,626
Unspecified	11,000	—
	243,000	271,626

At the balance sheet date, the investment properties were revalued on an open market value, income capitalisation basis by RHL Appraisal Ltd. at HK\$243,000,000 (2000: HK\$271,626,000). The investment properties are leased to third parties under operating leases, further details of which are included in note 33 to the financial statements.

Investment properties with a valuation of HK\$68,000,000 (2000: HK\$118,000,000) are pledged to banks to secure bank borrowings as set out in note 28 to the financial statements.

Further particulars of the Group's investment properties are included on page 95.

31 December 2001

16. INTANGIBLE ASSETS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cost:		
At beginning of year	536,024	—
Arising from acquisition of subsidiaries	—	533,709
Exchange adjustments	—	2,315
Disposal of subsidiaries	(536,024)	—
At 31 December	—	536,024
Accumulated amortisation:		
At beginning of year	10,327	—
Amortisation for the year	6,839	10,327
Disposal of subsidiaries	(17,166)	—
At 31 December	—	10,327
Net book value:		
At 31 December	—	525,697

Last year's intangible assets represented taxi licenses in Shenzhen, the PRC held by SSTG.

17. GOODWILL AND NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amount of negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group Negative goodwill <i>HK\$'000</i>
Cost:	
Acquisition of subsidiaries:	
19.3% equity interest in Shenzhen Freeway	30,261
57.5% additional equity interest (as adjusted) in Shenzhen Freeway	128,984
At 31 December 2001	159,245
Accumulated recognition as income:	
Recognised as income during the year and at 31 December 2001	(5,620)
Net book value:	
At 31 December 2001	153,625

17. GOODWILL AND NEGATIVE GOODWILL (continued)

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

The amount of goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, are as follows:

	Group Goodwill eliminated against consolidated reserves HK\$'000
Cost:	
At beginning of year	270,966
Disposal of subsidiaries	(34,531)
At 31 December 2001	236,435
Accumulated impairment:	
At beginning of year and at 31 December 2001	—
Net amount:	
At 31 December 2001	236,435
At 31 December 2000	270,966

18. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted investments, at cost	98,515	98,515
Due from subsidiaries	2,390,048	2,280,310
Due to a subsidiary	(372)	(200)
Provision for impairment	2,488,191 (904,316)	2,378,625 (904,316)
	1,583,875	1,474,309

18. INTERESTS IN SUBSIDIARIES (continued)

The amount due from a subsidiary included in the Company's current assets is unsecured, interest-free and has no fixed terms of repayment. The balances with subsidiaries included in the Company's non-current assets are unsecured and repayable after one year, and except for the amounts of HK\$92,248,000 which bear interest at prevailing interest rates in Hong Kong, the remaining balances are interest-free.

Particulars of the principal subsidiaries are included on page 96.

Turnover and net profit attributable to shareholders contributed by subsidiaries acquired during the year were nil (2000: HK\$558,032,000) and HK\$68,357,194 (2000: HK\$3,117,000), respectively.

Turnover and net profit attributable to shareholders contributed by subsidiaries disposed of during the year were HK\$439,861,000 (2000: HK\$76,261,000) and HK\$2,788,000 (2000: net loss of HK\$11,546,000), respectively.

19. INTERESTS IN ASSOCIATES

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net assets other than goodwill	2,152,341	520,057
Due from associates	—	5,061
Provision for impairment	(48,716)	(49,425)
	2,103,625	475,693

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

The share of net assets and market values of the Group's listed equities were as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net assets:		
Listed equities in Hong Kong	106,748	57,065
Listed equities outside Hong Kong	2,677	17,294
Provision for impairment	(48,716)	(48,716)
	60,709	25,643

19. INTERESTS IN ASSOCIATES (continued)

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Market values:		
Listed equities in Hong Kong	224,709	290,032
Listed equities outside Hong Kong	5,060	21,521
	229,769	311,553

The market values of the listed equities in Hong Kong and outside Hong Kong at the date of approval of these financial statements were approximately 229,935,000 and 4,410,000, respectively.

The Group's share of net profits retained by the associates for the year after transfers to and from reserves amounted to HK\$78,026,000 (2000: net loss of HK\$10,759,000).

The Group's share of the post-acquisition accumulated reserves of associates at the balance sheet date was HK\$11,427,000 (2000: accumulated deficits of HK\$65,414,000).

19. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2001	2000	
Shenzhen Expressway Company Limited (“Shenzhen Expressway”) ^{@#}	Corporate	PRC	23.1	—	Development, operations and management of toll highways and expressways
CSG Technology Holding Co., Ltd. (“CSG”) ^{@*}	Corporate	PRC	24.3	25.0	Design, production, processing and sale of glass products
Shenzhen High-Tech Holdings Limited (“Shenzhen High-Tech”)	Corporate	Bermuda/ Hong Kong	21.1	26.6	High-tech information industry and ophthalmology treatments business

[@] Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

[#] The Group’s holding in Shenzhen Expressway comprises 654,780,000 unlisted founder shares. The unlisted founder shares rank pari passu in all respects including, in particular, as to dividends, voting rights and capital.

^{*} The Group’s holding in CSG comprises 163,379,998 unlisted founder shares and 1,000,000 listed “B” shares. The listed “B” shares are listed on the Shenzhen Stock Exchange. Both listed and unlisted shares The unlisted founder shares rank pari passu in all respects including, in particular, as to dividends, voting rights and capital.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN ASSOCIATES (continued)

Extracts of the operating results and financial position of Shenzhen Expressway, which are based on the published audited financial statements prepared in accordance with generally accepted accounting principles in Hong Kong, are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating results for the year ended 31 December		
Turnover	461,913	396,506
Operating profit before tax and after minority interests	397,469	342,600
Tax	(132)	(207)
Profit after tax	397,337	342,393
Financial position as at 31 December		
Non-current assets	5,125,297	4,915,538
Current assets	1,271,992	484,339
Total assets	6,397,289	5,399,877
Non-current liabilities	886,680	859,941
Current liabilities	406,182	212,300
Total liabilities	1,292,862	1,072,241
Minority interests	46,532	46,706
	1,339,394	1,118,947
Net assets	5,057,895	4,280,930
Contingent liabilities	—	23,576

19. INTERESTS IN ASSOCIATES (continued)

Extracts of the operating results and financial position of CSG, which are based on the published audited financial statements prepared in accordance with International Accounting Standards (“IAS”), are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating results for the year ended 31 December		
Turnover	963,244	1,097,339
Operating profit before tax and after minority interests	148,503	184,861
Tax	(4,022)	(6,287)
Profit after tax	144,481	178,574
Financial position as at 31 December		
Non-current assets	1,794,650	1,732,896
Current assets	727,604	853,397
Total assets	2,522,254	2,586,293
Non-current liabilities	—	154
Current liabilities	676,233	785,246
Total liabilities	676,233	785,400
Minority interests	32,336	54,989
	708,569	840,389
Net assets	1,813,685	1,745,904
Contingent liabilities	—	—

Certain comparative figures have been reclassified to conform with the current year's presentation in accordance with the new presentation and disclosure requirements under IAS.

19. INTERESTS IN ASSOCIATES (continued)

Extracts of the operating results and financial position of Shenzhen High-Tech, which are based on the published audited financial statements prepared in accordance with generally accepted accounting principles in Hong Kong, are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating results for the year ended 31 December		
Turnover	157,577	27,147
Operating profit/(loss) before tax and after minority interests	20,746	(209,612)
Tax	(4,097)	(47)
Profit/(loss) after tax	16,649	(209,659)
Financial position as at 31 December		
Non-current assets	296,179	37,356
Current assets	520,705	290,025
Total assets	816,884	327,381
Non-current liabilities	100,467	3,844
Current liabilities	127,617	46,883
Total liabilities	228,084	50,727
Net assets	588,800	276,654
Contingent liabilities	29,646	23,679

Without qualifying their audit opinion, the auditors of Shenzhen High-Tech has included an explanatory paragraph in the report of the auditors in respect of the fundamental uncertainty over the recoverability of an outstanding accounts receivable of approximately HK\$57,500,000 in the published audited financial statements of Shenzhen Hi-Tech for the year ended 31 December 2001. The Group's share of the maximum potential financial impact related to the aforementioned fundamental uncertainty over the recoverability of the outstanding accounts receivable is a loss effect of approximately HK\$12,000,000 affecting the "Share of profits of associates" on the face of the Group's consolidated profit and loss account, on an equity accounting basis. The corresponding effect resulted from the abovementioned fundamental uncertainty affect the "Interests in associates" on the face of the Group's consolidated balance sheet.

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets other than goodwill	41,680	59,700
Due from jointly-controlled entities	—	14,418
Deposit paid for acquisition of a proposed jointly-controlled entity	4,696	28,272
Loan to a proposed jointly-controlled entity	28,100	28,100
Due to jointly-controlled entities	—	(2,075)
Provision for impairment	(32,796)	(32,796)
	41,680	95,619

The Group's share of net losses retained by the jointly-controlled entities for the year after transfers to and from reserves amounted to HK\$4,233,000 (2000: net profits of HK\$7,168,000).

The Group's share of the post-acquisition accumulated reserves of the jointly-controlled entities at the balance sheet date was HK\$8,766,000 (2000: HK\$12,999,000).

The loan to a proposed jointly-controlled entity of HK\$28,100,000 (2000: HK\$28,100,000) is unsecured, bears interest at 12% per annum and is repayable on demand. Save as disclosed above, the balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

The management intended to fulfill the capital injection of the proposed jointly-controlled entity of HK\$16 million through the repayment of the above loan. In the opinion of the directors, the Group would not have any additional resource outflow regarding the proposed jointly-controlled entity.

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Shenzhen Xin Li Xin Concrete Industry Company Limited [@]	Corporate	PRC	26	26	26	Production of concrete
Shenzhen Airport International Express Supervision Center Co., Ltd. ^{@#}	Corporate	PRC	35	35	35	Provision of logistic services

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

All of the investments in jointly-controlled entities are indirectly held by the Company.

@ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The jointly-controlled entity was newly established during the year and was held through Total Logistics (Shenzhen) Co. Ltd. ("Total Logistics"), a 70% owned subsidiary.

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

21. INVESTMENT SECURITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted equities outside Hong Kong, at cost	326,762	182,957
Provision for impairment	(172,391)	(172,391)
	154,371	10,566
Listed equities in Hong Kong, at cost	1,799	867
Provision for impairment	(530)	(530)
	1,269	337
	155,640	10,903
Market value of listed equities in Hong Kong	1,340	334

During the year, the Group acquired a 5% equity interest in a PRC limited liability company from a jointly-controlled entity of Shenzhen Expressway at a consideration of RMB75,062,000 (equivalent to approximately HK\$70,786,000).

The unlisted equities included equity interests in two joint venture companies established in the PRC in which the Group has 25% equity interests. The Group does not participate in the financial and operating policy decisions of the above companies and is, therefore, not in a position to exercise significant influence. Accordingly, these investments are accounted for as unlisted equity investment securities.

22. BALANCES WITH SUBSTANTIAL SHAREHOLDER

Last year's amount due from substantial shareholder of HK\$193,361,000 represented amount receivable from SIHC for the disposal of a group of subsidiaries and unlisted equity investment securities and the assignment of certain contractual interests pursuant to an agreement dated 11 September 2000. The amount was settled in cash by SIHC during the year.

At the balance sheet date, the amount due to substantial shareholder included a loan from SIHC of HK\$18,861,000 which is unsecured, bear interest at a rate of 6.03% per annum and repayable on or before 30 June 2002. The remaining balance of the amount payable to SIHC is unsecured, interest-free and has no fixed terms of repayment.

23. OTHER INVESTMENTS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Outside Hong Kong:		
Listed debt securities, at market value	139,142	37,722
Listed equity securities, at market value	187	467
	139,329	38,189

The listed debt securities mainly represent government bonds listed on both the Shanghai Stock Exchange and the Shenzhen Stock Exchange of the PRC.

24. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoice amount, an estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group			
	2001		2000	
	Balance <i>HK\$'000</i>	Percentage	Balance <i>HK\$'000</i>	Percentage
0–90 days	5,764	83	19,959	58
91–180 days	256	4	5,173	15
181–365 days	138	2	1,220	4
Over 365 days	753	11	7,917	23
	6,911	100	34,269	100
Provision	—		(8,356)	
Total after provision	6,911		25,913	

25. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	138,459	142,993	902	58
Bank deposits	166,234	532,381	6,379	370,805
	304,693	675,374	7,281	370,863
Less: pledged bank deposits for short term bank loans	(60,000)	(65,000)	—	—
	244,693	610,374	7,281	370,863

26. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group			
	2001		2000	
	Balance HK\$'000	Percentage	Balance HK\$'000	Percentage
0–90 days	1,273	16	17,554	86
91–180 days	4,566	58	1,251	6
181–365 days	454	6	18	—
Over 365 days	1,624	20	1,505	8
	7,917	100	20,328	100

27. CONVERTIBLE BOND

On 16 March 2000, an agreement was entered into between (i) Hutchison International Limited (“Hutchison”), a wholly-owned subsidiary of Hutchison Whampoa Limited which is listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), (ii) SIHC, and (iii) the Company, pursuant to which the Company agreed to issue a convertible bond of approximately HK\$514,000,000 (the “Convertible Bond”) to Hutchison. The Convertible Bond bore interest at a rate of 4.5% per annum. Interest was payable once every six months in arrears. Upon maturity of the Convertible Bond on 15 October 2001, the Company repaid Hutchison the outstanding principal of approximately HK\$514,000,000 in full.

28. INTEREST-BEARING BORROWINGS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank loans:		
Secured	223,039	240,007
Unsecured	142,896	106,448
	365,935	346,455
	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank loans payable:		
Within one year	128,735	262,028
In the second year	217,360	84,244
In the third to fifth years, inclusive	19,840	183
	365,935	346,455
Other loans unsecured and payable:		
Within one year	258,977	34,492
	624,912	380,947
Portion classified as current liabilities	(387,712)	(296,520)
Non-current portion	237,200	84,427

28. INTEREST-BEARING BORROWINGS (continued)

At the balance sheet date, the Group's interest-bearing borrowings was supported by the following:

- (a) pledge of certain land and buildings of the Group (note 14);
- (b) pledge of certain investment properties of the Group (note 15);
- (c) pledge of 150,000,000 unlisted founder shares in Shenzhen Expressway held by the Group;
- (d) pledge of bank deposits of the Group totalling HK\$60,000,000 (2000: HK\$65,000,000) (note 25); and
- (e) corporate guarantee executed by the Company.

At 31 December 2001, the other loans represent loans advance from Shenzhen Finance Bureau and Shenzhen Communications Bureau. The loans are unsecured, bear interest at rates ranged between 3.6% and 7.2% per annum and are repayable on demand.

29. OTHER ADVANCES, OTHER PAYABLES AND OTHER DEPOSITS RECEIVED

At 31 December 2001, other advances include long-term advances obtained from Shenzhen Communications Bureau and Shenzhen Finance Bureau amounted to approximately HK\$70,285,000 and HK\$943,000, respectively, which are unsecured, interest-free and not repayable within one year. In addition, the balance also included advances granted by other local government authorities amounted to approximately HK\$174,462,000 which are unsecured, interest-free and are designated for the use in certain projects managed by the Group on behalf of the relevant local government authorities. In the opinion of the directors, these advances are not repayable within one year.

Last year's other deposits represented deposits received from staff for the acquisition of dormitories from the Group and other payables represented the balances payable for the acquisition of fixed assets by the Group.

30. SHARE CAPITAL

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Authorised:		
20,000,000,000 ordinary shares of HK\$0.10 each (2000: 20,000,000,000 ordinary shares of HK\$0.10 each)	2,000,000	2,000,000
Issued and fully paid:		
11,215,211,626 ordinary shares of HK\$0.10 each (2000: 11,100,838,261 ordinary shares of HK\$0.10 each)	1,121,521	1,110,084

30. SHARE CAPITAL (continued)

Details of the movements in the issued share capital of the Company during the year were as follows:

	<i>Notes</i>	Share capital <i>HK\$'000</i>	Number of ordinary shares in issue
At 1 January 2001		1,110,084	11,100,838,261
Share options exercised	(a)	610	6,100,000
Warrants exercised	(b)	10,827	108,273,365
At 31 December 2001		1,121,521	11,215,211,626

- (a) During the year, 6,100,000 ordinary shares of HK\$0.10 each were issued for cash at an average subscription price of HK\$0.202 per share pursuant to the exercise of the subscription rights attaching to 6,100,000 share options, for a total consideration of approximately HK\$1,232,000.
- (b) During the year, 108,273,365 ordinary shares of HK\$0.10 each were issued for cash at a subscription price of HK\$0.118 per share, pursuant to the exercise of 108,273,365 warrants for a total consideration of approximately HK\$12,776,000.

The excess of the proceeds over the par value of the ordinary shares issued was credited to the share premium account.

(a) *Share options*

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the section "Share option scheme" in the Report of the Directors on pages 27 to 33.

The movements in the number of share options to subscribe for ordinary shares in the Company during the year were as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of			
	HK\$0.165	HK\$0.272	HK\$0.308	Total
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
At 1 January 2001	6,000	237,700	—	243,700
Granted during the year	—	—	2,000	2,000
Exercised during the year	(4,000)	(2,100)	—	(6,100)
Lapsed during the year	—	(30,000)	—	(30,000)
At 31 December 2001	2,000	205,600	2,000	209,600

30. SHARE CAPITAL (continued)(a) *Share options (continued)*

At the balance sheet date, the Company had 209,600,000 share options outstanding under the Scheme, with exercise periods of 5 years or up to the expiry date of the Scheme on 15 April 2004, whichever is earlier. The details of the outstanding share options as at 31 December 2001 are as follows:

No of share options	Exercise period	Exercise price
2,000,000	4 March 1998 to 3 March 2003	HK\$0.165
205,600,000	22 January 2001 to 15 April 2004	HK\$0.272
2,000,000	19 June 2001 to 15 April 2004	HK\$0.308
<hr/>		
209,600,000		

(b) *Warrants*

On 8 September 1998, as part of a rights issue, a bonus issue of warrants (the "Year 2001 Warrants") was made in the proportion of one warrant for every five rights shares taken up. 540,258,595 Year 2001 Warrants were issued pursuant to the bonus issue. Each Year 2001 Warrant entitles the registered holder to subscribe for one ordinary share of the Company at a subscription price of HK\$0.118 per ordinary share, from the date of issue up to and including 14 September 2001.

The Company had 109,813,926 warrants outstanding at the beginning of the year. During the year, 108,273,365 warrants were exercised and converted into ordinary shares of the Company. The remaining 1,540,561 warrants not exercised were cancelled when the exercise rights lapsed on 14 September 2001.

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31. RESERVES

Group

	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000 (note i)	Asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Enterprise expansion fund HK\$'000 (note ii)	Statutory reserve fund HK\$'000 (note ii)	Staff welfare reserve HK\$'000 (note iii)	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2000	955,457	1,644	10,327	13,005	6,955	5,172	29	322	2,831	(212,664)	(548,011)	235,067
Transfer to statutory reserve fund	—	—	—	—	—	—	—	4,770	—	—	(4,770)	—
Transfer to staff welfare reserve	—	—	—	—	—	—	—	—	2,669	—	(2,669)	—
Arising on:												
exercise of share options	8,515	—	—	—	—	—	—	—	—	—	—	8,515
subscription of shares	30,000	—	—	—	—	—	—	—	—	—	—	30,000
exercise of warrants	7,745	—	—	—	—	—	—	—	—	—	—	7,745
acquisition of subsidiaries	48,364	—	—	—	—	—	—	—	—	(34,531)	—	13,833
Write off of goodwill of a subsidiary	—	—	—	—	—	—	—	—	—	200	—	200
Disposal of subsidiaries	—	(936)	(3,148)	—	(5,390)	—	—	—	(33)	38,554	5,390	34,437
Acquisition of additional interest in an associate	—	162	666	—	—	—	—	—	—	(62,525)	—	(61,697)
Dilution of interest in an associate	—	(46)	(873)	—	—	—	—	—	—	—	—	(919)
Disposal of interest in an associate	—	(21)	(437)	—	—	—	—	—	—	—	—	(458)
Share of reserve movements of an associate	—	—	—	—	—	—	—	3,892	1,946	—	(5,838)	—
Exchange differences arising on consolidation of subsidiaries, associates and jointly-controlled entities outside Hong Kong	—	4,356	—	—	—	—	—	—	—	—	—	4,356
Net profit for the year	—	—	—	—	—	—	—	—	—	—	112,221	112,221
At 31 December 2000	1,050,081	5,159	6,535	13,005	1,565	5,172	29	8,984	7,413	(270,966)	(443,677)	383,300

31. RESERVES (continued)

Group

	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000 (note i)	Asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Enterprise expansion fund HK\$'000 (note ii)	Statutory reserve fund HK\$'000 (note iii)	Staff welfare reserve HK\$'000 (note iii)	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	1,050,081	5,159	6,535	13,005	1,565	5,172	29	8,984	7,413	(270,966)	(443,677)	383,300
Transfer to enterprise expansion fund	—	—	—	—	—	—	12,814	—	—	—	(12,814)	—
Arising on:												
exercise of share options	622	—	—	—	—	—	—	—	—	—	—	622
exercise of warrants	1,949	—	—	—	—	—	—	—	—	—	—	1,949
Disposal of subsidiaries	—	(2,205)	—	—	—	—	—	(4,770)	(2,669)	34,531	—	24,887
Dilution of interests in an associate	—	—	(718)	—	—	—	—	—	—	—	—	(718)
Disposal of interests in an associate	—	(142)	—	—	—	—	—	(132)	(160)	—	—	(434)
Share of reserve movements of an associate	—	—	—	—	—	—	8,969	—	—	—	—	8,969
Exchange differences arising on consolidation of subsidiaries, associates and jointly-controlled entities outside Hong Kong	—	(67)	—	—	—	—	—	—	—	—	—	(67)
Net profit for the year	—	—	—	—	—	—	—	—	—	—	251,412	251,412
At 31 December 2001	1,052,652	2,745	5,817	13,005	1,565	5,172	21,812	4,082	4,584	(236,435)	(205,079)	669,920
Reserves retained by:												
Company and subsidiaries	1,052,652	(2,058)	2,919	13,005	1,565	5,172	21,783	322	—	(236,435)	(209,198)	649,727
Associates	—	4,685	2,898	—	—	—	29	3,760	4,584	—	(4,529)	11,427
Jointly-controlled entities	—	118	—	—	—	—	—	—	—	—	8,648	8,766
At 31 December 2001	1,052,652	2,745	5,817	13,005	1,565	5,172	21,812	4,082	4,584	(236,435)	(205,079)	669,920
Reserves retained by:												
Company and subsidiaries	1,050,081	214	2,919	13,005	1,565	5,172	—	5,092	2,636	(270,966)	(374,003)	435,715
Associates	—	4,827	3,616	—	—	—	29	3,892	4,777	—	(82,555)	(65,414)
Jointly-controlled entities	—	118	—	—	—	—	—	—	—	—	12,881	12,999
At 31 December 2000	1,050,081	5,159	6,535	13,005	1,565	5,172	29	8,984	7,413	(270,966)	(443,677)	383,300

31. RESERVES (continued)

Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(note i)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	955,457	58,515	(778,973)	234,999
Arising on:				
subscription of share options	8,515	—	—	8,515
subscription of shares	30,000	—	—	30,000
exercise of warrants	7,745	—	—	7,745
acquisition of subsidiaries	48,364	—	—	48,364
Net profit for the year	—	—	81,685	81,685
At 31 December 2000 and 1 January 2001	1,050,081	58,515	(697,288)	411,308
Arising on:				
exercise of share options	622	—	—	622
exercise of warrants	1,949	—	—	1,949
Net profit for the year	—	—	83,895	83,895
31 December 2001	1,052,652	58,515	(613,393)	497,774

Notes:

- (i) The contributed surplus of the Group represents the difference between the nominal value of the shares of the former group holding company acquired pursuant to the group reorganisation on 9 January 1990, over the nominal value of the Company's shares issued in exchange.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same group reorganisation, over the nominal value of the Company's shares issued in exchange.

- (ii) In accordance with the PRC regulations, certain companies in the PRC are required to transfer part of their profits after tax to the enterprise expansion fund and the statutory reserve fund, which are non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies, in accordance with their joint venture agreements and/or articles of association.
- (iii) In accordance with the PRC regulations, certain companies in the PRC are required to transfer part of their profits after tax to the staff welfare reserve, which is non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies in accordance with their articles of association. The staff welfare reserve can only be used for the collective benefit of these companies' employees.

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of the Group's profit from operating activities to net cash inflow from operating activities

	Group	
	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	221,798	159,093
Interest income	(26,574)	(28,703)
Provisions for obsolete and slow moving inventories	—	6,601
Depreciation	101,782	135,779
Loss on disposal of fixed assets	3,013	6,265
Amortisation of intangible assets	6,839	10,327
Revaluation deficit on leasehold land and buildings	19,068	6,935
Provisions for bad and doubtful debts	—	5,053
Impairment of properties held for sale	4,210	4,620
Impairment of unlisted equity investment securities	—	3,065
Impairment of listed equity investment securities	—	530
Impairment of properties under development for sale	—	472
Goodwill amortisation and impairment	—	200
Loss on disposal of non-core business operations	—	967
Dividend income from listed equity investment securities	(59)	(15)
Gain on disposal of interests in associates	(47,528)	(19,850)
Gain on dilution of interests in associates	(108,795)	(37,856)
Gain on disposal of unlisted equity investment securities	—	(6,466)
Gain on disposal of properties held for sale	—	(31,055)
Gain on disposal of subsidiaries	(53,745)	(53,368)
Gain on disposal of other investments	(614)	(394)
Write back of impairment of a jointly-controlled entity	—	(2,824)
Net unrealised gain on other investments	(2,352)	(160)
Negative goodwill recognised as income	(5,620)	—
Net cash inflow before changes in working capital	111,423	159,216

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(a) Reconciliation of the Group's profit from operating activities to net cash inflow from operating activities (continued)

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net cash inflow before changes in working capital	111,423	159,216
Increase in amounts due from associates	(124)	—
Increase in amounts due to associates	8,710	—
Decrease in amounts due from a jointly-controlled entity	100	2,483
Decrease/(increase) in properties under development for sale	14,764	(320)
Decrease in balances with related companies	—	12,561
Increase in inventories	(455)	(8,207)
Decrease/(increase) in properties held for sale	5,083	(3,837)
Increase in trade receivables, deposits, prepayments and other receivables	(16,614)	(30,827)
Increase/(decrease) in trade payables, accrued liabilities, payables and customers' deposits	34,116	(22,701)
Increase in refundable deposits received	22,634	56,976
(Decrease)/increase in receipts in advances for sale of properties	(1,971)	12,283
(Decrease)/increase in deferred income	(1,810)	14,916
Decrease in other advances, other payables and other deposits received	(13,729)	(309)
Exchange differences arising on consolidation of subsidiaries, associates and jointly-controlled entities outside Hong Kong	—	(1,529)
Net cash inflow from operating activities	162,127	190,705

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

Details of disposal of subsidiaries during the year are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Fixed assets	1,034,494	98,704
Due from related companies	—	1,699
Investment properties	39,626	—
Interests in associates	22,422	—
Interests in jointly-controlled entities	59,781	—
Properties under development for sale	59,004	—
Intangible assets	518,858	—
Deposits for acquisition of fixed assets	7,006	—
Inventories	5,882	18,342
Properties held for sale	194,310	1,653
Trade receivables	30,929	11,726
Deposits, prepayments and other receivables	143,837	8,118
Cash and cash equivalents	126,070	13,839
Trade payables	(22,555)	(13,892)
Due to related companies	—	(2,070)
Accrued liabilities, payables and customers' deposits	(284,414)	(35,658)
Tax payable	(23,626)	(1,452)
Interest-bearing borrowings	(253,021)	(50,249)
Lease payables	(19,564)	—
Due to a minority shareholder	(5,657)	—
Refundable deposits received	(206,754)	—
Receipts in advance for sales of properties	(103,692)	—
Deferred income	(86,537)	—
Other advances, other payables and other deposits received	(256,958)	—
Minority interests	(402,557)	(2,878)
Total net assets disposed of	576,884	47,882
Goodwill reserve released on disposal	34,531	38,554
Capital reserve released on disposal	—	(3,148)
Statutory reserve fund released on disposal	(4,770)	—
Staff welfare reserve released on disposal	(2,669)	(54)
Exchange fluctuation reserve released on disposal	(2,205)	(936)
Expenditure incurred in respect of the disposal of subsidiaries	884	259
Gain on disposal of subsidiaries	53,745	53,368
	656,400	135,925

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries (continued)

	Group	
	2001 HK\$'000	2000 HK\$'000
Represented by:		
Consideration for acquisition of 57.5% additional equity interest (as adjusted) in Shenzhen Freeway Development Co., Ltd. — note 32 (c)	656,400	—
Cash consideration	—	115
Consideration discharged by amounts due from the substantial shareholder	—	47,757
Unlisted equity investment securities	—	10,566
Interests in an associate	—	21,628
Reserves arising on additional interests in an associate:	—	—
— Capital reserve	—	(666)
— Exchange fluctuation reserve	—	(162)
— Goodwill reserve	—	62,525
Accrued liabilities, payables and customers' deposits	—	(5,838)
	656,400	135,925

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of above subsidiaries is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Cash consideration received	—	115
Cash and bank balances of disposed subsidiaries	(126,070)	(13,839)
	(126,070)	(13,724)

The subsidiaries disposed of during the year ended 31 December 2001 contributed HK\$142,034,000 (2000: HK\$7,512,000) to the Group's net operating cash inflow, paid HK\$6,132,000 (2000: HK\$2,407,000) in respect of net returns on investments and servicing of finance, utilised HK\$91,217,000 (2000: HK\$1,332,000) in respect of investing activities and contributed HK\$21,962,000 (2000: HK\$1,053,000) for financing activities.

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries

Details of the acquisition of subsidiaries during the year are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	204,857	739,661
Investment securities	73,604	—
Investment properties	—	39,626
Interests in associates	1,469,059	24,844
Interests in jointly-controlled entities	—	58,838
Properties under development for sale	—	73,920
Assets held for disposal	—	179,770
Intangible assets	—	533,709
Deposits for acquisition of fixed assets	—	14,716
Other investments	103,734	—
Inventories	—	5,813
Properties held for sale	—	199,198
Trade receivables	—	37,375
Deposits, prepayments and other receivables	9,281	106,580
Cash and cash equivalents	137,414	105,341
Trade payables	(2,381)	(55,248)
Accrued liabilities, payables and customers' deposits	(16,271)	(245,010)
Tax payable	(12,975)	(27,708)
Interest-bearing borrowings	(376,977)	(253,148)
Due to substantial shareholder	(18,861)	—
Lease payables	—	(5,116)
Refundable deposits received	—	(127,144)
Receipts in advance for sales of properties	—	(93,380)
Deferred income	—	(336,301)
Other advances, other payables and other deposits received	(207,027)	(4,318)
Minority interests	(312,927)	(402,922)
Total net assets acquired	1,050,530	569,096
Capitalised expenditure incurred in respect of the acquisition	(1,352)	(3,627)
Goodwill/(negative goodwill)	(128,984)	34,531
Total consideration	920,194	600,000
Satisfied by:		
Cash deposit for the acquisition paid in prior year as consideration	—	68,000
Shares in the Company issued as consideration	—	532,000
Interests in an associate	263,794	—
Consideration for disposal of 60% equity interest in SSTG — note 32 (b)	656,400	—
	920,194	600,000

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries (continued)

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the above subsidiaries is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Cash and cash equivalents acquired	137,414	105,341
Less: Bank deposits with original maturity of more than three months when acquired	(80,280)	—
	57,134	105,341

The subsidiaries acquired during the year contributed HK\$39,340,000 (2000: HK\$208,547,000) to the Group's net operating cash inflows, received HK\$1,273,000 (2000: paid HK\$11,991,000) in respect of net returns on investments and servicing of finance, utilised HK\$79,543,000 (2000: HK\$95,433,000) in respect of investing activities and obtained HK\$71,101,000 (2000: contributed HK\$16,066,000) for financing activities.

(d) Analysis of changes in financing of the Group during the year

	Issued capital (including share premium) HK\$'000	Bank loans and other loans HK\$'000	Convertible bond HK\$'000	Minority interests HK\$'000	Finance lease payables HK\$'000	Amounts due to substantial shareholder HK\$'000
Balance as at 1 January 2000	1,495,733	152,298	—	7,101	6,634	1,849
Cash inflow/(outflow) from financing, net	132,432	(36,842)	513,661	28,259	(8,818)	(1,650)
Acquisition of subsidiaries	532,000	253,148	—	402,922	5,116	—
Minority interests' share of loss for the year	—	—	—	(6,460)	—	—
Disposal of subsidiaries	—	(50,249)	—	(2,878)	—	—
Inception of finance leases	—	—	—	—	19,096	—
Minority interests' share of staff welfare reserve movement for the year	—	—	—	(21)	—	—
Exchange differences	—	1,294	—	1,443	22	—
Balance as at 31 December 2000 and 1 January 2001	2,160,165	319,649	513,661	430,366	22,050	199
Cash inflow/(outflow) from financing, net	14,008	137,446	(513,661)	—	(2,486)	(64)
Acquisition of subsidiaries	—	376,977	—	312,927	—	18,861
Minority interests' share of profit for the year	—	—	—	26,201	—	—
Disposal of subsidiaries	—	(253,021)	—	(402,557)	(19,564)	—
Balance as at 31 December 2001	2,174,173	581,051	—	366,937	—	18,996

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Major non-cash transactions

- (i) During the year, the Group acquired 57.5% additional equity interest (as adjusted) in Shenzhen Freeway Development Company Ltd. ("Shenzhen Freeway") at a consideration of RMB696,000,000 (equivalent to HK\$656,400,000). The above consideration was satisfied by the disposal of the Group's entire 60% equity interest in SSTG. Further details of the above transactions are set out in note 36(d) to the financial statements.
- (ii) During the year ended 31 December 2000, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$21,059,000.
- (iii) During the year ended 31 December 2000, the Group disposed of its entire interest in a group of companies to Shenzhen High-Tech at a consideration of approximately HK\$129,000,000. The consideration was satisfied by the issuance of approximately 462 million shares of Shenzhen High-Tech at HK\$0.28 per share.
- (iv) During the year ended 31 December 2000, the Group acquired a 60% equity interest in SSTG at a consideration of approximately HK\$600,000,000. Part of the consideration of approximately HK\$68,000,000 was settled in cash with the remaining balance of approximately HK\$532,000,000 settled by the Company through the issuance of approximately 4,836 million shares of the Company at HK\$0.11 per share.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with original leases negotiated for terms of not exceeding 15 years. The terms of the lease provide for periodic rent adjustments according to the then prevailing market conditions.

As 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	21,655	19,766
In the second to fifth years, inclusive	107,149	100,103
After five years	168,464	225,404
	297,268	345,273

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33. OPERATING LEASE ARRANGEMENTS (continued)**(b) As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of 1 year.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> <i>(Restated)</i>
Within one year	424	819
In the second to fifth years, inclusive	—	264
	424	1,083

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

The Company has no operating lease arrangements as lessor or lessee as at 31 December 2001 (2000: nil).

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) to the financial statements above, the Group had the following commitments contracted, but not provided for, at the balance sheet date:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Acquisition of fixed assets	—	77,874
Investments in unlisted equity investment securities and subsidiaries in the PRC	1,053	61,014
Acquisition of additional equity interest in Shenzhen Freeway — note	330,000	—
Acquisition of 19.3% equity interest in Shenzhen Freeway	—	209,249
	331,053	348,137

Note: The balance represented the capital commitment in relation to the acquisition of the remaining 23.2% equity interest in Shenzhen Freeway. Further details of which are set out in note 36(e) to the financial statements.

At the balance sheet date, the Company had no significant commitments (2000: nil).

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Guarantees for mortgage loans granted by banks to certain purchasers of the Group's properties held for sale	3,151	53,556
	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Corporate guarantees for banking facilities utilised by subsidiaries	25,000	—

36. RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) Establishment of Shenzhen SIHC Venture Capital Co., Ltd. ("SIHC Venture Capital")

In January 2001, the Company entered into a shareholders agreement with four subsidiaries owned by SIHC (which included Shenzhen Freeway) for the establishment of SIHC Venture Capital through Total Logistics, a 70% owned subsidiary. Pursuant to the agreement, each of the five shareholders, including Total Logistics, contributed RMB20 million (approximately HK\$18.7 million) and owns 20% equity interest in SIHC Venture Capital. SIHC Venture Capital is mainly engaged in direct investment in the new and high technology industry, management and operation of venture capital of other venture capital companies and investment consultancy business. After the completion of the acquisition of an additional 57.5 % equity interest in Shenzhen Freeway which became a subsidiary of the Company as detailed in (d) below, the Group holds an aggregate of 40% equity interest in SIHC Venture Capital.

(b) Disposal of a group of subsidiaries and unlisted equity investment securities with the assignment of certain contractual interests to SIHC

On 15 March 2001, the Group completed the disposal of a group of subsidiaries and unlisted equity investment securities with the assignment of certain contractual interests to SIHC. The consideration for the above disposal of HK\$193,361,000 was settled by SIHC in cash.

(c) Acquisition of 19.3% equity interest in Shenzhen Freeway

In September 2000, the Group entered into a conditional acquisition agreement with SIHC, the substantial shareholder of the Company, for the acquisition of 16.5% equity interest in Shenzhen Freeway at a consideration of approximately HK\$209,249,000.

36. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)**(c) Acquisition of 19.3% equity interest in Shenzhen Freeway (continued)**

In November 2000, the Group entered into a supplemental agreement with SIHC for the acquisition of 19.3% equity interest in Shenzhen Freeway instead of 16.5% at the same consideration. This adjustment was made so as to maintain the Group's effective interest in Shenzhen Expressway following the transfer of 4.51% equity interest of Shenzhen Expressway held by Shenzhen Freeway to an enterprise controlled by the Shenzhen Communications Bureau of the PRC.

The legal formalities for the above acquisition was completed in March 2001.

(d) Disposal of 60% equity interest in SSTG and the acquisition of 57.5% equity interest in Shenzhen Freeway

On 21 August 2001, the Group entered into an acquisition agreement with SIHC for the acquisition of an additional 57.5% (as adjusted from 53.7% to 57.5% as per the provisions of the sale and purchase agreement) equity interest in Shenzhen Freeway at a consideration of RMB696,000,000 (equivalent to approximately HK\$656,400,000). The consideration for the above acquisition was determined with reference to the audited consolidated net asset value of Shenzhen Freeway as at 31 December 2000 attributable to the interest being acquired by the Group.

Following the issue of 165 million A shares by Shenzhen Expressway announced on 19 December 2001, the additional equity interest in Shenzhen Freeway to be acquired by the Company was adjusted from 53.7% to 57.5% at the same consideration of RMB696,000,000.

Concurrently, the Group entered into a disposal agreement with SIHC for the disposal of the Group's entire 60% equity interest in SSTG at a consideration of RMB696,000,000 (equivalent to approximately HK\$656,400,000). The consideration for the above disposal was determined with reference to the audited consolidated net asset value of SSTG as at 31 December 2000 attributable to the interests being disposed of.

Further details of the above acquisition and disposal are set out in a circular to shareholders of the Company dated 12 September 2001 and was approved by the independent shareholders of the Company on 8 October 2001.

(e) Acquisition of remaining 23.2% in Shenzhen Freeway

On 20 December 2001, the Group entered into an acquisition agreement with SIHC, pursuant to which the Group acquired the remaining 23.2% equity interest in Shenzhen Freeway at a consideration of RMB349,920,000 (equivalent to approximately HK\$330,000,000). Upon completion of the above acquisition transaction, Shenzhen Freeway will become a wholly-owned subsidiary of the Group.

The consideration for the above acquisition was determined with reference to the net assets value of Shenzhen Freeway as at 30 June 2001 and adjusted for the effect of 165 million A shares issued by Shenzhen Expressway as announced on 19 December 2001. The consideration would be satisfied by the issue of a redeemable non-interest bearing note with a face value of HK\$330,000,000 and carry right to convert into ordinary shares of the Company at HK\$0.365 each.

Further details of the above acquisition are set out in a circular to shareholders of the Company dated 11 January 2002 and was approved by the independent shareholders of the Company subsequent to the balance sheet date on 31 January 2002.

36. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)**(f) Ongoing connected transactions of Total Logistics**

In 2000, Total Logistics entered into certain agreements with related parties for the provision and receiving the provision of certain logistics related services which constituted ongoing connected transactions. The Stock Exchange, on application of the Company, granted waiver from strict compliance with the connected transaction requirements as set out in the Listing Rules. Further details of the ongoing connected transactions and the waiver are set out in a circular to the shareholders of the Company dated 13 July 2000.

During the year, Total Logistics did not provide and/or receive any of the services as stipulated in the above agreements with the related parties and accordingly no service fee or income was paid to or received from any of the related parties.

(g) Summary of related party transactions entered into by Shenzhen Freeway and its subsidiaries

- (i) Shenzhen Freeway executed corporate guarantee in favour of a bank in respect of a loan granted to Shenzhen Airport (Group) Co. ("SAG"), a company incorporated in the PRC and wholly-owned by SIHC, to the extent of RMB50,000,000 (equivalent to approximately HK\$47,152,000). No guarantee fee was charged to or received by Shenzhen Freeway and the guarantee was released on 23 December 2001.
- (ii) Shenzhen Freeway received corporate guarantee for its bank borrowings from SAG to the extent of RMB20,000,000 (equivalent to approximately HK\$18,861,000). No guarantee fee was charged to or received by SAG and the guarantee was released on 18 September 2001.

The above connected transactions of Shenzhen Freeway were ratified and confirmed by independent shareholders of the Company at a special general meeting held on 8 October 2001.

(h) Summary of related party transactions entered into by SSTG and its subsidiaries

Following the disposal of 60% equity interest in SSTG to SIHC as set out in note 36(d) to the financial statements above, the Group ceased the following related party transactions which were entered into by SSTG:

- (i) SSTG received rental income from Shenzhen Zungfu Xihu Vehicle Service Co., Ltd., a jointly-controlled entity, for the factory premises occupied at a monthly rental of approximately RMB154,000.
- (ii) Certain land and buildings held by a fellow subsidiary of SSTG were pledged to banks to secure bank loans of SSTG.
- (iii) Certain bank borrowings were guaranteed by certain fellow subsidiaries of SSTG.

(i) Connected transaction during the year and subsequent to the year end

Transactions during the year disclosed in note 36 (a) to (g) also constitute connected transactions as defined under the Listing Rules. In addition, the Group has entered into a connected transaction subsequent to the year end. Further details of this transaction are set out in note 37 (a) to the financial statements.

37. POST BALANCE SHEET EVENTS**(a) Acquisition of 39% equity interest in Shenzhen Container Transportation EDI Co. Ltd. (“Shenzhen EDI”)**

On 27 February 2002, Total Logistics entered into two separate Acquisition Agreements with Shenzhen Dragon Tree Information Network Co. Ltd. (“Dragon Tree”), a 60% owned subsidiary of SIHC, and Shenzhen Intelligent Transport Centre (“Intelligent Transport”), an independent third party, respectively. Pursuant to the Acquisition Agreements, Total Logistics agreed to acquire 33% equity interest in Shenzhen EDI from Dragon Tree at a consideration of RMB 4,785,000 (approximately HK\$4,514,000) and 6% equity interest in Shenzhen EDI from Intelligent Transport at a consideration of RMB870,000 (approximately HK\$821,000).

Further details of the above transactions are set out in an announcement made by the Company on 28 February 2002.

(b) Acquisition of 50 million A shares of China Merchants Bank Co., Limited (“CMB”)

On 2 April 2002, Shenzhen Freeway subscribed for 50 million A shares of CMB at an issue price of RMB7.30 (approximately HK\$6.88) per A share with a total subscription consideration of RMB365 million (approximately HK\$344 million). The 50 million A shares of CMB represents approximately 0.88% of the issued capital of CMB as enlarged by the allotment and new issue of the A shares by CMB on the Shanghai Stock Exchange. The 50 million CMB A shares is subject to a lock-up period of 12 months upon listing of the A shares on the Shanghai Stock Exchange, during which Shenzhen Freeway is not allowed to sell or otherwise dispose of all or any part of these A shares.

Further details of the above transaction are set out in a circular to shareholders of the Company dated 22 April 2002.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2002.