

## 1 Basis of preparation

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

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The adoption of the above standards had no material effect on amounts reported in prior year, except that certain presentational changes have been made upon the adoption of SSAP 1 (revised) “Presentation of financial statements” and SSAP 15 (revised) “Cash flow statements”.

## 2 Principal accounting policies

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

### (a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group has the power to govern their financial and operating policies so that the Group obtains benefits from these activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (b) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group’s share of the results of associated companies for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies.

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

#### (c) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

#### (d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges occurring on or after 1st January 2001 is amortised on the basis of a sinking fund calculation over the period for which the Group is granted the rights to operate the highways or bridges. For all other acquisitions, goodwill is generally amortised using the straight-line method over the maximum period of 20 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

Impairment arising on goodwill on acquisitions that occurred prior to 1st January 2001 which was previously written off against reserves is accounted for in the profit and loss account.

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

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

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

Amortisation of interests in toll highways and bridges is provided on the basis of a sinking fund calculation where annual amortisation amounts compounded at predetermined rates ranging from 0.8 - 4.8 per cent per annum will be equal to the cost of the relevant toll highways and bridges at the end of the joint venture periods.

## 2 Principal accounting policies (cont'd)

### (f) Fixed assets

#### (i) Fixed assets

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

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

#### (ii) Amortisation of leasehold land

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

#### (iii) Depreciation of leasehold buildings

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

#### (iv) Depreciation of other fixed assets

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

#### (v) Gain or loss on disposal of fixed assets

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

#### (vi) Cost of restoring and improving fixed assets

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

### (g) Other investments

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

### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

## 2 Principal accounting policies (cont'd)

### (i) Deferred taxation

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

### (j) Revenue recognition

- (i) Toll revenue, net of revenue tax, is recognised on a receipt basis.
- (ii) Dividend income is recognised when the right to receive payment is established.
- (iii) Interest income is recognised on a time proportion basis, taken into account the principal amounts outstanding and the interest rates applicable.
- (iv) Business tax refund is recognised on a receipt basis.

### (k) Borrowing costs

Borrowing costs are capitalised when funds are borrowed to finance the construction of highways and bridges up to the commencement of economic operations of the toll highways and bridges.

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

### (l) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

### (m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, a jointly controlled entity and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (n) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

### 3 Turnover and revenues

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Toll revenue	355,638	418,616
Other revenues		
Dividend income	—	20,462
Interest income	3,259	6,397
Others	318	201
	3,577	27,060
Total revenues	359,215	445,676

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

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

## 4 Operating profit

	Group	
	2002	2001
	HK\$'000	HK\$'000
The operating profit is stated after crediting and charging the following:		
<u>Crediting</u>		
Gain on partial disposal of a jointly controlled entity	6,240	—
Gain on disposal of a subsidiary	—	14,591
Net exchange gain	1,887	3,001
	<u>          </u>	<u>          </u>
<u>Charging</u>		
Depreciation of fixed assets	2,953	3,219
Amortisation of interests in toll highways and bridges	75,748	79,663
Amortisation of goodwill of subsidiaries	2,480	1,751
Amortisation of goodwill of an associated company	1,867	—
Auditors' remuneration	709	820
Loss on disposal of other investments	—	2,589
Staff costs		
Wages and salaries (including directors' emoluments)	16,420	20,972
Social security costs	274	372
Staff welfare	981	693
Pension costs - defined contribution plan	479	819
	<u>          </u>	<u>          </u>

## 5 Finance costs

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans	33,694	46,894
Interest on convertible bonds	—	6,322
Interest on amount due to a minority shareholder	2,754	1,480
	<u>          </u>	<u>          </u>
Total borrowing costs incurred	36,448	54,696
Less: amount capitalised in investment in a jointly controlled entity	—	(5,548)
	<u>          </u>	<u>          </u>
	<u>36,448</u>	<u>49,148</u>

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

## 6 Taxation

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax during the year (2001: nil).
- (b) Overseas taxation is provided on the profits of the Group's subsidiaries and an associated company in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). Under the China Tax Law, the Group's subsidiaries, associated companies and a jointly controlled entity in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years. The applicable reduced income tax rate is 15 per cent. The Group's subsidiaries, associated companies and a jointly controlled entity in China are qualified for the aforesaid tax holiday during the year.
- (c) The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2002 HK\$'000	2001 HK\$'000
Overseas taxation	23,965	21,642
Deferred taxation (note 22)	1,329	672
	<u>25,294</u>	<u>22,314</u>
Share of taxation attributable to an associated company	3,514	3,618
Share of deferred taxation attributable to associated companies	4,768	3,895
Share of deferred taxation attributable to a jointly controlled entity	1,619	—
	<u>35,195</u>	<u>29,827</u>

## 7 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$402,336,000 (2001: HK\$138,526,000).

## 8 Dividends

	Company	
	2002 HK\$'000	2001 HK\$'000
Interim, paid, of HK\$0.03 (2001: HK\$0.03) per share	31,487	31,408
Final, proposed, of HK\$0.03 (2001: HK\$0.025) per share	31,503	26,115*
	<u>62,990</u>	<u>57,523</u>

At a meeting held on 10th April 2003, the directors proposed a final dividend of HK\$0.03 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but is reflected as an appropriation of retained earnings for the year ended 31st December 2002.

\* The final dividend paid for the year ended 31st December 2001 was HK\$26,152,000 (note 20). The additional amount of approximately HK\$37,000 was a result of the exercise of share options prior to approval at the annual general meeting.

## 9 Earnings per share

The calculation of basic and fully diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$156,099,000 (2001: HK\$220,304,000).

The basic earnings per share is based on the weighted average number of 1,046,246,862 (2001: 1,041,941,262) shares in issue during the year. The fully diluted earnings per share is based on 1,071,337,017 (2001: 1,072,246,222) shares which is the weighted average number of shares in issue during the year plus the weighted average of 25,090,155 (2001: 30,304,960) shares deemed to be issued at no consideration if all outstanding share options had been exercised.

## 10 Retirement benefit costs

The Group's contributions to the retirement scheme for Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There are no forfeited contributions for the year (2001: HK\$10,000).

## 11 Directors' and senior management's emoluments

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees	152	152
Other emoluments:		
Basic salaries, housing allowances, share options, other allowances and benefits in kind	8,484	8,758
Discretionary bonuses	200	5,095
	<u>8,836</u>	<u>14,005</u>

Directors' fees disclosed above included HK\$114,000 (2001: HK\$114,000) paid to independent non-executive directors.

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

Emolument bands HK\$	Number of directors	
	2002	2001
Nil - 1,000,000	18*	13*
1,000,001 - 1,500,000	—	5
1,500,001 - 2,000,000	—	2

\* Included three (2001: three) independent non-executive directors.

No directors waived emoluments in respect of the years ended 31st December 2002 and 2001.

(c) Apart from certain directors who exercised their options to subscribe for 2,016,000 (2001: 2,360,000) ordinary shares in the Company and 840,000 (2001: 1,470,000) ordinary shares in Guangzhou Investment Company Limited ("GZI"), the Company's holding company, none of the directors of the Company exercised their share options during the year.



**11 Directors' and senior management's emoluments** (cont'd)

- (d) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2002 are also directors whose emoluments are reflected in the analysis presented above.

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2001 include four directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual during the year, which fell within the HK\$1,000,001 - HK\$1,500,000 emolument band, are as follows:

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

**12 Goodwill**

	Group	
	2002 HK\$'000	2001 HK\$'000
(a) Subsidiaries		
At 1st January	49,774	—
Net (negative goodwill)/goodwill on acquisition of additional interest in subsidiaries	(2,682)	51,525
Amortisation charge	(2,480)	(1,751)
At 31st December	<u>44,612</u>	<u>49,774</u>
Cost	48,843	51,525
Accumulated amortisation	(4,231)	(1,751)
Net book amount	<u>44,612</u>	<u>49,774</u>
(b) Associated company		
At 1st January	—	—
Acquisition of interest in an associated company	174,001	—
Amortisation charge	(1,867)	—
At 31st December	<u>172,134</u>	<u>—</u>
Cost	174,001	—
Accumulated amortisation	(1,867)	—
Net book amount	<u>172,134</u>	<u>—</u>
Total net book amount	<u>216,746</u>	<u>49,774</u>

## 13 Interests in toll highways and bridges

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1st January	2,272,681	2,593,743
Additions	20,264	—
Disposals	—	(241,399)
Amortisation charge	(75,748)	(79,663)
At 31st December	<u>2,217,197</u>	<u>2,272,681</u>
	2002 HK\$'000	2001 HK\$'000
Cost	2,523,791	2,503,527
Accumulated amortisation	(306,594)	(230,846)
Net book amount	<u>2,217,197</u>	<u>2,272,681</u>

## 14 Fixed assets

### (a) Group

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
At 1st January 2002	31,317	8,290	3,633	43,240
Additions	—	116	1,145	1,261
At 31st December 2002	<u>31,317</u>	<u>8,406</u>	<u>4,778</u>	<u>44,501</u>
Accumulated depreciation				
At 1st January 2002	4,997	3,844	2,536	11,377
Charge for the year	1,252	1,123	578	2,953
At 31st December 2002	<u>6,249</u>	<u>4,967</u>	<u>3,114</u>	<u>14,330</u>
Net book value				
At 31st December 2002	<u>25,068</u>	<u>3,439</u>	<u>1,664</u>	<u>30,171</u>
At 31st December 2001	<u>26,320</u>	<u>4,446</u>	<u>1,097</u>	<u>31,863</u>

**14 Fixed assets** (cont'd)**(a) Group** (cont'd)

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

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	<b>6,882</b>	7,246
Leases of between 10 to 50 years	<b>18,186</b>	19,074
	<u><b>25,068</b></u>	<u>26,320</u>

**(b) Company**

	<b>Furniture, fixtures and equipment</b> HK\$'000	<b>Motor vehicles</b> HK\$'000	<b>Total</b> HK\$'000
Cost			
At 1st January 2002 and 31st December 2002	1,286	1,727	3,013
Accumulated depreciation			
At 1st January 2002	653	1,465	2,118
Charge for the year	124	189	313
At 31st December 2002	777	1,654	2,431
Net book value			
At 31st December 2002	509	73	582
At 31st December 2001	633	262	895

## 15 Investments

### (a) Investment in subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	1,848,497	1,848,497
Provision for impairment losses	(584,549)	(584,549)
	<u>1,263,948</u>	<u>1,263,948</u>
Amounts due from subsidiaries (note (i))	2,655,077	2,038,221
Amounts due to subsidiaries (note (i))	(1,164,061)	(1,027,097)
	<u>2,754,964</u>	<u>2,275,072</u>

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

(ii) Details of the principal subsidiaries of the Company as at 31st December 2002 are set out on pages 58 to 61.

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	352,427	431,044
Capitalisation of interest	4,928	5,548
	<u>357,355</u>	<u>436,592</u>

Details of the Group's interest in a jointly controlled entity are set out on page 61. None of the participating parties has unilateral control over the economic activity of the joint venture.

**15 Investments (cont'd)****(b) Investment in a jointly controlled entity (cont'd)**

The results of the jointly controlled entity for the year ended 31st December 2002 are prepared in accordance with the accounting regulations of the People's Republic of China. Adjustments have been made to the accounts as considered appropriate by the Directors in order to comply with accounting principles generally accepted in Hong Kong. Extract of the adjusted financial information of Guangzhou Northern Second Ring Expressway Co., Limited for the year ended 31st December 2002 is as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Operating results		
Turnover	<u>58,812</u>	<u>—</u>
Loss before taxation	<u>(75,612)</u>	<u>—</u>
Financial position		
Long-term assets	2,132,766	1,880,339
Current assets	84,079	373,040
Current liabilities	(21,429)	(10,389)
Long-term liabilities	<u>(1,433,334)</u>	<u>(1,401,869)</u>
Shareholders' funds	<u>762,082</u>	<u>841,121</u>

**(c) Investment in associated companies**

	<b>Group</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Share of net assets other than goodwill	<u>1,467,158</u>	<u>1,294,830</u>

Details of the Group's associated companies are set out on page 62.

## 15 Investments (cont'd)

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

The results of the associated companies for the year ended 31st December 2002 are prepared in accordance with the accounting regulations of the People's Republic of China. Adjustments have been made to the accounts as considered appropriate by the Directors in order to comply with accounting principles generally accepted in Hong Kong. Extract of the adjusted financial information of the major associated companies, namely Guangdong Humen Bridge Co., Ltd. and Guangdong Qinglian Highway Development Co., Ltd. for the year ended 31st December 2002 is as follows:

	Guangdong Humen Bridge Co., Ltd.		Guangdong Qinglian Highway Development Co., Ltd.	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Operating results				
Turnover	<u>372,719</u>	<u>322,247</u>	<u>256,890</u>	<u>253,711</u>
Profit before taxation	<u>286,661</u>	<u>241,607</u>	<u>70,711</u>	<u>41,778</u>
Financial position				
Long-term assets	2,634,362	2,702,846	3,097,468	3,159,151
Current assets	33,507	35,067	213,793	226,350
Current liabilities	(30,592)	(29,988)	(111,614)	(239,843)
Long-term liabilities	<u>(2,364,063)</u>	<u>(2,358,118)</u>	<u>(1,673,495)</u>	<u>(1,682,151)</u>
Shareholders' funds	<u>273,214</u>	<u>349,807</u>	<u>1,526,152</u>	<u>1,463,507</u>

### (d) Other investments

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	167,393	153,114
Less: provision for impairment loss	<u>(33,462)</u>	<u>—</u>
	<u>133,931</u>	<u>153,114</u>

## 16 Bank balances and cash

Included in the bank balances and cash of the Group and the Company are deposits denominated in Renminbi and placed with banks in China of approximately HK\$186,027,000 (2001: HK\$493,301,000) and HK\$3,318,000 (2001: HK\$72,783,000) respectively. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

**17 Amounts due to minority shareholders and holding companies**

Except for an amount due to a minority shareholder of HK\$53,468,000 (2001: HK\$92,523,000) which bears interest at 4 per cent per annum, the balances are unsecured, interest free and have no fixed repayment terms.

**18 Short-term bank loans**

At 31st December 2002, the short-term bank loans of HK\$271,028,000 (2001: HK\$233,645,000) of the Group are unsecured.

**19 Share capital**

	Company	
	2002 HK\$'000	2001 HK\$'000
Authorised		
2,000,000,000 ordinary shares of HK\$0.1 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid		
1,049,785,530 (2001:1,044,581,530) ordinary shares of HK\$0.1 each	<u>104,979</u>	<u>104,458</u>

During the year, 5,204,000 ordinary shares of HK\$0.1 each amounted to HK\$520,400 were issued upon exercise of share options, resulting in net proceeds of HK\$4,703,000.

Pursuant to share option schemes adopted on 3rd January 1997 and 25th June 2002, the Directors may, at their discretion, grant directors and employees of the Group to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. Particulars and movements of the share options during the year are as follows:

Date of grant	Exercise price per share HK\$	Balance outstanding as at 1st January 2002	Options exercised during the year	Balance outstanding as at 31st December 2002
6th August 1997	2.4080	23,500,000	—	23,500,000
4th September 1998	0.7632	23,502,000	(84,000)	23,418,000
22nd December 1999	0.9984	33,892,000	(3,196,000)	30,696,000
7th April 2000	0.7520	13,788,000	(1,924,000)	11,864,000
		<u>94,682,000</u>	<u>(5,204,000)</u>	<u>89,478,000</u>

The aforesaid share options are exercisable at any time within the period from the first anniversary date of the grant to the business day preceding the sixth anniversary date of the grant, of which a maximum of 30 per cent, 60 per cent and 100 per cent thereof are exercisable from the first, second and third anniversaries of the date of grant respectively. Exercise in full of all outstanding share options would result in the issue of 89,478,000 ordinary shares with proceeds of HK\$114,029,000.

## 20 Reserves

### Group

	Share premium HK\$'000	Reserve arising from consolidation (note (a)) HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserves (note (b)) HK\$'000	Retained earnings (note (c)) HK\$'000	Total HK\$'000
At 1st January 2001	847,551	1,773,497	6,893	18,882	159,043	2,805,866
Premium on issue of shares	5,467	—	—	—	—	5,467
Reserve realised upon disposal of a subsidiary	—	(68,000)	—	—	—	(68,000)
Exchange differences	—	—	(1,983)	—	—	(1,983)
Profit for the year	—	—	—	—	220,304	220,304
2000 Final dividend	—	—	—	—	(10,375)	(10,375)
2001 Interim dividend (note 8)	—	—	—	—	(31,408)	(31,408)
Transfer to statutory reserves	—	—	—	6,216	(6,216)	—
At 31st December 2001	<u>853,018</u>	<u>1,705,497</u>	<u>4,910</u>	<u>25,098</u>	<u>331,348</u>	<u>2,919,871</u>
Representing:						
Retained earnings					305,233	
2001 Final dividend proposed					<u>26,115</u>	
					<u>331,348</u>	



## 20 Reserves (cont'd)

## Group (cont'd)

	Share premium HK\$'000	Reserve arising from consolidation (note (a)) HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserves (note (b)) HK\$'000	Retained earnings (note (c)) HK\$'000	Total HK\$'000
At 1st January 2002	853,018	1,705,497	4,910	25,098	331,348	2,919,871
Premium on issue of shares	4,182	—	—	—	—	4,182
Profit for the year	—	—	—	—	156,099	156,099
2001 Final dividend (note 8)	—	—	—	—	(26,152)	(26,152)
2002 Interim dividend (note 8)	—	—	—	—	(31,487)	(31,487)
Transfer to statutory reserves	—	—	—	3,951	(3,951)	—
Transfer to retained earnings (note (d))	(330,370)	—	—	—	330,370	—
At 31st December 2002	<u>526,830</u>	<u>1,705,497</u>	<u>4,910</u>	<u>29,049</u>	<u>756,227</u>	<u>3,022,513</u>

## Representing:

Retained earnings	724,724
2002 Final dividend proposed	<u>31,503</u>
	<u>756,227</u>

- (a) Reserve arising from consolidation represents the difference between the nominal value of the shares/registered capital of the subsidiaries acquired and the nominal value of the shares issued by Kiu Fung Limited, a subsidiary of the Company, as consideration therefor on 30th November 1996.
- (b) Statutory reserves represent enterprise expansion and general reserve funds set up by the operating subsidiaries and associated companies in China. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the Group's statutory reserves is HK\$1,536,000 (2001: HK\$1,536,000) attributable to an associated company.
- (c) Included in the Group's retained profits are retained profits of HK\$647,164,000 (2001: HK\$504,700,000) and an accumulated loss of HK\$37,721,000 (2001: nil) attributable to associated companies and a jointly controlled entity respectively.
- (d) By a special resolution passed in the special general meeting of the Company held on 25th June 2002, the share premium was reduced by approximately HK\$330,370,000 which was credited in full to eliminate the accumulated losses of the same amount.

## 20 Reserves (cont'd)

### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st January 2001	847,551	1,773,497	(427,113)	2,193,935
Premium on issue of shares	5,467	—	—	5,467
Profit for the year	—	—	138,526	138,526
2000 Final dividend	—	—	(10,375)	(10,375)
2001 Interim dividend (note 8)	—	—	(31,408)	(31,408)
	<u>853,018</u>	<u>1,773,497</u>	<u>(330,370)</u>	<u>2,296,145</u>
Representing:				
Contributed surplus		1,747,382		
2001 Final dividend proposed		26,115		
		<u>1,773,497</u>		
At 1st January 2002	853,018	1,773,497	(330,370)	2,296,145
Premium on issue of shares	4,182	—	—	4,182
Profit for the year	—	—	402,336	402,336
2001 Final dividend (note 8)	—	—	(26,152)	(26,152)
2002 Interim dividend (note 8)	—	—	(31,487)	(31,487)
Transfer to retained earnings	(330,370)	—	330,370	—
	<u>526,830</u>	<u>1,773,497</u>	<u>344,697</u>	<u>2,645,024</u>
Representing:				
Retained earnings			313,194	
2002 Final dividend proposed			31,503	
			<u>344,697</u>	

The contributed surplus represents the difference between the nominal value of the shares issued by the Company in exchange for all the issued ordinary shares of Kiu Fung Limited and the value of net assets of the underlying subsidiaries acquired by the Company as at 3rd January 1997. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

## 21 Long-term liabilities

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans (note (a))				
Secured	136,000	299,776	—	140,400
Unsecured	186,916	355,140	—	—
Loans from minority shareholders (note (b))	37,591	39,380	—	—
Less: current portion of long-term liabilities	(214,541)	(74,075)	—	(50,700)
	<u>145,966</u>	<u>620,221</u>	<u>—</u>	<u>89,700</u>

- (a) At 31st December 2002 and 2001, the Group's and Company's bank loans were secured by the Group's interest in charged accounts of toll road projects in China and were wholly repayable within five years.
- (b) The loans from minority shareholders are unsecured, interest free and not repayable within one year.
- (c) At 31st December 2002 and 2001, the Group's bank loans were repayable as follows:

	Bank loans (secured)		Bank loans (unsecured)	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	27,625	74,075	186,916	—
In the second year	36,125	86,125	—	355,140
In the third to fifth year	72,250	139,576	—	—
	<u>136,000</u>	<u>299,776</u>	<u>186,916</u>	<u>355,140</u>

## 22 Deferred taxation

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1st January	13,300	13,477
Transfer from profit and loss account (note 6(c))	1,329	672
Disposal of a subsidiary	—	(849)
At 31st December	<u>14,629</u>	<u>13,300</u>
Provided for in respect of accelerated depreciation allowances	<u>14,629</u>	<u>13,300</u>

## 23 Notes to the consolidated cash flow statement

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

	2002 HK\$'000	As restated 2001 HK\$'000
Operating profit	157,516	244,477
Interest income	(3,259)	(6,397)
Dividend income	—	(20,462)
Amortisation of other investments	—	4,162
Amortisation of goodwill	4,347	1,751
Amortisation of interests in toll highways and bridges	75,748	79,663
Depreciation of fixed assets	2,953	3,219
Gain on partial disposal of a jointly controlled entity	(6,240)	—
Gain on disposal of a subsidiary	—	(14,591)
Loss on disposal of other investments	—	2,589
Provision for impairment of other investments	33,462	—
Exchange difference	(1,886)	(3,001)
	<hr/>	<hr/>
Operating profit before working capital changes	262,641	291,410
Decrease in other receivables, deposits and prepayments	6,261	9,199
(Decrease)/increase in other payables and accrued charges including due to minority shareholders and holding company	(3,992)	10,779
	<hr/>	<hr/>
Net cash inflow generated from operations	<u>264,910</u>	<u>311,388</u>

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

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

	Share capital (including share premium)		Bank loans		Minority interests		Loans from minority shareholders		Amount due to a minority shareholder	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1st January	957,476	951,301	888,561	599,960	930,052	1,120,508	39,380	41,505	92,523	—
Issue of shares	4,703	6,175	—	—	—	—	—	—	—	—
Transfer to retained earnings (note 20(d))	(330,370)	—	—	—	—	—	—	—	—	—
Minority interests in share of profits	—	—	—	—	44,418	64,942	—	—	—	—
Capital contributed by minority shareholders	—	—	—	—	—	10,558	—	—	—	—
Capital injection in a jointly controlled entity financed by a minority shareholder	—	—	—	—	—	—	—	—	—	92,523
Dividends paid to minority shareholders	—	—	—	—	(53)	(61,868)	—	—	—	—
Purchase of minority interests	—	—	—	—	(214,987)	(121,475)	—	—	—	—
Disposal of a subsidiary	—	—	—	—	—	(78,391)	—	—	—	—
Transfer to/(from) minority interests	—	—	—	—	344	(4,222)	(344)	4,222	—	—
New borrowings	—	—	130,840	403,647	501	—	—	—	—	—
Repayments	—	—	(425,457)	(115,046)	—	—	(1,445)	(6,347)	(39,055)	—
At 31st December	<u>631,809</u>	<u>957,476</u>	<u>593,944</u>	<u>888,561</u>	<u>760,275</u>	<u>930,052</u>	<u>37,591</u>	<u>39,380</u>	<u>53,468</u>	<u>92,523</u>

## 24 Commitments and contingent liabilities

- (a) At 31st December 2002, the Company had a guarantee of HK\$136,000,000 (2001: HK\$159,375,000) to a bank in respect of bank loan granted to a subsidiary.
- (b) At 31st December 2002 and 2001, the Group has pledged the income derived from its 24.3 per cent effective interest in an associated company to a bank in favour of a joint venture partner in this associated company (the "Joint Venture Partner"), in respect of the repayment of a bank loan by the Joint Venture Partner amounting to Rmb500 million (approximately HK\$467 million) and interest thereon (collectively referred to as "Relevant Loan").

A counter-indemnity has been provided by the Joint Venture Partner to the Group against all liabilities arising from such pledge. In addition, Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), the ultimate holding company of the Company, has issued an indemnity to the Group under which any shortfall to the bank will be satisfied/paid by Yue Xiu if the counter-indemnity given by the Joint Venture Partner to the Group is insufficient to cover the Relevant Loan.

- (c) At 31st December 2002 and 2001, the Group had the following capital commitments in respect of acquisition of remaining interest in a subsidiary:

	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for	—	135,561

## 25 Related party transactions

In addition to those disclosed in note 24(b), the Group had carried out in the normal course of business, the following material transactions with its related parties during the year:

	2002 HK\$'000	2001 HK\$'000
Management fee paid to the holding company (note (a))	1,300	1,300
Fixed cost toll highways management fee paid and payable to a minority shareholder (note (b))	52,284	58,332

- (a) Pursuant to service agreements entered into on 6th December 1996 and 31st May 2001, inter alia, between GZI, the holding company, the Company and Kiu Fung Limited, the GZI group provides certain services to the Group in connection with the Group's day-to-day operations, in return for a fee based on the actual cost of providing the services plus 10 per cent.
- (b) Fixed cost services agreements were entered into between Guangzhou Highways Development Company ("GHDC"), a minority shareholder, and certain subsidiaries engaging in the operation of toll highways in China, whereby GHDC carries out the day-to-day routine operational and maintenance services of the Guangshan Highway, Guangshen Highway, Guangcong Highway Section I and II, Provincial Highway 1909 and Guanghua Highway respectively including the collection of toll charges and repairs and maintenance in return for a service fee at the fixed rate of 18 per cent of the gross aggregate toll revenue of each of the toll highways per annum.
- (c) On 12th April 2002, the Group entered into a conditional agreement to transfer 5 per cent of its interest in the jointly controlled entity to GHDC for a total consideration of Rmb51.1 million (equivalent to approximately HK\$47.8 million). The transaction was completed and the total consideration had been satisfied as to (1) Rmb34.9 million (equivalent to approximately HK\$32.6 million) by way of the procurement of the transfer of an aggregate of 0.995 per cent effective interest in an associated company, Guangdong Humen Bridge Co., Ltd. effective from 1st January 2002; and (2) Rmb16.2 million (equivalent to approximately HK\$15.2 million) in cash.

### **26 Ultimate holding company**

The Directors regard Yue Xiu, a company incorporated in Hong Kong, as being the ultimate holding company.

### **27 Approval of account**

The accounts were approved by the board on 10th April 2003.