1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the comparative consolidated income statement, statement of changes in equity and cash flow statement of the Group have been prepared using the principle of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity, and in the adoption of the following new and revised accounting policies but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES (continued)

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest paid, interest received and dividends paid, which were previously presented under a separate heading, are classified as operating cash flows, investing cash flows and financing cash flows, respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group's participates only in defined contribution retirement benefits schemes, the adoption of SSAP 34 has had not any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and is amortised using the straight line method over its estimated useful life, which is generally 10 years.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Toll revenue is recognised on a receipts basis.

Compensation income is recognised when the Group's entitlement is established.

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

Investments in subsidiaries

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

Property, plant and equipment

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

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

Depreciation of toll highways and bridges is provided on the basis of a sinking fund calculation where annual depreciation amounts compounded at rates ranging from 6% to 8% per annum will equal the cost of the toll highways and bridges at the end of the joint venture period of the relevant company.

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

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when these qualifying assets are substantially ready for their intended use or sale.

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as expenses as they fall due.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

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

4. SEGMENTAL INFORMATION

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

5. COMPENSATION INCOME

During the year ended 31st December, 2001, the Group entered into agreements with certain independent third parties who carried out installation work of fibre optic cables along the highways operated by the Group in Yancheng, the PRC. Pursuant to the agreements, those independent third parties agreed to make payments in an aggregate amount of RMB4,552,000 to the Group as compensation for loss of revenue during the course of the installation work.

6. PROFIT FROM OPERATIONS

	2002	2001
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Directors' emoluments *(note 7)*	**3,056**	395
Contributions to retirement benefits schemes	**758**	635
Other staff costs	**8,107**	6,243
	11,921	7,273
Amortisation of goodwill (included in administrative expenses)	**160**	161
Auditors' remuneration	**788**	745
Depreciation and amortisation of property, plant and equipment	**21,053**	19,709
Repair and maintenance charges	**4,311**	5,919
and after crediting:		
Interest income	**150**	239

7. DIRECTORS' EMOLUMENTS

	2002	2001
	RMB'000	RMB'000
Directors' fees:		
Executive	**—**	—
Independent non-executive	**420**	—
Other emoluments of executive directors:		
Salaries and other benefits	**2,568**	395
Contributions to retirement benefits schemes	**68**	—
	3,056	395

7. DIRECTORS' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	2002	2001
Nil to HK$1,000,000	**7**	9
HK$1,000,001 to HK$1,500,000	**1**	—

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

8. EMPLOYEES' EMOLUMENTS

During the years ended 31st December, 2002 and 2001, all the five highest paid individuals were directors of the Company, details of whose emoluments are included in note 7 above.

9. INTEREST EXPENSES

	2002	2001
	RMB'000	RMB'000
The interest expenses represent interest on		
— bank borrowings wholly repayable within five years	**1,034**	1,072
— a loan from a joint venture partner of a subsidiary not wholly repayable within five years	**3,263**	5,339
— a loan from a fellow subsidiary not wholly repayable within five years	**—**	3,326
	4,297	9,737

10. INCOME TAX EXPENSES

	2002	2001
	RMB'000	RMB'000
PRC income tax		
— current year	**1,557**	1,198
— underprovision in prior years	**429**	—
	1,986	1,198
Deferred taxation *(note 20)*	**1,165**	1,263
	3,151	2,461

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

Pursuant to relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The reduced tax rate for the relief period is 7.5%. The charge of PRC income tax for the year has been provided for after taking these tax incentives into account. A PRC subsidiary of the Company was still within the PRC income tax relief period for both years while another PRC subsidiary was subject to PRC income tax at the full tax rate of 15% starting from the current year.

The effective income tax rate of the Group for the current year is 20% (2001: 9%). It is higher than what would be expected if the statutory rates were applied to profit before tax primarily because of a loss incurred by a member of the Group for which no deferred taxation is recognised as it is uncertain whether the potential tax benefits will be recognised in the foreseeable future.

Details of deferred taxation are set out in note 20.

11. DIVIDENDS

No dividends have been paid or declared by the Company during the years ended 31st December, 2002 and 2001. A final dividend of HK$0.02 (2001: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

For the year ended 31st December, 2001, certain subsidiaries of the Company declared dividends with an aggregate amount of RMB44,239,000 to their then shareholders, prior to the Group Reorganisation. The portion of dividends deemed attributable to the Company was RMB41,982,000.

12. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of RMB10,180,000 (2001: RMB21,792,000) and on the weighted average of 200,000,000 (2001: 145,589,041) shares that would have been in issue throughout the year on the assumption that the Group Reorganisation had been completed on 1st January, 2001.

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

13. PROPERTY, PLANT AND EQUIPMENT

	Toll highways and bridges	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP						
COST						
At 1st January, 2002	494,782	2,219	2,275	1,692	3,820	504,788
Additions	—	—	195	186	3,999	4,380
Disposals	—	—	(51)	(718)	—	(769)
Transfer	—	—	19	781	(800)	—
At 31st December, 2002	494,782	2,219	2,438	1,941	7,019	508,399
DEPRECIATION						
At 1st January, 2002	72,077	351	1,340	1,039	—	74,807
Charge for the year	20,210	107	418	318	—	21,053
Eliminated on disposals	—	—	(20)	(658)	—	(678)
At 31st December, 2002	92,287	458	1,738	699	—	95,182
NET BOOK VALUE						
At 31st December, 2002	402,495	1,761	700	1,242	7,019	413,217
At 31st December, 2001	422,705	1,868	935	653	3,820	429,981

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures and equipment RMB'000
THE COMPANY	
COST	
Additions and balance at 31st December, 2002	50
DEPRECIATION	
Charge for the year and balance at 31st December, 2002	10
NET BOOK VALUE	
At 31st December, 2002	40

14. GOODWILL

	THE GROUP RMB'000
COST	
At 1st January, 2002 and at 31st December, 2002	1,608
AMORTISATION	
At 1st January, 2002	644
Charge for the year	160
At 31st December, 2002	804
NET BOOK VALUE	
At 31st December, 2002	804
At 31st December, 2001	964

The amortisation period adopted for goodwill is 10 years.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2002 & 2001 RMB'000
Unlisted shares, at cost	231,959

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

Details of the Company's subsidiaries at 31st December, 2002 are as follows:

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

Notes:

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

ii. Langfang Tongda is a sino-foreign co-operative joint venture. The term of the joint venture is 16 years (from 19th May, 1997 to 18th May, 2013). The distributable profits of Langfang Tongda are shared between the Group and the joint venture partner in accordance with their capital contribution ratio.

16. AMOUNT DUE TO A FELLOW SUBSIDIARY

THE GROUP

The amount was unsecured, interest-free and was fully repaid during the year.

17. AMOUNT DUE TO A SUBSIDIARY

THE COMPANY

The amount is unsecured, interest-free and has no fixed repayment terms.

18. AMOUNTS DUE TO JOINT VENTURE PARTNERS OF SUBSIDIARIES

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Current portion of an advance from a joint venture partner of a subsidiary *(note 21)*	**3,461**	2,546
Amounts due to joint venture partners of subsidiaries *(note)*	**1,407**	2,013
	4,868	4,559

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

19. UNSECURED SHORT-TERM BORROWINGS

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Current portion of long-term borrowings *(note 22)*	**7,800**	7,735
Bank borrowings *(note)*	**15,000**	15,000
	22,800	22,735

Note: The bank borrowings as at 31st December, 2002 and 2001 were granted to a non-wholly owned subsidiary of the Company and were guaranteed by the Company.

20. DEFERRED TAXATION

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Balance at 1st January	**3,643**	2,380
Charge for the year *(note 10)*	**1,165**	1,263
Balance at 31st December	**4,808**	3,643

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

21. ADVANCE FROM A JOINT VENTURE PARTNER OF A SUBSIDIARY

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
The advance was repayable as follows:		
Within one year	**3,461**	2,546
Between one to two years	**2,618**	3,491
Between two to five years	**—**	3,491
	6,079	9,528
Less: Amount due within one year and included under current liabilities *(note 18)*	**(3,461)**	(2,546)
	2,618	6,982

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

22. UNSECURED LONG-TERM BORROWINGS

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
The loans are repayable as follows:		
Within one year	**7,800**	7,735
Between one to two years	**7,800**	7,735
Between two to five years	**19,143**	25,500
Over five years	**38,396**	46,288
	73,139	87,258
Less: Amount due within one year and included under current liabilities *(note 19)*	**(7,800)**	(7,735)
	65,339	79,523

Other than the loan from a joint venture partner of a subsidiary amounting to RMB43,560,000 (2001: RMB43,560,000) which carries no interest, the remaining balance of the above loans carries interest at 7.488% per annum (2001: 11.7% per annum) on the outstanding principal at the balance sheet date.

23. SHARE CAPITAL

There were no movements in the Company's authorised and issued share capital during the year ended 31st December, 2002 while the following changes in the Company's authorised and issued share capital took place during the year ended 31st December, 2001:

	Number of shares	Shown in the financial statements as	
		HK$'000	RMB'000
Ordinary shares of HK$0.10 each			
Authorised:			
On date of incorporation	1,000,000	100	105
Increase during the period	1,999,000,000	199,900	209,895
At 31st December, 2001	2,000,000,000	200,000	210,000
Issued and fully paid:			
Issue of share to initial subscriber	1	—	—
Issue of further shares before Group Reorganisation	999,999	—	—
Issue of shares on Group Reorganisation	1,000,000	200	210
Issue of shares by capitalisation of share premium account (the "Capitalisation Issue")	138,000,000	13,800	14,490
Issue of shares to the public	60,000,000	6,000	6,300
At 31st December, 2001	200,000,000	20,000	21,000

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

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

(a) the authorised share capital of the Company was increased from HK$100,000 to HK$200,000 by the creation of a further 1,000,000 shares of HK$0.10 each; and

23. SHARE CAPITAL (continued)

(b) as consideration of the Company's acquisition of the entire issued share capital of Yue Da Infrastructure Limited pursuant to the Group Reorganisation, the Company:

(i) allotted and issued, credited as fully paid at par, an aggregate of 1,000,000 new shares to the then sole shareholder; and

(ii) credited as fully paid at par the 1,000,000 shares of HK$0.10 each issued nil paid on 13th July, 2001 and held by the sole shareholder.

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

(a) the authorised share capital of the Company was increased from HK$200,000 to HK$200,000,000 by the creation of a further 1,998,000,000 shares; and

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

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

All the shares which were issued during the period rank pari passu with the then existing shares in all respects, save for participation in the Capitalisation Issue.

24. RESERVES

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
THE COMPANY				
Surplus arising from Group Reorganisation	—	231,750	—	231,750
Premium arising on issue of shares to the public	49,770	—	—	49,770
Expenses incurred in connection with the issue of shares	(19,383)	—	—	(19,383)
Transfer upon Capitalisation Issue	(14,490)	—	—	(14,490)
Net loss for the period	—	—	(1,650)	(1,650)
At 31st December, 2001	15,897	231,750	(1,650)	245,997
Net loss for the year	—	—	(6,882)	(6,882)
At 31st December, 2002	15,897	231,750	(8,532)	239,115

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

25. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted by a written resolution passed on 12th November, 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the Group and will expire on 11th November, 2011. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares of the Company:

(i) any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

25. SHARE OPTION SCHEME (continued)

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(vii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

and, for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of shares of the Company or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

The basis of eligibility of any of the above class as of participants to the grant of any options shall be determined by the directors from time to time.

An option may be accepted by a participant upon payment of HK$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period may commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations on the date of the offer for grant; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

25. SHARE OPTION SCHEME (continued)

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company (or any of its subsidiaries) in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Group is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any participant in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to directors, chief executives or substantial shareholders of the Company or any of their respective associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange) must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No option has been granted under the Scheme since its adoption in 2001.

26. RETIREMENT BENEFITS SCHEMES

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

In addition, the Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 10% of the relevant payroll costs to the scheme, which contribution is matched by employees.

27. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2001, an amount due from a fellow subsidiary and a loan from a fellow subsidiary were settled in the following manner as part of the Group Reorganisation:

(i) an amount due from the fellow subsidiary in the sum of RMB5,182,000 together with an outstanding amount of loan from the fellow subsidiary in the sum of RMB45,354,000 were assigned from the fellow subsidiary to Yue Da Infrastructure Limited; and

27. MAJOR NON-CASH TRANSACTIONS (continued)

(ii) the amount of RMB40,172,000, representing the net balance payable by Yue Da Infrastructure Limited to the fellow subsidiary in connection with the assignment set out above, was capitalised as an additional capital in Yue Da Infrastructure Limited.

In addition, during the year ended 31st December, 2001, a loan from a joint venture partner of a subsidiary amounting to RMB7,440,000 was agreed to be set off against an amount due from the joint venture partner.

28. OPERATING LEASE COMMITMENTS

The minimum lease payments paid under operating leases in respect of land and buildings during the year amounted to RMB1,179,000 (2001: RMB680,000).

At 31st December, 2002, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP AND THE COMPANY	
	2002	2001
	RMB'000	RMB'000
Within one year	**784**	784
In the second to fifth year inclusive	**653**	1,437
	1,437	2,221

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

29. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**487**	—

30. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with certain related parties as follows:

(i) Transactions

			THE GROUP	
Related parties	**Nature of transactions**	*Notes*	**2002 RMB'000**	2001 RMB'000
Fellow subsidiary	Interest expenses	*(a)*	**—**	3,326
Fellow subsidiary	Rentals paid on land and buildings	*(b)*	**784**	784
Associate of ultimate holding company	Rentals paid on land and buildings	*(b)*	**500**	500

(ii) Balances

Details of balance with certain related party at the balance sheet date are set out in note 16.

(iii) Others

Details of operating lease commitment with a related party are set out in note 28.

Notes:

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

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