

1. GENERAL

The Company is an exempted company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of the subsidiaries and infrastructure joint ventures are investment holding and the investment in, development, operation and management of toll roads and expressways in the People’s Republic of China (the “PRC”).

2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

The financial statements are prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”), the terms of which includes the Statements of Standard Accounting Practice (“SSAP”) and interpretations, issued by the Hong Kong Society of Accountants (“HKSA”). In the current year, the Group has adopted for the first time SSAP 12 (Revised) “Income taxes” issued by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of the standard has not had any material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment was required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally acceptable in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

On acquisition or disposal, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition or date of disposal.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill (negative goodwill) represents the difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary or joint venture at the effective 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 3 to 20 years. Negative goodwill arising on acquisition is recognised as income on a systematic basis over the remaining weighted average useful life of the non-monetary assets acquired.

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

Investments in subsidiaries

A subsidiary is an enterprise over which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in infrastructure 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 over which none of the participating parties has unilateral control. Joint venture arrangements which involve the establishment of a separate entity for investment in and development, operation and management of toll roads and expressways and in which each venturer has an interest are referred to as infrastructure joint ventures.

The Group's infrastructure joint ventures are Sino-foreign co-operative joint ventures registered in the PRC in respect of which the partners' cash/profit sharing ratios and the share of net assets upon the expiration of the joint venture periods are predetermined in accordance with the joint venture agreements and may not be in proportion to their capital contribution ratios.

Where the Group's interest in the infrastructure joint venture is such that it establishes joint control over the economic activity of the joint venture with other venturers, the Group's interests in the infrastructure joint ventures are carried at cost plus its share of post-acquisition undistributed reserves of the joint ventures in accordance with the defined cash/profit sharing ratios less any identified impairment loss and borrowing costs capitalized in accordance with the Group's accounting policy. Borrowing costs capitalised will be amortised from the date of the opening of the relevant highways and expressways over the remaining terms of the relevant joint ventures or where shorter, the useful lives of relevant highways and expressways.

Capitalisation of interest charges

Interest charges relating to funds borrowed to finance the joint venture's highway construction and development project are capitalised up to the commencement of operation of the toll highway. Interest charges capitalised will be amortised from the date of the opening of the toll highway over the remaining term of the joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Toll revenue, net of business tax, is recognised on a receipt basis. Minimum income undertakings are recognised when receivable in accordance with the joint venture agreements.

Sales of goods are recognised when goods are delivered and title has passed.

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

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Toll highway operation right

Toll highway operation right is recognised as an asset and stated in the balance sheet at cost less depreciation and any identified impairment loss.

Depreciation of toll highway operation right is provided on the basis of a sinking fund calculation where annual depreciation amounts compounded at a rate of six per cent per annum will be equal to the cost of the toll highway operation right at the end of the relevant or respective joint venture period.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss.

The gain or loss arising from disposal or retirement of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation of property, plant and equipment is charged so as to write off the cost of the assets over their estimated useful lives, using the straight line method, on the following bases :

| | |
|-----------------------------------|---|
| Freehold land | Nil |
| Land and buildings | Over the term of the lease from 20 to 25 years |
| Leasehold improvements | Over the term of the lease or 3 years, whichever is shorter |
| Furniture, fixtures and equipment | 10% - 25% |
| Plant and machinery | 5% - 10% |
| Motor vehicles | 12.5% - 25% |

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any identified impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as other investments.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories and ginseng crops

Inventories are stated at the lower of cost and net realisable value, and cost is calculated using the first-in, first-out method.

The Company uses the full absorption costing method to value its ginseng crops. Included in crop costs are seeds, labour, applicable overheads and supplies. Costs are allocated each year based on the total number of acres under cultivation during the year.

Those crop costs relating to the acreage harvested and sold have been charged to the income statement as cost of inventories sold.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are expensed in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions denominated in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations, which are denominated in currencies other than Hong Kong dollars, are translated at exchange rates prevailing on the balance sheet date. Income and expense items, which are denominated in currencies other than Hong Kong dollars, 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 relevant operation is disposed of.

Operating leases

Rentals payable on rented land, premises and equipments under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged to the income statement as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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.

4. TURNOVER

Turnover of the Group represents toll revenue, net of business tax, minimum income undertakings and amounts received and receivable for goods sold during the year.

In relation to a number of the Group's PRC joint ventures, the Group has obtained minimum income undertakings from the PRC joint venture partners in accordance with the relevant joint venture agreements. Any shortfall of the Group's share of the cash/profit of these PRC joint ventures below the minimum income undertakings will be borne by the PRC joint venture partners. The amount of minimum income shortfall recorded by the Group from its PRC joint venture partners for the year is HK\$14,688,000 (2002: HK\$44,652,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. SEGMENTAL INFORMATION

The Group's turnover and profit for the year ended 31 December 2003 by business activities and geographical markets are as follows:

By business segments:

| | Toll Road | Other | Unallocated | Consolidated |
|--|------------------|-------------------------|--------------------|---------------------|
| | HK\$'000 | Businesses* HK\$'000 | HK\$'000 | HK\$'000 |
| 2003 | | | | |
| Turnover: Group and share of infrastructure joint ventures | 829,192 | 92,857 | – | 922,049 |
| Less: Share of infrastructure joint ventures' toll revenue | (802,705) | – | – | (802,705) |
| Turnover: Group | <u>26,487</u> | <u>92,857</u> | <u>–</u> | <u>119,344</u> |
| Segment result | 297 | 18,739 | – | 19,036 |
| Net income recognised in respect of goodwill and negative goodwill | (149) | 6,972 | – | 6,823 |
| Interest income | 1,277 | 236 | 7,632 | 9,145 |
| Corporate income | – | – | 6,393 | 6,393 |
| Corporate expenses | – | – | (41,911) | (41,911) |
| Operating profit (loss): Group | <u>1,425</u> | <u>25,947</u> | <u>(27,886)</u> | <u>(514)</u> |
| Share of operating profit of infrastructure joint ventures | 432,750 | – | – | 432,750 |
| Finance costs | (10,765) | (103) | (55,065) | (65,933) |
| Profit before taxation | <u>423,410</u> | <u>25,844</u> | <u>(82,951)</u> | <u>366,303</u> |
| Taxation | (36,374) | (5,908) | – | (42,282) |
| Profit before minority interests | <u>387,036</u> | <u>19,936</u> | <u>(82,951)</u> | <u>324,021</u> |
| Minority interests | (1,453) | (4,240) | – | (5,693) |
| Profit for the year | <u>385,583</u> | <u>15,696</u> | <u>(82,951)</u> | <u>318,328</u> |
| Consolidated Balance Sheet | | | | |
| Assets | | | | |
| Segment assets | 481,344 | 189,617 | – | 670,961 |
| Interests in infrastructure joint ventures | 4,890,950 | – | – | 4,890,950 |
| Unallocated corporate assets | – | – | 265,729 | 265,729 |
| Total assets | <u>5,372,294</u> | <u>189,617</u> | <u>265,729</u> | <u>5,827,640</u> |
| Liabilities | | | | |
| Segment liabilities | 38,487 | 29,365 | – | 67,852 |
| Unallocated corporate liabilities | – | – | 1,003,393 | 1,003,393 |
| Total liabilities | <u>38,487</u> | <u>29,365</u> | <u>1,003,393</u> | <u>1,071,245</u> |
| Other information | | | | |
| Capital additions | 1,093 | 10,941 | 691 | 12,725 |
| Depreciation and amortisation | 2,388 | 377 | 1,146 | 3,911 |
| Other non-cash expenses | 6,509 | – | 1,497 | 8,006 |

* Other businesses mainly include ginseng business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. SEGMENTAL INFORMATION (Continued)

By business segments: (Continued)

| | Toll Road HK\$'000 | Other Businesses* HK\$'000 | Unallocated HK\$'000 | Consolidated HK\$'000 |
|--|-----------------------|----------------------------------|-------------------------|--------------------------|
| 2002 | | | | |
| Turnover: Group and share of infrastructure joint ventures | 792,332 | 80,135 | – | 872,467 |
| Less: Share of infrastructure joint ventures' toll revenue | (708,727) | – | – | (708,727) |
| Turnover: Group | <u>83,605</u> | <u>80,135</u> | <u>–</u> | <u>163,740</u> |
| Segment result | 51,923 | (33) | (117) | 51,773 |
| Net income recognised in respect of goodwill and negative goodwill | (149) | 20,917 | – | 20,768 |
| Allowance for doubtful receivables | (25,000) | – | – | (25,000) |
| Interest income | 1,419 | 85 | 16,298 | 17,802 |
| Corporate income | – | – | 1,333 | 1,333 |
| Corporate expenses | – | – | (54,114) | (54,114) |
| Operating profit: Group | <u>28,193</u> | <u>20,969</u> | <u>(36,600)</u> | <u>12,562</u> |
| Share of operating profit (loss) of joint ventures | 417,725 | (834) | – | 416,891 |
| Finance costs | (6,810) | (42) | (73,763) | (80,615) |
| Profit before taxation | <u>439,108</u> | <u>20,093</u> | <u>(110,363)</u> | <u>348,838</u> |
| Taxation | (31,370) | 1,660 | – | (29,710) |
| Profit before minority interests | <u>407,738</u> | <u>21,753</u> | <u>(110,363)</u> | <u>319,128</u> |
| Minority interests | (5,685) | (635) | – | (6,320) |
| Profit for the year | <u>402,053</u> | <u>21,118</u> | <u>(110,363)</u> | <u>312,808</u> |
| Consolidated Balance Sheet | | | | |
| Assets | | | | |
| Segment assets | 586,926 | 169,428 | – | 756,354 |
| Interests in joint ventures | 3,962,258 | – | – | 3,962,258 |
| Unallocated corporate assets | – | – | 1,007,119 | 1,007,119 |
| Total assets | <u>4,549,184</u> | <u>169,428</u> | <u>1,007,119</u> | <u>5,725,731</u> |
| Liabilities | | | | |
| Segment liabilities | 39,971 | 20,240 | – | 60,211 |
| Unallocated corporate liabilities | – | – | 1,143,580 | 1,143,580 |
| Total liabilities | <u>39,971</u> | <u>20,240</u> | <u>1,143,580</u> | <u>1,203,791</u> |
| Other information | | | | |
| Capital additions | 436 | 2,696 | 2,253 | 5,385 |
| Depreciation and amortisation | 6,121 | 391 | 706 | 7,218 |
| Other non-cash expenses | 6,360 | – | 1,092 | 7,452 |

* Other businesses mainly include ginseng business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. SEGMENTAL INFORMATION (Continued)

By geographical segments:

| | PRC HK\$'000 | Hong Kong HK\$'000 | Overseas HK\$'000 | Unallocated HK\$'000 | Consolidated HK\$'000 |
|--|------------------|-----------------------|----------------------|-------------------------|--------------------------|
| 2003 | | | | | |
| Turnover: Group and share of infrastructure joint ventures | 829,192 | 81,381 | 11,476 | – | 922,049 |
| Less: Share of infrastructure joint ventures' toll revenue | (802,705) | – | – | – | (802,705) |
| Turnover: Group | <u>26,487</u> | <u>81,381</u> | <u>11,476</u> | <u>–</u> | <u>119,344</u> |
| Segment result | <u>(1,023)</u> | <u>3,203</u> | <u>16,856</u> | <u>–</u> | <u>19,036</u> |
| Carrying amount of segment assets | | | | | |
| Segment assets | 487,019 | 16,476 | 167,466 | – | 670,961 |
| Interests in infrastructure joint ventures | 4,890,950 | – | – | – | 4,890,950 |
| Unallocated corporate assets | – | – | – | 265,729 | 265,729 |
| Total assets | <u>5,377,969</u> | <u>16,476</u> | <u>167,466</u> | <u>265,729</u> | <u>5,827,640</u> |
| Other information | | | | | |
| Capital additions | <u>1,892</u> | <u>–</u> | <u>10,142</u> | <u>691</u> | <u>12,725</u> |
| 2002 | | | | | |
| Turnover: Group and share of infrastructure joint ventures | 792,332 | 76,281 | 3,854 | – | 872,467 |
| Less: Share of infrastructure joint ventures' toll revenue | (708,727) | – | – | – | (708,727) |
| Turnover: Group | <u>83,605</u> | <u>76,281</u> | <u>3,854</u> | <u>–</u> | <u>163,740</u> |
| Segment result | <u>52,278</u> | <u>(4,816)</u> | <u>4,428</u> | <u>(117)</u> | <u>51,773</u> |
| Carrying amount of segment assets | | | | | |
| Segment assets | 586,926 | 10,275 | 159,153 | – | 756,354 |
| Interests in infrastructure joint ventures | 3,962,258 | – | – | – | 3,962,258 |
| Unallocated corporate assets | – | – | – | 1,007,119 | 1,007,119 |
| Total assets | <u>4,549,184</u> | <u>10,275</u> | <u>159,153</u> | <u>1,007,119</u> | <u>5,725,731</u> |
| Other information | | | | | |
| Capital additions | <u>1,552</u> | <u>–</u> | <u>1,580</u> | <u>2,253</u> | <u>5,385</u> |

6. ALLOWANCE FOR DOUBTFUL RECEIVABLES

The amount recognised in the prior year represented an allowance for doubtful receivables in respect of minimum income undertakings due from the PRC joint venture partners of the Luochong Highway project.

7. OPERATING (LOSS) PROFIT: GROUP

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Operating (loss) profit has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | 9,438 | 8,668 |
| Less: capitalised in inventories and ginseng crops | <u>(7,599)</u> | <u>(7,148)</u> |
| | <u>1,839</u> | <u>1,520</u> |
| Amortisation of toll highway operation right | 1,923 | 5,549 |
| Operating lease rentals in respect of rented land, premises and equipment | 8,367 | 7,315 |
| Less: capitalised in inventories and ginseng crops | <u>(5,235)</u> | <u>(4,424)</u> |
| | <u>3,132</u> | <u>2,891</u> |
| Loss on disposal of investment in securities | – | 1,201 |
| Unrealised loss on investment in securities | – | 117 |
| Auditors' remuneration | 1,296 | 1,581 |
| Staff costs (excluding directors' emoluments) | 55,944 | 51,596 |
| Provident fund scheme contributions, net of forfeited contributions of HK\$17,000 (2002: HK\$308,000) | 1,431 | 1,093 |
| Less: capitalised in inventories and ginseng crops | <u>(22,473)</u> | <u>(18,937)</u> |
| Total staff costs | <u>34,902</u> | <u>33,752</u> |
| Exchange loss | – | 2,851 |
| and after crediting: | | |
| Gain on disposal of interests in subsidiaries (<i>note 32</i>) | 315 | 689 |
| Gain on disposal of interest in an infrastructure joint venture (<i>note 33</i>) | 1,486 | – |
| Gain on disposal of property, plant and equipment | 201 | 16 |
| Gain on disposal of investment in securities | 706 | – |
| Realised gain on investment in securities | 572 | – |
| Dividend from listed securities | 806 | – |
| Exchange gain | <u>3,665</u> | <u>–</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' Emoluments

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|----------------------|----------------------|
| Fees: | | |
| Non-executive directors | 575 | 740 |
| Independent non-executive directors | 490 | 490 |
| | <u>1,065</u> | <u>1,230</u> |
| Other emoluments (executive directors): | | |
| Salaries and other benefits | 9,605 | 9,742 |
| Performance related incentive payments | 2,500 | 2,703 |
| Retirement benefit scheme contributions | 403 | 396 |
| | <u>12,508</u> | <u>12,841</u> |
| | <u><u>13,573</u></u> | <u><u>14,071</u></u> |

The emoluments paid to the directors were within the following bands:

| | 2003 Number of Directors | 2002 Number of Directors |
|--------------------------------|--------------------------------|--------------------------------|
| Nil to HK\$1,000,000 | 8 | 10 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 1 |
| HK\$3,000,001 to HK\$3,500,000 | 1 | 1 |
| HK\$5,500,001 to HK\$6,000,000 | 1 | – |
| HK\$6,000,001 to HK\$6,500,000 | – | 1 |
| | <u><u>–</u></u> | <u><u>1</u></u> |

Details of share options held by individual directors at 31 December 2003 are shown in the directors' report.

Employees' Emoluments

During the year, the five highest paid individuals included three directors (2002: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2002: two) highest paid individuals were as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits | 3,024 | 3,024 |
| Performance related incentive payments | 335 | 480 |
| Retirement benefit scheme contributions | 293 | 267 |
| | <u>3,652</u> | <u>3,771</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The emoluments were paid to the employees within the following band :

| | 2003 | 2002 |
|--------------------------------|----------------------------|---------------------|
| | Number of employees | Number of employees |
| HK\$1,500,001 to HK\$2,000,000 | <u>2</u> | <u>2</u> |

9. SHARE OF OPERATING PROFIT OF JOINT VENTURES

| | 2003 | 2002 |
|--|-----------------------|----------------|
| | HK\$'000 | HK\$'000 |
| Share of operating profit of infrastructure joint ventures before depreciation | 566,802 | 539,376 |
| Depreciation of toll highway operation rights | (134,052) | (121,651) |
| | <u>432,750</u> | <u>417,725</u> |
| Share of post-acquisition loss of a joint venture | <u>–</u> | (834) |
| | <u>432,750</u> | <u>416,891</u> |

10. FINANCE COSTS

| | 2003 | 2002 |
|---|----------------------|---------------|
| | HK\$'000 | HK\$'000 |
| Interest on : | | |
| Borrowings wholly repayable within five years | 56,735 | 70,217 |
| Add: discount on guaranteed notes | 1,495 | 1,092 |
| | <u>58,230</u> | <u>71,309</u> |
| Total borrowing costs | | |
| Amortisation of capitalised borrowing costs on financing the joint ventures' toll highways and expressways construction (note 19) | 6,509 | 6,360 |
| Other finance costs | 1,194 | 2,946 |
| | <u>65,933</u> | <u>80,615</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

11. TAXATION

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Deferred taxation attributable to overseas subsidiaries (<i>note 30</i>) | | |
| Current year | 6,072 | (1,259) |
| Attributable to a change in tax rate | (164) | (401) |
| | <u>5,908</u> | <u>(1,660)</u> |
| Share of taxation attributable to PRC infrastructure joint ventures | | |
| Current tax | 32,214 | 23,021 |
| Deferred tax | 4,160 | 8,349 |
| | <u>42,282</u> | <u>29,710</u> |

The current tax amounts represent the share of PRC income tax attributable to the PRC infrastructure joint ventures.

Deferred tax has been provided for temporary differences between the carrying amount of toll road operation right and the corresponding tax base used in the computation of taxable profits for the PRC infrastructure joint ventures and other temporary differences arising from overseas subsidiaries as set out in note 30.

No provision for Hong Kong Profits Tax has been made as there was no income arising in or derived from Hong Kong.

The charge for the year can be reconciled to profit before taxation in the income statement as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | <u>366,303</u> | <u>348,838</u> |
| Tax at the domestic income tax rate of 15% (2002: 15%) | 54,945 | 52,326 |
| Tax effect of expenses that are not deductible in determining taxable profit | 21,515 | 27,339 |
| Tax effect of income that is not taxable in determining taxable profit | (12,909) | (20,966) |
| Effect of tax relief granted to joint ventures | (24,445) | (27,474) |
| Tax effect of different tax rates of joint ventures and subsidiaries operating in other jurisdictions | 3,306 | (1,307) |
| Change in income tax rate | (130) | (208) |
| Tax expense | <u>42,282</u> | <u>29,710</u> |
| Effective tax rate for the year | <u>11.5%</u> | <u>8.5%</u> |

The domestic tax rate of joint ventures in the PRC is used as it is where the operation of the Group is substantially based.

12. DIVIDENDS

| | 2003 | 2002 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Final dividend paid in respect of 2002 of HK\$0.08 (2001: HK\$0.088) per share | 41,295 | 45,373 |
| Interim dividend paid in respect of 2003 of HK\$0.15 (2002: HK\$0.16) per share | 86,385 | 82,496 |
| | 127,680 | 127,869 |
| 7.5% convertible cumulative preference shares dividend | 14,013 | 32,550 |
| | 141,693 | 160,419 |

A final dividend paid in respect of 2003 of HK10 cents per share amounting to a total of HK\$58,445,000 is proposed by the Board. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The amount will be accounted for as an appropriation of reserves in the year ending 31 December 2004.

The amount of the final dividend proposed has been calculated on the basis of 584,446,566 shares in issue as at 26 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2003 | 2002 |
|--|---------------------------|--------------------|
| | HK\$'000 | HK\$'000 |
| Profit for the year | 318,328 | 312,808 |
| Convertible cumulative preference shares dividend | (14,013) | (32,550) |
| Earnings for the purposes of basic and diluted earnings per share | <u>304,315</u> | <u>280,258</u> |
| | 2003 | 2002 |
| | Number | Number |
| | of shares | of shares |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 551,738,081 | 513,769,004 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | <u>1,144,405</u> | <u>197,945</u> |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>552,882,486</u> | <u>513,966,949</u> |

The effect of convertible cumulative preference shares is excluded from the calculation of diluted earnings per share for both years since the effect will be anti-dilutive.

The effect of warrants is excluded from the calculation of diluted earnings per share for both years because the exercise price of the Company's warrants was higher than the average market price of ordinary shares for both 2002 and 2003. The Company's warrants expired on 5 September 2003.

14. GOODWILL (NEGATIVE GOODWILL)

| | Goodwill HK\$'000 | Negative goodwill HK\$'000 | Total HK\$'000 |
|-----------------------------------|-----------------------------|--------------------------------------|--------------------------|
| THE GROUP | | | |
| Gross amount | | | |
| At 1 January 2003 | 5,856 | (62,751) | (56,895) |
| Additions for the year | — | (24,345) | (24,345) |
| Released on disposal | (2,871) | — | (2,871) |
| | <u>2,985</u> | <u>(87,096)</u> | <u>(84,111)</u> |
| At 31 December 2003 | 2,985 | (87,096) | (84,111) |
| Amortisation | | | |
| At 1 January 2003 | (4,198) | 55,779 | 51,581 |
| (Amortised) released for the year | (149) | 6,972 | 6,823 |
| Eliminated on disposal | 2,855 | — | 2,855 |
| | <u>(1,492)</u> | <u>62,751</u> | <u>61,259</u> |
| At 31 December 2003 | (1,492) | 62,751 | 61,259 |
| Carrying amount | | | |
| At 31 December 2003 | <u>1,493</u> | <u>(24,345)</u> | <u>(22,852)</u> |
| At 31 December 2002 | <u>1,658</u> | <u>(6,972)</u> | <u>(5,314)</u> |

Goodwill is amortised using the straight line method over its estimated useful life which ranges from 3 to 20 years.

Negative goodwill arose on the Group's acquisition of Chai-Na-Ta Corp. ("CNTC") in 2000 and the Group's conversion of 10,000,000 preferred shares of CNTC to equivalent number of common shares in 2003 and is recognised as income over 3 years, being the remaining weighted average useful life of the non-monetary assets acquired by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

15. TOLL HIGHWAY OPERATION RIGHT

| | HK\$'000 |
|------------------------|-------------|
| THE GROUP | |
| Cost | |
| At 1 January 2003 | 105,330 |
| Released on disposal | (105,330) |
| | <hr/> |
| At 31 December 2003 | – |
| | <hr/> |
| Amortisation | |
| At 1 January 2003 | 40,407 |
| Amortised for the year | 1,923 |
| Eliminated on disposal | (42,330) |
| | <hr/> |
| At 31 December 2003 | – |
| | <hr/> |
| Carrying amount | |
| At 31 December 2003 | – |
| | <hr/> <hr/> |
| At 31 December 2002 | 64,923 |
| | <hr/> <hr/> |

The Group had a right to operate and collect tolls from a highway situated in the PRC for a term of 20 years from the date of the business licence of a PRC subsidiary. The Group disposed of its entire interest in this PRC subsidiary during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

16. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land HK\$'000 | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Plant and machinery HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---|------------------------------|-----------------------------------|---------------------------------------|---|------------------------------------|-------------------------------|-------------------|
| THE GROUP | | | | | | | |
| Cost | | | | | | | |
| At 1 January 2003 | 2,992 | 4,652 | 4,771 | 9,417 | 124,564 | 5,018 | 151,414 |
| Additions | 3,387 | 4,503 | 320 | 970 | 1,808 | 1,737 | 12,725 |
| Disposals | — | (5) | (2,214) | (1,725) | (2,121) | (755) | (6,820) |
| Disposal of subsidiaries | — | — | — | (1,202) | (14,939) | (216) | (16,357) |
| Exchange adjustments | 538 | 629 | 340 | 496 | 19,733 | 343 | 22,079 |
| At 31 December 2003 | <u>6,917</u> | <u>9,779</u> | <u>3,217</u> | <u>7,956</u> | <u>129,045</u> | <u>6,127</u> | <u>163,041</u> |
| Depreciation | | | | | | | |
| At 1 January 2003 | — | 1,503 | 2,628 | 8,456 | 82,847 | 3,766 | 99,200 |
| Charge for the year | — | 290 | 971 | 544 | 7,044 | 589 | 9,438 |
| Eliminated on disposals | — | (5) | (2,214) | (1,722) | (2,121) | (713) | (6,775) |
| Eliminated on disposal of subsidiaries | — | — | — | (1,128) | — | (136) | (1,264) |
| Exchange adjustments | — | 240 | 327 | 538 | 15,290 | 202 | 16,597 |
| At 31 December 2003 | <u>—</u> | <u>2,028</u> | <u>1,712</u> | <u>6,688</u> | <u>103,060</u> | <u>3,708</u> | <u>117,196</u> |
| Net book value | | | | | | | |
| At 31 December 2003 | <u>6,917</u> | <u>7,751</u> | <u>1,505</u> | <u>1,268</u> | <u>25,985</u> | <u>2,419</u> | <u>45,845</u> |
| At 31 December 2002 | <u>2,992</u> | <u>3,149</u> | <u>2,143</u> | <u>961</u> | <u>41,717</u> | <u>1,252</u> | <u>52,214</u> |

The Group's land and buildings are situated

- overseas and freehold
- overseas and held under medium term leases
- in the PRC and held under medium term leases

| 2003 HK\$'000 | 2002 HK\$'000 |
|----------------------|------------------|
| 6,917 | 2,992 |
| 6,879 | 2,227 |
| 872 | 922 |
| <u>14,668</u> | <u>6,141</u> |

At 31 December 2003, the Group has pledged land and buildings situated overseas with a carrying amount of HK\$13,308,000 (2002: HK\$4,904,000) to secure the Group's banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

17. INTERESTS IN SUBSIDIARIES

| | | |
|-------------------------------|------------------|-----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares at cost | 1,388,042 | 1,388,042 |
| Amounts due from subsidiaries | 1,926,205 | 1,123,146 |
| | 3,314,247 | 2,511,188 |

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 at the time they became members of the Group pursuant to the Group's reorganisation in 1996.

Details of the Company's principal subsidiaries at 31 December 2003 are as follows:

| Name of subsidiary | Place of incorporation/ registration | Place of operation | Issued and fully paid ordinary share capital | Proportion of nominal value of issued ordinary shares capital held by the Company | | Principal activities |
|---|---|--------------------|--|---|--------------|---|
| | | | | Directly % | Indirectly % | |
| Chai-Na-Ta Corp. | Canada | Canada | C\$24,320,817 | — | 78 | Production and sale of North American ginseng |
| Herb King International Limited | Barbados | # | US\$7,510,000 | — | 100 | Investment holding |
| Pida Investments Limited | British Virgin Islands | # | US\$1 | — | 100 | Investment holding |
| Road King (China) Infrastructure Limited | British Virgin Islands | PRC | HK\$1,300,000,000 | 100 | — | Investment holding |
| Road Rise Investments Limited | British Virgin Islands | PRC | US\$1 | 100 | — | Investment and financial holding |
| Road King Infrastructure Finance (1997) Limited | British Virgin Islands | # | US\$1 | 100 | — | Provision of financial services |
| Road King Infrastructure Management Limited | Hong Kong | Hong Kong | HK\$2 | — | 100 | Provision of management services |

The subsidiaries of the Company are either investment or financial holding companies only and do not have any operations.

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

None of the subsidiaries had any loan capital outstanding at the end of the year.

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

| | THE GROUP | |
|--|--------------------|-------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Cost of investments | 2,015,608 | 1,663,429 |
| Share of post-acquisition undistributed results | 1,613,158 | 1,337,489 |
| | 3,628,766 | 3,000,918 |
| Loans to infrastructure joint ventures | 3,340,001 | 2,544,624 |
| Repayment of loans from infrastructure joint ventures | (2,192,829) | (1,704,805) |
| Net borrowing cost capitalised on financing the infrastructure joint ventures' toll highways and expressways construction (<i>note 19</i>) | 115,012 | 121,521 |
| | 4,890,950 | 3,962,258 |

Loans to infrastructure joint ventures are unsecured, interest free and have no fixed repayment terms.

All infrastructure joint ventures are co-operative joint ventures established in the PRC, details of which at 31 December 2003 are as follows:

| Name of infrastructure joint venture | Registered capital | Proportion of registered capital held indirectly by the Company | Principal activities |
|--|--------------------|---|---|
| Anhui Road Universe Hefei Highway Development Co. Ltd. 安徽路宇合肥公路開發有限公司 | RMB133,530,000 | 50% # | Construction and management of Hefei-Liuan Highway, Hefei Section in Anhui, PRC |
| Anhui Road Universe Hehuai Highway Dayang Section Development Company Limited 安徽省路宇合淮公路大楊段開發有限公司 | RMB90,000,000 | 60% * # | Investment in and development, operation and management of National Highway 206 Hefei - Huainan Highway Dayang Section in Anhui, PRC |
| Anhui Road Universe Hehuai Highway Yangjin Section Development Company Limited 安徽省路宇合淮公路楊金段開發有限公司 | RMB80,000,000 | 60% * # | Investment in and development, operation and management of National Highway 206 Hefei - Huainan Highway Yangjin Section in Anhui, PRC |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

| Name of infrastructure joint venture | Registered capital | Proportion of registered capital held indirectly by the Company | Principal activities |
|---|--------------------|---|--|
| Anhui Road Universe Liuan Highway Development Co. Ltd. 安徽路宇六安公路開發有限公司 | RMB92,400,000 | 50% # | Construction and management of Hefei-Liuan Highway, Liuan Section in Anhui, PRC |
| Bengbu Road King Huaihe Bridge Highway Development Co., Ltd. 蚌埠路勁淮河公路橋開發有限公司 | RMB92,880,000 | 60% * # | Investment in and development, operation and management of Provincial Highway 307 Bengbu Huaihe Bridge Highway in Anhui, PRC |
| Bengbu Road King Huai - Meng Highway Development Co., Ltd. 蚌埠路勁懷蒙公路開發有限公司 | RMB68,040,000 | 60% * # | Investment in and development, operation and management of Provincial Highway 307 Bengbu Huaiyuan - Mengcheng Highway in Anhui, PRC |
| Bengbu Road King Chaoyanglu Huaihe Highway Bridge Development Co., Ltd. 蚌埠路勁朝陽路淮河公路橋開發有限公司 | RMB73,592,000 | 60% * # | Investment in and construction, operation and management of Bengbu Chaoyanglu Huaihe Highway Bridge in Anhui, PRC |
| Foshan Guangsan Special-Use Automobile Highway Co., Ltd. 佛山廣三汽車專用公路有限公司 | RMB293,364,000 | 35% | Construction and management of Foshan Guangzhou - Sanshui Expressway in Guangdong, PRC |
| Guangxi Hengjing Highway Development Co., Ltd. 廣西恆勁公路開發有限公司 | RMB81,520,000 | 70% * # | Investment in and development, operation and management of Yulin - Gongguan Highway, Yulin Section, in Guangxi Zhuang Autonomous Region, PRC |
| Guangxi Lutong Highway Development Co., Ltd. 廣西路通公路開發有限公司 | RMB99,562,400 | 70% * # | Investment in and development, operation and management of Yulin City Ring Roads, in Guangxi Zhuang Autonomous Region, PRC |

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

| Name of infrastructure joint venture | Registered capital | Proportion of registered capital held indirectly by the Company | Principal activities |
|--|--------------------|---|---|
| Handan Rongguang Highway Development Co., Ltd. 邯鄲榮光公路開發有限公司 | RMB78,200,000 | 70% * # | Construction and management of National Highway 309, Handan-Feixiang Highway (Hanfei Section) in Hebei, PRC |
| Handan Xinguang Highway Development Co., Ltd. 邯鄲新光公路開發有限公司 | RMB81,800,000 | 70% * # | Construction and management of National Highway 309, Feixiang-Guantao Highway (Feiguan Section) in Hebei, PRC |
| Hebei Baofa Expressway Co., Ltd 河北保發高速公路有限公司 | RMB38,515,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Bazhou Dong) in Hebei, PRC |
| Hebei Baofeng Expressway Co., Ltd 河北保豐高速公路有限公司 | RMB38,280,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Rongcheng - Xiongxian) in Hebei, PRC |
| Hebei Baohui Expressway Co., Ltd 河北保惠高速公路有限公司 | RMB38,403,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Bazhou Zhong) in Hebei, PRC |
| Hebei Baojie Expressway Co., Ltd 河北保捷高速公路有限公司 | RMB38,905,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Xiongxian - Bazhou) in Hebei, PRC |
| Hebei Baojin Expressway Co., Ltd 河北保津高速公路有限公司 | RMB38,737,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Xushui - Rongcheng) in Hebei, PRC |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

| Name of infrastructure joint venture | Registered capital | Proportion of registered capital held indirectly by the Company | Principal activities |
|--|--------------------|---|---|
| Hebei Baoli Expressway Co., Ltd 河北保利高速公路有限公司 | RMB38,944,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Xiongxian Dong) in Hebei, PRC |
| Hebei Baoming Expressway Co., Ltd 河北保明高速公路有限公司 | RMB36,012,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Bazhou - Tianjinjie) in Hebei, PRC |
| Hebei Baosheng Expressway Co., Ltd 河北保昇高速公路有限公司 | RMB38,603,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Xiongxian Xi) in Hebei, PRC |
| Hebei Baoyi Expressway Co., Ltd 河北保怡高速公路有限公司 | RMB38,630,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Rong Cheng) in Hebei, PRC |
| Hebei Baoyu Expressway Co., Ltd 河北保裕高速公路有限公司 | RMB38,971,000 | 40% # | Investment in and operation and management of Hebei Baojin Expressway (Bazhouxi) in Hebei, PRC |
| Hunan Changyi (Baining) Expressway Co., Ltd. 湖南長益(白寧)高速公路有限公司 | RMB97,012,000 | 43.17% # | Investment in and development, operation and management of Hunan Changsha - Yiyang Expressway (Baining Section) in Hunan, PRC |
| Hunan Changyi (Cangyi) Expressway Co., Ltd. 湖南長益(滄益)高速公路有限公司 | RMB98,985,000 | 43.17% # | Investment in and development, operation and management of Hunan Changsha - Yiyang Expressway (Cangyi Section) in Hunan, PRC |

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

| Name of infrastructure joint venture | Registered capital | Proportion of registered capital held indirectly by the Company | Principal activities |
|---|--------------------|---|--|
| Hunan Changyi (Changbai) Expressway Co., Ltd. 湖南長益(長白)高速公路有限公司 | RMB98,554,000 | 43.17% # | Investment in and development, operation and management of Hunan Changsha - Yiyang Expressway (Changbai Section) in Hunan, PRC |
| Hunan Changyi (Hengchang) Expressway Co., Ltd. 湖南長益(衡滄)高速公路有限公司 | RMB101,695,000 | 43.17%# | Investment in and development, operation and management of Hunan Changsha - Yiyang Expressway (Hengchang Section) in Hunan, PRC |
| Hunan Changyi (Ningheng) Expressway Co., Ltd. 湖南長益(寧衡)高速公路有限公司 | RMB98,458,000 | 43.17% # | Investment in and development, operation and management of Hunan Changsha - Yiyang Expressway (Ningheng Section) in Hunan, PRC |
| Hunan Changyi (Zijiang No. 2 Bridge) Expressway Co., Ltd. 湖南長益(資江二橋)高速公路有限公司 | RMB78,328,000 | 43.17% # | Investment in and development, operation and management of Hunan Changsha - Yiyang Expressway (Zijiang No. 2 Bridge) in Hunan, PRC |
| Liuan Road Universe Liuye Highway Development Co., Ltd. 六安路宇六葉公路開發有限公司 | RMB97,800,000 | 50% # | Construction and management of Liuan-Yeji Highway (Western Section) in Anhui, PRC |
| Liuan Road Universe Pihe Bridge Development Co., Ltd. 六安路宇淝河大橋開發有限公司 | RMB90,364,000 | 50% # | Construction and management of Pihe Bridge in Anhui, PRC |
| Luodingshi Luochong Highway Company Limited 羅定市羅沖一級公路有限公司 | RMB96,800,000 | 61% * # | Construction and management of National Highway 324 Luoding-Chonghua Highway in Guangdong, PRC |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

| Name of infrastructure joint venture | Registered capital | Proportion of registered capital held indirectly by the Company | Principal activities |
|---|--------------------|---|---|
| Pingdingshan Road King Xuchang-Nanyang Highway (Xiangcheng Section) Development Co., Ltd. 平頂山路勁許南公路(襄城段)開發有限公司 | RMB73,400,000 | 50% # | Investment in and development, operation and management of National Highway 311 & Provincial Highway 01 Xuchang-Nanyang Highway, Xiangcheng Section in Henan, PRC |
| Pingdingshan Road King Xuchang-Nanyang Highway (Yexian Section) Development Co., Ltd. 平頂山路勁許南公路(葉縣段)開發有限公司 | RMB63,400,000 | 50% # | Investment in and development, operation and management of Provincial Highway 01 Xuchang-Nanyang Highway, Yexian Section in Henan, PRC |
| Shanxi Lutong Dongguan Highway Co., Ltd. 山西路通東觀公路有限公司 | RMB82,340,000 | 65% * # | Investment in and development, operation and management of National Highway 108 Yuci Dongchangshou-Qixian Dongguan Highway in Shanxi, PRC |
| Shanxi Lutong Taigu Highway Co., Ltd. 山西路通太古公路有限公司 | RMB90,480,000 | 60% * # | Construction and management of Provincial Highway 104 Taiyuan Ximing-Gujiao Highway in Shanxi, PRC |
| Shanxi Lutong Taiyu Highway Co., Ltd. 山西路通太榆公路有限公司 | RMB83,414,000 | 65% * # | Construction and management of Taiyuan-Yuci Highway in Shanxi, PRC |
| Shanxi Lutong Yuci Highway Co., Ltd. 山西路通榆次公路有限公司 | RMB66,412,000 | 65% * # | Construction and management of National Highway 108 Yuci City Bypass in Shanxi, PRC |
| Shenzhen Airport - Heao Expressway (Eastern Section) Co., Ltd. 深圳機荷高速公路東段有限公司 | RMB440,000,000 | 45% | Construction and management of Shenzhen Airport-Heao Expressway Eastern Section in Guangdong, PRC |

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

| Name of infrastructure joint venture | Registered capital | Proportion of registered capital held indirectly by the Company | Principal activities |
|--|--------------------|---|---|
| Shijiazhuang Luhui Road & Bridge Development Co., Ltd. 石家莊路輝道橋開發有限公司 | RMB88,000,000 | 60% * # | Construction and management of National Highway 307, Shijiazhuang-Gaocheng Highway in Hebei, PRC |
| Shijiazhuang Luxin Road & Bridge Development Co., Ltd. 石家莊路信道橋開發有限公司 | RMB44,000,000 | 60% * # | Construction and management of National Highway 307, Gaocheng-Jinzhou Highway in Hebei, PRC |
| Suzhou Road King Shanghai-Suzhou Airport Road Development Co., Ltd. 蘇州路勁蘇滬機場路發展有限公司 | RMB130,000,000 | 50% | Construction and management of Provincial Highway 343 Suzhou-Shanghai Airport Highway in Jiangsu, PRC |
| Changzhou Wujin Road King Changcao Highway Development Co., Ltd. 常州武進路勁常漕公路開發有限公司 | RMB100,000,000 | 60.24%* | Construction and management of Provincial Highway 232 Changzhou-Caoqiao Highway in Jiangsu, PRC |

* The Group does not have effective control over these companies, and accordingly, these companies have not been accounted for as subsidiaries.

The profit/cash sharing ratios in these infrastructure joint ventures differ from the proportion of the registered capital held by the Group over the duration of the joint ventures. During the early stage of the joint ventures, the Group is usually entitled to higher profit/cash sharing ratios than the proportion of registered capital held by the Group as contained in the relevant joint venture agreements. Until such time as specified in the joint venture agreements, the other venturers of the joint ventures may be entitled to profit/cash sharing ratios higher than their respective proportion of registered capital held by them over a specific period of time under the joint venture agreements. Thereafter, the profit sharing ratios of the Group may be the same as the proportion of the registered capital held by the Group or in accordance with a predetermined ratio stipulated in the joint venture agreements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

The summary of aggregate financial information of the infrastructure joint ventures, based on the adjusted financial statements prepared under the accounting principles generally accepted in Hong Kong for the year ended 31 December 2003 is as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|--------------------------------|--------------------|
| Income statement | | |
| Net toll revenue | <u>1,267,740</u> | <u>1,083,024</u> |
| Depreciation charges | <u>283,834</u> | <u>268,594</u> |
| Profit before taxation | <u>653,366</u> | <u>536,617</u> |
| Group's share of profit before taxation less losses | <u>432,750</u> | <u>417,725</u> |
| | | |
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Balance sheet | | |
| Property, plant and equipment | <u>9,331,019</u> | <u>7,382,083</u> |
| Other non-current assets | <u>–</u> | <u>39</u> |
| Current assets | <u>1,210,728</u> | 230,241 |
| Current liabilities | <u>(1,153,622)</u> | <u>(295,349)</u> |
| Net current assets (liabilities) | <u>57,106</u> | <u>(65,108)</u> |
| Amounts due to joint venture partners | <u>(3,600,299)</u> | <u>(2,767,240)</u> |
| Net assets | <u>5,787,826</u> | <u>4,549,774</u> |

19. NET BORROWING COSTS CAPITALISED ON FINANCING THE INFRASTRUCTURE JOINT VENTURES' TOLL HIGHWAYS AND EXPRESSWAYS CONSTRUCTION

| | THE GROUP | |
|------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Gross amount | | |
| At 1 January | 154,729 | 153,896 |
| Additions | — | 833 |
| At 31 December | 154,729 | 154,729 |
| Amortisation | | |
| At 1 January | 33,208 | 26,848 |
| Charge for the year | 6,509 | 6,360 |
| At 31 December | 39,717 | 33,208 |
| Carrying amount | | |
| At 31 December | 115,012 | 121,521 |

20. DEBTORS - DUE AFTER ONE YEAR

The amounts represent minimum income undertakings guaranteed by the PRC joint venture partners due in 2005 in accordance with the terms of the relevant joint venture agreements.

21. CHARGED DEPOSITS

THE GROUP

The amounts were deposited in several designated banks and are maintained in accordance with the terms and conditions of the Group's financing agreements. These bank balances are charged in favour of several banks and part of the deposits will be applied towards the debt repayments, the manner of which is contained in the relevant financing agreements.

At 31 December 2003, bank balances of HK\$55,797,000 (2002: HK\$87,834,000) are classified under current assets because the balances are pledged as security for the Group's indebtedness due within one year.

THE COMPANY

At 31 December 2002, bank balances of HK\$35,962,000 are classified under current assets because the balances are pledged as security for the Group's indebtedness due within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

22. INVENTORIES AND GINSENG CROPS

| | THE GROUP | |
|---------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| At cost: | | |
| Inventories | 53,341 | 40,415 |
| Ginseng crops | 93,391 | 87,819 |
| | <u>146,732</u> | <u>128,234</u> |

Ginseng plants reach maturity and normally can be harvested at the end of their third year of growth. However, the Group may allow crops to mature longer to allow for higher yields and additional seed harvests.

23. INVESTMENT IN SECURITIES

| | THE GROUP | |
|------------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Debt securities, unlisted overseas | – | 81,742 |
| Other investments, unlisted | 7,800 | 7,800 |
| | <u>7,800</u> | <u>89,542</u> |

24. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments of the Group is an amount of HK\$218,861,000 (2002: HK\$157,321,000) representing minimum income undertakings due from the PRC joint venture partners.

Minimum income undertakings have been recognised in accordance with the terms set out in the relevant joint venture agreements and are settled according to the schedule agreed with the relevant PRC joint venture partners.

| | THE GROUP | |
|---------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Aging analysis of debtors | | |
| Within 60 days | 185,930 | 684 |
| More than 90 days | 64,851 | 157,321 |
| | <u>250,781</u> | 158,005 |
| Interest receivable | 184 | 2,246 |
| Deposits and prepayments | 14,857 | 18,445 |
| | <u>265,822</u> | <u>178,696</u> |

25. SHARE CAPITAL

| | 2003 Number of shares | 2002 Number of shares | 2003 HK\$'000 | 2002 HK\$'000 |
|---|-----------------------------|-----------------------------|------------------|------------------|
| Authorised: | | | | |
| Ordinary shares of HK\$0.1 each | 20,000,000,000 | 20,000,000,000 | 2,000,000 | 2,000,000 |
| 7.5% convertible preference shares ("CP Shares") of HK\$0.1 each | 518,380 | 518,380 | 52 | 52 |
| Issued and fully paid: | | | | |
| Ordinary shares | | | | |
| At 1 January | 515,601,209 | 504,307,967 | 51,559 | 50,430 |
| Shares issued | 68,535,357 | 11,682,242 | 6,855 | 1,168 |
| Shares repurchased and cancelled | – | (389,000) | – | (39) |
| At 31 December | 584,136,566 | 515,601,209 | 58,414 | 51,559 |
| CP Shares | | | | |
| At 1 January | 418,380 | 518,380 | 42 | 52 |
| Shares converted and cancelled | (418,380) | (100,000) | (42) | (10) |
| At 31 December | – | 418,380 | – | 42 |
| Total issued and fully paid shares at 31 December | 584,136,566 | 516,019,589 | 58,414 | 51,601 |

On 12 June 2003, all the outstanding 418,380 CP Shares were automatically converted into ordinary shares according to the terms of the Preference Shares. Following the conversion, these 418,380 CP Shares were cancelled and 48,876,168 ordinary shares were issued at a conversion price of HK\$8.56.

On 28 August 2003, the Company entered into a subscription agreement with Value Partners Limited (the "Subscriber"), as fund manager, pursuant to which the Subscriber agreed to subscribe for 2,500,000 ordinary shares of the Company at a price of HK\$4.8 per share. The purpose of the placement was to restore the public float of the Company to the minimum requirement of 25%. The Company used the net proceeds of HK\$12,000,000 as general working capital.

As a result of the exercise of the Company's share options and warrants, 10,625,000 and 6,534,189 ordinary shares were issued by the Company as detailed in note 26 and 27 respectively.

26. SHARE OPTION SCHEME

The Old Share Option Scheme of the Company adopted on 3 June 1996 was terminated and the New Share Option Scheme was adopted by the Company at the annual general meeting held on 12 May 2003 to comply with Chapter 17 of the Listing Rules. As a result, no further options were granted under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme remain in full force and effect. During the year, 10,555,000 (2002: Nil) share options granted under the Old Share Option Scheme were exercised, 200,000 (2002: 580,000) share options were cancelled, no (2002: 4,808,000) share options expired and no share options granted under the Old Share Option Scheme remained outstanding.

The purpose of the New Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage those participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The participants include any full-time employees, executives or officers and directors (executive and non-executive directors) of the Company or any of its subsidiaries.

The total number of shares which may be issued under the New Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% (the "10% Limit") of the shares in issue as at the date of adoption of the New Share Option Scheme less the aggregate of exercised, cancelled and outstanding options. The 10% Limit may be refreshed with the approval of shareholders of the Company. The maximum number of shares may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless the same is approved by shareholders.

The option period commences on the commencement date (the date upon which the options are deemed to be granted and accepted) of such options and ends on the fifth anniversary of the commencement date. Each participant must pay HK\$1 as consideration for the grant of options within 28 days from the date of offer.

The exercise price shall be determined by the Board, being not less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer; (b) the average of the official closing prices of the shares stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer; and (c) the nominal value of the shares.

The New Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date, i.e. 12 May 2003.

During the year, 14,720,000 share options were granted under the New Share Option Scheme to directors and employees for an aggregate consideration of HK\$65. No charge was recognised in the income statement in respect of the value of share options granted. Under the New Share Option Scheme, 70,000 share options were exercised and 110,000 share options were cancelled during the year and 14,540,000 share options remained outstanding as at 31 December 2003.

26. SHARE OPTION SCHEME (Continued)

The following tables disclose details of the Company's share options held by directors and employees and movements in such holdings during the year.

2003

| Date of grant | Exercisable period | Exercise price | Number of share options | | | | Balance at 31.12.2003 |
|------------------|--------------------------------------|----------------|-------------------------|-------------------------|---------------------------|---------------------------|-----------------------|
| | | | Balance at 1.1.2003 | Granted during the year | Exercised during the year | Cancelled during the year | |
| | | HK\$ | | | | | |
| Directors | | | | | | | |
| 8 August 2000 | 8 August 2001 to 7 August 2003 | 3.20 | 8,150,000 | — | (8,150,000) | — | — |
| 27 November 2000 | 27 November 2001 to 26 November 2003 | 3.20 | 200,000 | — | — | (200,000) | — |
| 17 October 2003 | 17 October 2003 to 16 October 2008 | 5.15 | — | 9,850,000 | — | — | 9,850,000 |
| | | | 8,350,000 | 9,850,000 | (8,150,000) | (200,000) | 9,850,000 |
| Employees | | | | | | | |
| 8 August 2000 | 8 August 2001 to 7 August 2003 | 3.20 | 2,405,000 | — | (2,405,000) | — | — |
| 17 October 2003 | 17 October 2003 to 16 October 2008 | 5.15 | — | 4,870,000 | (70,000) | (110,000) | 4,690,000 |
| | | | 2,405,000 | 4,870,000 | (2,475,000) | (110,000) | 4,690,000 |
| | | | 10,755,000 | 14,720,000 | (10,625,000) | (310,000) | 14,540,000 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

26. SHARE OPTION SCHEME (Continued)

2002

| Date of grant | Exercisable period | Exercise price | Number of share options | | | | Balance at 31.12.2002 |
|------------------|--------------------------------------|----------------|-------------------------|-------------------------|---------------------------|-----------------------------------|-----------------------|
| | | | Balance at 1.1.2002 | Granted during the year | Exercised during the year | Expired/cancelled during the year | |
| | | HK\$ | | | | | |
| Directors | | | | | | | |
| 2 August 1999 | 2 August 2000 to 1 August 2002 | 5.60 | 2,263,000 | — | — | (2,263,000) | — |
| 2 August 1999 | 2 August 2000 to 1 August 2002 | 4.95 | 1,700,000 | — | — | (1,700,000) | — |
| 8 August 2000 | 8 August 2001 to 7 August 2003 | 3.20 | 8,340,000 | — | — | (190,000) | 8,150,000 |
| 27 November 2000 | 27 November 2001 to 26 November 2003 | 3.20 | 200,000 | — | — | — | 200,000 |
| | | | <u>12,503,000</u> | <u>—</u> | <u>—</u> | <u>(4,153,000)</u> | <u>8,350,000</u> |
| Employees | | | | | | | |
| 2 August 1999 | 2 August 2000 to 1 August 2002 | 5.60 | 170,000 | — | — | (170,000) | — |
| 2 August 1999 | 2 August 2000 to 1 August 2002 | 4.95 | 675,000 | — | — | (675,000) | — |
| 8 August 2000 | 8 August 2001 to 7 August 2003 | 3.20 | 2,795,000 | — | — | (390,000) | 2,405,000 |
| | | | <u>3,640,000</u> | <u>—</u> | <u>—</u> | <u>(1,235,000)</u> | <u>2,405,000</u> |
| | | | <u>16,143,000</u> | <u>—</u> | <u>—</u> | <u>(5,388,000)</u> | <u>10,755,000</u> |

27. WARRANTS

During 2000, a bonus issue of warrants was made on the basis of one warrant for every five ordinary shares held on 6 September 2000. Each warrant carries an entitlement to subscribe in cash at a price of HK\$5.00 (subject to adjustment) for one ordinary share of the Company, at any time from 6 March 2001 to 5 September 2003 (both days inclusive). During 2003, 6,534,189 warrants were exercised and all remaining warrants expired at the close of 5 September 2003.

At 31 December 2003, the Company had no (2002: 101,231,393) outstanding warrants.

28. RESERVES

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Share premium | | | | |
| At 1 January | 1,460,523 | 1,462,857 | 1,460,523 | 1,462,857 |
| Shares repurchased and cancelled | – | (1,176) | – | (1,176) |
| Preference shares converted and cancelled | (407,046) | (97,291) | (407,046) | (97,291) |
| Issue of ordinary shares | 479,042 | 96,133 | 479,042 | 96,133 |
| At 31 December | <u>1,532,519</u> | <u>1,460,523</u> | <u>1,532,519</u> | <u>1,460,523</u> |
| Translation reserve | | | | |
| At 1 January | 6,720 | 5,439 | – | – |
| Exchange differences arising on translation of overseas operations | 19,726 | 1,261 | – | – |
| Release on disposal of subsidiaries | – | 20 | – | – |
| At 31 December | <u>26,446</u> | <u>6,720</u> | <u>–</u> | <u>–</u> |
| Contributed surplus | | | | |
| At 1 January and 31 December | – | – | 1,348,042 | 1,348,042 |
| Special reserve | | | | |
| At 1 January and 31 December | <u>1,260,000</u> | <u>1,260,000</u> | <u>–</u> | <u>–</u> |
| Retained profits | | | | |
| At 1 January | 1,661,120 | 1,508,731 | 509,341 | 598,447 |
| Profit for the year | 318,328 | 312,808 | 206,516 | 71,313 |
| Dividends (<i>note 12</i>) | (141,693) | (160,419) | (141,693) | (160,419) |
| At 31 December | <u>1,837,755</u> | <u>1,661,120</u> | <u>574,164</u> | <u>509,341</u> |
| Total reserves | <u>4,656,720</u> | <u>4,388,363</u> | <u>3,454,725</u> | <u>3,317,906</u> |

Special reserve arising on a group reorganisation represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the issued share capital of Road King (China) Infrastructure Limited, which was acquired by the Company pursuant to the group reorganisation.

The contributed surplus of the Company represents the differences between the consolidated shareholders' funds of Road King (China) Infrastructure Limited at the date on which the Group reorganisation became effective and the nominal amount of the share capital of the Company issued under the Group reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

28. RESERVES (Continued)

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31 December 2003 and 2002 were as follows:

| | 2003 | 2002 |
|---------------------|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Contributed surplus | 1,348,042 | 1,348,042 |
| Retained profits | 574,164 | 509,341 |
| | 1,922,206 | 1,857,383 |
| Proposed dividend | 58,445 | 41,248 |

29. SECURED LOANS

| | THE GROUP | |
|------------------------------------|------------------|-----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Guaranteed notes (<i>note i</i>) | 1,091,122 | 1,089,627 |
| Repurchase of guaranteed notes | (469,440) | (469,440) |
| | 621,682 | 620,187 |
| Bank loans (<i>note ii</i>) | 392,911 | 519,850 |
| Other loans | 744 | 762 |
| | 1,015,337 | 1,140,799 |

29. SECURED LOANS (Continued)

The maturity of the above loans is as follows:

| | 2003 | 2002 |
|--|------------------|-------------|
| | HK\$'000 | HK\$'000 |
| Within one year | 54,545 | 195,631 |
| More than one year but not exceeding two years | 100,494 | 292,631 |
| More than two years but not exceeding five years | 860,298 | 652,537 |
| | <hr/> | <hr/> |
| Total | 1,015,337 | 1,140,799 |
| Less: Amount due within one year shown under current liabilities | (54,545) | (195,631) |
| | <hr/> | <hr/> |
| Amount due after one year | 960,792 | 945,168 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes:

- (i) The guaranteed notes bear interest at a fixed rate of 9.5% per annum and will mature in July 2007.
- (ii) Interest rates on the bank loans are floating and determined with reference to either HIBOR or LIBOR.

The guaranteed notes are secured by a floating charge over all the assets of a subsidiary including a charge over deposits and are jointly and severally guaranteed by the Company and certain of its subsidiaries. The bank loans are guaranteed either by the Company and/or certain of its subsidiaries. A transferable loan certificate facility of US\$75 million was secured by a mortgage over the shares of certain of the Company's subsidiaries and was fully repaid in February 2003. Certain of the bank loans are also secured by charges over deposits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

30. DEFERRED TAXATION

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior year:

THE GROUP

| | Accelerated tax depreciation | Tax losses | Others | Total |
|---------------------------------------|---|--|--|--|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2002 | 294 | (3,867) | 10,748 | 7,175 |
| (Credit) charge for the year | (399) | 1,387 | (2,247) | (1,259) |
| Effect in change in tax rate | | | | |
| - (credit) charge to income statement | (16) | 169 | (554) | (401) |
| Exchange adjustments | 6 | (79) | 208 | 135 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 1 January 2003 | (115) | (2,390) | 8,155 | 5,650 |
| (Credit) charge for the year | (640) | 1,204 | 5,508 | 6,072 |
| Effect in change in tax rate | | | | |
| - charge (credit) to income statement | 3 | 70 | (237) | (164) |
| Exchange adjustments | (21) | (430) | 1,785 | 1,334 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2003 | <u> </u> <u> </u> | <u> </u> <u> </u> | <u> </u> <u> </u> | <u> </u> <u> </u> |

At 31 December 2003, the Group has unused tax losses of HK\$11,505,000 (2002: HK\$15,241,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$10,174,000 (2002: HK\$13,910,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of HK\$1,331,000 (2002: HK\$1,331,000) due to the unpredictability of future taxable profit streams. All losses may be carried forward indefinitely. Other temporary differences mainly represent the crop costs capitalized in inventory and ginseng crops.

31. CREDITORS AND ACCRUED CHARGES

| | THE GROUP | |
|------------------------------|--|--|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Aging analysis of creditors: | | |
| Within 60 days | 2,973 | 10,739 |
| 60 - 90 days | - | 212 |
| | <u> </u> | <u> </u> |
| | 2,973 | 10,951 |
| Interest payable | 26,013 | 26,266 |
| Accrued charges | 14,030 | 20,125 |
| | <u> </u> | <u> </u> |
| | <u> </u> <u> </u> | <u> </u> <u> </u> |

32. DISPOSAL OF INTEREST IN A SUBSIDIARY

The Group disposed of its entire interest in Zhongshan Qijiang Highway Company Limited during the year which had the following effects:

| | HK\$'000 |
|--|-----------------|
| Net assets disposed of: | |
| Toll highway operation right | 63,000 |
| Property, plant and equipment | 15,093 |
| Debtors, deposits and prepayments | 8,630 |
| Bank balances and cash | 4,137 |
| Creditors and accrued charges | (9,460) |
| Minority interests | (20,223) |
| | 61,177 |
| Goodwill released | 16 |
| | 61,193 |
| Net consideration | 61,508 |
| Gain on disposal of interest in a subsidiary | 315 |
| Net cash inflow arising from disposal: | |
| Cash consideration | 63,492 |
| Withholding tax paid | (3,380) |
| Bank and cash balances disposed of | (4,137) |
| | 55,975 |
| Satisfied by: | |
| Cash | 63,492 |
| Consideration receivable | 1,490 |
| Expenses incurred in respect of the disposal | (3,474) |
| Net consideration | 61,508 |

During the year, the disposed subsidiary contributed HK\$12 million to the Group's turnover, HK\$6 million to the Group's profit from operations and HK\$13 million to the Group's net operating cash flow and used HK\$5 million in respect of its financing activities.

NOTES TO THE FINANCIAL STATEMENTS

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33. DISPOSAL OF INTEREST IN AN INFRASTRUCTURE JOINT VENTURE

The Group's disposal of its interest in an infrastructure joint venture during the year had the following effects:

| | HK\$'000 |
|--|----------------|
| Interests in infrastructure joint ventures | |
| Cost of investments | 7,943 |
| Share of post-acquisition undistributed results | 226 |
| Loans to infrastructure joint ventures | 7,646 |
| Repayment of loans from infrastructure joint venture | <u>(2,253)</u> |
| | 13,562 |
| Consideration receivable | 15,243 |
| Withholding tax paid | <u>(195)</u> |
| | 1,486 |

During the year, the disposed infrastructure joint venture did not make any contribution to the Group's net operating cash flow, turnover and profit attributable to shareholders.

34. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees including directors. The assets of the scheme are held separately from those of the Group in funds under the control of the independent trustee. Both the Group and the employees contribute a fixed percent to the Scheme based on their monthly salary in accordance with government regulations.

The scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the Scheme. Where there are employees who leave the Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group. There were no forfeited contributions available to reduce future contributions at the balance sheet date.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government. The subsidiary is required to contribute a fixed percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligations of the Group with respect to the retirement scheme is to make the specified contributions.

35. OPERATING LEASE COMMITMENT

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | THE GROUP | |
|---------------------------------------|---------------------------|--------------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Within one year | 7,854 | 6,884 |
| In the second to fifth year inclusive | 12,799 | 11,097 |
| | <hr/> 20,653 <hr/> | <hr/> 17,981 <hr/> |

The commitments represent rentals payable by the Group for its offices and agricultural land use rights with the lease periods ranging from two to five years.

At 31 December 2003 and 2002, the Company had no operating lease commitments.

36. CAPITAL COMMITMENT

At the balance sheet date, the Group had material capital commitment as follows:

| | THE GROUP | |
|--|---------------------------|---------------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Contracted but not provided for | | |
| Investment loan to be injected into a subsidiary | – | 7,937 |
| Investment cost to be injected into a subsidiary | 2,550 | – |
| | <hr/> 2,550 <hr/> | <hr/> 7,937 <hr/> |
| Investment costs to be injected into infrastructure joint ventures | | |
| Within one year | – | 2,622 |
| After the fifth year | 34,177 | 34,177 |
| | <hr/> 34,177 <hr/> | <hr/> 36,799 <hr/> |
| | <hr/> 36,727 <hr/> | <hr/> 44,736 <hr/> |
| Authorized but not contracted for | | |
| Investment costs to be injected into an infrastructure joint venture | | |
| Within one year | – | 993,700 |
| | <hr/> <hr/> | <hr/> <hr/> 993,700 |

At 31 December 2003 and 2002, the Company had no capital commitments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

37. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities arising from its interests in joint ventures:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|--------------------------------|------------------|
| Guarantees indirectly given to banks in respect of bank facilities utilised by infrastructure joint ventures | <u>—</u> | <u>116,775</u> |

At the balance sheet date, the Company also provided guarantees of HK\$1,474,350,000 (2002: HK\$1,611,850,000) in respect of guaranteed notes and bank loans raised by its subsidiaries.

38. POST BALANCE SHEET EVENT

In March 2004, the Group signed a conditional agreement with a PRC partner to acquire 45% of toll collection and operation right in Tangshan-Tianjin Expressway in Hebei Province. The transfer application was submitted to relevant government authorities for approval.