1. GENERAL

The Company is incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited. 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.

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 HONG KONG FINANCIAL REPORTING STANDARDS AND PRIOR PERIOD ADJUSTMENT

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" which is one of the Hong Kong Financial Reporting Standards ("HKFRS"s) issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP"s) and Interpretations approved by the HKSA.

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. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the opening accumulated profits at 1st January, 2002 have been reduced by RMB2,871,000 (31st December, 2002: RMB3,076,000) and the net profit for the year ended 31st December, 2002 has been decreased by RMB205,000. There is no material effect on the results for the current year.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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.

Revenue recognition

Toll revenue is recognised on a receipts basis.

Sales of other investments are recognised on a trade-date basis.

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 work 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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. An 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.

Investments in securities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities (continued)

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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

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 and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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 assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

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 is 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.

Retirement benefits costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 term.

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. PROFIT FROM OPERATIONS

	2003	2002
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments		
Contributions to retirement benefits schemes	**1,175**	826
Other staff costs	**11,078**	11,095
	12,253	11,921
Amortisation of goodwill (included in administrative expenses)	**161**	160
Auditors' remuneration	**905**	788
Depreciation and amortisation of property, plant and equipment	**22,363**	21,053
Repair and maintenance charges	**5,959**	4,311
Loss on disposal of property, plant and equipment	**416**	—
Loss on disposal of other investments	**48**	—
Unrealised holding loss on other investments	**3**	—
and after crediting:		
Interest income	**426**	150
Gain on disposal of property, plant and equipment	**—**	44

6. DIRECTORS' EMOLUMENTS

	2003 RMB'000	2002 RMB'000
Directors' fees:		
Executive	—	—
Independent non-executive	420	420
Other emoluments of executive directors:		
Salaries and other benefits	2,372	2,568
Contributions to retirement benefits schemes	64	68
	2,856	3,056

The emoluments of the directors were within the following bands:

	2003	2002
Up to HK$1,000,000	7	7
HK$1,000,001 to HK$1,500,000	1	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 waived any emoluments during the year.

7. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2002: five) were directors of the Company whose emoluments are included in the disclosures in note 6 above. The emoluments of the remaining individual for the year were as follows:

	2003 RMB'000	2002 RMB'000
Salaries and other benefits	274	—
Contributions to retirement benefits schemes	27	—
	301	—

8. INTEREST EXPENSES

	2003 RMB'000	2002 RMB'000
The interest expenses represent interest on		
— bank borrowings wholly repayable within five years	980	1,034
— a loan from a joint venture partner of a subsidiary wholly repayable within five years	2,110	—
— a loan from a joint venture partner of a subsidiary not wholly repayable within five years	—	3,263
	3,090	4,297

9. INCOME TAX EXPENSES

	2003	2002
	RMB'000	RMB'000
PRC income tax		
— current year	**2,418**	1,557
— underprovision in prior years	**17**	429
	2,435	1,986
Deferred taxation *(note 19)*	**730**	1,405
	3,165	3,391

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 was subject to PRC income tax at the full tax rate of 15% starting from the current year while another PRC subsidiary was subject to PRC income tax at the full tax rate of 15% for both years.

In addition, a PRC subsidiary is entitled to an exemption from the local income tax during the five years ended 31st December, 2002, followed by a 50% tax relief for the next five years. The reduced tax rate for the relief period is 1.5%. Accordingly, the PRC subsidiary is subject to a local income tax at the reduced rate of 1.5% commencing this year. The other PRC subsidiary is not subject to such a local income tax.

The income tax expenses for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003		2002	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**16,870**		15,827	
Tax at the domestic income tax rate of 15% *(note)*	**2,531**	**15.0**	2,374	15.0
Tax effect of expenses not deductible for tax purpose	**1,534**	**9.1**	1,483	9.4
Tax effect of income not taxable for tax purpose	**(929)**	**(5.5)**	(752)	(4.8)
Underprovision in prior years	**17**	**0.1**	429	2.7
Effect of tax holidays granted to a PRC subsidiary	**(48)**	**(0.3)**	(302)	(1.9)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**60**	**0.4**	159	1.0
Tax expense and effective tax rate for the year	**3,165**	**18.8**	3,391	21.4

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

Details of deferred taxation are set out in note 19.

10. DIVIDEND

	2003	2002
	RMB'000	RMB'000
Dividend approved and paid	**4,200**	—

Pursuant to the annual general meeting held on 23rd May, 2003, a final dividend of HK$4,000,000 (equivalent to approximately RMB4,200,000) or HK$0.02 per share proposed by the directors in respect of the year ended 31st December, 2002 was approved and paid to the shareholders of the Company.

A final dividend of HK$4,000,000 (equivalent to approximately RMB4,200,000) or HK$0.02 per share has been proposed by the directors in respect of the year ended 31st December, 2003 and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

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

	2003	2002
	RMB'000	RMB'000
Earnings		
Net profit for the year	**11,603**	9,975
	'000	'000
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**200,000**	200,000
Effect of dilutive share options	**860**	
Number of ordinary shares for the purposes of diluted earnings per share	**200,860**	

The adjustment to comparative earnings per share, arising from the change in accounting policy described in note 2 above, is as follows:

	Cents
Reconciliation of earnings per share for the year ended 31st December, 2002	
Reported figure before adjustment	5.1
Adjustment arising from the adoption of SSAP 12 (Revised)	(0.1)
Restated figure	5.0

No diluted earnings per share has been presented for the year ended 31st December, 2002 as there was no dilutive potential ordinary share in issue.

12. PROPERTY, PLANT AND EQUIPMENT

	Toll highways and bridges RMB'000	Land and buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
THE GROUP						
COST						
At 1st January, 2003	494,782	2,219	2,438	1,941	7,019	508,399
Additions	96	—	138	—	2,325	2,559
Disposals	(543)	—	(172)	(142)	—	(857)
Transfer	8,394	—	905	45	(9,344)	—
At 31st December, 2003	502,729	2,219	3,309	1,844	—	510,101
DEPRECIATION						
At 1st January, 2003	92,287	458	1,738	699	—	95,182
Charge for the year	21,567	107	401	288	—	22,363
Eliminated on disposals	(150)	—	(152)	(135)	—	(437)
At 31st December, 2003	113,704	565	1,987	852	—	117,108
NET BOOK VALUE						
At 31st December, 2003	389,025	1,654	1,322	992	—	392,993
At 31st December, 2002	402,495	1,761	700	1,242	7,019	413,217

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

	Furniture, fixtures and equipment RMB'000
THE COMPANY	
COST	
At 1st January, 2003	50
Additions	2
At 31st December, 2003	52
DEPRECIATION	
At 1st January, 2003	10
Charge for the year	10
At 31st December, 2003	20
NET BOOK VALUE	
At 31st December, 2003	32
At 31st December, 2002	40

13. GOODWILL

	THE GROUP RMB'000
COST	
At 1st January, 2003 and at 31st December, 2003	1,608
AMORTISATION	
At 1st January, 2003	804
Charge for the year	161
At 31st December, 2003	965
NET BOOK VALUE	
At 31st December, 2003	643
At 31st December, 2002	804

The amortisation period adopted for goodwill is 10 years.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2003 & 2002 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 in 2001.

Details of the Company's subsidiaries at 31st December, 2003 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

14. INVESTMENTS IN SUBSIDIARIES (continued)

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.

In August 2003, the Group and the joint venture partner agreed to extend Langfang Tongda's joint venture term for further ten years ending in May 2023, as a compensation for the reduction of revenue and for additional costs incurred by Langfang Tongda in 2002 and 2003 during the course of the relocation of a toll station required by the local governmental authority. As at the date of the annual report, applications with the relevant governmental authorities for toll collection during the extended joint venture term is still in progress.

15. OTHER INVESTMENTS

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Listed equity investments in Hong Kong, at market value	**192**	—

16. AMOUNT DUE FROM (TO) A SUBSIDIARY

THE COMPANY

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

17. AMOUNTS DUE TO JOINT VENTURE PARTNERS OF SUBSIDIARIES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Current portion of an advance from a joint venture partner of a subsidiary *(note 20)*	**2,589**	3,461
Amounts due to joint venture partners of subsidiaries *(Note)*	**2,868**	1,407
	5,457	4,868

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

18. UNSECURED SHORT-TERM BORROWINGS

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Current portion of long-term borrowings *(note 21)*	**5,151**	7,800
Bank borrowings *(Note)*	**15,000**	15,000
	20,151	22,800

Note: The bank borrowings as at 31st December, 2003 and 2002 were granted to a non-wholly owned subsidiary of the Company and were guaranteed by the Company (see note 26).

19. DEFERRED TAXATION

THE GROUP

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

	Accelerated tax depreciation	**Others**	**Total**
	RMB'000	RMB'000	RMB'000
At 1st January, 2002			
— as previously reported	3,643	—	3,643
— adjustment on adoption of SSAP 12 (Revised)	3,586	100	3,686
— as restated	7,229	100	7,329
Charge to income statement for the year	1,220	185	1,405
At 31st December, 2002	8,449	285	8,734
Charge (credit) to income statement for the year	1,015	(285)	730
At 31st December, 2003	9,464	—	9,464

20. ADVANCE FROM A JOINT VENTURE PARTNER OF A SUBSIDIARY

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
The advance was repayable as follows:		
Within one year	**2,589**	3,461
Between one to two years	**—**	2,618
	2,589	6,079
Less: Amount due within one year and included under current liabilities *(note 17)*	**(2,589)**	(3,461)
	—	2,618

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.

21. UNSECURED LONG-TERM BORROWINGS

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
The loans are repayable as follows:		
Within one year	**5,151**	7,800
Between one to two years	**8,374**	7,800
Between two to five years	**21,665**	19,143
Over five years	**33,949**	38,396
	69,139	73,139
Less: Amount due within one year and included under current liabilities *(note 18)*	**(5,151)**	(7,800)
	63,988	65,339

Other than the loan from a joint venture partner of a subsidiary amounting to RMB43,560,000 (2002: RMB43,560,000) which carries no interest, the remaining balance of the above loans carries interest at 7.488% per annum (2002: 7.488% per annum) on the outstanding principal at the balance sheet date.

22. SHARE CAPITAL

	2002 & 2003 Number of shares	HK$'000
Ordinary shares of HK$0.10 each		
Authorised	**2,000,000,000**	**200,000**
Issued and fully paid	**200,000,000**	**20,000**

	RMB'000
Shown in the financial statements as	**21,000**

23. RESERVES

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated (losses) profits RMB'000	Total RMB'000
THE COMPANY				
At 1st January, 2002	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
Net profit for the year	—	—	13,990	13,990
Dividend paid	—	—	(4,200)	(4,200)
At 31st December, 2003	15,897	231,750	1,258	248,905

The contributed surplus represents the difference between the aggregate net assets of the subsidiaries acquired pursuant to the group reorganisation in 2001, over the nominal value of the share capital of the Company issued for the acquisition.

24. 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 of the Company may grant options to any director or employee of the Company and its subsidiaries or other eligible participants to subscribe for shares in the Company.

24. SHARE OPTION SCHEME (continued)

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 following table discloses details of the Company's share options held by employees and movements in such holdings during the year:

	Date of grant	Exercise price per share HK$	Exercisable period	Granted during the year and outstanding at 31st December, 2003
Directors of the Company	29th April, 2003	0.40	16th May 2003 to 28th April, 2013	**5,460,000**
Other employees of the Company	29th April, 2003	0.40	9th May, 2003 to 28th April, 2013	**1,260,000**
			16th May, 2003 to 28th April, 2013	**270,000**
				1,530,000
Other employees of the Group	29th April, 2003	0.40	16th May, 2003 to 28th April, 2013	**1,650,000**
				8,640,000

No option has been granted under the Scheme for the period from 12th November, 2001 (the date of adoption of the Scheme) up to and including 28th April, 2003. No share options were exercised or cancelled by the grantees during the year.

Total consideration received during the year from employees for taking up the options granted amounted to HK$18.

The financial impact of options granted is not recorded in the Company's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

25. RETIREMENT BENEFITS SCHEMES

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 20% (2002: 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 scheme 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.

26. CONTINGENT LIABILITIES

At 31st December, 2003, the Company executed guarantees amounting to RMB15,000,000 (2002: RMB15,000,000) in favour of certain banks in respect of bank borrowings granted to a subsidiary.

27. OPERATING LEASE COMMITMENTS

The minimum lease payments paid under operating leases in respect of land and buildings during the year amounted to RMB1,209,000 (2002: RMB1,179,000).

At 31st December, 2003, 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	
	2003	2002
	RMB'000	RMB'000
Within one year	**653**	784
In the second to fifth year inclusive	**—**	653
	653	1,437

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.

28. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	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

29. 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**	**2003**	2002
		RMB'000	RMB'000
Fellow subsidiary	Rentals paid on land and buildings	**784**	784
Associate of ultimate holding company	Rentals paid on land and buildings	**500**	500

The rentals were charged in accordance with the relevant tenancy agreement.

(ii) Others

Details of operating lease commitment with a related party are set out in note 27.