

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. GENERAL

The Company is an exempted company incorporated in Bermuda and its shares are listed on 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 PRC.

2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

The financial statements are prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRSs"), the terms of which includes the Statements of Standard Accounting Practice ("SSAP") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In the current year, the Group has adopted for the first time SSAP 36 "Agriculture" issued by the HKICPA.

The principal effect of the implementation of SSAP 36 is in relation to agriculture activities. SSAP 36 requires the measurement of biological assets and agricultural produce at their fair value less estimated point-of-sale costs. The gain or loss arising from a change in fair value less estimated point-of-sale costs is included in the profit or loss for the period in which it arises. However, given the uncertainty in the process of producing ginseng crops and the lack of a market for immature ginseng, the ginseng crops are stated at cost until the time of harvest. In the absence of any specific transitional requirements in SSAP 36, the new accounting policy has been applied retrospectively.

As a result of the adoption of SSAP 36, the retained profits of the Group at 1 January 2004 has been increased by HK\$12,464,000 (2003: HK\$8,127,000). The translation reserve at 1 January 2004 has been increased by HK\$1,402,000 (2003: decreased by HK\$248,000). Inventories at 1 January 2004 have been increased by HK\$27,526,000 (2003: HK\$19,549,000). Minority interests at 1 January 2004 has been increased by HK\$4,026,000 (2003: HK\$5,698,000). Deferred taxation at 1 January 2004 has been increased by HK\$9,634,000 (2003: HK\$5,972,000). The profit for the year ended 31 December 2004 has been decreased by HK\$12,096,000 (2003: increased by HK\$4,337,000).

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs will have a significant impact on its results of operations and financial position.

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.

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 is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income statement immediately.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 capitalised 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 operation of the toll highway over the remaining term of the joint venture.

The capitalisation of interest charges relating to funds borrowed to finance the properties under development for sale begins when construction or production activities commence and ceases when the assets are substantially ready for their intended sale.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Toll highway operation rights

Depreciation of toll highway operation rights of the Group's infrastructure joint ventures is provided to write off their cost on a units-of-usage basis whereby depreciation is provided based on the ratio of traffic volume for a particular period over the projected total traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustments will be made should there be a material change.

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%

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.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and ginseng crops

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

Given the uncertainty in the process of producing ginseng crops and the lack of a market for immature ginseng, the ginseng crops are stated at cost less impairment until the time of harvest. 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.

At the point of harvest, ginseng crops are stated at their fair value less estimated point-of-sale costs. The gain or loss arising from a change in fair value less estimated point-of-sale costs at the point of harvest is included in the profit or loss for the period in which it arises.

Properties under development for sale

Properties under development for sale are included in current assets at the lower of cost and net realisable value. Cost of property in the course of development comprises of land costs, construction expenditures, borrowing costs directly attributable to construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing expenses.

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.

Foreign currencies

Transactions denominated in foreign currencies 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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\$3,749,000 (2003: HK\$14,688,000).

5. SEGMENTAL INFORMATION

The Group's turnover and profit for the year ended 31 December 2004 by business activities and geographical markets are as follows:

By business segments:

	Toll Road HK\$'000	Other Businesses* HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
2004				
Turnover: Group and share of infrastructure joint ventures	996,493	44,550	–	1,041,043
Less: Share of infrastructure joint ventures' toll revenue	(992,744)	–	–	(992,744)
Turnover: Group	<u>3,749</u>	<u>44,550</u>	<u>–</u>	<u>48,299</u>
Segment result	(12,266)	(24,990)	–	(37,256)
Net income recognised in respect of goodwill and negative goodwill	(150)	12,173	–	12,023
Interest income	2,071	82	10,543	12,696
Corporate income	–	–	8,388	8,388
Corporate expenses	–	–	(45,784)	(45,784)
Operating loss: Group	<u>(10,345)</u>	<u>(12,735)</u>	<u>(26,853)</u>	<u>(49,933)</u>
Share of operating profit of infrastructure joint ventures	559,615	–	–	559,615
Finance costs	(14,569)	(671)	(87,364)	(102,604)
Profit before taxation	<u>534,701</u>	<u>(13,406)</u>	<u>(114,217)</u>	<u>407,078</u>
Taxation	(49,796)	8,117	–	(41,679)
Profit before minority interests	<u>484,905</u>	<u>(5,289)</u>	<u>(114,217)</u>	<u>365,399</u>
Minority interests	–	3,404	–	3,404
Profit for the year	<u><u>484,905</u></u>	<u><u>(1,885)</u></u>	<u><u>(114,217)</u></u>	<u><u>368,803</u></u>
Consolidated Balance Sheet				
Assets				
Segment assets	433,628	536,755	–	970,383
Interests in infrastructure joint ventures	4,751,332	–	–	4,751,332
Unallocated corporate assets	–	–	1,282,500	1,282,500
Total assets	<u>5,184,960</u>	<u>536,755</u>	<u>1,282,500</u>	<u>7,004,215</u>
Liabilities				
Segment liabilities	309,936	66,606	–	376,542
Unallocated corporate liabilities	–	–	1,613,782	1,613,782
Total liabilities	<u>309,936</u>	<u>66,606</u>	<u>1,613,782</u>	<u>1,990,324</u>
Other information				
Capital additions	275	24,688	2,077	27,040
Depreciation and amortisation	598	465	1,264	2,327
Other non-cash expenses	7,667	–	3,037	10,704

* Other businesses mainly include the ginseng and property businesses.

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5. SEGMENTAL INFORMATION (Continued)

By business segments: (Continued)

	Toll Road	Other Businesses*	Unallocated	Consolidated
	HK\$'000	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	22,970	–	23,267
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: Group	<u>1,425</u>	<u>30,178</u>	<u>(27,886)</u>	<u>3,717</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>30,075</u>	<u>(82,951)</u>	<u>370,534</u>
Taxation	(36,374)	(7,389)	–	(43,763)
Profit before minority interests	<u>387,036</u>	<u>22,686</u>	<u>(82,951)</u>	<u>326,771</u>
Minority interests	(1,453)	(2,653)	–	(4,106)
Profit for the year	<u>385,583</u>	<u>20,033</u>	<u>(82,951)</u>	<u>322,665</u>
Consolidated Balance Sheet				
Assets				
Segment assets	481,344	217,143	–	698,487
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>217,143</u>	<u>265,729</u>	<u>5,855,166</u>
Liabilities				
Segment liabilities	38,487	38,999	–	77,486
Unallocated corporate liabilities	–	–	1,003,393	1,003,393
Total liabilities	<u>38,487</u>	<u>38,999</u>	<u>1,003,393</u>	<u>1,080,879</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 the ginseng business.

5. SEGMENTAL INFORMATION (Continued)

By geographical segments:

	PRC HK\$'000	Hong Kong HK\$'000	Overseas** HK\$'000	Consolidated HK\$'000
2004				
Turnover: Group and share of infrastructure joint ventures	996,493	36,974	7,576	1,041,043
Less: Share of infrastructure joint ventures' toll revenue	(992,744)	–	–	(992,744)
Turnover: Group	3,749	36,974	7,576	48,299
Segment result	(14,660)	(18,710)	(3,886)	(37,256)
Carrying amount of segment assets				
Segment assets	718,546	2,276	249,561	970,383
Interests in infrastructure joint ventures	4,751,332	–	–	4,751,332
Unallocated corporate assets	–	1,282,500	–	1,282,500
Total assets	5,469,878	1,284,776	249,561	7,004,215
Other information				
Capital additions	1,167	2,079	23,794	27,040
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	26,487	81,381	11,476	119,344
Segment result	(1,023)	6,911	17,379	23,267
Carrying amount of segment assets				
Segment assets	487,019	16,476	194,992	698,487
Interests in infrastructure joint ventures	4,890,950	–	–	4,890,950
Unallocated corporate assets	–	265,729	–	265,729
Total assets	5,377,969	282,205	194,992	5,855,166
Other information				
Capital additions	1,892	691	10,142	12,725

** Overseas segment mainly includes Canada.

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6. OPERATING (LOSS) PROFIT: GROUP

	2004 HK\$'000	2003 HK\$'000
Operating (loss) profit has been arrived at after charging:		
Depreciation of property, plant and equipment	10,588	9,438
Less: capitalised in inventories and ginseng crops	(8,399)	(7,599)
Less: capitalised in properties under development for sale	(12)	–
	<u>2,177</u>	<u>1,839</u>
Amortisation of toll highway operation right	–	1,923
Operating lease rentals in respect of rented land, premises and equipment	8,647	8,367
Less: capitalised in inventories and ginseng crops	(5,959)	(5,235)
Less: capitalised in properties under development for sale	(16)	–
	<u>2,672</u>	<u>3,132</u>
Auditors' remuneration	1,471	1,296
Staff costs (excluding directors' emoluments)	63,539	55,944
Provident fund scheme contributions, net of forfeited contributions of HK\$22,000 (2003: HK\$17,000)	1,682	1,431
Less: capitalised in inventories and ginseng crops	(24,383)	(22,473)
Less: capitalised in properties under development for sale	(512)	–
Total staff costs	<u>40,326</u>	<u>34,902</u>
and after crediting:		
Gain on disposal of interest in a subsidiary (note 30)	–	315
Gain on disposal of interest in an infrastructure joint venture (note 31)	–	1,486
Gain on disposal of property, plant and equipment	79	201
Gain on disposal of investment in listed securities	1,322	706
Realised gain on investment in securities	6,618	572
Dividends from listed securities	–	806
Exchange gain	<u>3,971</u>	<u>3,665</u>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' Emoluments

	2004 HK\$'000	2003 HK\$'000
Fees:		
Non-executive directors	165	575
Independent non-executive directors	490	490
	<u>655</u>	<u>1,065</u>
Other emoluments (executive directors):		
Salaries and other benefits	9,731	9,605
Performance related incentive payments	3,897	2,500
Retirement benefit scheme contributions	422	403
	<u>14,050</u>	<u>12,508</u>
	<u><u>14,705</u></u>	<u><u>13,573</u></u>

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

	2004 Number of Directors	2003 Number of Directors
Nil to HK\$1,000,000	11	8
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$6,500,001 to HK\$7,000,000	1	–
	<u><u>1</u></u>	<u><u>–</u></u>

Details of share options held by individual directors at 31 December 2004 are shown in the Directors' Report.

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7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees' Emoluments

During the year, the five highest paid individuals included three directors (2003: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2003: two) highest paid individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	3,984	3,024
Performance related incentive payments	240	335
Retirement benefit scheme contributions	227	293
	<u>4,451</u>	<u>3,652</u>

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

	2004 Number of employees	2003 Number of employees
HK\$1,500,001 to HK\$2,000,000	1	2
HK\$2,500,001 to HK\$3,000,000	1	–
	<u>2</u>	<u>2</u>

8. SHARE OF OPERATING PROFIT OF INFRASTRUCTURE JOINT VENTURES

	2004 HK\$'000	2003 HK\$'000
Share of operating profit of infrastructure joint ventures before depreciation	750,094	566,802
Depreciation of toll highway operation rights	(190,479)	(134,052)
	<u>559,615</u>	<u>432,750</u>

9. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on :		
Borrowings wholly repayable:		
within 5 years	36,437	56,735
over 5 years	43,833	–
Add: discount on guaranteed notes	959	1,495
	<u>81,229</u>	<u>58,230</u>
Total borrowing costs		
Amortisation of capitalised borrowing costs on financing the joint ventures' toll highways and expressways construction (note 17)	6,627	6,509
Other finance costs	15,843	1,194
	<u>103,699</u>	<u>65,933</u>
Less: amount capitalised	(1,095)	–
	<u>102,604</u>	<u>65,933</u>

10. TAXATION

	2004 HK\$'000	2003 HK\$'000
Deferred taxation attributable to overseas subsidiaries (note 28)		
Deferred tax	(8,117)	7,522
Attributable to a change in tax rate	–	(133)
	<u>(8,117)</u>	<u>7,389</u>
Share of taxation attributable to PRC infrastructure joint ventures		
Current tax	40,596	32,214
Deferred tax	9,200	4,160
	<u>41,679</u>	<u>43,763</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 28.

No provision for Hong Kong Profits Tax has been made as there was no assessable profit derived from Hong Kong.

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For the year ended 31 December 2004

10. TAXATION (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>407,078</u>	<u>370,534</u>
Tax at the domestic income tax rate of 15% (2003: 15%)	61,062	55,580
Tax effect of expenses that are not deductible in determining taxable profit	26,130	21,515
Tax effect of income that is not taxable in determining taxable profit	(8,566)	(12,842)
Effect of tax relief granted to infrastructure joint ventures	(32,265)	(24,445)
Tax effect of different tax rates of infrastructure joint ventures and subsidiaries operating in other jurisdictions	(4,682)	4,088
Change in income tax rate	–	(133)
Tax expense	<u>41,679</u>	<u>43,763</u>
Effective tax rate for the year	<u>10.2%</u>	<u>11.8%</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.

Certain of the joint ventures in the PRC are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

11. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Final dividend paid in respect of 2003 of HK\$0.1 (2002: HK\$0.08) per share	58,467	41,295
Interim dividend paid in respect of 2004 of HK\$0.16 (2003: HK\$0.15) per share	93,779	86,385
	<u>152,246</u>	<u>127,680</u>
7.5% convertible cumulative preference shares dividend	–	14,013
	<u>152,246</u>	<u>141,693</u>

A final dividend in respect of 2004 of HK18 cents per share amounting to a total of HK\$105,554,000 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 2005.

The amount of the final dividend proposed has been calculated on the basis of 586,412,566 shares in issue as at 1 April 2005.

12. EARNINGS PER SHARE

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

	2004	2003
	HK\$'000	HK\$'000
Profit for the year	368,803	322,665
Convertible cumulative preference shares dividend	–	(14,013)
Earnings for the purposes of basic and diluted earnings per share	368,803	308,652
	2004	2003
	Number	Number
	of shares	of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	585,191,000	551,738,000
Effect of dilutive potential ordinary shares: Share options	1,167,000	1,144,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	586,358,000	552,882,000

The effect of convertible cumulative preference shares was excluded from the calculation of diluted earnings per share for 2003 since the effect would be anti-dilutive. The Company's convertible preference shares were fully converted and cancelled on 12 June 2003.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. GOODWILL (NEGATIVE GOODWILL)

	Goodwill HK\$'000	Negative goodwill HK\$'000
THE GROUP		
Gross amount		
At 1 January 2004 and 31 December 2004	<u>2,985</u>	<u>(87,096)</u>
Amortisation		
At 1 January 2004	(1,492)	62,751
(Amortised) released for the year	<u>(150)</u>	<u>12,173</u>
At 31 December 2004	<u>(1,642)</u>	<u>74,924</u>
Carrying amount		
At 31 December 2004	<u><u>1,343</u></u>	<u><u>(12,172)</u></u>
At 31 December 2003	<u><u>1,493</u></u>	<u><u>(24,345)</u></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 an equivalent number of common shares in 2003. It is recognised as income over a period of not more than 3 years, being the remaining weighted average useful life of the non-monetary assets acquired by the Group.

14. 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 2004	6,917	9,779	3,217	7,956	129,045	6,127	163,041
Additions	3,910	7,989	120	1,619	9,836	3,566	27,040
Disposals	–	(1,319)	(94)	(998)	(2,039)	(1,031)	(5,481)
Exchange adjustments	587	731	11	211	10,937	212	12,689
At 31 December 2004	11,414	17,180	3,254	8,788	147,779	8,874	197,289
Depreciation							
At 1 January 2004	–	2,028	1,712	6,688	103,060	3,708	117,196
Charge for the year	–	730	795	611	7,459	993	10,588
Eliminated on disposals	–	(980)	–	(997)	(2,035)	(967)	(4,979)
Exchange adjustments	–	195	11	198	9,233	158	9,795
At 31 December 2004	–	1,973	2,518	6,500	117,717	3,892	132,600
Net book value							
At 31 December 2004	11,414	15,207	736	2,288	30,062	4,982	64,689
At 31 December 2003	6,917	7,751	1,505	1,268	25,985	2,419	45,845
					2004		2003
					HK\$'000		HK\$'000

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

11,414	6,917
14,482	6,879
725	872
26,621	14,668

At 31 December 2004, the Group has pledged land and buildings situated overseas with a carrying amount of HK\$25,896,000 (2003: HK\$13,308,000) to secure the Group's banking facilities.

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For the year ended 31 December 2004

15. INTERESTS IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Unlisted shares at cost	1,388,042	1,388,042
Amounts due from subsidiaries	891,667	1,926,205
	<u>2,279,709</u>	<u>3,314,247</u>

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 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Chai-Na-Ta Corp.	Canada	Canada	C\$31,170,628	–	78	Production and sale of North American ginseng
Guangzhou Junyue Real Estate Limited*	PRC	PRC	HK\$48,009,000	–	100	Development and sale of properties
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 King Infrastructure Finance Limited	British Virgin Islands	#	US\$1	100	–	Provision of financial services
Road King Infrastructure Finance (2004) 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
Road Rise Investments Limited	British Virgin Islands	PRC	US\$1	–	100	Investment and financial holding

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

* The subsidiary is a wholly foreign owned enterprise.

15. INTERESTS IN SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect 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.

16. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Cost of investments	2,015,608	2,015,608
Share of post-acquisition undistributed results	1,801,175	1,613,158
	3,816,783	3,628,766
Loans to infrastructure joint ventures	3,410,990	3,340,001
Repayment of loans from infrastructure joint ventures	(2,584,826)	(2,192,829)
Net borrowing cost capitalised on financing the infrastructure joint ventures' toll highways and expressways construction (note 17)	108,385	115,012
	4,751,332	4,890,950

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 2004 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. 安徽省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

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For the year ended 31 December 2004

16. 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 in Anhui, PRC
Bengbu Road King Huaimeng 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
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 211 Changzhou-Caoqiao Highway in Jiangsu, 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% (i)	Construction and management of Foshan Guangzhou - Sanshui Expressway in Guangdong, PRC
Guangxi Hengjing Highway Development Co., Ltd. 廣西恒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

16. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

Name of infrastructure joint venture	Registered capital	Proportion of registered capital held indirectly by the Company	Principal activities
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
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 (Rong Cheng – Xiong Xian) 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

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For the year ended 31 December 2004

16. 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 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
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

16. 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 (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
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

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16. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

Name of infrastructure joint venture	Registered capital	Proportion of registered capital held indirectly by the Company	Principal activities
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
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 Taiyu 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 National Highway 108 Taiyuan-Yuci Highway in Shanxi, PRC

16. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

Name of infrastructure joint venture	Registered capital	Proportion of registered capital held indirectly by the Company	Principal activities
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
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 Suzhou-Shanghai Airport 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.

(i) During the year, the Group has entered into a letter of commitment with the PRC joint venture partner of the Foshan Guangsan Special-Use Automobile Highway Company, Limited to settle the minimum income undertakings due by the PRC partner and the original profit distribution was re-arranged in return. Under this new arrangement, the outstanding minimum income undertakings of HK\$60,233,000 was treated as an additional investment in the nature of loan to the infrastructure joint venture. The Group's profit sharing ratio was increased from 35% to 85% for the period from April 2004 to 2007 until such time that a pre-agreed cash distribution had been received by the Group.

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16. 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 2004 is as follows:

	2004 HK\$'000	2003 HK\$'000
Income statement		
Net toll revenue	<u>1,661,552</u>	<u>1,267,740</u>
Depreciation charges	<u>384,857</u>	<u>283,834</u>
Profit before taxation	<u>884,165</u>	<u>653,366</u>
Group's share of profit before taxation less losses	<u>559,615</u>	<u>432,750</u>
	2004 HK\$'000	2003 HK\$'000
Balance sheet		
Property, plant and equipment	<u>9,080,357</u>	<u>9,331,019</u>
Current assets	<u>625,236</u>	<u>1,210,728</u>
Current liabilities	<u>(529,755)</u>	<u>(1,153,622)</u>
Net current assets	<u>95,481</u>	<u>57,106</u>
Amounts due to joint venture partners	<u>(2,929,154)</u>	<u>(3,600,299)</u>
Net assets	<u>6,246,684</u>	<u>5,787,826</u>

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Gross amount		
At 1 January and 31 December	<u>154,729</u>	<u>154,729</u>
Amortisation		
At 1 January	39,717	33,208
Charge for the year	<u>6,627</u>	<u>6,509</u>
At 31 December	<u>46,344</u>	<u>39,717</u>
Carrying amount		
At 31 December	<u>108,385</u>	<u>115,012</u>

18. DEBTORS – DUE AFTER ONE YEAR

The amounts in 2003 represented minimum income undertakings guaranteed by the PRC joint venture partners due in 2005 in accordance with the terms of the relevant joint venture agreements.

19. PROPERTIES UNDER DEVELOPMENT FOR SALE

	THE GROUP 2004 HK\$'000
At Cost	<u>193,793</u>
Cost consisted of:	
Land cost	160,901
Construction expenditure	31,797
Borrowing costs capitalised	<u>1,095</u>
	<u>193,793</u>

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For the year ended 31 December 2004

20. INVENTORIES AND GINSENG CROPS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Inventories (<i>note i</i>)	74,148	80,867
Ginseng crops, at cost (<i>note ii</i>)	128,731	93,391
	202,879	174,258

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.

Notes:

(i) Reconciliation of carrying amounts of inventories:

	2004	2003
	HK\$'000	HK\$'000
Carrying amount at 1 January	80,867	59,964
Cost transfer from ginseng crops upon harvest	42,703	64,674
Increases due to purchases	4,051	6,836
(Loss) gain arising from changes in fair value at the point of harvest	(9,980)	37,948
Decrease due to sales	(46,754)	(96,511)
Exchange adjustment	3,261	7,956
Carrying amount at 31 December	74,148	80,867

(ii) Due to the uncertainty in the process of producing ginseng crops and the lack of a market for immature ginseng, the ginseng crops are stated at cost until the time of harvest.

21. INVESTMENT IN SECURITIES

	THE GROUP
	2004 & 2003
	HK\$'000
Other investment, unlisted	7,800

22. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments of the Group is an amount of HK\$104,962,000 (2003: HK\$218,861,000) 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 schedules agreed with the relevant PRC joint venture partners.

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Aged analysis of debtors		
Within 60 days	23,949	185,930
60 to 90 days	1,317	–
More than 90 days	84,097	64,851
	109,363	250,781
Interest receivable	2,096	184
Deposits and prepayments	113,978	14,857
	225,437	265,822

23. CHARGED DEPOSITS

THE GROUP

The amount was deposited in a designated bank and was maintained in accordance with the terms and conditions of the Group's financing agreement. The bank balance is charged in favour of a bank and part of the deposit will be applied towards the debt repayment, the manner of which is contained in the relevant financing agreement.

At 31 December 2004, bank balances of HK\$44,223,000 (2003: HK\$55,797,000) 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 2004

24. SHARE CAPITAL

	2004 Number of shares	2003 Number of shares	2004 HK\$'000	2003 HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	<u>20,000,000,000</u>	<u>20,000,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
7.5% convertible preference shares ("CP shares") of HK\$0.1 each	<u>518,380</u>	<u>518,380</u>	<u>52</u>	<u>52</u>
Issued and fully paid:				
Ordinary shares				
At 1 January	<u>584,136,566</u>	515,601,209	<u>58,414</u>	51,559
Ordinary shares issued	<u>1,986,000</u>	<u>68,535,357</u>	<u>198</u>	<u>6,855</u>
At 31 December	<u>586,122,566</u>	<u>584,136,566</u>	<u>58,612</u>	<u>58,414</u>
CP shares				
At 1 January	–	418,380	–	42
CP shares converted and cancelled	–	<u>(418,380)</u>	–	<u>(42)</u>
At 31 December	–	–	–	–
Total issued and fully paid shares at 31 December	<u>586,122,566</u>	<u>584,136,566</u>	<u>58,612</u>	<u>58,414</u>

As a result of the exercise of the Company's share options during the year, 1,986,000 (2003: 10,625,000) ordinary shares were issued by the Company as detailed in note 25.

25. SHARE OPTION SCHEME

A new share option scheme (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. 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. On 12 May 2004, renewal of the 10% share option scheme mandate limit under the New Share Option Scheme was approved by the shareholders of the Company. Therefore, the Company can grant share options to subscribe for up to 58,467,256 shares of the Company under the New Share Option Scheme. On 26 August 2004, the Company granted share options to certain eligible participants to subscribe for 14,090,000 shares of the Company. Thus, the total number of shares available for issue under the New Share Option Scheme is 44,377,256 representing approximately 7.57% of the Company’s issued share capital as at the date this report. The 10% Limit may be refreshed with the approval of shareholders of the Company. The maximum number of shares that may be issued upon exercise of all outstanding options granted and are 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 the 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, 14,090,000 (2003: 14,720,000) share options were granted under the New Share Option Scheme to directors and employees for an aggregate consideration of HK\$62 (2003: 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, 1,986,000 (2003: 70,000) share options were exercised, no (2003: 110,000) share options were cancelled during the year and 26,644,000 (2003: 14,540,000) share options remained outstanding as at 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

25. 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.

2004

Date of grant	Exercisable period	Exercise price	Number of share options				Balance at 31.12.2004
			Balance at 1.1.2004	Granted during the year	Exercised during the year**	Cancelled during the year	
		HK\$					
Directors							
17 October 2003	17 October 2003 to 16 October 2008	5.15	9,850,000	–	(1,350,000)	–	8,500,000
26 August 2004	26 August 2004 to 25 August 2009	5.70	–	10,150,000	–	–	10,150,000
			9,850,000	10,150,000	(1,350,000)	–	18,650,000
Employees							
17 October 2003	17 October 2003 to 16 October 2008	5.15	4,690,000	–	(636,000)	–	4,054,000
26 August 2004	26 August 2004 to 25 August 2009	5.70	–	3,940,000	–	–	3,940,000
			4,690,000	3,940,000	(636,000)	–	7,994,000
			14,540,000	14,090,000	(1,986,000)	–	26,644,000

25. SHARE OPTION SCHEME (Continued)

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**	Expired/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
			<u>8,350,000</u>	<u>9,850,000</u>	<u>(8,150,000)</u>	<u>(200,000)</u>	<u>9,850,000</u>
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
			<u>2,405,000</u>	<u>4,870,000</u>	<u>(2,475,000)</u>	<u>(110,000)</u>	<u>4,690,000</u>
			<u>10,755,000</u>	<u>14,720,000</u>	<u>(10,625,000)</u>	<u>(310,000)</u>	<u>14,540,000</u>

** The weighted average closing price of the Company's shares immediately before the date on which share options were exercised was HK\$5.739.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. RESERVES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share premium				
At 1 January	1,532,519	1,460,523	1,532,519	1,460,523
Preference shares converted and cancelled	–	(407,046)	–	(407,046)
Issue of ordinary shares	10,028	479,042	10,028	479,042
At 31 December	1,542,547	1,532,519	1,542,547	1,532,519
Translation reserve				
At 1 January				
– as originally stated	26,446	6,720	–	–
– prior year adjustment in respect of change in accounting policies	1,402	(248)	–	–
– as restated	27,848	6,472	–	–
Exchange differences arising on translation of overseas operations	12,330	21,376	–	–
At 31 December	40,178	27,848	–	–
Contributed surplus				
At 1 January and 31 December	–	–	1,348,042	1,348,042
Special reserve				
At 1 January and 31 December	1,260,000	1,260,000	–	–
Retained profits				
At 1 January				
– as originally stated	1,837,755	1,661,120	574,164	509,341
– prior year adjustment in respect of change in accounting policies	12,464	8,127	–	–
– as restated	1,850,219	1,669,247	574,164	509,341
Profit for the year	368,803	322,665	160,621	206,516
Dividends (<i>note 11</i>)	(152,246)	(141,693)	(152,246)	(141,693)
At 31 December	2,066,776	1,850,219	582,539	574,164
Total reserves	4,909,501	4,670,586	3,473,128	3,454,725

26. RESERVES (Continued)

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 difference 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.

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 2004 and 2003 were as follows:

	2004 HK\$'000	2003 HK\$'000
Contributed surplus	1,348,042	1,348,042
Retained profits	582,539	574,164
	<u>1,930,581</u>	<u>1,922,206</u>
Proposed dividend	<u>105,554</u>	<u>58,445</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

27. BANK AND OTHER BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Guaranteed notes (<i>note i</i>)	1,092,000	1,091,122
Repurchase of guaranteed notes	(469,440)	(469,440)
Repayment of guaranteed notes	(622,560)	–
	–	621,682
Guaranteed notes (<i>note ii</i>)	1,558,678	–
Bank loans (<i>note iii</i>)	350,612	392,911
Other loans	2,611	744
	<u>1,911,901</u>	<u>1,015,337</u>

The maturity of the above loans is as follows:

	2004 HK\$'000	2003 HK\$'000
Unsecured loans repayable:		
More than one year but not exceeding two years	–	12,940
More than two years but not exceeding five years	–	19,410
More than five years	1,558,678	–
	<u>1,558,678</u>	<u>32,350</u>
Secured loans repayable:		
Within one year	132,688	54,545
More than one year but not exceeding two years	87,559	87,554
More than two years but not exceeding five years	132,976	840,888
	<u>353,223</u>	<u>982,987</u>
Less: Amount due within one year shown under current liabilities	(132,688)	(54,545)
Non-current liabilities	<u>1,779,213</u>	<u>960,792</u>

Notes:

- (i) The guaranteed notes bore interest at a fixed rate of 9.50% per annum and were fully repaid in July 2004.
- (ii) The guaranteed notes bear interest at a fixed rate of 6.25% per annum and will mature in July 2011.
- (iii) Interest rates on the bank loans are floating and determined with reference to either LIBOR or HIBOR.

The bank loans are guaranteed either by the Company and/or certain of its subsidiaries. Some of the bank loans are also secured by charges over deposits.

28. 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 HK\$'000	Tax losses HK\$'000	Inventories and ginseng crops HK\$'000	Total HK\$'000
At 1 January 2003				
– as originally stated	(115)	(2,390)	8,155	5,650
– prior year adjustment in respect of change in accounting policies	–	–	6,842	6,842
– as restated	(115)	(2,390)	14,997	12,492
(Credit) charge for the year	(636)	1,293	6,865	7,522
Effect in change in tax rate				
– charge (credit) to income statement	(1)	(19)	(113)	(133)
Exchange adjustments	(21)	(430)	3,096	2,645
At 31 December 2003	<u>(773)</u>	<u>(1,546)</u>	<u>24,845</u>	<u>22,526</u>
At 1 January 2004				
– as originally stated	(773)	(1,546)	15,211	12,892
– prior year adjustment in respect of change in accounting policies	–	–	9,634	9,634
– as restated	(773)	(1,546)	24,845	22,526
Credit for the year	(630)	(780)	(6,707)	(8,117)
Exchange adjustments	(108)	(183)	1,659	1,368
At 31 December 2004	<u>(1,511)</u>	<u>(2,509)</u>	<u>19,797</u>	<u>15,777</u>

At 31 December 2004, the Group has unused tax losses of HK\$11,545,000 (2003: HK\$11,505,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$10,214,000 (2003: HK\$10,174,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of HK\$1,331,000 (2003: HK\$1,331,000) due to the unpredictability of future taxable profit streams. All losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

29. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Aged analysis of creditors:		
Within 60 days	704	2,973
Interest payable	45,106	26,013
Accrued charges	16,836	14,030
	<u>62,646</u>	<u>43,016</u>

30. DISPOSAL OF INTEREST IN A SUBSIDIARY

The Group disposed of its entire interest in Zhongshan Qijiang Highway Company Limited in 2003 which had the following effects:

	2003 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	<u>(20,223)</u>
	61,177
Goodwill released	<u>16</u>
	61,193
Net consideration	<u>61,508</u>
Gain on disposal of interest in a subsidiary	<u>315</u>
Net cash inflow arising from disposal:	
Cash consideration	63,492
Withholding tax paid	(3,380)
Bank and cash balances disposed of	<u>(4,137)</u>
	<u>55,975</u>
Satisfied by:	
Cash	63,492
Consideration receivable	1,490
Expenses incurred in respect of the disposal	<u>(3,474)</u>
Net consideration	<u>61,508</u>

In 2003, 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.

31. DISPOSAL OF INTEREST IN AN INFRASTRUCTURE JOINT VENTURE

The Group's disposal of its interest in an infrastructure joint venture in 2003 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	(2,253)
	<hr/>
	13,562
Consideration receivable	15,243
Withholding tax paid	(195)
	<hr/>
Gain on disposal of interest in an infrastructure joint venture	<u>1,486</u>

In 2003, other than the gain on disposal as mentioned above, the disposed infrastructure joint venture itself did not make any contribution to the Group's net operating cash flow and profit attributable to shareholders.

32. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees including directors in Hong Kong. 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 subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government. The subsidiaries are 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.

33. MAJOR NON-CASH TRANSACTION

During the year, the Group has entered into a letter of commitment with the PRC joint venture partner of the Foshan Guangsan Special-Use Automobile Highway Company, Limited to settle the minimum income undertakings due by the PRC partner and the original profit distribution was re-arranged in return. Under this new arrangement, the outstanding minimum income undertakings of HK\$60,233,000 was treated as an additional investment in the nature of loan to the infrastructure joint venture.

NOTES TO THE FINANCIAL STATEMENTS

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34. OPERATING LEASE COMMITMENTS

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	
	2004 HK\$'000	2003 HK\$'000
Within one year	8,721	7,854
In the second to fifth year inclusive	12,372	12,799
After the fifth year	102	–
	<u>21,195</u>	<u>20,653</u>

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 2004 and 2003, the Company had no operating lease commitments.

35. CAPITAL COMMITMENTS

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for		
Investment costs to be injected into a subsidiary within one year	39,579	2,550
Investment costs to be injected into infrastructure joint ventures		
After the fifth year	<u>34,177</u>	<u>34,177</u>
	<u>73,756</u>	<u>36,727</u>

At 31 December 2004 and 2003, the Company had no capital commitments.

36. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK\$1,866,250,000 (2003: HK\$1,474,350,000) in respect of guaranteed notes and bank loans raised by its subsidiaries.

37. POST BALANCE SHEET EVENTS

- (a) In January 2005, the Group agreed with a PRC partner to acquire 45% of the toll road operation right in Tangshan-Tianjin Expressway in Hebei Province at a cash consideration of approximately HK\$753 million.
- (b) In January 2005, the Group has signed an agreement to dispose of its entire 60.24% interest in Provincial Highway 232 Changzhou-Caoqiao Highway project to the PRC partner at a cash consideration of approximately HK\$106 million. The disposal has been approved by the relevant PRC government authorities and is estimated to be completed in the first half of 2005. Apart from the result arising from the disposal, the disposed project itself will not make any contribution to the Group's net operating cash flow and profit attributable to shareholders in 2005.
- (c) In January 2005, the Group early repaid the outstanding balance of HK\$306 million of the HK\$350 million transferable loan certificate.
- (d) In February 2005, the Company has secured through auction the right to acquire the land use rights on two adjoining pieces of land situated in Changzhou City, Jiangsu Province, the PRC at a consideration of approximately HK\$660 million.