

1 Principal accounting policies

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st 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 would have a significant impact on its results of operations and financial position.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

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

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

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

(c) Associated companies

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

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

1 Principal accounting policies (cont'd)**(d) Joint ventures**

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

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

(e) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net assets of the acquired subsidiary/associated company/jointly controlled entity at the date of acquisition.

Negative goodwill represents the excess of the Group's share of the fair value of the net assets acquired over the cost of acquisition.

Goodwill on acquisition occurring on or after 1st January 2001 is amortised using the straight-line method over the maximum period of 20 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably, negative goodwill on acquisition is amortised using the straight-line method over the maximum period of 20 years.

Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

Goodwill on acquisitions that occurred prior to 1st January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

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

1 Principal accounting policies (cont'd)

(f) Interests in toll highways and bridges

Interests in toll highways and bridges comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructure is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets. The Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change. Amortisation of intangible operating rights is provided on a straight-line basis over periods of 20 to 30 years in which the operating rights are held.

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

(g) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Other fixed assets

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

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

(iii) Amortisation of leasehold land

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

1 Principal accounting policies (cont'd)

(g) Fixed assets (cont'd)

(iv) Depreciation of leasehold buildings

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

(v) Depreciation of other fixed assets

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

(vi) Gain or loss on disposal of fixed assets

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

(vii) Cost of restoring and improving fixed assets

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

(h) Other investments

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

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

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

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

1 Principal accounting policies (cont'd)

(l) Revenue recognition

- (i) Toll revenue is recognised on a receipt basis.
- (ii) Dividend income is recognised when the right to receive payment is established.
- (iii) Interest income is recognised on a time proportion basis, taken into account the principal amounts outstanding and the interest rates applicable.
- (iv) Operating lease rental income is recognised on a straight-line basis.

(m) Borrowing costs

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

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

(n) Retirement benefit costs

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

(o) Translation of foreign currencies

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

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

(p) Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2 Turnover and revenues

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Toll revenue	400,212	428,873
Other revenue		
Interest income	1,303	4,303
Rental income	15	—
Others	835	621
	2,153	4,924
Total revenues	402,365	433,797

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

Business segment information is not required as the revenue, results and assets of the toll operations – development, operation and management of toll highways and bridges represent more than 90 per cent of the total revenue, results and assets of the Group respectively.

3 Operating profit

The operating profit is stated after crediting and charging the following:

	Group	
	2004 HK\$'000	2003 HK\$'000
<u>Crediting</u>		
Amortisation of negative goodwill (included in general and administrative expenses)	371	371
Net exchange gain	952	—
<u>Charging</u>		
Depreciation of fixed assets	2,549	3,069
Amortisation/depreciation of interests in toll highways and bridges	101,392	98,163
Amortisation of goodwill (included in general and administrative expenses)	10,301	10,352
Auditors' remuneration	770	700
Net exchange loss	—	2,132
Revaluation deficit on investment properties	1,691	—
Outgoings in respect of investment properties	27	—
Staff costs (including directors' emoluments)		
Wages and salaries	22,953	20,180
Social security costs	356	305
Staff welfare	1,095	461
Pension costs - defined contribution plan	612	534

4 Finance costs

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans	13,362	22,092
Interest on amount due to a minority shareholder of subsidiaries	2,185	2,176
	15,547	24,268

5 Taxation

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax during the year (2003: nil).
- (b) China enterprise income taxation is provided on the profits of the Group's subsidiaries and an associated company in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). Under the China Tax Law, the Group's subsidiaries, associated companies and jointly controlled entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years. The applicable income tax rate is 18 per cent. Certain of the Group's subsidiaries, associated companies and jointly controlled entities in China are qualified for the aforesaid tax holiday.
- (c) The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2004	2003
	HK\$'000	HK\$'000
China enterprise income taxation	35,370	33,970
Deferred taxation credit (note 21)	(1,149)	(1,494)
	<u>34,221</u>	<u>32,476</u>
Share of China enterprise income taxation attributable to:		
Associated companies – current taxation	13,990	4,998
– deferred taxation	11,589	17,782
A jointly controlled entity – deferred taxation	3,497	5,877
	<u>63,297</u>	<u>61,133</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the principal applicable tax rate as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	365,505	327,119
Calculated at a tax rate of 18 per cent (2003: 18 per cent)	65,791	58,881
Effect of tax concession under tax holiday	(201)	(263)
Expenses not deductible for taxation purposes	1,383	2,515
Utilisation of previously unrecognised tax losses	(3,676)	—
Taxation charge	<u>63,297</u>	<u>61,133</u>

6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$85,041,000 (2003: HK\$118,418,000).

7 Dividends

	Company	
	2004 HK\$'000	2003 HK\$'000
Interim, paid, of HK\$0.045 (2003: HK\$0.04) per share	50,151	44,206
Final, proposed, of HK\$0.0525 (2003: HK\$0.045) per share	58,524	50,144 ¹
	108,675	94,350
	108,675	94,350

At a meeting held on 19th April 2005, the Directors proposed a final dividend of HK\$0.0525 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but is reflected as an appropriation of retained earnings for the year ended 31st December 2004.

¹ The final dividend paid for the year ended 31st December 2003 was HK\$50,145,000 (note 19). The additional amount of approximately HK\$1,000 was a result of the exercise of share options prior to approval at the annual general meeting.

8 Earnings per share

The calculation of basic and fully diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$276,443,000 (2003: HK\$223,822,000).

The basic earnings per share is based on the weighted average number of 1,114,384,935 (2003: 1,081,515,574) shares in issue during the year. The fully diluted earnings per share is based on 1,115,306,581 (2003: 1,099,276,085) shares which is the weighted average number of shares in issue during the year plus the weighted average of 921,646 (2003: 17,760,511) shares deemed to be issued at no consideration if all outstanding share options had been exercised.

9 Retirement benefit costs

The Group operates a defined contribution scheme ("ORSO Scheme") as defined in the Occupational Retirement Schemes Ordinance. Contributions to the scheme by the employer and employees are calculated as 5 per cent to 8 per cent and 5 per cent respectively of the employees' basic salaries.

The Group's contributions to the ORSO Scheme for certain Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There are no forfeited contributions for both years presented.

The Group also participates in the Mandatory Provident Fund Scheme ("MPF Scheme") for other Hong Kong employees. The Group's MPF Scheme contributions are at 5 per cent of the employees' relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK\$5,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

10 Directors' and senior management's emoluments

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees	152	152
Other emoluments:		
Basic salaries, housing allowances and other allowances	7,260	8,300
Discretionary bonuses	7,138	3,480
	<u>14,550</u>	<u>11,932</u>

Directors' fees disclosed above included HK\$114,000 (2003: HK\$114,000) paid to independent non-executive directors. There are no inducement fees or compensation for loss of office for both years presented.

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

Emolument bands HK\$	Number of Directors	
	2004	2003
Nil - 1,000,000	7 ¹	16 ¹
1,000,001 - 1,500,000	10	2

¹ Included three (2003: three) independent non-executive directors.

No Directors waived emoluments in respect of the years ended 31st December 2004 and 2003.

- (c) None of the Directors exercised their options to subscribe for ordinary shares in the Company and in Guangzhou Investment Company Limited ("GZI"), the Company's holding company, during the year. Certain Directors exercised their options to subscribe for 19,698,000 ordinary shares in the Company and 3,150,000 ordinary shares in GZI during the year ended 31st December 2003.
- (d) The five individuals whose emoluments were the highest in the Group for the years ended 31st December 2004 and 2003 are also directors whose emoluments are reflected in the analysis presented above.

11 Goodwill

	Goodwill HK\$'000	Group Negative goodwill HK\$'000	Total HK\$'000
At 1st January 2004	48,424	(8,957)	39,467
Amortisation charge	(3,551)	371	(3,180)
	<u>44,873</u>	<u>(8,586)</u>	<u>36,287</u>
At 31st December 2004	<u>44,873</u>	<u>(8,586)</u>	<u>36,287</u>
At 31st December 2004			
Cost	58,541	(9,697)	48,844
Accumulated amortisation	(13,668)	1,111	(12,557)
	<u>44,873</u>	<u>(8,586)</u>	<u>36,287</u>
Net book amount	<u>44,873</u>	<u>(8,586)</u>	<u>36,287</u>
At 31st December 2003			
Cost	58,541	(9,697)	48,844
Accumulated amortisation	(10,117)	740	(9,377)
	<u>48,424</u>	<u>(8,957)</u>	<u>39,467</u>
Net book amount	<u>48,424</u>	<u>(8,957)</u>	<u>39,467</u>

12 Interests in toll highways and bridges

	Intangible operating rights HK\$'000	Group Tangible infrastructure HK\$'000	Total HK\$'000
At 1st January 2004	1,750,864	348,783	2,099,647
Additions	3,121	—	3,121
Amortisation/depreciation charge	(88,945)	(12,447)	(101,392)
	<u>1,665,040</u>	<u>336,336</u>	<u>2,001,376</u>
At 31st December 2004	<u>1,665,040</u>	<u>336,336</u>	<u>2,001,376</u>
At 31st December 2004			
Cost	2,146,227	403,755	2,549,982
Accumulated amortisation/depreciation	(481,187)	(67,419)	(548,606)
	<u>1,665,040</u>	<u>336,336</u>	<u>2,001,376</u>
Net book amount	<u>1,665,040</u>	<u>336,336</u>	<u>2,001,376</u>
At 31st December 2003			
Cost	2,143,106	403,755	2,546,861
Accumulated amortisation/depreciation	(392,242)	(54,972)	(447,214)
	<u>1,750,864</u>	<u>348,783</u>	<u>2,099,647</u>
Net book amount	<u>1,750,864</u>	<u>348,783</u>	<u>2,099,647</u>

The intangible operating rights and tangible infrastructure are located in China.

13 Fixed assets

(a) Group

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation					
At 1st January 2004	—	31,317	15,538	5,128	51,983
Additions	—	—	454	213	667
Transfers	6,191	(9,016)	—	—	(2,825)
Revaluation deficit	(1,691)	—	—	—	(1,691)
Disposals	—	—	(108)	(9)	(117)
At 31st December 2004	<u>4,500</u>	<u>22,301</u>	<u>15,884</u>	<u>5,332</u>	<u>48,017</u>
Accumulated depreciation					
At 1st January 2004	—	7,502	4,952	2,924	15,378
Charge for the year	—	1,223	807	519	2,549
Transfers	—	(2,825)	—	—	(2,825)
Disposals	—	—	(108)	(9)	(117)
At 31st December 2004	<u>—</u>	<u>5,900</u>	<u>5,651</u>	<u>3,434</u>	<u>14,985</u>
Net book value					
At 31st December 2004	<u>4,500</u>	<u>16,401</u>	<u>10,233</u>	<u>1,898</u>	<u>33,032</u>
At 31st December 2003	<u>—</u>	<u>23,815</u>	<u>10,586</u>	<u>2,204</u>	<u>36,605</u>

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

	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	—	6,521
Leases of between 10 to 50 years	<u>20,901</u>	<u>17,294</u>
	<u>20,901</u>	<u>23,815</u>

Investment properties of the Group were revalued at 31st December 2004 on the basis of their open market value by an independent firm of professional surveyor, CS Surveyors Limited, employed by the Group. Other fixed assets of the Group are stated at cost.

13 Fixed assets (cont'd)

(b) Company

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost			
At 1st January 2004	1,241	1,731	2,972
Additions	156	—	156
Disposals	(58)	—	(58)
	1,339	1,731	3,070
At 31st December 2004			
Accumulated depreciation			
At 1st January 2004	771	1,696	2,467
Charge for the year	45	10	55
Disposals	(58)	—	(58)
	758	1,706	2,464
At 31st December 2004			
Net book value			
At 31st December 2004	581	25	606
At 31st December 2003	470	35	505

14 Investments

(a) Investments in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1,848,497	1,848,497
Less: accumulated impairment losses	(584,549)	(584,549)
	1,263,948	1,263,948
Amounts due from subsidiaries (note (i))	1,519,193	1,581,317
	2,783,141	2,845,265

- (i) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayments.
- (ii) Details of the principal subsidiaries of the Company as at 31st December 2004 are set out on pages 56 to 59.
- (iii) None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December 2004.

14 Investments (cont'd)

(b) Investments in jointly controlled entities

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	418,342	325,907
Goodwill on acquisition of a jointly controlled entity less amortisation	4,551	4,714
	<u>422,893</u>	<u>330,621</u>

Details of the Group's interest in jointly controlled entities are set out on page 60.

Extract of the adjusted financial information of the jointly controlled entities for the year ended 31st December 2004 is as follows:

	Guangzhou Northern Second Ring Expressway Co., Ltd.		Guangzhou Western Second Ring Expressway Co., Ltd.
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000
Operating results			
Turnover	<u>186,447</u>	<u>97,813</u>	<u>—</u>
Profit/(loss) before taxation	<u>29,939</u>	<u>(44,390)</u>	<u>—</u>
Financial position			
Long-term assets	2,279,181	2,314,881	257,555
Current assets	18,426	49,979	39,087
Current liabilities	(106,336)	(137,800)	(61,900)
Long-term liabilities	<u>(1,460,441)</u>	<u>(1,518,566)</u>	<u>—</u>
Shareholders' funds	<u>730,830</u>	<u>708,494</u>	<u>234,742</u>

At 31st December 2004, Guangzhou Western Second Ring Expressway Co., Ltd., of which 35% interest is held by the Group, had a capital commitment of approximately HK\$2,528,000,000 (2003: Nil).

14 Investments (cont'd)

(c) Investments in associated companies

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	699,423	606,283
Loans receivable from associated companies		
- interest-bearing	568,414	653,816
- non interest-bearing	219,007	218,790
Goodwill on acquisition of an associated company less amortisation	158,083	164,670
	<u>1,644,927</u>	<u>1,643,559</u>

The loan balances are unsecured and have no fixed repayment terms. The interest-bearing portion bears interests at the prevailing Hong Kong dollars prime rates ranging from 5.000 to 5.125 per cent per annum; US dollars prime rates ranging from 4.000 to 5.250 per cent per annum and lending rates of financial institutions in China ranging from 5.310 to 6.120 per cent per annum.

Details of the Group's associated companies are set out on page 60.

Extract of the adjusted financial information of the associated companies for the year ended 31st December 2004 is as follows:

	Guangdong Humen Bridge Co., Ltd.		Guangdong Qinglian Highway Development Co., Ltd.		Guangzhou Northring Freeway Co., Ltd.		Guangdong Shantou Bay Bridge Co., Ltd.	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating results								
Turnover	547,283	449,252	124,270	167,942	489,251	425,135	144,598	127,024
Profit/(loss) before taxation	445,634	350,164	(56,628)	12,612	339,710	259,733	118,189	99,003
Financial position								
Long-term assets	2,504,318	2,575,962	2,980,325	3,050,954	1,099,428	1,093,942	467,089	480,082
Current assets	41,819	53,383	156,876	140,223	237,145	269,540	19,368	14,264
Current liabilities	(35,222)	(33,747)	(74,121)	(71,424)	(45,979)	(44,939)	(7,221)	(6,294)
Long-term liabilities	(2,170,672)	(2,326,781)	(1,626,855)	(1,768,128)	(327,854)	(513,216)	(230,474)	(339,308)
Shareholders' funds	340,243	268,817	1,436,225	1,351,625	962,740	805,327	248,762	148,744

14 Investments (cont'd)**(d) Other investments**

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	176,743	176,743
Less: accumulated impairment losses	(33,620)	(33,620)
	143,123	143,123
	143,123	143,123

15 Bank balances and cash

Included in the bank balances and cash of the Group and the Company are deposits denominated in Renminbi and placed with banks in China of approximately HK\$114,458,000 (2003: HK\$175,389,000) and HK\$16,842,000 (2003: HK\$29,622,000) respectively. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

16 Amounts due to a minority shareholder of subsidiaries and holding companies

Except for an amount of HK\$14,406,000 (2003: HK\$11,309,000) which is interest free, the balance due to a minority shareholder of subsidiaries is unsecured, bears interest at 4 per cent per annum and has no fixed repayment terms.

The amounts due to holding companies are unsecured, interest free and have no fixed repayment terms.

17 Short-term bank loans

At 31st December 2004, the short-term bank loans of HK\$65,728,000 (2003: HK\$178,403,000) of the Group are unsecured.

18 Share capital

	Company	
	2004 HK\$'000	2003 HK\$'000
Authorised		
2,000,000,000 ordinary shares of HK\$0.1 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid		
1,114,649,530 (2003: 1,114,233,530) ordinary shares of HK\$0.1 each	<u>111,465</u>	<u>111,423</u>

During the year, 416,000 ordinary shares of HK\$0.1 each were issued upon exercise of share options at an exercise price of HK\$0.752.

On 25th June 2002, the Company adopted a new share option scheme, under which it may grant options to employees (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10 per cent of the number of shares in issue as at 25th June 2002. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange")'s daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. As at 31st December 2004, no such options have been granted to any person since its adoption.

As at 31st December 2004, there were outstanding options granted under an old share option scheme to subscribe for shares of the Company. All options granted under the old share option scheme will continue to be valid and exercisable in accordance with the rules of the old share option scheme.

Particulars and movements of the share options granted under the old scheme during the year are as follows:

Date of grant	Exercise price per share HK\$	Balance outstanding as at 1st January 2004	Options exercised during the year	Balance outstanding as at 31st December 2004
7th April 2000	0.752	<u>1,530,000</u>	<u>(416,000)</u>	<u>1,114,000</u>

The aforesaid share options are exercisable at any time within the period from the first anniversary date of the grant to the business day preceding the sixth anniversary date of the grant, of which a maximum of 30 per cent, 60 per cent and 100 per cent thereof are exercisable from the first, second and third anniversaries of the date of grant respectively. Exercise in full of all outstanding share options as at 31st December 2004 would result in the issue of 1,114,000 ordinary shares with proceeds of HK\$838,000.

19 Reserves

Group

	Share premium HK\$'000	Capital reserve (note (a)) HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserves (note (b)) HK\$'000	Retained earnings (note (c)) HK\$'000	Total HK\$'000
At 1st January 2003	526,830	1,705,497	4,910	29,049	726,261	2,992,547
Premium on issue of shares	49,846	—	—	—	—	49,846
Profit for the year	—	—	—	—	223,822	223,822
2002 Final dividend	—	—	—	—	(32,739)	(32,739)
2003 Interim dividend (note 7)	—	—	—	—	(44,206)	(44,206)
Exchange differences	—	—	9,713	—	—	9,713
At 31st December 2003	<u>576,676</u>	<u>1,705,497</u>	<u>14,623</u>	<u>29,049</u>	<u>873,138</u>	<u>3,198,983</u>
Representing:						
Retained earnings					822,994	
2003 Final dividend proposed					50,144	
					<u>873,138</u>	
At 1st January 2004	576,676	1,705,497	14,623	29,049	873,138	3,198,983
Premium on issue of shares	271	—	—	—	—	271
Profit for the year	—	—	—	—	276,443	276,443
2003 Final dividend (note 7)	—	—	—	—	(50,145)	(50,145)
2004 Interim dividend (note 7)	—	—	—	—	(50,151)	(50,151)
Exchange differences	—	—	(3,144)	—	—	(3,144)
At 31st December 2004	<u>576,947</u>	<u>1,705,497</u>	<u>11,479</u>	<u>29,049</u>	<u>1,049,285</u>	<u>3,372,257</u>
Representing:						
Retained earnings					990,761	
2004 Final dividend proposed					58,524	
					<u>1,049,285</u>	

- (a) Reserve arising from consolidation represents the difference between the nominal value of the shares/registered capital of the subsidiaries acquired and the nominal value of the shares issued by Kiu Fung Limited, a subsidiary of the Company, as consideration therefor on 30th November 1996.
- (b) Statutory reserves represent enterprise expansion and general reserve funds set up by the operating subsidiaries, associated companies and jointly controlled entities in China. As stipulated by regulations in China, the Company's subsidiaries, associated companies and jointly controlled entities established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the Group's statutory reserves is HK\$1,536,000 (2003: HK\$1,536,000) attributable to an associated company.

19 Reserves (cont'd)

- (c) Included in the Group's retained profits are retained profits of HK\$360,484,000 (2003: HK\$264,577,000) and accumulated losses of HK\$53,663,000 (2003: HK\$63,938,000) attributable to associated companies and jointly controlled entities respectively.

Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003	526,830	1,773,497	344,697	2,645,024
Premium on issue of shares	49,846	—	—	49,846
Profit for the year	—	—	118,418	118,418
2002 Final dividend	—	—	(32,739)	(32,739)
2003 Interim dividend (note 7)	—	—	(44,206)	(44,206)
	<u>576,676</u>	<u>1,773,497</u>	<u>386,170</u>	<u>2,736,343</u>
At 31st December 2003				
Representing:				
Retained earnings			336,026	
2003 Final dividend proposed			50,144	
			<u>386,170</u>	
At 1st January 2004	576,676	1,773,497	386,170	2,736,343
Premium on issue of shares	271	—	—	271
Profit for the year	—	—	85,041	85,041
2003 Final dividend (note 7)	—	—	(50,145)	(50,145)
2004 Interim dividend (note 7)	—	—	(50,151)	(50,151)
	<u>576,947</u>	<u>1,773,497</u>	<u>370,915</u>	<u>2,721,359</u>
At 31st December 2004				
Representing:				
Retained earnings			312,391	
2004 Final dividend proposed			58,524	
			<u>370,915</u>	

The contributed surplus represents the difference between the nominal value of the shares issued by the Company in exchange for all the issued ordinary shares of Kiu Fung Limited and the value of net assets of the underlying subsidiaries acquired by the Company as at 30th November 1996. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is classified as components of reserves of the underlying subsidiaries.

20 Long-term liabilities

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans, unsecured	118,310	167,136
Loans from minority shareholders of subsidiaries (note (a))	438,547	439,863
Less: current portion of long-term liabilities	(5,634)	(11,268)
	<u>551,223</u>	<u>595,731</u>

(a) Except for an aggregate amount of HK\$120,561,000 (2003: HK\$120,561,000) which bears interest at the prevailing lending rates of financial institutions in China ranging from 5.760 to 6.120 per cent per annum, the loans from minority shareholders are unsecured, interest free and not repayable within one year.

(b) At 31st December 2004 and 2003, the Group's bank loans were repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	5,634	11,268
In the second year	112,676	5,634
In the third to fifth year	—	150,234
	<u>118,310</u>	<u>167,136</u>

21 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 18 per cent (2003: 18 per cent).

The movement on the deferred tax liabilities account is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
At 1st January	8,402	9,896
Transfer from profit and loss account (note 5(c))	(1,149)	(1,494)
At 31st December	<u>7,253</u>	<u>8,402</u>
Provided for in respect of accelerated depreciation allowances	<u>7,253</u>	<u>8,402</u>

22 Notes to the consolidated cash flow statement

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

	2004 HK\$'000	2003 HK\$'000
Operating profit	152,297	189,626
Interest income	(1,303)	(4,303)
Amortisation of goodwill and negative goodwill	9,930	9,981
Amortisation/depreciation of interests in toll highways and bridges	101,392	98,163
Depreciation of fixed assets	2,549	3,069
Revaluation deficit on investment properties	1,691	—
Exchange differences	(952)	2,132
Operating profit before working capital changes	265,604	298,668
Decrease/(increase) in receivables, deposits and prepayments	615	(7,710)
(Decrease)/increase in payables and accrued charges including due to minority shareholders of subsidiaries and holding companies	(28,282)	33,320
Net cash inflow generated from operations	237,937	324,278

(b) Analysis of changes in financing during the year

	Share capital including premium		Bank loans		Minority interests		Loans from minority shareholders of subsidiaries		Amount due to a minority shareholder of subsidiaries	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1st January	688,099	631,809	345,539	593,944	308,420	347,626	439,863	441,077	53,719	53,468
Exchange differences	—	—	—	2,149	—	3,231	—	176	—	251
Issue of shares	313	56,290	—	—	—	—	—	—	—	—
Minority interests in share of profits	—	—	—	—	25,765	42,164	—	—	—	—
Dividends paid to minority shareholders	—	—	—	—	(85,630)	(84,257)	—	—	—	—
New borrowings	—	—	—	9,390	—	—	—	—	—	—
Repayments	—	—	(161,501)	(259,944)	—	—	(1,316)	(1,734)	—	—
Others	—	—	—	—	—	(344)	—	344	—	—
At 31st December	688,412	688,099	184,038	345,539	248,555	308,420	438,547	439,863	53,719	53,719

23 Commitments

At 31st December 2004, the Group had financial commitments in respect of equity capital to be injected to a jointly controlled entity of approximately HK\$247,990,000 (2003: Nil).

The Company had no commitments at 31st December 2003 and 2004.

24 Contingent liabilities

At 31st December 2004 and 2003, the Group has pledged the income derived from its 24.3 per cent effective interest in an associated company to a bank in favour of a joint venture partner in this associated company (the "Joint Venture Partner"), in respect of the repayment of a bank loan by the Joint Venture Partner amounting to Rmb500,000,000 (approximately HK\$467,000,000) and interest thereon (collectively referred to as "Relevant Loan").

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

25 Related party transactions

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

	2004 HK\$'000	2003 HK\$'000
Administrative service fees shared with holding company (note (a))	1,300	1,300
Toll roads management fees paid and payable to a minority shareholder of subsidiaries (note (b))	<u>62,235</u>	<u>62,223</u>

- (a) Administrative service fees shared with GZI, the holding company, was in pursuant to the service agreement entered into between GZI, the Company and Kiu Fung Limited. Under the said service agreement, GZI shares certain administrative services with the Group, and allocate the cost of these administrative services to the Group on a fair and equitable basis.
- (b) Management agreements in respect of toll roads management fee were entered into between Guangzhou Highways Development Company ("GHDC"), a minority shareholder of subsidiaries, and certain subsidiaries engaging in the operation of toll highways in China, whereby GHDC carries out the day-to-day routine operational and maintenance services of the Guangshan Highway, Guangshen Highway, Guangcong Highway Section I and II, Provincial Highway 1909 and Guanghua Highway respectively including the collection of toll charges and repairs and maintenance in return for a fixed sum to be predetermined annually.

26 Ultimate holding company

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

27 Approval of accounts

The accounts were approved by the Board on 19th April 2005.

28 Group structure

As at 31st December 2004, the Company held shares/interest in the following principal subsidiaries, jointly controlled entities and associated companies:

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/ registered capital	Percentage of attributable interest held by the Company 2004 and 2003		Principal activities
			Direct	Indirect	
Principal subsidiaries					
Asian East Worldwide Limited	British Virgin Islands	50,000 Ordinary shares of US\$1 each	—	100	Investment holding in Guangzhou Northring Freeway Co., Ltd.
Bentfield Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Northern Second Ring Expressway Co., Limited
Fortune Success Group Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Tailong Highways Development Company Limited
Guangzhou Nanxin Highways Development Company Limited	People's Republic of China, limited liability company	Rmb141,463,000	—	80	Development and management of Guangshen Highway linking Guangzhou and Shenzhen
Guangzhou Qiaowei Highways Development Company Limited	People's Republic of China, limited liability company	Rmb12,326,000	—	100	Investment holding in Guangzhou Suiqiao Development Company Limited
Guangzhou Suiqiao Development Company Limited	People's Republic of China, limited liability company	Rmb1,000,000	—	100	Investment holding in Guangdong Humen Bridge Co., Ltd.
Guangzhou Taihe Highways Development Company Limited	People's Republic of China, limited liability company	Rmb155,980,000	—	80	Development and management of Guangcong Highway Section I linking Guangzhou and Conghua

28 Group structure (cont'd)

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/ registered capital	Percentage of attributable interest held by the Company 2004 and 2003		Principal activities
			Direct	Indirect	
Principal subsidiaries (cont'd)					
Guangzhou Tailong Highways Development Company Limited	People's Republic of China, limited liability company	Rmb116,667,000	—	51	Development and management of Guangcong Highway Section II linking Guangzhou and Conghua, and Provincial Highway 1909 linking Conghua and Longtan
Guangzhou Weian Highways Development Company Limited	People's Republic of China, limited liability company	Rmb175,750,000	—	80	Development and management of Guangshan Highway linking Guangzhou and Shantou
Guangzhou Xinguang Highways Development Company Limited	People's Republic of China, limited liability company	Rmb143,333,000	—	55	Development and management of Guanghua Highway linking Guangzhou and Huadu
Guangzhou Yue Peng Information Ltd.	People's Republic of China, limited liability company	Rmb160,000,000	—	100	Investment holding
Hunan Yue Tung Highway and Bridge Development Company Limited	People's Republic of China, limited liability company	Rmb21,000,000	—	75	Development and management of Xiang Jiang Bridge II in Hunan Province
Ickleton Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Taihe Highways Development Company Limited

28 Group structure (cont'd)

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/ registered capital	Percentage of attributable interest held by the Company 2004 and 2003		Principal activities
			Direct	Indirect	
Principal subsidiaries (cont'd)					
Kam Cheong Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding
Kinleader Co., Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding
Kiu Fung Limited	British Virgin Islands	2 Ordinary shares of HK\$1 each	100	—	Investment holding
Onwell Enterprises Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	—	100	Investment holding in Guangdong Qinglian Highway Development Co., Ltd.
Pioneer Business Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangdong Humen Bridge Co., Ltd.
Profit Optima Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding
Proterall Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Qiaowei Highways Development Company Limited
Shaanxi Jinxiu Transport Co., Limited	People's Republic of China, limited liability company	Rmb100,000,000	—	100	Development and management of Xian-Lintong Expressway in Shaanxi Province
Smart Top Enterprises Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	Property holding

28 Group structure (cont'd)

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/ registered capital	Percentage of attributable interest held by the Company 2004 and 2003		Principal activities
			Direct	Indirect	
Principal subsidiaries (cont'd)					
Sparco Development Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	—	100	Investment holding in Shaanxi Jinxiu Transport Co., Limited
Super Praise Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangdong Shantou Bay Bridge Co., Ltd.
Superfield Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Nanxin Highways Development Company Limited
Teckstar Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Weian Highways Development Company Limited
Top Global Holdings Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Xinguang Highways Development Company Limited
Unionwin Investment Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding
Yan Tung Investment Limited	British Virgin Islands	10,000 Ordinary shares of US\$1 each	—	83.3	Investment holding in Hunan Yue Tung Highway and Bridge Development Company Limited

28 Group structure (cont'd)

	Place of establishment and operation	Issued and fully paid up share capital/registered capital	Percentage of voting power	Percentage of attributable interest held by the Company		Principal activities
				Direct	Indirect	
Jointly controlled entities						
				2004 and 2003		
Guangzhou Northern Second Ring Expressway Co., Limited	People's Republic of China	Rmb900,000,000	40	—	46	Development and management of Guangzhou Northern Second Ring Expressway in Guangzhou
				2004		
Guangzhou Western Second Ring Expressway Co., Limited	People's Republic of China	Rmb1,000,000,000	33	—	35	Development and management of Guangzhou Western Second Ring Expressway in Guangzhou
Associated companies						
Guangdong Humen Bridge Co., Ltd.	People's Republic of China	Rmb273,900,000		—	25	Development and management of Humen Bridge in Humen
Guangdong Qinglian Highway Development Co., Ltd.	People's Republic of China	Rmb1,200,000,000		—	23.6	Development and management of National Highway 107 linking Qingyuan and Lianzhou
Guangdong Shantou Bay Bridge Co., Ltd.	People's Republic of China	Rmb75,000,000		—	30	Development and management of Shantou Bay Bridge in Shantou
Guangzhou Northring Freeway Co., Ltd.	People's Republic of China	US\$19,255,000		—	24.3	Development and management of Guangzhou City Northern Ring Road