

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). The Directors consider that the Company’s ultimate holding company is Hutchison Whampoa Limited (“Hutchison Whampoa”), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Hong Kong Stock Exchange.

The Group’s principal activities during the year are development, investment and operation of infrastructure businesses in Hong Kong, the Mainland and Australia.

2. PRINCIPAL ACCOUNTING POLICIES

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

The financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”s), the accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below:

a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December together with the Group’s interests in associates and jointly controlled entities on the basis set out in (d) and (e) below, respectively.

Results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are accounted for as from or up to the effective dates of acquisitions or disposals.

b) Goodwill

Goodwill represents the excess of costs of acquisition over the fair value of the Group’s share of the separable net assets of subsidiaries, associates and jointly controlled entities acquired and is written off against reserves in the year of acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of subsidiaries, associates and jointly controlled entities over the purchase consideration is credited to reserves.

On the disposal of an investment in a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, has a long-term equity interest of over 50 per cent. or the Company controls more than half of its voting power or the composition of its board of directors. Investments in subsidiaries are carried at cost less provision for any diminution in value other than temporary where appropriate.

d) Associates

An associate is a company, other than a subsidiary or jointly controlled entity, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence over its management, including participation in financial and operating policy decisions.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

d) Associates (cont'd)

The results and assets and liabilities of associates are incorporated in the Group's financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

e) Joint Ventures

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

Jointly controlled entities are joint ventures which involve the establishment of a separate entity. The results and assets and liabilities of jointly controlled entities are incorporated in the Group's financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

f) Infrastructure Project Investments

Investments in infrastructure projects which do not fall into the definition of subsidiaries, associates or jointly controlled entities are classified as infrastructure project investments if the Group's return to be derived therefrom is predetermined in accordance with the provisions of the relevant agreements and the venturers' shares of net assets are not in proportion to their capital contribution ratios but are as defined in the contracts and in respect of which the Group is not entitled to share the assets at the end of the investment period.

The Group's interests in the infrastructure project investments are recorded at cost less amortisation over the respective contract period on a straight-line basis upon commencement of operation of the project or upon commencement of the Group's entitlement to income. Where the estimated recoverable amount of these investments falls below their carrying value, the carrying value is written down to the recoverable amount. Income from these investments is recognised when the Group's right to receive payment is established.

g) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which it is incurred.

In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

When the acquisition of an asset involves significant dismantling, removal or restoration costs at the end of the asset's useful life, those costs are recognised as an expense over the life of the asset.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

g) Property, Plant and Equipment (cont'd)

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation of property, plant and equipment is calculated to write off their depreciable amount over their estimated useful lives using the straight-line method, at the following rates per annum:

Land	Over the unexpired lease terms of the land
Buildings	2% to 3-1/3% or over the unexpired lease terms of the land, whichever is the higher
Plant and machinery	3-1/3% to 33-1/3%
Others	5% to 33-1/3%

When an asset is disposed of or retired, any gain or loss, representing the difference between the carrying value and the sales proceeds, if any, is included in the income statement.

h) Inventories

Inventories are stated at the lower of cost, computed on a weighted-average or a first-in first-out basis as appropriate, and net realisable value. Cost includes cost of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and conditions. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

i) Contract Work

When the outcome of a contract can be estimated reliably, revenue and costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date, that is the proportion that contract costs incurred for work performed to date bears to the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable.

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

j) Investments in Securities

Investments in securities intended to be held long term are stated at their fair values at the balance sheet date. The gains or losses arising from changes in the fair values of a security are dealt with as movements in the investment revaluation reserve, until the security is disposed of, or is determined to be impaired, when the cumulative gain or loss is included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

k) Revenue Recognition

(i) Sales of goods

Revenue from sale of goods is recognised at the time when the goods are delivered or title to the goods passes to the customers. Revenue is arrived at after deduction of any sales returns and discounts and does not include sales taxes.

(ii) Contract revenue

Income from long-term contracts is recognised according to the stage of completion.

(iii) Income from infrastructure project and other investments

Income from infrastructure project and other investments is recognised when the Group's right to receive payment is established. Income from infrastructure project investments is calculated in accordance with the terms and conditions of the relevant contracts.

(iv) Interest income

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

(v) Charterhire service income

Charterhire service income is recognised on a straight-line basis over the terms of the respective charter hire.

l) Foreign Currencies

The income statements and cash flow statements of overseas subsidiaries, associates and jointly controlled entities are translated into Hong Kong dollars using average rates of exchange. Balance sheets are translated at closing rates.

Exchange differences arising on the translation at closing rates of the opening net assets and the profits for the year retained by overseas subsidiaries, associates and jointly controlled entities are taken to reserves.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the relevant transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with in the income statement.

m) Deferred Taxation

Tax deferred or accelerated by the effects of timing differences is provided, using the liability method, to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

n) Operating Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable under operating leases are recorded in the income statement on a straight-line basis over the respective lease terms.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

o) Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases. The amounts due from the lessees under finance lease contracts are recorded as finance lease debtors. The finance lease debtors comprise the gross investment in leases less unearned finance lease income allocated to future accounting periods. The unearned finance lease income is allocated to future accounting periods so as to reflect constant periodic rates of return on the Group's net investments outstanding in respect of the leases, in accordance with SSAP 14 (revised) "Leases" issued by the Hong Kong Society of Accountants in February 2000. Except for certain comparative amounts which have been reclassified to conform to the current year's presentation, the adoption of this statement does not have any significant effect on amounts reported in the prior year financial statements of the Group, and accordingly, no prior year adjustment is required. Previously, the Group allocated unearned finance lease income to future accounting periods on a straight-line basis over the remaining terms of the respective leases.

p) Retirement Benefits

The Group operates defined contribution and defined benefit retirement schemes for its employees. The costs of defined contribution schemes are charged to the income statement as and when the contributions fall due. The costs of defined benefit schemes are charged to the income statement on a systematic basis with any surpluses and deficits allocated so as to spread them over the expected remaining service lives of the employees affected.

q) Borrowing Costs

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the financing of the Group's infrastructure projects up to the commencement of revenue contribution or upon commencement of operation of the projects, whichever is the earlier.

3. TURNOVER

Group turnover represents net sales from infrastructure materials businesses, return on investments and interest income received and receivable from infrastructure project investments, net of withholding tax, where applicable.

In addition, the Group also accounts for its proportionate share of turnover of jointly controlled entities. Turnover of associates are not included.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3. TURNOVER (cont'd)

By business segment

HK\$million	2000			1999		
	Group turnover	Share of turnover of jointly controlled entities	Total	Group turnover	Share of turnover of jointly controlled entities	Total
Materials	2,024	–	2,024	2,160	–	2,160
Energy	180	618	798	384	–	384
Transportation	363	160	523	519	124	643
Total	2,567	778	3,345	3,063	124	3,187

By geographic region

HK\$million	2000			1999		
	Group turnover	Share of turnover of jointly controlled entities	Total	Group turnover	Share of turnover of jointly controlled entities	Total
Hong Kong	1,681	–	1,681	1,843	–	1,843
The Mainland	863	778	1,641	1,204	124	1,328
Others	23	–	23	16	–	16
Total	2,567	778	3,345	3,063	124	3,187

4. OTHER REVENUE

Other revenue includes the following:

HK\$million	2000	1999
Interest income	665	114
Finance lease income	5	3
Distribution from listed stapled securities	48	22
Dividends from other listed securities	2	–
Charterhire service income	561	51

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5. OPERATING COSTS

HK\$million	2000	1999
Changes in inventories of finished goods and work-in-progress	(7)	(6)
Raw materials and consumables used	593	563
Staff costs including directors' remuneration	478	485
Depreciation	196	166
Amortisation of patents and licenses	2	–
Amortisation of costs of investments in infrastructure projects	179	210
Costs of charterhire services rendered	559	51
Other operating expenses	819	400
Total	2,819	1,869

6. FINANCE COSTS

HK\$million	2000	1999
Interest on bank borrowings wholly repayable within five years	659	214
Less: Amount capitalised	(38)	(83)
Total	621	131

Interests capitalised during the year are calculated at rates ranging from 6% to 7% per annum.

7. OPERATING PROFIT

HK\$million	2000	1999
Operating profit is arrived at after crediting:		
Contract revenue	197	193
Gain on disposals of property, plant and equipment	5	–
and charging:		
Loss on disposal of property, plant and equipment	–	1
Operating lease rental		
Land and buildings	60	47
Vessels	607	91
Directors' remuneration (note 30)	29	15
Auditors' remuneration	2	2

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8. TAXATION

HK\$million	2000	1999
Company and subsidiaries		
Hong Kong profits tax – current	46	59
– deferred	(4)	1
	42	60
Associates		
Hong Kong profits tax – current	246	182
– deferred	–	3
	246	185
Total	288	245

Hong Kong profits tax is provided for at the rate of 16 per cent. (1999: 16 per cent.) on the estimated assessable profits for the year less available tax relief for losses brought forward.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to shareholders for the year, HK\$1,622 million (1999: HK\$1,220 million) has been dealt with in the financial statements of the Company.

The Group's profit attributable to shareholders is analysed as follows:

By business segment

HK\$million	2000			1999		
	Company and subsidiaries	Associates and jointly controlled entities	Total	Company and subsidiaries	Associates and jointly controlled entities	Total
Materials	371	10	381	696	(16)	680
Energy	527	2,608	3,135	248	1,821	2,069
Transportation	383	137	520	413	63	476
	1,281	2,755	4,036	1,357	1,868	3,225
Finance costs	(621)	–	(621)	(131)	–	(131)
Net corporate overheads	(187)	–	(187)	47	–	47
Profit attributable to shareholders	473	2,755	3,228	1,273	1,868	3,141

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS (cont'd)

By geographic region

HK\$million	2000			1999		
	Company and subsidiaries	Associates and jointly controlled entities	Total	Company and subsidiaries	Associates and jointly controlled entities	Total
Hong Kong	483	2,159	2,642	694	1,835	2,529
The Mainland	247	588	835	628	49	677
Australia	567	–	567	22	–	22
Others	(16)	8	(8)	13	(16)	(3)
	1,281	2,755	4,036	1,357	1,868	3,225
Finance costs	(621)	–	(621)	(131)	–	(131)
Net corporate overheads	(187)	–	(187)	47	–	47
Profit attributable to shareholders	473	2,755	3,228	1,273	1,868	3,141

10. DIVIDENDS

HK\$million	2000	1999
Interim dividend paid of HK\$0.2 (1999: HK\$0.13) per share	451	293
Proposed final dividend of HK\$0.4 (1999: HK\$0.29) per share	902	654
Total	1,353	947

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$3,228 million (1999: HK\$3,141 million) and on 2,254,209,945 shares (1999: 2,254,209,945 shares) in issue during the year.

Diluted earnings per share for the year ended 31st December, 2000 has not been shown as there was no dilutive effect on the earnings per share if the convertible debentures outstanding during the year were fully converted into shares of a non-wholly owned subsidiary which issued the debentures (note 24).

Diluted earnings per share for the year ended 31st December, 1999 has not been calculated as no dilutive potential ordinary shares existed during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12. PROPERTY, PLANT AND EQUIPMENT

HK\$million	Medium term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings in the Mainland	Plant and machinery	Furniture, fixtures and others	Total
Group					
Cost					
At 1st January, 2000	853	270	2,061	278	3,462
Additions	2	3	119	26	150
Disposals	–	–	(44)	(39)	(83)
Acquisition of a subsidiary	–	–	1	–	1
Transfer between categories	–	112	(122)	10	–
At 31st December, 2000	855	385	2,015	275	3,530
Accumulated depreciation					
At 1st January, 2000	216	13	739	166	1,134
Charge for the year	27	12	128	29	196
Disposals	–	–	(43)	(24)	(67)
At 31st December, 2000	243	25	824	171	1,263
Net book value					
At 31st December, 2000	612	360	1,191	104	2,267
At 31st December, 1999	637	257	1,322	112	2,328
Company					
Cost					
At 1st January, 2000	–	–	–	8	8
Additions	–	–	–	5	5
At 31st December, 2000	–	–	–	13	13
Accumulated depreciation					
At 1st January, 2000	–	–	–	2	2
Charge for the year	–	–	–	3	3
At 31st December, 2000	–	–	–	5	5
Net book value					
At 31st December, 2000	–	–	–	8	8
At 31st December, 1999	–	–	–	6	6

At 31st December, 2000, certain of the Group's land and buildings with a net book value of HK\$51 million (1999: nil) have been pledged to secure a bank loan granted to the Group (note 22).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13. INTERESTS IN SUBSIDIARIES

HK\$million	2000	Company 1999
Unlisted shares, at cost	22,757	22,757
Amounts due by subsidiaries	5,134	4,960
At 31st December	27,891	27,717

Particulars of the principal subsidiaries are set out in Appendix 1 on pages 76 and 77.

14. INTERESTS IN ASSOCIATES

HK\$million	2000	Group 1999
Share of net assets:		
Listed associate	13,801	12,040
Unlisted associates	115	162
	13,916	12,202
Amounts due by unlisted associates	6,462	407
At 31st December	20,378	12,609
Market value of listed associate	23,892	19,069

The amounts due by unlisted associates include loans of HK\$4,493 million (1999: nil) to certain associates, the repayment of which to the Group are subordinated to other lenders of these associates.

Particulars of the principal associates of the Group are set out in Appendix 2 on page 78.

An extract of the published financial statements of Hongkong Electric Holdings Limited ("Hongkong Electric"), a principal associate of the Group, for the year ended 31st December, 2000, is shown in Appendix 4 on pages 80 and 81.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

HK\$million	2000	Group 1999
Investment costs	2,016	447
Shareholders' loans to jointly controlled entities	2,210	2,099
Share of undistributed post-acquisition results	565	45
At 31st December	4,791	2,591

Particulars of the Group's interests in the principal jointly controlled entities are set out in Appendix 3 on page 79.

16. INFRASTRUCTURE PROJECT INVESTMENTS

HK\$million	2000	Group 1999
Investments	5,092	6,899
Accumulated amortisation	(798)	(619)
At 31st December	4,294	6,280

17. INVESTMENTS IN SECURITIES

HK\$million	2000	Group 1999
Non-trading securities:		
Listed equity investments, at market value:		
Hong Kong	41	42
Overseas	128	–
Listed debt investments, at market value:		
Overseas	181	157
Listed stapled securities, at market value:		
Overseas	404	477
Total	754	676

The stapled security comprises a subordinated loan note and a fully paid ordinary share. It is quoted at a single combined price and cannot be traded separately.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18. OTHER NON-CURRENT ASSETS

HK\$million	2000	Group 1999
Patents and licenses	6	–
Finance lease debtors – non-current portion	33	11
At 31st December	39	11

Details of finance lease debtors are further shown below:

HK\$million	2000	Group 1999
Gross investment in leases receivable:		
within one year	15	9
in the second to fifth year, inclusive	39	14
after the fifth year	3	–
	57	23
Unearned finance lease income	(14)	(5)
Present value of finance lease debtors	43	18
Portion receivable:		
within one year – current portion	10	7
in the second to fifth year, inclusive	30	11
after the fifth year	3	–
Non-current portion	33	11
Total	43	18

19. INVENTORIES

HK\$million	2000	Group 1999
Raw materials	58	54
Work-in-progress	11	17
Stores, spare parts and supplies	117	115
Finished goods	31	18
	217	204
Completed properties for resale	5	5
Total	222	209

The cost of inventories charged to the Group's income statement during the year is HK\$1,371 million (1999: HK\$1,245 million).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

HK\$million	Group	
	2000	1999
Costs plus recognised profits less recognised losses	67	138
Progress billing	(65)	(136)
Due from customers	2	2

21. DEBTORS AND PREPAYMENTS

HK\$million	Group		Company	
	2000	1999	2000	1999
Trade debtors and infrastructure project receivables	1,275	1,350	–	–
Prepayments, deposits and other receivables	345	162	29	2
Total	1,620	1,512	29	2

The ageing analysis of the Group's trade debtors and infrastructure project receivables is as follows:

HK\$million	2000	1999
Current	797	1,162
One month	56	37
Two to three months	21	10
Three months and more	607	277
Gross total	1,481	1,486
Provision	(206)	(136)
Total after provision	1,275	1,350

Tradings with customers are largely on credit, except for new customers and customers with unsatisfactory payment records, where payment in advance is normally required. Invoices are normally payable within one month of issuance, except for certain well-established customers, where the terms are extended to two months, and certain customers with disputed items, where the terms are negotiated individually. Each customer has a maximum credit limit, which was granted and approved by senior management in accordance with the laid-down credit review policy and procedures.

Infrastructure project receivables are mainly derived from return from infrastructure project investments, which is predetermined in accordance with provisions of the relevant agreements. The return is contractually payable annually or semi-annually to the Group within a specified period, mostly of two to three months from the financial period end dates of the infrastructure project investments.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22. BANK LOANS

HK\$million	2000	Group 1999
Unsecured bank loans repayable:		
within one year	3,450	17
in the second year	3,847	–
in the third to fifth year, inclusive	3,155	3,959
	10,452	3,976
Secured bank loans repayable:		
within one year	89	–
Total	10,541	3,976
Portion classified as:		
current liabilities	3,539	17
non-current liabilities	7,002	3,959
Total	10,541	3,976

At 31st December, 2000, a bank deposit of HK\$52 million (1999: nil) and certain of the Group's land and buildings with a net book value of HK\$51 million (1999: nil) have been pledged to secure the Group's bank loans totalling HK\$89 million (1999: nil).

Other particulars of the bank loans are summarised below:

HK\$million	2000	Group 1999
HK\$ syndication loans, bearing interest at Hong Kong Interbank Offered Rate plus a spread	3,800	3,400
A\$ syndication and term loans, bearing interest at the average bid rate in respect of Australian Bill Bank Swap Reference Rate plus a spread	6,576	512
RMB loans, bearing interest at fixed rates	113	64
C\$ loans, bearing interest at London Interbank Offered Rate plus a spread	52	–
Total	10,541	3,976

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23. CREDITORS AND ACCRUALS

HK\$million	Group		Company	
	2000	1999	2000	1999
Trade creditors	166	136	–	–
Amount due to an unlisted associate	82	–	82	–
Other payables and accruals	633	358	30	13
Total	881	494	112	13

The ageing analysis of the Group's trade creditors is as follows:

HK\$million	2000	1999
Current	88	91
One month	9	10
Two to three months	6	7
Three months and more	63	28
Total	166	136

24. DEBENTURES

The debentures, which have been issued by a non-wholly owned subsidiary acquired by the Company during the year ended 31st December, 2000, bear interest at the rate of 5% per annum on face value totalling HK\$5 million. The debentures are secured by a floating charge on the assets of the subsidiary with net book value of HK\$50 million as at 31st December, 2000. These debentures are convertible into shares of the subsidiary at the option of the holders at any time prior to the debentures' maturity date on 31st January, 2002.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25. DEFERRED TAXATION

Deferred tax has been provided in respect of material timing differences arising from depreciation allowances claimed for taxation purposes in excess of depreciation charges in the financial statements. The potential deferred tax (assets)/liabilities which have not been provided in the financial statements are as follows:

HK\$million	Group			
	For the year		As at 31st December	
	2000	1999	2000	1999
(Shortfall)/excess of tax allowances over depreciation	(5)	13	71	76
Unutilised tax losses	(12)	(10)	(42)	(30)
Net potential (assets)/liabilities unprovided	(17)	3	29	46

The Group does not expect the unprovided potential deferred tax liabilities to crystallise in the foreseeable future.

The Company had no significant deferred tax assets or liabilities at the balance sheet date.

26. SHARE CAPITAL

HK\$million	2000	1999
Authorised:		
4,000,000,000 shares of HK\$1 each	4,000	4,000
Issued and fully paid:		
2,254,209,945 shares of HK\$1 each	2,254	2,254

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27. RESERVES

HK\$million	Group					Total
	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Retained profits	
At 1st January, 1999	3,836	8,177	–	–	6,060	18,073
Deficit on revaluation of investments						
in securities	–	–	(43)	–	–	(43)
Goodwill on acquisition of interest in						
an associate	–	(295)	–	–	–	(295)
Profit for the year retained	–	–	–	–	2,194	2,194
At 31st December, 1999	3,836	7,882	(43)	–	8,254	19,929
Surplus on revaluation of investments						
in securities	–	–	62	–	–	62
Goodwill on acquisition of a subsidiary	–	(20)	–	–	–	(20)
Goodwill on acquisition of interest in						
an associate	–	(230)	–	–	–	(230)
Exchange translation differences	–	–	–	(8)	–	(8)
Profit for the year retained	–	–	–	–	1,875	1,875
At 31st December, 2000	3,836	7,632	19	(8)	10,129	21,608

The retained profits of the Group include the Group's share of the undistributed retained profits of its associates and jointly controlled entities amounting to HK\$3,609 million (1999: HK\$2,662 million) and HK\$565 million (1999: HK\$45 million) respectively.

HK\$million	Company			Total
	Share premium	Contributed surplus	Retained profits	
At 1st January, 1999	3,836	20,810	1,105	25,751
Profit for the year retained	–	–	273	273
At 31st December, 1999	3,836	20,810	1,378	26,024
Profit for the year retained	–	–	269	269
At 31st December, 2000	3,836	20,810	1,647	26,293

Contributed surplus of the Company arose when the Company issued shares in exchange for shares of subsidiaries and associates being acquired pursuant to the IPO Reorganisation in July 1996 and the Cheung Kong Group Restructuring (see below) in March 1997, and represents the difference between the value of net assets of the companies acquired and the nominal value of the Company's shares issued. Under the Company Act of 1981 of Bermuda (as amended), the contributed surplus is available for distribution to the shareholders.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27. RESERVES (cont'd)

Cheung Kong Group Restructuring is the reorganisation involving Cheung Kong (Holdings) Limited, Hutchison Whampoa, the Company and Hongkong Electric pursuant to which the transactions relating to the Company were completed on 10th March, 1997 which resulted in the Company becoming an 84.6 per cent. subsidiary of Hutchison Whampoa and acquiring a 35.01 per cent. holding in Hongkong Electric.

Total distributable reserves of the Company amounted to HK\$22,457 million as at 31st December, 2000 (1999: HK\$22,188 million).

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

HK\$million	2000	1999
Profit before taxation	3,501	3,384
Share of results of associates	(2,413)	(2,004)
Share of results of jointly controlled entities	(588)	(49)
Interest income	(665)	(114)
Finance lease income	(5)	(3)
Income from infrastructure project investments	(543)	(903)
Distribution from listed stapled securities	(48)	(22)
Other dividends	(2)	–
Interest expenses	621	131
Depreciation	196	166
(Gain)/loss on disposals of property, plant and equipment	(5)	1
(Gain) on disposal of a subsidiary	–	(5)
Provision against amounts due by unlisted associates	32	–
Amortisation of costs of investments in infrastructure projects	179	210
Amortisation of patents and licenses	2	–
(Increase) in inventories	(13)	(46)
Decrease in amounts due from customers for contract work	–	1
(Increase) in retention receivables	(16)	(2)
(Increase) in debtors and prepayments	(117)	(123)
Increase/(decrease) in trade creditors, other payables and accruals	280	(112)
Net cash inflow from operating activities	396	510

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Acquisition of a subsidiary

HK\$million	2000	1999
Net assets acquired:		
Property, plant and equipment	1	–
Patents and licenses	7	–
Debtors and prepayments	1	–
Bank balances and cash	53	–
Creditors and accruals	(4)	–
Debentures	(5)	–
Minority interests	(19)	–
	34	–
Goodwill	20	–
Total consideration	54	–
Satisfied by:		
Cash	54	–

Analysis of the net cash outflow arising from the acquisition:

HK\$million	2000	1999
Cash consideration	(54)	–
Bank balances and cash acquired	53	–
Net cash (outflow) arising from the acquisition	(1)	–

During the year since the acquisition, the subsidiary has utilised HK\$6 million and HK\$2 million on operating and investing activities respectively.

The subsidiary has also contributed HK\$2 million to the Group's turnover and generated a loss of HK\$2 million to the Group's profit attributable to shareholders during the year since the acquisition.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Disposal of a subsidiary

HK\$million	2000	1999
Net assets disposed of:		
Infrastructure project investment	–	47
Amount due by infrastructure project investment	–	27
	–	74
Gain on disposal of a subsidiary	–	5
Total	–	79
Satisfied by:		
Cash	–	79

Analysis of the net cash inflow arising on the disposal:

HK\$million	2000	1999
Cash consideration	–	79
Bank balances and cash disposed of	–	–
Net cash inflow arising from the disposal	–	79

The subsidiary disposed of did not make any contribution to the Group's net operating cash flows and cash flows in respect of the investing activities, financing activities, net returns on investments and servicing of finance and taxation during the prior year.

The subsidiary disposed of contributed HK\$9 million to the Group's turnover and HK\$5 million to the Group's profit attributable to shareholders for the prior year.

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(d) Analysis of changes in financing during the year

HK\$million	Bank loans	Minority interests
At 1st January, 1999	3,100	256
Net cash inflow from financing	876	–
Minority's share of loss	–	(2)
Dividends paid to minority shareholders	–	(1)
At 31st December, 1999	3,976	253
Net cash inflow from financing	6,867	–
Minority's share of loss	–	(15)
Arising from acquisition of a subsidiary	–	19
Acquisition of interest in a subsidiary from a minority shareholder	–	(1)
Exchange translation difference	(302)	–
At 31st December, 2000	10,541	256

(e) Major non-cash transaction

During the year, the Group received from the listed associate scrip dividends totalling HK\$757 million (1999: HK\$1,064 million).

29. RETIREMENT SCHEME

The Group provides defined contribution retirement schemes for its eligible employees with the exception of a subsidiary which provides a defined benefit scheme. Contributions to the defined contribution schemes are made by either the employer only at 10 per cent. of the employees' monthly basic salary or by both the employer and the employees each at 10 per cent. of the employees' monthly basic salary. Contributions to the defined benefit scheme are made by the employees at either 5 per cent. or 7 per cent. on the employees' salary and contributions made by the employer are based on the recommendations of an independent actuary according to the periodic actuarial valuation of the scheme.

The latest actuarial valuation of the defined benefit scheme was completed as at 1st January, 2000 by Joseph K. L. Yip, F.S.A., a fellow member of the Society of Actuaries, of The Watson Wyatt Hong Kong Limited. The actuarial method adopted was Attained Age Funding Method and the main assumptions used were the long-term average annual rate of investment return on the scheme assets at 9 per cent. per annum and the long-term average annual salary increases at 7 per cent. per annum.

The net asset value for the actuarial valuation of the defined benefit scheme as at 31st December, 1999 was HK\$120 million and the latest actuarial valuation showed that the scheme's assets covered 81 per cent. of the actuarial accrued liabilities at the valuation date. The Group's future annual contribution is designed to fund the shortfall over a period of time and the employer funding rates have been increased since 1st January, 1998. The funding rates are subject to annual review.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29. RETIREMENT SCHEME (cont'd)

Forfeited contributions and earnings for the year under the defined contribution schemes amounting to HK\$3 million (1999: HK\$1 million) have been used to reduce the existing level of contributions. The Group's costs on employees retirement schemes for the year amount to HK\$34 million (1999: HK\$36 million). At 31st December, 2000, there was no forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution scheme in future years (1999: HK\$1 million).

With the implementation of Mandatory Provident Fund ("MPF") Schemes Ordinance on 1st December, 2000 in Hong Kong, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5% of the employees' monthly relevant income capped at HK\$20,000. As the Group's retirement schemes in Hong Kong are all MPF-exempted recognised occupational retirement schemes ("ORSO schemes"), all the existing members were given an option to elect between the ORSO schemes and the MPF schemes. Except for certain subsidiaries of which the new employees have to join the MPF schemes, the Group offers an option to its Hong Kong employees who commenced employment after 30th November, 2000 to elect between the ORSO schemes and the MPF schemes.

30. REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES

(a) Directors' Remuneration

The following table shows the remuneration of the Company's Directors:

HK\$million	2000	1999
Salaries, benefits in kind and fees	14	6
Contribution to retirement schemes	1	–
Bonuses	14	9
Total	29	15

The Directors' remuneration for the year includes fees of HK\$600,000 (1999: HK\$500,000) of which HK\$100,000 (1999: HK\$100,000) have been paid to Independent Non-executive Directors of the Company.

The table below shows the number of Directors whose remuneration was within the following bands:

Remuneration band	2000	1999
Nil – HK\$1,000,000	7	7
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$4,500,001 – HK\$5,000,000	1	1
HK\$6,500,001 – HK\$7,000,000	2	1
HK\$7,000,001 – HK\$7,500,000	1	–

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30. REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES (cont'd)

(b) Senior Executives' Remuneration

Of the five individuals with the highest emoluments in the Group, four (1999: two) are Directors whose emoluments are disclosed above. The aggregate emoluments in respect of the remaining one (1999: three) individual are as follows:

HK\$million	2000	1999
Salaries and benefits in kind	3	10
Contributions to retirement schemes	1	1
Bonuses	2	7
Total	6	18

The remaining one (1999: three) individual with the highest emolument is within the following bands:

Remuneration band	2000	1999
HK\$5,500,001 – HK\$6,000,000	1	2
HK\$6,500,001 – HK\$7,000,000	–	1

31. COMMITMENTS

(a) The Group's capital commitments outstanding at 31st December and not provided for in the financial statements are as follows:

HK\$million	Contracted but not provided for		Authorised but not contracted for	
	2000	1999	2000	1999
Investment in an associate	16	15	–	–
Investments in jointly controlled entities	433	519	–	–
Infrastructure investments in the Mainland	29	181	–	–
Plant and machinery	29	38	218	276
Others	–	8,626	6	11
Total	507	9,379	224	287

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31. COMMITMENTS (cont'd)

(b) At the balance sheet date, the Group had total future minimum lease payments under noncancellable operating leases for the following periods:

HK\$million	Land and buildings	
	2000	1999
Within one year	32	22
In the second to fifth year, inclusive	30	49
Total	62	71

32. CONTINGENT LIABILITIES

HK\$million	Group	
	2000	1999
Performance bonds	5	285

33. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group advanced HK\$127 million (1999: HK\$282 million) to its jointly controlled entities by way of shareholders' loans and received repayments totalling HK\$16 million (1999: nil) from a jointly controlled entity. The total outstanding loan balances as at 31st December, 2000 amounted to HK\$2,210 million (1999: HK\$2,099 million), of which HK\$939 million (1999: HK\$955 million) bore interest with reference to Hong Kong dollar prime rate or United States dollar prime rate, and HK\$1,271 million (1999: 1,144 million) were interest-free. The loans had no fixed term of repayment.

The Group advanced HK\$12,295 million (1999: HK\$261 million) to its unlisted associates, and received repayments totalling HK\$6,078 million (1999: nil) during the year. The total outstanding loan balances as at 31st December, 2000 amounted to HK\$6,462 million (1999: HK\$407 million), of which HK\$6,177 million (1999: nil) bore interest with reference to average bid rate in respect of Australian Bill Bank Swap Reference Rate or Hong Kong dollar prime rate, and HK\$285 million (1999: HK\$407 million) were interest-free. The loans had no fixed terms of repayment.

The Group also received advance of HK\$79 million (1999: nil) from an unlisted associate during the year, which bore interest with reference to Hong Kong Interbank Offered Rate.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 15th March, 2001.