

NOTES TO FINANCIAL STATEMENTS

GUANGDONG INVESTMENT LIMITED

31 December 2000

1. CORPORATE INFORMATION AND AFFILIATION

During the year, the Group was principally engaged in investment holding, the provision of travel and transportation services, hotel ownership and operations, hotel management, property holding and investment, the development of properties for sale, the design, supply and installation of curtain walls and aluminium windows, the manufacture of timber-related products and furniture, the manufacture of malt for the brewing industry, the production of beer, the processing and sale of semi-finished and finished leather, the design, manufacture and sale of leather ware products, investment in infrastructure and energy projects, the provision of mortgage finance, the water supply business to Hong Kong, Shenzhen and Dongguan in Mainland China, money lending, investment dealing, and wholesaling and retailing.

During the year, the Group's business in the manufacture of timber-related products and furniture was discontinued pursuant to its restructuring summarised in note 2 below (see also note 6).

In the opinion of the directors, the ultimate holding company of the Company as at 31 December 2000 is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment").

2. CORPORATE UPDATE AND BASIS OF PRESENTATION

The Group reported a net loss attributable to shareholders of approximately HK\$1,356 million for the year ended 31 December 2000 (1999: HK\$2,377 million as restated) and its consolidated net current assets as at 31 December 2000 were approximately HK\$800 million (1999: HK\$5,203 million of net current liabilities as restated) and had amounts due to banks, bond holders, floating rate note holders and other financial creditors (collectively referred to as the "Financial Creditors") of approximately HK\$20,469 million (1999: HK\$7,272 million) (the "Financial Borrowings") as at that date. In prior years, the directors are of the view that a number of the Group's loan covenants, as required by certain loan agreements, have not been complied with. As at 31 December 1999, nearly all the amounts due to the Financial Creditors of HK\$7,176 million had become repayable on demand and, accordingly have been classified as current liabilities. In preparing these financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its own resources and prospects.

2. CORPORATE UPDATE AND BASIS OF PRESENTATION (CONT'D)

As has been publicised in a number of official announcements starting in 1999, the Group underwent a restructuring to reschedule the Group's Financial Borrowings (excluding Guangdong Brewery Holdings Limited and its subsidiaries and loans owing to any banks or financial institutions established in Mainland China by the Group companies that are established in Mainland China) (the "Debt Restructuring"). A banks' steering group (the "Steering Committee") was formed and negotiated with the Group the terms of formal agreements relating to the Debt Restructuring. The eventual outcome of these negotiations was dependent on the completion of the Company's acquisition of the Dongshen Water Project as further explained below. During such negotiations, the interest payments at normal contractual non-default rates continued to be made by the Group but the repayment of any loan principal was temporarily postponed.

As part of the restructuring of Guangdong Enterprises (Holdings) Limited ("GDE", the then substantial shareholder of the Company) and its subsidiaries (the "GDE Group") (the "GDE Restructuring"), on 22 December 2000, the Company completed an acquisition of an 81% equity interest in GH Water Supply (Holdings) Limited ("GH Holdings") (the "Acquisition") from GDH Limited, which is a wholly-owned subsidiary of Yue Gang Investment, a company established by the Guangdong Provincial Government in Mainland China. GH Holdings holds a 99% interest in Guangdong Yue Guang Water Supply Company Limited ("WaterCo"), which owns the Dongshen Water Supply Project that generates revenue mainly from the provision and supply of natural water to Hong Kong. The consideration of the Acquisition was satisfied by, amongst other things, transferring the Company's entire 100% interests in Guangdong Finance Co., Limited ("GD Finance") and Guangdong Timber Limited ("GD Timber") to GDH Limited; a waiver of profit guarantee claims against the GDE Group in respect of GD Finance, GD Timber and Yue Hai Hotel Zhuhai, a wholly-owned subsidiary of the Company, from the GDE Group; issuance of 2.3 billion ordinary shares of the Company to GDH Limited credited as fully paid at HK\$1.20 each; and the contingent issuance of an aggregate of 330 million ordinary shares of the Company (the "Additional Shares") to GDH Limited credited as fully paid at HK\$1.20 each (subject to certain conditions, further details of which are set out in the shareholders' circular of the Company dated 15 September 2000 in respect of the Acquisition).

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2. CORPORATE UPDATE AND BASIS OF PRESENTATION (CONT'D)

Upon the completion of the Acquisition, the Company became a subsidiary of Yue Gang Investment and the Group's Debt Restructuring was completed whereby the following principal transactions were effected:

1. The Group entered into a series of bank debt restructuring agreements (the "Bank Debt Restructuring Agreements") with its bank creditors. Pursuant to the Bank Debt Restructuring Agreements, inter alia, the Group is required to repay no less than 45% of its bank debts within approximately five years commencing from 22 December 2000 with the remaining balance being repaid/refinanced no later than 30 September 2005. The Bank Debt Restructuring Agreements will operate by way of a formal standstill, but override provisions will permit creditors to terminate the previous restructuring schemes and may revert to the terms of the existing loan agreements upon the occurrence of events of default;
2. The Group's bond holders approved the restructuring the terms of the Group's convertible bonds in accordance with the circular dated 16 November 2000 dispatched to the bond holders (the "Bond Circular") and an amendment and restatement agreement dated 22 December 2000 (the "Amendment Agreement"); and
3. The Group's floating rate note holders approved the restructuring the terms of the Group's floating rate notes ("FRNs") in accordance with the circulars dated 21 November 2000 (the "FRNs Circulars") dispatched to the floating rate note holders.

The Bank Debt Restructuring Agreements, the Bond Circular, the Amendment Agreement and the FRNs Circulars collectively referred to as the "Debt Restructuring Documents". Accordingly, the Group's Financial Borrowings as at 31 December 2000 have been reclassified according to the repayment schedule as contained in the Debt Restructuring Documents.

The directors believe that the Company's financial position will be improved from the Acquisition. The restructuring to focus on the core business of the Group and the Acquisition are collectively referred to as the "Restructuring". The directors believe that the Restructuring will assist in rebuilding international creditors' and investors' confidence in the Group, streamlining its business and enhancing the financial position of the Group.

2. CORPORATE UPDATE AND BASIS OF PRESENTATION (CONT'D)

Subsequent to the balance sheet date, the directors have informed the Steering Committee that certain of the Company's subsidiaries and the Company (as a result of these subsidiaries) have not complied with certain provisions of the Debt Restructuring Documents. The non-compliance was principally in relation to the disposal of certain assets of these subsidiaries without prior consultation with the Steering Committee. The Group, as advised by the Steering Committee, has submitted formal request for waivers and consents under the Debt Restructuring Documents and is proposing amendments to certain terms of the Debt Restructuring Documents.

In the light of the current discussions with the Steering Committee and based on the advice of the Company's financial advisor, the directors believe that the Financial Creditors will continue to support the Group and the restructuring schemes as contained in the Debt Restructuring Documents will not be terminated.

The directors were also informed that the GDE Restructuring was also completed on 22 December 2000. In the light of the completion of the GDE Restructuring, the Debt Restructuring and the Acquisition, the directors believe that the Group has sufficient working capital to satisfy its future working capital and other financial requirements prescribed in the Debt Restructuring Documents. Accordingly, these financial statements have been prepared on a going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, certain fixed assets and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Subsidiaries

Subsidiaries are companies, other than jointly controlled entities, in which the Company, directly or indirectly, controls more than half of their voting power or issued share/registered capital or controls the composition of their boards of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Jointly controlled entity

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The jointly controlled entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

The Group's share of the post-acquisition results and reserves of a jointly controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in a jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Joint venture companies

Joint venture companies comprise companies operating, directly or indirectly, in the mainland of the People's Republic of China ("Mainland China") as independent business entities. The joint venture agreements between the venturers stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the venturers either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreements.

A joint venture company is treated as:

- (i) a subsidiary, if the Group has effective control over the joint venture company; or
- (ii) a jointly controlled entity, if neither the Group nor its venture partners is in a position to exercise unilateral control over the economic activity of the joint venture company; or
- (iii) an associate, if the Group holds between 20% and 50% of the joint venture company's registered capital for long term, does not have joint control but is in a position to exercise significant influence in its management; or
- (iv) an investment security, if the Group holds less than 20% of the joint venture company's registered capital.

Contractual joint venture

A contractual joint venture refers to the rights and obligations stipulated in a contract for the development, jointly with independent third parties, of investment projects in Mainland China. Under the terms of such contracts, the Group does not hold any of the joint ventures' registered capital and the residual interests in the projects will be transferred to various parties at the end of the contractual period in accordance with the terms of the contracts. Such investments are stated at cost less accumulated amortisation, computed to write off the cost, less any residual value, of the contractual joint ventures over the underlying contract terms.

Goodwill/capital reserve on consolidation

Goodwill arising on consolidation of subsidiaries or on acquisition of associates and a jointly controlled entity represents the excess of the purchase consideration paid for subsidiaries, associates and a jointly controlled entity over the fair values ascribed to the net underlying assets acquired at the date of acquisition and is eliminated against reserves in the year of acquisition.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill/capital reserve on consolidation (CONT'D)

The capital reserve on consolidation represents the excess of the fair values ascribed to the acquired net underlying assets of subsidiaries, associates and a jointly controlled entity at the date of acquisition over the purchase consideration for such investments.

Upon disposal of subsidiaries, associates or a jointly controlled entity, the attributable amount of purchased goodwill or capital reserve on consolidation previously dealt with in reserves is realised and taken into account in arriving at the gain or loss on disposal of the investments.

Where there is an impairment in value of goodwill, it is written to its recoverable amount as estimated by the directors. The reduction in value is charged to the profit and loss account.

Operating right

The operating right represents the right to supply natural water to Hong Kong, Shenzhen and Dongguan in Mainland China, for a period of 30 years commencing from 18 August 2000. The operating right is amortised on a straight-line basis over a period of 30 years.

Other long term assets

Other long term assets include prepayment for land use rights, prepaid rental, reusable packaging materials, deferred expenses and trademarks.

Reusable packaging materials currently in use are stated at cost and amortised on a straight-line basis over a period of three years.

Deferred expenses incurred in connection with the raising of long term finance are amortised on a straight-line basis over the terms of the loans.

Prepaid rental is amortised on a straight-line basis over the period of the respective leases.

Trademarks are stated at their acquisition costs less accumulated amortisation. Amortisation is calculated on a straight-line basis to write off their costs over a period of 20 years. Expenditure incurred for the renewal of trademarks is charged to the profit and loss account in the period in which it is incurred. Where, in the opinion of the directors, the recoverable amounts of trademarks have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Reductions of recoverable amounts are charged to the profit and loss account.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment and hotel properties, are stated at cost or valuation 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 tangible fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account 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 tangible fixed asset, the expenditure is capitalised as an additional cost of the tangible fixed asset.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

Surpluses arising from the revaluation of fixed assets, other than investment and hotel properties, are dealt with in the fixed assets revaluation reserve. Revaluation deficits are charged to the profit and loss account to the extent that they exceed surpluses arising previously on individual fixed assets. On disposal of a revalued fixed asset, the relevant portion of the revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on a straight-line basis to write off the cost or valuation of each fixed asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Leasehold land held under long, medium and short term leases	Over the lease terms
Buildings	2%–20%
Tunnels, dams, water mains and reservoir	3.3%–10%
Plant and machinery	4%–25%
Furniture, fixtures and equipment	4%–32%
Leasehold improvements	Over the lease terms
Motor vehicles	6%–30%
Toll road	3.6%

Construction in progress is stated at cost, which includes the costs of construction, interest charges and other direct costs attributable to the construction.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fixed assets and depreciation (CONT'D)

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account.

Hotel properties

Hotel properties are stated at their open market values, based on their existing use, on the basis of annual professional valuations. Movements in the values of the hotel properties are dealt with in the hotel property revaluation reserve, on an individual basis, unless the applicable reserve balance is exhausted, in which case the decrease is charged to the profit and loss account as incurred. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

It is the Group's policy to maintain the hotel properties in such condition that their residual values are not currently diminished by the passage of time. The related maintenance and repairs expenditure is charged to the profit and loss account in the year in which it is incurred. The costs of significant improvements are capitalised. Accordingly, the directors consider that depreciation is not necessary due to the Group's ability to maintain or increase the hotel properties' residual values.

Upon the disposal of a hotel property, the relevant portion of the hotel property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties held on unexpired leases of over 20 years are not depreciated and are stated at their open market values, based on their existing use, on the basis of annual professional valuations. Leases of 20 years or less to expiry are amortised on a straight-line basis over the remaining terms of the leases on the then carrying value. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investment properties (CONT'D)

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

Properties under development

Properties under development intended for re-sale are stated at the lower of cost and net realisable value, which is determined by reference to the estimated selling prices less all costs to completion and costs to be incurred in selling. Cost includes all development expenditure, interest charges and other direct costs attributable to such properties.

Properties under development held for other purposes are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

When a property under development is pre-sold, the attributable profit recognised on the pre-sold portion of the properties under development is determined by the apportionment of the estimated profit over the entire period of construction to reflect the progress of the development, and is calculated by reference to the proportion of construction costs incurred up to the balance sheet date to the estimated total construction costs to completion, but is limited to the amount of sales deposits and instalments received and with due allowance for contingencies.

Capitalised borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use are capitalised until the construction/production of the relevant asset is completed, and are included in the carrying value of the asset. The capitalised interest rate represents the cost of capital from raising the related funds externally and the weighted average rate is 8% per annum for the year.

Other financial assets

Other financial assets include investment securities and other investments.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Other financial assets (CONT'D)

Investment securities are securities which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose. Investment securities are included in the balance sheet at cost less provisions for impairments in values which are other than those considered to be temporary, assessed by the directors on an individual investment basis.

When such impairments in values have occurred, the carrying amounts of the investment securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which lead to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Other investments in securities are those securities which are not classified as investment securities, and are stated at fair value, assessed by the directors, at the balance sheet date. Unrealised holding gains or losses arising on revaluation of securities to fair value are dealt with in the profit and loss account.

The profit or loss on disposal of investment securities and other investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the security.

Inventories

Inventories are stated at the lower of cost, on the weighted average basis, and net realisable value after making due allowance for any obsolete or slow-moving items. In the case of work in progress and manufactured finished goods, cost comprises direct materials, direct labour, interest charges and an appropriate portion of overheads. Net realisable value is based on estimated selling prices less all costs to completion and costs to be incurred in selling and distribution.

Construction/installation contracts

Construction/installation revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Construction/installation costs incurred comprises direct materials, direct labour, interest charges and an appropriate proportion of variable and fixed construction overheads.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Construction/installation contracts (CONT'D)

Revenue from fixed price construction/installation contracts is recognised on the percentage of completion method, measured by reference to the costs incurred to date as compared to the total costs to be incurred under the construction/installation contract and/or independent quantity surveyor's assessment reports.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where progress billings exceed construction/installation costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Where construction/installation costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and amortised over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Convertible bond

Convertible bond is stated at cost adjusted for accruals of the maximum redemption premium, on a time proportion basis, over the period from the date of issue to the date of redemption. When the convertible bond is redeemed, purchased and cancelled, or converted prior to its maturity, any excessive provision of redemption premium will be recognised as income in the profit and loss account.

Interest on the convertible bond and accruals of the redemptions premium are recognised as expenses in the period in which they are incurred.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the subsidiaries, associates and a jointly controlled entity operating overseas or in Mainland China are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Pension costs

The Company and certain of its subsidiaries operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Company and certain of its subsidiaries operated defined contribution pension schemes for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefit scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable to the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000 this scheme was terminated.

For certain subsidiaries of the Company in Mainland China, contributions to government retirement benefit schemes are charged to the profit and loss account as incurred.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, properties, fixed assets and investments (collectively "goods and investments"), when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods and investments sold;
- (b) on pre-sold properties under development, based on the stage of development and when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined. The stage of development is calculated with reference to the proportion of construction costs incurred to date to the estimated total construction costs to completion;

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue recognition (CONT'D)

- (c) from the sale of electricity, based on the consumption recorded by meters read during the year;
- (d) from the sale of water to the purchasers, or when the actual volume of water supplied to Hong Kong is less than the contracted volume of water supplied, revenue is recognised according to the contracted volume;
- (e) from the rendering of hotel and tour services, based on the period in which such services are rendered;
- (f) value of construction/installation work performed, based on the stage of completion of the construction/installation work, provided that this and the costs incurred, as well as the estimated costs to completion, can be measured reliably. The stage of completion of the construction/installation work performed is established by reference to the costs incurred to date as compared to the total costs to be incurred under the construction/installation contract and/or independent quantity surveyor's assessment reports;
- (g) income from joint ventures, when the Group has been guaranteed a minimum rate of return on its investments in joint ventures, is accrued at the minimum rate of return, and any return in excess of the minimum is recognised in the year in which it is received, or has become receivable;
- (h) rental and other services, on an accrual basis;
- (i) toll revenue, net of business tax, on a cash receipt basis;
- (j) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (k) dividends and investment income, when the right to receive payment is established.

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4. PRIOR YEAR ADJUSTMENT

In prior years, pre-operating expenses of the Group were capitalised and amortised from the date of commencement of operation on a straight-line basis. During the year, the Group adopted the revised Statements of Standard Accounting Practice 2.101 "Presentation of Financial Statements" as subsequently confirmed by Interpretation 9 "Accounting for Pre-operating Costs" issued by the Hong Kong Society of Accountants in April 2000 and pre-operating expenses are now expensed when incurred. Accordingly, the comparative amounts for 1999, including loss per share, and accumulated losses brought forward as at 1 January 1999 have been restated. The principal effects of the adjustments are as follows:

- (i) An increase in the opening accumulated losses for 1999 by HK\$40,330,000 to reflect the changes in the Group's losses for periods prior to 1999; and
- (ii) A decrease in the Group's net loss attributable to shareholders for the year ended 31 December 1999 by HK\$15,829,000 and accumulated losses as at that date by HK\$24,501,000.

There is no tax effect in respect of the prior year adjustment.

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5. TURNOVER AND REVENUE

Turnover represents interest income from the provision of credit facilities to customers; proceeds from the sale of investments; rental income; revenue from hotel ownership and operations; income generated from the provision of tour and travel-related businesses; the invoiced value of electricity and water sold; income from sales of properties, investment properties and properties under development; income from infrastructure and energy projects; the net invoiced value of manufactured products sold; the value of construction/installation work performed; the gross invoiced revenue arising from the trading business and retail sales; commission income; agency and consultancy fees; and toll revenue, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	2000 HK\$'000	1999 HK\$'000
Sale of goods	2,660,117	2,994,033
Sale of water and electricity	637,662	592,165
Sale of properties, investment properties and properties under development	510,766	500,690
Hotel, tour service and rental income	969,079	916,989
Rendering of other services	11,184	64,564
Toll revenue	9,029	5,606
Investment, interest and dividend income	72,723	193,599
Value of construction/installation work performed	77,424	91,796
	<u>4,947,984</u>	<u>5,359,442</u>

6. DISCONTINUATION OF/DISCONTINUING OPERATIONS

- (i) In preparing the financial statements for the prior year, the Directors considered that there would be significant curtailment of the Group's operations in curtain wall business in the foreseeable future, which would involve an orderly winding down of the operations of certain principal subsidiaries of Guangdong Building Industries Limited ("GD Building", a 57.16% listed subsidiary of the Company). Accordingly, the Group's goodwill arising on acquisition of the GD Building and its subsidiaries (hereinafter to be referred as the "GD Building Group") was released to the profit and loss account in 1999 as loss from discontinuing operations.

6. DISCONTINUATION OF/DISCONTINUING OPERATIONS (CONT'D)

Subsequent to the balance sheet date, on 10 February 2001, the Company entered into a conditional sale and purchase agreement (the "Building Agreement") with Hi Sun Limited ("Hi Sun"), an independent third party, for the disposal of the Company's entire 57.16% issued share capital in GD Building at a consideration of HK\$31,483,000. Pursuant to the Building Agreement, the Group agreed to waive the net amounts due from the GD Building Group which was approximately HK\$358 million (which included certain bank loans of the GD Building Group of approximately HK\$185 million taken up by the Company by means of issuance of Notes Payable to the relevant bank creditors) as at 3 March 2001 and to assume a contingent liability of the GD Building Group of approximately HK\$20 million as at 22 December 2000. The aforesaid contingent liability is taken by the Group as at 31 December 2000 and is included in note 48. As at 31 December 2000, the goodwill and accumulated losses of the GD Building Group attributable to and taken up by the Group in the profit and loss account were in excess of the Group's cost of investment of HK\$73 million and receivable of HK\$358 million.

On 3 March 2001, the Building Agreement was completed and Guangdong Building ceased to be a subsidiary of the Company. The directors believe that there will be a gains on disposal of the Company's entire interest in GD Building.

In the year ended 31 December 2000, the curtain wall business contributed HK\$77,424,000 (1999: HK\$108,916,000) to the Group's turnover and accounted for HK\$102,400,000 (1999: HK\$312,154,000) of the Group's loss before tax.

- (ii) The Group disengaged from its cement operations in the prior year. The current year loss attributable to these discontinued operations represented the provision made by the Group for taking up additional liabilities arising from the discontinuance. In the year ended 31 December 1999, the cement operations contributed HK\$131,428,000 to the Group's turnover and accounted for HK\$386,473,000 of the Group's loss before tax.
- (iii) On 22 December 2000, the Group transferred its entire interest in GD Timber to GDH Limited as part of the consideration for the Acquisition and effectively discontinued its timber operations. In the year ended 31 December 2000, the timber operations contributed HK\$148,352,000 (1999: HK\$124,081,000) to the Group's turnover and accounted for HK\$123,206,000 (1999: HK\$152,764,000) of the Group's loss before tax.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2000 HK\$'000	1999 HK\$'000 (Restated)
Cost of inventories sold	2,154,250	2,857,737
Depreciation:		
Owned fixed assets	307,395	373,068
Leased fixed assets	433	625
	307,828	373,693
Less: Depreciation capitalised to contract work in progress	(231)	(237)
	307,597	373,456
Amortisation of investments in contractual joint ventures	1,459	18,969
Amortisation of deferred expenses	29,096	27,579
Amortisation of reusable packaging materials	3,892	11,668
Amortisation of the operating right	13,259	—
Amortisation of trademarks	2,000	2,000
Staff costs (excluding directors' remuneration):		
Wages and salaries	401,713	458,191
Pension contributions	20,506	34,189
Less: Forfeited contributions	(2,827)	(1,039)
Net pension contributions	17,679	33,150
	419,392	491,341
Operating lease expenses:		
Land and buildings	13,720	37,385
Plant and machinery	789	2,890
	14,509	40,275
Auditors' remuneration	7,660	7,840
Professional fees incurred in connection with the Group's restructuring	87,395	67,127

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

7. LOSS FROM OPERATING ACTIVITIES (CONT'D)

	2000 HK\$'000	1999 HK\$'000 (Restated)
<i>(Gains)/expenses included in other operating expenses:</i>		
Loss on disposal of an associate	—	803
Provisions against construction/installation contracts receivable	5,918	130,755
Investment property revaluation deficit	111,673	41,857
Hotel property revaluation deficit	309,442	—
Write back of deficit arising on previous revaluation of hotel properties	—	(13,323)
Provisions for impairments in values of investment securities	17,608	1,143
Unrealised holding loss of other investments	22,614	20,713
Provisions for impairments of trademarks	26,000	—
Provisions against properties held for sale	94,602	60,000
Provisions for diminutions in values of properties under development	82,447	104,228
Provisions against investments in and loans to associates	51,135	54,921
Provisions against inventories	7,748	40,461
Provisions for doubtful debts	177,703	318,514
Less: Write back of provision against loan receivables	(36,326)	—
Recovery from possession of shares in a subsidiary (note 51(a)(vi))	(12,697)	—
	128,680	318,514
Provision against an amount due from a fellow subsidiary	56,156	—
Provision for impairments in values of fixed assets	29,619	237,523
Release of goodwill in respect of impairment in values of investments in subsidiaries and associates	364,977	553,841
Provision against a contractual joint venture	—	153,151
Provisions against deconsolidated subsidiaries	—	306,122
Less: Write back of provision for a deconsolidated subsidiary (note 50)	(66,412)	—
Loss on disposal of fixed assets, net	4,971	—

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

7. LOSS FROM OPERATING ACTIVITIES (CONT'D)

	2000 HK\$'000	1999 HK\$'000 (Restated)
<i>and after crediting:</i>		
Gross rental income from investment properties	239,424	269,712
Less: Outgoings	(12,824)	(16,046)
Net rental income from investment properties	226,600	253,666
Other rental income, net	7,985	13,501
Gain on disposal of a subsidiary	—	2,999
Gain on disposal of fixed assets, net	—	540
Gain on disposal of investment properties	566	2,477
Gain on disposal of an associate	15,066	—
Gain on cancellation of convertible bonds	—	3,662
Gain on disposal of a contractual joint venture (note 17)	26,955	—
Dividend income from:		
Listed investments	—	140
Unlisted investments	—	1,765
Interest income	141,953	197,440
Exchange gains, net	2,359	6,809

The amount of forfeited pension scheme contributions available at the current and prior year ends to reduce contributions in future years was not significant.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

- (a) Directors' remuneration disclosed pursuant to the Hong Kong Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive directors	—	543
Independent non-executive directors	799	241
	799	784
Other emoluments:		
Salaries, allowances and benefits in kind	5,278	13,956
Bonuses paid and payable	—	—
Pension scheme contribution	176	489
Less: forfeited contribution	—	—
Net pension scheme expenses	176	489
Total directors' remuneration	6,253	15,229

The remuneration of the directors (excluding alternate directors#) fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	24	9
HK\$1,000,001 – HK\$1,500,000	—	3
HK\$1,500,001 – HK\$2,000,000	—	4
HK\$4,000,001 – HK\$4,500,000	—	1
	24	17

There were two alternate directors in 1999 and there was no alternate director during the year.

* Neither remuneration nor fee was paid to any of the alternate directors.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONT'D)

- (a) Directors' remuneration disclosed pursuant to the Hong Kong Listing Rules and Section 161 of the Companies Ordinance is as follows: (CONT'D)

In the prior year, 6,350,000 options to acquire Ordinary Shares in the Company were granted to certain directors of which, 6,000,000 options, shall be exercised from 2 October 1999 to 1 October 2004, (both days inclusive) to subscribe for 6,000,000 Ordinary Shares at a price of HK\$0.92 per Ordinary Share. The remaining 350,000 options, shall be exercised from 18 February 2000 to 17 February 2005 (both days inclusive), to subscribe for 350,000 Ordinary Shares at a price of HK\$1.0368 per Ordinary Share. In the absence of a readily available market value for such options, the directors are unable to arrive at an accurate assessment of the value of these options.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

- (b) The five highest paid employees of the Group during the year included one director who resigned during the year and remains as an employee of the Company (1999: three employees), details of whose remuneration while as a director are included in note 8(a) above. The details of the remuneration of the abovesaid former director for the whole year and the other four employees (1999: two employees) are as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries, allowance and other benefits in kind	6,762	4,316
Bonuses paid and payable	1,331	537
Pension scheme contributions	190	—
	8,283	4,853

The remuneration of the abovesaid former director and the other four employees (1999: two employees) fell within the following bands:

	Number of individual	
	2000	1999
HK\$1,000,001 – HK\$1,500,000	2	—
HK\$1,500,001 – HK\$2,000,000	1	—
HK\$2,000,001 – HK\$2,500,000	2	1
HK\$2,500,001 – HK\$3,000,000	—	1
	5	2

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONT'D)

No value is included in the remuneration of the highest paid employees in respect of share options granted by the Company in the prior year because in the absence of a readily available market value for the options on the Ordinary Shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

9. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings repayable:		
Within five years	544,865	527,700
Over five years	30,255	4,603
	575,120	532,303
Less: Interest capitalised to construction in progress, properties under development and contract work in progress	(650)	(7,270)
Interest expense charged to cost of sales	(67,957)	(60,878)
	506,513	464,155
Finance lease charges	78	110
Finance charges for the Group's debt restructuring	—	62,900
Provision for convertible bonds redemption premium	65,776	66,266
Total finance costs charged for the year	572,367	593,431

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on assessable profits of subsidiaries of the Company in Mainland China and overseas have been calculated at the rate of tax applicable to those subsidiaries based on existing legislation, interpretations and practices in respect thereof.

	2000 HK\$'000	1999 HK\$'000
Company and subsidiaries:		
Hong Kong	2,845	4,714
Mainland China	121,347	58,874
Over-provision in prior year	(2,012)	(12,424)
Deferred tax	(430)	—
	121,750	51,164
Hong Kong profits tax rebate	—	(2,908)
	121,750	48,256
Share of tax attributable to:		
Jointly controlled entity	907	3,227
Associates	4,421	82
Tax charge for the year	127,078	51,565

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss of the Group from ordinary activities attributable to shareholders included a loss in the financial statements of the Company of HK\$116,150,000 (1999: a loss of HK\$2,331,208,000).

Profit retained/(loss accumulated) for the year are as follows:

	2000 HK\$'000	1999 HK\$'000 (Restated)
The Company and subsidiaries	(1,374,669)	(2,435,965)
Associates	3,877	51,236
Jointly controlled entity	14,490	7,376
	<u>(1,356,302)</u>	<u>(2,377,353)</u>

12. DIVIDEND

	2000 HK\$'000	1999 HK\$'000
3¼% redeemable cumulative convertible preference shares	<u>22,020</u>	<u>21,916</u>

The directors do not recommend the payment of any dividend for the year (1999: Nil).

A dividend on the 3¼% redeemable cumulative convertible preference shares in respect of the semi-annual period from 7 October 2000 to 6 April 2001 will not be paid on the due date, 7 April 2001. Such unpaid dividends will be accumulated and paid in preference to any dividend in respect of the ordinary shares of the Company. The total accrued preference share dividends at 31 December 2000 were HK\$49,096,000 (1999: HK\$27,076,000).

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

13. LOSS PER SHARE

The calculation of the basic loss per share for the two years ended 31 December 2000 is based on the following data:

	2000 HK\$'000	1999 HK\$'000 (Restated)
Loss:		
Net loss attributable to shareholders	(1,356,302)	(2,377,353)
Less: Provision for preference share redemption premium	(53,613)	(53,359)
3¼% redeemable cumulative convertible preference share dividend	(22,020)	(21,916)
Loss for the purpose of basic loss per share	(1,431,935)	(2,452,628)
Number of shares:		
Weighted average number of ordinary shares in issue for the purpose of basic loss per share	2,630,265,335	2,561,636,920

No diluted loss per share is presented for the two years ended 31 December 2000 as the dilution effects arising from the exercise of convertible bonds, share options and convertible preference shares, and the contingent issuance of the Additional Shares of the Company are anti-dilutive.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

14. FIXED ASSETS

Group

	Hotel properties HK\$'000	Land and buildings HK\$'000	Tunnels, dams, water mains and reservoir HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Toll road HK\$'000	Construc- tion in progress HK\$'000	Total HK\$'000
Cost/valuation:										
At beginning of year	2,428,614	1,983,187	—	2,304,965	305,973	169,721	187,530	223,443	505,775	8,109,208
Revaluation deficit	(476,262)	—	—	—	—	—	—	—	—	(476,262)
Additions on acquisition of subsidiaries	—	3,321,288	1,488,023	209,584	41	—	—	—	37,148	5,056,084
Exchange adjustments	2,187	4,398	—	7,513	408	244	325	841	1,884	17,800
Additions	2,651	16,618	—	34,089	12,479	3,491	16,629	—	72,040	157,997
Reclassifications	—	40,187	—	17,287	—	—	—	—	(57,474)	—
Transfer from investment properties	—	106,000	—	—	—	—	—	—	—	106,000
Disposals	—	(8,314)	—	(13,627)	(17,803)	(18,286)	(20,392)	—	(18,224)	(96,646)
Impairment	—	(20,665)	—	(8,921)	(33)	—	—	—	—	(29,619)
Transfer out as a result of the Acquisition	—	(155,058)	—	(210,672)	(3,307)	(1,646)	(7,423)	—	(333)	(378,439)
At 31 December 2000	1,957,190	5,287,641	1,488,023	2,340,218	297,758	153,524	176,669	224,284	540,816	12,466,123
At cost	—	5,084,509	1,488,023	2,340,218	297,758	153,524	176,669	224,284	540,816	10,305,801
At 1995 valuation	—	18,700	—	—	—	—	—	—	—	18,700
At 1996 valuation	—	27,777	—	—	—	—	—	—	—	27,777
At 1997 valuation	—	31,242	—	—	—	—	—	—	—	31,242
At 1998 valuation	—	19,413	—	—	—	—	—	—	—	19,413
At 1999 valuation	—	106,000	—	—	—	—	—	—	—	106,000
At 2000 valuation	1,957,190	—	—	—	—	—	—	—	—	1,957,190
	1,957,190	5,287,641	1,488,023	2,340,218	297,758	153,524	176,669	224,284	540,816	12,466,123

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

14. FIXED ASSETS (CONT'D)

Group

	Hotel properties HK\$'000	Land and buildings HK\$'000	Tunnels, dams, water mains and reservoir HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Toll road HK\$'000	Construc- tion in progress HK\$'000	Total HK\$'000
Accumulated depreciation:										
At beginning of year	—	269,237	—	681,446	218,074	102,215	104,284	7,980	—	1,383,236
Additions on acquisition of subsidiaries	—	38,093	17,089	8,263	—	—	—	—	—	63,445
Exchange adjustments	—	516	—	1,750	262	160	156	30	—	2,874
Provided during the year	—	69,439	1,329	158,210	28,412	17,461	24,967	8,010	—	307,828
Disposals	—	(616)	—	(4,278)	(14,204)	(11,633)	(16,461)	—	—	(47,192)
Transfer out as a result of the Acquisition	—	(12,065)	—	(50,286)	(2,241)	(706)	(5,252)	—	—	(70,550)
At 31 December 2000	—	364,604	18,418	795,105	230,303	107,497	107,694	16,020	—	1,639,641
Net book value:										
At 31 December 2000	1,957,190	4,923,037	1,469,605	1,545,113	67,455	46,027	68,975	208,264	540,816	10,826,482
At 31 December 1999	2,428,614	1,713,950	—	1,623,519	87,899	67,506	83,246	215,463	505,775	6,725,972

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

14. FIXED ASSETS (CONT'D)

The net book values of the Group's hotel properties and land and buildings as at 31 December 2000 are analysed as follows:

	Hotel properties		Land and buildings	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term leases in Hong Kong	930,404	1,226,683	544,759	473,052
Medium term leases in Hong Kong	433,016	472,204	42,644	57,906
Long term leases in Mainland China	—	—	54,568	59,573
Medium term leases in Mainland China	593,770	729,727	4,275,940	1,118,115
Short term lease in Mainland China	—	—	1,495	1,647
Freehold in other location	—	—	3,631	3,657
	1,957,190	2,428,614	4,923,037	1,713,950

Certain of the Group's land and buildings in Hong Kong were reclassified from investment properties during the five years ended 31 December 1996, 1997, 1998, 1999 and 2000, at their then carrying amounts of HK\$18,700,000, HK\$27,777,000, HK\$31,242,000, HK\$19,413,000 and HK\$106,000,000, respectively, as valued on 31 December 1995 by Knight Frank & Kan, on 31 December 1996 and 1997 by C.Y. Leung & Company Limited, and on 31 December 1998 and 1999 by Francis Lau & Co., (Surveyors) Ltd. (a member firm of RHL International Property Consultants), independent professional valuers, on an open market basis.

The hotel properties were revalued by independent professional valuers, RHL Appraisal Limited, on an open market basis, based on their existing use, at HK\$1,957,190,000 as at 31 December 2000 (1999: HK\$2,428,614,000).

The deficit of HK\$476,262,000 arising from this revaluation in respect of the Group's hotel properties, after charging an amount of HK\$166,820,000 to the hotel property revaluation reserve, has been charged to the profit and loss account.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

14. FIXED ASSETS (CONT'D)

If the carrying values of the Group's revalued properties had been reflected in these financial statements at cost less accumulated depreciation, the following amounts would have been shown:

	2000 HK\$'000	1999 HK\$'000
Hotel properties	2,438,613	2,433,775
Land and buildings	4,909,902	1,700,815
At 31 December	7,348,515	4,134,590

The net book value of assets held under finance leases included in the total amount of fixed assets at 31 December 2000 amounted to HK\$26,000 (1999: HK\$459,000).

Company

	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	12,039	13,456	1,515	27,010
Additions	3,331	2,148	—	5,479
Disposals	(4,550)	(5,306)	—	(9,856)
At 31 December 2000	10,820	10,298	1,515	22,633
Accumulated depreciation:				
At beginning of year	9,900	760	1,392	12,052
Provided during the year	1,729	330	70	2,129
Disposals	(4,170)	(327)	—	(4,497)
At 31 December 2000	7,459	763	1,462	9,684
Net book value:				
At 31 December 2000	3,361	9,535	53	12,949
At 31 December 1999	2,139	12,696	123	14,958

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2000	1999
	HK\$'000	HK\$'000
Balance at beginning of year	537,568	783,756
Additions, at cost	273,392	390,918
Interest capitalised	—	5,742
Transfer to properties for sale	(323,282)	(515,535)
Disposals of subsidiaries	—	(25,401)
Provisions for diminutions in values (note 7)	(82,447)	(104,228)
Exchange adjustments	1,725	2,316
Balance at 31 December	406,956	537,568
Less: Portion classified as current assets	(366,118)	(478,751)
Non-current portion	40,838	58,817

The net book value of the Group's properties under development is analysed as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Long term leases in Mainland China	241,443	259,328
Medium term leases in Mainland China	124,675	237,402
Long term lease in Hong Kong	40,838	40,838
At 31 December	406,956	537,568

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

16. INVESTMENT PROPERTIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Balance at beginning of year, at valuation	3,234,067	3,510,396
Arising on acquisition of subsidiaries	208,500	—
Additions, at cost	4,749	24,232
Transfer from fixed assets	—	3,863
Transfer to fixed assets	(106,000)	(19,413)
Transfer to properties held for sale	(68,777)	—
Disposals	(20,000)	(26,123)
Revaluation deficit	(111,673)	(41,857)
Reclassification in respect of deconsolidated subsidiaries	—	(221,330)
Transfer out as a result of the Acquisition	(247,070)	—
Exchange adjustments	459	4,299
Balance at 31 December, at valuation	2,894,255	3,234,067
Analysis by geographical location:		
Freehold properties situated in Thailand	23,335	27,880
Long term leasehold properties situated in Hong Kong	489,510	802,567
Medium term leasehold properties situated in Hong Kong	7,870	169,290
Long term leasehold properties situated in Mainland China	29,000	36,000
Medium term leasehold properties situated in Mainland China	2,344,540	2,198,330
At 31 December	2,894,255	3,234,067

The Group's investment properties were revalued by independent professional valuers, RHL Appraisal Limited, on an open market basis, based on their existing use, at 31 December 2000.

The deficit of HK\$111,673,000 (1999: HK\$41,857,000) arising from this revaluation has been charged to the profit and loss account.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

17. CONTRACTUAL JOINT VENTURES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted investments, at cost	271,152	371,253
Less: Accumulated amortisation	(77,975)	(108,840)
	193,177	262,413
Loan to a contractual joint venture	135,345	135,345
Amounts due from a contractual joint venture	70,354	80,271
	398,876	478,029
Less: Provision against carrying amount of a contractual joint venture	(153,151)	(153,151)
At 31 December	245,725	324,878
Less: Portion classified as current assets	(32,567)	(23,149)
Non-current portion	213,158	301,729

In 1999, the Group's unlisted investments in contractual joint ventures represented cost of investments of approximately HK\$271 million (US\$35 million) and HK\$100 million in 中山火力發電廠 ("Zhongshan Power Plant") and a section of toll road in Zhongshan, Mainland China, respectively. The tenure of the contractual joint ventures will expire in 2013.

During the year, the Group disposed of its investment in a contractual joint venture, representing a section of toll road, at RMB100,000,000 (including a dividend receivable from the toll road of RMB5,268,000) and a gain of HK\$26,955,000 has been credited to the profit and loss account.

The loan to a contractual joint venture is secured by the pledge of certain fixed assets of the contractual joint venture to the Group as security. The loan bears interest at 14.25% per annum and is repayable by 10 equal annual instalments commencing from April 1998.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

18. OTHER FINANCIAL ASSETS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Investment securities, at cost				
Listed:				
Outside Hong Kong	—	3,992	—	—
Less: Provisions for impairments in value	—	(3,863)	—	—
	—	129	—	—
Unlisted:				
Hong Kong	—	1,200	—	—
Outside Hong Kong	174,897	181,842	52,960	56,762
	174,897	183,042	52,960	56,762
Less: Provisions for impairments in value	(109,739)	(96,566)	(4,613)	(3,930)
	65,158	86,476	48,347	52,832
Other investments, at fair value				
Listed:				
Hong Kong	7,546	21,848	7,442	20,162
Outside Hong Kong	—	985	—	—
	7,546	22,833	7,442	20,162
Unlisted:				
Outside Hong Kong	27,544	38,204	22,595	32,200
Total other financial assets at 31 December	100,248	147,642	78,384	105,194
Less: Other investments classified as current assets, at fair value	(30,160)	(55,587)	(30,037)	(52,362)
Non-current portion	70,088	92,055	48,347	52,832
Listed investments, at market value:				
Hong Kong	7,546	22,011	7,442	20,162
Outside Hong Kong	—	1,636	—	—
At 31 December	7,546	23,647	7,442	20,162

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

18. OTHER FINANCIAL ASSETS (CONT'D)

Included in the unlisted investment securities at 31 December 2000 was a 24.5% interest in Pak Kong Transco Limited, a company established in Mainland China with an investment in the New Pak Kong Bridge in Qingyuan, Mainland China, of HK\$48,347,000 (RMB49,764,000). In the opinion of the directors, the Group does not exercise significant influence over the financial and operating policies of Pak Kong Transco Limited and accordingly, this investment has not been equity accounted for as an associate.

19. OPERATING RIGHT

	Group HK\$'000
Cost:	
Additions on acquisition of subsidiaries and at 31 December 2000	14,798,611
Accumulated amortisation:	
Additions on acquisition of subsidiaries	169,733
Provided during the year subsequent to acquisition	13,259
At 31 December 2000	182,992
Net book value:	
At 31 December 2000	14,615,619
At 31 December 1999	—

WaterCo, a 80.19% owned subsidiary of the Company as at 31 December 2000, acquired the operating right from Yue Gang Investment to operate a water supply business to Hong Kong, Shenzhen and Dongguan in Mainland China, for a period of 30 years commencing from 18 August 2000. The operating right also grants WaterCo a right and licence to take up to 2.423 billion cubic meters of natural water annually from the Dongjiang River at Qiaotou Township in Dongguan, the exclusive right to supply natural water to Hong Kong and the non-exclusive right to supply natural water to Shenzhen and Dongguan for a period of 30 years commencing from 18 August 2000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

20. OTHER LONG TERM ASSETS

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		
Prepaid rental (Note (a))	402,855	—	—	—
Prepayment for land use rights (Note (b))	452,773	—	—	—
Trademarks	7,000	35,000	—	—
Other deferred expenses	28,883	44,949	11,267	21,983
Reusable packaging materials	12,025	23,267	—	—
	903,536	103,216	11,267	21,983

Note: (a) Prior to the establishment of WaterCo on 18 August 2000, all fixed assets used for the existing exposed water supply channels and canals were owned by Yue Gang Investment. Following the completion of a "Phase IV Renovation Project" in 2003, part of the existing fixed assets, including land, which are being used for the existing exposed water supply channels and canals will be replaced by the closed water system. Accordingly, the relevant fixed assets and the land which would not be used after the completion of the closed water supply system, are leased by WaterCo instead of being acquired from Yue Gang Investment.

The amount represents prepaid rental for leasing these fixed assets, including land used for the existing exposed water supply channels and canals from Yue Gang Investment for the period from 18 August 2000 to the completion date of the Phase IV Renovation Project.

(b) The amount represents a prepayment for the right to use land for the Phase IV Renovation Project for a period of 30 years commencing from 18 August 2000. The Phase IV Renovation Project will transform most of the existing exposed water supply channels and canals into an enclosed and protected water supply system in order to prevent contamination of water as it flows through the water supply system. The renovation work commenced in August 2000 and is expected to be completed by the end of 2003.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

21. DUE FROM A RELATED COMPANY

Particulars of an amount due from a related company of the Company disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Name	31 December 2000 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2000 HK\$'000
Eken Development Limited, owned by Tang Zhen*	1,713	1,805	1,805

* Senior executive of the Company

The balance is secured by a leasehold property, bears interest at 2% below Hong Kong prime rate and is repayable by monthly instalments over a maximum period of 12 years from the balance sheet date.

The advance, which was made to facilitate the senior executive's purchases of residential premises as his main residence, was made in accordance with the Company's employees home purchase scheme.

22. CASH AND BANK BALANCES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and cash equivalents	2,025,407	1,772,757	501,831	401,747
Pledged bank deposits*	66,264	164,661	8	104,936
At 31 December	2,091,671	1,937,418	501,839	506,683

* Pledged to banks as security for banking facilities

Included in the cash and bank balances as at 31 December 2000 was an amount of HK\$741 million held by the Company and certain of its subsidiaries which are subject to certain arrangements of the Debt Restructuring. Pursuant to the Debt Restructuring Documents, the Company and these subsidiaries are required to reserve cash and bank balances, from time to time, up to a maximum of HK\$477 million in total which is applied to be used as working capital for their operations. The remaining portion of their cash and bank balances of HK\$264 million will be applied to, amongst other things, the payment of interest and repayment of bank borrowings.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

23. TRADE RECEIVABLES

As at 31 December 2000, the ageing analysis of the Group's trade receivables was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Within 3 months	734,048	574,185
More than 3 months and less than 6 months	68,043	96,483
More than 6 months and less than 1 year	72,078	97,530
More than 1 year	662,335	777,423
	1,536,504	1,545,621
Less: Provisions for doubtful debts	(733,098)	(849,500)
	803,406	696,121

Credit terms

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable ranging from 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

24. CONSTRUCTION/INSTALLATION CONTRACTS RECEIVABLE

	Group	
	2000	1999
	HK\$'000	HK\$'000
Amounts due from contract customers	5,045	47,163
Contract costs incurred plus recognised profits less recognised losses to date	100,569	357,383
Less: Progress billings	(95,524)	(310,220)
	5,045	47,163

At 31 December 2000, retentions held by customers for contract works, included in trade receivables above (see note 23), amounted to HK\$9,847,000 (1999: HK\$38,689,000).

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

25. LOAN RECEIVABLES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Secured	2,858	271,083
Unsecured	36,966	42,921
At 31 December	39,824	314,004
Repayable:		
Within twelve months from balance sheet date	8,567	132,349
Beyond twelve months from balance sheet date	31,257	181,655
	39,824	314,004

26. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	205,844	187,405
Work in progress	95,005	112,254
Finished goods	183,153	167,499
Properties held for sale	281,123	306,894
At 31 December	765,125	774,052

At 31 December 2000, the carrying amount of inventories carried at net realisable value was HK\$205,110,000 (1999: HK\$157,126,000).

27. DUE FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts due from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

28. DUE FROM A THEN MAJOR SHAREHOLDER AND ITS SUBSIDIARIES

The prior year's balance represented the net amount of loans and accrued interest due from the GDE Group after a provision of HK\$83,265,000.

Included in the gross amounts due from the GDE Group were unsecured loans of HK\$166,681,000, which bore interest at rates ranging from 2% to 2.5% above United States prime rate per annum. The remaining portion of the amounts due from the GDE Group represented interest receivable.

The balance of HK\$97,935,000 million, after the provision of HK\$83,265,000, as at 22 December 2000 was transferred out as a result of the Acquisition.

29. DUE FROM/(TO) A FELLOW SUBSIDIARY

As at 31 December 2000, the amount due from a fellow subsidiary represented an unsecured loan of HK\$119,300,000, net of a provision of HK\$56,156,000, which bore interest at rates ranging from London Inter Bank Offer Rate ("LIBOR") plus 2.375% per annum to Hong Kong Inter Bank Offer Rate ("HIBOR") plus 2.375% per annum and was repayable in accordance with the terms set out in the bank debt restructuring agreement of that fellow subsidiary.

As at 31 December 2000, the amount due to a fellow subsidiary was unsecured, bore interest at Hong Kong prime rate plus 2% per annum and had no fixed terms of repayment.

30. TRADE PAYABLES

As at 31 December 2000, the ageing analysis of the Group's trade payables was as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Within 3 months	260,437	298,141
More than 3 months and less than 6 months	8,605	14,379
More than 6 months and less than 1 year	16,393	7,732
More than 1 year	202,109	136,657
	<u>487,544</u>	<u>456,909</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

31. BANK AND OTHER INTEREST-BEARING BORROWINGS

Group

	Notes	2000			1999		
		Current	Non-current	Total	Current	Non-current	Total
		liabilities	liabilities		liabilities	liabilities	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans, overdrafts and other loans	32	838,041	3,297,949	4,135,990	5,113,391	90,682	5,204,073
Bonds	33	74,162	1,239,744	1,313,906	1,244,404	—	1,244,404
Floating rate notes	34	46,609	780,117	826,726	823,811	—	823,811
Notes Payable and GH Holdings Debts	35	147,068	14,045,422	14,192,490	—	—	—
Due to minority shareholders of subsidiaries	38	3,078	112,604	115,682	4,355	65,200	69,555
Due to subsidiaries of a then major shareholder	39	—	—	—	22,187	—	22,187
At 31 December		1,108,958	19,475,836	20,584,794	7,208,148	155,882	7,364,030

Company

	Notes	2000			1999		
		Current	Non-current	Total	Current	Non-current	Total
		liabilities	liabilities		liabilities	liabilities	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans, overdrafts and other loans	32	82,187	1,375,773	1,457,960	1,558,688	—	1,558,688
Bonds	33	11,873	197,188	209,061	209,061	—	209,061
Floating rate notes	34	46,609	780,117	826,726	823,811	—	823,811
Notes Payable	35	10,848	181,642	192,490	—	—	—
At 31 December		151,517	2,534,720	2,686,237	2,591,560	—	2,591,560

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

32. BANK LOANS, OVERDRAFTS AND OTHER LOANS

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans and overdrafts:				
Secured	1,451,857	865,558	284,667	420,728
Unsecured	2,684,133	4,333,819	1,173,293	1,137,960
	4,135,990	5,199,377	1,457,960	1,558,688
Other loans, unsecured	—	4,696	—	—
At 31 December	4,135,990	5,204,073	1,457,960	1,558,688

The maturities of the above amounts are as follows:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year or on demand	838,041	5,113,391	82,187	1,558,688
In the second year	620,854	82,910	206,624	—
In the third to fifth years, inclusive	2,677,095	7,772	1,169,149	—
	4,135,990	5,204,073	1,457,960	1,558,688
Less: Portion classified as current liabilities	(838,041)	(5,113,391)	(82,187)	(1,558,688)
Non-current portion	3,297,949	90,682	1,375,773	—

Included in the unsecured other loans as at 31 December 1999 was an amount of HK\$1,873,000 borrowed by GD Timber's subsidiary, which bore interest at 8% per annum. The balance of HK\$3,104,000 borrowed by GD Timber's subsidiary as at 22 December 2000 was transferred out as a result of the Acquisition.

The remaining portion of the unsecured other loan of HK\$2,823,000 as at 31 December 1999 bore interest at rates ranging from 6% per annum to 12% per annum and was repaid during the year.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

32. BANK LOANS, OVERDRAFTS AND OTHER LOANS (CONT'D)

As at 31 December 1999, the Group had not complied with certain specific financial covenants under certain loan arrangements in respect of credit facilities granted to the Group. These loans were repayable on demand and therefore classified as current liabilities.

As further explained in note 2, on 22 December 2000, these banks and the Group entered into the Bank Debt Restructuring Agreements pursuant to which the repayment of the relevant bank borrowings was rescheduled. Accordingly, the bank borrowings as at 31 December 2000 have been reclassified according to the repayment schedule contained in the Bank Debt Restructuring Agreements.

33. BONDS

	Notes	Group		Company	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Convertible Bonds due 2005	(a)	209,061	209,061	209,061	209,061
Guaranteed Floating Rate Bonds due 2005	(b)	1,104,845	1,035,343	—	—
At 31 December		1,313,906	1,244,404	209,061	209,061

The maturities of the above amounts are as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Within one year or on demand	74,162	1,244,404	11,873	209,061
In the second year	187,589	—	30,031	—
In the third to fifth years, inclusive	1,052,155	—	167,157	—
	1,313,906	1,244,404	209,061	209,061
Less: Portion classified as current liabilities	(74,162)	(1,244,404)	(11,873)	(209,061)
Non-current portion	1,239,744	—	197,188	—

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

33. BONDS (CONT'D)

As at 31 December 1999, the above bonds were repayable on demand and had been classified as current liabilities as certain specific financial covenants had not been complied with.

Pursuant to the Amendment Agreement and the Bond Circular, the redemption of the above bonds was rescheduled. Accordingly, the above bonds as at 31 December 2000 have been reclassified according to the redemption schedule as contained in the Amendment Agreement and the Bond Circular.

a. Convertible Bonds due 2005 (the "2005 CBs")

On 15 December 1998, the Company issued in favour of Alexandra Global Investment Fund I, Ltd. (the "Investor") a convertible bond in the principal amount of US\$27,000,000 (the "2001 CB") pursuant to a subscription agreement dated 23 November 1998 made between the Company, Alexandra Capital Group, Ltd. and the Investor. The 2001 CB would be due on 15 December 2001. The proceeds from the issue of the 2001 CB were approximately US\$26.7 million (before expenses), which was approximately US\$0.3 million less than the principal amount of the 2001 CB, resulting in a 1% premium upon redemption of the 2001 CB.

The 2001 CB carried interest at the flat rate of 5.5% per annum by reference to the Hong Kong dollar equivalent of the outstanding principal amount of the 2001 CB translated at the fixed exchange rate of HK\$7.743 to US\$1 (the "Fixed Exchange Rate"). Interest on the 2001 CB was payable semi-annually in arrears.

The 2001 CB carried a right to be converted into Ordinary Shares at the initial conversion price, which was an amount equal to the lower of HK\$2.00 per Ordinary Share (the "Fixed Conversion Price") and 75% of the average closing price per Ordinary Share for the five consecutive dealing days of the Ordinary Shares ending on the dealing day preceding the date of conversion (the "Floating Conversion Price"), subject to a minimum conversion price of HK\$1.6125 per Ordinary Share (the "Minimum Conversion Price"). The Fixed Conversion Price and the Minimum Conversion Price were subject to adjustment in accordance with the terms and conditions of the 2001 CB. Unless previously converted or redeemed by the registered holder(s) of the 2001 CB in accordance with its terms and conditions, the 2001 CB is redeemable on the due date at HK\$209,061,000, (that is, its principal amount translated at the Fixed Exchange Rate), together with accrued interest. The 2001 CB was not listed on any stock exchange.

33. BONDS (CONT'D)

a. Convertible Bonds due 2005 (the "2005 CBs") (CONT'D)

As part of the comprehensive restructuring of the Group, the obligations of the Company under the 2001 CB have been restructured to as 2005 CBs and the directors announced that, on 22 December 2000, the Amendment Agreement relating to the 2001 CB had been entered into between the Company and the Investor. The amendments to the terms and conditions of the 2001 CB came into effect on 22 December 2000.

The key aspects of the restructuring of the 2001 CB involved a waiver of the then existing technical defaults; an extension of the maturity date to 30 June 2005, or in the event of any further extension, a date falling no later than 30 September 2005 together with, amendments of certain terms and conditions of the 2001 CB whereby, inter alia, the rights to convert the 2005 CBs into the Company's shares are modified and the 2005 CBs are repaid by way of a fixed mandatory partial redemption and additional and/or accelerated mandatory partial redemptions.

Each 2005 CBs has nominal value of US\$250,000 and carries a right to be converted in whole into Ordinary Shares within six months from 22 December 2000 ("First Period"), at a conversion price of HK\$1.20 per Ordinary Share (the "Amended Fixed Conversion Price"), subject to adjustments in accordance with the terms and conditions of the 2005 CBs. Thereafter, the conversion right may be exercised within a period of 18 months from the end of the First Period (or, if at any time during the First Period, there shall be a 20 consecutive dealing day period where the share price of the Ordinary Shares (as determined in accordance with the terms of the 2005 CBs) for each of the 20 consecutive days exceeds HK\$1.2, the conversion right may only be exercised within the period of 15 months from the end of the First Period) at a conversion price of the lower of the Amended Fixed Conversion Price and 91% of the average closing price per Ordinary Share for the five consecutive dealing days of the Ordinary Shares ending on the dealing day preceding the date of conversion (the "Amended Floating Conversion Price"), subject to a minimum conversion price of HK\$0.80 per Ordinary Share (the "Amended Minimum Conversion Price"). The Fixed Exchange Rate has also been adjusted to HK\$7.8 to US\$1 (the "Amended Fixed Exchange Rate").

The Amended Fixed Conversion Price, the Amended Floating Conversion Price and the Amended Minimum Conversion Price are subject to adjustment in accordance with the terms and conditions of the 2005 CBs.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

33. BONDS (CONT'D)

a. Convertible Bonds due 2005 (the "2005 CBs") (CONT'D)

Up to the date of these financial statements, none of the 2005 CBs had been converted. Assuming the full conversion of the 2005 CBs into Ordinary Shares at the Amended Fixed Conversion Price and the Amended Minimum Conversion Price, using the Amended Fixed Exchange Rate for converting US\$ to HK\$, the Company would have issued 175,500,000 and 263,250,000 new Ordinary Shares respectively, representing 3.48% and 5.13% of the existing issued ordinary share capital of the Company as enlarged by such new Ordinary Shares as at the balance sheet date.

The 2005 CBs bear interest, effective from 22 December 2000, at LIBOR plus a margin of 2.375% per annum until such time as an aggregate principal amount of HK\$1,017.5 million in direct debt payments as defined in the Company's Bank Debt Restructuring Agreement (the "Direct Debt Payments") have been made, thereafter an applicable margin of 2% per annum will be applied. Where the maturity date is extended from 30 June 2005 to 30 September 2005, the applicable margin will revert to 2.375% per annum for the extended period as aforesaid. The first interest payment on the 2005 CBs is due on 15 June 2001 and thereafter interest is payable quarterly in arrears.

Upon the execution of the Amendment Agreement, the Investor granted to GDH Limited a call option to purchase the 2005 CBs from the Investor ("Call Option"). The Call Option is exercisable for a period of 3 months commencing 3 months from 22 December 2001. The exercise price shall be 106% of the principal amount outstanding of the 2005 CBs together with accrued interest.

Should GDH Limited exercise the Call Option, any exercise of the conversion right under the 2005 CBs will constitute a connected transaction, pursuant to and subject to the requirements of the Listing Rules, which may require the prior approval of independent shareholders of the Company.

33. BONDS (CONT'D)

b. Guaranteed Floating Rate Bonds due 2005 (the "2005 Guaranteed Bonds")

On 7 July 1997, Guangdong Investment Finance (Cayman) Limited ("GIFL"), a wholly-owned subsidiary of the Company, issued US\$130,000,000 convertible bonds (the "2002 Bonds") which would have fallen due for repayment on 7 July 2002. The 2002 Bonds were listed on the Luxembourg Stock Exchange. The issue price of the 2002 Bonds was 100% of their principal amount (the "Principal") and the 2002 Bonds carried interest at the rate of 1% per annum payable annually in arrears. The 2002 Bonds carried a right to be converted into fully-paid Ordinary Shares at an initial conversion price of HK\$13.75 per Ordinary Share subject to adjustment in accordance with terms and conditions in the 2002 Bonds. Unless previously redeemed, converted or purchased and cancelled, the 2002 Bonds were redeemable on the due date at 138.748% of the Principal together with accrued interest.

As part of the comprehensive restructuring of the Group, the obligations of GIFL and the Company under the 2002 Bonds were restructured. On 16 November 2000, the directors announced the definitive terms of the proposal to amend the 2002 Bonds to as the 2005 Guaranteed Bonds, which subsequently approved at the meeting of the holders of the 2002 Bonds on 13 December 2000 and became effective on 22 December 2000.

The key aspects of the restructuring of the 2002 Bonds involved a waiver of the then technical defaults; extension of the maturity date either to 30 June 2005, or in the event of any further extension, a date falling no later than 30 September 2005; amendments of certain terms and conditions of the 2002 Bonds whereby, inter alia, the rights to convert the 2002 Bonds into the Ordinary Shares were removed and the 2005 Guaranteed Bonds are repaid by way of fixed mandatory partial redemption and additional and/or accelerated mandatory partial redemptions. The 2005 Guaranteed Bonds are guaranteed by the Company and the listing status of 2005 Guaranteed Bonds on the Luxembourg Stock Exchange are maintained.

None of the 2002 Bonds was converted in the period from 1 January 2000 to 22 December 2000. The aggregate principal amount outstanding of the 2005 Guaranteed Bonds as at 22 December 2000 and 31 December 2000 was estimated to be US\$141,659,541 (being the aggregate of the Principals and the premium on early redemption of the 2002 Bonds calculated up to 21 December 2000) and it was estimated to be US\$1,268.01 per the 2005 Guaranteed Bond in the notional principal amount of US\$1,000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

33. BONDS (CONT'D)

b. Guaranteed Floating Rate Bonds due 2005 (the "2005 Guaranteed Bonds") (CONT'D)

The 2005 Guaranteed Bonds bear interest, effective from 22 December 2000, at LIBOR plus a margin of 2.375% per annum until such time as an aggregate principal amount of HK\$1,017.5 million Direct Debt Payments have been made, thereafter an applicable margin of 2% per annum will be applied. Where the maturity date is extended from 30 June 2005 to 30 September 2005, the applicable margin will revert to 2.375% per annum for the extended period as aforesaid. The first interest payment on the 2005 Guaranteed Bonds is due on 9 July 2001 and thereafter interest is payable quarterly in arrears.

On 19 April 2000, the Company announced an exchange offer whereby the holders of 2005 Guaranteed Bonds are invited to tender the 2005 Guaranteed Bonds during an offer period from 19 April 2001 to 5 June 2001 to be exchanged into transferable loan instruments ("TLIs"). Any exchange of the 2005 Guaranteed Bonds for TLIs will take place on 9 July 2001. The TLIs will be governed by the terms of the Company's Bank Debt Restructuring Agreement.

34. FLOATING RATE NOTES

	Group and Company	
	2000	1999
	HK\$'000	HK\$'000
Amended 2000 FRNs	46,796	46,630
Amended 2001 FRNs	779,930	777,181
At 31 December	826,726	823,811

The maturity of the above amounts are as follows:

	2000	1999
	HK\$'000	HK\$'000
Within one year or on demand	46,609	823,811
In the second year	117,895	—
In the third to fifth years, inclusive	662,222	—
	826,726	823,811
Less: Portion classified as current liabilities	(46,609)	(823,811)
Non-current portion	780,117	—

As at 31 December 1999, the above floating rate notes were repayable on demand and had been classified as current liabilities as certain specific financial covenants had not been complied with.

34. FLOATING RATE NOTES (CONT'D)

Pursuant to the FRNs Circulars, the redemption of the above floating rate notes was rescheduled. Accordingly, the above floating rate notes as at 31 December 2000 have been reclassified according to the redemption schedule contained in the FRNs Circulars.

On 20 September 1995, the Company issued US\$50,000,000 floating rate notes due in September 2000 (the "2000 FRNs"). The 2000 FRNs were issued in bearer form and in denominations of US\$250,000 each. Interest on the 2000 FRNs was payable semi-annually in arrears and at a rate of LIBOR plus 1.3% per annum. Unless previously redeemed or purchased and cancelled by the Company, the outstanding 2000 FRNs, were to have matured in September 2000.

On 15 November 1996, the Company issued US\$100,000,000 floating rate notes due in November 2001 (the "2001 FRNs"). The 2001 FRNs were listed on the Luxembourg Stock Exchange. The 2001 FRNs were issued in bearer form and in denominations of US\$250,000 each. Interest on the 2001 FRNs was payable semi-annually in arrears and at a rate of LIBOR plus 1.4% per annum. Unless previously redeemed or purchased and cancelled by the Company, the outstanding 2001 FRNs would mature in November 2001.

On 22 December 2000, the terms and conditions of the 2000 FRNs and 2001 FRNs were restructured as the "Amended 2000 FRNs" and "Amended 2001 FRNs", respectively pursuant to extraordinary resolutions passed by the 2000 FRNs holders and the 2001 FRNs holders on 13 December 2000.

The Amended 2000 FRNs and Amended 2001 FRNs holders ceased to have the right to call for early redemption of all or any part of the Amended 2000 FRNs and Amended 2001 FRNs. Each of the Amended 2001 FRNs maintains listing status on the Luxembourg Exchanges.

The key aspects of the restructuring of Amended 2000 FRNs and Amended 2001 FRNs (collectively referred to as the "Amended FRNs") involved a waiver of the then technical defaults; an extension of the maturity date either to 30 June 2005 or, in the event of any further extension, to a date falling no later than 30 September 2005; together with amendments of certain terms and conditions of the Amended FRNs whereby, inter alia, the Amended FRNs are repaid by way of a fixed mandatory partial redemption and an additional and/or accelerated mandatory partial redemption.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

34. FLOATING RATE NOTES (CONT'D)

The Amended FRNs bear interest, effective from 22 December 2000, at LIBOR plus a margin of 2.375% per annum until such time as an aggregate principal amount of HK\$1,017.5 million Direct Debt Payments have been made, thereafter an applicable margin of 2% per annum will be applied. Where the maturity date is extended from 30 June 2005 to 30 September 2005, the applicable margin shall revert to 2.375% per annum for the extended period as aforesaid. The first interest payment on the Amended 2000 FRNs and Amended 2001 FRNs has been due on 26 March 2001 and will be due on 15 May 2001, respectively, and thereafter interest is payable quarterly in arrears.

None of the 2000 FRNs and 2001 FRNs was redeemed or purchased for the period from 1 January 2000 to 22 December 2000. The principal amount outstanding of the Amended 2000 FRNs and Amended 2001 FRNs as at 31 December 2000 was US\$6,000,000 (1999: US\$6,000,000) and US\$100,000,000 (1999: US\$100,000,000), respectively. The Amended FRNs are in denominations of US\$250,000 each.

On 19 April 2001, the Company announced an exchange offer whereby holders of the Amended 2000 FRNs and the Amended 2001 FRNs are invited to tender their Amended FRNs during the offer period from 19 April 2001 to 5 June 2001 to be exchanged into TLIs. Any exchange of the Amended FRNs for TLIs will take place on 29 June 2001. The TLIs will be governed by the terms of the Company's Bank Debt Restructuring Agreement.

35. NOTES PAYABLE AND GH HOLDINGS DEBTS

	Notes	Group			Company		
		Current	Non-current	Total	Current	Non-current	Total
		liabilities	liabilities		liabilities	liabilities	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Notes Payable	(a)	10,848	181,642	192,490	10,848	181,642	192,490
GH Holdings Debts	(b)	136,220	13,863,780	14,000,000	—	—	—
At 31 December 2000		147,068	14,045,422	14,192,490	10,848	181,642	192,490
At 31 December 1999		—	—	—	—	—	—

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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35. NOTES PAYABLE AND GH HOLDINGS DEBTS (CONT'D)

(a) The Notes Payable

The Notes Payable were issued by the Company to replace the bank loans of certain subsidiaries guaranteed by the Company. The Notes Payable bear interest at LIBOR plus a margin of 2.375% per annum until such time as an aggregate principal amount of HK\$1,017.5 million Direct Debt Payments have been made. Thereafter, an applicable margin of 2% per annum will be applied. Where the maturity date is extended from 30 June 2005 to 30 September 2005, the applicable margin shall revert to 2.375% per annum for the extended period.

The maturity of the Notes Payable as at 31 December 2000 are as follows:

	Group and Company	
	2000 HK\$'000	1999 HK\$'000
Within one year	10,848	—
In the second year	27,447	—
In the third to fifth years, inclusive	154,195	—
	192,490	—
Less: Portion classified as current liabilities	(10,848)	—
Non-current portion	181,642	—

- (b) The GH Holdings Debts consists of three pari passu tranches. Tranche A Credit, Tranche B Credit and Tranche C Notes:

(i) The Tranche A Credit

The Tranche A Credit is Hong Kong dollar-denominated with a principal amount of HK\$5,448,300,000. The amount bears interest at 8% per annum and is repayable by ten consecutive annual instalments within 10 years. The first repayment date is to be made in December 2001.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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35. NOTES PAYABLE AND GH HOLDINGS DEBTS (CONT'D)

(ii) *The Tranche B Credit*

The Tranche B Credit is Hong Kong dollar-denominated with a principal amount of HK\$5,448,300,000. The amount bears interest at 8% per annum and is repayable in full in 2010.

(iii) *The Tranche C Notes*

The Tranche C Notes are United States dollar-denominated with an equivalent principal amount of HK\$3,103,400,000 in total. Such US dollar debts bear interest at 7% per annum and are repayable in full in 2008. The Tranche C Notes were issued in note form under a trust deed.

On 20 December 2000, GH Holdings entered into certain currency and interest rate swap transactions ("Swap Agreement") to effectively convert its US dollar obligations under the Tranche C Notes, including both principal and interest, into Hong Kong dollar debt with an interest rate of 8% per annum.

The GH Holdings Debts are guaranteed by WaterCo on a subordinated basis and secured by pledging the water revenue of WaterCo under a "Hong Kong Water Supply Agreement" entered into between the Guangdong Provincial Government and the Hong Kong Government, which has been assigned to WaterCo under a "WaterCo Water Supply Contract" entered into between WaterCo and the Guangdong Provincial Government. In addition, WaterCo also guarantees all of the obligations and liabilities of GH Holdings under the Swap Agreement in respect of US\$400 million of Tranche C Notes. Amounts payable under the swap guarantee are senior in right of payment to the GH Holdings Debts.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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36. PROVISION FOR BANK LOANS GUARANTEED

The maturity of the provision for bank loans guaranteed as at 31 December 2000 are as follows:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year or on demand	43,319	601,779	42,098	774,576
In the second year	106,953	—	106,483	—
In the third to fifth years, inclusive	600,547	—	598,120	—
At 31 December	750,819	601,779	746,701	774,576
Less: Portion classified as current liabilities	(43,319)	(601,779)	(42,098)	(774,576)
Non-current portion	707,500	—	704,603	—

The balances represent the provision for the Group's contingent liabilities in respect of certain bank loans of deconsolidated subsidiaries and a then subsidiary (collectively referred to as the "Borrowers"), which were guaranteed by the Group.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

36. PROVISION FOR BANK LOANS GUARANTEED (CONT'D)

As at 31 December 1999, the Borrowers had not complied with certain specific financial covenants under the relevant loan agreements. In opinion of the directors, these guaranteed bank loans were repayable on demand and the provision for these guaranteed bank loans were therefore classified as current liabilities accordingly.

As further detailed in note 2, on 22 December 2000, the Group and the banks entered into the Bank Debt Restructuring Agreements, pursuant to which the repayment of these bank loans had been rescheduled. Accordingly, the provisions for these guaranteed bank loans have been reclassified according to the repayment schedule contained in the Bank Debt Restructuring Agreements.

37. LEASE PAYABLES

Commitments for capital amounts under finance leases at the balance sheet date were as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Repayable:		
Within one year	179	357
In the second year	—	354
In the third to fifth years, inclusive	—	114
	179	825
Less: Portion classified as current liabilities	(179)	(357)
Non-current liabilities	—	468

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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38. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts due to minority shareholders of subsidiaries at the balance sheet date are unsecured and are analysed as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest-bearing borrowings included in note 31:		
Current portion	3,078	4,355
Non-current portion	112,604	65,200
	115,682	69,555
Non interest-bearing borrowings:		
Current portion	148,166	220,180
Non-current portion	263,721	170,814
	411,887	390,994
	527,569	460,549

The maturities of the amounts due to minority shareholders of subsidiaries as at the balance sheet date are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Repayable:		
Within one year or no fixed terms of repayment	151,244	224,535
In the second year	192,437	197,920
In the third to fifth years, inclusive	170,038	18,214
Thereafter	13,850	19,880
	527,569	460,549

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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38. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES (CONT'D)

Included in the interest-bearing portion of amounts due to minority shareholders of subsidiaries are unsecured loans of HK\$54,949,000, which bear interest at LIBOR plus a margin of 2.375% per annum until such time as an aggregate principal amount of HK\$1,017.5 million Direct Debt Payments have been made, thereafter, an applicable margin of 2% per annum will be applied. The remaining portion of the interest-bearing portion of amounts due to minority shareholders of subsidiaries bears interest at the prevailing bank loan interest rate in Mainland China.

39. DUE TO SUBSIDIARIES OF A THEN MAJOR SHAREHOLDER

The prior year balance representing amounts due to the GDE Group, which were unsecured and had no fixed terms of repayment, is analysed as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest bearing at 8.5% per annum and included in note 31	—	22,187
Non interest-bearing	—	3,495
	—	25,682

The balance of HK\$23,435,000 as at 22 December 2000 was transferred out as a result of the Acquisition.

40. DEFERRED TAX

The provision for deferred tax as shown in the balance sheet relates principally to timing differences arising from accelerated capital allowances.

There are no significant potential deferred tax liabilities for which provision has not been made.

The revaluations of the Group's land and buildings and investment and hotel properties do not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

41. SHARE CAPITAL

	2000 HK\$'000	1999 HK\$'000
Authorised:		
8,000,000,000 ordinary shares of HK\$0.50 each ("Ordinary Shares") (1999: 5,000,000,000 Ordinary Shares)	4,000,000	2,500,000
200,000 3¼% redeemable cumulative convertible preference shares of US\$1 each ("Preference Shares")	1,549	1,549
	4,001,549	2,501,549
Issued and fully paid:		
4,867,636,920 Ordinary Shares (1999: 2,561,636,920 Ordinary Shares)	2,433,818	1,280,818
86,950 Preference Shares	674	674
	2,434,492	1,281,492

During the year, the following changes in the Company's share capital took place and, as a result 2,306,000,000 Ordinary Shares were issued:

- On 14 January 2000, a total of 6,000,000 Ordinary Shares were issued to an option holder at HK\$0.92 per Ordinary Share, for a total cash consideration of HK\$5,520,000.
- Pursuant to an ordinary resolution passed in an extraordinary general meeting of the Company held on 18 October 2000, the authorised share capital of the Company was increased from HK\$2,500,000,000 to HK\$4,000,000,000 by the creation of an additional 3,000,000,000 Ordinary Shares to rank pari passu in all respects with the existing Ordinary Shares.
- On 22 December 2000, 2,300,000,000 Ordinary Shares were issued and credited as fully paid at HK\$1.2 per Ordinary Share amounting to HK\$2,760,000,000 as part of the consideration for the Acquisition.

There were no changes in the preference share capital during the year.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

41. SHARE CAPITAL (CONT'D)

Preference Shares

The Preference Shares, which are listed on the Luxembourg Stock Exchange, carry a fixed, cumulative dividend of 3.25% per annum by reference to the paid-up value of each Preference Share of US\$1,000. The Preference Shares carry a right to be converted into fully-paid Ordinary Shares at initial conversion price of HK\$4.02 per Ordinary Share, subject to adjustments, and at the fixed exchange rate of HK\$7.74654 to US\$1. The conversion price was adjusted to HK\$3.7 per Ordinary Share with effect from 22 December 2000, principally as a result of the issue of 2,300,000,000 Ordinary Shares, as part of the consideration for the Acquisition, and the amendments made to the terms and conditions of the 2005 CBs.

Unless previously converted, purchased and cancelled or redeemed by the Company in accordance with the terms and conditions of the Preference Shares, the Preference Shares will be redeemed at 139.564% of their paid-up value on 7 April 2003 subject to the conditions of the Preference Shares and the provisions of the Companies Ordinance and any other fiscal regulations and other legislations applicable to the Company.

Assuming the full conversion of the outstanding 86,950 Preference Shares into Ordinary Shares of the Company at the adjusted conversion price, the Company would have issued 182,043,690 new Ordinary Shares, representing approximately 3.61% of the then existing issued ordinary share capital of the Company as enlarged by such new Ordinary Shares as at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

41. SHARE CAPITAL (CONT'D)

Share options

Movements in share options to subscribe for Ordinary Shares in the Company during the year are as follows:

	Number of share options to subscribe for one Ordinary Share at an exercise price* of								Total
	HK\$3.764	HK\$4.536	HK\$5.392	HK\$8.304	HK\$2.892	HK\$3.024	HK\$1.0368	HK\$0.92	
Balance at									
beginning of year	20,000	2,440,000	6,000,000	350,000	18,880,000	10,850,000	350,000	6,000,000	44,890,000
Options exercised									
during the year	—	—	—	—	—	—	—	(6,000,000)	(6,000,000)
Options cancelled									
during the year	(20,000)	(420,000)	(6,000,000)	(350,000)	(11,205,000)	(3,000,000)	(350,000)	—	(21,345,000)
Balance at									
31 December 2000	—	2,020,000	—	—	7,675,000	7,850,000	—	—	17,545,000

The options outstanding at 31 December 2000 expire at various dates up to the close of business on 17 February 2005, or if that day is not a business day, the expiry date will be the close of the business day preceding 17 February 2005. The exercise in full of the outstanding options would result in the issue of additional 17,545,000 Ordinary Shares and cash proceeds before the related issue expenses of HK\$55,097,220.

Subsequent to the balance sheet date and up to the date of the financial statements as approved by the board of directors (the "Period"), no Ordinary Share was issued to any option holder.

In addition, options cancelled during the Period were as follows:

	Number of share options to subscribe for one Ordinary Share at an exercise price* of			Total
	HK\$4.536	HK\$2.892	HK\$3.024	
Options cancelled during the Period	180,000	1,220,000	1,675,000	3,075,000

* Subject to adjustment

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

41. SHARE CAPITAL (CONT'D)

American Depositary Receipt

Citibank N.A. established an American Depositary Receipt ("ADR") Programme for the Ordinary Shares of the Company and the registration statement for the ADR programme was declared effective by the U.S. Securities and Exchange Commission on 5 August 1994. A maximum of 16,000,000 American Depositary Shares, representing 160,000,000 Ordinary Shares, may be traded over-the-counter in the U.S. under the ADR programme. No new shares were issued or are expected to be issued as a result of the ADR programme.

The ADR programme was established to enable the investor base of the Company to be enlarged. The Company has appointed Citibank N.A. as the depositary bank for the ADR programme.

42. RESERVES

Group

	Preference share premium account HK\$'000	Ordinary share premium account HK\$'000	Capital reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Expansion fund reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve* HK\$'000	Total HK\$'000
At 1 January 1999	672,888	4,228,831	424,225	13,135	155,299	79,940	(142,617)	39,021	5,470,722
Revaluation surplus	—	—	—	—	11,521	—	—	—	11,521
Release on disposal of a subsidiary	—	—	11,656	—	—	—	8,683	—	20,339
Release of goodwill and reserve in respect of deconsolidated subsidiaries	—	—	90,343	—	—	—	(470)	—	89,873
Release of goodwill in respect of impairments in values of investments in subsidiaries and an associate	—	—	553,841	—	—	—	—	—	553,841
Release of goodwill for discontinuing curtain wall operations	—	—	62,783	—	—	—	—	—	62,783
Capital reserve on consolidation arising from the acquisitions of equity interests of subsidiaries	—	—	3,144	—	—	—	—	—	3,144
Exchange adjustments	—	—	—	—	—	—	6,403	—	6,403
Provision for preference share redemption premium*	—	—	—	—	—	—	—	53,359	53,359
Transfer from the profit and loss account	—	—	—	—	—	4,631	—	—	4,631
At 31 December 1999 and 1 January 2000	672,888	4,228,831	1,145,992	13,135	166,820	84,571	(128,001)	92,380	6,276,616

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

42. RESERVES (CONT'D)

Group

	Preference share premium account HK\$'000	Ordinary share premium account HK\$'000	Capital reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Expansion fund reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve* HK\$'000	Total HK\$'000
At 31 December 1999 and 1 January 2000	672,888	4,228,831	1,145,992	13,135	166,820	84,571	(128,001)	92,380	6,276,616
Issue of Ordinary Shares during the year	—	1,612,520	—	—	—	—	—	—	1,612,520
Revaluation deficit	—	—	—	—	(166,820)	—	—	—	(166,820)
Increase in capital reserve arising from the Acquisition	—	—	2,403,829	—	—	—	—	—	2,403,829
Release of goodwill in respect of impairments in values of investments in subsidiaries and associates	—	—	358,793	—	—	—	—	—	358,793
Capital reserve on consolidation arising from acquisition of additional interest in a subsidiary	—	—	19,822	—	—	—	—	—	19,822
Goodwill on consolidation arising from acquisitions of associates	—	—	(14,872)	—	—	—	—	—	(14,872)
Exchange adjustments	—	—	—	—	—	—	6,309	—	6,309
Provision for preference share redemption premium*	—	—	—	—	—	—	—	53,613	53,613
Transfer from the profit and loss account	—	—	—	—	—	10,568	—	—	10,568
At 31 December 2000	672,888	5,841,351	3,913,564	13,135	—	95,139	(121,692)	145,993	10,560,378

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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42. RESERVES (CONT'D)

Company

	Preference share premium account HK\$'000	Ordinary share premium account HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve* HK\$'000	Total HK\$'000
At 1 January 1999	672,888	4,228,831	1,733,711	(14,813)	39,021	6,659,638
Provision for preference share redemption premium, net*	—	—	—	—	53,359	53,359
At 31 December 1999 and 1 January 2000	672,888	4,228,831	1,733,711	(14,813)	92,380	6,712,997
Issue of Ordinary Shares during the year	—	1,612,520	—	—	—	1,612,520
Provision for preference share redemption premium*	—	—	—	—	53,613	53,613
At 31 December 2000	672,888	5,841,351	1,733,711	(14,813)	145,993	8,379,130

* This provision represents the amount that the Company would have been obliged to transfer in the financial year to a Preference Share Redemption Account in accordance with Article 5(A)(x)(viii) of the Company's Articles of Association, had the Company had sufficient reserves available for that purpose. However, as the Company has no such available reserves, that obligation does not arise.

The amount standing to the credit of the special reserve will be transferred to a Preference Share Redemption Account in accordance with Article 5(A)(x)(viii) of the Company's Articles of Association only when the Company no longer has accumulated losses (excluding losses attributable to the balance of the provision in the special reserve).

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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43. ACCUMULATED LOSSES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i> <i>(Restated)</i>
Profits retained/(losses accumulated) by:		
The Company and subsidiaries	(4,535,443)	(3,107,884)
Associates	21,130	49,445
Jointly controlled entity	36,576	23,205
	(4,477,737)	(3,035,234)

44. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Share of net assets	684,798	670,308
Due from a jointly controlled entity	244,864	201,849
	929,662	872,157

The Group's share of the post-acquisition accumulated reserves of the jointly controlled entity as at 31 December 2000 was HK\$39,946,000 (1999: HK\$25,456,000).

The amount due from a jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly controlled entity, which is corporate, are as follows:

Company	Issued and paid-up capital/place of incorporation/operations	Percentage of attributable equity interest held by the Group	Principal activities
Guangdong Transport Investment (BVI) Company Limited	US\$100,000/British Virgin Islands	51%	Investments in highway and bridge projects

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

44. INTEREST IN A JOINTLY CONTROLLED ENTITY (CONT'D)

Extracts of the operating results and financial position of Guangdong Transport Investment (BVI) Company Limited ("GTI") are as follows:

Operating results for the year:

	2000 HK\$'000	1999 HK\$'000
Turnover	45,649	44,762
Profit after tax	28,411	14,463

Financial position at the balance sheet date:

	2000 HK\$'000	1999 HK\$'000
Non-current assets	2,860,714	2,966,128
Current assets	204,323	184,105
Current liabilities*	(248,923)	(1,835,904)
Non-current liabilities*	(1,473,374)	—
Net asset value	1,342,740	1,314,329

* As at 31 December 1999, GTI had not complied with certain specific financial covenants under a bank loan agreement. A bank loan of HK\$1,222,115,000 was therefore classified as a current liability. On 22 December 2000, the banks and GTI entered into the Bank Debt Restructuring Agreement pursuant to which repayment of the bank loan was rescheduled. Accordingly, the bank loan of HK\$1,056,275,000 as at 31 December 2000 has been reclassified according to the repayment schedule as contained in the Bank Debt Restructuring Agreement.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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45. INTERESTS IN ASSOCIATES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investments, at cost	—	—	3,968	4,268
Share of net assets other than goodwill	210,443	116,997	—	—
Due from associates	499,559	548,195	266,724	285,015
Due to associates	(9,178)	(6,117)	—	—
	700,824	659,075	270,692	289,283
Less: Provisions for investments in and loans to associates	(96,821)	(66,920)	(165,348)	(165,348)
At 31 December	604,003	592,155	105,344	123,935

The Group's share of the post-acquisition accumulated reserves, other than the exchange fluctuation reserve, of associates at 31 December 2000 was HK\$25,082,000 (1999: HK\$52,802,000).

The Group's share of the post-acquisition exchange fluctuation reserve surplus of associates at 31 December 2000 was HK\$1,292,000 (1999: HK\$1,429,000).

Included in the amounts due from associates are unsecured loans of HK\$57,205,000 (1999: HK\$69,536,000), which bear interest at rates ranging from 6% per annum to 12% per annum. The remaining balances with associates are unsecured and interest-free. All balances have no fixed terms of repayment.

All associates of the Group are corporations.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

45. INTERESTS IN ASSOCIATES (CONT'D)

Particulars of the principal associates are as follows:

Company	Place of incorporation/ registration	Percentage of attributable equity interest held by Company Group		Principal activities
Dongguan Yueheng Optical Co., Ltd.	Mainland China	—	35%	Manufacture of optical products
Essential Holdings Limited	British Virgin Islands	—	22.9%	Investment holding
Guangdong Jusco Teem Stores Co. Ltd	Mainland China	—	19.9%	Retailing
Guangdong Power Investment Limited	British Virgin Islands	49%	49%	Investment holding
Hennessy International Group, Inc.	USA	—	23.85%	Trading of furs, leather and other outerwear
New World-Guangdong Highway Investments Co., Limited	Hong Kong	—	50%	Investment in highway projects
Shandong Huazhong Amber Brewery Co., Ltd.	Mainland China	—	36%	Production, distribution and sale of beer
陽江市江城天貿置業發展公司 (Yang Jiang City Jiang Cheng Teem Property Development Co., Ltd.)	Mainland China	—	28.41%	Property investment
Zhongshan Weili Washing Machine Limited	Mainland China	—	36.48%	Manufacture and sale of washing machines
廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited)	Mainland China	—	11.48%	Power plant operation
廣州新時代快車有限公司 (New Flash Transportation Co. (Guangzhou) Limited)	Mainland China	—	46%	Transportation services

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

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2000 HK\$'000	1999 HK\$'000 (Restated)
Loss from operating activities	(596,224)	(1,869,615)
Interest income	(72,956)	(95,069)
Depreciation	307,597	373,456
Gain on cancellation of convertible bonds	—	(3,662)
Investment property revaluation deficit	111,673	41,857
Hotel property revaluation deficit	309,442	—
Write back of deficit arising on previous revaluation of hotel properties	—	(13,323)
Provisions against properties held for sale	94,602	60,000
Provisions for diminutions in values of properties held under development	82,447	104,228
Provisions for impairments in values of investment securities	17,608	1,143
Unrealised holding loss of other investments	22,614	20,713
Provisions against investments in and loans to associates	51,135	54,921
Provisions against a contractual joint venture	—	153,151
Provisions against construction/installation contracts receivable	5,918	130,755
Provisions against doubtful debts, net of recovery from possession of shares in a subsidiary and write back of provision against loan receivable	128,680	318,514
Provisions against inventories	7,748	40,461
Provisions against deconsolidated subsidiaries	—	306,122
Provision against an amount due from a fellow subsidiary	56,156	—
Loss from discontinuation of cement operations	—	303,491
Provisions for impairments in values of fixed assets	29,619	237,523
Provisions for impairments of trademarks	26,000	—
Amortisation of deferred expenses and reusable packaging materials	32,988	39,247
Amortisation of trademarks	2,000	2,000
Amortisation of the operating right	13,259	—
Amortisation of investments in contractual joint ventures	1,459	18,969

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(a) Reconciliation of loss from operating activities to net cash inflow from operating activities (CONT'D)

	2000 HK\$'000	1999 HK\$'000 (Restated)
(Gain)/loss on disposal of fixed assets, net	4,971	(540)
Gain on disposal of investment properties	(566)	(2,477)
(Gain)/loss on disposal of an associate	(15,066)	803
Gain on disposal of a contractual joint venture	(26,955)	—
Gain on disposal of a subsidiary	—	(2,999)
Write back of provision for a deconsolidated subsidiary	(66,412)	—
Release of goodwill in respect of impairment in values of investments in subsidiaries and associates	364,977	553,841
Loss from discontinuing curtain wall operations	—	62,783
(Increase)/decrease in amounts due from associates	25,322	(75,922)
Increase in amounts due to associates	6,813	6,946
(Increase)/decrease in an amount due from a contractual joint venture	9,917	(56,597)
(Increase)/decrease in an amount due from a jointly controlled entity	(43,015)	2,903
(Increase)/decrease in construction/installation contracts receivable	36,200	(2,758)
(Increase)/decrease in trade receivables	(26,143)	278,843
Decrease in loan receivables	148,729	328,394
Decrease in current portion of other investments	483	35,860
Decrease in prepayments, deposits and other debtors	125,633	5,893
Decrease in inventories	290,410	545,787
Increase in current portion of properties under development	(273,392)	(390,918)
Decrease in amount due from a related company	92	2,607
Increase in amounts due from minority shareholders of subsidiaries	(51,071)	(26,880)
Increase in amounts due from a then major shareholder and its subsidiaries	(5,198)	(8,481)
Increase/(decrease) in trade payables, accruals and other liabilities	189,945	(275,545)
Increase/(decrease) in amounts due to minority shareholders of subsidiaries	16,029	(74,469)
Decrease in amounts due to subsidiaries of a then major shareholder	(2,259)	(3,710)
Net cash inflow from operating activities	1,341,209	1,128,246

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(b) Analysis of changes in financing during the year

	Ordinary Shares: share capital and share premium account	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Balance at beginning of year	5,509,649	5,509,649
Net cash inflows from financing	5,520	—
Shares issued for non-cash consideration	2,760,000	—
Balance at 31 December	8,275,169	5,509,649

	Preference Shares: share capital and share premium account	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Balance at beginning of year and at 31 December	673,562	673,562

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(b) Analysis of changes in financing during the year (CONT'D)

	Minority interests	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Balance at beginning of year	1,923,991	2,002,579
Interest in a subsidiary compensated to the Group	(9,086)	—
Share capital reduction of a subsidiary	(116,690)	—
Share of goodwill released	6,106	—
Premium on acquisitions of associates	(14,278)	—
Arising on acquisition of subsidiaries	1,192,439	—
Acquisition of additional shareholdings in a subsidiary	(55,393)	(14,837)
Transfer out as a result of the Acquisition	(33,573)	—
Arising on disposal of a subsidiary	—	(7,840)
Capital injected into a subsidiary in form of fixed assets	—	26,261
Reclassification of deconsolidated subsidiaries	—	119,357
Share of profits less losses for the year	84,328	(80,715)
Share of exchange fluctuation reserve	(980)	3,166
Dividends paid and payable to minority interests	(45,611)	(123,980)
Balance at 31 December	2,931,253	1,923,991

	Bank loans	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of year	4,883,296	5,980,212
Net cash outflows from financing	(608,008)	(147,210)
Arising on acquisition of subsidiaries	838,970	—
Transfer out as a result of the Acquisition	(776,917)	—
Reclassified to Notes Payable	(192,490)	—
Reclassification of deconsolidated subsidiaries	—	(938,496)
Effect of foreign exchange adjustments	(9,224)	(11,210)
Balance at 31 December	4,135,627	4,883,296

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(b) Analysis of changes in financing during the year (CONT'D)

	Notes Payable and GH Holdings Debts	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	—	—
Reclassified from bank loans	192,490	—
Arising from the Acquisition	14,000,000	—
Balance at 31 December	14,192,490	—

	Bonds	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	1,244,404	1,180,880
Net cash outflows from financing	—	(3,967)
Discount on repurchase	—	(2,244)
Provision for redemption premium written back upon cancellation	—	(1,418)
Provision for redemption premium	65,776	66,266
Effect of foreign exchange adjustments	3,726	4,887
Balance at 31 December	1,313,906	1,244,404

	Floating rate notes	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	823,811	819,804
Effect of foreign exchange adjustments	2,915	4,007
Balance at 31 December	826,726	823,811

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(b) Analysis of changes in financing during the year (CONT'D)

		Other loans	
		2000	1999
		HK\$'000	HK\$'000
Balance at beginning of year		4,696	13,206
Net cash inflows/(outflows) from financing		(1,591)	3,937
Transfer out as a result of the Acquisition		(3,104)	—
Reclassification of deconsolidated subsidiaries		—	(12,492)
Effect of foreign exchange adjustments		(1)	45
Balance at 31 December		—	4,696

		Obligations under finance leases	
		2000	1999
		HK\$'000	HK\$'000
Balance at beginning of year		825	2,000
Net cash outflows from financing		(646)	(1,165)
Reclassification of deconsolidated subsidiaries		—	(16)
Effect of foreign exchange adjustments		—	6
Balance at 31 December		179	825

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(c) Acquisition of GH Holdings

	2000 HK\$'000	1999 HK\$'000
Net assets acquired:		
Fixed assets	4,992,598	—
Operating right	14,628,878	—
Other long term assets	858,613	—
Trade receivables	261,127	—
Prepayments, deposits and other debtors	396,586	—
Inventories	12,450	—
Cash and bank balances	454,438	—
Trade payables, accruals and other liabilities	(509,727)	—
Tax payable	(26,596)	—
Bank and other interest-bearing borrowings	(14,800,000)	—
Minority interests	(1,192,439)	—
	5,075,928	—
Increase in capital reserve	(2,403,829)	—
	2,672,099	—
Satisfied by:		
Cash injection from GDH Limited, net of expenses incurred for the Acquisition	(125,344)	—
Ordinary Shares issued	2,760,000	—
Subsidiaries transferred out (note 46(d))	(124,242)	—
Provision for bank loans guaranteed	161,685	—
	2,672,099	—

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(c) Acquisition of GH Holdings (CONT'D)

Analysis of net inflow of cash and cash equivalents as a result of the Acquisition:

	2000 HK\$'000	1999 HK\$'000
Cash injection from GDH Limited	156,000	—
Cash and cash equivalents acquired	454,438	—
Cash and cash equivalents transferred out (<i>Note 46(d)</i>)	(103,263)	—
Net cash inflow of cash and cash equivalents as a result of the Acquisition	507,175	—

During the year and subsequent to the Acquisition, GH Holdings contributed HK\$14,790,000 to the Group's net operating cash outflows, received HK\$45,000 in respect of the net returns on investments and servicing of finance and utilised HK\$3,380,000 for investing activities.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(d) Subsidiaries transferred out as a result of the Acquisition

	2000 HK\$'000	1999 HK\$'000
Net liabilities transferred out:		
Fixed assets	307,889	—
Investment properties	247,070	—
Other financial assets	130	—
Interests in associates	(159)	—
Prepayment, deposits and other debtors	9,363	—
Loan receivables	161,777	—
Due from a fellow subsidiary	1,000	—
Due from a minority shareholder of a subsidiary	15,150	—
Due from a then major shareholder of holding company	97,935	—
Inventories	21,768	—
Trade receivables	3,070	—
Cash and bank balances	103,263	—
Trade payables, accruals and other liabilities	(93,152)	—
Tax payable	(133)	—
Due to immediate holding company	(119,300)	—
Due to a subsidiary of a then major shareholder	(23,435)	—
Bank and other interest-bearing borrowings	(780,021)	—
Due to minority shareholders of subsidiaries	(42,884)	—
Minority interests	(33,573)	—
	(124,242)	—

During the year, the subsidiaries transferred out contributed HK\$119,081,000 to the Group's net operating cash inflows, paid HK\$64,644,000 in respect of the net returns on investments and servicing of finance, received HK\$13,696,000 in respect of taxation and utilised HK\$510,000 and HK\$281,427,000 for investing activities and financing, respectively.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(e) Acquisition of subsidiaries

	2000 HK\$'000	1999 HK\$'000
Net assets acquired:		
Fixed assets	41	1,078
Investment properties	208,500	—
Other long term assets	165	—
Trade receivables, prepayments and deposits	146	569
Inventories	—	15
Cash and bank balances	654	202
Trade payables, accruals and other liabilities	(37,220)	(1,123)
Due to the Company	(88,446)	—
Due to the holding company	(84,531)	—
Due to minority shareholders	(66,904)	—
Bank and other interest-bearing borrowings	(38,970)	—
	(106,565)	741
Assignment of the amount due to the holding company to the Company	84,531	—
Amount charged directly against the profit and loss account (see note 50(a))	106,565	—
Capital reserve	—	(600)
	84,531	141
Satisfied by:		
Settlement of amount due to the Company	84,531	—
Cash	—	141
	84,531	141

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(e) Acquisition of subsidiaries (CONT'D)

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2000 HK\$'000	1999 HK\$'000
Cash consideration	—	(141)
Cash and bank balances acquired	654	202
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	654	61

The subsidiaries acquired in the current year and the prior year had no significant impact on the Group's cash flows.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(f) Disposal of a subsidiary

	2000 HK\$'000	1999 HK\$'000
Net assets disposed of:		
Fixed assets	—	1,009
Properties under development	—	25,401
Prepayment, deposits and other debtors	—	3,884
Inventories	—	14,997
Trade receivables	—	2,104
Cash and bank balances	—	2,298
Trade payables, accruals and other liabilities	—	(9,090)
Amounts due to minority shareholders of subsidiaries	—	(4,521)
Minority interests	—	(7,840)
	—	28,242
Release of goodwill	—	11,656
Release of exchange fluctuation reserve	—	8,683
	—	48,581
Gain on disposal of a subsidiary	—	2,999
	—	51,580
Satisfied by:		
Cash	—	21,525
Trade receivables	—	30,055
	—	51,580

Analysis of the net cash inflow of cash and cash equivalents in respect of disposal of a subsidiary:

	2000 HK\$'000	1999 HK\$'000
Cash consideration	—	21,525
Cash and bank balances disposed of	—	(2,298)
	—	19,227

The subsidiary disposed of in prior year had no significant impact on the Group's cash flows.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(g) Summary of reclassification of deconsolidated subsidiaries

	2000 HK\$'000	1999 HK\$'000 (Restated)
Net liabilities deconsolidated:		
Fixed assets	—	950,591
Investment properties	—	221,330
Interests in associates	—	30,847
Other financial assets	—	61,098
Due from minority shareholders of subsidiaries	—	2,594
Prepayments, deposits and other receivables	—	60,540
Inventories	—	151,833
Trade receivables	—	76,009
Cash and bank balances	—	42,438
Trade payables, accruals and other liabilities	—	(521,391)
Tax payable	—	(4,996)
Due to minority shareholders of subsidiaries	—	(322,384)
Due to subsidiaries of a major shareholder	—	(1,100)
Due to holding companies	—	(727,263)
Lease payables	—	(16)
Bank loans and other loans	—	(950,988)
Minority interests	—	121,556
	—	(809,302)
Release of goodwill	—	90,343
Release of exchange fluctuation reserve	—	(470)
	—	(719,429)

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(g) Summary of reclassification of deconsolidated subsidiaries (CONT'D)

Analysis of net outflow of cash equivalents in respect of the reclassification of deconsolidated subsidiaries:

	2000 HK\$'000	1999 HK\$'000
Cash and bank balances deconsolidated	—	42,438

In the prior year, the deconsolidated subsidiaries contributed HK\$21,830,000 to the Group's net operating cash outflows, paid HK\$70,172,000 in respect of the net returns on investments and servicing of finance, paid HK\$1,678,000 in respect of taxation and utilised HK\$8,299,000 and HK\$6,352,000 for investing activities and financing, respectively.

- (h) Except for provision against loan receivables written back which contributed to a cash inflow of HK\$36,326,000, there were no attributable cash flows in respect of loss from discontinuing curtain wall operations and loss from discontinuation of cement operations, and items included in other operating expenses as disclosed in note 7 in accordance with SSAP 2.

(i) Major non-cash transactions

The Group had the following significant major non-cash transactions during the year:

- The acquisition of an 81% interest in GH Holdings was partially settled by the shares issued and transfer of the Group's subsidiaries to GDH Limited and bank loans of a then subsidiary guaranteed by the Company taken up amounting in aggregate to HK\$2,797,443,000.
- Consideration for the Company's acquisition of a subsidiary during the year was settled through amount due from a deconsolidated subsidiary amounting to HK\$84,531,000.
- Consideration for the Company's acquisition of an additional interest in a subsidiary during the year was settled by the Group's amount due from it amounting to HK\$35,571,000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

47. COMMITMENTS

(i) As at 31 December 2000, the Group had the following commitments:

		Group	
		2000	1999
		HK\$'000	HK\$'000
(a)	Capital commitments in respect of property, plant and equipment:		
	Contracted for	4,889	7,308
	Authorised, but not contracted for	242,286	2,687
		247,175	9,995
(b)	Other capital commitments:		
	Contracted for	32,902	41,402
(c)	Commitments in respect of properties under developments:		
	Contracted for	183,005	125,001
(d)	Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
	Within one year	8,435	3,202
	In the second to fifth years, inclusive	13,276	4,768
		21,711	7,970

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

47. COMMITMENTS (CONT'D)

- (e) Certain subsidiaries of the Group have commitments to make an annual fee payments of approximately HK\$10,869,000 (1999 : HK\$10,853,000) to their joint venture partners in Mainland China in the following year.
- (f) The Group holds a 51% interest in GTI which is a jointly controlled entity. The remaining 49% interest in GTI, which is held by the joint venture partner, has been pledged to the bank to secure a loan granted to GTI. A put option was granted by the Company to the bank to procure the Company to acquire the 49% interest in GTI with reference to the then outstanding loan balance.
- (g) Pursuant to a Concession Agreement dated 18 August 2000 entered into between WaterCo and the Guangdong Provincial Government, WaterCo agreed to appoint Guangdong Province Water Supply Project Administration General Bureau ("Project Bureau") to be in charge of the organisation and implementation of the engineering, procurement and construction of the Phase IV Renovation Project according to an Engineering, Procurement and Construction Contract ("EPC Contract") entered into with Project Bureau on 15 December 2000. The projected total construction cost is RMB4.7 billion. In the event that the ultimate cost exceeds the projected total cost, the Project Bureau is responsible for funding any overrun cost in accordance with the EPC Contract.

The cost of RMB4.7 billion will be financed by a non-interest bearing the loan facility of approximately RMB2.53 billion, which originates from a loan facility granted by Hong Kong Government to the Guangdong Provincial Government for the Phase IV Renovation Project, and an interest-bearing loan facility of RMB2 billion from a group of PRC banks at a rate of 5.589% per annum. None of such loan facility from the PRC banks has been utilised as at 31 December 2000.

- (ii) On 29 December 2000, the Company succeeded in acquiring an additional 6.77% interest in Teem (Holdings) Limited, which principally held 85% interest in Guang Dong Teem (Holdings) Limited ("GTH") and an additional 1.1% interest in GTH through a public auction held in Mainland China at a total consideration of RMB31,700,000 (or approximately HK\$29,886,000). The relevant conditional sale and purchase agreements were entered into by the Company on 19 January 2001. Upon the completion of these transactions, the Company will increase its effective interest in GTH from 56.82% as at 31 December 2000 to 63.67%. The consideration will be settled by the Company's RMB funding in Mainland China. As at 31 December 2000, the Company had commitments authorised but not contracted for amounting to approximately HK\$29,886,000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

48. CONTINGENT LIABILITIES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given for banking facilities granted and utilised by:				
— Wholly-owned subsidiaries	—	—	1,685,524	1,636,156
— Non wholly-owned subsidiaries	—	—	667,777	939,270
Guarantees given for banking facilities granted, in proportion of equity interest owned by the Company, and utilised by a jointly controlled entity	538,700	623,279	538,700	623,279
Guarantees given for banking facilities granted, in proportion of equity interest owned by the Company, and utilised by an associate	—	13,500	—	13,500
Guarantees given to banks in respect of performance bonds issued for:				
— A non wholly-owned subsidiary	19,819	19,819	19,819	19,819
— An associate	—	53,708	—	53,708
Guarantee given for banking facilities granted to a fellow subsidiary	19,723	—	19,723	—
Guarantee given for banking facilities granted to a minority shareholder of a subsidiary	—	13,158	—	—
Guarantees given in respect of mortgage loans made by banks to the Group's purchasers of properties	674,495	415,948	1,389	3,328
	1,252,737	1,139,412	2,932,932	3,289,060

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

48. CONTINGENT LIABILITIES (CONT'D)

- (a) In January 2001, a claim in respect of a guarantee which had previously been given by Guangdong Group (Shenzhen) Limited ("GD Shenzhen"), a 70% owned subsidiary of the Company, for banking facilities granted to an independent party was served by a PRC Bank on, inter alia, GD Shenzhen for the recovery of, inter alia, the sum of approximately RMB122 million together with interest and legal costs and expenses. GD Shenzhen is contesting the claim and legal proceedings are still in progress.

Based on legal advice, the directors are of the opinion that it is premature to give any indication as to the likely outcome on conclusion and, hence no provision has been made in these financial statements on accounts of the claim.

- (b) The Wharney Hotel, being owned by Sen International Ventures Corporation (Hong Kong) Limited ("Sen International"), a wholly-owned subsidiary of the Group, has disputes with its contractor in respect of certain works carried out by the contractor at the hotel. On 22 June 2000, the claim lodged by the contractor was for only approximately HK\$6,160,000. However, by January 2001 when the parties entered into arbitration as required under the agreement between them, the contractor has inflated its claims to approximately HK\$10,533,000. The claim consultant handling the matter for the hotel is of the view that the claim by the contractor is grossly exaggerated and that the hotel has also grounds to counterclaim against the contractor for, inter alia, defective works. The hotel is accordingly contesting the claim as well as pursuing its counterclaim in the arbitration proceedings which are currently under way. In any event, a provision in the sum of HK\$3,500,000 has been made for the claim at the year end. The provision is considered by the directors adequate in light of the advice of the claim consultant.
- (c) In 2000, Guangdong Nan Fang (Holdings) Co., Ltd. ("Nan Fang Holding"), a 56.34% owned subsidiary of the Group, proceeded by way of arbitration against its lessee in default of rental and other payments under a lease of its property. An arbitration award was granted in favour of Nan Fang Holdings in August 2000 whereby the lessee was ordered to surrender the property to Nan Fang and to pay to Nan Fang rental outstanding together with overdue charges of approximately RMB24,513,000 in total.

In July 2000, the lessee counterclaim against Nan Fang Holdings for approximately RMB6,749,000 in relation to the alleged breach of a contract pursuant to which Nan Fang Holdings is required to install and supply fixtures and utilities for certain units in the property. As at the balance sheet date, this arbitration proceedings were still in progress.

As the sum claimed by the lessee is substantially less than the sum claimed against the lessee, no provision is considered necessary by the directors at the balance sheet date.

48. CONTINGENT LIABILITIES (CONT'D)

- (d) In June 2000, a claim for approximately RMB13,768,000 was brought by a contractor against, *inter alia*, Guangdong Yingde Highway Ltd. ("Yingde"), a 70% owned subsidiary of the Group, in relation to the alleged non-payment for construction works completed and for the return of a deposit plus interest. As at the year end date, the proceedings were still in progress.

Based on legal advice, the claim is unlikely to be enforced against Yingde. No provision is considered necessary by the directors at the balance sheet date.

- (e) Full Arts Metal Works Limited ("Full Arts"), a 57.16% owned subsidiary of the Group, had terminated a sub-contract for the non-performance of a sub-contractor responsible for the design, supply and installation of granite products for a project in Mainland China during 1997. Full Arts also commenced proceedings against the sub-contractor claiming approximately HK\$34,000,000 as damages for its non-performance in 1997.

The sub-contractor also commenced proceedings against Full Arts, claiming approximately HK\$25,000,000 for the alleged non-payment of monies due under the sub-contract and for the costs of the alleged extra supply of materials in 1997.

The two legal actions were consolidated by the Court in 1997. The proceedings have reached the stage of discovery and the respective parties had exchanged their list of documents and mutually inspected the documents in 1999.

During the year, the sub-contractor was liquidated. The directors of GD Building, which held 100% interest in Full Arts, are considering taking proceedings against the second defendant, who was a then director of the sub-contractor and its guarantor.

As at the balance sheet date, the directors of GD Building and their legal advisers are of the opinion that the litigation is at its early stage and it is premature to give any reliable indication as to the likely outcome on conclusion. Also the directors of GD Building do not believe it is probable that any material loss will be suffered by the GD Building Group. In light of the above, the directors considered that no provision is necessary at the balance sheet date.

- (f) A supplier of granite products (the "Granite Supplier") for a project in Mainland China commenced proceedings against Full Arts in 1997, claiming approximately HK\$5,506,000 for an unsettled sum in respect of certain alleged supply of granite materials.

Based on legal advice, adequate provision has been made in the financial statements against the alleged claim and the estimated legal costs incurred by both the Granite Supplier and Full Arts up to the balance sheet date.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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48. CONTINGENT LIABILITIES (CONT'D)

- (g) A main contractor and an employer commenced proceedings against Full Arts claiming damages for the alleged non-performance of a sub-contract in 2000. It is the intention of Full Arts to contest the claims and proceed against the main contractor counter-claiming for the unsettled sum of approximately HK\$28,000,000.

Based on the legal advice, the directors are of the opinion that it is premature to give any indication as to the likely outcome on conclusion and, hence no provision has been made in the financial statements on account of damages claimed.

- (h) Full Arts terminated a sub-contract for non-performance of a sub-contractor responsible for the glass fabrication and installation for a project in Hong Kong in 1999. Full Arts commenced proceedings against the sub-contractor claiming approximately HK\$16,500,000 as damages for the non-performance and for also certain amount over-paid by Full Arts in 1999. The sub-contractor commenced proceedings against Full Arts in 1999, claiming approximately HK\$4,800,000 against Full Arts for the alleged non-payment of monies due under the sub-contract and for alleged loss of profit.

Based on legal advice, the directors are of the opinion that it is premature to give any reliable indication as to the likely outcome on conclusion and, hence no provision has been made in the financial statements on account of damages claimed by the sub-contractor.

- (i) Full Arts commenced proceedings against a sub-contractor claiming damages for non-performance of a sub-contract in 1999. The sub-contractor then commenced proceedings against Full Arts counter-claiming approximately HK\$10,033,000 as damages for breach of contract in 1999.

The proceedings have now reached the stage of discovery. Both parties are exploring the possibility of consolidating the two legal actions. Based on legal advice, the directors are of the opinion that it is premature to give any indication as to the likely outcome on conclusion, and hence no provision has been made in financial statements on account of damages claimed.

49. PLEDGE OF ASSETS

At 31 December 2000, certain of the Group's fixed assets, investment properties and bank deposits, with a total net book value of HK\$1,104,872,000 (1999: HK\$1,758,614,000) were pledged to secure general banking facilities granted to the Group.

Included in the above net book value of the pledged assets is an amount of HK\$1,038,608,000 (1999: HK\$1,540,031,000) related to pledged properties, plant and equipment.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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50. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Investments at cost:		
Listed	800,043	800,043
Unlisted	6,976,891	3,981,877
	7,776,934	4,781,920
Due from subsidiaries	6,394,884	6,602,440
Due to subsidiaries	(1,673,981)	(1,752,206)
	12,497,837	9,632,154
Provisions for diminutions in values	(3,011,110)	(2,846,242)
	9,486,727	6,785,912
Market value of listed shares as at 31 December	396,237	444,181

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
Admopeace Properties Limited	Hong Kong	HK\$2 Ordinary HK\$10,002 Non-voting Deferred	—	100%	Serviced apartments ownership and operation
Bateson Developments Limited	British Virgin Islands/ Hong Kong	US\$9 Ordinary US\$91 Non-voting Deferred	100%	100%	Property investment

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

50. INTERESTS IN SUBSIDIARIES (CONT'D)

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
Century Asia Enterprises Limited	Hong Kong	HK\$3	—	100%	Property investment
Chapel Hill Developments Limited	British Virgin Islands	US\$1	—	71.56%	Holder of trademarks
Crown South (Hong Kong) Limited	Hong Kong	HK\$2	—	71.56%	Sale of leatherware products
Dynasty International Industries Limited	Hong Kong	HK\$2	—	57.16%	Wholesale supplies of kitchen cabinets and sanitary-ware
Fill Success Investments Limited	Hong Kong	HK\$2 Ordinary HK\$2 Non-voting Deferred	—	100%	Hotel ownership
Fonno International Industrial Limited	Hong Kong	HK\$2	—	42.94%	Sale of leatherware products
Full Arts Metal Works Limited	Hong Kong	HK\$10,000,000	—	57.16%	Design, supply and installation of curtain walls and aluminum windows
[#] *GH Water Supply (Holdings) Limited	Cayman Islands	HK\$1,000,000 HK\$100 Class A special share HK\$10 Class B special share	81%	81%	Investment holding

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

50. INTERESTS IN SUBSIDIARIES (CONT'D)

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
Gold Star Assets Limited	Hong Kong	HK\$2	—	71.56%	Property investment
Goldworld Property Investments Limited	Hong Kong	HK\$3	—	100%	Property investment
廣東天貿（集團） 股份有限公司 (Guang Dong Teem Holdings) Ltd.) ⁽¹⁾	Mainland China	RMB840,000,000	8.57%	56.82%	Property investment and investment holding
Guangdong Brewery Holdings Limited	Bermuda/ Hong Kong	HK\$125,000,000	72%	72%	Investment holding
Guangdong Building Industries Limited	Hong Kong	HK\$84,218,010	57.16%	57.16%	Investment holding
粵海集團（深圳）有限公司 (Guangdong Group (Shenzhen) Ltd.) ⁽¹⁾	Mainland China	RMB238,000,000	70%	70%	Investment holding and property investment
Guangdong (H.K.) Tours Company Limited	Hong Kong	HK\$3,500,000 Ordinary HK\$2,000,000 Non-voting Deferred	100%	100%	Travel services
Guangdong Hotel Limited	Hong Kong	HK\$2 Ordinary HK\$5,000,000 Non-voting Deferred	—	100%	Hotel ownership and operation

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

50. INTERESTS IN SUBSIDIARIES (CONT'D)

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
Guangdong (International) Hotel Management Limited	Hong Kong	HK\$10,000	100%	100%	Hotel management
Guangdong Investment Finance (Cayman) Limited	Cayman Islands	US\$2	100%	100%	Finance services
[#] Guangdong Nan Fang (Holdings) Co. Ltd.	British Virgin Islands/ Mainland China	US\$10,000	56.34%	56.34%	Property investment
Guangdong Parking Limited	British Virgin Islands/ Hong Kong	US\$10	—	60%	Property investment
Guangdong Power (International) Limited	British Virgin Islands/ Hong Kong	US\$44,078,850	51%	51%	Investment holding
Guangdong Properties Holdings Limited	Hong Kong	HK\$2	100%	100%	Investment holding
Guangdong Property Agency Limited	Hong Kong	HK\$300,000	—	100%	Property agent
Guangdong Tannery Limited	Hong Kong	HK\$52,415,400	71.56%	71.56%	Investment holding
廣東天貿南方大廈 百貨有限公司 (Guangdong Teem Nanda Department Stores Ltd.) ⁽⁴⁾	Mainland China	RMB8,000,000	—	56.51%	Department stores operation

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

50. INTERESTS IN SUBSIDIARIES (CONT'D)

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
Guangdong Tours Transportation Limited	Hong Kong	HK\$100,000	—	100%	Transportation services
# *廣東粵港供水有限公司 # *(Guangdong Yue Gang Water Supply Company Limited) ⁽²⁾	Mainland China	HK\$6,116,000,000	—	80.19%	Water supply business
Guangdong Yingde Highway Ltd. ⁽²⁾	Mainland China	RMB93,200,000	—	70%	Investment in highway
Guangzhou Malting Co., Ltd. ⁽¹⁾	Mainland China	RMB108,840,000	—	51.6%	Manufacture of malt
廣州市番禺粵海 房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited) ⁽²⁾	Mainland China	RMB294,700,000	—	80%	Property investment and development
Guangzhou Yangcheng Malting Plant ⁽¹⁾	Mainland China	US\$11,000,000	—	51.6%	Manufacture of malt
Harbour Hill International Limited	Hong Kong	HK\$1,000,000	—	71.56%	Import and export trade
# High Return Enterprises Limited	British Virgin Islands/ Mainland China	US\$2	—	56.34%	Property investment
惠陽粵海房產發展有限公司 (Hui Yang Yue Hai Real Estate Development Ltd.) ⁽²⁾	Mainland China	RMB75,000,000	—	80%	Property investment

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

50. INTERESTS IN SUBSIDIARIES (CONT'D)

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
Jaromet Limited	Hong Kong	HK\$500,000	—	56.82%	General trading
Kan Park Holdings Limited	British Virgin Islands	US\$2	—	100%	Investment holding
Keysworth Limited	British Virgin Islands	US\$1	—	100%	Investment holding
Nanhai Tannery & Leather Products Co., Ltd. ⁽²⁾	Mainland China	US\$8,000,000	—	71.56%	Processing of cowhides and sheep skins and leather trading
New Cathay Hotel Limited	Hong Kong	HK\$2 Ordinary HK\$200,000 Non-voting Deferred	—	100%	Hotel ownership and operation
New China Success Limited	Hong Kong	HK\$2	100%	100%	Investment holding
Ningbo Malting Co., Ltd. ⁽³⁾	Mainland China	US\$16,000,000	—	51%	Manufacture of malt
Renaissance Building Supplies Limited	Hong Kong	HK\$2	—	57.16%	Trading of sanitary- ware
Qingdao Nanhai Tannery Limited. ⁽²⁾	Mainland China	US\$2,500,000	—	71.56%	Processing of cowhides and leather trading
Sen International Ventures Corporation (Hong Kong) Limited	Hong Kong	HK\$2	—	100%	Hotel operation

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

50. INTERESTS IN SUBSIDIARIES (CONT'D)

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
Shaoguan Power Plant (D) Ltd. ⁽¹⁾	Mainland China	US\$51,500,000	—	45.9%	Power plant operation
深圳粤海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.) ⁽²⁾	Mainland China	HK\$114,787,016	99%	99%	Hotel ownership and operation
Shenzhen Kingway Brewery Co., Ltd. ⁽¹⁾	Mainland China	US\$50,000,000	—	68.4%	Production, distribution and sale of beer, and investment holding
Shenzhen Kingway Brewing Co., Ltd. ⁽¹⁾	Mainland China	US\$12,000,000	—	62.64%	Production, distribution and sale of beer
Shenzhen Kingway Packaging Co., Ltd. ⁽¹⁾	Mainland China	US\$12,000,000	—	62.64%	Packaging of beer
Shenzhen Kingway Utility Co., Ltd. ⁽¹⁾	Mainland China	US\$12,000,000	—	62.64%	Provision of utilities for the production and packaging of beer
Sun Po (Hong Kong) Leather Ware Company Limited	Hong Kong	HK\$2	—	71.56%	Property investment
Supertime Development Limited	Hong Kong	HK\$30,000,000	100%	100%	Investment holding
Suzhou Yuehai Real Estate Development Co., Ltd. ⁽²⁾	Mainland China	US\$6,000,000	100%	100%	Property investment

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

50. INTERESTS IN SUBSIDIARIES (CONT'D)

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
Time Wise Profits Limited	British Virgin Islands	US\$1	—	71.56%	Import and export trade
Xuzhou Gangwei Colour Package Co., Ltd. ⁽²⁾	Mainland China	RMB50,000,000	—	71.56%	Manufacture and sale of packing materials
Xuzhou Nanhai Leather Factory Co., Ltd. ⁽²⁾	Mainland China	US\$5,000,000	—	71.56%	Processing of cowhides and leather trading
Yue Hai Hotel Zhuhai ⁽³⁾	Mainland China	US\$10,000,000	—	100%	Hotel, serviced apartment and office ownership and operation
Yue Sheng Finance Limited	Hong Kong	HK\$2	100%	100%	Finance and investment
Zhongshan Power (Hong Kong) Limited	Hong Kong	HK\$100	95%	95%	Investment holding
番禺協聯皮具有限公司 ⁽²⁾	Mainland China	US\$780,000	—	42.94%	Manufacture and sale of leatherware products
番禺國穎皮具手袋有限公司 ⁽³⁾	Mainland China	HK\$7,800,000	—	71.56%	Manufacture and sale of leatherware products

* Audited by certified public accountants other than Ernst & Young

Acquired during the year

Notes: 1. Sino-foreign equity joint venture
2. Sino-foreign co-operative joint venture
3. Wholly-owned foreign enterprise
4. Limited company established in Mainland China

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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50. INTERESTS IN SUBSIDIARIES (CONT'D)

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

The subsidiaries acquired during the year contributed HK\$4,424,000 to the Group's turnover and HK\$66,650,000 to the Group's loss after tax.

The subsidiaries transferred to GDH Limited during the year contributed HK\$212,467,000 to the Group's turnover and HK\$192,758,000 to the Group's loss after tax.

The results of the subsidiaries acquired and disposed of in the prior year had no significant impact on the Group's turnover and loss after tax for the year ended 31 December 1999.

Due to the disengagement arrangements regarding certain subsidiaries and their significant accumulated losses, the Group's interests in these subsidiaries were deconsolidated and full provisions were made in the prior year as summarised below.

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		
Unlisted shares, at cost	—	—	231,671	174,400
Net liabilities deconsolidated	(752,130)	(809,302)	—	—
Amounts due from deconsolidated subsidiaries	497,113	727,263	282,381	509,006
	(255,017)	(82,039)	514,052	683,406
Provisions for guarantees granted to banks of deconsolidated subsidiaries	601,779	601,779	582,885	582,885
	346,762	519,740	1,096,937	1,266,291
Provision for diminution in values	(346,762)	(519,740)	(1,096,937)	(1,266,291)
	—	—	—	—

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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50. INTERESTS IN SUBSIDIARIES (CONT'D)

Particulars of the principal deconsolidated subsidiaries at the balance sheet date are as follows:

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by Company Group		Principal activities
[#] Guang Dong Nanhua Cement Limited	Mainland China	RMB500,000,000	—	70%	Manufacture of cement
Guangdong Construction Materials (International) Limited	Hong Kong	HK\$2	—	100%	Investment holding
[#] 廣州市南方大廈有限公司 (Guangzhou Nanfang Dasha Co., Ltd.)	Mainland China	RMB262,160,334.16	56.01%	56.01%	Retailing

The post-deconsolidation results of these subsidiaries not dealt with in the financial statements of the Company in prior year were insignificant.

[#] Sino-foreign equity joint venture

During the year, following changes in the deconsolidated subsidiaries are as follows:

- (a) On 19 October 2000, Guangzhou Nanfang Dasha Co., Ltd. ("Nanfang Dasha") partially settled its amount due to the Company of HK\$84,531,000 by disposal of its entire 56.34% interest in Nan Fang Holdings (including Nanfang Dasha's shareholders loan to Nan Fang Holdings of HK\$84,531,000) at a consideration of HK\$84,531,000 to the Company.

Upon the completion of this transaction, Nan Fang Holdings became a 56.34% owned subsidiary of the Company and provisions previously made against the Company's amounts due from Nanfang Dasha and Nan Fang Holdings were written back to the extent of the net asset value attributable to the Group recovered including the amount due from Nan Fang Holdings assigned from Nanfang Dasha as noted above of HK\$84,531,000 and amount originally due from Nan Fang Holdings of HK\$88,446,000 as a result of the aforesaid transaction amounting to HK\$66,412,000.

- (b) On 28 December 2000, the Company's amount due from Nanfang Dasha of HK\$57,172,000 was capitalised and credited as registered capital of Nanfang Dasha.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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51. RELATED PARTY TRANSACTIONS

In addition to the transactions set out elsewhere in the financial statements, the Group has the following significant related party transactions during the year

(a)	Note	2000 HK\$'000	1999 HK\$'000
Sale of electricity to a minority shareholder of a subsidiary	(i)	(633,407)	(592,165)
Interest expense to the GDE Group	(ii)	2,069	2,171
Interest expense to minority shareholders of subsidiaries	(iii)	4,352	4,938
Annual fees to minority shareholders of subsidiaries	(iv)	10,527	12,195
Compensation of profit guaranteed by minority shareholders of a subsidiary	(v)	—	(10,877)
Gain on possession of additional interest in a subsidiary from a then minority shareholder as compensation for an uncollectible receivable	(vi)	(12,697)	—
Rental income from fellow subsidiaries	(viii)	(1,416)	—

Notes:

- (i) Under an operating agreement between the subsidiary and its minority shareholder dated 23 April 1994, the minority shareholder agreed to purchase all the electricity generated by the subsidiary. Sale of electricity was made at the price stipulated by the relevant government authority in Mainland China. The balance with the minority shareholder of a subsidiary as at 31 December 2000 amounted to HK\$166,915,000 (1999: HK\$128,232,000).
- (ii) The interest expense arose from a loan advanced to GD Timber by the GDE Group, details of which, including the terms, are disclosed in note 39.
- (iii) The interest expense arose from funds advanced by minority shareholders of the Company's subsidiaries, details of which, including the terms, are disclosed in note 38.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

51. RELATED PARTY TRANSACTIONS (CONT'D)

- (iv) The annual fees paid by the Group are in accordance with the respective Sino-foreign Co-operative joint venture agreements.
- (v) The compensation on profit guaranteed was calculated in accordance with the terms of the agreements relating to the acquisitions of the subsidiaries involved. Pursuant to the acquisition agreements, the minority shareholders guaranteed that the audited consolidated net profit after tax of those subsidiaries would not be less than certain agreed amounts.
- (vi) On 16 November 1999, Guangdong Tannery Limited ("GD Tannery"), a 71.56% owned subsidiary of the Company, and its then minority shareholder entered into a share pledge agreement (the "Share Pledge Agreement"). Pursuant to the Share Pledge Agreement, the then minority shareholder pledged its entire interest in Gastor Enterprises Limited ("Gastor"), a then 60% owned subsidiary of GD Tannery, (the "Pledged Shares") to GD Tannery for the collection of trade receivables from a customer of the Group. GD Tannery had right to possess the Pledged Shares if the customer failed to settle the Group's receivables.

On 30 December 2000, the Group made full provision for the outstanding balance due from the aforesaid customer and GD Tannery exercised the right to possess the Pledged Shares valued at HK\$12,697,000 to reduce the provision made. Since that date, Gastor became a wholly-owned subsidiary of GD Tannery.

- (vii) On 1 January 2000, GD Tannery entered into a share allotment and transfer agreement (the "Agreement") with the then minority shareholders of Gastor to rationalise the Gastor Group's corporate structure. Pursuant to the Agreement, the following transactions took place:
 - (1) A minority shareholder transferred its 13.33% interest in Gastor to another minority shareholder; and
 - (2) Gastor transferred its entire 100% interest in Alpha Universal Limited ("Alpha") to GD Tannery and the minority shareholder (which transferred its 13.33% interest in Gastor in transaction (1) above) in the proportion of 60% and 40% at consideration of US\$6 and US\$4, respectively.

On the same date, these transactions were completed. The Group's effective equity interests in Gastor and Alpha were not affected as a result of these transactions.

51. RELATED PARTY TRANSACTIONS (CONT'D)

- (viii) The rental income arose from letting of certain of the Group's office premises to fellow subsidiaries. Details of the terms of these leases are set out in the Company's announcement dated 21 August 2000.
- (b) Certain minority shareholders of the Company's subsidiaries have guaranteed bank loans made to the respective subsidiaries at nil consideration. The outstanding bank loans guaranteed by the minority shareholders of subsidiaries as at 31 December 2000 amounted to HK\$11,204,344 (1999: HK\$159,924,000).
- (c) The partner of a jointly controlled entity of the Group has provided a corporate guarantee, in proportion to its shareholding held in respect of a bank loan granted to the jointly controlled entity of HK\$1,056,274,000 (1999: HK\$1,222,115,000) at nil consideration.
- (d) Prior to the Company's acquisition of an 81% interest in GH Holdings, certain of GH Holdings' indebtedness were owed to certain subsidiaries of GDH Limited pursuant to the GDE Restructuring. Details of such indebtedness are set out in note 35(b) as GH Holdings Debts. Upon the completion of the Acquisition, these subsidiaries of GDH Limited became fellow subsidiaries of the Group.
- (e) In the prior year, GD Finance advanced a loan to the GDE Group. The Loan was outstanding in an aggregate amount of HK\$166,681,000 as at 31 December 1999, details of which are set out in note 28. On 22 December 2000, GD Finance was transferred out of the Group as a result of the Acquisition.
- (f) In the prior year, GDE and the Company had, jointly and severally guaranteed a bank loan of HK\$28,093,000 granted to GD Finance. GDE had also unilaterally guaranteed bank loans made to GD Finance totally HK\$838,223,000. These bank loans are guaranteed by GDE and the Company at nil consideration.

As referred to in paragraph (e) above, on 22 December 2000, GD Finance was transferred out of the Group as a result of the Acquisition.

- (g) A minority shareholder of a subsidiary of the Company had provided a guarantee to a third party for a loan made available to the subsidiary amounting to RMB5,000,000 (1999: RMB5,000,000) as at 31 December 2000.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

51. RELATED PARTY TRANSACTIONS (CONT'D)

- (h) As at 31 December 1999, Guangdong Group (Shenzhen) Ltd. ("GD Shenzhen"), a 70% owned subsidiary of the Company, had outstanding guarantees to banks in Mainland China in an aggregate amount of RMB14,000,000 in respect of the unsecured bank facilities granted by such banks to Guangdong Enterprises (Holdings) Shenzhen Corporation ("Shenzhen Group"), the minority shareholder of GD Shenzhen.

During the year, the abovesaid bank loans guaranteed by GD Shenzhen were fully repaid and the guarantee was released.

52. CONNECTED TRANSACTIONS

In addition to note 51 above, the connected transactions disclosed in accordance with Chapter 14 of the Listing Rules are as follows:

- (a) The Group made advances to Full Arts to finance its working capital. In addition, as part of the Debt Restructuring, certain bank loans of Full Arts totalling approximately HK\$209,000,000 were taken up by the Company in December 2000. At the balance sheet date, the total amount owed by Full Arts to the Company and the Company's wholly-owned subsidiary were respectively HK\$283,696,000 (1999: HK\$71,513,000) and HK\$24,222,000 (1999: HK\$8,200,000). All of such balances were subsequently assigned to Visionaire Limited, a holding company of Full Arts. The loans bear interest at rates ranging from United States prime rate to 2.375% above HIBOR per annum and have no fixed terms of repayment. Subsequent to the balance sheet date, the aforesaid indebtedness of Full Arts' holding company owed to the Group was waived, as a condition precedent for the Company's disposal of its entire 57.16% interest in GD Building to Hi Sun, details of which are set out in note 6.
- (b) A wholly-owned subsidiary of the Company has granted a mortgage loan to Full Arts for the acquisition of a property in Beijing. At the balance sheet date, the outstanding balance of the loan was HK\$2,585,000 (1999: HK\$2,585,000), which is secured by the Beijing property of Full Arts. The loan bears interest at 1.5% above The Hongkong and Shanghai Banking Corporation Limited's best lending rate per annum and is fully repayable within four years from the balance sheet date by monthly instalments. As a condition precedent for the Company's disposal of its entire 57.16% interest in GD Building to Hi Sun, the aforesaid indebtedness of Full Arts owed to the Group was waived subsequent to the balance sheet date, details of which are set out in note 6.

52. CONNECTED TRANSACTIONS (CONT'D)

- (c) A fellow subsidiary (which was a wholly-owned subsidiary of the Company prior to the Acquisition) of the Company had a loan to Buildcon Building Supplies Limited ("BBS"), a 37.15% owned subsidiary of the Company, with the balance outstanding at the balance sheet date of HK\$1,000,000 (1999: HK\$1,000,000). The loan is secured by a joint and several guarantee from a director of BBS and an ex-director of BBS and GD Building, bears interest at 2% above Hong Kong Prime rate and is repayable on demand. As part of the completion arrangements for the disposal of the Company's interest in GD Building, the Company had since disposed of all its interest in BBS.
- (d) (i) As at 31 December 1999, the total sum of HK\$200,486,000 was due from 廣州市南方大廈有限公司 (Guangzhou Nanfang Dasha Co., Ltd.) ("Nanfang Dasha") (a 56.01% owned subsidiary of the Company) and its subsidiary. Part of the outstanding amount due from Nanfang Dasha was settled in the manner as set out in paragraph (ii) below. The remaining balance was capitalised as part of the share capital of Nanfang Dasha so as to completely discharge the Company's capital injection obligations in respect of Nanfang Dasha and thereby paving the way for the contemplated disposal of all the Company's interest in Nanfang Dasha.
- (ii) On 19 October 2000, the Company entered into an agreement with Nanfang Dasha to acquire its 56.34% interest in, together with its shareholders' loan to Nan Fang Holdings at a consideration of RMB90,000,000 which was settled by offsetting partially Nanfang Dasha's amounts due to the Company, details of which are set out in note 50(a). At the balance sheet date, the Company's amount due from Nan Fang Holdings amounted to HK\$189,520,000. Included in such balance is an unsecured loan of HK\$81,471,000, which bears interest at 9% per annum and has no fixed terms of repayment. The remaining balance of HK\$108,049,000 is unsecured, interest-free and has no fixed terms of repayment.
- (e) At the balance sheet date, advances made by the Company to Guangdong Brewery Holdings Limited ("GD Brewery"), a 72% owned subsidiary of the Company, were outstanding in the aggregate amount of HK\$96,708,000 (1999 : HK\$220,193,000). The loans were used to finance the construction of plants and to purchase machinery and equipment for the brewing operations of subsidiaries of GD Brewery. The outstanding loan balances are unsecured, bear interest at rates ranging from six months' FIBOR plus 0.65% to six months' LIBOR plus 0.65% per annum and are fully repayable within five years from the balance sheet date.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

52. CONNECTED TRANSACTIONS (CONT'D)

- (f) The GD Brewery group made advances to Shenzhen Kingway Brewery Co., Ltd. ("SKB") and Shenzhen Kingway Brewing Co., Ltd. ("SBL"), 95% and 87% owned subsidiaries of GD Brewery, respectively, to finance the construction of plants and to purchase machinery and equipment for their brewing operations.

At the balance sheet date, the amount due from SKB to the GD Brewery group amounted to HK\$232,747,000 (1999: HK\$265,621,000). Included in the amount due from SKB to the GD Brewery group is an unsecured loan of HK\$109,102,000 (1999: HK\$108,738,000) which bears interest at long term lending rate per annum announced by the Bank of China and is not repayable within one year from the balance sheet date. The remaining balance of HK\$123,645,000 (1999: HK\$156,883,000) is unsecured, bears interest at six months' LIBOR plus 0.75% per annum (1999: six-month LIBOR plus 0.75% per annum) and is fully repayable within five years from the balance sheet date.

At the balance sheet date, the unsecured loan balance due from SBL to Morefit Limited, a 100% owned subsidiary of GD Brewery, amounted to HK\$193,373,000 (1999: HK\$227,801,000) which bears interest at six months' LIBOR plus 2% per annum and of which HK\$50,136,000 (1999: 22,780,000) is repayable within the year 2001. The remaining balance of HK\$143,237,000 (1999: HK\$205,021,000) is not repayable within one year from the balance sheet date.

- (g) GD Brewery executed certain guarantees for banking facilities granted to SKB for its operations. At the balance sheet date, the guarantees granted amounted to HK\$28,283,000 (1999: HK\$108,012,000).
- (h) The Company made advances to 廣東天貿(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.) ("GTH"), a 56.82% owned subsidiary, to finance GTH's working capital. At the balance sheet date, the outstanding loan balances, which amounts to approximately HK\$18,855,000 (1999: HK\$18,809,000) in aggregate, are unsecured, bear interest at rates ranging from 5.85% to 5.9% per annum and are fully repayable within one year from the balance sheet date.
- (i) In the prior year, 廣東天貿南方大廈百貨有限公司 (Guangdong Teem Nanda Department Stores Ltd.), a 56.51% owned subsidiary, made an advance to the Company. The outstanding loan balance of HK\$18,785,000 (1999: HK\$18,785,000) was unsecured, bore interest at rates ranging from 6.85% to 7.39% per annum and was fully repaid during the year.

52. CONNECTED TRANSACTIONS (CONT'D)

- (j) The Group made an advance to Funai International Pte Ltd ("Funai"), a 60% owned subsidiary, to finance Funai's working capital. At the balance sheet date, the outstanding loan balance, which amounts to HK\$209,647,000 (1999: HK\$209,769,000), is unsecured, bears interest at 7.5% per annum and has no fixed terms of repayment. Full provision was made in previous year.

The minority shareholder of Funai was liable to the Group under certain personal guarantees, with the outstanding balance amounting to US\$2,250,000 (1999: US\$2,250,000) at the balance sheet date. The balance is unsecured, interest-free and is repayable on demand. Full provision was made in previous year.

Since the balance sheet date, the Group has completed its disengagement from Funai. The Group's interest in Funai has been sold to the minority shareholder of Funai. The total sum of US\$2,225,000 (of which US\$325,000 was received during the year and the balance after the balance sheet date) was received by the Group in full and final settlement of all outstanding claims among all the parties.

- (k) In the prior year, the Group made an advance to 廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited) ("GPY"), a 80% owned subsidiary of the Company, to finance its property development projects. The outstanding loan balance of GPY, amounting to HK\$39,865,000 (1999: HK\$39,865,000), was unsecured, bore interest at rates ranging from 9.5% per annum to 10.5% per annum and was fully repaid during the year.
- (l) The Group made advance to Guang Dong Nanhua Cement Limited, a 70% owned subsidiary of the Group, to finance its expansion projects. At the balance sheet date, the outstanding loan balance, which amounts to HK\$364,344,000 (1999: HK\$364,344,000), is unsecured, bears interest at the bank lending rate prevailing in Mainland China and has no fixed terms of repayment. Full provision was made in the prior year.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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52. CONNECTED TRANSACTIONS (CONT'D)

- (m) The Company made an advance to Zhongshan Power (Hong Kong) Limited ("ZPHK"), a 95% owned subsidiary of the Company, to finance its investment in a power plant project. At the balance sheet date, the outstanding loan balance, which amounts to US\$6,156,000 (1999: US\$6,156,000), is unsecured, interest-free and has no fixed terms of repayment. Subsequent to the balance sheet date, the ZPHK's amount due to the Company was assigned to a minority shareholder of ZPHK as part of the terms and conditions for the disposal of the Company's interest in ZPHK, details of which are set out in note 53(i)(b).
- (n) The Company's wholly-owned subsidiary made a loan to Zhongshan Power Plant, a contractual joint venture of ZPHK, to finance its expansion of the power plant project. At the balance sheet date, the outstanding balance, which amounts to US\$17,500,000 (1999: US\$20,000,000), is secured, bears interest at 14.25% per annum and is repayable by 10 equal annual instalments commencing from April 1998. As a condition precedent for the disposal of the Company's interest in ZPHK, the aforesaid indebtedness of the Zhongshan Power Plant due to the Group will be repaid in full together with interest.
- (o) At the balance sheet date, an advance made by the Group to Ningbo Malting Co., Ltd. ("NBM"), a 51% owned subsidiary, was outstanding in the amount of approximately HK\$28,019,000 (1999: HK\$27,914,000). The loan, which was advanced to finance NBM's working capital, is unsecured, bears interest at 7.5% per annum and is repayable in accordance with the terms set out in the Bank Debt Restructuring Agreement of NBM.
- (p) As at the balance sheet date, the Company had outstanding guarantees to (i) Bank of East Asia Guangzhou Branch granted on 6 May 1998; and (ii) Société Générale Guangzhou Branch granted on 18 December 2000 (previously, with Société Générale Shanghai Branch granted on 14 July 1998) together totally approximately of HK\$58,495,000 (1999: HK\$66,060,000) in respect of banking facilities granted to NBM. NBM is held as to 10% by GDF (Ningbo) Limited. The interest rates payable on the banking facilities ranged from LIBOR plus 1.25% per annum to LIBOR plus 2.375% per annum.

52. CONNECTED TRANSACTIONS (CONT'D)

- (q) As at the balance sheet date, the Company had outstanding guarantees to (i) Bank of East Asia Guangzhou Branch granted on 6 May 1998; and (ii) Société Générale Guangzhou Branch granted on 26 June 1996 (which was amended on various dates up to and including 30 November 1999), in an aggregate amount of HK\$58,495,000 (1999: HK\$89,375,000) in respect of banking facilities granted to Guangzhou Malting Co., Ltd. ("GZM"), which is 51.6% held by the Group. GZM is 29.5% held by Guangdong Development Fund (Guangmai) Ltd. The interest rates payable on the banking facilities ranged from LIBOR plus 0.75% per annum to LIBOR plus 2.375% per annum.
- (r) The Company's non wholly-owned subsidiary executed certain guarantees amounting to HK\$10,572,000 (1999: HK\$10,557,000) for banking facilities granted to Fonno International Industrial Limited ("Fonno"), a 42.94% owned subsidiary. At the balance sheet date, the Group also advanced an aggregate sum of HK\$3,609,000 (1999: HK\$3,835,000) to Fonno to finance its operation. The balances are unsecured, interest-free and have no fixed terms of repayment.
- (s) During the year, the Group made advances to 番禺麗江花園物業管理有限公司 (Panyu Riverside Garden Property Management Co. Ltd.), a 64% owned subsidiary of the Group. As at 31 December 2000, an aggregate amount of RMB34,286,000 (1999: nil) was outstanding. Such outstanding balances are unsecured, interest free and have no fixed terms of repayment.
- (t) The Company executed certain guarantees for banking facilities granted to certain of its non wholly-owned subsidiaries/a jointly controlled entity for their operations and expansion projects. The tenures of the guarantees range from one to four years from the respective dates of granting. At the balance sheet date, details of the guarantees are as follows:
 - (i) HK\$156,000,000 (1999: HK\$156,000,000) for banking facilities granted to Guangdong Parking Limited, a 60% owned subsidiary;
 - (ii) HK\$701,937,000 (1999: HK\$699,462,000) for banking facilities granted to GTH (a mortgage over Teem Plaza was executed by GTH in favour of the Company in consideration of the guarantee granted). Subsequent to the balance sheet date, the aforesaid guarantee from the Company was released.
 - (iii) HK\$58,495,000 (1999: HK\$58,289,000) for banking facilities granted to Harbour Hill International Limited, a 71.56% owned subsidiary;

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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52. CONNECTED TRANSACTIONS (CONT'D)

- (iv) HK\$76,502,000 (1999: HK\$83,236,000) for banking facilities granted to Prospect Top Developments Limited, a 51% owned subsidiary;
- (v) HK\$77,993,000 (1999: HK\$77,718,000) for banking facilities granted to Funai which was jointly and severally guaranteed by Guangdong (H.K.) Tours Company Limited, a wholly owned subsidiary of the Company, and the Company; and
- (vi) HK\$676,199,000 (1999: HK\$673,815,000) for banking facilities granted to GTI.

In the prior year, the Company executed guarantee for a banking facility of HK\$13,000,000 granted to Jaromet Limited, a 56.82% owned subsidiary. During the year, such banking facility was settled and the guarantee by the Company released.

- (u) On 29 December 1999, the Company entered into a conditional sale and purchase agreement with Guangdong Enterprises (Holdings) Shenzhen Corporation at a consideration of RMB38,000,000 for the acquisition of a further 29% interest in 深圳粤海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.), a then 70% owned subsidiary of the Company which owns and operates the Guangdong Hotel in Shenzhen. The acquisition was completed on 24 October 2000 and details of the transaction are set out in the Company's announcement dated 29 December 1999.
- (v) On 22 December 2000, the Company completed its acquisition of an 81% interest in GH Holdings from GDH Limited ("GDH") pursuant to a conditional agreement dated 16 December 1999 entered into between the Company and GDH. The consideration for the acquisition and the injection of the cash sum of US\$20,000,000 from GDH to the Company was satisfied by the Company in the following manner:
 - (i) the allotment and issue to GDH, Guangdong Trust Limited and Goldman Sachs International, a total of 2,300,000,000 new Ordinary Shares;
 - (ii) the possible allotment and issue to GDH of up to 330,000,000 additional Ordinary Shares subject to the terms of an earn-out agreement entered into between GDH and the Company;
 - (iii) the transfer of the Group's entire interests in Guangdong Finance Co., Limited ("GD Finance") and Guangdong Timber Limited ("GD Timber") to GDH;

52. CONNECTED TRANSACTIONS (CONT'D)

- (iv) the assignment by the Group to GDH of the aggregate amount of loans advanced to GD Timber and its subsidiaries ("the "GD Timber Group");
- (v) the assignment by the Group to GDH of all rights and claims and benefit of the Group against GD Finance and its subsidiaries (other than loans advanced by the Group) and the GD Timber Group;
- (vi) the assignment by the Group to GDH and the release and wavier of all rights and claims and benefit of the Group against GDE and its subsidiaries arising under:
 - an agreement dated 6 November 1997 between GDE and the Company relating to the acquisition of GD Finance by the Company
 - an agreement dated 26 May 1997 between GDE and the Company relating to the share allotment and deferral in respect of GD Timber to the Company
 - an agreement dated 6 November 1997 between Jing Mei Travel & Trading Company Limited, Prosperous Dragon Limited and the Company relating to, amongst other things, the acquisition by the Company of the entire equity interest in each of Yue Hai Hotel, Zhuhai and Janemary Estate Development Co., Limited.
- (w) (a) A wholly-owned subsidiary of the Company, Bateson Developments Limited ("Bateson"), as landlord, entered into 6 separate agreements ("the Agreements") in respect of the tenancies for premises located in Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong ("GDI Tower") with the following parties respectively, as tenant:
 - (i) Guangdong Enterprises (Holdings) Limited ("GDE");
 - (ii) Guangdong Industry Material Limited;
 - (iii) Guangdong Real Estate (Holdings) Limited;
 - (iv) Guangnan (Holdings) Limited ("Guangnan");
 - (v) Yong Sheng Limited ("Yong Sheng"); and
 - (vi) Guangdong Finance Co., Limited ("GD Finance").

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

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52. CONNECTED TRANSACTIONS (CONT'D)

The rentals in respect of each of the Agreements were negotiated between the parties on an arm's length basis and determined by reference to valuation reports prepared by an independent professional property value on 16 August 2000. Details of the transactions are set out in the Company's announcement dated 21 August 2000. (Upon the completion of the debt restructuring of the GDE Group in December 2000, there have been substantial changes in the GDE Group corporate structure. As a result, even though the terms remain unchanged, the parties ultimately taking up the tenancies may be different from those previously named in the aforesaid announcement.)

Subsequent to the balance sheet date, the agreement for the letting to Guangnan was terminated by both parties by mutual consent. The premises were repossessed by Bateson and have since been let out to other parties.

- (b) A non wholly-owned subsidiary of the Company, Guangdong Brewery Holdings Limited ("GD Brewery"), as transferor, entered into an agreement with Guangnan for the transfer of certain chattels and equipment to Guangnan. Details of the transaction are set out in the Company's announcement dated 22 August 2000. Subsequent to the balance sheet date, the agreement was terminated by both parties by mutual agreement and the chattels and equipment in question was repossessed by GD Brewery. GD Brewery is in the course of implementing alternative disposition arrangements for such chattels and equipment.
- (x) In the prior year, advances made by GD Timber to its 60% owned subsidiaries, Guangdong Dragon Timber Development Co. ("GTD") and Guang Dong Konland MDF Board Development Company Limited ("GKD"), were outstanding as at 31 December 1999 in the amount of HK\$53,549,000 and HK\$21,158,000, respectively. Such advances were made to finance GTD's and GKD's business in manufacturing of timber-related products. These amounts were unsecured, bore interest at 8.5% per annum and were repayable on demand.

On 22 December 2000, GD Timber were transferred out of the Group as a result of the Acquisition.

53. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following significant post balance sheet events:

- (i) As the Company has announced in the past, the Group will be disengaging from its non-core businesses. Also as part of its debt restructuring, the Group has to embark upon a series of assets disposal programmes to raise funds for debt reduction. Such exercises have already been in progress. The disposals which have materialized as a result after the balance sheet date are as follows:

- (a) On 10 February 2001, the Company entered into a sale and purchase agreement with an independent party for the disposal of its entire 57.16% equity interest in GD Building at a consideration of approximately HK\$31.48 million. This disposal transaction was completed on 3 March 2001. Pursuant to the sale and purchase agreement, all intercompany indebtedness owed to the Group by the GD Building group was waived upon completion.

Details of this transaction are set out in the Company's announcement dated 14 February 2001 and in the GD Building's announcement dated 15 February 2001. Further information was also disclosed in note 6.

- (b) The Company entered into a conditional sale and purchase agreement on 13 February 2001 for the Company's disposal of its entire 95% equity interest in and its shareholder's loans to ZPHK. The consideration, including compensation for the discontinuation of certain guaranteed profits, is approximately US\$16.76 million. The Directors believe that there will be a gain on disposal of this investment. In addition, as a condition precedent to the completion of the sale, Zhongshan Power Plant, the contractual joint venture held by ZPHK is required to fully repay all its indebtedness to Yue Sheng Finance Limited, a wholly-owned subsidiary of the Company, together with interest. Further information was also disclosed in note 17.
 - (c) On 15 January 2001, the Company entered into a conditional sale and purchase agreement with GDH Limited for the Company's disposal of its entire 70% equity interest in GD Shenzhen and a receivable of RMB1,421,296 owing by GD Shenzhen to the Company for a total consideration of HK\$206 million. The disposal was approved by the Company's independent shareholders at an extraordinary general meeting held on 21 February 2001 and was subsequently completed on 12 April 2001. This disposal would not result in any significant gain to the Group.

Details of this transaction are set out in the Company's announcement date 15 February 2001.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

GUANGDONG INVESTMENT LIMITED

31 December 2000

53. POST BALANCE SHEET EVENTS (CONT'D)

- (d) A preliminary agreement has been entered into between the Company and an independent party on 20 March 2001 for the disposal of 70% interest in Nanhua Cement held by Guangdong Construction Materials (International) Limited ("GCM") for a total consideration of RMB30 million. GCM, which was a wholly owned subsidiary of the company, has been deconsolidated from the Group's financial statements in prior year. When completed, the disposal would result in increase of net worth of the Group as full provision has previously been made by the Company in prior year against its entire interests in the GCM Group as part of the process for the Company to disengage from non-core businesses.
- (e) GD Tours, a wholly owned subsidiary of the Company, entered into sale and purchase agreements on 2 February 2001 for the disposal of certain of its hotel properties and investment properties at consideration totalling HK\$300 million. This disposal would not result in any significant loss to the Group as a result of the revaluation deficit accounted for as at 31 December 2000.
- (ii) On 12 March 2001, a PRC bank agreed to renew credit facilities of RMB100,000,000 currently granted to 71.56% non-wholly owned subsidiary of the Group for 2 years. As at the balance sheet date, the Group had utilised RMB31,000,000 of the facilities.
- (iii) On 9 March 2001, Chapel Hill Developments Limited ("Chapel Hill"), a wholly-owned subsidiary of GD Tannery, entered into a licence agreement with an independent third party for licensing its trademarks for two years at HK\$2,000,000 per annum. On 9 April 2001, the Group also entered into a conditional sale and purchase agreement with that independent third party regarding the disposal of GD Tannery's 25% equity interest in Chapel Hill at a consideration of HK\$8,250,000.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 22 April 2001.