

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries, made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

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

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

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Joint ventures

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

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

(e) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries, associated companies and jointly controlled entities acquired and is taken to reserves in the year of acquisition.

(f) Fixed assets

(i) Fixed assets

Fixed assets other than investment properties and production facilities under construction are stated at cost less accumulated depreciation or amortisation. The cost of an asset comprises its purchase price and direct attributable costs, including related borrowing cost, of bringing the asset to its present working condition and location for its intended use.

(ii) Investment properties

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

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

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

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

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(f) Fixed assets (cont'd)

(iii) Other properties

Leasehold land and buildings are stated at costs less accumulated depreciation. Depreciation on leasehold land and buildings is calculated to write off their carrying amounts over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. Carrying amount of a leasehold land and building is the amount at which it is included in the balance sheet after deducting any accumulated depreciation and, if any, its estimated residual value. The principal annual rates used for this purpose are 2 to 7 per cent per annum.

(iv) Toll highways

Interests in toll highways and bridges represent their respective operating rights.

Depreciation of toll highways and bridges is provided on the basis of a sinking fund calculation where annual depreciation amounts compounded at rates from 3.9 to 7 per cent per annum will be equal to the cost of the relevant toll highways and bridges at the end of the joint venture periods.

(v) Production facilities under construction

Production facilities under construction are stated at cost which comprise costs of construction, purchase cost of plant and machinery pending installation and interest charges arising from borrowings used to finance the construction.

No depreciation is provided for production facilities under construction until they are completed and put into commercial use.

(vi) Depreciation on other fixed assets

Depreciation on other fixed assets is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Plant and machinery and tools	5 to 33 per cent
Leasehold improvements, furniture, fixtures and office equipment	20 per cent
Motor vehicles	20 to 33 per cent

(vii) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(f) Fixed assets (cont'd)

(viii) *Cost of restoring and improving of fixed assets*

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

(ix) *Impairment of fixed assets*

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

(g) Assets under leases

(i) *Finance leases*

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, are accounted for as finance leases. Finance leases are capitalised at the inception of the finance leases at the lower of the fair value of the asset or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in the long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(h) Investments securities and other investments

(i) *Investment securities*

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(h) Investments securities and other investments (cont'd)

(ii) *Other investments*

Other investments held for long term are stated at cost less any aggregate amortisation and any provision made to the extent that the Directors consider significant permanent diminution in value other than temporary has taken place. If the rights and interest of investments are surrendered by the Group upon the termination of related joint venture period, amortisation is provided to write off its cost over the joint venture period on the straight-line basis. The results of other investments are accounted for on the basis of dividends received and receivable.

(i) Properties under development

Properties under development are stated at cost which comprises land at cost, development and construction expenditures net of incidental rental income, borrowing costs capitalised and other direct costs attributable to the development, plus attributable profits recognised on the basis set out in note 1(q)(ii) taken to date, less provisions for foreseeable losses and sales instalments received.

(j) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development and construction expenditure, borrowing costs capitalised and other incidental costs. Net realisable value is the estimated price at which a property can be realised less related expenses.

(k) Interests in property development projects

Interests in property development projects are stated at cost which comprises development cost contributed towards the project, borrowing costs capitalised and other incidental costs, less provision, if necessary, for diminution in value. The results of these projects are accounted for in the accounts only to the extent of actual proceeds or distributions of assets received and receivable by the Group.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of production overhead expenditures.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses and cost of conversion from their existing stage to a finished condition.

(m) Accounts receivable

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

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(n) Convertible bonds

Convertible bonds are stated at the aggregate of the net proceeds from the issue less amount converted into shares. The net proceeds represent the consideration received on the issue of bonds. When bonds are converted into shares, the amount recognised in respect of the shares issued upon conversion is the amount at which the liability of the bonds is stated as at the date of conversion less the related unamortised issuing costs attributable to the bonds converted.

Provision has been made for premium on redemption, which represents the difference between the principal and the redeemed amount. Premium on redemption was charged to the profit and loss accounts on a straight-line basis over the terms of the bonds.

(o) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

(p) Translation of foreign currencies

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

The accounts of subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

(q) Revenue and profit recognition

- (i) Revenues arising from the disposal of properties held for sale are recognised on the execution of legally binding contracts of sale.
- (ii) The recognition of revenues from the sale of properties under development in advance of completion commences when a legally binding contract of sale has been executed.

When development properties are sold in advance of completion, and there is reasonable certainty as to the outcome of the projects, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. The profit is computed each year as a proportion of the total estimated profit to completion, the proportion used being the proportion of construction costs incurred at the balance sheet date to total estimated construction costs to completion, limited to the amount of sales instalments received and subject to due allowance for contingencies.

Where purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profits, any profits recognised so far are reversed.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(q) Revenue and profit recognition (cont'd)

- (iii) Rental income is recognised on a time proportion basis.
- (iv) Property management revenue is recognised in the year in which the services are rendered.
- (v) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (vi) Toll revenue, net of revenue tax, is recognised on a receipt basis. Guaranteed income is recognised on a received and receivable basis in accordance with the joint venture contracts and relevant agreement.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amount outstanding and the interest rates applicable.
- (viii) Dividend income is recognised when the right to receive payment is established.
- (ix) Business tax refund is recognised on a receipt basis.

(r) Retirement benefit costs

The Group's contributions to defined contribution schemes are expenses as incurred.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

NOTES TO THE ACCOUNTS

2 REVENUE AND TURNOVER

The Group is principally engaged in four major business: toll roads, properties, paper and cement. Revenues recognised during the year are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Net toll revenue and guaranteed income from toll operations	489,744	467,549
Sales of properties	528,237	143,737
Rental income	139,396	74,687
Property management fee income	9,704	9,292
Sales of newsprint and corrugated paper	1,152,611	887,562
Sales of cement and ready-mixed concrete	1,061,025	1,112,403
Turnover	3,380,717	2,695,230
Dividend income	55,528	65,251
Interest income	41,464	47,574
Commission of properties sales and rental	620	1,144
Exchange gain	9,638	9,983
Business tax refund	7,182	39,518
Other revenues	114,432	163,470
Total revenues	3,495,149	2,858,700

NOTES TO THE ACCOUNTS

2 REVENUE AND TURNOVER (cont'd)

An analysis of the Group's turnover and contribution to profit before taxation for the year by principal activities and markets is as follows:

	Turnover		Contribution to operating profit/(loss)	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Principal activities:				
Operation of toll roads	489,744	467,549	325,276	339,125
Sales of properties, property rental and management	677,337	227,716	277,254	(66,174)
Sales of newsprint and corrugated paper	1,152,611	887,562	149,240	149,904
Sales of cement and ready-mixed concrete	1,061,025	1,112,403	65,733	155,059
	<u>3,380,717</u>	<u>2,695,230</u>	<u>817,503</u>	<u>577,914</u>
Headquarter expenses			(50,666)	(57,778)
			<u>766,837</u>	<u>520,136</u>
Principal markets:				
Mainland of China ("China")	2,613,323	2,192,800	689,924	487,916
Hong Kong	764,730	499,638	131,885	90,062
Other countries	2,664	2,792	(4,306)	(64)
	<u>3,380,717</u>	<u>2,695,230</u>	<u>817,503</u>	<u>577,914</u>
Headquarter expenses			(50,666)	(57,778)
			<u>766,837</u>	<u>520,136</u>

NOTES TO THE ACCOUNTS

3 OPERATING PROFIT

	Group	
	2000	1999
	HK\$'000	HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Gross rental income from investment properties	88,437	74,687
Less: Direct outgoings	(8,210)	(9,784)
Net rental income from investment properties	80,227	64,903
Reversal of deficit on revaluation of investment properties charged to profit and loss in previous years	62,314	-
Gain on disposal of a subsidiary	8,602	-
Charging		
Auditors' remuneration	3,888	3,484
Cost of inventories sold	2,021,060	1,593,744
Depreciation		
Owned fixed assets	262,226	202,994
Leased fixed assets	886	2,795
Amortisation of other investments in joint ventures	8,818	12,143
Loss on disposals of fixed assets	21,086	17,344
Deficit on investment properties not covered by previous surplus	-	50,128
Staff cost (including Directors' remuneration)	186,379	178,120
Operating leases		
Hire of plant and machinery	11,000	3,500
Land and buildings	50,348	23,619
Bad debts written off/provision for doubtful debts	37,391	74,578
Amount due from a joint venture partner written off	-	9,299
Loss on wound up of subsidiaries and associated companies	-	8,307