

Notes to Financial Statements

Guangdong Investment Limited

31 December 2001

1. Corporate Information

During the year, the Group was principally engaged in investment holding, property holding and investment, the development of properties for sale, investing in infrastructure and energy projects, the water supply business to Hong Kong, Shenzhen and Dongguan in the mainland of the People's Republic of China ("Mainland China"), hotel ownership and operations, hotel management, the provision of travel and transportation services, the manufacture of malts for the brewing industry, the production of beer, the processing and sale of semi-finished and finished leather, the design, manufacture and sale of leatherware products, the manufacture of packaging materials, the merchandise trading and the provision of mortgage finance.

During the year, the Group's business in the design, supply and installation of curtain walls and aluminium windows (the "Curtain Wall Operations") was discontinued as a result of the Company's disposal of its entire 57.16% interest in Guangdong Building Industries Limited ("GD Building"). Further details of this transaction are set out in note 6(a) to the financial statements. Such discontinued operations have not been separately disclosed in the consolidated profit and loss account because of the immaterial amounts involved. However, segmented information about these operations is depicted in note 5 – Segment Information.

In the opinion of the directors, the ultimate holding company of the Company is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment"), a company established in Mainland China.

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 17 (Revised) : "Property, plant and equipment"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 : "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

2. Impact of New and Revised Statements of Standard Accounting Practice (“SSAPs”) (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. This has had no significant impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. This revised SSAP has been applied prospectively and its requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 36 and 48 to the financial statements.

SSAP 17 (Revised) prescribes the revised accounting treatment for transfer from investment properties to fixed assets which has resulted in a prior year adjustment as further detailed in note 46(d) to the financial statements. There is also a change in the presentation of impairment losses on fixed assets which were previously deducted from the cost of the relevant asset, whereas the revisions to SSAP 17 require the aggregation of the impairment losses on fixed assets with accumulated depreciation in note 14 to the financial statements. This disclosure reclassification has had no effect on the net carrying amount of fixed assets in the balance sheet.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 11 and 46 to the financial statements.

2. Impact of New and Revised Statements of Standard Accounting Practice (“SSAPs”) (continued)

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP has been applied prospectively. The principal impact of this SSAP on the financial statements is that an adjustment to the opening balance of the Company’s accumulated losses was made for the accrued dividend for the Company’s redeemable cumulative preference shares as at 1 January 2001 as detailed in note 12 to the financial statements. Provisions are now disclosed as a separate line item on the face of the balance sheet and note 43 to the financial statements “Provision for bank loans guaranteed” has been revised to include the new required additional disclosures.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 21 to the financial statements. The required new additional disclosures are included in notes 19 and 21 to the financial statements.

2. Impact of New and Revised Statements of Standard Accounting Practice (“SSAPs”) (continued)

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

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 and hotel properties 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 2001. 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.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, 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 its board of directors.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement 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 agreement.

3. Summary of Significant Accounting Policies (continued)

Joint venture companies (continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) an investment security, if the Group holds less than 20% of the joint venture company's registered capital or the Group has neither joint control of nor is in a position to exercise significant influence over the joint venture company.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled 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 less any impairment losses.

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 generally 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, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

3. Summary of Significant Accounting Policies (continued)

Associates (continued)

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 treated as long term assets and are stated at cost less any impairment losses.

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 and impairment, computed to write off the cost, less any residual value, of the contractual joint ventures over the underlying contract terms and impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of less than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001 to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant consolidated reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

3. Summary of Significant Accounting Policies (continued)**Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

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

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 January 2001 to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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.

3. Summary of Significant Accounting Policies (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment and hotel properties, are stated at cost less accumulated depreciation and any impairment losses. 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 fixed assets have been put into operation, such as repairs and maintenance, 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

3. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each fixed asset over its estimated useful life, after taking into account its estimated residual value. 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%

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

Construction in progress represents building and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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.

3. Summary of Significant Accounting Policies (continued)

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, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values 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. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Intangible assets

Intangible assets include an operating right and trademarks.

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 purchased operating right is stated at cost less accumulated amortisation and impairment. Amortisation is charged to the profit and loss account on the straight-line basis over a period of 30 years.

Trademarks

Trademarks are stated at their acquisition cost less accumulated amortisation and any impairment losses. Amortisation is charged to the profit and loss account on the straight-line basis over a period of 5 years. Expenditure incurred for the renewal of trademarks is charged to the profit and loss account in the period in which it is incurred.

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 leased 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.

3. Summary of Significant Accounting Policies (continued)

Leased assets (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rental receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Other financial assets

Other financial assets include investment securities and other investments.

Investment securities

Investment securities in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments have occurred, the carrying amounts of the 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 led to the impairments 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

Other investments comprising those securities which are not classified as investment securities are stated at their fair values at the balance sheet date on an individual investment basis.

The fair values of such listed securities are their quoted market prices at the balance sheet date whereas the fair values of such unlisted securities are estimated by the directors.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

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 investment.

3. Summary of Significant Accounting Policies (continued)

Other long term assets

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

The prepayment for land use right will be transferred to fixed assets upon the completion of the Phase IV Renovation Project (as referred to in note 24(b)) and the transfer of the title of the land use right to the Group. The prepayment for land use right is stated at cost less impairment losses. Depreciation on land use right will commence upon the completion of the Phase IV Renovation Project on the straight-line basis over the period of grant or 30 years, whichever is shorter.

Prepaid rental is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the profit and loss account on the straight-line basis over the period of the respective leases.

Reusable packaging materials currently in use are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the profit and loss account on the straight-line basis over a period of three years.

Deferred expenses incurred in connection with the raising of long term finance is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the profit and loss account on the straight-line basis over the terms of the loans.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and manufactured finished goods, comprises direct materials, direct labour, and an appropriate portion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Properties under development

Properties under development are stated at cost less impairment losses.

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.

3. Summary of Significant Accounting Policies (continued)

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 comprise direct materials, the costs of subcontracting, direct labour, interest charges and an appropriate proportion of variable and fixed construction overheads.

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.

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 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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

3. Summary of Significant Accounting Policies (continued)

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. In the prior year, funds had been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 8% was applied to the expenditure on the individual assets.

During the year, there were no borrowing costs capitalised.

Convertible bonds

Convertible bonds are 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 or according to the subsequent amendments to the terms of the bonds. When the convertible bonds are redeemed, purchased and cancelled, or converted prior to their maturity, any excessive provision of redemption premium will be recognised as income in the profit and loss account.

Interests on convertible bonds and accruals of the redemption premium are recognised as expenses in the period in which they are incurred.

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.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

3. Summary of Significant Accounting Policies (continued)

Retirement benefits scheme

The Company and certain of its subsidiaries operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 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 MPF Scheme. The assets of the MPF 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 to the MPF 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 MPF Scheme.

Prior to the MPF Scheme being effective, the Company and certain of its subsidiaries operated a defined contribution retirement benefits scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. This Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the Group's employer contributions vested fully, the contributions payable by the Group were reduced by the relevant amount of forfeited employer contributions. With effect from 1 December 2000, the Group froze the Prior Scheme and ceased to make contributions to it. The Group's employer voluntary contributions are refunded to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules for the Prior Scheme.

The employees of the Group's certain subsidiaries which operate in Mainland China are mandatory to participate in local pension schemes ("LPSs") operated by respective local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the LPSs. The only obligation of the Group with respect to the LPSs is to pay the mandatory contributions under the LPSs. Contributions under the LPSs are charged to the profit and loss account as they become payable in accordance with the rules of the LPSs.

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) from the sale of electricity, based on the consumption recorded by meter reading during the year;

3. Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

- (c) 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;
- (d) from the rendering of hotel, tour and other services, based on the period in which such services are rendered;
- (e) from construction/installation contracts, based on the percentage of completion basis, as further explained in the accounting policy for "Construction/installation contracts";
- (f) 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;
- (g) rental income, on a time proportion basis over the lease terms;
- (h) toll revenue, net of business tax, on a cash receipt basis;
- (i) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (j) dividends and investment income, when the shareholders' right to receive payment has been established; and
- (k) 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.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

4. Turnover

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:

	2001 HK\$'000	2000 HK\$'000
Sale of goods	2,664,926	2,660,117
Sale of water and electricity	3,305,624	637,662
Sale of properties, investment properties and properties under development	389,590	510,766
Hotel, tour service and rental income	873,330	969,079
Rendering of other services	21,881	11,184
Toll revenue	7,786	9,029
Investment, interest and dividend income	1,395	72,723
Value of construction/installation work performed	6,986	77,424
	<u>7,271,518</u>	<u>4,947,984</u>

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information

SSAP 26 was adopted during the year as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit which offers different products and serves different markets:

- i. The property investment segment mainly invests in carpark spaces and residential and commercial properties in Hong Kong, Mainland China and Thailand which are held for rental income purposes, it also performs property management services, which provide management and security services to the carpark spaces, residential and commercial properties;
- ii. The property development segment engages in residential, shopping arcades and hotel development property projects in Mainland China and Hong Kong;
- iii. The infrastructure segment invests in toll roads and toll bridges in Mainland China;
- iv. The water supply segment operates a water supply project in Mainland China supplying natural water to Hong Kong, Dongguan and Shenzhen;
- v. The power supply segment operates coal-fire power plants supplying electricity in Guangdong Province;
- vi. The hotel operations segment operates the Group's hotels in Hong Kong and Mainland China;
- vii. The tours and tour transportation services segment organises tours in Hong Kong and Mainland China and provides transportation services in Hong Kong and between Hong Kong and Guangdong Province;
- viii. The beer manufacturing, distribution and sales segment produces beer in Shenzhen and distributes and sells it in both Mainland China and Hong Kong;
- ix. The malting manufacturing, distribution and sales segment produces malts for use in the brewing production in Mainland China;
- x. The leather processing segment processes raw leather to finished leather for use in the leatherware products production industry;

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

- xi. The leatherware products manufacturing, distribution and sales segment produces leatherware products in Mainland China and sells them mainly in Hong Kong;
- xii. The merchandise trading segment purchases commodities and sells to customers;
- xiii. The packaging materials manufacturing, distribution and sales segment produces and distributes packaging materials in Mainland China;
- xiv. The department stores segment operates department stores in Mainland China;
- xv. The money lending segment provides credit facilities in Hong Kong;
- xvi. The curtain wall installation segment designed, supplied and installed curtain walls and aluminium windows in Hong Kong and Mainland China. This segment was discontinued following the Group's disposal of its entire 56.17% interest in GD Building in the current year as set out in note 6(a) to the financial statements;
- xvii. The timber manufacturing, distribution and sales segment produced timber related products and furniture in Mainland China, this segment was discontinued following the Acquisition last year as set out in note 6(b) to the financial statements; and
- xviii. Corporate and other segment mainly engages in providing corporate services to other segments.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Property investment		Property development		Infrastructure		Water supply		Power supply		Sub-total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	302,495	288,020	391,292	512,362	7,785	9,029	2,727,623	4,255	578,001	633,407	4,007,196	1,447,073
Inter-segment sales	72,625	46,201	-	-	-	-	-	-	-	-	72,625	46,201
Other revenue from inter-segment (Note)	454	1,174	-	-	-	-	-	-	-	-	454	1,174
Other revenue from external sources (Note)	1,953	5,124	1,923	739	163	361	-	-	12,472	828	16,511	7,052
Exchange gains/(losses), net	26	(5,036)	209	(1,976)	558	(231)	-	-	-	(90)	793	(7,333)
Total	377,553	335,483	393,424	511,125	8,506	9,159	2,727,623	4,255	590,473	634,145	4,097,579	1,494,167
Segment results	199,462	35,890	76,101	(39,779)	(9,437)	(5,203)	1,454,411	(30,766)	211,879	215,672	1,932,416	175,814

Share of profits less losses of:

A jointly-controlled entity	-	-	-	-	39,320	15,397	-	-	-	-	39,320	15,397
Associates	(135)	(563)	2	2	-	(25,857)	-	-	26,539	31,136	26,406	4,718

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(a) Business segments (continued) Group

	Hotel operations		Tours and tour transportation services		Beer manufacturing, distribution and sales		Malting manufacturing, distribution and sales		Leather processing		Sub-total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	248,580	314,562	323,245	368,441	536,603	603,278	682,764	582,779	470,312	483,428	2,261,504	2,352,488
Inter-segment sales	11,339	12,534	-	-	-	-	58,165	35,458	-	-	69,504	47,992
Other revenue from inter-segment (Note)	-	-	-	-	764	1,328	-	-	1,170	1,808	1,934	3,136
Other revenue from external sources (Note)	1,694	1,163	6,029	771	41,918	37,940	132	18,978	1,126	182	50,899	59,034
Exchange gains/(losses), net	(1,646)	270	(201)	(1,832)	(217)	12,234	2,038	(264)	5,141	(3,618)	5,115	6,790
Total	259,967	328,529	329,073	367,380	579,068	654,780	743,099	636,951	477,749	481,800	2,388,956	2,469,440
Segment results	34,527	(270,685)	30,590	16,684	69,766	78,643	47,551	17,054	(10,164)	24,975	172,270	(133,329)

Share of profits less losses of:

A jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-
Associates	-	-	1,857	2,441	(13,424)	(14,496)	-	-	-	-	(11,567)	(12,055)

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(a) Business segments (continued) Group

	Leatherware products manufacturing, distribution and sales		Merchandise trading		Packaging materials manufacturing, distribution and sales		Department stores		Money lending		Sub-total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:												
Sales to external customers	31,358	54,457	241,260	160,683	21,999	22,573	673,311	581,918	1,395	71,642	969,323	891,273
Inter-segment sales	-	-	-	-	-	-	-	-	-	2,499	-	2,499
Other revenue from inter-segment (Note)	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue from external sources (Note)	2,391	18	246	522	-	34	2,189	1,788	409	706	5,235	3,068
Exchange gains/(losses), net	(163)	(23)	(243)	(184)	-	-	-	(2)	23	121	(383)	(88)
Total	33,586	54,452	241,263	161,021	21,999	22,607	675,500	583,704	1,827	74,968	974,175	896,752
Segment results	(26,745)	(78,047)	12,557	(24,320)	(9,524)	(222)	16,328	39,252	(26,481)	(34,456)	(33,865)	(97,793)

Share of profits less losses of:

A jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-
Associates	-	-	(18)	(398)	-	-	13,511	12,542	-	-	13,493	12,144

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(a) Business segments (continued) Group

	Curtain wall installation (Discontinued)		Timber manufacturing, distribution and sales (Discontinued)		Corporate and other		Eliminations		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:										
Sales to external customers	6,986	77,424	-	148,352	26,509	31,374	-	-	7,271,518	4,947,984
Inter-segment sales	-	-	-	-	-	-	(142,129)	(96,692)	-	-
Other revenue from inter-segment (Note)	-	-	-	-	6,914	7,375	(9,302)	(11,685)	-	-
Other revenue from external sources (Note)	109	848	-	169	4,668	7,270	-	-	77,422	77,441
Exchange gains/(losses), net	-	-	-	-	3,268	2,990	-	-	8,793	2,359
Total	7,095	78,272	-	148,521	41,359	49,009	(151,431)	(108,377)	7,357,733	5,027,784
Segment results	(4,968)	(77,037)	-	(91,311)	(42,862)	(132,248)	27,331	34,249	2,050,322	(321,655)
Interest income and unallocated gains									121,357	121,833
Unallocated expenses									(12,511)	(396,402)
Profit/(loss) from operating activities									2,159,168	(596,224)
Finance costs									(1,566,474)	(572,367)
Share of profits less losses of:										
A jointly-controlled entity	-	-	-	-	-	-	-	-	39,320	15,397
Associates	-	-	-	(765)	-	4,256	-	-	28,332	8,298
Profit/(loss) before tax									660,346	(1,144,896)
Tax									(130,650)	(127,078)
Profit/(loss) before minority interests									529,696	(1,271,974)
Minority interests									(244,154)	(84,328)
Net profit/(loss) from ordinary activities attributable to shareholders									285,542	(1,356,302)

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Property investment		Property development		Infrastructure		Water supply		Power supply		Sub-total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	3,674,270	4,075,490	216,316	964,670	220,560	227,116	21,517,287	21,571,457	790,955	723,980	26,419,388	27,562,713
Interests in associates	-	2,050	89,516	4,930	197,213	197,237	-	-	275,151	273,438	561,880	477,655
Interest in a jointly-controlled entity	-	-	-	-	972,344	929,662	-	-	-	-	972,344	929,662
Segment liabilities	448,712	505,281	59,064	431,025	95,735	279,830	280,979	538,998	264,831	269,693	1,149,321	2,024,827
Other segment information:												
Depreciation and amortisation	7,431	6,418	4,888	6,953	8,098	8,010	786,695	18,339	45,038	41,976	852,150	81,696
Impairment losses recognised in the profit and loss account	5,624	-	22,682	82,447	-	-	-	-	-	-	28,306	82,447
Impairment losses reversed in the profit and loss account	-	-	(21,000)	-	-	-	-	-	-	-	(21,000)	-
Other non-cash expenses	68,129	187,419	-	51,252	-	-	-	-	-	-	68,129	238,671
Capital expenditure	7,038	11,551	730	2,631	1,066	-	513,439	3,380	28,086	24,319	550,359	41,881

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Hotel operations		Tours and tour transportation services		Beer manufacturing, distribution and sales		Malting manufacturing, distribution and sales		Leather processing		Sub-total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,812,147	2,014,136	227,669	327,031	1,302,148	1,525,063	895,220	915,902	380,977	522,159	4,618,161	5,304,291
Interests in associates	-	-	10,651	10,863	42,997	62,079	-	-	-	-	53,648	72,942
Interest in a jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-
Segment liabilities	43,655	58,769	144,536	148,454	209,080	159,671	181,965	176,411	42,376	50,042	621,612	593,347
Other segment information:												
Depreciation and amortisation	14,436	23,433	14,573	14,964	123,362	127,583	40,788	39,386	17,615	17,851	210,774	223,217
Impairment losses recognised in the profit and loss account	1,640	-	-	-	5,600	32,367	3,704	-	22,991	-	33,935	32,367
Impairment losses reversed in the profit and loss account	-	-	-	-	-	-	-	-	-	-	-	-
Other non-cash expenses	5,518	309,442	3,294	16,603	2,672	10,283	1,071	1,499	11,796	3,001	24,351	340,828
Capital expenditure	18,245	32,474	9,336	7,705	9,800	27,639	3,131	14,512	9,745	28,172	50,257	110,502

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Leatherware products manufacturing, distribution and sales				Packaging materials manufacturing, distribution and sales				Department stores		Money lending		Sub-total	
	2001		2000		2001		2000		2001		2000		2001	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	25,682	60,970	111,621	84,136	7,902	23,109	121,075	193,649	1,486	40,073	267,766	401,937		
Interests in associates	-	-	-	(15)	-	-	21,988	13,430	-	-	21,988	13,415		
Interest in a jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-		
Segment liabilities	10,760	15,361	7,298	15,737	1,734	3,325	119,879	159,766	316	25	139,987	194,214		
Other segment information:														
Depreciation and amortisation	3,401	4,219	240	300	670	654	8,645	8,706	16	1,066	12,972	14,945		
Impairment losses recognised in the profit and loss account	11,225	26,000	-	18,768	3,733	-	-	-	-	-	14,958	44,768		
Impairment losses reversed in the profit and loss account	-	-	-	-	-	-	-	-	-	-	-	-		
Other non-cash expenses	3,671	46,706	3	6,637	2,767	-	8,925	-	-	15	15,366	53,358		
Capital expenditure	989	321	13	63	174	42	7,792	3,821	-	-	8,968	4,247		

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Curtain wall installation (Discontinued)		Timber manufacturing, distribution and sales (Discontinued)		Corporate and other		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	-	64,217	-	-	245,351	683,525	(18,634)	(54,044)	31,532,032	33,962,639
Interests in associates	-	-	-	-	3,647	39,991	-	-	641,163	604,003
Interest in a jointly- controlled entity	-	-	-	-	-	-	-	-	972,344	929,662
Unallocated assets									230,637	420,112
Bank overdrafts included in segment assets									2,356	363
Total assets									33,378,532	35,916,779
Segment liabilities	-	47,112	-	-	60,237	169,333	(18,634)	(54,044)	1,952,523	2,974,789
Unallocated liabilities									19,636,864	21,493,241
Bank overdrafts included in segment assets									2,356	363
Total liabilities									21,591,743	24,468,393
Other segment information:										
Depreciation and amortisation	291	2,776	-	14,185	16,245	19,025	-	-	1,092,432	355,844
Unallocated amounts									119	1,459
									1,092,551	357,303
Impairment losses recognised in the profit and loss account	-	18,101	-	11,518	247	-	-	-	77,446	189,201
Unallocated amounts									22,850	382,585
									100,296	571,786
Impairment losses reversed in the profit and loss account	-	-	-	-	(3,761)	-	-	-	(24,761)	-
Unallocated amounts									(19,140)	(66,412)
									(43,901)	(66,412)
Other non-cash expenses	-	26,251	-	54,351	4,360	7,214	-	-	112,206	720,673
Capital expenditure	-	791	-	4,987	2,624	2,720	-	-	612,208	165,128

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

5. Segment Information (continued)

(b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Other		Eliminations		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment revenue:										
Sales to external customers	608,580	779,319	6,661,172	4,140,741	1,766	27,924	-	-	7,271,518	4,947,984
Other revenue from external customers (Note)	8,803	5,590	63,964	70,714	4,655	1,137	-	-	77,422	77,441
Exchange gains/(losses), net	752	(1,119)	4,815	885	3,226	2,593	-	-	8,793	2,359
Revenue from external customers	618,135	783,790	6,729,951	4,212,340	9,647	31,654	-	-	7,357,733	5,027,784
Segment results	39,237	(327,646)	2,069,256	117,120	(58,171)	(111,129)	-	-	2,050,322	(321,655)
Other segment information:										
Segment assets	2,715,171	3,608,185	28,796,792	30,322,638	22,943	33,059	(2,874)	(1,243)	31,532,032	33,962,639
Capital expenditure	24,852	38,551	586,517	121,011	839	5,566	-	-	612,208	165,128

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

6. Discontinuation of Operations

- (a) On 10 February 2001, the Company entered into a conditional sales and purchase agreement (the "Building Agreement") with Hi Sun Limited, an independent third party, for the disposal of the Company's entire 57.16% interest in GD Building, which used to operate the Group's Curtain Wall Operations, for a cash consideration of HK\$31,483,000 (the "Consideration"). Pursuant to the Building Agreement, the Group agreed to waive the net amounts due from the GD Building group which was HK\$358,000,000 (including certain bank loans of the GD Building group of HK\$185,000,000 taken up by the Company by means of the 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 HK\$19,819,000 as at 22 December 2000 as further disclosed in note 50(a) to the financial statements.

On 3 March 2001, the Building Agreement was completed. GD Building ceased to be a subsidiary of the Company, and the Group's Curtain Wall Operations were then discontinued. The gain on the discontinuation of Curtain Wall Operations represented the excess of the Consideration over the Group's cost of investment in and receivable from the GD Building group after taken into account the goodwill and accumulated losses of the GD Building group attributable to and taken up by the Group at the effective date of disposal. For the period from 1 January 2001 to 3 March 2001 (the completion date of the Building Agreement), the Curtain Wall Operations contributed HK\$6,986,000 (year ended 31 December 2000: HK\$77,424,000) to the Group's turnover and accounted for a loss of HK\$4,434,000 (year ended 31 December 2000: a loss of HK\$102,400,000) to the Group's profit for the year.

- (b) On 22 December 2000, the Group transferred its entire 100% interest in Guangdong Timber Limited ("GD Timber") to GDH Limited, the immediate holding company of the Company as at 31 December 2001, as part of the consideration for an acquisition of an 81% interest in GH Water Supply (Holdings) Limited ("GH Holdings") (the "Acquisition") and effectively discontinued its timber operations. For the year ended 31 December 2000, the timber operations contributed HK\$148,352,000 to the Group's turnover and accounted for a loss of HK\$123,206,000 to the Group's loss for the year.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

7. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging:

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	2,641,565	2,154,250
Depreciation	461,308	307,828
Less: Depreciation capitalised to contract work in progress	–	(231)
	461,308	307,597
Amortisation of investments in contractual joint ventures*	–	1,459
Amortisation of deferred expenses*	12,915	29,096
Amortisation of reusable packaging materials*	11,523	3,892
Amortisation of the operating right*	494,096	13,259
Amortisation of trademarks*	1,400	2,000
Amortisation of prepaid rental*	111,190	–
Minimum lease payments under operating leases:		
Land and buildings	15,462	13,720
Plant and machinery	589	789
	16,051	14,509
Auditors' remuneration	7,150	7,660
Staff costs (excluding directors' remuneration – Note 8)		
Wages and salaries	469,299	401,713
Pension contributions	28,772	20,506
Less: Forfeited contributions	(1,109)	(2,827)
Net pension contributions	27,663	17,679
	496,962	419,392
Professional fees incurred in connection with the Group's restructuring	–	87,395

* These amortisations for the year are included in "Cost of sales" on the face of the consolidated profit and loss account.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

7. Profit/(Loss) from Operating Activities (continued)

	2001 HK\$'000	2000 HK\$'000
(Gains)/expenses included in other operating expenses, net:		
Amortisation of goodwill (Note 21)	119	—
Provisions against construction/installation contracts receivable	—	5,918
Investment property revaluation deficit (Note 16)	68,129	111,673
Hotel property revaluation deficit, net	4,196	309,442
Impairment of investment securities	932	17,608
Unrealised loss on revaluation of other investments	5,114	22,614
Impairment of trademarks	4,100	26,000
Impairment of properties under development	22,682	82,447
Reversal of impairment loss of properties under development	(21,000)	—
Impairment of investments in and loans to associates	11,224	51,135
Reversal of impairment loss of investment in an associate	(3,761)	—
(Write-back of provision against)/provision against an amount due from a fellow subsidiary	(8,000)	56,156
Impairment of fixed assets	39,440	29,619
Impairment of goodwill arising from acquisitions of subsidiaries and associates previously dealt with in reserves	21,918	364,977
Reversal of impairment loss of deconsolidated subsidiaries	(19,140)	(66,412)
Loss on disposal of subsidiaries, net	8,481	—
Loss on disposal of properties under development	9,079	—
Loss on disposal of fixed assets, net	20,518	4,971
Loss on disposal of certain interest in a subsidiary	3,087	—
Provisions against properties held for sale	—	94,602
Provisions against inventories	10,871	7,748
Provisions for doubtful debts	24,394	177,703
Less: Write-back of provision against loan receivables	—	(36,326)
Recovery from possession of shares in a subsidiary (Note 52(ii))	—	(12,697)
	24,394	128,680
Compensation payments in respect of the planned curtailment of operations of a subsidiary	4,616	—

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

7. Profit/(Loss) from Operating Activities (continued)

	2001 HK\$'000	2000 HK\$'000
and after crediting:		
Gross rental income from investment properties	259,962	239,424
Less: Outgoings	(17,299)	(12,824)
Net rental income from investment properties	242,663	226,600
Negative goodwill recognised as income*	10,286	–
Other rental income, net	28,153	7,985
Gain on disposal of investment properties	–	566
Gain on disposal of an associate	–	15,066
Gain on disposal of a contractual joint venture	–	26,955
Gain on disposal of other investments	26,240	–
Royalty income from trademarks	1,500	–
Interest income	60,692	141,953
Exchange gains, net	8,793	2,359

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

* The negative goodwill recognised as income for the year are included in “Other revenue and gains” on the face of the consolidated profit and loss account.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

8. Directors' Remuneration and Five Highest Paid Employees

- (a) Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	800	799
	<u>800</u>	<u>799</u>
Other emoluments:		
Salaries, allowances and benefits in kind	2,872	5,278
Bonuses paid and payable	157	–
Pension scheme contributions	102	176
Less: Forfeited contributions	–	–
Net pension scheme expenses	<u>102</u>	<u>176</u>
Total directors' remuneration	<u>3,931</u>	<u>6,253</u>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	13	24
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>14</u>	<u>24</u>

During the year, 57,000,000 options to acquire ordinary shares in the Company were granted to certain directors of which 37,500,000 options may be exercised from 11 February 2002 to the business day immediately preceding the fifth anniversary of that day (both days inclusive) to subscribe for 37,500,000 ordinary shares at a price of HK\$0.5312 per ordinary share. The remaining 19,500,000 options may be exercised from 2 May 2002 to the business day immediately preceding the fifth anniversary of that day (both days inclusive), to subscribe for 19,500,000 ordinary shares at a price of HK\$0.74 per ordinary share.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

8. Directors' Remuneration and Five Highest Paid Employees (continued)

(a) (continued)

Further details of the share option scheme are set out under the heading "Share Options of the Company, its Subsidiaries and Associated Corporations" in the Report of the Directors on pages 36-42. No value in respect of the above share options granted has been charged to the profit and loss account for the year ended 31 December 2001.

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 (2000: one director resigned in 2000 and remained as an employee of the Company, details of whose remuneration while as a director are included in note 8(a) above). Details of the remuneration of the other four employees (2000: the above said former director for the whole year and the other four employees) are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and other benefits in kind	5,434	6,762
Bonuses paid and payable	1,281	1,331
Pension scheme contributions	68	190
	<u>6,783</u>	<u>8,283</u>

The remuneration of the other four employees (2000: the above said former director for the whole year and the other four employees) fell within the following bands:

	Number of individuals	
	2001	2000
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	–	2
HK\$2,500,001 – HK\$3,000,000	1	–
	<u>4</u>	<u>5</u>

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

8. Directors' Remuneration and Five Highest Paid Employees (continued)

(b) (continued)

During the year, 2,400,000 options to acquire ordinary shares in the Company were granted to two of the above four non-directors, highest paid employees in respect of their services to the Group. 2,400,000 options shall be exercised from 11 February 2002 to the business day immediately preceding the fifth anniversary of that day (both days inclusive) to subscribe for 2,400,000 ordinary shares at a price of HK\$0.5312 per ordinary share.

Further details of the share option scheme are included in the disclosures set out under the heading "Share Options of the Company, its Subsidiaries and Associated Corporation" in the Report of the Directors on pages 36-42. No value in respect of the above share options granted has been charged to the profit and loss account for the year ended 31 December 2001.

9. Finance Costs

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings repayable:		
Within five years	406,368	544,865
Over five years	1,122,628	30,255
Interest on provision for bank loans guaranteed (Note 43)	46,706	–
Interest on finance lease	268	78
	<u>1,575,970</u>	<u>575,198</u>
Less: Interest included in prepaid construction cost (Note 24(c))	(11,768)	–
Interest capitalised to contract work in progress	–	(650)
Interest expense classified as cost of sales	–	(67,957)
	<u>1,564,202</u>	<u>506,591</u>
Amortisation of swap cost in respect of the Swap Agreement (Note 41(b)(iii))	2,272	–
Provision for convertible bonds redemption premium	–	65,776
Total finance costs for the year	<u>1,566,474</u>	<u>572,367</u>

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

10. Tax

Hong Kong profits tax has been provided at the rate of 16% (2000: 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 rates of tax applicable to those subsidiaries based on existing legislation, interpretations and practices in respect thereof.

	2001 HK\$'000	2000 HK\$'000
Company and subsidiaries:		
Hong Kong	5,912	2,845
Mainland China	110,261	121,347
Under/(over) provision in prior year	400	(2,012)
Deferred tax	–	(430)
	<hr/> 116,573	<hr/> 121,750
Share of tax attributable to:		
Jointly-controlled entity	3,291	907
Associates	10,786	4,421
	<hr/> 130,650	<hr/> 127,078

11. Net Profit/(Loss) from Ordinary Activities Attributable to Shareholders

The net profit of the Group from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is HK\$9,229,000 (2000: a loss of HK\$130,530,000 as restated).

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a net increase in the Company's net loss of HK\$14,380,000 for that year, and a net decrease of HK\$57,000,000 in respect of dividends receivable in the Company's balance sheet as at 31 December 2000. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. The amount of HK\$14,380,000 represented the difference between dividends declared and approved by the subsidiaries after the balance sheet dates at 31 December 2000 of HK\$57,000,000 and 31 December 1999 of HK\$42,620,000. The prior year adjustment resulted in no change to the amount of accumulated losses of the Group as at 1 January 2000. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 46 to the financial statements.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

11. Net Profit/(Loss) from Ordinary Activities Attributable to Shareholders (continued)

The effect of this change in accounting policy on the Company's net results for the current year, was to increase the net profit by HK\$48,000,000 to a profit of HK\$9,229,000, as disclosed above, representing the net effect of the prior year adjustment of HK\$57,000,000 and the dividends declared by the subsidiaries after the current balance sheet date of HK\$9,000,000.

12. Dividend

	2001 HK\$'000	2000 HK\$'000
3 ¹ / ₄ % redeemable cumulative convertible preference share ("Preference Share") dividend accrued during the year	—	22,020

The board of directors does not recommend the payment of any dividend with respect to the ordinary shares for the year (2000: Nil).

Pursuant to the Articles of Association of the Company, dividends on the ordinary shares may not be paid until the accumulated and current dividends on the Preference Shares have been paid in full.

In the prior year, an amount of HK\$22,020,000 which represented one year's accrual for the fixed dividend on the Preference Shares was accrued. Such accrued fixed dividend was not subsequently declared and was accumulated with the other undeclared fixed dividends on the Preference Shares.

During the year, the Group adopted SSAP 28 prospectively. Pursuant to the Articles of Association of the Company, the Company may only pay the fixed dividend on the Preference Shares if the Company has sufficient distributable profits and if the payment of such dividend is declared. Under SSAP 28, as the Company did not have a present obligation to pay the fixed dividend on the Preference Shares as at 31 December 2001, no accrual for such dividend was made during the year. In addition, an adjustment to the opening balance of the Company's and the Group's accumulated losses was made for the reversal of the accrual for the fixed dividend on the Preference Shares of HK\$49,096,000 as at 1 January 2001 in accordance with the transitional provisions of SSAP 28 and the comparative information has not been restated.

As at 31 December 2001, the accumulated (but undeclared) fixed dividends on the Preference Shares amounted to HK\$70,448,000. Such accumulated dividends, in respect of the period starting from 7 October 1998, do not accrue interest.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

13. Earnings/(Loss) Per Share

The calculation of the basic and diluted earnings/(loss) per share for the years ended 31 December 2001 and 2000 are based on the following data:

	2001 HK\$'000	2000 HK\$'000
Earnings/(Loss):		
Net profit/(loss) attributable to shareholders	285,542	(1,356,302)
Less: Provision for preference share redemption premium	(52,051)	(53,613)
Preference Share dividend	(21,352)	(22,020)
Earnings/(Loss) for the purpose of basic and diluted earnings/(loss) per share	<u>212,139</u>	<u>(1,431,935)</u>
Number of shares:		
Weighted average number of ordinary shares in issue	4,891,876,282	2,630,265,335
Effect of Additional Shares to be issued arising from the Acquisition from the date when all necessary conditions have been satisfied	16,500,000	—
For the purpose of basic earnings/(loss) per share	<u>4,908,376,282</u>	<u>2,630,265,335</u>
Weighted average number of ordinary shares in issue	4,891,876,282	
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	44,895,774	
Effect of Additional Shares to be issued arising from the Acquisition from the beginning of year	66,000,000	
For the purpose of diluted earnings/(loss) per share	<u>5,002,772,056</u>	<u>N/A</u>

As WaterCo has already attained the performance milestones under the Earnout Agreement for both the first and second years of the Earnout Period in connection with the issuance of the Additional Shares in September 2001 and March 2002, respectively, the Company has obligation to issue 132 million Additional Shares to GDH Limited at a date which is the later of 21 December 2003 and the completion of the Phase IV Renovation Project. Further details of which are set out in note 46(b) to the financial statements.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

13. Earnings/(Loss) Per Share (continued)

The effect of the 66 million Additional Shares for the first year of the Earnout Period have been incorporated in the computation of the basic and diluted earnings per share for the current year. However, the other 66 million Additional Shares for the second year of the Earnout Period have not been taken into account in the computation of the basic and diluted earnings per share for the current year because the relevant performance milestones was only met subsequent to the balance sheet date in March 2002.

In the current year, the effect of the Company arising from the exercise of the convertible bonds and Preference Shares was anti-dilutive.

No diluted loss per share is presented for the year ended 31 December 2000 as: (i) there was no dilutive effect arising from the contingent issuance of the Additional Shares (details of which are set out in note 46(b) to the financial statements); and (ii) the effect of the Company arising from the exercise of convertible bonds, share options and the Preference Shares was anti-dilutive.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

14. Fixed Assets

Group

	Hotel properties	Land and buildings	Tunnels, dams, water mains and reservoir	Plant and machinery	Furniture, fixtures and equipment	Leasehold improve- ments	Motor vehicles	Toll road	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:										
At beginning of year:										
As previously reported	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
Reclassification to accumulated depreciation and impairment (Note)	-	18,101	-	-	-	-	-	-	-	18,101
As restated	1,957,190	5,305,742	1,488,023	2,340,218	297,758	153,524	176,669	224,284	540,816	12,484,224
Additions	6,765	8,041	798	30,599	15,287	7,132	12,274	1,066	53,066	135,028
Transfer from investment properties, net	-	301,315	-	-	-	-	-	-	-	301,315
Transfer to inventories	-	(13,504)	-	-	-	-	-	-	-	(13,504)
Reclassifications	19,693	3,126	(75,181)	102,404	5,216	712	188	(5,871)	(50,287)	-
Disposals	(289,564)	(28,601)	(3,051)	(25,208)	(17,253)	(20,731)	(17,531)	-	(6,819)	(408,758)
Disposal of subsidiaries	-	(73,974)	-	(3,792)	(21,494)	(3,267)	(16,696)	-	-	(119,223)
Revaluation deficit, net	(4,196)	-	-	-	-	-	-	-	-	(4,196)
Exchange adjustments	(310)	(720)	-	(1,170)	(70)	(48)	(61)	(80)	(269)	(2,728)
At 31 December 2001	1,689,578	5,501,425	1,410,589	2,443,051	279,444	137,322	154,843	219,399	536,507	12,372,158
Accumulated depreciation and impairment:										
At beginning of year:										
As previously reported	-	364,604	18,418	795,105	230,303	107,497	107,694	16,020	-	1,639,641
Reclassification from cost (Note)	-	18,101	-	-	-	-	-	-	-	18,101
As restated	-	382,705	18,418	795,105	230,303	107,497	107,694	16,020	-	1,657,742
Provided during the year	-	176,529	46,233	172,968	19,786	16,226	21,468	8,098	-	461,308
Transfer to investment properties	-	(2,589)	-	-	-	-	-	-	-	(2,589)
Transfer to inventories	-	(6,160)	-	-	-	-	-	-	-	(6,160)
Reclassification	-	-	(3,577)	3,577	-	-	-	-	-	-
Disposals	-	(3,811)	(1,082)	(17,316)	(13,208)	(17,874)	(15,076)	-	-	(68,367)
Impairment	-	16,319	-	16,616	398	5,312	795	-	-	39,440
Disposal of subsidiaries	-	(37,342)	-	(3,291)	(18,039)	(2,590)	(11,648)	-	-	(72,910)
Exchange adjustments	-	(146)	-	(410)	(49)	(34)	(35)	(10)	-	(684)
At 31 December 2001	-	525,505	59,992	967,249	219,191	108,537	103,198	24,108	-	2,007,780
Net book value:										
At 31 December 2001	1,689,578	4,975,920	1,350,597	1,475,802	60,253	28,785	51,645	195,291	536,507	10,364,378
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

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

14. Fixed Assets (continued)

Note: Accumulated impairment losses are aggregate with accumulated depreciation under the revised disclosure requirements of SSAP 17, as detailed in note 2 to the financial statements, whereas previously they were disclosed as an adjustment to the cost of the assets. This change has been disclosed as a retrospective reclassification. This disclosure reclassification has had no effect on the net carrying amount of fixed assets in the balance sheet.

The impairment losses of fixed assets of HK\$39,440,000 arose from subsequent sales and decrease in value in use of certain land and buildings and reduction in usage of certain production facilities of the Group's tannery plant and malting plant. The impairment losses for land and buildings were determined based on the subsequent selling price and professional valuation whereas the production facilities were considered as having zero recoverable value.

The net book values of the Group's hotel properties and land and buildings as at 31 December 2001 are analysed as follows:

	Hotel properties		Land and buildings	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term leases in Hong Kong	733,951	930,404	465,501	544,759
Medium term leases in Hong Kong	394,834	433,016	4,882	42,644
Long term leases in Mainland China	–	–	25,638	54,568
Medium term leases in Mainland China	560,793	593,770	4,476,292	4,275,940
Short term lease in Mainland China	–	–	–	1,495
Freehold in other location	–	–	3,607	3,631
	<u>1,689,578</u>	<u>1,957,190</u>	<u>4,975,920</u>	<u>4,923,037</u>

The hotel properties were revalued individually at the balance sheet date by RHL Appraisal Limited, independent professional qualified valuers, on an open market basis, based on their existing use, at an aggregate HK\$1,689,578,000 as at 31 December 2001 (2000: HK\$1,957,190,000).

A net revaluation deficit of HK\$4,196,000 resulting from the above revaluations has been charged to the profit and loss account.

Had the carrying values of the Group's hotel properties been carried at historical cost less accumulated depreciation and impairment losses in accordance with the Group's accounting policies, their carrying amounts would have been HK\$1,689,578,000 (2000: HK\$1,957,190,000).

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

14. Fixed Assets (continued)

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

Company

	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:				
At beginning of year	10,820	10,298	1,515	22,633
Additions	827	13	–	840
Disposals	(490)	–	(903)	(1,393)
At 31 December 2001	11,157	10,311	612	22,080
Accumulated depreciation:				
At beginning of year	7,459	763	1,462	9,684
Provided during the year	1,435	2,743	53	4,231
Disposals	(489)	–	(903)	(1,392)
At 31 December 2001	8,405	3,506	612	12,523
Net book value:				
At 31 December 2001	2,752	6,805	–	9,557
At 31 December 2000	3,361	9,535	53	12,949

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

15. Properties Under Development

	Group	
	2001	2000
	HK\$'000	HK\$'000
Balance at beginning of year	406,956	537,568
Additions, at cost	198,583	273,392
Transfer to properties held for sale	(229,167)	(323,282)
Disposal of subsidiaries	(170,410)	–
Disposals	(30,852)	–
Impairment	(22,682)	(82,447)
Reversal of impairment losses	21,000	–
Exchange adjustments	(281)	1,725
Balance at 31 December	173,147	406,956
Less: Portion classified as current assets	(173,147)	(366,118)
Non-current portion	–	40,838

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Long term leases in Mainland China	64,000	241,443
Medium term leases in Mainland China	85,147	124,675
Long term lease in Hong Kong	24,000	40,838
At 31 December	173,147	406,956

The impairment losses arose from unfavourable conditions in property markets of Hong Kong and certain areas in Mainland China and were determined based on the directors' estimates of the market values of these properties under development with reference to professional valuations.

The reversal of impairment losses arose from the improved property market conditions of certain area in Mainland China and was determined based on the directors' estimate of the market values of these properties under development with reference to professional valuations.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

16. Investment Properties

	Group	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year, at valuation	2,894,255	3,234,067
Arising on acquisition of subsidiaries	–	208,500
Additions, at cost	–	4,749
Transfer from fixed assets	48,896	–
Transfer to fixed assets	(352,800)	(106,000)
Transfer to properties held for sale	(29,000)	(68,777)
Disposals	(3,000)	(20,000)
Disposal of subsidiaries	(178,480)	–
Transfer out as a result of the Acquisition	–	(247,070)
Revaluation deficit, net	(47,753)	(111,673)
Exchange adjustments	–	459
Balance at 31 December, at valuation	<u>2,332,118</u>	<u>2,894,255</u>
Analysis by geographical location:		
Freehold properties situated in Thailand	16,858	23,335
Long term leasehold properties situated in Hong Kong	458,250	489,510
Medium term leasehold properties situated in Hong Kong	6,080	7,870
Long term leasehold properties situated in Mainland China	–	29,000
Medium term leasehold properties situated in Mainland China	1,850,930	2,344,540
At 31 December	<u>2,332,118</u>	<u>2,894,255</u>

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 2001.

An amount of HK\$68,129,000, representing the net deficit of HK\$47,753,000 arising from this revaluation after taking into account a revaluation surplus of HK\$20,376,000 attributable to minority interests, has been charged to the profit and loss account.

Further particulars of the Group's investment properties are included on pages 195-196.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries

	Company	
	2001 HK\$'000	2000 HK\$'000
Investments at cost:		
Listed	726,825	800,043
Unlisted	6,329,401	6,976,891
	7,056,226	7,776,934
Due from subsidiaries	6,278,126	6,394,884
Due to subsidiaries	(1,446,274)	(1,673,981)
	11,888,078	12,497,837
Provisions for impairment	(2,525,761)	(3,011,110)
	9,362,317	9,486,727
Market value of listed shares as at 31 December	536,271	396,237

Particulars of the principal subsidiaries at the balance sheet date were 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
Bateson Developments Limited	British Virgin Islands/ Hong Kong	US\$9 Ordinary US\$91 Non- voting Deferred	100%	100%	Property investment
Century Asia Enterprises Limited	Hong Kong	HK\$3	–	100%	Property investment
Chapel Hill Developments Limited	British Virgin Islands	US\$100	–	71.56%	Holder of trademarks
Crown South (Hong Kong) Limited	Hong Kong	HK\$2	–	71.56%	Sale of leatherware products

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

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
Fill Success Investments Limited	Hong Kong	HK\$2 Ordinary HK\$2 Non-voting Deferred	–	100%	Hotel ownership
Fonno International Industrial Limited ("Fonno")	Hong Kong	HK\$2	–	42.94%	Sale of leatherware products
* GH Water Supply (Holdings) Limited	Cayman Islands	HK\$1,000,000 HK\$100 Class A special share HK\$10 Class B special share	81.43%	81.43%	Investment holding
Gold Star Assets Limited	Hong Kong	HK\$2	–	71.56%	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	8.77%	62.77%	Property investment and investment holding
Guangdong Brewery Holdings Limited	Bermuda/ Hong Kong	HK\$125,000,000	72%	72%	Investment holding
Guangdong (H.K.) Tours Company Limited	Hong Kong	HK\$3,500,000 Ordinary HK\$2,000,000 Non-voting Deferred	100%	100%	Travel services

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

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 Hotel Limited	Hong Kong	HK\$2 Ordinary HK\$5,000,000 Non-voting Deferred	–	100%	Hotel ownership and operations
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%	Provision of finance to the Group
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

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

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 Tannery Limited ("GD Tannery")	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⁾ ("Tiannan")	Mainland China	RMB8,000,000	–	76.92%	Department stores operations
Guangdong Tours Transportation Limited	Hong Kong	HK\$100,000	–	100%	Provision of transportation services
* 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ^{(2)(f)}	Mainland China	HK\$6,116,000,000	–	80.62%	Water supply business
Guangdong Yingde Highway Ltd. ⁽²⁾	Mainland China	RMB93,200,000	–	70%	Highway operations
Guangzhou Malting Co., Ltd. ⁽¹⁾	Mainland China	RMB108,840,000	–	51.6%	Manufacture of malt
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

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

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
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
Jaromet Limited	Hong Kong	HK\$500,000	–	62.77%	General trading
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 leather trading
Ningbo Malting Co., Ltd. ⁽³⁾	Mainland China	US\$16,000,000	–	51%	Manufacture of malt
Qingdao Nanhai Tannery Co., Ltd. ^{(2)(a)} ("Qingdao Nanhai Tannery")	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 (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

Company	Place of incorporation/ registration and operations	Issued share capital, registered/ paid-up capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Shaoguan Power Plant (D) Ltd. ⁽¹⁾	Mainland China	US\$51,500,000	–	45.9%	Power plant operations
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 operations
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%	Provision of bottling and packaging services
Shenzhen Kingway Utility Co., Ltd. ⁽¹⁾	Mainland China	US\$12,000,000	–	62.64%	Provision of utilities services
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

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

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
Suzhou Yuehai Real Estate Development Co., Ltd. ⁽²⁾	Mainland China	US\$6,000,000	100%	100%	Property investment
Time Wise Profits Limited	British Virgin Islands	US\$1	–	71.56%	Import and export trade
Xuzhou Gangwei Colour Package Co., Ltd. ^{(2)(b)} ("Xuzhou Gangwei")	Mainland China	RMB50,000,000	–	71.56%	Manufacture and sale of packing materials
Xuzhou Nanhai Leather Factory Co., Ltd. ^{(2)(c)} ("Xuzhou Nanhai Tannery")	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 ownership and operations
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 (「協聯皮具」) ^{(2)(d)}	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 (「國穎皮具」) ^{(3)(e)}	Mainland China	HK\$5,650,000	–	71.56%	Manufacture and sale of leatherware products

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

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

- (a) The registered capital of Qingdao Nanhai Tannery was solely contributed by GD Tannery, a 71.56% owned subsidiary of the Company. GD Tannery is entitled to all the distributable profits of Qingdao Nanhai Tannery after the payment of an agreed annual fee to the joint venture partner in Mainland China. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with GD Tannery.
- (b) The registered capital of Xuzhou Gangwei is RMB50 million, of which GD Tannery has contributed RMB27 million. GD Tannery is entitled to all the distributable profits of Xuzhou Gangwei after the payment of an agreed annual fee to the joint venture partner in Mainland China. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with GD Tannery. Accordingly, Xuzhou Gangwei has been accounted for as if it is a wholly-owned subsidiary of GD Tannery, except that the assets contributed by the joint venture partner in Mainland China are not included in the net tangible assets of the Group.
- (c) The registered capital of Xuzhou Nanhai is US\$5 million, of which GD Tannery has contributed US\$3 million. Any subsequent increase in capital of an investment in Xuzhou Nanhai will be solely contributed by GD Tannery and it is entitled to all the distributable profits of Xuzhou Nanhai after the payment of an agreed annual fee to the joint venture partner in Mainland China. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with GD Tannery. Accordingly, Xuzhou Nanhai has been accounted for as if it is a wholly-owned subsidiary of GD Tannery, except that the assets contributed by the joint venture partner in Mainland China are not included in the net tangible assets of the Group.
- (d) The registered capital of 協聯皮具 is US\$780,000, of which Fonno (the Company indirectly holds a 42.94% interest in Fonno) has contributed US\$625,000. Fonno is entitled to all the distributable profits of 協聯皮具 after the payment of an agreed annual fee to the joint venture partner in Mainland China. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with Fonno. Accordingly, 協聯皮具 has been accounted for as if it is a wholly-owned subsidiary of Fonno, except that the assets contributed by the joint venture partner in Mainland China are not included in the net tangible assets of the Group.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

- (e) 國穎皮具 is a wholly foreign-owned enterprise established in Mainland China with a registered capital of HK\$5,650,000 verified by auditors in Mainland China and is wholly-owned by GD Tannery indirectly.
- (f) Pursuant to WaterCo's Articles of Association, the minority shareholder (also the Company's ultimate holding company, Yue Gang Investment, which directly holds 1% interest in WaterCo) is not entitled to any distributed profits of WaterCo for the first fifteen years of operations and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the sixteenth year of operations, 1.01% of the distributed profits of WaterCo for the first fifteen years of operations plus simple interest of 8% per annum on the unpaid amount of the distributed profits shall be made to Yue Gang Investment (collectively referred to as the "Deferred Dividend"). Once Yue Gang Investment has received the Deferred Dividend in full, all of the WaterCo's distributable profits shall be distributed to the GH Holdings and Yue Gang Investment according to their respective interests in WaterCo during the remaining operating period.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for 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.

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 for impairment were made in the prior years as summarised below.

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	231,671	231,671
Net liabilities deconsolidated	(752,130)	(752,130)	–	–
Amounts due from deconsolidated subsidiaries	477,973	497,113	268,242	282,381
	(274,157)	(255,017)	499,913	514,052
Provisions for guarantees granted to banks of deconsolidated subsidiaries	582,885	601,779	582,885	582,885
	308,728	346,762	1,082,798	1,096,937
Provisions for impairment	(308,728)	(346,762)	(1,082,798)	(1,096,937)
	–	–	–	–

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

17. Interests in Subsidiaries (continued)

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. “Nanfang”)	Mainland China	RMB262,160,334	56.01%	56.01%	Retailing

Sino-foreign equity joint venture.

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

During the year, the following changes in the deconsolidated subsidiaries took places:

- (a) On 6 July 2001, the Group acquired Nanfang’s entire 38% interest in Tiannan. Details of which are set out in note 21(iii) to the financial statements; and
- (b) On 4 September 2001, the Group also acquired a property situated in Hong Kong under a long term lease from a wholly-owned subsidiary of Nanfang at a cash consideration of HK\$850,000.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

18. Interest in a Jointly-controlled Entity

	2001 HK\$'000	2000 HK\$'000
Share of net assets	720,829	684,798
Due from a jointly-controlled entity	251,515	244,864
	<u>972,344</u>	<u>929,662</u>

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 a 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 ("GTI")	US\$100,000/ British Virgin Islands	51%	Investments in highway and bridge projects

Extracts of the audited operating results and financial position of GTI are as follows:

Operating results for the year:

	2001 HK\$'000	2000 HK\$'000
Turnover	<u>32,348</u>	<u>45,649</u>
Profit after tax	<u>70,645</u>	<u>28,411</u>

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

18. Interest in a Jointly-controlled Entity (continued)

Financial position at the balance sheet date:

	2001 HK\$'000	2000 HK\$'000
Non-current assets	2,676,766	2,860,714
Current assets	101,074	204,323
Current liabilities*	(763,855)	(248,923)
Non-current liabilities*	(600,600)	(1,473,374)
Net asset value	1,413,385	1,342,740

* On 22 December 2000, GTI and its bank creditors entered into a bank debt restructuring agreement, pursuant to which the repayment of GTI's bank loan was rescheduled. Accordingly, the maturity of GTI's bank loan of HK\$1,056,275,000 as at 31 December 2000 was classified according to the repayment schedule as contained in its bank debt restructuring agreement. On 29 June 2001, such bank loan has been fully refinanced by a new loan, with a lower interest rate, drawn from a bank in Mainland China.

19. Interests in Associates

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted investments, at cost	–	–	3,968	3,968
Share of net assets	282,186	210,443	–	–
Due from associates	472,745	499,559	254,116	266,724
Due to associates	(46,821)	(9,178)	(119)	–
	708,110	700,824	257,965	270,692
Provisions for impairment	(104,637)	(96,821)	(168,382)	(165,348)
	603,473	604,003	89,583	105,344
Add: Loan from an associate included in note 37	37,690	–	–	–
At 31 December	641,163	604,003	89,583	105,344

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

19. Interests in Associates (continued)

As detailed in notes 3 and 21 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

During the year, the Group had no goodwill or negative goodwill arising from the acquisition of associates.

Included in the amounts due from associates are unsecured loans of HK\$32,873,000 (2000: HK\$57,205,000), which bear interest at rates ranging from 8% per annum to 11.5% per annum (2000: 6% to 12% per annum). The remaining balances with associates are unsecured and interest-free. All balances have no fixed terms of repayment.

The loan due to an associate was advanced by 廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited) ("GZ Panyu") to 廣東天貿(集團)有限公司 (Guangdong Teem (Holdings) Limited) ("GD Teem") prior to the Group's disposal of a 55.2% interest in GZ Panyu to Yue Gang Investment. Further details of this disposal are set out in note 52(vi) to the financial statements. The loan was unsecured, bore interest at 4% per annum and was fully repaid at the date of this report.

All associates of the Group are corporations.

Particulars of the principal associates are as follows:

Company	Place of incorporation/ registration and operations	Percentage of attributable equity interest held by		Principal activities
		Company	Group	
Essential Holdings Limited	British Virgin Islands	–	22.9%	Investment holding
廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited)	Mainland China	–	24.8%	Property investment and development
Guangdong Jusco Teem Stores Co. Ltd	Mainland China	–	21.97%	Retailing
Guangdong Power Investment Limited	British Virgin Islands	49%	49%	Investment holding

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

19. Interests in Associates (continued)

Company	Place of incorporation/ registration and operations	Percentage of attributable equity interest held by		Principal activities
		Company	Group	
Hennessy International Group, Inc.	United States of America	–	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	–	31.39%	Property investment
Zhongshan Investment Limited	Hong Kong	38.4%	38.4%	Investment holding
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 operations
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 for 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 (continued)

Guangdong Investment Limited

31 December 2001

20. Contractual Joint Venture

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted investments, at cost	271,152	271,152
Less: Accumulated amortisation and impairment	(231,126)	(231,126)
	40,026	40,026
Loan to a contractual joint venture	135,345	135,345
Amounts due from a contractual joint venture	70,227	70,354
At 31 December	245,598	245,725
Less: Portion classified as current assets	(53,697)	(32,567)
Non-current portion	191,901	213,158

This represented the Group's cost of investment of approximately HK\$271 million in 中山火力發電廠 ("Zhongshan Power Plant") which is located in Zhongshan, Mainland China. The tenure of this contractual joint venture will expire in 2003.

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 (continued)

Guangdong Investment Limited

31 December 2001

21. Goodwill and Negative Goodwill

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of additional interests in subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	—	—
Acquisition of additional interests in subsidiaries	1,192	(115,568)
At 31 December 2001	1,192	(115,568)
Accumulated amortisation and impairment/(recognition as income):		
At beginning of year	—	—
Amortisation provided/(recognised as income) during the year	119	(10,286)
At 31 December 2001	119	(10,286)
Net book value:		
At 31 December 2001	1,073	(105,282)
At 31 December 2000	—	—

During the year, the Group further acquired additional interests in subsidiaries as follows:

- (i) In January 2001, the Company succeeded in acquiring at an auction a further 1.1% interest in GD Teem and 6.77% interest in Teem Holdings Limited (which principally holds an 85% interest in GD Teem) for a total cash consideration of HK\$31,300,000. GD Teem and its subsidiaries are primarily engaged in property investment and department store operations in Mainland China. As a result of these acquisitions, the Group increased its effective interest in GD Teem from 55.91% to 62.77% and recognised negative goodwill of HK\$95,565,000.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

21. Goodwill and Negative Goodwill (continued)

- (ii) In May, June, November and December 2001, the Company, under the terms of the shareholders agreement of GH Holdings, had exercised its first right of refusal in respect of certain GH Holdings' shares which certain existing holders wished to transfer, and acquired an aggregate of 0.43% interest in GH Holdings for a total cash consideration of HK\$6,458,000. As a result of these acquisitions, the Group increased its interest in GH Holdings from 81% to 81.43% and recognised negative goodwill of HK\$20,003,000.
- (iii) In July 2001, the Group further acquired an additional 38% interest in Tiannan from its deconsolidated subsidiary, Nanfang, for a consideration of HK\$12,898,000 which was satisfied as to a cash settlement of HK\$4,711,000 with the remaining balance set off against the Group's amounts due from Nanfang. Tiannan is a 62% owned subsidiary of GD Teem and operates department store in Mainland China. As a result of this acquisition, the Group increased its effective interest in Tiannan from 38.92% to 76.92% and recognised a goodwill of HK\$1,192,000.

As further detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill, in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve respectively.

The Group had an accounting policy to assess the goodwill eliminated against consolidated reserves for impairment, which is consistent with SSAP 31, and impairment losses for part of the Group's share of goodwill previously eliminated against consolidated reserves of HK\$358,793,000 and HK\$706,967,000, together with an amount of HK\$6,184,000 and Nil attributable to minority interests, were charged to the consolidated profit and loss account for the year ended 31 December 2000 and in prior years, respectively.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

21. Goodwill and Negative Goodwill (continued)

The movements of the goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, during the year were as follows:

	Group	
	Goodwill eliminated against consolidated capital reserve HK\$'000	Negative goodwill credited to consolidated capital reserve HK\$'000
Cost:		
At beginning of year	1,322,083	(2,033,322)
Disposal of subsidiaries	(62,783)	14,419
Adjustment to negative goodwill arising from Additional Shares to be issued (Note 46(b))	–	121,440
At 31 December 2001	1,259,300	(1,897,463)
Accumulated impairment:		
At beginning of year	1,065,760	–
Disposal of subsidiaries	(62,783)	–
Provided during the year	15,685	–
At 31 December 2001	1,018,662	–
Net amount:		
At 31 December 2001	240,638	(1,897,463)
At 31 December 2000	256,323	(2,033,322)

The impairment loss on goodwill of HK\$15,685,000, together with an amount of HK\$6,233,000 attributable to minority interests, was charged to the profit and loss account in the current year. The impairment loss related to the Group's acquisition of a group of companies which is engaged in manufacturing leatherware products in Mainland China which distributes them mainly in Hong Kong. Due to the continuous keen competition in the retailing market of leatherware products as a result of the unfavourable economic conditions, the impairment loss is determined by the directors by discounting the expected future cash flows arising from this group of companies at a discount rate of 5%.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

22. Other Financial Assets

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Investment securities, at cost				
Unlisted:				
Outside Hong Kong	146,952	174,897	–	52,960
Less: Impairment	(99,357)	(109,739)	–	(4,613)
	47,595	65,158	–	48,347
Other investments, at fair value				
Listed:				
Hong Kong	247	7,546	–	7,442
Unlisted:				
Outside Hong Kong	19,988	27,544	17,338	22,595
Total other financial assets at 31 December	67,830	100,248	17,338	78,384
Less: Other investments classified as current assets, at fair value	(17,585)	(30,160)	(17,338)	(30,037)
Non-current portion	50,245	70,088	–	48,347
Market value of Hong Kong listed investment, at 31 December	247	7,546	–	7,442

Included in the unlisted investment securities at 31 December 2001 was a 24.5% interest in Pak Kong Transco Limited, a company established in Mainland China with an investment in the Pak Kong Bridges in Qingyuan, Mainland China, of HK\$31,107,000. 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.

During the year, an investment security of HK\$11,314,000 at cost, together with an accumulated impairment loss of HK\$11,314,000 made against this investment, was disposed of as a result of disposal of a subsidiary.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

23. Intangible Assets

Group

	Operating right HK\$'000	Trademarks HK\$'000	Total HK\$'000
Cost:			
At beginning of year and at 31 December 2001	14,798,611	40,000	14,838,611
Accumulated amortisation and impairment:			
At beginning of year	182,992	33,000	215,992
Amortisation during the year	494,096	1,400	495,496
Impairment recognised in the profit and loss account during the year	–	4,100	4,100
At 31 December 2001	677,088	38,500	715,588
Net book value:			
At 31 December 2001	14,121,523	1,500	14,123,023
At 31 December 2000	14,615,619	7,000	14,622,619

Prior to the Acquisition, 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited, "WaterCo"), an approximately 80.62% owned subsidiary of the Company as at 31 December 2001, acquired the operating right from Yue Gang Investment to operate a water supply business, which supplies natural water to Hong Kong and, 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 metres 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 (continued)

Guangdong Investment Limited

31 December 2001

24. Other Long Term Assets

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepaid rental (Note a)	291,665	402,855	–	–
Prepayment for land use rights (Note b)	452,773	452,773	–	–
Prepaid construction costs (Note c)	775,248	–	–	–
Reusable packaging materials	5,975	12,025	–	–
Other deferred expenses	13,313	28,883	2,584	11,267
	<u>1,538,974</u>	<u>896,536</u>	<u>2,584</u>	<u>11,267</u>

Notes:

- (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", 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 at the balance sheet date represented unamortised 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. During the year, an amortisation of the prepaid rental of HK\$111,190,000 was charged to the profit and loss account.

- (b) The amount represented a prepayment for the right to use the 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 mid-2004.

- (c) 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 (the "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 (the "EPC Contract") entered into with the Project Bureau on 15 December 2000. The projected total construction cost, including borrowing costs incurred for the Phase IV Renovation Project, is RMB4.7 billion.

At the balance sheet date, such borrowing costs included in the prepaid construction cost amounted to HK\$11,768,000.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

25. Loan Receivables

	Group	
	2001 HK\$'000	2000 HK\$'000
Secured	1,424	2,858
Unsecured	—	36,966
At 31 December	1,424	39,824
Repayable:		
Within twelve months from the balance sheet date	312	8,567
Beyond twelve months from the balance sheet date	1,112	31,257
	1,424	39,824

26. Inventories

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	230,420	205,844
Work in progress	56,892	95,005
Finished goods	202,915	183,153
Properties held for sale	25,146	281,123
At 31 December	515,373	765,125

At 31 December 2001, the carrying amount of inventories carried at net realisable value was HK\$67,728,000 (2000: HK\$205,110,000).

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

27. Construction/Installation Contracts Receivable

	2001	Group
	HK\$'000	2000 HK\$'000
Gross amount due from contract customers	—	5,045
Contract costs incurred plus recognised profits less recognised losses to date	—	100,569
Less: Progress billings	—	(95,524)
	—	5,045

At 31 December 2000, retentions held by customers for contract works included in trade receivables amounted to approximately HK\$9,847,000.

The balance on 3 March 2001 was transferred out as a result of the Company's disposal of GD Building, further details of which are set out in note 6(a) to the financial statements.

28. Trade Receivables

The Group's trading terms with its customers are mainly 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.

As at 31 December 2001, an aged analysis of the Group's trade receivables based on payment due date is as follows:

	2001	Group
	HK\$'000	2000 HK\$'000
Within 3 months	540,609	734,048
More than 3 months and less than 6 months	6,496	68,043
More than 6 months and less than 1 year	16,432	72,078
More than 1 year	283,228	662,335
	846,765	1,536,504
Less: Provisions for doubtful debts	(305,205)	(733,098)
	541,560	803,406

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

29. Cash and Cash Equivalents and Pledged Bank Deposits

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	1,258,150	1,523,609	123,263	208,533
Time deposits	346,597	568,062	25,839	293,306
	<u>1,604,747</u>	<u>2,091,671</u>	<u>149,102</u>	<u>501,839</u>
Less: Pledged time deposits for trade facilities	(19,873)	(66,264)	–	(8)
Pledged time deposits for bank loan repayable within one year from the balance sheet date	(42,401)	–	–	–
Pledged bank balances for securing mortgage loans of certain purchasers of the Group's properties held for sale	(4,031)	–	–	–
	<u>(66,305)</u>	<u>(66,264)</u>	<u>–</u>	<u>(8)</u>
Cash and cash equivalents as at 31 December	<u>1,538,442</u>	<u>2,025,407</u>	<u>149,102</u>	<u>501,831</u>

As at 31 December 2001, the Company and certain of its subsidiaries held cash and bank balances of HK\$309 million (2000: HK\$741 million) which were subject to certain arrangements as set out in their respective debt restructuring documents. Pursuant to their respective 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\$365 million in total which is applied to be used as working capital for their operations.

In addition to the above-mentioned HK\$365 million, a subsidiary of the Company is also required to reserve certain cash and bank balances for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement dated 22 December 2000 entered into between the subsidiary and other parties. As at 31 December 2001, cash retained for such purpose amounted to HK\$130,766,000.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

30. 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 2001 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2001 HK\$'000
Eken Development Limited, owned by Tang Zhen*	<u>1,601</u>	<u>1,713</u>	<u>1,713</u>

* Senior executive of the Company

The balance is secured by a leasehold property, bears interest at 2% below Hong Kong prime rate per annum and is repayable monthly over a maximum period of 11 years from the balance sheet date.

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

31. 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.

32. Due from/to Fellow Subsidiaries

As at 31 December 2001, included in the amounts due from fellow subsidiaries is an unsecured loan due from GD Finance (as defined in note 52(iv)) of HK\$67,965,000 (2000: HK\$119,300,000), with a provision of HK\$48,156,000 (2000: HK\$56,156,000), which bore interest at rates ranging from London Inter Bank Offer Rate ("LIBOR") plus 1.8% per annum to Hong Kong Inter Bank Offer Rate ("HIBOR") plus 1.8% per annum and is repayable in accordance with the terms set out in the bank debt restructuring agreement of that fellow subsidiary. The remaining amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The amount due to a fellow subsidiary as at 31 December 2000 was unsecured, interest-free and was transferred out as a result of the Company's disposal of GD Building.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

33. Due from/to Immediate Holding Company

The amount due from immediate holding company, GDH Limited, is unsecured, interest-free and has no fixed terms of repayment.

The amounts due to immediate holding company are analysed as follows:

	2001	Group
	HK\$'000	2000 HK\$'000
Non interest-bearing portion	64,069	—
Interest-bearing portion (included in Note 37)	113,241	—
	<u>177,310</u>	<u>—</u>

The non interest-bearing portion of amounts due to immediate holding company is unsecured, interest-free and has no fixed terms of repayment.

The interest-bearing portion of the amounts due to immediate holding company are unsecured and bear interest at 4% per annum up to September 2002 and, thereafter, the applicable interest rate will be the average of bank lending rate and deposit rate in Mainland China. The maturities of these unsecured loans are as follows:

	2001	Group
	HK\$'000	2000 HK\$'000
Within one year	25,610	—
In the second year	25,208	—
In the third to fifth years, inclusive	46,813	—
Over five years	15,610	—
	<u>113,241</u>	<u>—</u>
Less: Portion classified as current liabilities	(25,610)	—
Non-current portion	<u>87,631</u>	<u>—</u>

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

34. 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:

	2001	Group 2000
	HK\$'000	HK\$'000
Interest-bearing borrowings (included in Note 37):		
Current portion	–	3,078
Non-current portion	42,448	112,604
	<u>42,448</u>	<u>115,682</u>
Non interest-bearing borrowings:		
Current portion	323,684	* 265,122
Non-current portion	265,044	263,721
	<u>588,728</u>	<u>528,843</u>
	<u>631,176</u>	<u>644,525</u>

- * The balance included an amount of HK\$116,956,000 which was classified under accruals and other liabilities. To accord with the presentation adopted in the current year, which in the opinion of the directors, better reflects the underlying nature of the balance, the amount has been reclassified to amounts due to minority shareholders of subsidiaries.

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

	2001	Group 2000
	HK\$'000	HK\$'000
Within one year or no fixed terms of repayment	323,684	268,200
In the second year	184,729	192,437
In the third to fifth years, inclusive	108,378	170,038
Thereafter	14,385	13,850
	<u>631,176</u>	<u>644,525</u>

The interest-bearing portion of amounts due to minority shareholders of subsidiaries are unsecured and bear interest at 2% above LIBOR per annum.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

35. Trade Payables

As at 31 December, an aged analysis of the Group's trade payables based on payment due date is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within 3 months	225,692	260,437
More than 3 months and less than 6 months	6,178	8,605
More than 6 months and less than 1 year	1,648	16,393
More than 1 year	53,771	202,109
	<u>287,289</u>	<u>487,544</u>

36. Finance Lease Payables

As 31 December 2000, the future minimum lease payments under finance leases was HK\$447,000 and their present values were HK\$179,000. During the year, the lease payables were fully settled in accordance with the leasing agreements.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

37. Bank and Other Interest-bearing Borrowings

Group

	Notes	2001			2000		
		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 and overdrafts	38	540,812	3,058,193	3,599,005	838,041	3,297,949	4,135,990
Bonds	39	–	650,179	650,179	74,162	1,239,744	1,313,906
Floating rate notes	40	–	382,349	382,349	46,609	780,117	826,726
Notes Payable and							
GH Holdings Debts	41	–	13,786,870	13,786,870	147,068	14,045,422	14,192,490
Transferable loan instruments	42	–	413,140	413,140	–	–	–
Due to immediate							
holding company	33	25,610	87,631	113,241	–	–	–
Due to minority shareholders							
of subsidiaries	34	–	42,448	42,448	3,078	112,604	115,682
Due to an associate	19	37,690	–	37,690	–	–	–
At 31 December		604,112	18,420,810	19,024,922	1,108,958	19,475,836	20,584,794

Company

	Notes	2001			2000		
		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 and overdrafts	38	2,356	1,070,956	1,073,312	82,187	1,375,773	1,457,960
Bonds	39	–	–	–	11,873	197,188	209,061
Floating rate notes	40	–	382,349	382,349	46,609	780,117	826,726
Notes Payable	41	–	144,063	144,063	10,848	181,642	192,490
Transferable loan instruments	42	–	413,140	413,140	–	–	–
At 31 December		2,356	2,010,508	2,012,864	151,517	2,534,720	2,686,237

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

38. Bank Loans and Overdrafts

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans and overdrafts:				
Secured	2,273,331	1,451,857	213,036	284,667
Unsecured	1,325,674	2,684,133	860,276	1,173,293
At 31 December	<u>3,599,005</u>	<u>4,135,990</u>	<u>1,073,312</u>	<u>1,457,960</u>

The maturities of the above amounts are as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year or on demand	540,812	838,041	2,356	82,187
In the second year	697,691	620,854	228,971	206,624
In the third to fifth years, inclusive	1,883,493	2,677,095	841,985	1,169,149
Over five years	477,009	—	—	—
	<u>3,599,005</u>	<u>4,135,990</u>	<u>1,073,312</u>	<u>1,457,960</u>
Less: Portion classified as current liabilities	(540,812)	(838,041)	(2,356)	(82,187)
Non-current portion	<u>3,058,193</u>	<u>3,297,949</u>	<u>1,070,956</u>	<u>1,375,773</u>

On 22 December 2000, the Group entered into a series of bank debt restructuring agreements (the "Bank Debt Restructuring Agreements") with its bank creditors. 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 respective loan agreements upon the occurrence of events of defaults. Pursuant to the Bank Debt Restructuring Agreements, inter alia, the Group is required to repay no less than 45% of its bank debts under the Bank Debt Restructuring Agreements as at 22 December 2000 within approximately five years commencing from that date in accordance with the repayment schedules contained in the Bank Debt Restructuring Agreements, with the remaining balance being repaid/ refinanced no later than 30 September 2005.

Accordingly, the maturities of the above bank borrowings have been classified according to the repayment schedules and terms contained in the Bank Debt Restructuring Agreements.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

38. Bank Loans and Overdrafts (continued)

Moreover, the Group's bank debts with terms governed by the Bank Debt Restructuring Agreements are transferable under a trading mechanism contained in these Bank Debt Restructuring Agreements. Included in the above bank loans and overdrafts were bank debts amounting to HK\$40,429,000 which was held by immediate holding company, GDH Limited, as a result of its acquisition of certain of the Group's bank debts through such trading mechanism.

39. Bonds

	Notes	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Convertible Bonds due 2005	(a)	–	209,061	–	209,061
Guaranteed Floating Rate Bonds due 2005	(b)	650,179	1,104,845	–	–
At 31 December		<u>650,179</u>	<u>1,313,906</u>	<u>–</u>	<u>209,061</u>

The maturities of the above amounts are as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	–	74,162	–	11,873
In the second year	139,008	187,589	–	30,031
In the third to fifth years, inclusive	511,171	1,052,155	–	167,157
	<u>650,179</u>	<u>1,313,906</u>	<u>–</u>	<u>209,061</u>
Less: Portion classified as current liabilities	–	(74,162)	–	(11,873)
Non-current portion	<u>650,179</u>	<u>1,239,744</u>	<u>–</u>	<u>197,188</u>

In accordance with a circular dated 16 November 2000 (the "Bond Circular") dispatched to the bond holders and an amendment and restatement agreement dated 22 December 2000 (the "Amendment Agreement"), the bond holders approved the respective restructuring of the terms of the Group's convertible bonds.

Pursuant to the Bond Circular and the Amendment Agreement, the redemption of the above bonds was rescheduled. Accordingly, the maturities of the above bonds have been classified according to the redemption schedule as contained in the Bond Circular and the Amendment Agreement.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

39. Bonds (continued)

a. Convertible Bonds due 2005

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 otherwise have fallen 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 of HK\$0.50 each of the Company (the "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 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 was 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.

As part of the comprehensive restructuring of the Group, the obligations of the Company under the 2001 CB have been amended and restructured pursuant to the Amendment Agreement (the "2005 CBs") which came into effect on 22 December 2000. The key aspects of the restructuring of the 2001 CB, pursuant to the Amendment Agreement, 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 Ordinary Shares were modified and the 2005 CBs were to be repaid by way of a fixed mandatory partial redemption and additional and/or accelerated mandatory partial redemptions.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

39. Bonds (continued)**a. Convertible Bonds due 2005 (continued)**

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 (the “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\$1.20, 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 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 adjustments in accordance with the terms and conditions of the 2005 CBs.

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 was 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 was exercisable for a period of 3 months commencing from 22 March 2001. The exercise price would be 106% of the principal amount outstanding of the 2005 CBs together with accrued interest.

On 13 June 2001, GDH Limited exercised the Call Option and the purchase of the 2005 CBs was completed on 3 July 2001. Upon full exercise of the conversion right attached to the 2005 CBs by GDH Limited, the Company allotted 263,250,000 Ordinary Shares at the conversion price of HK\$0.80 per Ordinary Share to GDH Limited on 30 November 2001.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

39. Bonds (continued)**b. Guaranteed Floating Rate Bonds due 2005**

On 7 July 1997, Guangdong Investment Finance (Cayman) Limited ("GIFL"), a wholly-owned subsidiary of the Company, issued US\$130,000,000 1% guaranteed convertible bonds due 2002 (the "2002 Bonds") which would otherwise 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 as the guaranteed floating rate bonds due 2005 (the "2005 Guaranteed Bonds"), which subsequently was 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, pursuant to the Bond Circular, 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, 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 is maintained.

The aggregate principal amount outstanding of the 2005 Guaranteed Bonds as at 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 Bonds in the notional principal amount of US\$1,000.

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 was on 9 July 2001 and thereafter interest is payable quarterly in arrears.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

39. Bonds (continued)

b. Guaranteed Floating Rate Bonds due 2005 (continued)

On 19 April 2001, the Company announced an exchange offer whereby the holders of 2005 Guaranteed Bonds were 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").

On 9 July 2001, HK\$219,745,000 of the 2005 Guaranteed Bonds were exchanged into TLIs and the corresponding 2005 Guaranteed Bonds were cancelled. Further details of the terms of the TLIs are set out in note 42 to the financial statements.

40. Floating Rate Notes

	Group and Company	
	2001 HK\$'000	2000 HK\$'000
Amended 2000 FRNs	35,024	46,796
Amended 2001 FRNs	347,325	779,930
At 31 December	<u>382,349</u>	<u>826,726</u>

The maturities of the above amounts are as follows:

	2001 HK\$'000	2000 HK\$'000
Within one year	—	46,609
In the second year	81,746	117,895
In the third to fifth years, inclusive	300,603	662,222
	<u>382,349</u>	<u>826,726</u>
Less: Portion classified as current liabilities	—	(46,609)
Non-current portion	<u>382,349</u>	<u>780,117</u>

In accordance with the proposals contained in the circulars dated 21 November 2000 dispatched to the respective floating rate notes holders (the "FRNs Circulars"), the restructuring terms of the Group's floating rate notes were approved. Accordingly, the maturities of the above floating rate notes have been classified according to the approved redemption schedule contained in the respective FRNs Circulars.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

40. Floating Rate Notes (continued)

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 US\$50,000,000 floating rate notes due 2005 (the "Amended 2000 FRNs") and the US\$100,000,000 floating rate notes due 2005 (the "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. The Amended 2001 FRNs maintain listing status on the Luxembourg Exchange.

The key aspects of the restructuring of Amended 2000 FRNs and Amended 2001 FRNs (collectively referred to as the "Amended FRNs"), pursuant to the FRNs Circulars, 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.

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 payments on the Amended 2000 FRNs and Amended 2001 FRNs were on 26 March 2001 and 15 May 2001, respectively, and thereafter interest is payable quarterly in arrears.

As at 31 December 2001, the principal amount outstanding of the Amended 2000 FRNs and Amended 2001 FRNs as at 31 December 2001 was US\$4,490,000 (2000: US\$6,000,000) and US\$44,529,000 (2000: US\$100,000,000), respectively. The Amended 2000 FRNs and Amended 2001 FRNs are in denominations of US\$250,000 each.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

40. Floating Rate Notes (continued)

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 respective Amended 2000 FRNs and Amended 2001 FRNs during the offer period from 19 April 2001 to 5 June 2001 to be exchanged into TLIs.

On 29 June 2001, HK\$293,925,000 of the Amended 2001 FRNs were exchanged into TLIs and the corresponding Amended 2001 FRNs were cancelled. Further details of the terms of the TLIs are set out in note 42 to the financial statements.

41. Notes Payable and GH Holdings Debts

Group

	Notes	2001			2000		
		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)	–	144,063	144,063	10,848	181,642	192,490
GH Holdings Debts	(b)	–	13,642,807	13,642,807	136,220	13,863,780	14,000,000
At 31 December		–	13,786,870	13,786,870	147,068	14,045,422	14,192,490
Company							
Notes Payable at 31 December		–	144,063	144,063	10,848	181,642	192,490

(a) The Notes Payable

The Notes Payable were issued by the Company to replace certain 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 of 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.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

41. Notes Payable and GH Holdings Debts (continued)**(a) The Notes Payable** (continued)

The maturities of the Notes Payable as at 31 December 2001 were as follows:

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Within one year	—	10,848
In the second year	30,801	27,447
In the third to fifth years, inclusive	113,262	154,195
	144,063	192,490
Less: Portion classified as current liabilities	—	(10,848)
Non-current portion	144,063	181,642

(b) The GH Holdings Debts were issued by GH Holdings and consist 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 was made in December 2001.

(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 ("US\$") denominated, being translated at an exchange rate of HK\$7.7585 to US\$1, 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.

41. Notes Payable and GH Holdings Debts (continued)

- (b) **The GH Holdings Debts were issued by GH Holdings and consist of three pari passu tranches: Tranche A Credit, Tranche B Credit and Tranche C Notes. (continued)**

- (iii) The Tranche C Notes (continued)

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 debts with an interest rate of 8% per annum and at a contracted exchange rate of HK\$7.80 to US\$1.

At 31 December 2001, the carrying amount of the Tranche C Notes was converted into Hong Kong dollars using the exchange rate of HK\$7.80 to US\$1, less any unamortised swap costs, which amounted to HK\$14,328,000 as at the balance sheet date, in respect of the Swap Agreement. The swap costs are amortised on a straight line basis over the period from the trade date to the termination date of the Swap Agreement. During the year, HK\$2,272,000 was amortised and included as part of the finance costs in the consolidated profit and loss account.

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 has also guaranteed all of the obligations and liabilities of GH Holdings under the Swap Agreement in respect of US\$400 million of the Tranche C Notes. The amounts payable under the swap guarantee are senior in right of repayment to the GH Holdings Debts.

In addition to those GH Holdings Debts held by certain subsidiaries of GDH Limited pursuant to the restructuring of the GDE Group (as referred to in note 47(e) to the financial statements), GDH Limited and certain of these subsidiaries further acquired certain GH Holdings Debts from the GH Holdings Debts holders in accordance with the terms of Tranche A and B Credits and Tranche C Notes. As at 31 December 2001, GDH Limited and these fellow subsidiaries held certain Tranche A and B Credits and Tranche C Notes amounting to HK\$1,810,375,000.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

42. Transferable Loan Instruments

The maturities of the TLIs as at the balance sheet date were as follows:

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Within one year	—	—
In the second year	88,329	—
In the third to fifth years, inclusive	324,811	—
	<hr/> 413,140	<hr/> —
Less: Portion classified as current liabilities	—	—
Non-current portion	<hr/> 413,140	<hr/> —

The above TLIs were converted from the 2005 Guaranteed Bonds and Amended 2001 FRNs (as referred to in notes 39(b) and 40 to the financial statements, respectively) during the year.

These TLIs are for all purpose of the “Direct Bank Debts” which represented the principal indebtedness owing by the Company. Accordingly, TLIs bear the same interest and proportion of repayment as the other Direct Bank Debts. Therefore, the maturities of these TLIs have been classified according to the repayment schedule and terms as contained in the Bank Debt Restructuring Agreements.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

43. Provision for Bank Loans Guaranteed

The maturity of the provision for bank loans guaranteed at the balance sheet date was as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year or on demand	–	43,319	–	42,098
In the second year	119,486	106,953	119,486	106,483
In the third to fifth years, inclusive	439,383	600,547	439,383	598,120
At 31 December	558,869	750,819	558,869	746,701
Less: Portion classified as current liabilities	–	(43,319)	–	(42,098)
Non-current portion	558,869	707,500	558,869	704,603

The balances represented the provision for the Group's obligation in respect of certain bank loans of Guangdong Construction Materials (International) Limited ("GCM", a deconsolidated subsidiary), GD Timber (a previous wholly-owned subsidiary and a fellow subsidiary of the Company as at 31 December 2001 as a result of the Acquisition) and Funai International Pte Limited (a previous deconsolidated subsidiary which was disposed of last year) (collectively referred to as the "Borrowers"), which were guaranteed by the Group.

In accordance with the Company's Bank Debt Restructuring Agreement, these bank loans are treated as if Direct Bank Debts of the Company which is obliged to repay these bank loans according to the Company's Bank Debt Restructuring Agreement. Moreover, the creditors of these bank loans may elect at any time to exit the balance sheets of the Borrowers and to become the bank creditors of the Company through the issue of notes payable pursuant to the Company's Bank Debt Restructuring Agreement.

In light of the financial positions of GCM and GD Timber, the directors opined that the cash inflows from them would be minimal. Therefore, the Group fully provided for these bank loans last year. The movements of the provision for bank loans guaranteed for the year are set out in note 47(b) to the financial statements.

These bank loans bear interest at rates ranging from LIBOR plus a margin of 2.375% per annum to HIBOR plus a margin of 2.375% per annum with such time as an aggregate principal amount of HK\$1,017.5 million in the Direct Debt Payments have been made, thereafter, an applicable margin of 2% per annum will be applied. The provision for the Company's obligation in respect of these bank loans are repayable according to the repayment schedule contained in the Company's Bank Debt Restructuring Agreement.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

43. Provision for Bank Loans Guaranteed (continued)

Moreover, these bank loans are transferable under a trading mechanism set out in the Company's Bank Debt Restructuring Agreement. As at 31 December 2001, certain bank loans of GCM amounting to HK\$31,443,000 was held by immediate holding company, GDH Limited, as a result of its acquisition of these bank loans through such trading mechanism.

44. 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.

45. Share Capital

	2001 HK\$'000	2000 HK\$'000
Authorised:		
8,000,000,000 Ordinary Shares of HK\$0.50 each	4,000,000	4,000,000
200,000 3 ¹ / ₄ % Preference Shares of US\$1 each	1,549	1,549
	<u>4,001,549</u>	<u>4,001,549</u>
Issued and fully paid:		
5,132,982,672 Ordinary Shares	2,566,491	2,433,818
(2000: 4,867,636,920 Ordinary Shares)		
85,949 Preference Shares (2000: 86,950 Preference Shares)	666	674
	<u>2,567,157</u>	<u>2,434,492</u>

During the year, the following changes in the Company's share capital took place and a total of 265,345,752 Ordinary Shares were issued:

- (i) On 1 June 2001 and 13 June 2001, 1 and 1,000 Preference Shares, respectively, were converted by way of redemption into an aggregate of 2,095,752 Ordinary Shares at conversion price of HK\$3.7 per Ordinary Share.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

45. Share Capital (continued)

- (ii) On 30 November 2001, the Company allotted 263,250,000 Ordinary Shares at HK\$0.80 per Ordinary Share to GDH Limited upon its full exercise of the conversion rights attached to the 2005 CBs. Further details of which are set out in note 39(a) to the financial statements.

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 a conversion price of HK\$3.7 per Ordinary Share, subject to adjustment, and at the fixed exchange rate of HK\$7.74654 to US\$1.

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 85,949 Preference Shares into Ordinary Shares of the Company at the conversion price, the Company would have issued 179,947,937 new Ordinary Shares, representing approximately 3.39% 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 (continued)

Guangdong Investment Limited

31 December 2001

45. Share Capital (continued)**Share options**

The Company operates a share option scheme, further details of which are set out under the heading “Share Option of the Company, its Subsidiaries and Associated Corporation” in the Report of Directors on pages 36-42.

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					
	HK\$4.536	HK\$2.892	HK\$3.024	HK\$0.74	HK\$0.5312	Total
Balance at beginning of year	2,020,000	7,675,000	7,850,000	–	–	17,545,000
Options granted during the year	–	–	–	19,500,000	167,000,000	186,500,000
Options cancelled during the year	(530,000)	(1,670,000)	(2,500,000)	–	–	(4,700,000)
Balance at 31 December 2001	<u>1,490,000</u>	<u>6,005,000</u>	<u>5,350,000</u>	<u>19,500,000</u>	<u>167,000,000</u>	<u>199,345,000</u>

* Subject to adjustment

The options outstanding at 31 December 2001 expire at various dates up to the close of business on 1 May 2007, or if that day is not a business day, the expiry date will be the close of the business day preceding 1 May 2007. The exercise in full of the outstanding options would result in the issue of additional 199,345,000 Ordinary Shares and cash proceeds before the related issue expenses of approximately HK\$143,443,900.

American Depositary Receipt

Citibank N.A. established an American Depositary Receipt (“ADR”) Programme for the Ordinary Shares, under which programme a maximum of 16,000,000 American Depositary Shares, representing 160,000,000 Ordinary Shares, might be traded over-the-counter in the U.S., and the registration statement for the ADR programme was declared effective by the U.S. Securities and Exchange Commission on 5 August 1994. 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.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

46. Reserves

Group

	Preference share premium account	Ordinary share premium account	Ordinary Shares to be issued	Capital reserve	Fixed asset revaluation reserve	Hotel property revaluation reserve	Expansion fund reserve	Exchange fluctuation reserve	Special reserve	Accumu- lated losses	Total
	HK\$'000	HK\$'000	HK\$'000 (Note 46(b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note 46(a))	HK\$'000	HK\$'000
At 1 January 2000:											
As previously reported	672,888	4,228,831	-	1,145,992	13,135	166,820	84,571	(128,001)	92,380	(3,035,234)	3,241,382
Prior year adjustment:											
SSAP 17 (Revised) – revaluation surplus of investment properties no longer required to be frozen upon their transfer to fixed assets (Notes 2 and 46(d))	-	-	-	-	(13,135)	-	-	-	-	13,135	-
As restated	672,888	4,228,831	-	1,145,992	-	166,820	84,571	(128,001)	92,380	(3,022,099)	3,241,382
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
Impairment of goodwill arising from acquisitions of subsidiaries and associates	-	-	-	358,793	-	-	-	-	-	-	358,793
Negative goodwill arising from acquisition of additional interest in a subsidiary	-	-	-	19,822	-	-	-	-	-	-	19,822
Goodwill arising from acquisitions of associates	-	-	-	(14,872)	-	-	-	-	-	-	(14,872)
Exchange adjustments	-	-	-	-	-	-	-	6,309	-	-	6,309
Provision for preference share redemption premium (Note 46(a))	-	-	-	-	-	-	-	-	53,613	(53,613)	-
Transfer from the profit and loss account	-	-	-	-	-	-	10,568	-	-	(10,568)	-
Provision for preference share dividend	-	-	-	-	-	-	-	-	-	(22,020)	(22,020)
Net loss for the year	-	-	-	-	-	-	-	-	-	(1,356,302)	(1,356,302)
At 31 December 2000	672,888	5,841,351	-	3,913,564	-	-	95,139	(121,692)	145,993	(4,464,602)	6,082,641
Reserves retained by:											
Company and subsidiaries	672,888	5,841,351	-	3,913,564	-	-	87,817	(122,984)	145,993	(4,522,308)	6,016,321
Associates	-	-	-	-	-	-	3,952	1,292	-	21,130	26,374
Jointly-controlled entity	-	-	-	-	-	-	3,370	-	-	36,576	39,946
At 31 December 2000	672,888	5,841,351	-	3,913,564	-	-	95,139	(121,692)	145,993	(4,464,602)	6,082,641

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

46. Reserves (continued)

Group

	Preference share premium account	Ordinary share premium account	Ordinary Shares to be issued	Capital reserve	Fixed asset revaluation reserve	Hotel property revaluation reserve	Expansion fund reserve	Exchange fluctuation reserve	Special reserve	Accumu- lated losses	Total
	HK\$'000	HK\$'000	HK\$'000 (Note 46(b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note 46(a))	HK\$'000	HK\$'000
At 1 January 2001:											
As previously reported	672,888	5,841,351	-	3,913,564	13,135	-	95,139	(121,692)	145,993	(4,477,737)	6,082,641
Prior year adjustment:											
SSAP 17 (Revised) – revaluation surplus of investment properties no longer required to be frozen upon their transfer to fixed assets (Notes 2 and 46(d))	-	-	-	-	(13,135)	-	-	-	-	13,135	-
As restated	672,888	5,841,351	-	3,913,564	-	-	95,139	(121,692)	145,993	(4,464,602)	6,082,641
Adjustment for reversal of accrued dividend (Note 12)	-	-	-	-	-	-	-	-	-	49,096	49,096
Transferred from special reserve (Note 46(a))	-	-	-	-	-	-	-	-	(145,993)	145,993	-
Conversion of Preference Shares into Ordinary Shares	(7,746)	6,706	-	-	-	-	-	-	-	-	(1,040)
Share issue expenses	-	(60)	-	-	-	-	-	-	-	-	(60)
Net profit for the year	-	-	-	-	-	-	-	-	-	285,542	285,542
Conversion of 2005 CBs into Ordinary Shares	-	78,975	-	-	-	-	-	-	-	-	78,975
Transfer from the profit and loss account	-	-	-	-	-	-	30,720	-	-	(30,720)	-
Impairment of goodwill arising from acquisition of a subsidiary	-	-	-	15,685	-	-	-	-	-	-	15,685
Capitalisation of retained profits and expansion fund reserve as registered capital of a subsidiary	-	-	-	21,024	-	-	(18,670)	-	-	(2,354)	-
Release on disposal of subsidiaries	-	-	-	(38,450)	-	-	(8,447)	53,445	-	32,478	39,026
Exchange adjustments	-	-	-	-	-	-	-	475	-	-	475
Additional Shares to be issued as a result of Acquisition (Note 46(b))	-	-	121,440	(121,440)	-	-	-	-	-	-	-
At 31 December 2001	665,142	5,926,972	121,440	3,790,383	-	-	98,742	(67,772)	-	(3,984,567)	6,550,340
Reserves retained by:											
Company and subsidiaries	665,142	5,926,972	121,440	3,790,383	-	-	90,197	(62,778)	-	(4,096,971)	6,434,385
Associates	-	-	-	-	-	-	4,112	(4,994)	-	40,862	39,980
Jointly-controlled entity	-	-	-	-	-	-	4,433	-	-	71,542	75,975
At 31 December 2001	665,142	5,926,972	121,440	3,790,383	-	-	98,742	(67,772)	-	(3,984,567)	6,550,340

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

46. Reserves (continued)

Company

	Preference share premium account	Ordinary share premium account	Ordinary Shares to be issued	Capital reserve	Exchange fluctuation reserve	Special reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000 (Note 46(b))	HK\$'000	HK\$'000	HK\$'000 (Note 46(a))	HK\$'000	HK\$'000
At 1 January 2000:								
As previously reported	672,888	4,228,831	-	1,733,711	(14,813)	92,380	(3,843,030)	2,869,967
Prior year adjustment:								
SSAP 18 (Revised) – net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year (Notes 2 and 11)	-	-	-	-	-	-	(42,620)	(42,620)
As restated	672,888	4,228,831	-	1,733,711	(14,813)	92,380	(3,885,650)	2,827,347
Issue of Ordinary Shares during the year	-	1,612,520	-	-	-	-	-	1,612,520
Provision for preference share redemption premium (Note 46(a))	-	-	-	-	-	53,613	(53,613)	-
Net loss for the year (Restated)	-	-	-	-	-	-	(130,530)	(130,530)
Provision for preference share dividend	-	-	-	-	-	-	(22,020)	(22,020)
At 31 December 2000 and 1 January 2001	672,888	5,841,351	-	1,733,711	(14,813)	145,993	(4,091,813)	4,287,317
At 31 December 2000 and 1 January 2001:								
As previously reported	672,888	5,841,351	-	1,733,711	(14,813)	145,993	(4,034,813)	4,344,317
Prior year adjustment:								
SSAP 18 (Revised) – net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year (Notes 2 and 11)	-	-	-	-	-	-	(57,000)	(57,000)
As restated	672,888	5,841,351	-	1,733,711	(14,813)	145,993	(4,091,813)	4,287,317
Adjustment for reversal of accrued dividend (Note 12)	-	-	-	-	-	-	49,096	49,096
Transfer from special reserve (Note 46(a))	-	-	-	-	-	(145,993)	145,993	-
Conversion of Preference Shares into Ordinary Shares	(7,746)	6,706	-	-	-	-	-	(1,040)
Share issue expenses	-	(60)	-	-	-	-	-	(60)
Additional Shares to be issued as a result of the Acquisition (Note 46(b))	-	-	121,440	-	-	-	-	121,440
Net profit for the year	-	-	-	-	-	-	9,229	9,229
Conversion of 2005 CBs into Ordinary Shares	-	78,975	-	-	-	-	-	78,975
At 31 December 2001	665,142	5,926,972	121,440	1,733,711	(14,813)	-	(3,887,495)	4,544,957

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

46. Reserves (continued)

- (a) Pursuant to Article 5(A)(x)(viii) of the Company's Articles of Association, the Company was required to establish a Preference Share Redemption Account and, subject to any applicable laws, transfer into such account annually one-fifth of the redemption premium payable on the maturity of the Preference Shares.

To date, the Company has not had sufficient distributable profits from which it could credit the appropriate amount to the Preference Share Redemption Account. Therefore, the directors established a special reserve which represented the amount that the Company would have been obliged to transfer to the Preference Share Redemption Account, had the Company had sufficient reserves available for the purpose. The amount standing to the credit of the special reserve was only to be transferred to the Preference Share Redemption Account if the Company no longer had accumulated losses (excluding losses attributable to the balance of the provision in the special reserve).

However, due to certain amendments to the Companies Ordinance, the Company may no longer repay the premium on redemption of the Preference Shares from the Preference Share Redemption Account. Therefore, the directors have concluded that such special reserve may no longer assist in the redemption of the Preference Shares and the balance of the amount standing to the credit of such special reserve as at 1 January 2001 has been transferred to accumulated losses in the current year.

- (b) As part of the consideration for the Acquisition of GH Holdings (as referred to in note 6(b) to the financial statements), the Company issued 2.3 billion Ordinary Shares (the "Consideration Shares") to GDH Limited and is committed to issue 66 million Ordinary Shares (the "Additional Shares") for each year of the five years commencing from 22 December 2000 (the "Earnout Period") to GDH Limited subject to the performance of WaterCo meeting the milestones as set out in the Earnout Agreement. Further details of this obligation are set out in the shareholders' circular of the Company in respect of the Acquisition dated 15 September 2000 (the "Acquisition Circular").

WaterCo has already attained the performance milestones under the Earnout Agreement for both the first and second years of the Earnout Period (the former in September 2001 and the latter in March 2002). Accordingly, the Company has an obligation to issue a total of 132 million Additional Shares to GDH Limited in accordance with the Earnout Agreement upon the later of 21 December 2003 and the completion of the Phase IV Renovation Project (expected to be in mid-2004). The issuance of any further Additional Shares remains however contingent upon WaterCo meeting the performance milestones under the Earnout Agreement in subsequent years.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

46. Reserves (continued)

(b) (continued)

As pointed out in the Acquisition Circular, following negotiation with GDH Limited, the Company's board of directors (the "Board") had determined to designate the issue price of each of the Additional Shares which might be issued to be HK\$1.20 and the same as the issue price for each of the Consideration Shares issued to GDH Limited upon the completion of the Acquisition. The issue price of HK\$1.20 as aforesaid (the "Circular Price") which was determined by reference to, in particular, the value of the Dongshen Water Supply Project was considered by both the independent financial adviser advising on the Acquisition and the Board (including the Independent Non-Executive Directors) to be fair and reasonable and approved by the shareholders of the Company in general meeting on 19 October 2000. Further details of the Circular Price determination and the valuation of Dongshen Water Supply Project were set out in the Acquisition Circular.

As a result of the SSAP 30 becoming effective and applicable to the current year's financial statements as detailed in note 2 to the financial statements, the Group and the Company are required to record each of the Additional Shares as shares that are to be issued at the prevailing market price of HK\$0.92 per Ordinary Share on the date of the completion of the Acquisition (the "Market Price") instead of the Circular Price which also was the price adopted for the recording of the issue of all the Consideration Shares in the prior year. Accordingly, an amount of HK\$121,440,000 (being the value of the aforesaid 132 million Additional Shares to be issued at the Market Price) was credited to the Group's and the Company's reserves as "Ordinary Shares To Be Issued" to reflect the respective obligation of the Group and the Company in respect of those 132 million Additional Shares to be issued by a reduction of the Group's capital reserve on the acquisition of GH Holdings and an increase in the Company's investment cost in GH Holdings both of the same amount as certain contingencies that would affect the amount of the Group's and the Company's purchase consideration for GH Holdings have become probable. It is solely because of the new requirements under SSAP 30 that the above accounting treatment becomes necessary. All the rights and obligations under the Earnout Agreement remain unchanged. The compliance by the Company with all the obligations under the Earnout Agreement to be observed and performed on its part also remains unaffected.

- (c) During the year, prior to the Group's disposal of a 55.2% interest in Guangzhou Panyu Yue Hai Real Estate Limited ("GZ Panyu"), as further detailed in note 52(vi) to the financial statements, GZ Panyu capitalised its expansion fund reserve of HK\$23,357,000 and retained profits of HK\$2,943,000 as an increase in registered capital in proportion to the then interests held by the joint venture partners of GZ Panyu. Accordingly, the Group recorded reductions of its share of expansion fund reserve of HK\$18,670,000 and retained profits of HK\$2,354,000 of GZ Panyu by an increase in capital reserve of HK\$21,024,000 to reflect an increase in the Group's interest in the registered capital of GZ Panyu as a result of its capitalisation of reserves.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

46. Reserves (continued)

- (d) In prior years, when investment properties were transferred to fixed assets, the relevant portion of the revaluation surplus of the investment properties was also transferred to a fixed assets revaluation reserve which was frozen upon the transfer until the retirement or disposal of the assets, upon which the relevant portion of the revaluation reserve realised in respect of the previous valuation was transferred to retained profits as movements of reserve.

As a result of the adoption of revisions to SSAP 17, the revaluation surplus attached to the investment properties previously recognised is no longer required to be frozen. Further, the investment properties are required to be transferred at fair value which becomes the cost of those properties at the date of change in use. Any difference at that date between the fair value and the carrying amount of the property is to be dealt with in the same way as a revaluation under SSAP 13 "Accounting for Investment Properties".

The aforesaid change in accounting policy has been accounted for retrospectively. Since there was no transfer to the Group's fixed assets revaluation reserve for the year ended 31 December 2000, no restatement to the Group's results for that year was made. However, a restatement has been made to reduce the Group's fixed assets revaluation reserve of HK\$13,135,000 and accumulated losses of the same amount as at 1 January 2000 to reflect the effect of the aforesaid changes in accounting policy for periods prior to that date.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement

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

	2001 HK\$'000	2000 HK\$'000
Profit/(loss) from operating activities	2,159,168	(596,224)
Interest income	(60,692)	(72,956)
Depreciation	461,308	307,597
Amortisation of investments in contractual joint ventures	–	1,459
Amortisation of deferred expenses and reusable packaging materials	24,438	32,988
Amortisation of trademarks	1,400	2,000
Amortisation of the operating right	494,096	13,259
Amortisation of prepaid rental	111,190	–
Amortisation of goodwill	119	–
Provisions against construction/installation contracts receivable	–	5,918
Investment property revaluation deficit	68,129	111,673
Hotel property revaluation deficit, net	4,196	309,442
Impairment of investment securities	932	17,608
Unrealised loss on revaluation of other investments	5,114	22,614
Impairment of trademarks	4,100	26,000
Impairment of properties under development	22,682	82,447
Reversal of impairment loss of properties under development	(21,000)	–
Impairment of investments in and loans to associates	11,224	51,135
Reversal of impairment loss of investment in an associate	(3,761)	–
(Write-back of provision against)/provision against an amount due from a fellow subsidiary	(8,000)	56,156
Impairment of fixed assets	39,440	29,619
Impairment of goodwill arising from acquisitions of subsidiaries and associates previously dealt with in reserves	21,918	364,977
Reversal of impairment loss of deconsolidated subsidiaries	(19,140)	(66,412)
Loss on disposal of subsidiaries, net	8,481	–
Loss on disposal of properties under development	9,079	–
Loss on disposal of fixed assets, net	20,518	4,971
Loss on disposal of certain interest in a subsidiary	3,087	–
Provisions against properties held for sale	–	94,602
Provisions against inventories	10,871	7,748

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

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

	2001 HK\$'000	2000 HK\$'000
Provisions for doubtful debts, net of recovery from possession of shares in a subsidiary and write-back of provision against loan receivable	24,394	128,680
Compensation payments in respect of the planned curtailment of operations of a subsidiary	4,616	—
Negative goodwill recognised as income	(10,286)	—
Gain on disposal of investment properties	—	(566)
Gain on disposal of an associate	—	(15,066)
Gain on disposal of a contractual joint venture	—	(26,955)
Gain on discontinuation of Curtain Wall Operations	(25,534)	—
Decrease in amounts due from associates	18,349	25,322
Increase in amounts due to associates	47	6,813
Decrease in an amount due from a contractual joint venture	127	9,917
Increase in an amount due from a jointly-controlled entity	(6,651)	(43,015)
Decrease in construction/installation contracts receivable	—	36,200
(Increase)/decrease in trade receivables	85,172	(26,143)
Decrease in loan receivables	38,400	148,729
Decrease in the current portion of other investments	7,442	483
Decrease in prepayments, deposits and other debtors	65,542	125,633
Decrease in inventories	288,377	290,410
Increase in the current portion of properties under development	(176,810)	(273,392)
Decrease in an amount due from a related company	112	92
Increase in amounts due from minority shareholders of subsidiaries	(13,541)	(51,071)
Increase in amounts due from a former major shareholder and its subsidiaries	—	(5,198)
Increase/(decrease) in trade payables, accruals and other liabilities	(835,627)	189,945
Increase/(decrease) in amounts due to minority shareholders of subsidiaries	(12,799)	16,029
Decrease in amounts due to subsidiaries of a former major shareholder	—	(2,259)
Decrease in amounts due from deconsolidated subsidiaries	10,953	—
Increase in amount due from immediate holding company	(135)	—
Increase in amounts due to immediate holding company	64,069	—
Net cash inflow from operating activities	2,895,114	1,341,209

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing activities during the year

	Ordinary Shares: Issued share capital and share premium account	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	8,275,169	5,509,649
Net cash inflow from financing activities	–	5,520
Share issue expenses	(60)	–
Conversion of Preference Shares into Ordinary Shares	7,754	–
Conversion of 2005 CBs into Ordinary Shares	210,600	–
Shares issued for non-cash consideration	–	2,760,000
Balance at 31 December	8,493,463	8,275,169

	Preference Shares: Issued share capital and share premium account	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	673,562	673,562
Conversion of Preference Shares into Ordinary Shares	(7,754)	–
Balance at 31 December	665,808	673,562

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing activities during the year (continued)

	Minority interests	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	2,931,253	1,923,991
Net cash inflow from financing activities	1,794	–
Investment properties revaluation surplus	20,376	–
Interest in a subsidiary compensated to the Group	–	(9,086)
Share capital reduction of a subsidiary	–	(116,690)
Share of goodwill released	6,233	6,106
Goodwill arising from acquisition of associates	–	(14,278)
Arising on acquisition of subsidiaries	–	1,192,439
Acquisition of additional shareholdings in subsidiaries	(165,084)	(55,393)
Transfer out as a result of the Acquisition	–	(33,573)
Arising on disposal of subsidiaries	(155,671)	–
Disposal of certain interest in a subsidiary	17,922	–
Share of profits less losses for the year	244,154	84,328
Share of exchange fluctuation reserve	755	(980)
Dividends paid and payable to minority shareholders	(232,440)	(45,611)
Balance at 31 December	2,669,292	2,931,253

	Bank loans	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	4,135,627	4,883,296
Net cash outflow from financing activities	(518,782)	(608,008)
Arising on acquisition of subsidiaries	–	838,970
Transfer out as a result of the Acquisition	–	(776,917)
Reclassified to Notes Payable	–	(192,490)
Amortisation of swap cost in respect of the Swap Agreement (Note 41(b)(iii))	2,272	–
Effect of foreign exchange adjustments	(22,468)	(9,224)
Balance at 31 December	3,596,649	4,135,627

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing activities during the year (continued)

	Provision for bank loans guaranteed	
	2001	2000
	HK\$'000	HK\$'000
Balance at beginning of year	750,819	—
Net cash outflow from financing activities	(191,950)	—
Provided for the year	—	750,819
Balance at 31 December	558,869	750,819

	Notes Payable and GH Holdings Debts	
	2001	2000
	HK\$'000	HK\$'000
Balance at beginning of year	14,192,490	—
Net cash outflow from financing activities	(405,620)	—
Reclassified from bank loans	—	192,490
Arising from the Acquisition	—	14,000,000
Balance at 31 December	13,786,870	14,192,490

	Bonds	
	2001	2000
	HK\$'000	HK\$'000
Balance at beginning of year	1,313,906	1,244,404
Net cash outflow from financing activities	(235,010)	—
Converted into TLIs	(219,745)	—
Conversion of 2005 CBs into Ordinary Shares	(210,600)	—
Provision for redemption premium	—	65,776
Effect of foreign exchange adjustments	1,628	3,726
Balance at 31 December	650,179	1,313,906

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing activities during the year (continued)

	Floating rate notes	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	826,726	823,811
Net cash outflow from financing activities	(150,482)	—
Converted into TLIs	(293,925)	—
Effect of foreign exchange adjustments	30	2,915
Balance at 31 December	382,349	826,726

	Loan from an associate	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	—	—
Reclassified from an amount due to a subsidiary which was as an associate after the Group's certain interest in it being disposed of	37,690	—
Balance at 31 December	37,690	—

	Transferable loan instruments	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	—	—
Net cash outflow from financing activities	(100,568)	—
Converted from bonds and floating rate notes	513,670	—
Effect of foreign exchange adjustments	38	—
Balance at 31 December	413,140	—

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing activities during the year (continued)

	Other loans	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	—	4,696
Net cash outflow from financing activities	—	(1,591)
Transfer out as a result of the Acquisition	—	(3,104)
Effect of foreign exchange adjustments	—	(1)
Balance at 31 December	—	—

	Finance lease obligations	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	179	825
Net cash outflow from financing activities	(179)	(646)
Balance at 31 December	—	179

	Loans from immediate holding company	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of year	—	—
Net cash inflow from financing activities	113,241	—
Balance at 31 December	113,241	—

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(c) Acquisition of GH Holdings

	2001 HK\$'000	2000 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 47(d))	—	(124,242)
Provision for bank loans guaranteed	—	161,685
	—	2,672,099

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(c) Acquisition of GH Holdings (continued)

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

	2001 HK\$'000	2000 HK\$'000
Cash injection from GDH Limited	—	156,000
Cash and cash equivalents acquired	—	454,438
Cash and cash equivalents transferred out (Note 47(d))	—	(103,263)
Net cash inflow of cash and cash equivalents as a result of the Acquisition	—	507,175

As part of the restructuring of Guangdong Enterprises (Holdings) Limited ("GDE"), a former major shareholder of the Company, and its subsidiaries (the "GDE Group") on 22 December 2000, the Company completed an acquisition of an 81% interest in GH Holdings (the "Acquisition") from GDH Limited. GH Holdings holds a 99% interest in WaterCo which owns the Dongshen Water Supply Project that generates revenue mainly from the 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 GD Finance and 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; the issuance of the Consideration Shares and the Additional Shares to GDH Limited. Further details of which are set out in the Acquisition Circular and note 46(b) to the financial statements.

Following 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 in the prior year.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

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

	2001 HK\$'000	2000 HK\$'000
Net liabilities transferred out:		
Fixed assets	—	307,889
Investment properties	—	247,070
Other financial assets	—	130
Interests in associates	—	(159)
Prepayments, 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 former major shareholder of a 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 former major shareholder	—	(23,435)
Bank and other interest-bearing borrowings	—	(780,021)
Due to minority shareholders of subsidiaries	—	(42,884)
Minority interests	—	(33,573)
	<u>—</u>	<u>(124,242)</u>

In the prior 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 tax and utilised HK\$510,000 and HK\$281,427,000 for investing activities and financing activities, respectively.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(e) Acquisition of subsidiaries other than GH Holdings

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	—	41
Investment properties	—	208,500
Other long term assets	—	165
Trade receivables, prepayments and deposits	—	146
Cash and bank balances	—	654
Trade payables, accruals and other liabilities	—	(37,220)
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)
Assignment of the amount due to the holding company to the Company	—	84,531
Amount charged directly against the profit and loss account in prior years, net	—	106,565
	—	84,531
Satisfied by:		
Settlement of an amount due to the Company	—	84,531

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

	2001 HK\$'000	2000 HK\$'000
Cash consideration	—	—
Cash and bank balances acquired	—	654
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	—	654

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)**(e) Acquisition of subsidiaries other than GH Holdings** (continued)

On 19 October 2000, Nanfang, a deconsolidated subsidiary of the Company, partially settled its amount due to the Company of HK\$84,531,000 by the disposal of its entire 56.34% interest in Guangdong Nan Fang (Holdings) Co. Ltd. ("Nan Fang Holdings") (including Nanfang'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 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 as noted above of HK\$84,531,000 and an 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.

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

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)

(f) Disposal of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Fixed assets	46,313	—
Properties under development	170,410	—
Investment properties	178,480	—
Interest in associates	37,891	—
Other long term assets	2,717	—
Due from minority shareholders of subsidiaries	14,935	—
Due from a fellow subsidiary	37,690	—
Inventories	213,169	—
Prepayments, deposits and other debtors	54,986	—
Trade receivables	156,608	—
Cash and bank balances	75,437	—
Trade payables, accruals and other liabilities	(357,199)	—
Tax payable	(7,048)	—
Due to minority shareholders of subsidiaries	(550)	—
Due to fellow subsidiaries	(1,000)	—
Minority interests	(155,671)	—
	467,168	—
Release of goodwill	(11,865)	—
Release of exchange fluctuation reserve	53,512	—
	508,815	—
Gain on discontinuation of Curtain Wall Operations	25,534	—
Loss on disposal of subsidiaries, net	(8,481)	—
	525,868	—
Satisfied by:		
Cash, net of expenses	392,850	—
Increase in amounts due from fellow subsidiaries	48,327	—
Reclassification to interests in associates	84,691	—
	525,868	—

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)**(f) Disposal of subsidiaries** (continued)

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

	2001 HK\$'000	2000 HK\$'000
Cash, net of expenses	392,850	—
Cash and bank balances disposed of	(75,437)	—
	<u>317,413</u>	<u>—</u>

During the year, the subsidiaries disposed of contributed HK\$39,797,000 to the Group's net operating cash inflows, paid HK\$3,126,000 in respect of the net returns on investments and servicing of finance, paid HK\$56,747,000 in respect of tax and received HK\$11,351,000 and nil from investing activities and financing activities, respectively.

These subsidiaries contributed HK\$331,105,000 to turnover and HK\$53,774,000 to the consolidated profit after tax for the year ended 31 December 2001.

(g) Major non-cash transactions

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

- (i) During the year, the Group settled a debt of HK\$12,293,000 by the transfer of certain interests of the Group in subsidiary to the creditor. Loss of HK\$3,087,000 was recognised as a result of this transaction.
- (ii) The Group agreed to assign its receivable from a customer of HK\$40,874,000, for which full provision was made in the prior year, by instalments to an independent third party as a result of a conditional sale and purchase agreement entered into between the Group and the independent third party on 9 April 2001 in connection with the Group's disposal of its 25% interest in Chapel Hill Developments Limited ("Chapel Hill"), a non wholly-owned subsidiary of the Group. Chapel Hill holds certain trademarks of the Group and the customer used to be the sole distributor of leatherware products in Mainland China using these trademarks.

During the year, the Group assigned its receivable from the customer amounting to HK\$13,625,000 to the independent third party.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

47. Notes to the Consolidated Cash Flow Statement (continued)**(g) Major non-cash transactions** (continued)

- (iii) During the year, the amount receivable from the Project Bureau of approximately HK\$292,095,000 was set off against part of the construction costs incurred by the Project Bureau in respect of the Phase IV Renovation Project.
- (iv) During the year, an amount receivable from the Project Bureau totalling HK\$90,798,000 was set off against part of the Group's payable to GDH Limited.
- (v) During the year, the Group further acquired an additional 38% interest in Tiannan from Nanfang for a consideration of HK\$12,898,000 which was satisfied as to a cash settlement of HK\$4,711,000 with the remaining balance of HK\$8,187,000 setting off against the Group's amounts due from Nanfang. Further details of this transaction is set out in note 21(iii) to the financial statements.

48. Operating Lease Arrangements

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) below. This disclosure was not previously required.

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Since the Group has applied this SSAP prospectively, the prior year comparative amounts for operating leases as lessee in note (b) below, have not been restated to accord with the current year's presentation.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

48. Operating Lease Arrangements (continued)

(a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	310,490	228,681
In the second to fifth years, inclusive	597,948	499,387
After five years	352,378	409,344
	<u>1,260,816</u>	<u>1,137,412</u>

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 3 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2001
	HK\$'000
Within one year	8,582
In the second to fifth years, inclusive	2,627
	<u>11,209</u>

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

48. Operating Lease Arrangements (continued)

(b) As lessee (continued)

As at 31 December 2000, the Group had annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	2000 HK\$'000
Within one year	8,435
In the second to fifth years, inclusive	13,276
	<u>21,711</u>

The Company did not have significant operating lease arrangements at the balance sheet date.

49. Commitments

In addition to the operating lease commitments detailed in note 48 to the financial statements, the Group had the following commitments at the balance sheet date:

	2001 HK\$'000	Group 2000 HK\$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	23,504	4,889
Authorised, but not contracted for	942	242,286
	<u>24,446</u>	<u>247,175</u>
(b) Other capital commitments:		
Contracted for	32,420	32,902
(c) Commitments in respect of properties under development:		
Contracted for	—	183,005

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

49. Commitments (continued)

- (d) In accordance with the EPC Contract, as referred to in note 24(c) to the financial statements, the Project Bureau is responsible for funding any overrun cost in the event that the ultimate cost exceeds the projected total cost of RMB4.7 billion.

The cost of RMB4.7 billion will be financed by a non interest-bearing loan facility of RMB2.53 billion, which originates from a loan facility granted by the Hong Kong Government to the Guangdong Provincial Government for the Phase IV Renovation Project, and an interest-bearing loan facility of RMB2.17 billion from a group of banks in Mainland China at a rate of 5.589% per annum. An aggregate amount of RMB810 million has been drawn from these banks as at 31 December 2001.

- (e) As further explained in note 46(b), pursuant to the Earnout Agreement, the Company is committed to issue 132 million Additional Shares to GDH Limited on whichever is the later date of 21 December 2003 and the date of completion of the Phase IV Renovation Project. The completion of the Phase IV Renovation Project is scheduled in the mid-2004.

Further issuance of the remaining 198 million Additional Shares is contingent on the fulfillment of certain future performance of WaterCo in accordance with the Earnout Agreement.

- (f) Pursuant to WaterCo's Articles of Association, the minority shareholder (also the Company's ultimate holding company, Yue Gang Investment, which directly holds 1% interest in WaterCo) is not entitled to any distributed profits of WaterCo for the first fifteen years of operations and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the sixteenth year of operations, 1.01% of the distributed profits of WaterCo for the first fifteen years of operations plus simple interest of 8% per annum on the unpaid amount of the distributed profits shall be made to Yue Gang Investment (collectively referred to as the "Deferred Dividend"). Once Yue Gang Investment has received the Deferred Dividend in full, all of the WaterCo's distributable profits are to be distributed to the GH Holdings and Yue Gang Investment according to their respective equity interests in WaterCo during the remaining operating period.
- (g) The Company entered into a conditional sale and purchase agreement on 13 February 2001 for the Company's disposal of its entire 95% interest in and its shareholders' loans to ZPHK. The consideration, including compensation for the discontinuation of certain guaranteed profits, is 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. Up to the date of the financial statements were approved and authorised for issue by the board of directors, this transaction had not yet been completed.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

49. Commitments (continued)

- (h) A preliminary agreement has been entered into between the Group and an independent third party on 20 March 2001 for the disposal of the Group's 70% interest in Nanhua Cement held by GCM for a total consideration of RMB30 million. GCM, which was a wholly-owned subsidiary of the Company, was deconsolidated from the Group's financial statements in prior years. When completed, the disposal would result in an increase of the net worth of the Group as full provision had previously been made by the Company in the prior year against its entire interests in the GCM Group as part of the process for the Company to disengage from non-core businesses. Up to the date of the financial statements were approved and authorised for issue by the board of directors, this transaction had not yet been completed.
- (i) As at 31 December 2001, certain subsidiaries of the Group have commitments to make an annual fee payments to their joint venture partners in Mainland China over the respective joint venture period. An aggregate amount of HK\$808,000 (2000: HK\$10,869,000) will be paid in the following year.

50. Contingent Liabilities

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
(a) Guarantees:				
Guarantees given for banking facilities granted and utilised by:				
– Wholly-owned subsidiaries	–	–	887,861	1,685,524
– Non wholly-owned subsidiaries	–	–	153,360	667,777
Guarantees given for banking facilities granted, in proportion of equity interest owned by the Company, and utilised by a jointly-controlled entity	–	538,700	–	538,700
Guarantees given to banks in respect of performance bonds issued for Full Arts Metal Works Limited, a wholly-owned subsidiary of GD Building (Note 6(a))	19,819	19,819	19,819	19,819
Guarantees given for banking facilities granted to a fellow subsidiary	8,791	19,723	8,791	19,723
Guarantees given in respect of mortgage loans made by banks to the Group's purchasers of properties	34,499	11,888	–	–
	<u>63,109</u>	<u>590,130</u>	<u>1,069,831</u>	<u>2,931,543</u>

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

50. Contingent Liabilities (continued)

- (b) As at 31 December 2000, the Company and GZ Panyu, a then indirect 80% owned subsidiary of the Company, guaranteed the repayment of bank mortgage loans amounting to HK\$1,389,000 and HK\$662,607,000 respectively (the "Mortgage Guarantee"), in respect of certain purchasers of properties developed by GZ Panyu. As a result of the Group's disposal of its 55.2% interest in GZ Panyu to Yue Gang Investment (or its nominee) (as referred to in note 52(vi) to the financial statements), both Yue Gang Investment and the Company agreed to use their best endeavour to procure a change in the terms of the Mortgage Guarantee to the effect that the Company's potential liabilities will be reduced to 24.8% (severally), which is the Group's effective interest in GZ Panyu at the completion date (the "Mortgage Guarantee Changes"). Should the terms imposed by the banks in connection with the Mortgage Guarantee Changes not be acceptable to the Company, Yue Gang Investment will provide a counter-guarantee to the Company to the extent of limiting the Company's potential liabilities exposed to the Mortgage Guarantee to 24.8% (the "Counter Mortgage Guarantee"). Up to the date of this report, the parties involved are actively following up on the above arrangement.

As at 31 December 2001, the Group and the Company had contingent liabilities of HK\$1,012,000 in respect of the Mortgage Guarantee.

- (c) During the year and subsequent to the balance sheet date, Guangdong (H.K.) Tours Company Limited ("GD Tours"), a wholly-owned subsidiary of the Company, received certain claims in respect of traffic accidents in Mainland China involving members of tour groups organised by GD Tours. However, up to the date of this report, no legal proceedings have been commenced.

Based on legal advice, the directors are of the opinion that it is premature to estimate the outcome and hence, no provision has been made in the financial statements on account of the claims.

In any event, according to legal advice, GD Tours is not at fault. It has therefore already denied liability in its reply to the claims and will further vigorously contest any such claim which may be brought.

- (d) In March 2001, Yue Sheng Finance Limited ("Yue Sheng"), a wholly-owned subsidiary of the Company, commenced legal proceedings in Mainland China to recover two outstanding loans in the total sum of HK\$40,000,000 together with interest from the two Chinese parties who were the guarantors for those loans. As at the date of this report, the legal proceedings are still in progress.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

50. Contingent Liabilities (continued)**(d)** (continued)

After trying without success to dispute the jurisdiction of the Chinese Court in the aforesaid proceedings, the two guarantors together with the borrower of those two loans commenced legal proceedings in Hong Kong against Yue Sheng and a former subsidiary of the Group in July 2001 seeking, inter alia, a declaration that they were under no legal obligation to repay the two loans and compensation. Steps are being taken by Yue Sheng to stay or alternatively to strike out the action. The interlocutory appeal thereon is pending.

Based on legal advice, the directors are of the view that the claim brought against Yue Sheng is without merit and no provision for the claims of the guarantors and the borrower was considered necessary as at 31 December 2001.

- (e)** In January 2001, Guangdong Enterprises (North America) Fur Holdings Limited ("GDNA") and Harbour Hill International Limited ("Harbour Hill"), both subsidiaries indirectly held by the Company, commenced an action in the Southern District of New York against a company called Hennessy International Group, Inc. ("HIGI") and its owners/controllers. HIGI is one-third held by GDNA and is an associate of the Group. GDNA and Harbour Hill are attempting to recover from the corporate defendant and the individual defendants approximately US\$2.25 million in financing that GDNA and Harbour Hill provided to HIGI. Defendants have counterclaimed for US\$2 million, claiming that GDNA and Harbour Hill wrongly terminated HIGI's financing. Both plaintiffs and defendants are moving for summary judgment, which motions have been fully submitted to the court by 8 March 2002.

The directors, based on legal advice, believe that the case for the claim against the Group is not a strong one and accordingly, no provision has been made as at 31 December 2001.

51. Pledge of Assets

As at 31 December 2001, certain of the Group's fixed assets, investment properties and bank deposits, with a total net book value of HK\$1,560,761,000 (2000: HK\$1,104,872,000) 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\$1,494,456,000 (2000: HK\$1,038,608,000) related to pledged properties, plant and equipment.

In addition to the above, a property under development in Mainland China held under a long term lease with a carrying amount of HK\$64,000,000 as at 31 December 2001 was held by the court in Mainland China as security for the Group's legal proceeding against the recovery from a debtor of the Group.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

52. Related Party Transactions

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

	Notes	2001 HK\$'000	2000 HK\$'000
Sale of electricity to a minority shareholder of a subsidiary	(i)	(578,001)	(633,407)
Gain on possession of additional interest in a subsidiary from the then minority shareholder as compensation for an uncollectable receivable	(ii)	–	(12,697)
Rental income from GDH Limited and certain of its subsidiaries	(iii)	(7,459)	(1,416)
Interest income from a fellow subsidiary, GD Finance	(iv)	(6,207)	–
General computer and SAP financial system maintenance service fees from GDH Limited and certain of its subsidiaries	(v)	(1,668)	–
Property construction costs paid and payable to a fellow subsidiary	(viii)	44,340	–
Annual fees to minority shareholders of subsidiaries	(ix)	10,735	10,527
Property management service fees paid to a fellow subsidiary	(x)	2,346	–
Interest expense to:			
– GDE Group	(xi)	–	2,069
– Minority shareholders of subsidiaries	(xii)	3,990	4,352
– GDH Limited and certain of its subsidiaries	(xiii)	135,533	–
Engineering facilities construction costs paid to a fellow subsidiary	(xiv)	2,762	–
Repairs and maintenance service fees paid to a fellow subsidiary	(xv)	1,640	–

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

52. Related Party Transactions (continued)

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. The sale of electricity was made at the price stipulated by the relevant government authority in Mainland China. The amount due from the minority shareholder of this subsidiary was HK\$123,025,000 as at 31 December 2001 (2000: HK\$166,915,000).

- (ii) 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 as security 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 31 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.

- (iii) The rental income arose from the letting of certain of the Group's office premises to GDH Limited and certain of its subsidiaries in accordance with their respective tenancy agreements. As at the balance sheet date, the Group's balances with GDH Limited are set out in note 33 to the financial statements whereas the Group did not have any balance with these fellow subsidiaries except those disclosed in note 41(b) to the financial statements.
- (iv) Guangdong Finance Co., Limited ("GD Finance") was a wholly-owned subsidiary of the Company before the Company transferred its entire interest in GD Finance to GDH Limited as part of the consideration for the Acquisition. As at 31 December 2001, GD Finance was a wholly-owned subsidiary of GDH Limited and a fellow subsidiary of the Company. The interest income arose from the Company's loan to GD Finance prior to the Acquisition. Further details of which, including the terms of the loan, are set out in note 32 to the financial statements. In addition, prior to the Acquisition, the Company has, jointly and severally with GDE, guaranteed certain bank loans to GD Finance at nil consideration. As at 31 December 2001, the outstanding amounts of these bank loans so guaranteed were HK\$1,358,000 and US\$953,000 (2000: HK\$2,799,000 and US\$2,170,000).

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

52. Related Party Transactions (continued)

Notes: (continued)

- (v) The Company provided certain general computer and SAP financial system maintenance services to GDH Limited and certain of its subsidiaries during the year in accordance with the respective agreements between the Company and GDH Limited and these fellow subsidiaries. The Group's balances with GDH Limited as at the balance sheet date are set out in note 33 to the financial statements. The Group did not have any balance with these fellow subsidiaries except for those disclosed in note 41(b) to the financial statements.
- (vi) On 26 October 2001, Guangdong Properties Holdings Limited ("GD Properties"), a wholly-owned subsidiary of the Company, entered into a conditional agreement in respect of the disposal of a 55.2% interest in GZ Panyu to Yue Gang Investment (or its nominees) at a consideration of RMB220,890,000. This transaction was completed on 28 December 2001. Further details of this transaction are set out in the Company's announcement dated 26 October 2001.
- (vii) Prior to the Group's disposal of a 55.2% interest in GZ Panyu, a loan of RMB10 million was advanced by GZ Panyu to its substantial shareholder, namely 廣州市番禺區房地產聯合開發總公司 (the "Borrower") through a bank in Mainland China pursuant to an entrusted loan arrangement (the "Arrangement"). Further details of the Arrangement are set out in the Company's announcement dated 11 October 2001.

The interest income from the Borrower prior to the Group's disposal of a 55.2% interest in GZ Panyu amounted to HK\$73,000 (2000: Nil).
- (viii) The construction costs arose from the property construction works on GZ Panyu's property development project performed by a fellow subsidiary of the Company in accordance with a contract awarded pursuant to a prior agreement between GZ Panyu and that fellow subsidiary. At the balance sheet date, the Group did not have balance with the fellow subsidiary.
- (ix) The annual fees paid by the Group are in accordance with the respective Sino-foreign Co-operative joint venture agreements.
- (x) The management fees arose from the property management services rendered by a fellow subsidiary of the Company to WaterCo under contracts entered into in accordance with the terms of an agreement made between WaterCo and the fellow subsidiary. At the balance sheet date, the Group did not have balance with the fellow subsidiary.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

52. Related Party Transactions (continued)

Notes: (continued)

- (xi) The interest expense arose from a loan advanced to GD Timber (a wholly-owned subsidiary of the Company before the Company transferred its entire interests in GD Timber to GDH Limited as part of the consideration for the Acquisition) by the GDE Group prior to the Acquisition. The loan bore interest at 8.5% per annum and was transferred out as a result of the Acquisition in the prior year.
- (xii) 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 34 to the financial statements.
- (xiii) The interest expense arose from (a) loans advanced by GDH Limited to the Group which amounted to HK\$113,241,000 as at 31 December 2001, further details of which are set out in note 33 to the financial statements; and (b) certain bank indebtedness and GH Holdings Debts of the Group amounting to HK\$1,882,247,000 as at 31 December 2001 held by GDH Limited and certain of its subsidiaries, further details of which are set out in notes 38, 41(b) and 43 to the financial statements.
- (xiv) The construction costs arose from the construction of certain engineering facilities for WaterCo by a fellow subsidiary of the Company in accordance with contracts entered into pursuant to an existing agreement between WaterCo and the fellow subsidiary. At the balance sheet date, the Group did not have balance with the fellow subsidiary.
- (xv) The service fees arose from the repairs and maintenance works rendered by a fellow subsidiary of the Company on certain of WaterCo's plant and machinery. Such services were rendered in accordance with contracts entered into as required under existing contractual arrangements between WaterCo and the fellow subsidiary. At the balance sheet date, the Group did not have balance with the fellow subsidiary.
- (xvi) 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% interest in Guangdong Group (Shenzhen) Ltd. ("GD Shenzhen") together with a receivable of RMB1,412,000 owing by GD Shenzhen to the Company for a total consideration of HK\$206 million. This transaction was completed on 12 April 2001. Further details of this transaction are set out in the Company's announcement dated 15 January 2001.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

52. Related Party Transactions (continued)

Notes: (continued)

- (xvii) A minority shareholder of a subsidiary of the Company has guaranteed bank loans made to the respective subsidiary at nil consideration. The outstanding bank loans guaranteed by the minority shareholder of the subsidiary as at 31 December 2001 amounted to HK\$7,350,000 (2000: HK\$11,204,344).
- (xviii) A minority shareholder of a subsidiary of the Company had provided a guarantee to an independent third party for loans made available to the subsidiary amounting to RMB5,000,000 (2000: RMB5,000,000) as at 31 December 2001.
- (xix) The cash distribution made by GH Holdings out of its capital contribution reserve, amounted to HK\$23,699,000 (2000: Nil), was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings. The distribution is in accordance with their respective interests in GH Holdings.

53. Connected Transactions

In addition to the disclosures set out in notes 19, 39(a), 46(b), 47(d), 50(a) and 52 above, the other connected transactions disclosed in accordance with Chapter 14 of the Listing Rules are as follows:

- (a) As at 31 December 2000, 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. The loans were used to finance the construction of plants and purchases of machinery and equipment for the brewing operations. The loan balances were unsecured, bore interest at rates ranging from six months' FIBOR plus 0.65% to six months' LIBOR plus 0.65% per annum. During the year, the loan advances were fully repaid.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

53. Connected Transactions (continued)

- (b) 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 purchases of 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\$212,570,000 (2000: HK\$232,747,000). Included in the amount due from SKB to the GD Brewery group is an unsecured loan of HK\$89,860,000 (2000: HK\$123,645,000) which bears interest at six month's LIBOR plus 0.75% per annum and is repayable within five years from the balance sheet date. The remaining outstanding loan balance of HK\$122,710,000 is unsecured, interest-free and is not repayable within one year from the balance sheet date (2000: HK\$109,102,000 bore interest at long term lending rate per annum announced by the People's Bank of China).

At the balance sheet date, the amount due from SBL to the GD Brewery group amounted to HK\$340,361,000 (2000: HK\$193,373,000). Included in the amount due from SBL to the GD Brewery group are unsecured loans of HK\$193,636,000 (2000: HK\$193,373,000) which bear interest at six months' LIBOR plus 0.75% per annum (2000: LIBOR plus 2% per annum) and of which HK\$50,136,000 (2000: HK\$50,136,000) is repayable within one year and the remaining balance of HK\$143,500,000 (2000: HK\$143,237,000) is repayable within five years from the balance sheet date. The remaining balance of HK\$146,725,000 (2000: Nil) is unsecured, interest-free and is not repayable within one year.

- (c) As at 31 December 2000, GD Brewery executed a guarantee for banking facility granted and utilised by SKB for its operations amounted to HK\$28,283,000. The loan utilised by SKB was fully repaid during the year.
- (d) The Company made advances to GD Teem, a 62.77% owned subsidiary, to finance GD Teem's working capital. At the balance sheet date, the outstanding balances, which amounted to HK\$917,000 (2000: HK\$18,855,000, which bore interest at rates ranging from 5.85% to 5.9% per annum) were unsecured, interest-free and had no fixed terms of repayment.
- (e) The Company made advances to Guangdong Power (International) Limited ("GPIL"), a 51% owned subsidiary, to finance GPIL's working capital. At the balance sheet date, the outstanding balance of HK\$4,782,000 was unsecured, interest-free and had no fixed terms of repayment.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

53. Connected Transactions (continued)

- (f) At the balance sheet date, outstanding advances of HK\$1,200,000 were made by the Company to Honour Million Industries Limited ("HMI"), a 83.6% owned subsidiary, to finance HMI's working capital. Included in the amount due from HMI to the Company is an unsecured loan of HK\$1,066,000 which bears interest at 1.8% above LIBOR per annum and is repayable in accordance with the terms contained in certain bank debt restructuring agreement. The remaining balance of HK\$134,000 is unsecured, interest-free and has no fixed terms of repayment.
- (g) At the balance sheet date, outstanding advances of HK\$18,058,000 were made by the Company to Prospect Top Developments Limited ("PTD"), a 51% owned subsidiary, to finance PTD's working capital. Included in the amount due from PTD to the Company are unsecured loans of HK\$17,576,000 (2000: HK\$18,099,000), which bear interest at 2% above LIBOR per annum and are repayable in accordance with the terms contained in the bank debt restructuring agreement of PTD. The remaining balance of HK\$482,000 is unsecured, interest-free and has no fixed terms of repayment.
- (h) An advance was made by the Group to finance the working capital of Ningbo Malting Co., Ltd. ("NBM"), a 51% owned subsidiary. The outstanding balance of HK\$13,266,000 at the balance sheet date was unsecured, interest-free and had no fixed terms of repayment. The prior year balance of HK\$28,019,000 was unsecured, bore interest at 7.5% per annum and was repayable in accordance with the terms set out in the bank debt restructuring agreement of NBM.
- (i) At the balance sheet date, outstanding advances of HK\$208,778,000 were made by the Company to Nan Fang Holdings to finance its working capital. Included in the amount due from Nan Fang Holdings is an unsecured loan of HK\$81,184,000 which bears interest at 9% per annum and is repayable on demand. The remaining balance of HK\$127,594,000 is unsecured, interest-free and has no fixed terms of repayment.
- (j) The Group made advances to Guang Dong Nanhua Cement Limited, a 70% owned subsidiary, to finance its expansion projects. At the balance sheet date, the outstanding loan balance, which amounted to HK\$364,344,000 (2000: HK\$364,344,000), was unsecured, bore interest at the bank lending rate prevailing in Mainland China and had no fixed terms of repayment. Full provision was made in the prior year.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

53. Connected Transactions (continued)

- (k) The Company made an advance to Zhongshan Power (Hong Kong) Limited ("ZPHK"), a 95% owned subsidiary, to finance its investment in a power plant project. At the balance sheet date, the outstanding balance of HK\$162,620,000 (2000: HK\$162,600,000) was unsecured, interest-free and had no fixed terms of repayment. During the year, the Company and a minority shareholder of ZPHK entered into a conditional agreement in respect of the Company's disposal of its entire interest in ZPHK. Pursuant to the agreement, ZPHK's amount due to the Company will be assigned to a minority shareholder of ZPHK as this forms part of the terms and conditions for the disposal of the Company's interest in ZPHK, details of which are set out in note 49(g).
- (l) 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 amounted to US\$17,500,000 (2000: US\$17,500,000), was secured, bore interest at 14.25% per annum and was 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.
- (m) The Company's non wholly-owned subsidiary executed certain guarantees amounting to HK\$6,100,000 (2000: HK\$10,572,000) for banking facilities granted to Fonno International Industrial Limited ("Fonno"), a 42.94% owned subsidiary. At the balance sheet date, an outstanding advance of HK\$1,490,000 (2000: HK\$3,609,000) was made by the Group to Fonno to finance Fonno's operations. The balances are unsecured, interest-free and have no fixed terms of repayment.
- (n) The Company executed certain guarantees for banking facilities granted to certain of its non wholly-owned subsidiaries 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 were as follows:
 - (i) HK\$98,742,000 (2000: HK\$134,834,000) for banking facilities granted to and utilised by Guangdong Parking Limited, a 60% owned subsidiary;
 - (ii) HK\$5,321,000 (2000: HK\$11,445,000) for banking facilities granted to and utilised by Harbour Hill International Limited, a 71.56% owned subsidiary; and
 - (iii) HK\$45,722,000 (2000: HK\$69,216,000) for banking facilities granted to and utilised by PTD.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

53. Connected Transactions (continued)

- (o) 深圳粤海酒店企业有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.) ("Shenzhen Hotel"), a 99% owned subsidiary, pursuant to an entrusted loan agreement, advanced an unsecured loan of RMB23,000,000 to GD Teem to finance its working capital. At the balance sheet date, the outstanding balance of the unsecured loan was RMB23,000,000, which bore interest at 4% per annum and was repayable in April 2002.
- (p) Tiannan, pursuant to an entrusted loan agreement, advanced an unsecured loan of RMB40,000,000 to GD Teem to finance its working capital. At the balance sheet date, the outstanding balance of the unsecured loan was RMB40,000,000, which bore interest at 4% per annum and was repayable in April 2002.
- (q) Subsequent to the balance sheet date in January and April 2002, Shenzhen Hotel, pursuant to relevant entrusted loan agreements, advanced unsecured loans of RMB8,000,000 and RMB7,000,000 to Nanhai Tannery & Leather Products Co., Ltd ("Nanhai Tannery"), a 71.56% owned subsidiary, and GD Teem, respectively, to finance their working capital. The unsecured loan to Nanhai Tannery bore interest at 4.2% per annum and was repayable in September 2002 whereas the unsecured loan to GD Teem bore interest at 3.8% per annum and was repayable in April 2003.
- (r) Subsequent to the balance sheet date in April 2002, Tiannan pursuant to an entrusted loan agreement, advanced an unsecured loan of RMB20,000,000 to GD Teem to finance its working capital. The unsecured loan to GD Teem bore interest at 3.8% per annum and was repayable in April 2003.
- (s) Subsequent to the balance sheet date in February 2002, the Company advanced unsecured loan of RMB20,000,000 to GD Teem to finance its working capital. The unsecured loan to GD Teem bore interest at 3.8% per annum and was repayable in August 2002.
- (t) Subsequent to the balance sheet date in January and April 2002, Yue Hai Hotel, Zhuhai, a wholly-owned subsidiary, pursuant to relevant entrusted loan agreements, advanced unsecured loans of RMB12,000,000 and RMB7,000,000 to Nanhai Tannery and GD Teem, respectively, to finance their working capital. The unsecured loan to Nanhai Tannery bore interest at 4.2% per annum and was repayable in January 2003 whereas the unsecured loan to GD Teem bore interest at 3.8% per annum and was repayable in April 2003.
- (u) Subsequent to the balance sheet date, unsecured loans, in an aggregate sum of RMB61,000,000, were advanced by the Company to GD Tannery to finance its working capital. The loans were then partially repaid, and as at the date of this report, the outstanding unsecured loans to GD Tannery was RMB25,000,000 which bore interest at 3.8% per annum and was repayable in November 2002.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

53. Connected Transactions (continued)

- (v) Subsequent to the balance sheet date in April 2002, the Company advanced an unsecured loan of RMB86,000,000 to GD Teem to finance its working capital. The unsecured loan to GD Teem bore interest at 3.8% per annum and was repayable in October 2002.

54. Post Balance Sheet Events

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

- (i) The Company under the terms of the shareholders agreement of GH Holdings had exercised its first right of refusal in respect of certain GH Holdings shares which certain existing holders wished to transfer. Subsequent to the balance sheet date, the Company further acquired 0.32% interest in GH Holdings at a total consideration of HK\$5,760,000. As a result of these acquisitions, the Group increased its holdings in GH Holdings from 81.43% at the balance sheet date to 81.75% and recognised a negative goodwill of HK\$13,247,000.
- (ii) On 18 January 2002, the Company entered into 8 separate agreements with GDH Limited and certain of its subsidiaries for the provision of general computer maintenance services by the Company to them. The term of the services commenced on 1 January 2002 until determined by either party by one month's prior written notice and the service charges will be reviewed annually. On the same date, the Company also entered into 5 separate agreements with certain subsidiaries of GDH Limited for the provision of SAP financial system maintenance services by the Company to them. The term of the service commenced from 1 January 2002 until the termination of the use of SAP financial system. The monthly service charges will be reviewed annually. Further details of which are set out in the Company's announcement dated 18 January 2002.
- (iii) On 28 December 2001, the Company entered into a conditional agreement with another shareholder of Zhongshan Investment Limited ("ZSI") for the disposal of the Company's entire 38.4% interest in ZSI at RMB4 million. This transaction was completed in February 2002 and did not result in any significant impact on the financial results of the Group.
- (iv) GD Tannery's bank debt restructuring scheme (the "Scheme") was terminated following the full payment of its then bank debts of HK\$108 million subject to the Scheme on 31 January 2002. These bank debts were fully repaid by GD Tannery's internal resources and refinancing of HK\$50,000,000 arranged from a bank in Mainland China. The new bank loan is secured by certain debt securities held by the immediate company of the Company at nil consideration.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

54. Post Balance Sheet Events (continued)

- (v) In October 2001, GD Tours entered into a provisional sale and purchase agreement with an independent third party in respect of disposal of its properties at a total cash consideration of HK\$71,500,000. The disposal is expected to be completed on 30 April 2002 and would not result in any significant gain or loss to the Group.
- (vi) In February and April 2002, certain subsidiaries of GD Tannery entered into certain provisional sale and purchase agreements with independent third parties in respect of disposal of their certain residential and office premises at a total cash consideration of HK\$16,800,000. These disposals have not yet been completed up to the date of this report and would not result in any significant gain or loss to the Group.
- (vii) In January 2002, certain subsidiaries of GD Tannery entered into two sale and purchase agreements with the "Liquidation Committees" which were set up by the order of the court in respect of purchasing certain plant and machinery of joint venture partners of Xuzhou Tannery and Xuzhou Gangwei in Mainland China amounting to RMB13,000,000 during their liquidation process.
- (viii) On 27 July 2001, the Company entered into a conditional agreement with the Chinese joint venture partner for the disposal of the Company's entire 56.01% interest in Nanfang at a consideration of HK\$850,000. Upon the effecting of all necessary changes to the business registration of Nanfang, this transaction was duly completed in April 2002. Nanfang, which was a subsidiary of the Company, was deconsolidated from the Group's financial statements in prior years. The disposal has resulted in an increase of the net worth of the Group as full provision had previously been made by the Company in the prior year against its entire interests in Nanfang as part of the process of the Company to disengage from non-core businesses.
- (ix) In April 2002, Nanhai Tanney pledged its land and buildings of HK\$63,898,000, carrying value as at 31 December 2001, for new bank loans in an aggregate amount of RMB36,000,000 granted to it by a bank in Mainland China.

Notes to Financial Statements (continued)

Guangdong Investment Limited

31 December 2001

55. Comparative Amounts

As further explained in notes 2 and 34 to the financial statements, due to the adoption of certain new and revised SSAPs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

56. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 12 April 2002.