

1 Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that investment properties are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are, unless otherwise stated, effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

The adoption of the above standards had no material effect on amounts reported in prior year, except that certain presentational changes have been made upon the adoption of SSAP 1 (revised) “Presentation of financial statements” and SSAP 15 (revised) “Cash flow statements”.

Certain 2001 comparative figures have been restated to conform to current year’s presentation.

2 Very substantial acquisition

On 20th December 2002, the Group completed the Very Substantial Acquisition as set out in the circular to shareholders dated 31st December 2001. The transaction involved the acquisition of the entire interest in Guangzhou Construction & Development Holdings (China) Limited (“GCD”) and 49 per cent interest in Super Gain Development Limited (“Super Gain”), being a 51 per cent subsidiary prior to the acquisition, for a total consideration of approximately HK\$4,544 million (collectively the “Transaction”).

The consideration of the Transaction was satisfied by (i) HK\$2,000 million in cash; (ii) HK\$970 million by way of allotment and issuance of 2,107,688,555 shares of the Company at HK\$0.46 each to Yue Xiu; and (iii) HK\$1,574 million by way of disposals of the Group’s entire interests in China Century Cement International Limited (“Cement Sub-group”), 36.84 per cent effective interest in Jin Peng Group Company Limited (“Jin Peng”), 46.7 per cent effective interest in China Information Technology Industry Co. Ltd. (“China ITI”) and assignment of shareholders’ loan totalling HK\$886 million due from Cement Sub-group, Jin Peng and China ITI to Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu”), a substantial shareholder of the Company.

3 Principal accounting policies

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

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the Board of Directors, controls more than half the voting power or holds more than half of the issued share.

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

3 Principal accounting policies (cont'd)

(a) Group accounting (cont'd)

(i) Consolidation (cont'd)

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

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

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

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

(ii) Jointly controlled entities

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

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(iii) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iv) Translation of foreign currencies

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

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

In prior years, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

3 Principal accounting policies (cont'd)

(b) Fixed assets

(i) Investment properties

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

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

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

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

(ii) Other properties

Other properties are interests in land and buildings other than investment properties and are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on leasehold land and buildings is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rates used for this purpose are 2 per cent to 7 per cent per annum.

(iii) Production facilities under construction

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

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

3 Principal accounting policies (cont'd)

(b) Fixed assets (cont'd)

(iv) Other fixed assets

Other fixed assets, comprising plant and machinery and tools, leasehold improvements, furniture, fixtures and office equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(v) Impairment and gain or loss on disposal of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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

(c) Assets under leases

(i) Finance leases

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

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

3 Principal accounting policies (cont'd)

(c) Assets under leases (cont'd)

(ii) Operating leases

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

(d) Interests in toll highways and bridges

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

Amortisation of interests in toll highways and bridges is provided on the basis of a sinking fund calculation where annual amortisation amounts compounded at predetermined rates ranging from 0.8 to 4.8 per cent per annum will be equal to the cost of the relevant toll highways and bridges at the end of the joint venture periods.

(e) Intangibles

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges occurring on or after 1st January 2001 is amortised on the basis of a sinking fund calculation over the period for which the Group is granted the rights to operate the highways or bridges. For other acquisitions, goodwill is generally amortised using the straight-line method over the maximum period of 20 years.

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

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

For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. For negative goodwill on acquisition of subsidiary/associated company/ jointly controlled entity engaged in property investment, any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is amortised on the following bases:

- Properties under development and properties held for sales - amortisation is calculated based on the actual area of properties sold over the total available saleable area.
- Investment properties - amortisation is calculated using the straight-line method over the maximum period of 20 years.

3 Principal accounting policies (cont'd)

(e) Intangibles (cont'd)

(i) Goodwill/negative goodwill (cont'd)

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

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition.

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

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written-off against reserves, is assessed and written-down immediately to its recoverable amount.

(f) Investments securities and other investments

(i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

3 Principal accounting policies (cont'd)

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

(ii) Other investments

Other investments held for long term are stated at cost less accumulated impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written-back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

If the rights and interest in investments are surrendered by the Group upon the termination of related joint venture period, amortisation is provided to write-off its cost over the joint venture period on the straight-line basis. The results of other investments are accounted for on the basis of dividends received and receivable.

(g) Properties held for/under development

Properties held for/under development are stated at cost which comprises land cost, development and construction expenditures net of incidental rental income, borrowing costs capitalised and other direct costs attributable to the development, plus attributable profits recognised on the basis set out in note 3(p)(ii) taken up to date, less provisions for foreseeable losses and sales instalments received.

(h) Properties held for sale

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

(i) Interests in property development projects

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

(j) Inventories

Inventories, comprise stock and work in progress, are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Accounts receivable

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

3 Principal accounting policies (cont'd)

(l) Convertible bonds

Convertible bonds are stated at the aggregate of the net proceeds from the issue less amount converted into shares. The net proceeds represent the consideration received on the issue of bonds after deduction of issuing costs. Issuing costs which comprise costs incurred directly in connection with the issue of bonds are amortised on a straight-line basis over the terms of the bonds which is the earliest date at which the bonds would be redeemed.

When bonds are converted into shares, the amount recognised in respect of the shares issued upon conversion is the amount at which the liability of the bonds is stated as at the date of conversion less the related unamortised issuing costs attributable to the bonds converted.

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

(m) Cash and cash equivalents

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

(n) Contingent liabilities

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

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

(o) Deferred taxation

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

3 Principal accounting policies (cont'd)

(p) Revenue and profit recognition

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

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

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

- (iii) Operating lease rental income is recognised on a straight-line basis.
- (iv) Revenue from property management is recognised in the year in which the services are rendered.
- (v) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (vi) Toll revenue, net of revenue tax, is recognised on a receipt basis.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (viii) Dividend income is recognised when the right to receive payment is established.
- (ix) Agency fee revenue from property broking is recognised when the relevant agreement becomes unconditional or irrevocable.

(q) Employee benefits

- (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

- (ii) Pension obligations

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

3 Principal accounting policies (cont'd)

(q) Employee benefits (cont'd)

(iii) Medical benefits

The Group's contributions to defined contribution medical benefit scheme are expensed as incurred.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

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

(s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, properties held for/under development, properties held for sale, property development projects, receivables, interests in jointly controlled entities and associated companies. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (note 15), including additions resulting from acquisitions through purchases of subsidiaries (note 31(c)).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

4 Turnover, revenue and segment information

The Group is principally engaged in development, operation and management of toll highways and bridges, development, selling and management of properties and holding of investment properties, manufacturing and trading of newsprint and corrugated paper, cement and ready-mixed concrete. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Net toll revenue from toll operations	355,638	418,616
Sales of properties	636,514	439,166
Gross rental income	152,943	141,555
Property management fee income	9,945	10,080
Sales of newsprint and corrugated paper	1,141,688	1,330,720
Sales of cement and ready-mixed concrete	916,020	1,019,564
Sales of computer software system	12,725	14,634
	<u>3,225,473</u>	<u>3,374,335</u>
Other revenues		
Dividend income	4,513	34,845
Interest income	13,763	34,233
Agency fee income	834	1,200
	<u>19,110</u>	<u>70,278</u>
Total revenues	<u>3,244,583</u>	<u>3,444,613</u>

4 Turnover, revenue and segment information (cont'd)

Primary reporting format - business segments

The Group is organised mainly in Hong Kong and the Mainland of China ("China") into four main business segments:

- Properties - development, selling and management of properties and holding of investment properties
- Toll operations - development, operation and management of toll highways and bridges
- Paper - manufacturing and selling of newsprint and corrugated paper
- Cement - manufacturing and selling of cement and ready-mixed concrete (a discontinued operation as detailed in note below)

Other operations of the Group mainly comprise investment holding and high technology business (a discontinued operation as detailed in note below), neither of which are of a sufficient size to be reported separately.

There are no sales between the business segments.

Secondary reporting format - geographical segments

The Group's four business segments are mainly managed in Hong Kong and China:

Hong Kong - properties and cement

China - properties, paper, cement and toll operations

Others - properties

There are no sales between the geographical segments.

4 Turnover, revenue and segment information (cont'd)

Primary reporting format - business segments

	Toll operations		Properties		Paper		(Discontinued operation) Cement (Note)		Other operations		Group	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	355,638	418,616	797,298	590,801	1,141,688	1,330,720	916,020	1,019,564	14,829	14,634	3,225,473	3,374,335
Segment results	179,912	227,709	13,986	129,598	111,316	203,690	122,810	80,737	(11,613)	2,520	416,411	644,254
Interest income											13,763	34,233
Unallocated operation costs											(52,036)	(60,150)
Provision for impairment of properties, fixed assets and other investments and revaluation deficit of investment properties	(33,462)	—	(802,650)	(40,943)	(35,694)	—	—	(1,217)	(19,930)	(1,461)	(891,736)	(43,621)
Finance costs											(185,986)	(256,048)
Share of profits less losses of:												
Jointly controlled entities	(36,102)	—	(115)	(420)	—	(22,944)	9,888	5,255	—	—	(26,329)	(18,109)
Associated companies	153,904	117,497	4,529	12,884	—	—	—	—	(5,774)	9,604	152,659	139,985
Provision for a jointly controlled entity and an associated company	—	—	(52,500)	—	(111,655)	—	—	—	—	—	(164,155)	—
(Loss)/profit before taxation											(737,409)	440,544
Taxation											(80,999)	(92,755)
(Loss)/profit after taxation											(818,408)	347,789
Minority interests											(170,633)	(308,007)
(Loss)/profit attributable to shareholders											(989,041)	39,782
Segment assets	2,606,537	2,565,560	15,756,011	8,621,547	1,654,080	2,437,261	—	1,526,970	34,875	39,274	20,051,503	15,190,612
Interests in jointly controlled entities	357,355	436,592	380,484	264,446	59,346	171,000	—	435,120	—	—	797,185	1,307,158
Interests in associated companies	1,495,249	1,319,763	(3,744)	209,119	—	—	—	—	—	199,525	1,491,505	1,728,407
Unallocated assets											1,205,544	1,735,378
Total assets											23,545,737	19,961,555
Segment liabilities	29,169	25,106	4,751,261	362,617	215,828	190,788	—	202,830	58	4,366	4,996,316	785,707
Unallocated liabilities											7,467,915	6,219,792
Total liabilities											12,464,231	7,005,499
Capital expenditure	21,525	30,308	7,235	2,009	75,613	158,162	46,702	28,731	814	3,504	151,889	222,714
Depreciation and amortisation	83,048	88,794	(47,284)	4,446	132,947	129,785	69,235	61,277	4,611	1,139	242,557	285,441
Other non-cash expenses	—	10,383	5,981	4,090	50,503	13,332	6,579	6,641	15,512	—	78,575	34,446

4 Turnover, revenue and segment information (cont'd)

Primary reporting format - business segments (cont'd)

Note:

As detailed in note 2 to the accounts, the Company disposed of its entire interest in Cement Sub-group, 36.84 per cent effective interest in Jin Peng and 46.7 per cent effective interest in China ITI as part of the consideration for the Transaction. The cement and high technology business segments therefore became discontinued operation at year end.

Carrying amount of the turnover and segment results of Cement Segment were disclosed above. During the period from 1st January 2002 to 20th December 2002, Cement Segment's taxation was HK\$16 million (2001: HK\$15 million), cash inflow from operating activities was HK\$148 million (2001: HK\$12 million), cash outflow from investing activities was HK\$32 million (2001: HK\$50 million) and cash outflow from financing activities was HK\$101 million (2001: HK\$4 million). The carrying amount of turnover and segment results, and cash flow statements of Jin Peng and China ITI were not of a sufficient size to be disclosed separately.

Secondary reporting format - geographical segments

	Turnover		Total assets		Capital expenditure	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	409,560	553,699	1,640,296	2,838,342	23,680	12,990
China	2,812,908	2,817,867	19,496,027	13,933,935	128,189	209,724
Overseas	3,005	2,769	52,662	115,615	20	—
	<u>3,225,473</u>	<u>3,374,335</u>	<u>21,188,985</u>	<u>16,887,892</u>	<u>151,889</u>	<u>222,714</u>
Interests in jointly controlled entities			797,185	1,307,158		
Interests in associated companies			1,491,505	1,728,407		
Unallocated assets			<u>68,062</u>	<u>38,098</u>		
Total assets			<u>23,545,737</u>	<u>19,961,555</u>		

5 Operating profit before provision for impairment and revaluation deficit

	2002 HK\$'000	2001 HK\$'000
Operating profit before provision for impairment and revaluation deficit is stated after crediting and charging the following:		
Crediting		
Gross rental income from investment properties	77,345	84,898
Less: direct outgoings	(7,874)	(5,714)
Net rental income from investment properties	69,471	79,184
Amortisation of negative goodwill	51,415	—
Write-back of provision for Plantation Fund	42,156	—
Gain on partial disposal of a jointly controlled entity	6,240	—
Charging		
Auditors' remuneration	5,921	3,670
Cost of inventories sold	2,021,094	1,874,136
Depreciation		
- Owned fixed assets	210,894	198,558
- Leased fixed assets	407	655
Amortisation of interests in toll highways and bridges	75,748	79,663
Amortisation of other investments	—	4,162
Amortisation of goodwill	6,604	2,244
Amortisation of development costs	319	159
Loss on disposal of fixed assets	39,803	22,715
Staff costs (<i>note 11</i>)	265,152	266,956
Operating leases		
- Hire of plant and machinery	7,225	11,000
- Land and buildings	55,278	61,635
Write off of bad debts/provision for doubtful debts	30,506	24,063
Provision for amount due from an associated company	19,908	—

6 Provision for impairment of properties

	2002 HK\$'000	2001 HK\$'000
Provision for impairment of		
- properties held for/under development	529,000	14,000
- properties held for sale	13,160	—
- interests in property development projects	22,590	—
	564,750	14,000

7 Finance costs

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts	139,953	192,567
Interest element of finance leases	73	116
Premium on redemption of convertible bonds	7,501	7,248
Other interests on		
- amounts due to minority shareholders	38,419	38,027
- loan from a shareholder	356	833
- loan from a related company	2,818	6,942
- convertible bonds	13,586	20,378
- other loans wholly repayable within five years	3,342	1,029
Total borrowing costs incurred	206,048	267,140
Less: amount capitalised to properties held for/under development, associated companies and a jointly controlled entity	(20,062)	(11,092)
	<u>185,986</u>	<u>256,048</u>

8 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax		
Current	5,489	11,592
Overprovision in prior years	(498)	—
	<u>4,991</u>	<u>11,592</u>
Overseas taxation		
Current	61,877	68,757
Transferred to deferred taxation account (<i>note 29</i>)	1,329	672
	<u>63,206</u>	<u>69,429</u>
Share of taxation attributable to		
Jointly controlled entities	2,147	248
Associated companies	10,655	11,486
	<u>12,802</u>	<u>11,734</u>
	<u>80,999</u>	<u>92,755</u>
Deferred taxation for the year has not been provided in respect of the following:		
Accelerated depreciation allowance	3,125	4,893
Tax losses	7,189	12,240
Other timing differences	(69)	258
	<u>10,245</u>	<u>17,391</u>

Hong Kong profits tax has been provided at the rate of 16 per cent (2001: 16 per cent) on the estimated assessable profit for the year.

Overseas taxation is mainly provided on the profits of the Group's subsidiaries, associated companies and jointly controlled entities in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign enterprises ("China Tax Law") at 18 per cent to 33 per cent. Under the China Tax Law, certain Group's subsidiaries, associated companies and jointly controlled entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years.

Taxation on other overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

9 (Loss)/profit attributable to shareholders

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of HK\$269,583,000 (2001: loss of HK\$22,263,000).

10 (Loss)/earnings per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$989,041,000 (2001: profit of HK\$39,782,000) and the weighted average number of 4,017,138,450 (2001: 3,976,268,141) ordinary shares in issue during the year.

Diluted loss per share is not presented for the year ended 31st December 2002 because the effect is anti-dilutive.

The calculation of fully diluted earnings per share for the year ended 31st December 2001 was based on 4,014,269,003 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 38,000,862 ordinary shares deemed to be issued at no consideration if all outstanding options has been exercised.

The convertible bonds outstanding as at 31st December 2001 and 2002 had anti-dilutive effect.

11 Staff costs (including directors' emoluments)

	2002 HK\$'000	2001 HK\$'000
Wages and salaries	169,728	179,190
Pension costs (defined contribution plans) (Note)	28,125	31,051
Medical benefits costs (defined contribution plans)	21,369	11,555
Social security costs	6,366	10,759
Termination benefits	11,232	10,948
Staff welfare	28,332	23,453
	<u>265,152</u>	<u>266,956</u>

Note:

The Group's contributions for Hong Kong employees are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There were no forfeited contributions in current year (2001: Nil).

12 Directors' and senior management's emoluments

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

	2002 HK\$'000	2001 HK\$'000
Fees (note (i))	76	76
Other emoluments:		
Basis salaries, housing allowances, share options, other allowances and benefits in kind (note (ii))	17,584	15,669
Discretionary bonuses (note (iii))	11,325	4,581
Directors' pension	467	429
	<u>29,452</u>	<u>20,755</u>

Notes:

- (i) Directors' fees represent amounts paid to independent non-executive Directors.
- (ii) During the year ended 31st December 2002, certain Directors exercised their options to subscribe for the Company's and its subsidiary's ordinary shares. Details of options exercised during the year are disclosed in the Report of the Directors.
- (iii) During the year ended 31st December 2002, discretionary bonuses of approximately HK\$9,886,000 was paid to certain Directors in respect of a provision for bonus made in 1997.
- (b) The emoluments of the Directors fell within the following bands:

	Number of directors	
Emoluments bands	2002	2001
Nil - HK\$1,000,000	*9	*11
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	1	3
HK\$2,500,001 - HK\$3,000,000	—	1
HK\$3,000,001 - HK\$3,500,000	—	—
HK\$3,500,001 - HK\$4,000,000	3	—
HK\$4,000,001 - HK\$4,500,000	1	1
HK\$4,500,001 - HK\$5,000,000	1	—

* Included two (2001: two) independent non-executive Directors.

No Directors waived emoluments in respect of the years ended 31st December 2002 and 2001. No emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2001: Nil).

- (c) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2002 are also Directors whose emoluments are reflected in the analysis presented above.

13 Interests in toll highways and bridges

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1st January	2,272,680	2,593,742
Additions	20,265	—
Disposals	—	(241,399)
Amortisation charge	(75,748)	(79,663)
At 31st December	<u>2,217,197</u>	<u>2,272,680</u>
	2002 HK\$'000	2001 HK\$'000
Cost	2,523,791	2,503,526
Accumulated amortisation	(306,594)	(230,846)
Net book value	<u>2,217,197</u>	<u>2,272,680</u>

14 Other intangible assets

	Group			
	Goodwill	Negative goodwill	Development costs	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002	61,372	(78,535)	6,386	(10,777)
Development costs recognised as an asset	—	—	2,978	2,978
Acquisition of subsidiaries	170,743	(3,796,255)	—	(3,625,512)
Disposal of subsidiaries	(7,285)	—	(9,045)	(16,330)
Amortisation charge	(6,604)	51,415	(319)	44,492
At 31st December 2002	218,226	(3,823,375)	—	(3,605,149)

15 Fixed assets

(a) Group

	Investment properties HK\$'000	Other properties HK\$'000	Production facilities under construction HK\$'000	Plant and machinery and tools HK\$'000	Leasehold improve- ments, furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1st January 2002	1,175,225	1,182,943	326,887	2,231,846	131,540	117,204	5,165,645
Additions	—	—	82,953	23,967	19,003	5,701	131,624
Acquisition of subsidiaries	2,842,982	104,686	—	33,756	28,535	25,553	3,035,512
Transfer to properties held for/ under development	(101,003)	—	—	—	—	—	(101,003)
Revaluation deficit	(240,550)	—	—	—	—	—	(240,550)
Transfer upon completion	—	23,139	(95,473)	52,817	18,298	1,219	—
Disposals	—	(379,597)	—	(463,963)	(4,839)	(10,290)	(858,689)
Disposal of subsidiaries	—	(560,824)	(6,469)	(725,320)	(22,820)	(74,643)	(1,390,076)
At 31st December 2002	3,676,654	370,347	307,898	1,153,103	169,717	64,744	5,742,463
Accumulated depreciation and impairment							
As 1st January 2002	—	248,354	—	605,344	94,596	74,073	1,022,367
Charge for the year	—	36,607	—	146,141	20,585	7,968	211,301
Acquisition of subsidiaries	—	14,223	—	25,291	19,362	17,653	76,529
Impairment loss	—	52,974	—	—	—	—	52,974
Disposals	—	(62,212)	—	(131,159)	(8,091)	(7,316)	(208,778)
Disposal of subsidiaries	—	(172,967)	—	(250,062)	(15,169)	(48,938)	(487,136)
At 31st December 2002	—	116,979	—	395,555	111,283	43,440	667,257
Net book value							
At 31st December 2002	3,676,654	253,368	307,898	757,548	58,434	21,304	5,075,206
At 31st December 2001	1,175,225	934,589	326,887	1,626,502	36,944	43,131	4,143,278

15 Fixed assets (cont'd)

(a) Group (cont'd)

The analysis of the cost or valuation at 31st December 2002 of the above assets is as follows:

	Investment properties HK\$'000	Other properties HK\$'000	Production facilities under construction HK\$'000	Plant and machinery and tools HK\$'000	Leasehold improve- ments, furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	—	370,347	307,898	1,153,103	169,717	64,744	2,065,809
At 2002 valuation	3,676,654	—	—	—	—	—	3,676,654
	<u>3,676,654</u>	<u>370,347</u>	<u>307,898</u>	<u>1,153,103</u>	<u>169,717</u>	<u>64,744</u>	<u>5,742,463</u>

The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows:

At cost	—	1,182,943	326,887	2,231,846	131,540	117,204	3,990,420
At 2001 valuation	1,175,225	—	—	—	—	—	1,175,225
	<u>1,175,225</u>	<u>1,182,943</u>	<u>326,887</u>	<u>2,231,846</u>	<u>131,540</u>	<u>117,204</u>	<u>5,165,645</u>

15 Fixed assets (cont'd)

(b) Company

	Investment properties HK\$'000	Other properties HK\$'000	Leasehold improve- ments, furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation					
At 1st January 2002	12,700	14,338	8,479	5,966	41,483
Additions	—	—	234	—	234
Deficit on valuation	(2,650)	—	—	—	(2,650)
At 31st December 2002	10,050	14,338	8,713	5,966	39,067
Accumulated depreciation and impairment					
At 1st January 2002	—	355	7,070	5,514	12,939
Charge for the year	—	362	560	452	1,374
Impairment loss	—	3,050	—	—	3,050
At 31st December 2002	—	3,767	7,630	5,966	17,363
Net book value					
At 31st December 2002	10,050	10,571	1,083	—	21,704
At 31st December 2001	12,700	13,983	1,409	452	28,544
The analysis of the cost or valuation at 31st December 2002 of the above assets is as follows:					
At cost	—	14,338	8,713	5,966	29,017
At 2002 valuation	10,050	—	—	—	10,050
At 31st December 2002	10,050	14,338	8,713	5,966	39,067
The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows:					
At cost	—	14,338	8,479	5,966	28,783
At 2001 valuation	12,700	—	—	—	12,700
At 31st December 2001	12,700	14,338	8,479	5,966	41,483

15 Fixed assets (cont'd)

- (c) The Group's and the Company's interests in investment properties and other properties at their net book values are analysed as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
In Hong Kong, held on:				
Leases of between 10 to 50 years	715,649	937,672	—	—
Leases of over 50 years	67,327	188,121	20,430	26,484
Outside Hong Kong, held on:				
Leases of between 10 to 50 years	191	199	191	199
Leases of over 50 years	3,146,855	983,822	—	—
	<u>3,930,022</u>	<u>2,109,814</u>	<u>20,621</u>	<u>26,683</u>

- (d) Investment properties were revalued by independent firm of professional surveyor, Greater China Appraisal Limited, on an open market value basis as at 31st December 2002.
- (e) As at 31st December 2002, the net book values of fixed assets held under finance leases by the Group and the Company amounted to HK\$60,000 (2001: HK\$507,000) and HK\$60,000 (2001: HK\$451,000) respectively.

16 Investments in subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Investments, at cost		
Unlisted shares	36,587	36,676
Shares listed in Hong Kong	7,504	769
	<u>44,091</u>	<u>37,445</u>
Amounts due from subsidiaries (note (a))	9,722,847	6,337,983
	<u>9,766,938</u>	<u>6,375,428</u>
Market value of shares listed in Hong Kong	7,159	567

- (a) The amounts due from subsidiaries are unsecured and have no fixed terms of repayments. Except for the amounts of approximately HK\$5,973 million (2001: approximately HK\$2,435 million) which are interest-free, all amounts due from subsidiaries are interest bearing.
- (b) Details of the principal subsidiaries of the Company as at 31st December 2002 are set out on pages 80 to 92.

17 Interests in jointly controlled entities

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	616,499	1,108,351
Less: Provision for impairment	(111,655)	—
	504,844	1,108,351
Amounts due from jointly controlled entities (note (a))	292,341	198,807
	797,185	1,307,158

- (a) The amounts due from jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.
- (b) Details of the principal jointly controlled entities of the Group as at 31st December 2002 are set out on page 93.

18 Interests in associated companies

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets other than goodwill	1,558,869	1,690,388
Less: provision for impairment	(52,500)	—
	1,506,369	1,690,388
Amounts due to associated companies (note (a))	(185,162)	(193,856)
Amounts due from associated companies (note (a) and (b))	190,206	231,875
Less: provision for amount due from an associated company	(19,908)	—
	1,491,505	1,728,407

- (a) The amounts due from/(to) associated companies are unsecured, interest-free and have no fixed terms of repayment.
- (b) As at 31st December 2002, an amount due from an associated company of approximately HK\$13 million (2001: HK\$13 million) had been subordinated to the repayment of a bank loan granted to the associated company.
- (c) Details of the principal associated companies of the Group as at 31st December 2002 are set out on page 94.

19 Investment securities and other investments

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted investment securities, at cost	12,923	41,475
Other investments, at cost	278,582	204,749
Less: Provision for impairment	(33,462)	—
	245,120	204,749
	258,043	246,224

Other investments represent the Group's investments in co-operative joint ventures established in China for the development and management of highways and the development of properties. Pursuant to the joint venture agreements, the Group is entitled to fixed returns from certain investments over the joint venture periods.

20 Interests in property development projects

These represent the Group's participation in property development projects in China and Macau through various agreements with unrelated parties. The Group does not participate in the control of the projects but is committed to contributing its share of development costs of the projects and is entitled to returns as stipulated in the agreements.

21 Inventories

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	88,482	231,093
Work in progress	11,401	16,084
Finished goods	46,138	69,630
	146,021	316,807

All inventories were stated at cost as at 31st December 2002 and 2001.

22 Due from/(to) related companies and minority shareholders

Balances due from/(to) related companies and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

23 Accounts receivable, prepayments and deposits

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	527,021	736,991	—	—
Other receivables, prepayments and deposits	370,261	418,792	43,923	5,432
	897,282	1,155,783	43,923	5,432

The Group has defined credit policies for different business and geographical segments. At 31st December 2002, the ageing analysis of the trade receivables is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Less than 30 days	230,547	290,713
31-90 days	116,392	223,043
Over 91 days	180,082	223,235
	527,021	736,991

24 Bank balances and cash

Included in the bank balances and cash of the Group and the Company are deposits denominated in Renminbi and placed with banks in China of approximately HK\$792 million (2001: HK\$1,059 million) and HK\$0.9 million (2001: HK\$174 million) respectively. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

25 Accounts payable and accrued charges

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	222,510	181,069	—	—
Other payables and accruals	4,804,138	638,283	30,332	33,780
	5,026,648	819,352	30,332	33,780

25 Accounts payable and accrued charges (cont'd)

At 31st December 2002, the ageing analysis of the trade payables were as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Less than 30 days	47,156	102,539
31-90 days	74,341	60,552
Over 90 days	101,013	17,978
	<u>222,510</u>	<u>181,069</u>

26 Share capital

	Company	
	No. of shares	HK\$'000
Authorised:		
At 1st January 2001 and 2002, ordinary shares of HK\$0.10 each	5,000,000,000	500,000
Increase in authorised share (note (a))	<u>5,000,000,000</u>	<u>500,000</u>
At 31st December 2002	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1st January 2001	3,937,627,400	393,763
Exercise of options	11,652,000	1,165
Exercise of convertible bonds	<u>59,014,267</u>	<u>5,901</u>
At 31st December 2001	<u>4,008,293,667</u>	<u>400,829</u>
At 1st January 2002	4,008,293,667	400,829
Issue of shares (note (b))	2,107,688,555	210,769
Exercise of options (note (c))	<u>2,120,000</u>	<u>212</u>
At 31st December 2002	<u>6,118,102,222</u>	<u>611,810</u>

26 Share capital (cont'd)

- (a) On 17th January 2002, the Company's authorised share capital increased from HK\$500,000,000 to HK\$1,000,000,000 by the creation of an additional 5,000,000,000 shares of HK\$0.10 each ranking pari passu with the existing shares in all respects.
- (b) On 20th December 2002, 2,107,688,555 ordinary shares of HK\$0.10 each were issued and allotted to Yue Xiu at HK\$0.46 per share with the Transaction as detailed in note 2 to the accounts.
- (c) During the year, 2,120,000 ordinary shares of HK\$0.1 each were issued upon the exercise of 2,120,000 share options at an exercise price of HK\$0.5008 per share.
- (d) Pursuant to the share option schemes adopted on 26th June 2002, the Directors may, at their discretion, grant directors and employees of the Group options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No options had been granted during the year. Exercise in full of all outstanding share options would result in the issue of 120,254,000 ordinary shares at an aggregate cash consideration of approximately HK\$52,719,000. Details of options exercised and lapsed during the year are disclosed in the Report of the Directors.
- (e) Exercise in full of all outstanding convertible bonds would result in the issue of 325,226,977 ordinary shares at a conversion price of HK\$0.6168 per share, totalling approximately HK\$200,623,000 and reduction in liability by approximately HK\$200,623,000.

27 Reserves

(a) Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Statutory reserves (note (d)) HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2001	4,854,723	1,815	215,511	80,157	(56,824)	996,402	6,091,784
Net proceeds from issue of ordinary shares	35,137	—	—	—	—	—	35,137
Exchange differences	—	—	—	—	2,778	—	2,778
Share of reserves upon further acquisition of interest in an associated company	—	—	—	637	—	—	637
Release of reserve upon disposal of properties under development and properties held for sale	—	—	(14,626)	—	—	—	(14,626)
Release of reserve upon disposal of a subsidiary	—	—	(24,900)	—	(846)	—	(25,746)
Release of reserve upon deemed disposal of a subsidiary	—	—	—	(20)	(17)	—	(37)
Transfer	—	—	—	3,631	—	(3,631)	—
Profit for the year	—	—	—	—	—	39,782	39,782
At 31st December 2001	<u>4,889,860</u>	<u>1,815</u>	<u>175,985</u>	<u>84,405</u>	<u>(54,909)</u>	<u>1,032,553</u>	<u>6,129,709</u>
At 1st January 2002	4,889,860	1,815	175,985	84,405	(54,909)	1,032,553	6,129,709
Net proceeds from issue of ordinary shares	759,549	—	—	—	—	—	759,549
Exchange differences	—	—	—	—	(1,655)	—	(1,655)
Release of reserve upon disposal of properties held for/under development and properties held for sale	—	—	—	—	—	(10,475)	(10,475)
Release of reserves and goodwill upon disposal of subsidiaries and an associated company	—	—	4,986	(38,287)	(23,610)	573,591	516,680
Release of reserves upon deemed disposal of a subsidiary	—	—	—	(23)	(9)	—	(32)
Transfer	—	—	—	3,746	—	(3,746)	—
Loss for the year	—	—	—	—	—	(989,041)	(989,041)
At 31st December 2002	<u>5,649,409</u>	<u>1,815</u>	<u>180,971</u>	<u>49,841</u>	<u>(80,183)</u>	<u>602,882</u>	<u>6,404,735</u>

27 Reserves (cont'd)**(b) Company**

	2002				2001			
	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January	4,889,860	1,815	43,642	4,935,317	4,854,723	1,815	65,905	4,922,443
Net proceeds from issue of ordinary shares	759,549	—	—	759,549	35,137	—	—	35,137
Profit/(loss) for the year	—	—	269,583	269,583	—	—	(22,263)	(22,263)
At 31st December	5,649,409	1,815	313,225	5,964,449	4,889,860	1,815	43,642	4,935,317

- (c) Included in the Group's retained profits are profits amounting to HK\$454,967,000 (2001: HK\$365,463,000) and losses of HK\$210,286,000 (2001: HK\$70,155,000) which are attributable to associated companies and jointly controlled entities respectively.
- (d) Statutory reserves represent enterprise expansion and general reserve funds set up by the operating subsidiaries and associated companies in China. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval, the general reserve fund may be used for making up losses and increasing capital while the enterprise expansion funds may be used for increasing capital. Included in the Group's statutory reserves attributable to associated companies is HK\$694,000 (2001: HK\$3,861,000).

28 Long-term liabilities

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans				
Secured (note 36)				
- wholly repayable within five years	3,826,296	1,338,381	2,630,000	117,000
- not wholly repayable within five years	468	1,137	—	—
Unsecured	905,468	1,351,639	555,000	786,499
Obligations under finance leases	344	632	344	581
Loans from a shareholder	67,743	9,554	65,608	9,452
Loans from related companies	3,809	191,017	—	—
Loans from minority shareholders	169,301	1,766,437	—	8,000
Other loans	15,600	53,729	—	—
Convertible bonds (note 30)	200,623	450,073	200,623	450,073
	5,189,652	5,162,599	3,451,575	1,371,605
Less: Current portion of long-term liabilities	(1,386,510)	(801,424)	(828,927)	(381,691)
	3,803,142	4,361,175	2,622,648	989,914

28 Long-term liabilities (cont'd)

Long-term loans are repayable over the following periods:

(a) Group

	2002								2001							
	Obligations under Bank loans HK\$'000	from finance leases HK\$'000	Loans from a shareholder HK\$'000	Loans from related companies HK\$'000	minority shareholders HK\$'000	Other loans HK\$'000	Convertible bonds HK\$'000	Total HK\$'000	Obligations under Bank loans HK\$'000	from finance leases HK\$'000	Loans from a shareholder HK\$'000	Loans from related companies HK\$'000	minority shareholders HK\$'000	Other loans HK\$'000	Convertible bonds HK\$'000	Total HK\$'000
On demand and within one year	1,185,583	304	—	—	—	—	200,623	1,386,510	453,986	301	9,554	80,132	8,001	—	249,450	801,424
In the second year	754,853	40	—	—	—	—	—	754,893	1,491,032	302	—	—	—	—	200,623	1,691,957
In the third to fifth year	2,791,328	—	—	—	—	—	—	2,791,328	745,002	29	—	—	—	—	—	745,031
After the fifth year	468	—	—	—	—	—	—	468	1,137	—	—	—	—	—	—	1,137
With no fixed repayment terms	—	—	67,743	3,809	169,301	15,600	—	256,453	—	—	—	110,885	1,758,436	53,729	—	1,923,050
	<u>4,732,232</u>	<u>344</u>	<u>67,743</u>	<u>3,809</u>	<u>169,301</u>	<u>15,600</u>	<u>200,623</u>	<u>5,189,652</u>	<u>2,691,157</u>	<u>632</u>	<u>9,554</u>	<u>191,017</u>	<u>1,766,437</u>	<u>53,729</u>	<u>450,073</u>	<u>5,162,599</u>
The balances are analysis as follows:																
Interest bearing	4,732,232	344	65,608	—	—	—	200,623	4,998,807	2,691,157	632	9,452	123,284	737,300	—	450,073	4,011,898
Non-interest bearing	—	—	2,135	3,809	169,301	15,600	—	190,845	—	—	102	67,733	1,029,137	53,729	—	1,150,701
	<u>4,732,232</u>	<u>344</u>	<u>67,743</u>	<u>3,809</u>	<u>169,301</u>	<u>15,600</u>	<u>200,623</u>	<u>5,189,652</u>	<u>2,691,157</u>	<u>632</u>	<u>9,554</u>	<u>191,017</u>	<u>1,766,437</u>	<u>53,729</u>	<u>450,073</u>	<u>5,162,599</u>

Loans from a shareholder, related companies, minority shareholders and other loans are unsecured, interest bearing at HIBOR plus 1 per cent to 9.25 per cent per annum except for an aggregate amount of approximately HK\$191 million (2001: approximately HK\$1,151 million) which is interest-free. Those portion of loans classified as with no fixed terms of repayment would not be demanded for repayment within next twelve months from the balance sheet date.

28 Long-term liabilities (cont'd)

Long-term loans are repayable over the following periods:

(b) Company

	2002					2001					
	Obligations					Obligations					
	Bank	under	Loan from	Convertible	Total	Bank	under	Loan from	Loan from	Convertible	Total
	loans	finance	a	bonds		loans	finance	a	a minority	bonds	
	HK\$'000	leases	shareholder	HK\$'000	HK\$'000	HK\$'000	leases	shareholder	shareholder	HK\$'000	HK\$'000
On demand and within one year	628,000	304	—	200,623	828,927	114,499	290	9,452	8,000	249,450	381,691
In the second year	357,000	40	—	—	357,040	531,600	291	—	—	200,623	732,514
In the third to fifth year	2,200,000	—	65,608	—	2,265,608	257,400	—	—	—	—	257,400
	<u>3,185,000</u>	<u>344</u>	<u>65,608</u>	<u>200,623</u>	<u>3,451,575</u>	<u>903,499</u>	<u>581</u>	<u>9,452</u>	<u>8,000</u>	<u>450,073</u>	<u>1,371,605</u>

All balances are interest bearing.

(c) At 31st December 2002, the Group's finance lease liabilities were repayable as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	374	375	374	360
In the second year	40	375	40	360
In the third to fifth year	—	37	—	—
	<u>414</u>	<u>787</u>	<u>414</u>	<u>720</u>
Future finance charges on finance leases	(70)	(155)	(70)	(139)
	<u>344</u>	<u>632</u>	<u>344</u>	<u>581</u>

29 Deferred taxation

- (a) Movements of deferred taxation account are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
At 1st January	13,300	13,477
Transferred from profit and loss account (note 8)	1,329	672
Disposal of a subsidiary	—	(849)
	<hr/>	<hr/>
At 31st December	14,629	13,300
	<hr/>	<hr/>
Provided for in respect of accelerated depreciation allowances	14,629	13,300
	<hr/>	<hr/>

- (b) As at 31st December 2002, the Group had the following unprovided deferred tax assets:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Accelerated depreciation allowances	(3,378)	(253)
Tax losses	35,156	27,967
Other timing differences	189	258
	<hr/>	<hr/>
	31,967	27,972
	<hr/>	<hr/>

No recognition of deferred taxation asset has been made in the accounts as it is uncertain whether the asset will crystallise in the foreseeable future.

- (c) The surplus and deficit arising on revaluation of investment properties does not constitute a timing difference and accordingly there are no deferred tax implications.

30 Convertible bonds

	Group and Company	
	2002 HK\$'000	2001 HK\$'000
Bonds of the Company to be converted into shares	<u>200,623</u>	<u>450,073</u>

As at 31st December 2002, the Group and the Company had outstanding convertible bonds as follows:-

Issue date	Total amount of issued convertible bonds HK\$'000	Interest rate per annum	Conversion price per share HK\$	Exercise period	Redemption date	Redemption amount as per cent to the principal amount
1st August 2000	200,623	3 per cent	0.6168	1st February 2001 to 31st July 2003	31st July 2003	105 per cent

Each convertible bond of HK\$100,000 can convert into the number of shares as determined by dividing the principal amount of the convertible bonds by the above conversion price per share.

31 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit before provision for impairment and revaluation deficit to net cash inflow generated from operations:

	2002 HK\$'000	2001 HK\$'000
Operating profit before provision for impairment and revaluation deficit	378,138	618,337
Depreciation of fixed assets, amortisation of interests in toll highways and bridges	287,049	278,876
Amortisation of goodwill, negative goodwill and development costs	(44,492)	2,403
Amortisation of other investments	—	4,162
Loss/(gain) on deemed disposal/disposal of subsidiaries	7,773	(4,207)
Loss on disposal of fixed assets	39,803	22,715
Loss on disposal of other investment	—	2,589
Gain on partial disposal of a jointly controlled entity	(6,240)	—
Provision for amount due from an associated company	19,908	—
Write-off of bad debts/provision for doubtful debts	30,506	24,063
Write-back of provision for Plantation Fund	(42,156)	—
Interest income	(13,763)	(34,233)
Dividend income	(4,513)	(34,845)
	<hr/>	<hr/>
Operating profit before working capital changes	652,013	879,860
Net decrease/(increase) in properties held for/under development and properties held for sale and interests in property development projects	15,486	(247,474)
Decrease/(increase) in inventories	48,595	(66,037)
Increase in accounts receivable, prepayments and deposits including amounts due from related companies and minority shareholders	(23,202)	(158,216)
Decrease in accounts payable and accrued charges	75,423	86,189
Increase in development costs	(2,978)	(6,545)
	<hr/>	<hr/>
Net cash inflow generated from operations	<u>765,337</u>	<u>487,777</u>

31 Notes to the consolidated cash flow statement (cont'd)**(b) Purchase of subsidiaries pursuant to the Very Substantial Acquisition**

	2002 HK\$'000
Net assets acquired	
Fixed assets	2,958,983
Other investments	74,942
Properties held for/under development	6,982,485
Properties held for sales	1,533,786
Due from related companies	88,268
Accounts receivable, prepayments and deposits	297,889
Bank balances and cash	441,501
Accounts payable and accrued charges	(3,571,974)
Taxation payable	(11,910)
Minority interests	(713,314)
Bank loans	(1,842,991)
Loans from minority shareholders	(37,927)
	<hr/> 6,199,738
Acquisition of share of net assets by minority interests	2,150,543
Negative goodwill arising from the acquisition	(3,786,414)
	<hr/> <hr/> 4,563,867
Satisfied by:	
Issue of shares	969,537
Disposals of the Company's entire interest in Cement Sub-group, 36.84 per cent effective interest in Jin Peng and 46.7 per cent effective interest in China ITI (note 31 (c))	688,330
Assignment of shareholders' loans of Cement Sub-group, Jin Peng and China ITI (note 31 (c))	886,000
Cash	2,000,000
	<hr/> 4,543,867
Total purchase consideration	4,543,867
Direct costs relating to the Transaction	20,000
	<hr/> 4,563,867
	<hr/> <hr/>

The subsidiaries acquired during the year contributed HK\$30 million in respect of cash outflow from operating activities, HK\$11 million in respect of cash outflow from investing activities and HK\$75 million in respect of cash outflow from financing activities.

31 Notes to the consolidated cash flow statement (cont'd)

(b) Purchase of subsidiaries pursuant to the Very Substantial Acquisition (cont'd)

Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries

	2002 HK\$'000
Cash consideration	(2,000,000)
Payment for direct costs relating to the Transaction	(20,000)
Bank balances and cash acquired	441,501
	<hr/>
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(1,578,499)
	<hr/> <hr/>

31 Notes to the consolidated cash flow statement (cont'd)**(c) Disposal of subsidiaries**

	2002 HK\$'000	2001 HK\$'000
Net assets disposed:		
Intangible assets	16,330	—
Fixed assets	902,940	281,309
Interests in jointly controlled entities	437,137	—
Interests in an associated company	193,699	—
Other investments	1,808	—
Inventories	122,191	—
Due from related companies	7,131	—
Due from minority shareholders	5,685	—
Accounts receivable, prepayments and deposits	479,124	3,046
Pledged deposits	34,325	—
Bank balances and cash	122,643	2,125
Accounts payable and accrued charges	(204,610)	(5,559)
Due to minority shareholders	—	(5,924)
Taxation payable	(11,498)	(23,215)
Deferred taxation	—	(849)
Minority interests	(561,402)	(122,956)
Bank loans	(217,918)	—
Obligations under finance leases	(42)	—
Loans from a shareholder	(140,651)	—
Loans from related companies	(70,200)	—
Loans from minority shareholders	(47,639)	—
Other loans	(11,403)	—
	1,057,650	127,977
Capital reserve	4,986	(24,900)
Statutory reserves	(38,287)	—
Exchange fluctuation reserve	(23,610)	(846)
Goodwill written-off against retained earnings	573,591	—
	1,574,330	102,231
Gain on disposal of subsidiaries	—	14,591
	1,574,330	116,822
Satisfied by:		
Purchase of entire interest in GCD and 49 per cent interest in Super Gain (note 31(b))	688,330	—
Assignment of shareholders' loan of the Cement Sub-group, Jin Peng and China ITI (note 31(b))	886,000	—
Cash	—	116,822
	1,574,330	116,822

31 Notes to the consolidated cash flow statement (cont'd)

(c) Disposal of subsidiaries (cont'd)

Analysis of net (outflow)/inflow in respect of the disposal of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	—	116,822
Bank balances and cash disposed of	(122,643)	(2,125)
Net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries	(122,643)	114,697

(d) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Convertible bonds HK\$'000	Bank and other loans HK\$'000	Minority interests HK\$'000	Loans from a shareholder, related companies and minority shareholders HK\$'000	Obligations under finance leases HK\$'000	Amounts due to associated companies HK\$'000
At 1st January 2001	5,248,485	581,473	3,133,204	6,424,889	2,055,438	1,017	193,920
Issue of ordinary shares, net of expenses	5,804	—	—	—	—	—	—
Increase in shareholdings of subsidiaries	—	—	—	(79,116)	(120,720)	—	—
Capital contributed into a jointly controlled entity financed by a minority shareholder	—	—	—	—	94,003	—	—
Transfer from minority interests	—	—	—	(4,223)	4,223	—	—
Exercise of convertible bonds	36,400	(36,400)	—	—	—	—	—
Minority interest share of profits	—	—	—	308,007	—	—	—
Disposal/ deemed disposal of subsidiaries	—	—	—	(106,360)	(5,924)	—	—
Minority interest share of statutory reserve	—	—	—	10	—	—	—
Capital contributed by minority shareholders of subsidiaries	—	—	—	10,558	—	—	—
Dividends paid to minority shareholders	—	—	—	(128,247)	—	—	—
Net cash inflow/(outflow) from financing	—	(95,000)	378,930	—	44,191	(385)	(64)
At 31st December 2001	5,290,689	450,073	3,512,134	6,425,518	2,071,211	632	193,856

31 Notes to the consolidated cash flow statement (cont'd)**(d) Analysis of changes in financing during the year (cont'd)**

	Share capital (including share premium) HK\$'000	Convertible bonds HK\$'000	Bank and other loans HK\$'000	Minority interests HK\$'000	Loans from a shareholder, related companies and minority shareholders HK\$'000	Obligations under finance leases HK\$'000	Amounts due to associated companies HK\$'000
At 1st January 2002	5,290,689	450,073	3,512,134	6,425,518	2,071,211	632	193,856
Issue of ordinary shares	969,537	—	—	—	—	—	—
Transfer to minority interests	—	—	—	344	(344)	—	—
Redemption of convertible bonds	—	(249,450)	—	—	249,450	—	—
Premium on redemption of convertible bonds	—	—	—	—	7,501	—	—
Minority interest share of profits	—	—	—	170,633	—	—	—
Acquisition/increase in shareholdings of subsidiaries	—	—	1,842,991	(1,867,872)	(791,036)	—	—
Disposal/ deemed disposal of subsidiaries	—	—	(217,918)	(548,884)	(258,490)	(42)	—
Minority interest share of capital reserve	—	—	—	(6,485)	—	—	—
Dividends paid to minority shareholders	—	—	—	(108,794)	—	—	—
Transfer of fixed assets (note (e))	—	—	—	—	(623,000)	—	—
New borrowings	—	—	—	501	—	—	—
Net cash inflow/(outflow) from financing	993	—	1,641,466	—	(309,700)	(246)	(8,694)
At 31st December 2002	6,261,219	200,623	6,778,673	4,064,961	345,592	344	185,162

(e) Major non-cash transaction

During the year, the Group transferred certain of its fixed assets to GZ Paper Holdings Limited ("GZ Paper Holdings"), a minority shareholder, for a total consideration of approximately Rmb660,000,000 (equivalent to approximately HK\$623,000,000) which was satisfied by discharge of the loan from GZ Paper Holdings by the same amount (see note 37(a)).

32 Commitments under operating leases

As at 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases (mainly arising from the related party transaction referred to in Note 37(a)) as follows:

	2002		2001	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Not later than one year	19,384	—	4,890	7,462
Later than one year and not later than five years	64,860	—	12,361	—
Later than five years	241,873	—	—	—
	<u>326,117</u>	<u>—</u>	<u>17,251</u>	<u>7,462</u>

In addition, the Group has operating lease commitments with rentals determined in relation to sales. It is not possible to quantify accurately future rentals payable under such lease.

The Company did not have any commitment under operating leases at 31st December 2002 (2001: Nil).

33 Future minimum rental payments receivable

As 31st December 2002, the Group and the Company had future minimum rental payments receivable under non-cancellable leases as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Not later than one year	181,614	69,122	28	126
Later than one year and not later than five years	337,542	91,424	—	—
Later than five years	33,827	29,218	—	—
	<u>552,983</u>	<u>189,764</u>	<u>28</u>	<u>126</u>

34 Other commitments

		Group	
		2002 HK\$'000	2001 HK\$'000
(a)	Capital commitments in respect of purchase of fixed assets, toll road and properties under development:		
	Contracted but not provided for	473,073	703,897
	Authorised but not contracted for	—	183,889
		<u>473,073</u>	<u>887,786</u>
(b)	Capital commitment in respect of remaining interest in a company contracted but not provided for	<u>—</u>	<u>135,561</u>

35 Contingent liabilities

		Group		Company	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
(a)	Guarantees for banking and loan facilities granted to				
	- subsidiaries	—	—	428,138	1,074,455
	- jointly controlled entities	35,688	139,688	35,688	139,688
	- related companies*	122,500	—	122,500	—
		<u>158,188</u>	<u>139,688</u>	<u>586,326</u>	<u>1,214,143</u>

* A counter guarantee has been provided by Yue Xiu up to the same amount.

- (b) At 31st December 2002 and 2001, the Group has pledged the income derived from its 24.3 per cent effective interest in an associated company to a bank in favour of a joint venture partner in this associated company (the "Joint Venture Partner"), in respect of the repayment of a bank loan by the Joint Venture Partner amounting to Rmb500 million (approximately HK\$467 million) and interest thereon (collectively referred to as "Relevant Loan").

A counter-indemnity has been provided by the Joint Venture Partner to the Group against all liabilities arising from such pledge. In addition, Yue Xiu has issued an indemnity to the Group under which any shortfall to the bank will be satisfied/paid by Yue Xiu if the counter-indemnity given by the Joint Venture Partner to the Group is insufficient to cover the Relevant Loan.

36 Pledge of assets

At 31st December 2002 certain banking facilities and loans granted to the Group and the Company were secured by the following:

- Mortgages on certain of the Group's properties held for/under development, properties held for sale, other properties and investment properties with an aggregate carrying value of HK\$5,197 million (2001: HK\$406 million), HK\$187 million (2001: HK\$180 million), HK\$283 million (2001: HK\$447 million) and HK\$3,541 million (2001: HK\$1,005 million) respectively;
- Floating charge over assets of certain subsidiaries of Property Sub-group;
- Share mortgages of the Group's shareholdings in certain subsidiaries of Property Sub-group; and
- Charge over certain intercompany loans.

37 Related party transactions

Save as disclosed elsewhere in these accounts, other significant related party transactions entered into in the normal course of the Group's businesses are as follows:

	2002 HK\$'000	2001 HK\$'000
Rental income from a related company	1,471	—
Rental expenses paid to a shareholder	1,324	1,332
Management fee to minority shareholders	8,619	9,440
Purchase of subsidiaries from a shareholder (note 2)	4,544,000	—
Sales of fixed assets to a minority shareholder (note (a))	623,000	—
Rental and utility expenses paid to a minority shareholder (note (a))	22,425	—
Fixed cost toll highways management fee paid and payable to a minority shareholder (note (b))	52,284	58,332
Sales of an interest in a jointly controlled entity to GHDC (note (c))	47,800	—

Notes:

- On 17th October 2002, the Group entered into an asset transfer agreement with GZ Paper Holdings to transfer certain of its fixed assets (the "Transfer Assets") to GZ Paper Holdings for a total consideration of Rmb660,000,000 (equivalent to approximately HK\$623,000,000). On the same date, the Group entered into a lease contract and a utilities supply contract with GZ Paper Holdings whereby GZ Paper Holdings agreed to lease certain of the Transfer Assets to the Group for 20 years at a monthly rental of Rmb1,446,000 (equivalent to approximately HK\$1,364,000) and to supply electricity, water and steam to the Group for 20 years at certain pre-determined rates.
- Fixed cost services agreements were entered into between Guangzhou Highways Development Company ("GHDC"), a minority shareholder, and certain subsidiaries engaging in the operation of toll highways in China, whereby GHDC carries out the day-to-day routine operational and maintenance services of the Guangshan Highway, Guangshen Highway, Guangcong Highway Section I and II, Provincial Highway 1909 and Guanghua Highway respectively including the collection of toll charges and repairs and maintenance in return for a service fee at the fixed rate of 18 per cent of the gross aggregate toll revenue of each of the toll highways per annum.
- On 12th April 2002, the Group entered into an agreement to transfer 5 per cent of its interest in the jointly controlled entity to GHDC for a total consideration of Rmb51.1 million (equivalent to approximately HK\$47.8 million), subject to satisfaction of certain conditions. The total consideration has been satisfied as to (1) Rmb34.9 million (equivalent to approximately HK\$32.6 million) by way of the procurement of the transfer of an aggregate of 0.995 per cent effective interest in an associated company, Guangdong Humen Bridge Co., Ltd. effective from 1st January 2002; and (2) Rmb16.2 million (equivalent to approximately HK\$ 15.2 million) in cash.

38 Subsequent event

On 23rd January 2003, the Group entered into a sale and purchase agreement to sell its 51 per cent equity interest in Fujian Yue Xiu Shao Wu Pulp and Paper Manufacturing Company Limited, a jointly controlled entity, at an aggregate consideration of Rmb63,500,000 (equivalent to approximately HK\$59,346,000). A provision for impairment loss is made to write down the carrying amount to the said net realisable value.

39 Ultimate holding company

The Directors regard Yue Xiu Enterprises (Holdings) Limited, a company incorporated in Hong Kong, as being the ultimate holding company.

40 Approval of accounts

The accounts were approved by the Board of Directors on 16th April 2003.