

1 Principal accounting policies

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

(a) 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 SSAP 35 “Government Grants and Disclosure of Government Assistance” and SSAP 12 (revised) “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1st July 2002 and 1st January 2003, respectively. The Group has also changed its amortisation/depreciation policy on its interests in toll highways and bridges (note 1(e)) and goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways and bridges (note 1(f)(i)).

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

	Negative goodwill (note 14) HK\$’000	Minority interests HK\$’000	Retained profits HK\$’000
At 1st January 2003, as previously reported	(3,823,375)	4,064,961	602,882
Effect of changes in accounting policies			
- amortisation	—	(30,207)	(12,778)
- deferred taxation	3,148,419	(227,403)	(293,720)
	3,148,419	(257,610)	(306,498)
At 1st January 2003, as restated	(674,956)	3,807,351	296,384

(b) 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 capital.

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any 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.

1 Principal accounting policies (cont'd)

(b) Group accounting (cont'd)

(i) Consolidation (cont'd)

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision 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.

1 Principal accounting policies (cont'd)

(c) 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 as follows:

Leasehold land	2 to 3 per cent
Buildings	2 to 4 per cent

(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.

1 Principal accounting policies (cont'd)

(c) 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.

1 Principal accounting policies (cont'd)

(d) 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.

(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.

(e) Interests in toll highways and bridges

Interests in toll highways and bridges comprise tangible infrastructure and intangible operating rights. Depreciation of tangible infrastructure is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the joint venture periods. The Group reviews regularly the projected total traffic volume throughout the joint venture period of the respective tangible infrastructure, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change. Amortisation of intangible operating rights is provided on a straight-line basis over periods of 20-30 years in which the operating rights are held.

Previously, interests in toll highways and bridges are amortised using the sinking fund method. The adoption of units-of-usage based depreciation and straight-line amortisation on tangible infrastructure and intangible operating rights respectively in the year ended 31st December 2003 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The current policy is adopted as it is considered more appropriate to reflect the performance of the Group in line with industry practice. As a result of the change in accounting policy on amortisation of interests in toll highways and bridges, the opening retained profits at 1st January 2002 and 2003 have been reduced by HK\$6,076,000 and HK\$11,731,000, respectively. The loss for the year ended 31st December 2002 has been increased by HK\$5,655,000.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that interests in toll highways and bridges 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.

1 Principal accounting policies (cont'd)

(f) Intangibles

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value 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 is amortised using the straight-line method over the maximum period of 20 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

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

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably, negative goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges is amortised using the straight-line method over the maximum period of 20 year whereas negative goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in property investment 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.

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

Previously, goodwill/negative goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges 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. The adoption of straight-line amortisation on goodwill/negative goodwill in the year ended 31st December 2003 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As a result of the change in accounting policy on goodwill amortisation, the opening retained profits at 1st January 2002 and 2003 have been reduced by HK\$463,000 and HK\$1,047,000, respectively. The loss for the year ended 31st December 2002 has been increased by HK\$584,000.

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

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.

1 Principal accounting policies (cont'd)

(f) Intangibles (cont'd)

(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.

(g) 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.

(h) 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 1(q)(ii) taken up to date, less provisions for foreseeable losses and sales instalments received.

(i) 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.

1 Principal accounting policies (cont'd)**(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.

(l) 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.

(m) 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.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and of investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

1 Principal accounting policies (cont'd)

(n) Deferred taxation (cont'd)

As a result of the change in accounting policy on deferred taxation, the opening retained profits at 1st January 2002 and 2003 have been reduced by HK\$333,974,000 and HK\$293,720,000, respectively. The loss for the year ended 31st December 2002 has been reduced by HK\$35,050,000.

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employers. 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 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.

(iii) Medical benefits

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

(p) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

In prior years, the Group credited government grants relating to the purchase of fixed assets when received to the profit and loss account. The adoption of the SSAP 35 represents a change in accounting policy which has been applied retrospectively. The adoption of the SSAP 35 has no significant effect on the Group's results for the prior accounting periods.

1 Principal accounting policies (cont'd)

(q) 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 period 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 are recognised when the relevant agreement becomes unconditional or irrevocable.

1 Principal accounting policies (cont'd)

(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 interests in toll highways and bridges (note 13) and fixed assets (note 15), including additions resulting from acquisitions through purchases of subsidiaries (note 33(b)).

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.

2 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, and manufacturing and trading of newsprint and corrugated paper. Revenues recognised are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Net toll revenue from toll operations	405,567	355,638
Property management fee income	70,760	9,945
Rental income		
- Properties	319,066	99,713
- Car park	58,908	53,230
Sales revenue		
- Sales of properties	1,955,105	636,514
- Sales of newsprint and corrugated paper	1,006,263	1,141,688
- Sales of cement and ready-mixed concrete	—	916,020
- Others	86,134	12,725
	<u>3,901,803</u>	<u>3,225,473</u>
Other revenues		
Interest income	8,450	13,763
Dividend income	3,483	4,513
Agency fee income on properties sales and rental	19,616	834
	<u>31,549</u>	<u>19,110</u>
Total revenues	<u><u>3,933,352</u></u>	<u><u>3,244,583</u></u>

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

Primary reporting format - business segments

The Group operates predominantly in Hong Kong and the Mainland of China ("China") and in four main business segments:

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

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

There are no significant 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 (discontinued operation)

China - toll operations, properties, paper and cement (discontinued operation)

Others - properties

There are no significant sales between the geographical segments.

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

Primary reporting format - business segments

	Toll operations		Properties		Paper		(Discontinued operation) Cement		Other operations		Group	
	2003 HK\$'000	As restated 2002 HK\$'000	2003 HK\$'000	As restated 2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	As restated 2002 HK\$'000
Turnover	405,567	355,638	2,453,465	797,298	1,006,263	1,141,688	—	916,020	36,508	14,829	3,901,803	3,225,473
Segment results	185,289	165,778	429,169	(25,606)	90,293	111,316	—	122,810	2,219	(13,327)	706,970	360,971
Interest income											8,450	13,763
Unallocated operating costs											(153,864)	(59,808)
Write-down of properties, provision for impairment and revaluation surplus/(deficit)	—	(33,462)	160,035	(802,650)	—	(35,694)	—	—	—	(19,930)	160,035	(891,736)
Finance costs											(224,733)	(185,986)
Share of profits less losses of:												
Jointly controlled entities	(20,419)	(35,482)	(29,274)	(115)	—	—	—	9,888	—	—	(49,693)	(25,709)
Associated companies	181,607	153,904	160	(47,971)	—	—	—	—	—	(5,774)	181,767	100,159
Provision for impairment of interest in a jointly controlled entity	—	—	—	—	—	(111,655)	—	—	—	—	—	(111,655)
Profit/(loss) before taxation											628,932	(800,001)
Taxation											(114,599)	2,316
Profit/(loss) after taxation											514,333	(797,685)
Minority interests											(213,680)	(162,545)
Profit/(loss) attributable to shareholders											300,653	(960,230)
Segment assets	2,335,043	2,392,295	17,912,695	18,874,853	1,716,186	1,654,080	—	—	149,950	34,875	22,113,874	22,956,103
Interests in jointly controlled entities	330,621	357,355	373,423	380,484	—	59,346	—	—	—	—	704,044	797,185
Interests in associated companies	1,671,076	1,666,506	(11,508)	(3,744)	—	—	—	—	—	—	1,659,568	1,662,762
Unallocated assets											1,120,871	1,268,965
Total assets											25,598,357	26,685,015
Segment liabilities	172,005	128,839	4,155,433	4,873,330	245,410	263,396	—	—	90,356	58	4,663,204	5,265,623
Unallocated liabilities											10,187,485	10,901,994
Total liabilities											14,850,689	16,167,617
Capital expenditure	20,705	21,525	98,949	7,235	107,704	75,613	—	46,702	2,456	814	229,814	151,889
Depreciation and amortisation	111,113	104,414	(33,065)	(6,269)	102,958	132,947	—	69,235	3,274	4,611	184,280	304,938

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

Secondary reporting format - geographical segments

	Turnover		Total assets		Capital expenditure	
	2003	2002	2003	As restated 2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	180,674	409,560	1,490,990	1,384,651	1,611	23,680
China	3,718,369	2,812,908	20,570,297	21,520,325	228,097	128,189
Others	2,760	3,005	52,587	51,127	106	20
	<u>3,901,803</u>	<u>3,225,473</u>	<u>22,113,874</u>	<u>22,956,103</u>	<u>229,814</u>	<u>151,889</u>
Interests in jointly controlled entities			704,044	797,185		
Interests in associated companies			1,659,568	1,662,762		
Unallocated assets			1,120,871	1,268,965		
Total assets			<u>25,598,357</u>	<u>26,685,015</u>		

3 Loss on deemed disposal of certain interests in a subsidiary

During the year ended 31st December 2003, GZI Transport Limited ("GZT") issued 64,448,000 (2002: 5,204,000) shares upon the exercise of GZT's employee share options and consequently the Company's effective interest in GZT was reduced by 2.66 per cent (2002: 0.34 per cent). This results in a deemed disposal loss of HK\$94,942,000 (2002: HK\$7,773,000).

4 Write-down of properties to net realisable value

	2003	As restated 2002
	HK\$'000	HK\$'000
Write-down of properties held for/under development to net realisable value	5,805	529,000
Write-down of properties held for sale to net realisable value	—	13,160
	<u>5,805</u>	<u>542,160</u>

5 Profit/(loss) from operation

Profit/(loss) from operation is stated after crediting and charging the following:

	2003 HK\$'000	As restated 2002 HK\$'000
Crediting		
Gross rental income from investment properties	292,380	77,345
Less: direct outgoings	(10,965)	(7,874)
Net rental income from investment properties	281,415	69,471
Amortisation of negative goodwill		
- Included in cost of sales	37,811	8,686
- Included in general and administrative expenses	6,959	1,395
Write-back of other payables	45,527	42,156
Net exchange gain	6,367	—
Charging		
Auditors' remuneration	4,944	5,921
Cost of inventories sold	2,481,689	2,021,094
Depreciation		
- Owned fixed assets	119,521	210,894
- Leased fixed assets	14	407
Amortisation/depreciation of interests in toll highways and bridges (included in cost of sales)	98,163	95,456
Amortisation of goodwill (included in general and administrative expenses)	11,352	8,262
Loss on disposal of certain interest in a subsidiary	998	—
Loss on disposal of fixed assets	27,628	39,803
Loss on disposal of other investments	1,059	—
Staff costs (note 11)	262,520	265,152
Operating leases		
- Hire of plant and machinery	17,350	7,225
- Land and buildings	43,654	55,278
Write-off of bad debts/provision for doubtful debts	63,659	30,506
Net exchange loss	—	1,875

6 Finance costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts	230,458	139,953
Interest element of finance leases	70	73
Premium on redemption of convertible bonds	1,950	7,501
Other interests on		
- amount due to a minority shareholder of a subsidiary	—	38,419
- loan from a shareholder	3,977	356
- loan from related companies	721	2,818
- convertible bonds	3,544	13,586
- other loans with no fixed repayment terms	3,285	3,342
Total borrowing costs incurred	244,005	206,048
Less: amount capitalised to properties held for/under development (note (i))	(19,272)	(20,062)
	<u>224,733</u>	<u>185,986</u>

- (i) The average interest rate of borrowing costs capitalised for the year ended 31st December 2003 was approximately 5.31 per cent per annum (2002: 5.63 per cent per annum).

7 Taxation

- (a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2002: 16 per cent) on the estimated assessable profit for the year. In 2003, the Hong Kong government enacted a change in the profit tax rate from 16 per cent to 17.5 per cent for the fiscal year 2003/2004.
- (b) China enterprise income taxation is 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 of the 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.
- (c) China land appreciation tax is levied at progressive rates ranging from 30 per cent to 60 per cent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditure.
- (d) The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2003 HK\$'000	As restated 2002 HK\$'000
Current taxation		
Hong Kong profits tax	1,627	5,489
China enterprise income tax	78,974	61,877
China land appreciation tax	42,544	—
Overprovision in prior years	(6,051)	(498)
Deferred taxation relating to the reversal of temporary differences	(30,949)	(81,986)
Deferred taxation resulting from an increase in tax rate	(1,019)	—
	85,126	(15,118)
Share of taxation attributable to		
Jointly controlled entities	5,877	10,655
Associated companies	23,596	2,147
Taxation charges/(credits)	114,599	(2,316)

7 Taxation (cont'd)

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the China enterprise income tax rate as follows:

	2003 HK\$'000	As restated 2002 HK\$'000
Profit/(loss) before taxation	628,932	(800,001)
Calculated at China enterprise income tax rate of 33 per cent (note (i)) (2002: 33 per cent)	207,548	(264,000)
Effect of different taxation rates	(53,250)	132,575
Increase in opening net deferred tax assets resulting from an increase in tax rate	(1,019)	—
Effect of tax concession under tax holiday	(263)	(8,950)
Income not subject to taxation	(29,677)	(33,679)
Expenses not deductible for taxation purposes	44,051	49,887
Effect of tax losses not recognised	17,608	132,121
Utilisation of previously unrecognised tax losses	(25,702)	(109)
Overprovision in prior years	(6,051)	(498)
Effect of land appreciation tax deductible for calculation of income tax purposes	19,035	4,760
	172,280	12,107
Land appreciation tax	(57,681)	(14,423)
Taxation charges/(credits)	114,599	(2,316)

Note:

- (i) The rate of China enterprise income tax was adopted as majority of the Group's operations were carried out in China.

8 Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$62,170,000 (2002: HK\$269,583,000).

9 Dividends

	2003 HK\$'000	2002 HK\$'000
Interim, paid, of HK\$0.008 (2002: Nil) per ordinary share	49,502	—
Final, proposed, of HK\$0.0108 (2002: Nil) per ordinary share	68,038	—
	<u>117,540</u>	<u>—</u>

At a meeting held on 15th April 2004, the directors proposed a final dividend of HK\$0.0108 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2004.

10 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the year ended 31st December 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$300,653,000 (2002: loss of HK\$960,230,000) and the weighted average number of approximately 6,146,494,166 shares (2002: 4,017,138,450 shares) in issue during the year.

The calculation of diluted earnings per share for the year ended 31st December 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$300,653,000 and the diluted weighted average number of approximately 6,223,195,777 shares in issue after adjusting for the potential dilutive effect in respect of outstanding share options. Diluted loss per share is not presented for the year ended 31st December 2002 because the effect is anti-dilutive.

11 Staff costs (including directors' emoluments)

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	211,997	169,728
Pension costs (defined contribution plans) (note (i))	12,149	28,125
Medical benefits costs (defined contribution plans)	4,561	21,369
Social security costs	14,735	6,366
Termination benefits	763	11,232
Staff welfare	18,315	28,332
	<u>262,520</u>	<u>265,152</u>

Note:

- (i) 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 the current year (2002: 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:

	2003 HK\$'000	2002 HK\$'000
Fees (note (i))	76	76
Other emoluments:		
Basis salaries, housing allowances, other allowances and benefits in kind (note (ii))	8,004	17,584
Discretionary bonuses	7,434	11,325
Directors' pension	162	467
	<u>15,676</u>	<u>29,452</u>

Notes:

- (i) Directors' fees represent amounts paid to independent non-executive Directors.
- (ii) During the year ended 31st December 2003, 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.
- (b) The emoluments of the Directors fell within the following bands:

	Number of directors	
Emoluments bands	2003	2002
Nil - HK\$1,000,000	*12	*9
HK\$1,000,001 - HK\$1,500,000	2	2
HK\$1,500,001 - HK\$2,000,000	2	1
HK\$2,000,001 - HK\$2,500,000	3	1
HK\$3,500,001 - HK\$4,000,000	—	3
HK\$4,000,001 - HK\$4,500,000	—	1
HK\$4,500,001 - HK\$5,000,000	—	1

* Included two (2002: two) independent non-executive Directors.

No Directors waived emoluments in respect of the years ended 31st December 2003 and 2002. 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 (2002: Nil).

- (c) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2003 are also directors whose emoluments are reflected in the analysis presented above.

13 Interests in toll highways and bridges

	Group		
	Intangible operating rights	Tangible infrastructure	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003, as previously reported	1,857,817	359,380	2,217,197
Effect on changes in accounting policy on amortisation	(41,020)	—	(41,020)
At 1st January 2003, as restated	1,816,797	359,380	2,176,177
Exchange differences	8,722	1,688	10,410
Additions	11,223	—	11,223
Amortisation/depreciation charge	(85,878)	(12,285)	(98,163)
At 31st December 2003	<u>1,750,864</u>	<u>348,783</u>	<u>2,099,647</u>
At 31st December 2003			
Cost	2,143,106	403,755	2,546,861
Accumulated amortisation/depreciation	(392,242)	(54,972)	(447,214)
Net book value	<u>1,750,864</u>	<u>348,783</u>	<u>2,099,647</u>
At 31st December 2002			
Cost	2,121,922	401,869	2,523,791
Accumulated amortisation/depreciation	(305,125)	(42,489)	(347,614)
Net book value	<u>1,816,797</u>	<u>359,380</u>	<u>2,176,177</u>

The intangible operating rights and tangible infrastructure are located in China.

14 Other intangible assets

	Group		
	Goodwill	Negative goodwill	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003, as previously reported	46,969	(3,823,375)	(3,776,406)
Effect of changes in accounting policies			
- amortisation	(1,965)	—	(1,965)
- deferred taxation (note (i))	—	3,148,419	3,148,419
	<hr/>	<hr/>	<hr/>
At 1st January 2003, as restated	45,004	(674,956)	(629,952)
Acquisition of subsidiaries (note 33(b))	—	(5,005)	(5,005)
Amortisation charge	(4,551)	44,770	40,219
Disposal of certain interests in a subsidiary	—	8,857	8,857
Adjustments resulting from changes in value of identifiable assets and liabilities acquired in 2002	—	50,628	50,628
	<hr/>	<hr/>	<hr/>
At 31st December 2003	<u>40,453</u>	<u>(575,706)</u>	<u>(535,253)</u>
	<hr/>	<hr/>	<hr/>
At 31st December 2003			
Cost	51,310	(629,602)	(578,292)
Accumulated amortisation	(10,857)	53,896	43,039
	<hr/>	<hr/>	<hr/>
	<u>40,453</u>	<u>(575,706)</u>	<u>(535,253)</u>
	<hr/>	<hr/>	<hr/>
At 31st December 2002			
Cost	51,310	(685,066)	(633,756)
Accumulated amortisation	(6,306)	10,110	3,804
	<hr/>	<hr/>	<hr/>
	<u>45,004</u>	<u>(674,956)</u>	<u>(629,952)</u>
	<hr/>	<hr/>	<hr/>

Note:

- (i) Following the adoption of SSAP 12 (revised), the negative goodwill at 1st January 2003 has been reduced by HK\$3,148,419,000 principally as a result of the recognition of deferred tax liabilities on the difference between the fair values of the net assets acquired and their tax base.

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 improvements, furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1st January 2003	3,676,654	370,347	307,898	1,153,103	169,717	64,744	5,742,463
Additions	69,944	2,421	94,569	14,165	14,252	5,555	200,906
Acquisition of subsidiaries	—	—	—	13,637	1,594	2,454	17,685
Transfer from properties held for/under development	945,644	—	—	—	—	—	945,644
Revaluation surplus	165,840	—	—	—	—	—	165,840
Transfer upon completion	—	28,458	(143,089)	77,227	34,525	2,879	—
Disposals	(12,545)	(34,466)	—	(11,109)	(8,656)	(3,602)	(70,378)
At 31st December 2003	<u>4,845,537</u>	<u>366,760</u>	<u>259,378</u>	<u>1,247,023</u>	<u>211,432</u>	<u>72,030</u>	<u>7,002,160</u>
Accumulated depreciation and impairment							
At 1st January 2003	—	116,979	—	395,555	111,283	43,440	667,257
Charge for the year	—	9,904	—	85,280	19,004	5,347	119,535
Disposals	—	(20,685)	—	(10,399)	(1,465)	(3,165)	(35,714)
At 31st December 2003	<u>—</u>	<u>106,198</u>	<u>—</u>	<u>470,436</u>	<u>128,822</u>	<u>45,622</u>	<u>751,078</u>
Net book value							
At 31st December 2003	<u>4,845,537</u>	<u>260,562</u>	<u>259,378</u>	<u>776,587</u>	<u>82,610</u>	<u>26,408</u>	<u>6,251,082</u>
At 31st December 2002	<u>3,676,654</u>	<u>253,368</u>	<u>307,898</u>	<u>757,548</u>	<u>58,434</u>	<u>21,304</u>	<u>5,075,206</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 2003	10,050	14,338	8,713	5,966	39,067
Additions	—	—	521	443	964
Deficit on valuation	(675)	—	—	—	(675)
Disposals	—	—	—	(1,944)	(1,944)
At 31st December 2003	9,375	14,338	9,234	4,465	37,412
Accumulated depreciation and impairment					
At 1st January 2003	—	3,767	7,630	5,966	17,363
Charge for the year	—	863	519	37	1,419
Disposals	—	—	—	(1,944)	(1,944)
At 31st December 2003	—	4,630	8,149	4,059	16,838
Net book value					
At 31st December 2003	9,375	9,708	1,085	406	20,574
At 31st December 2002	10,050	10,571	1,083	—	21,704

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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
In Hong Kong, held on:				
Leases of between 10 to 50 years	720,000	695,000	—	—
Leases of over 50 years	156,416	165,293	18,900	20,430
Outside Hong Kong, held on:				
Leases of between 10 to 50 years	183	191	183	191
Leases of over 50 years	4,229,500	3,069,538	—	—
	5,106,099	3,930,022	19,083	20,621

- (d) Investment properties of the Group and the Company were revalued at 31st December 2003 on the basis of their open market value by independent firm of professional surveyor, Greater China Appraisal Limited, employed by the Group. Other fixed assets of the Group and the Company are stated at cost.
- (e) As at 31st December 2003, the net book values of fixed assets held under finance leases by the Group and the Company amounted to HK\$46,000 (2002: HK\$60,000).

16 Investments in subsidiaries

	Company	
	2003	2002
	HK\$'000	HK\$'000
Investments, at cost		
Unlisted shares	36,587	36,587
Shares listed in Hong Kong	—	7,504
	36,587	44,091
Amounts due from subsidiaries (note (a))	9,459,705	9,722,847
	9,496,292	9,766,938
Market value of shares listed in Hong Kong	—	7,159

- (a) The amounts due from subsidiaries are unsecured and have no fixed terms of repayments. Except for the amounts of approximately HK\$5,909,000,000 (2002: approximately HK\$5,973,000,000) which are interest-free, all amounts due from subsidiaries are interest bearing at 2.5 to 5.8 per cent per annum.
- (b) Details of the principal subsidiaries of the Company as at 31st December 2003 are set out on pages 85 to 96.

17 Interests in jointly controlled entities

	Group	
	2003	As restated 2002
	HK\$'000	HK\$'000
Share of net assets	367,546	596,020
Goodwill on acquisition of a jointly controlled entity less amortisation	20,265	20,479
Less: Accumulated impairment losses	—	(111,655)
	387,811	504,844
Amounts due from jointly controlled entities (note (a))	316,233	292,341
	704,044	797,185

- (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 2003 are set out on page 97.

18 Interests in associated companies

	Group	
	2003	As restated 2002
	HK\$'000	HK\$'000
Share of net assets	649,488	608,395
Goodwill on acquisition of associated companies less amortisation	164,670	171,257
	814,158	779,652
Amounts due from associated companies (note (a))	1,052,879	1,088,180
Amounts due to associated companies (note (a))	(187,561)	(185,162)
Less: provision for amount due from an associated company	(19,908)	(19,908)
	1,659,568	1,662,762

- (a) Except for amounts due from associated companies of HK\$653,816,000 (2002: HK\$679,184,000) which bear interest at 4 to 5.76 per cent per annum, the other balances with associated companies are unsecured, interest-free and have no fixed terms of repayment.
- (b) Details of the principal associated companies of the Group as at 31st December 2003 are set out on page 98.

19 Other investments

	Group	
	2003	As restated 2002
	HK\$'000	HK\$'000
Other investments, at cost	316,059	344,469
Less: Provision for impairment	(56,208)	(56,052)
	259,851	288,417

Other investments mainly 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 these investments over the joint venture periods.

20 Properties held for/under development and properties held for sale

Properties held for development include certain land parcels pending development. The amount of properties held for/under development and properties held for sale of the Group carried at net realisable value is HK\$2,575 million (2002: HK\$525 million).

21 Inventories

	Group	
	2003	As restated 2002
	HK\$'000	HK\$'000
Raw materials	59,113	88,482
Work-in-progress	113,327	35,131
Finished goods	47,687	46,138
	220,127	169,751

All inventories were stated at cost as at 31st December 2003 and 2002.

22 Due from related companies and due to minority shareholders of subsidiaries

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

23 Accounts receivable, prepayment and deposits

	Group		Company	
	2003 HK\$'000	As restated 2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables	667,094	527,021	—	—
Other receivables, prepayment and deposits	454,196	463,972	42,733	44,160
	<u>1,121,290</u>	<u>990,993</u>	<u>42,733</u>	<u>44,160</u>

The Group has defined credit policies for different business and geographical segments. The credit terms of the Group are generally within three months. The ageing analysis of the trade receivables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 - 30 days	213,938	230,547
31 - 90 days	249,337	116,392
91 - 180 days	48,372	84,131
181 - 365 days	89,711	35,103
Over 1 year	65,736	60,848
	<u>667,094</u>	<u>527,021</u>

24 Bank balances and cash

Included in the bank balances and cash of the Group and the Company are deposits of approximately HK\$803 million (2002: HK\$792 million) and HK\$1.4 million (2002: HK\$0.9 million), respectively, denominated in Renminbi and placed with banks in China. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the China government.

25 Accounts payable and accrued charges

	Group		Company	
	2003	As restated	2003	2002
	HK\$'000	2002 HK\$'000	HK\$'000	HK\$'000
Trade payables	1,155,900	1,052,755	—	—
Other payables and accrued charges	3,195,338	3,973,893	42,495	30,332
	4,351,238	5,026,648	42,495	30,332

The ageing analysis of the trade payables were as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
0 - 30 days	75,453	631,452
31 - 90 days	16,247	76,005
91 - 180 days	40,828	54,077
181 - 365 days	62,674	1,402
1 - 2 year	713,425	75,053
Over 2 years	247,273	214,766
	1,155,900	1,052,755

26 Share capital

	Company	
	Number of shares '000	HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.10 each	10,000,000	1,000,000
Issued and fully paid:		
At 1st January 2002	4,008,294	400,829
Issue of shares for acquisition of subsidiaries	2,107,688	210,769
Issue of shares upon exercise of share options	2,120	212
At 31st December 2002	6,118,102	611,810
At 1st January 2003	6,118,102	611,810
Issue of shares for acquisition of subsidiaries (note (a))	31,386	3,139
Issue of share upon exercise of share options (note (b))	99,230	9,923
At 31st December 2003	6,248,718	624,872

Notes:

- (a) On 11th November 2003, 31,385,692 ordinary shares were issued to Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), the ultimate holding company, at HK\$0.87 each in connection with the acquisition of a subsidiary.
- (b) During the year, 99,230,000 ordinary shares of HK\$0.1 each were issued upon the exercise of 99,230,000 share options (see note 27). The fair value of the shares issued upon exercise of these share options ranges from HK\$0.56 to HK\$0.96.

27 Share options

On 26th June 2002, the Company has adopted a new share option scheme, under which it may grant options to employees (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10 per cent of the number of shares in issue as at 26th June 2002. The exercise price will be determined by the Company's Board of Directors and shall at least be the highest of (i) the closing price of the Company's shares on the date of grant of the options, (ii) an average closing price of the Company's shares for the five business days immediately preceding the date of grant of the options, and (iii) the nominal value of the Company's shares.

As at 31st December 2003, there were outstanding options granted under an old share option scheme to subscribe for an aggregate of 66,174,000 shares of the Company. All options granted under the old share option scheme will continue to be valid and exercisable in accordance with the rules of the old share option scheme.

Particulars and movement of share options during the year are as follows:

Date of grant	Exercise period	Exercise price HK\$	Number of share options			
			Beginning of year '000	granted '000	exercised '000	end of year '000
Old share option scheme						
4th September 1998	4th September 1999 - 3rd September 2004	0.3936	70,000	—	(18,000)	52,000
14th December 1999	14th December 2000 - 13th December 2005	0.5008	50,254	—	(36,080)	14,174
New share option scheme						
2nd May 2003	2nd May 2003 - 1st May 2013	0.4100	—	196,250	(44,100)	152,150
2nd June 2003	2nd June 2003 - 1st June 2013	0.5400	—	63,000	(1,050)	61,950
27th October 2003	27th October 2003 - 26th October 2013	0.8140	—	12,620	—	12,620
23rd December 2003	23rd December 2003 - 22nd December 2013	0.8460	—	100,632	—	100,632
			120,254	372,502	(99,230)	393,526

Notes to the Accounts

28 Reserves

(a) Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002, as previously reported	4,889,860	1,815	175,985	84,405	(54,909)	1,032,553	6,129,709
Effect of changes in accounting policies							
- amortisation of interests in toll highways and bridges (note 1(e))	—	—	—	—	—	(6,076)	(6,076)
- amortisation of goodwill (note 1(f)(i))	—	—	—	—	—	(463)	(463)
- deferred taxation (note 1(n))	—	—	—	—	—	(333,974)	(333,974)
At 1st January 2002, as restated	4,889,860	1,815	175,985	84,405	(54,909)	692,040	5,789,196
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	—	—	—	—	—	(5,271)	(5,271)
Release of reserves upon disposal/deemed disposal of subsidiaries and an associated company	—	—	4,986	(38,310)	(23,619)	573,591	516,648
Transfer	—	—	—	3,746	—	(3,746)	—
Loss attributable to shareholders	—	—	—	—	—	(960,230)	(960,230)
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>296,384</u>	<u>6,098,237</u>
At 1st January 2003	5,649,409	1,815	180,971	49,841	(80,183)	602,882	6,404,735
Effect of changes in accounting policies							
- amortisation of interests in toll highways and bridges (note 1(e))	—	—	—	—	—	(11,731)	(11,731)
- amortisation of goodwill (note 1(f)(i))	—	—	—	—	—	(1,047)	(1,047)
- deferred taxation (note 1(n))	—	—	—	—	—	(293,720)	(293,720)
At 1st January 2003, as restated	5,649,409	1,815	180,971	49,841	(80,183)	296,384	6,098,237
Net proceeds from issue of ordinary shares	57,969	—	—	—	—	—	57,969
Exchange differences	—	—	—	—	3,748	—	3,748
Release of reserve upon disposal of properties held for/under development and properties held for sale	—	—	—	—	—	(66,070)	(66,070)
Release of reserves upon deemed disposal of a subsidiary	—	—	—	(273)	(274)	—	(547)
Transfer	—	—	—	13,038	—	(13,038)	—
Profit attributable to shareholders	—	—	—	—	—	300,653	300,653
Dividends paid	—	—	—	—	—	(49,502)	(49,502)
At 31st December 2003	<u>5,707,378</u>	<u>1,815</u>	<u>180,971</u>	<u>62,606</u>	<u>(76,709)</u>	<u>468,427</u>	<u>6,344,488</u>
Representing:							
2003 Final dividend proposed						68,038	
Others						400,389	
Retained profits as at 31st December 2003						<u>468,427</u>	

28 Reserves (cont'd)

(b) Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002	4,889,860	1,815	43,642	4,935,317
Net proceeds from issue of ordinary shares	759,549	—	—	759,549
Profit for the year	—	—	269,583	269,583
At 31st December 2002	<u>5,649,409</u>	<u>1,815</u>	<u>313,225</u>	<u>5,964,449</u>
At 1st January 2003	5,649,409	1,815	313,225	5,964,449
Net proceeds from issue of ordinary shares	57,969	—	—	57,969
Profit for the year	—	—	62,170	62,170
Dividends paid	—	—	(49,502)	(49,502)
At 31st December 2003	<u>5,707,378</u>	<u>1,815</u>	<u>325,893</u>	<u>6,035,086</u>
Representing:				
2003 Final dividend proposed			68,038	
Others			<u>257,855</u>	
Retained profits as at 31st December 2003			<u>325,893</u>	

- (c) Included in the Group's retained profits are retained profits amounting to HK\$613,138,000 (2002: HK\$454,967,000) and accumulated losses of HK\$265,856,000 (2002: HK\$210,286,000) 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 subsidiaries and associated companies in China. As stipulated by regulations in China, the Company's subsidiaries and associated companies established and operated in China are required to appropriate a portion of their after-tax profit (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve fund may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the Group's statutory reserves is HK\$538,000 (2002: HK\$694,000) attributable to associated companies.

29 Minority interests

	Group	
	2003 HK\$'000	As restated 2002 HK\$'000
Share of net assets by minority shareholders of subsidiaries	3,374,822	3,403,865
Loans from minority shareholders of subsidiaries (note (i))	403,486	403,486
	<u>3,778,308</u>	<u>3,807,351</u>

Note:

- (i) The loans are unsecured, interest free and not repayable within one year except for an aggregate amount of approximately HK\$282,926,000 (2002: HK\$282,926,000) which bears interest at 5 to 5.76 per cent per annum.

30 Long-term bank loans

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans				
Secured (note 38)	3,848,194	3,826,764	2,454,683	2,630,000
Unsecured	669,650	905,468	117,000	555,000
	<u>4,517,844</u>	<u>4,732,232</u>	<u>2,571,683</u>	<u>3,185,000</u>
Current portion of long-term bank loans	(875,394)	(1,185,583)	(367,452)	(628,000)
	<u>3,642,450</u>	<u>3,546,649</u>	<u>2,204,231</u>	<u>2,557,000</u>

At 31st December 2003, the long-term bank loans were repayable as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	875,394	1,185,583	367,452	628,000
In the second year	878,627	754,853	396,934	357,000
In the third to fifth year	2,763,823	2,791,328	1,807,297	2,200,000
After the fifth year	—	468	—	—
	<u>4,517,844</u>	<u>4,732,232</u>	<u>2,571,683</u>	<u>3,185,000</u>

31 Other long-term loans

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Obligations under finance leases	43	344	43	344
Loans from a shareholder	230,661	67,743	260,850	65,608
Loans from related companies	144,817	3,809	84,971	—
Loans from minority shareholders of subsidiaries	157,934	169,301	—	—
Convertible bonds	—	200,623	—	200,623
Other loans	15,600	15,600	—	—
	<u>549,055</u>	<u>457,420</u>	<u>345,864</u>	<u>266,575</u>
Less: Current portion of other long-term loans	(14)	(200,927)	(14)	(200,927)
	<u>549,041</u>	<u>256,493</u>	<u>345,850</u>	<u>65,648</u>

Other long-term loans are repayable over the following periods:

(a) Group

	2003				
Obligations under finance leases	Loans from a shareholder	Loans from related companies	Loans from minority shareholders of subsidiaries	Other loans	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	14	—	—	—	14
In the second year	29	—	—	—	29
In the third to fifth year	—	220,595	—	—	220,595
With no fixed repayment terms	—	10,066	144,817	15,600	328,417
	<u>43</u>	<u>230,661</u>	<u>144,817</u>	<u>15,600</u>	<u>549,055</u>
The balances are analysed as follows:					
Interest bearing	43	220,595	83,504	—	304,142
Non-interest bearing	—	10,066	61,313	15,600	244,913
	<u>43</u>	<u>230,661</u>	<u>144,817</u>	<u>15,600</u>	<u>549,055</u>

Notes to the Accounts

31 Other long-term loans (cont'd)

(a) Group (cont'd)

	Obligations under finance leases HK\$'000	Loans from a shareholder HK\$'000	Loans from related companies HK\$'000	Loans from minority shareholders of subsidiaries HK\$'000	2002 Convertible bonds HK\$'000	Other loans HK\$'000	Total HK\$'000
Within one year	304	—	—	—	200,623	—	200,927
In the second year	40	—	—	—	—	—	40
With no fixed repayment terms	—	67,743	3,809	169,301	—	15,600	256,453
	<u>344</u>	<u>67,743</u>	<u>3,809</u>	<u>169,301</u>	<u>200,623</u>	<u>15,600</u>	<u>457,420</u>
The balances are analysed as follows:							
Interest bearing	344	65,608	—	—	200,623	—	266,575
Non-interest bearing	—	2,135	3,809	169,301	—	15,600	190,845
	<u>344</u>	<u>67,743</u>	<u>3,809</u>	<u>169,301</u>	<u>200,623</u>	<u>15,600</u>	<u>457,420</u>

Loans from a shareholder, related companies, minority shareholders of subsidiaries and other loans are unsecured and interest-free except for an amount of approximately HK\$304 million (2002: approximately HK\$267 million) which bears interest at HIBOR plus 1 per cent per annum. Those portion of loans with no fixed terms of repayment would not be demanded for repayment within next twelve months from the balance sheet date.

(b) Company

	2003				2002			
	Obligations under finance lease HK\$'000	Loan from a shareholder HK\$'000	Loan from a related company HK\$'000	Total HK\$'000	Obligations under finance lease HK\$'000	Loan from a shareholder HK\$'000	Convertible bonds HK\$'000	Total HK\$'000
Within one year	14	—	—	14	304	—	200,623	200,927
In the second year	29	—	—	29	40	—	—	40
In the third to fifth year	—	252,906	—	252,906	—	—	—	—
With no fixed repayment terms	—	7,944	84,971	92,915	—	65,608	—	65,608
	<u>43</u>	<u>260,850</u>	<u>84,971</u>	<u>345,864</u>	<u>344</u>	<u>65,608</u>	<u>200,623</u>	<u>266,575</u>

Loans from a shareholder and related companies are unsecured and interest-free except for an amount of approximately HK\$336 million (2002: approximately HK\$267 million) which bears interest at HIBOR plus 1 per cent per annum.

32 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred taxation as at 31st December 2002 and 2003 represents:

	Group	
	2003 HK\$'000	2002 HK\$'000
Deferred tax assets		
- Hong Kong profits tax	12,712	14,057
- China enterprise income tax	26,349	19,787
	<u>39,061</u>	<u>33,844</u>
Deferred tax liabilities		
- Hong Kong profits tax	19,449	16,303
- China enterprise income tax	1,506,745	1,477,145
- China land appreciation tax	2,124,342	2,224,567
	<u>3,650,536</u>	<u>3,718,015</u>

The movement in deferred tax assets during the year is as follows:

	Group				
	Different bases in reporting expenses with tax authorities HK\$'000	Revaluation of properties HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January 2002, as previously reported	—	—	—	—	—
Effect of changes in accounting policy on deferred taxation	1,203	7,117	—	1,031	9,351
At 1st January 2002, as restated	1,203	7,117	—	1,031	9,351
Credited/(charged) to profit and loss account	6,082	9,683	(2,621)	3,223	16,367
Acquisition of subsidiaries	2,440	—	5,686	—	8,126
At 31st December 2002	<u>9,725</u>	<u>16,800</u>	<u>3,065</u>	<u>4,254</u>	<u>33,844</u>
At 1st January 2003, as previously reported	—	—	—	—	—
Effect of changes in accounting policy on deferred taxation	9,725	16,800	3,065	4,254	33,844
At 1st January 2003, as restated	9,725	16,800	3,065	4,254	33,844
Credited/(charged) to profit and loss account	793	(1,645)	822	5,247	5,217
At 31st December 2003	<u>10,518</u>	<u>15,155</u>	<u>3,887</u>	<u>9,501</u>	<u>39,061</u>

32 Deferred taxation (cont'd)

The movement in deferred tax liabilities during the year is as follows:

	Group				
	Revaluation of properties	Different bases in reporting revenue and expenses with tax authorities	Accelerated depreciation	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002, as previously reported	—	—	13,300	—	13,300
Effect of changes in accounting policy on deferred taxation	419,664	31,000	10,131	9,483	470,278
At 1st January 2002, as restated	419,664	31,000	23,431	9,483	483,578
Charged/(credited) to profit and loss account	(52,429)	(3,433)	(12,743)	2,986	(65,619)
Credited to retained profits	(5,468)	—	—	—	(5,468)
Acquisition of subsidiaries	3,242,466	49,009	14,122	(73)	3,305,524
At 31st December 2002	<u>3,604,233</u>	<u>76,576</u>	<u>24,810</u>	<u>12,396</u>	<u>3,718,015</u>
At 1st January 2003, as previously reported	—	—	14,629	—	14,629
Effect of changes in accounting policy on deferred taxation	3,604,233	76,576	10,181	12,396	3,703,386
At 1st January 2003, as restated	3,604,233	76,576	24,810	12,396	3,718,015
Charged/(credited) to profit and loss account	(97,757)	84,984	(16,319)	2,341	(26,751)
Credited to retained profits	(40,728)	—	—	—	(40,728)
At 31st December 2003	<u>3,465,748</u>	<u>161,560</u>	<u>8,491</u>	<u>14,737</u>	<u>3,650,536</u>

Deferred income tax assets are recognised for tax loss carry forwards and revaluation of properties to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st December 2003, the Group has unrecognised tax losses of HK\$752 million (2002: HK\$303 million) for Hong Kong profits tax purposes with no expiry date and unrecognised tax benefits arising from revaluation of properties of HK\$459 million (2002: HK\$1,032 million).

33 Notes to the consolidated cash flow statement

- (a) **Reconciliation of operating profit before write-down of properties, provision for impairment and revaluation surplus/(deficit) to net cash inflow generated from operation:**

	2003	As restated
	HK\$'000	2002
		HK\$'000
Operating profit before write-down of properties, provision for impairment and revaluation surplus/(deficit)	561,556	314,926
Depreciation and amortisation	184,280	304,938
Loss on disposal/deemed disposal of certain interest in a subsidiary	95,940	7,773
Loss on disposal of fixed assets	27,628	39,803
Loss on disposal of other investments	1,059	—
Gain on partial disposal of a jointly controlled entity	—	(6,204)
Provision for amount due from an associated company	—	19,908
Interest income	(8,450)	(13,763)
Dividend income	(3,483)	(4,513)
	<hr/>	<hr/>
Operating profit before working capital changes	858,530	662,868
Net decrease in properties held for/under development and properties held for sale	982,306	15,486
(Increase)/decrease in inventories	(28,438)	48,595
(Increase)/decrease in accounts receivable, prepayments and deposits including amounts due from related companies	(71,033)	7,304
(Decrease)/increase in accounts payable and accrued charges	(749,618)	34,062
Increase in development costs	—	(2,978)
	<hr/>	<hr/>
Net cash inflow generated from operation	991,747	765,337
	<hr/>	<hr/>

Notes to the Accounts

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

(b) Purchase of subsidiaries

	2003 HK\$'000	As restated 2002 HK\$'000
Net assets acquired		
Fixed assets	17,685	2,958,983
Other investments	1,402	74,942
Deferred tax assets	—	8,126
Properties held for/under development	—	6,982,485
Properties held for sales	—	1,533,786
Due from related companies	—	88,268
Inventories	21,938	—
Accounts receivable, prepayments and deposits	18,587	297,889
Bank balances and cash	16,683	441,501
Accounts payable and accrued charges	(15,330)	(3,571,974)
Taxation payable	—	(11,910)
Minority interests	(617)	(593,900)
Bank loans	(28,037)	(1,842,991)
Loans from minority shareholders of subsidiaries	—	(37,927)
Deferred tax liabilities	—	(3,305,524)
	32,311	3,021,754
Acquisition of additional interests in subsidiaries	—	2,137,662
Negative goodwill arising from the acquisition	(5,005)	(595,549)
Total cost of acquisition	27,306	4,563,867
Satisfied by:		
Issue of shares	27,306	969,537
Disposals of certain subsidiaries and associated companies of the Group	—	1,574,330
Cash	—	2,000,000
Total purchase consideration	27,306	4,543,867
Direct costs relating to the acquisition	—	20,000
Total cost of acquisition	27,306	4,563,867

The subsidiaries acquired during the year contributed HK\$3 million cash inflow from operating activities (2002: outflow of HK\$30 million), HK\$1 million cash outflow from investing activities (2002: outflow of HK\$11 million) and nil from financing activities (2002: outflow of HK\$75 million).

33 Notes to the consolidated cash flow statement (cont'd)**(b) Purchase of subsidiaries** (cont'd)

Analysis of net inflow/(outflow) of cash and cash equivalents in respect of the purchase of subsidiaries

	2003	2002
	HK\$'000	HK\$'000
Cash consideration	—	(2,000,000)
Payment for direct costs relating to the acquisition	—	(20,000)
Bank balances and cash acquired	16,683	441,501
	<hr/>	<hr/>
Net inflow/(outflow) of cash and cash equivalents in respect of the purchase of subsidiaries	16,683	(1,578,499)
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(c) Disposal of certain interests in subsidiaries

	2003	2002
	HK\$'000	HK\$'000
Net asset value of the Group's interests disposed of	18,494	—
Negative goodwill released upon disposal	(8,857)	—
Loss on disposal	(998)	—
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of certain interests in subsidiaries	8,639	—
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

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

(d) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Convertible bonds HK\$'000	Bank loans HK\$'000	Amounts due to associated companies HK\$'000	Amounts due to minority shareholders of subsidiaries and other long-term loans HK\$'000	Minority interests HK\$'000
At 1st January 2002, as previously reported	5,290,689	450,073	3,496,534	193,856	2,072,013	6,425,518
Effect of changes in accounting policies	—	—	—	—	—	(142,989)
At 1st January 2002, as restated	5,290,689	450,073	3,496,534	193,856	2,072,013	6,282,529
Issue of ordinary shares for acquisition of subsidiaries	969,537	—	—	—	—	—
Issue of ordinary shares for cash	993	—	—	—	—	—
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	—	—	—	—	—	162,545
Acquisition/increase in shareholdings of subsidiaries	—	—	1,842,991	—	(791,036)	(1,975,819)
Disposal/deemed disposal of subsidiaries	—	—	(217,918)	—	(258,532)	(548,884)
Minority interest share of capital reserve	—	—	—	—	—	(6,485)
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	(106,879)
Repayment in the form of transfer of fixed assets	—	—	—	—	(623,000)	—
New borrowings	—	—	3,528,764	—	15,430	—
Repayments	—	—	(1,887,298)	(8,694)	(309,946)	—
At 31st December 2002	<u>6,261,219</u>	<u>200,623</u>	<u>6,763,073</u>	<u>185,162</u>	<u>361,536</u>	<u>3,807,351</u>

33 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 loans HK\$'000	Amounts due to associated companies HK\$'000	Amounts due to minority shareholders of subsidiaries and other long-term loans HK\$'000	Minority interests HK\$'000
At 1st January 2003, as previously reported	6,261,219	200,623	6,763,073	185,162	361,536	4,064,961
Effect of changes in accounting policies	—	—	—	—	—	(257,610)
At 1st January 2003, as restated	6,261,219	200,623	6,763,073	185,162	361,536	3,807,351
Issue of ordinary shares for purchase of subsidiaries	27,306	—	—	—	—	—
Issue of ordinary shares for cash	43,725	—	—	—	—	—
Redemption of convertible bonds	—	(200,623)	—	—	200,623	—
Premium on redemption of convertible bonds	—	—	—	—	1,950	—
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	6,037
Increase in shareholdings of subsidiaries	—	—	—	—	—	(244,177)
Acquisition of subsidiaries	—	—	28,037	—	—	617
Decrease in shareholdings of a subsidiary	—	—	—	—	—	18,494
Minority interest share of profits	—	—	—	—	—	213,680
Deemed disposal of certain interests in a subsidiary	—	—	—	—	—	152,307
Minority interest share of exchange reserve	—	—	—	—	—	668
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	(129,377)
Transfer from minority interests	—	—	—	—	344	(344)
New borrowings	—	—	2,252,575	2,399	183,093	—
Repayments	—	—	(3,005,352)	—	(19,356)	(46,948)
At 31st December 2003	<u>6,332,250</u>	<u>—</u>	<u>6,038,333</u>	<u>187,561</u>	<u>728,190</u>	<u>3,778,308</u>

34 Commitments under operating leases

As at 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings (mainly arising from the related party transactions referred to in note 39(a)) as follows:

	2003 HK\$'000	2002 HK\$'000
Not later than one year	31,591	19,384
Later than one year and not later than five years	85,560	64,860
Later than five years	254,977	241,873
	372,128	326,117

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 2003 (2002: Nil).

35 Future minimum rental payments receivable

At 31st December 2003, the Group and the Company had future minimum rental payments receivable under non-cancellable leases as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Not later than one year	331,295	181,614	28	28
Later than one year and not later than five years	527,200	337,542	—	—
Later than five years	129,839	33,827	—	—
	988,334	552,983	28	28

36 Other commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Capital commitments in respect of fixed assets:		
Contracted but not provided for	16,755	2,556
Authorised but not contracted for	—	—
	16,755	2,556

37 Contingent liabilities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
(a) Guarantees for banking and loan facilities granted to				
- subsidiaries	—	—	694,915	428,138
- jointly controlled entities	—	35,688	—	35,688
- related companies	—	122,500	—	122,500
	<u>—</u>	<u>158,188</u>	<u>694,915</u>	<u>586,326</u>

- (b) At 31st December 2003 and 2002, the Group has pledged its income to be 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 insured an indemnity to the Group under which any shortfall between the counter indemnity give by the Joint Venture Partner and the Relevant Loan 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.

38 Pledge of assets

At 31st December 2003, certain banking facilities and loans granted to the Group and the Company were secured by the following:

- 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\$4,631 million (2002: HK\$5,197 million), HK\$539 million (2002: HK\$187 million), HK\$255 million (2002: HK\$283 million) and HK\$4,446 million (2002: HK\$3,541 million) respectively;
- Floating charge over assets of certain subsidiaries of Guangzhou Construction & Development Holdings (China) Limited ("GCCD"), a wholly-owned subsidiary of the Company; and
- The Group's shareholdings in GCCD.

39 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 business are as follows:

	2003 HK\$'000	2002 HK\$'000
Rental and utility expenses paid to a minority shareholder of a subsidiary (note (a))	186,303	22,425
Fixed cost toll highways management fee paid and payable to a minority shareholder of subsidiaries (note (b))	62,223	52,284
Rental expenses paid to a shareholder	1,056	1,324

Notes:

- (a) On 17th October 2002, the Group entered into a lease contract and a utilities supply contract with GZ Paper Holdings Limited whereby GZ Paper Holdings Limited agreed to lease certain fixed 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.
- (b) Fixed cost services agreements were entered into between Guangzhou Highways Development Company ("GHDC"), a minority shareholder of subsidiaries, 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.

40 Ultimate holding company

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

41 Comparative figures

Certain 2002 comparative figures have been restated to conform to current year's presentation.

42 Approval of accounts

The accounts were approved by the Board of Directors on 15th April 2004.